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"Consistency between Macroeconomic and Labour Policies"

BACKGROUND NOTE:

EMPLOYMENT GENERATION IN AN AILING WORLD ECONOMY –

Assessment and policy options in the *Trade and Development Report, 2013*

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Table of contents

EMPLOYMENT GENERATION IN AN AILING WORLD ECONOMY –

Assessment and policy options in the *Trade and Development Report, 2013*

I. Adequate employment creation: *the* pending task

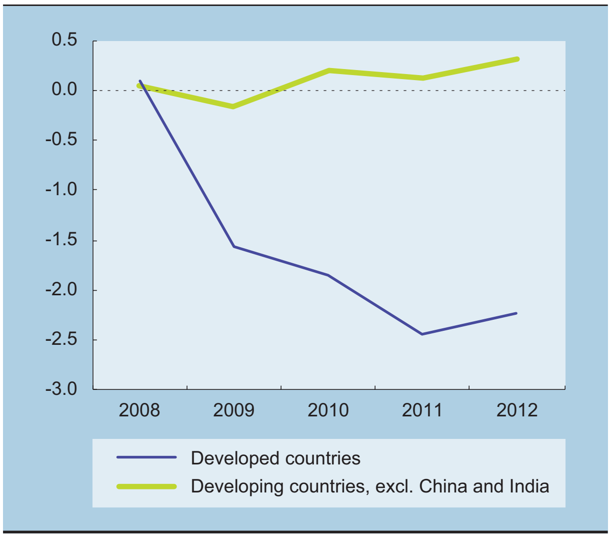
The unsatisfactory employment performance in many economies over recent years is not only a reminder of the significant economic and social damage that has resulted from the financial crisis but also acts to pull down the world economy, impeding recovery and raising the threat of a future crisis. This is one of the central observations made in the *Trade and Development Report, 2013* (*TDR 2013*), noting that persistent employment problems affect both developed and developing countries. In developed countries employment rates remain nearly flat around a bottom of 2.5 per cent below the pre-crisis rate (figure 1). While developing countries show a marginal improvement in terms of employment rates, many of their long-standing problems remain unresolved, including low participation rates in formal activities, low quality of jobs and low labour income.

There is now a fairly broad recognition that the slow pace of employment creation, especially in developed countries, is a drag on the recovery. Yellen (2013) notes that long-term unemployment and the loss of skills of out-of-work or under-employed workers represent a 'headwind restraining the economy', effectively eroding growth potential. But the problem does not only lie with the supply-side. The author, vice-Chair of the board of Governors of the Federal Reserve System, stresses the need to counter the downward cycle by the straightforward solution of taking action towards raising aggregate demand. Unemployment and lack of job security have a tangible effect on consumer confidence and thus remain a major threat to a sustained recovery of household spending, investment and an overall satisfactory level of effective demand.

Figure 1

CHANGES IN EMPLOYMENT RATES IN DEVELOPED AND DEVELOPING COUNTRIES, 2008–2012

(Per cent of the working age population)



Source: UNCTAD secretariat calculations, based on ILO, *Key Indicators of the Labour Market* (*KILM*) database; and UN-DESA, *World Population Prospects: The 2012 Revision* database.

Note: China and India are excluded because small variations in their estimates would significantly alter global outcomes.

The call to policy makers to boost aggregate demand is a central message of the *TDR 2013*. The policy action proposed could be synthesized as a call for internationally coordinated efforts of fiscal, credit and incomes policies with focus on a balanced growth of domestic demand. This, in turn, is the direct implication of the analysis of the causes that impede a sustained recovery of growth and development. The *TDR 2013* emphasises that the current problems are not *primarily* the deficiencies typical of post-crisis conditions, such as lack of confidence, skill mismatches, protectionist risks or exchange rate manipulations, nor even large public sector debt. Rather, the essential problems to address refer to the underlying structure and driving factors of global demand that brought the world economy to the crisis.

The nature of economic growth over the last decades was pre-conditioned on:

1. a disregard for fiscal policy and its contribution to a stable growth of demand;

2. domestic and international monetary and financial systems that favour short-term speculation above long-term productive investments and stability;

3. a persistent compression of labour income;

4. with the above set of factors leading to debt-fuelled spending in some countries, matched with export-led, cost-saving strategies in other countries, which fed into global imbalances.

Such problems have been building up over the last two to three decades, as detailed below, but have unfortunately not been the main target of policy responses in the post-crisis.

II. Misguided policy responses leave structural problems unresolved and bring new risks

Policy responses in many parts of the world during the post-crisis period seem misguided in ways that leave problems of the pre-crisis period unresolved.

A first problem refers to the role of fiscal policy. As a departure from the prevailing approach, decisive fiscal (and monetary) stimuli, often accompanied by job protection mechanisms, set the tone of responses of most governments during the first one to two years of the crisis.[1] However, such fiscal and monetary responses were in general inspired by a misguided belief that there exist inherent forces in a market economy that can trigger a return to equilibrium following a shock. The implication of this view is that continuing policy intervention would create disturbances that could impede a market-driven recovery. Hence, counter-reactions quickly emerged, calling for fiscal austerity and preparedness for tighter monetary policy in order to avert a presumed looming inflationary spiral. On such a misguided analysis the policy action that came to dominate the agenda in the last three to four years implied a significant drag on aggregate demand in the form of contractions of government spending and continuing unemployment (and thus a brake on household consumption).

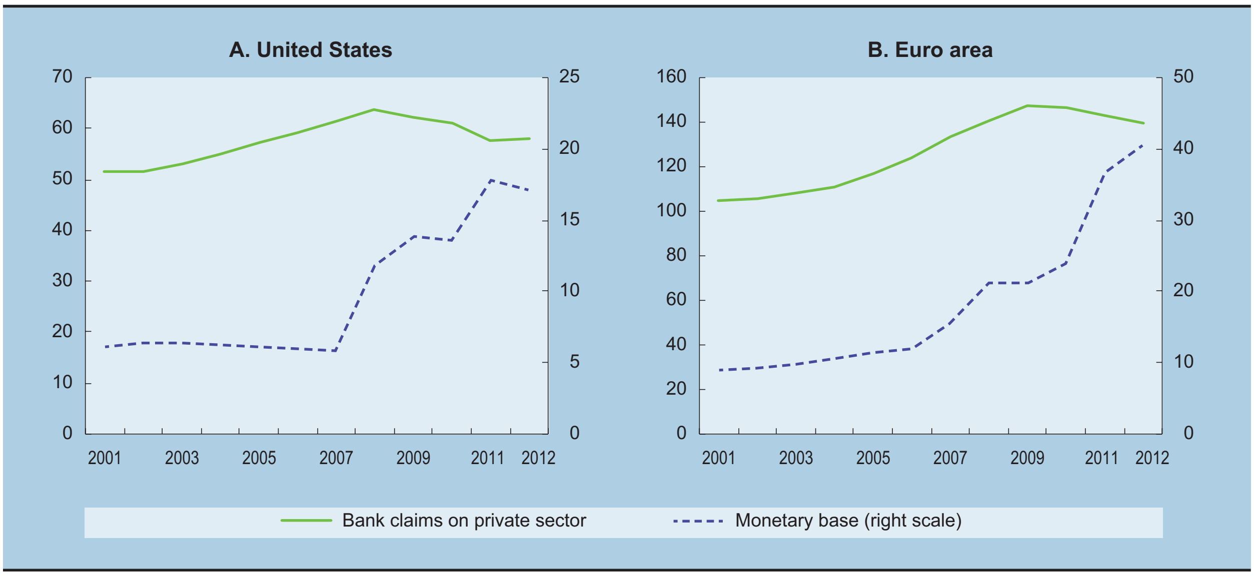
The pressure towards reducing the size and role of governments has been a dominant feature of the pre-crisis, both for developed as well as for some developing countries, though in the last years many governments in the developing world started to move away from weaker fiscal stances after experimenting with years of sluggish growth and social disintegration. The consensus that dominated policymaking and emerged strongly in the decade of the 1980s saw a ‘twin deficit’ malaise in every country with balance of payments problems, including in several major economies. In such a framework, the domestic

[1] In these instances, even if the responses were mostly individual and not organically coordinated, there were a number of venues in which these were openly discussed and promoted. These venues, like meetings of Central Banks among a few developed countries, the creation of the G20, and the 2009 Conference on the Global Financial Crisis organized by the UN General Assembly, served as catalytic of the possibility of a globally coordinated agenda.

Figure 2

MONETARY BASE AND BANK CLAIMS ON THE PRIVATE SECTOR, 2001–2012

(Per cent of GDP)



Source: UNCTAD secretariat calculations, based on IMF, *International Financial Statistics* and *World Economic Outlook* databases.
Note: Monetary base for euro area corresponds to currency issued and central bank's liabilities to depository corporations.

flip-side of the external imbalance was fully attributed to a public-sector deficit, while financial imbalances of the private sector were ignored by assumption. Thus, the aim of containing the growth of domestic demand by fiscal retrenchment led to either corrections of the external account at the cost of prolonged periods of contraction or slow growth (which was characteristic of many developing countries after the debt crisis of the 1980s), or to continuing growth at the expense of growing financial imbalances in the private sector (which was characteristic of some of the major developed economies, as well as other developing economies during the 1990s).

Second, the contractionary fiscal response during the post-crisis was not only detrimental to the still needed reinvigoration of aggregate demand, but was also aggravated by spillovers resulting from inconsistencies with monetary policy. Expansionary monetary policy by lowering interest rates or by liquidity creation did not trigger a strong demand for credit (figure 2). Rather, these measures met with continuing leakages caused by withdrawals by public sectors in austerity mood and by households and firms in balance-sheet recovery mood (de-leveraging).

Thus, excesses of liquidity ended up in financial investments across foreign exchange and portfolio markets, including stocks and commodity futures, adding instability and exercising pressure on the already reduced policy space that governments experience since the crisis. Under normal conditions, policymakers could have some, even if limited, degree of influence on the supply and demand forces that drive price formation in the markets for foreign exchange, commodities and credit. Governments could still apply capital management measures and directly intervene in exchange markets in order to mitigate the impact of adverse changes in international financial conditions. However, these efforts are undermined by the increased correlation among different global portfolio markets that distort the normal outcome of market forces of supply and demand (see figure 3).

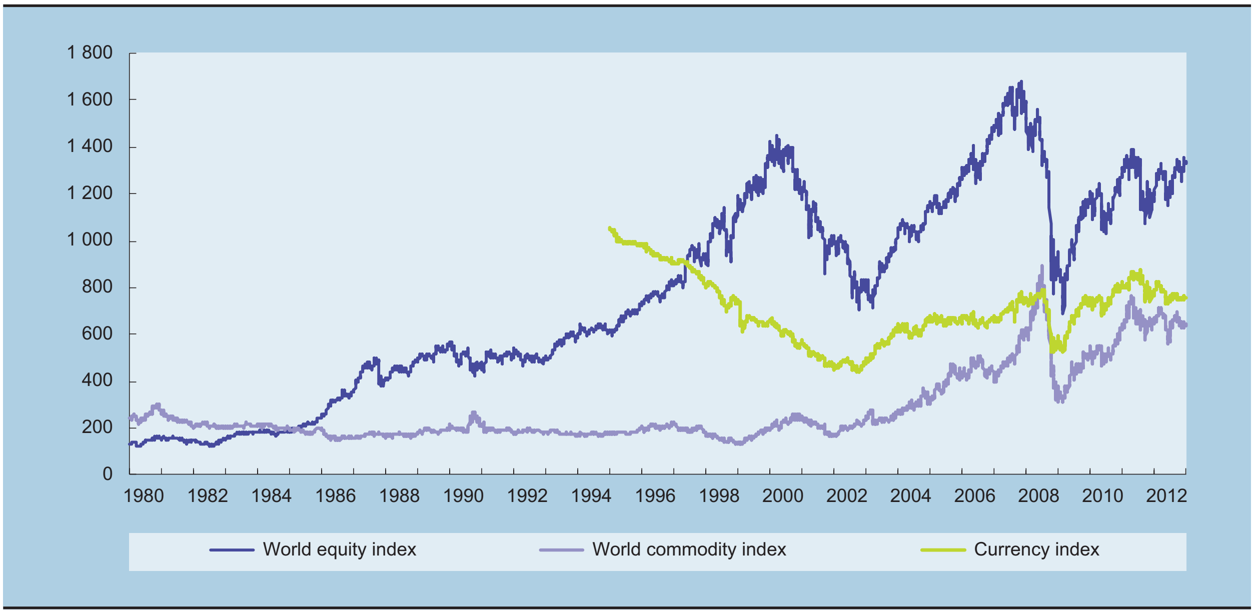
Admittedly, these correlations started to increase from the early 2000s and not just after the 'unconventional monetary policy' of the post-crisis period. But then and now, whether with primarily private or public liquidity creation, both periods contributed to a rise of financialization of the world economy that remains essentially unchanged.

Third, policy makers, particularly in developed countries, concerned with the insufficient pace of job creation and the inadequacies of aggregate

Figure 3

PRICE TRENDS IN GLOBAL ASSET MARKETS, 1980–2012

(Price index)

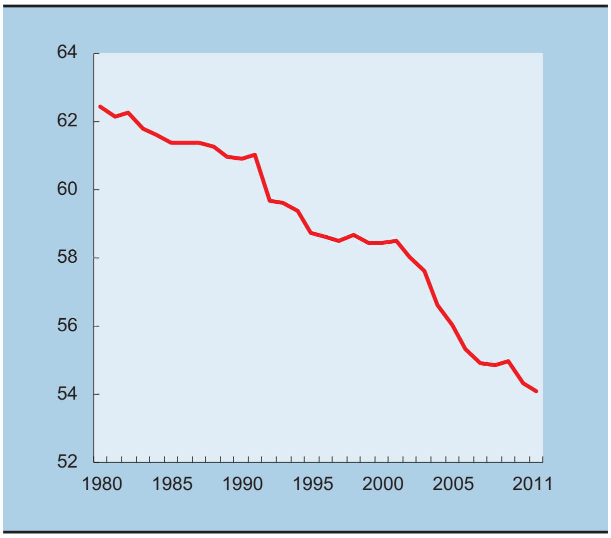


Source: UNCTAD secretariat calculations, based on Bloomberg.
Note: World equity index refers to the MSCI world index. World commodity index refers to the S&P GSCI index. Currency index refers to an equally weighted index, which includes the Australian dollar, the Brazilian real and the South African rand spot rates (average 1995 = 1,000).

Figure 4

SHARE OF WORLD LABOUR INCOME IN WORLD GROSS OUTPUT, 1980–2011

(Weighted averages, per cent)



Source: UNCTAD secretariat calculations, using UN Global Policy Model, based on UN-DESA, *National Accounts Main Aggregates* database; and ILO, *Global Wage* database.
Note: Mixed income, typically from self-employment, is included in the labour share.

demand, have resorted to labour-market flexibilization measures. These measures might look attractive from the perspective of a single economy that faces weakening internal demand, and aimed at a recovery of net exports, for which increases of competitiveness were seen as paramount. However, the general trend towards reducing costs through compressing labour remuneration and facilitating job reductions, has resulted in an unequivocal decline of the global wage share (figure 4).

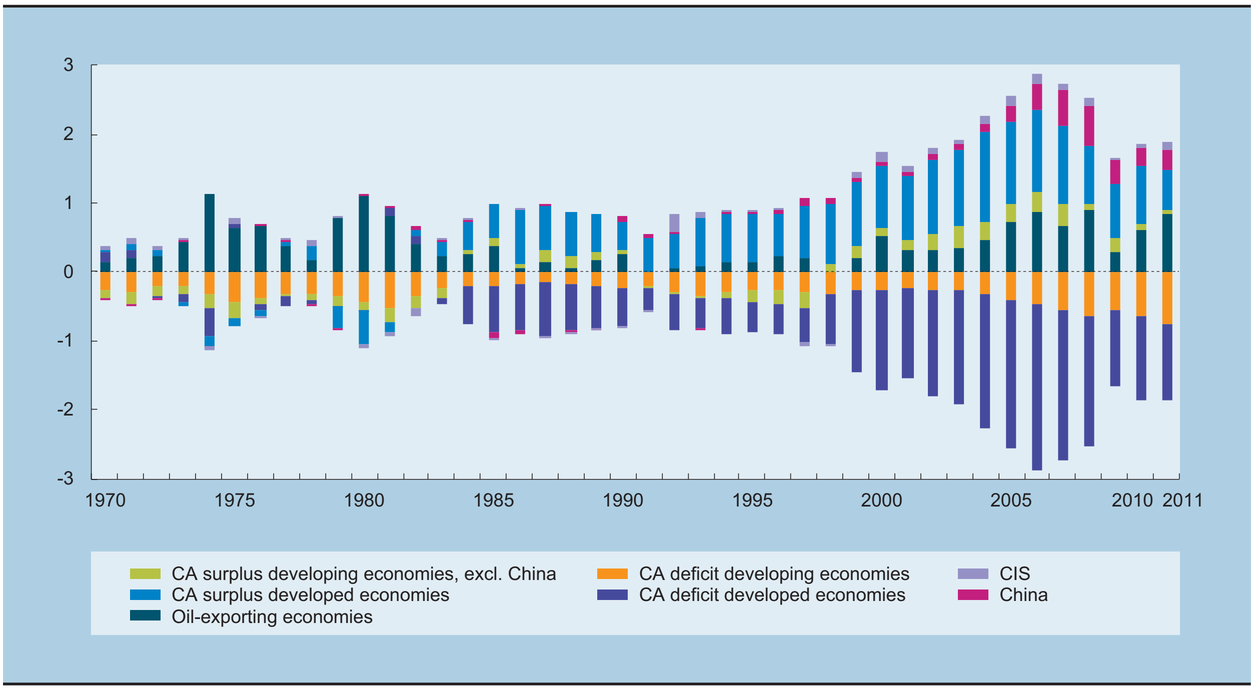
Though some countries could become more competitive through wage compression, if this becomes a generalised strategy the ultimate result would be detrimental to global growth and ultimately counterproductive for each country at different stages of the competitive race. The implication for the world as a whole is that household incomes and thus demand would be eroded even further.

As with the other macroeconomic patterns discussed above, the compression of labour income is discernable in the years prior to the crisis as well. The *TDRs 2012*(a) and *2013* note that the deterioration in

Figure 5

CONTRIBUTIONS TO GLOBAL IMBALANCES OF SELECTED GROUPS OF COUNTRIES, 1970–2011

(Current account balance as a percentage of world gross product)



Source: UNCTAD secretariat calculations, based on UN-DESA, *National Accounts Main Aggregates* database; IMF, *World Economic Outlook* (*WEO*) database.

Note: Deficit and surplus classification was based on the average current account (CA) position between 2004 and 2007. CIS includes Georgia.

the proportion of incomes that labourers receive from their contribution to global value added could not be a recipe for export success for all at the same time. Though improving cost competitiveness may lead to favourable *price* effects (and thus a greater share of global exports for the winners), *demand* effects would tend to predominate (and thus the volume of global demand would tend to shrink). Why then this did not happen during the two to three decades that preceded the crisis, when compression of labour income coexisted with two periods of robust rates of global growth, particularly in the in second half of the 1990s and the period 2003–2007

The previous question brings up a fourth unresolved issue of macroeconomic management: global imbalances (see figure 5). For some of the major economies the contraction in the wage share which should have triggered a reduction in household spending was broadly compensated with credit flows. These credit flows were allowed to grow, from the demand side, on the back of asset appreciations (stocks and houses) and, from the supply side through the process of financial and banking liberalization that permitted lenders unprecedented degrees of leveraging.

Other major economies did not follow a similar path but continued to press down on labour costs and achieved greater competitive advantages in export markets of industrial products. Production in these economies and in a number of emerging economies grew to meet the demand originated in the former group of deficit, debt-driven economies. One common feature among these net-exporters was a reduction of unit labour costs which contributed to keeping global inflation down. Meanwhile, on the back of the export-manufacturing and investment dynamism of these countries, commodity and energy exporters, mostly located in the developing world experienced a bonanza as they provided the inputs for the production and final demand of manufactures.

In the process of formation of these imbalances new employment patterns emerged. Where jobs migrated, or threatened to migrate from deficit countries to surplus countries, the wages paid for, the quality of, and the security of jobs suffered. Job insecurity may also be prevalent in many of the surplus countries, derived from pressures towards more flexible arrangements.

On this configuration of global demand, characterized as 'global imbalances', nominal exchange rates had little role to play, neither in the building up of imbalances nor in their implosion. It was the growth of demand, triggered by financialization that fed into the rise of imbalances, and it was the contraction of demand and employment caused by the crisis that led to a partial correction.

There is a concern that global imbalances are starting to rise again, replicating global demand patterns that triggered the global crisis of 2008–2009. Figure 5 indicates the resurgence of growing imbalances from 2009 to 2011, and partial data of 2012 seems to point to a continuation albeit on a more slowly rising trend. Lacking a more complete set of data about the current period, a few inferences could be made from the observations of the preceding paragraphs. Some of the major economies that are experiencing sluggish growth of domestic demand on account of fiscal austerity and insufficient employment and wage-income growth may temporarily succeed in securing net-export advantages. Other economies may succeed in reaping the benefit from higher valuations of residents' investments in stock and other financial markets, at home and abroad. The rise of real-estate prices is also a possible or expected factor that could trigger wealth increases. These holding gains may become the basis for a new wave of over-borrowing and a faster pace of spending in such economies. On these conditions, deficits in the latter group of countries will rise, as well as surpluses in the former.

The previous paragraph describes one risk scenario; in which economic growth could be maintained for some time, until accumulated imbalances unwind again. But even under such ephemeral conditions of growth, full and decent employment would remain unachievable, as it was at the height of global imbalances. What is more, the unravelling could be more severe, as public sectors remain weak, household and bank balance sheets are not yet fully restored, and employment levels and labour income are unusually low.

Another risk scenario could be described as a deviation from the previous scenario of resurging global imbalances. The wage depreciation pressures to seek net-export advantages by many countries at the same time may reinforce a deflationary trend with no significantly large countries emerging as over-borrowers with the capacity to compensate with debt-driven demand the general tendency towards underconsumption. Consequently, global growth decelerates, financial markets become even more unstable due to continuing liquidity expansions, while no real investment possibilities emerge, and international prices and exchange rates would show heightened volatility. In a context of sluggish growth, employment would be weak, weaker than in the years that followed from the crisis.

The *TDR 2013* does not make any supposition about the probability of either of these two risk scenarios. The configuration of possible outcomes is also complex and dependent on many unpredictable shocks. Therefore, no attempt is made at laying out the specific country-characteristics or timing of either temporary growth surges or contractions/slowdowns. But it follows from the analysis of the problematic configuration of global demand and policies that the future global and macroeconomic landscape will be challenging. Hence, the *TDR 2013* calls for an alternative policy framework.

III. Strategic policy scenarios for sustained growth and employment

The discussion so far shows that misguided policy stances in many countries stand in the way of a sustained recovery from the crisis which should be based on addressing its main causes. Against this background, the *TDR 2013* argues that there remains a considerable scope for undertaking a global strategy for growth, development and tangible improvements in the generation and quality of employment.

In proposing such a strategy, UNCTAD is calling for a stronger commitment to coordinate macroeconomic policies, on the basis of which such policies can lead to success. The pillars of the proposed policy action were highlighted in UNCTAD publications over at least the last two decades (UNCTAD, 1993, 1997, 2010, 2011, 2012b), and drawing on insights from earlier pioneers of development thinking. Two such pillars were formalized in Kalecki (1944). To achieve full employment, the author argued in favour of improvements in income distribution as the primary basis for stable growth of consumption and private investment. The other identifiable pillar was public spending combined with a tax regime consistent with the primary objective of improving income distribution. It follows from this approach a strong emphasis on domestic demand, which is one of the central recommendations of the *TDR 2013*.

A third pillar supports the pressures derived from supply-side, particularly technological progress, and their relation with export expansion. Exports, while alleviating balance of payments constraints, will be the means to enhance technological progress derived from economies of scale, which are typical of manufacturing activities and parts of the services sector (Young, 1928; Kaldor, 1964). In these sectors, employment-intensity as well as productive linkages with the rest of the economy tend to be higher than in the extractive industries, hence the emphasis on diversification (DESA 2006). The excessive reliance of many countries in the past on primary exports has been both a source of shocks and instability, as well as an escalating environmental threat (DESA, 2009; Akyüz, 2012a). The success of exports in the manufacturing and services industries will not need to be pre-conditioned on compression of labour costs to achieve greater competitiveness, but rather on the productivity enhancements that are triggered by rising global demand (Rayment, 1983; Galbraith, 2008).

Finally, credit creation for the promotion of employment-generation production activities should be seen as the fourth pillar, becoming the basis for resetting monetary policy and reregulating the domestic and international financial system (Stiglitz, 2013; Epstein, 2009; Akyüz, 2012b).

This set of principles (income distribution, a developmental state, demand-driven technological progress, diversification and employment-oriented financial systems) could be compatible with a variety of empirical quantifications of global scenarios. In what follows, two of such possible configurations are presented, constructed with the United Nations Global Policy Model.[2] The assumptions for such scenarios, detailed further below, converge into measures that provide stronger support for an expansion of aggregate domestic demand and incorporate the current macroeconomic constraints and potential of each economy or group of economies.

The main distinction between the two scenarios discussed below resides on the fact that in one scenario all countries would join in a demand-driven policy effort (scenario A), while in the other scenario, only developing and emerging economies would embark on this alternative policy stance (scenario B).

[2] The UN Global Policy Model can be accessed at: http://www.un.org/en/development/desa/policy/publications/ungpm/gpm_concepts_2010.pdf. The version used in this Report – number 5b – incorporates employment and functional distribution of income and their feedbacks into the macro and global economy. The full technical description of the model, version 3, can be downloaded from: http://www.un.org/en/development/desa/policy/publications/ungpm/gpm_technicaldescription_main_2010.pdf.

In this case, the degree of intensity with which expansionary macroeconomic policies are applied in the developing countries varies, as a cautious reaction to a more adverse macro-financial global environment. Coordination among the countries involved in both scenarios resulted from the experimentation with model solutions, thanks to the fact that the global model captures global feedbacks in a fully consistent manner. These scenarios run on top of a simple baseline that assumes away policy changes and shocks ahead.[3]

The policy assumptions in the alternative scenarios

- A faster pace of growth of government spending consistent with the achievement of tangible gains in employment and GDP growth. The proactive fiscal stance would aim at contributing to a stable growth of demand and at strengthening productive capacity through physical and social infrastructure, incentives to private investment and industrial and structural policies. As noted in the *TDR 2013*, fiscal spending multipliers are greater than 1.
- While government spending is set to help achieving growth targets and is optimized towards greater private sector activity, tax rates are assumed to change in ways consistent with improvements in the financial positions of the public sectors in an horizon of two to three years. To minimize trade-offs, higher taxes are imposed on sectors which are not employment-intensive.
- A more equal distribution of income through setting a minimum wage, direct taxation and welfare-enhancing programmes. These measures are tuned towards achieving wage increases closer to average productivity and ensuring that household sector imbalances do not emerge (household incomes will not grow at lower rates than consumption demand).
- Credit expansion is set to accommodate the growth of private and public sector activity (which in turn were assumed to improve employment conditions). Employment creation is assumed to be additionally supported by public- and private-financed initiatives in education and skills-upgrading.
- The combination of assumptions of stronger regulation of the financial sector and of rising incomes and employment would yield a more stable pace of asset appreciations and a meaningful reduction of financial fragility of private and public institutions.
- It is further assumed that measures including incentives to private investment, government spending and taxation will address environmental challenges by helping to mitigate carbon emissions and environmental degradation.[4] Investment in technological progress in the production and use of energy and primary inputs are assumed to be privileged, and sustain efforts made by energy and primary commodity exporters towards greater diversification. New technologies will become more advanced and more widely available in the same pace of other technological developments in recent history.
- On the external front, it was essential to assume that reforms of the international monetary and financial systems facilitate stable systems of exchange rates and orderly currency and balance of payments adjustments, with special support measures for poorer countries. Better regulation of commodity markets is assumed to reduce the adverse influence of financialization on primary and energy prices. In these scenarios it is assumed that the onus of reducing global imbalances and of fostering economic development resides more heavily on surplus and more advanced countries, respectively. To enable industrialization and export diversification in developing countries, it is additionally assumed that there will be non-discriminatory market access for these countries in global markets as well as South-South agreements.

From this configuration of policy stimuli, it follows that scenario B will be challenging. The

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[3] These assumptions of no policy changes and the absence of shocks from now to 2030 are clearly unrealistic, but are convenient in order to net out the impact of the policy changes analysed in the two other scenarios.

[4] The GPM has the ability to quantify both the intensity of use of raw materials in the production of domestic output as well as differentiated patterns in the use of fossil-fuel and non-fossil-fuel technologies.

outcomes of scenario B presented below are empirically feasible, but subject to heightened risks. For example, the assumption of continuing stances by the major developed countries with respect to monetary policy and financial regulation, which tend to disregard potential spillover effects on developing countries is problematic. Developing countries are assumed to enact some level of capital controls, but in the absence of international cooperation these measures will be only partially effective. Likewise, reducing external imbalances and promoting economic development will become more challenging if, as assumed, developed countries press ahead in their drive for competitiveness. Facing harsher wage-competition from this group, developing countries may not be able to improve on functional distribution of income to the extent they could in scenario A.

By the same token, the greater market access assumed in scenario A to enhance export diversification of developing countries is imputed, in scenario B, only by and among developing countries. Overall, under these conditions the state of confidence and expectations that generally influence portfolio and fixed capital investment, as well as financial costs, will be shaken. But even considering these limitations, the option of coordination among developing and emerging economies with regard to the aforementioned policy alternatives remains valid.

Outcomes of the scenarios

Figure 6 shows that GDP growth is significantly higher in scenario A than in scenario B and in the baseline scenario for all regions. The growth trajectories emanating from the policy assumptions in scenario A are consistent with the patterns of improved functional distribution of income shown in figure 7. The recent past was marked by an unequivocal deterioration of functional distribution between labour and profits in practically all regions, with partial exceptions in Latin America and some Asian countries. A catch-up of functional distribution is economically desirable and feasible, but in these simulations it needed to proceed at a relatively moderate pace. The improvement, even if modest, showed to be a major factor for the growth of internal demand in each country as well as for the growth of global trade activity. In turn, at such pace of improvements in income distribution and demand, economies of scale resulting from larger domestic and foreign markets succeeded in inducing technical progress and averting inflationary pressures.

Employment growth is captured in table 1, together with the growth patterns of private consumption and investment. Faster growth of investment, and hence employment, was expected as a result of the growth- and development-enhancing assumptions of the simulations, except in China and India where investment rates are already very high and a rebalancing towards consumption is due. Employment creation is both an effect of the growth patterns as well as an additional factor for faster growth of consumption.

A critical element in the simulations is the calibration of the fiscal stance. As shown in table 2, a robust growth of government spending can be made consistent with improved balances of the public sector and external balances. Subject to the limits outlined above, growth of GDP helps strengthen the financial position of all domestic sectors, private and public.

The global configuration of imbalances presented in figure 8.A shows a marked reduction of external imbalances in the scenario of a globally shared policy stimulus (i.e. scenario A). This results mainly from the greater emphasis of surplus countries on domestic demand, enhanced market access for developing countries, and a reform of international finance which reduces the need of countries to accumulate large external reserves.

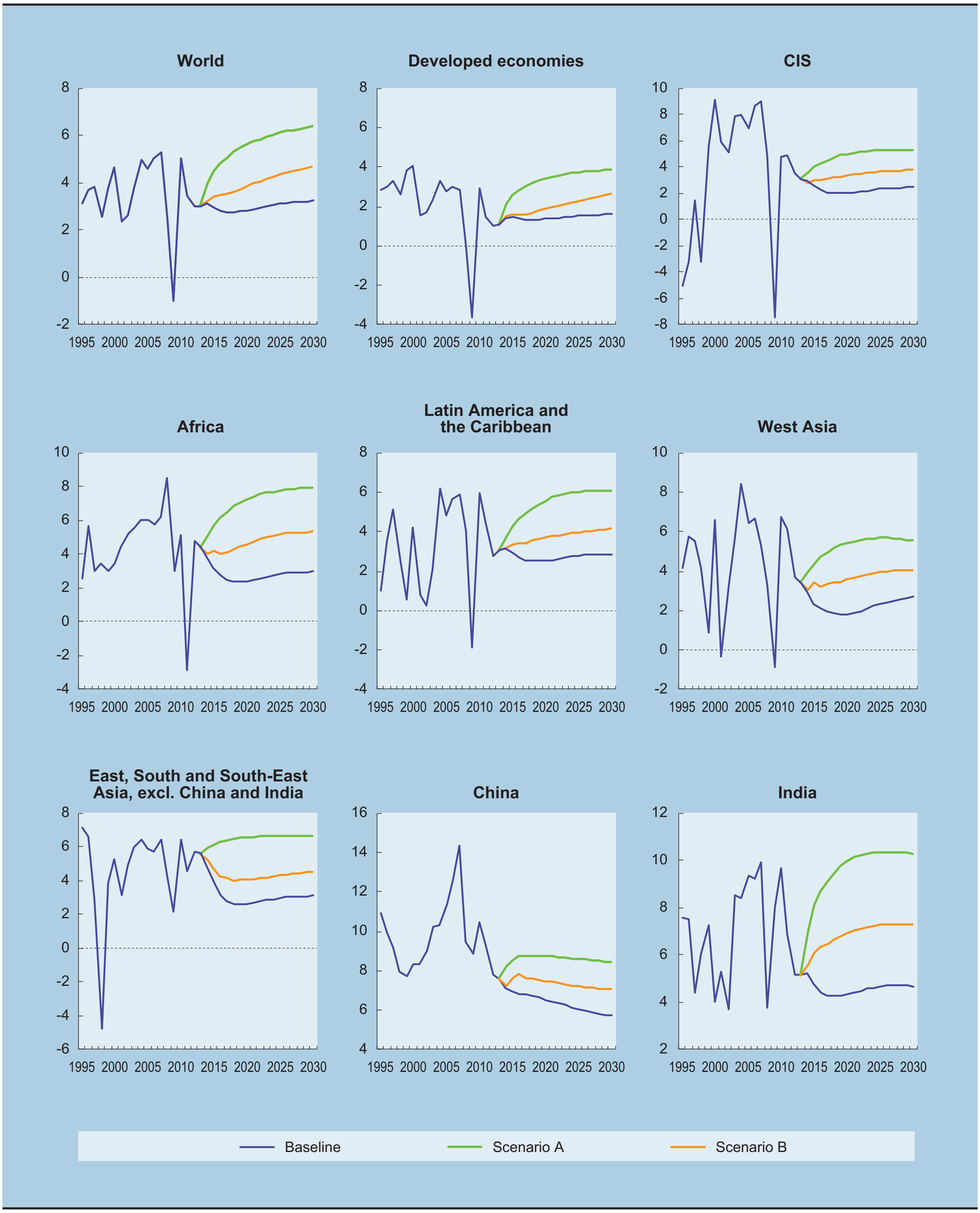
Several lessons can be drawn from the outcome of scenario B, in which developed countries do not adopt more supportive policies. First, it shows that it is worthwhile for developing and transition economies to embark on coordinated policies that stimulate domestic demand even if developed countries do not pursue similar policies.

Second, it can be observed that developed economies manage to achieve a faster growth rate, even if more moderately than in the baseline scenario. This is despite the fact that growth of public spending is negligible and functional income distribution continues to deteriorate. This outcome serves to underline the proposition that such a strategy could yield some partial gains for some, though not all, countries at the same time. There will be two distinctive cases, and these emerged in the simulations without additional assumptions, thus suggesting that the prevailing

Figure 6

GDP GROWTH: HISTORICAL AND ESTIMATED UNDER THE TWO SCENARIOS, BY REGION/GROUP, CHINA AND INDIA, 1995–2030

(Per cent)



Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model.
Note: Growth refers to GDP at constant 2005 PPP dollars.

Figure 7

LABOUR-INCOME SHARE: HISTORICAL AND ESTIMATED UNDER THE TWO SCENARIOS, BY REGION/GROUP, CHINA AND INDIA, 1995–2030

(Per cent of GDP)

Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model.

Table 1

PRIVATE CONSUMPTION, PRIVATE INVESTMENT AND EMPLOYMENT GAINS UNDER THE TWO SCENARIOS, BY REGION/GROUP, CHINA AND INDIA, 2007–2030

		Average annual growth of private consumption (Per cent)				*Average annual growth of private investment (Per cent)*				*Employment gains (Millions of jobs created relative to the baseline scenario)*		
		2007–2012	*2013–2018*	*2019–2024*	*2025–2030*	*2007–2012*	*2013–2018*	*2019–2024*	*2025–2030*	*2013–2018*	*2019–2024*	*2025–2030*
World	Baseline	2.9	3.1	2.9	3.0	3.7	2.6	3.1	3.8	.	.	.
	Scenario A	.	4.7	5.8	6.2	.	3.5	5.8	6.4	36.6	85.9	101.8
	Scenario B	.	3.6	4.1	4.4	.	2.7	4.0	4.9	17.6	42.2	52.5
Developed economies	Baseline	1.0	1.7	1.6	1.6	-2.2	1.9	2.4	2.8	.	.	.
	Scenario A	.	2.7	3.3	3.6	.	3.2	4.9	4.9	7.2	18.5	19.8
	Scenario B	.	1.7	2.0	2.3	.	2.1	3.3	4.2	0.5	2.5	3.9
CIS	Baseline	4.4	1.8	2.3	2.7	7.4	1.5	1.0	2.6	.	.	.
	Scenario A	.	3.8	5.1	5.3	.	2.9	5.5	5.7	0.7	2.2	2.8
	Scenario B	.	2.5	3.5	3.8	.	2.0	3.1	4.0	0.3	1.0	1.4
Africa	Baseline	5.2	3.5	3.0	3.0	7.0	4.4	2.9	3.3	.	.	.
	Scenario A	.	6.2	7.1	7.6	.	6.4	7.9	8.0	4.5	14.7	22.5
	Scenario B	.	4.5	4.8	5.2	.	5.1	5.5	5.9	2.5	8.5	13.2
Latin America and the Caribbean	Baseline	4.0	3.0	2.7	2.7	5.0	1.7	2.2	3.2	.	.	.
	Scenario A	.	4.1	5.4	5.9	.	2.1	5.5	6.2	3.4	6.5	6.9
	Scenario B	.	3.3	3.7	3.9	.	1.5	3.3	4.2	1.9	3.6	3.4
West Asia	Baseline	4.3	3.2	2.6	2.6	6.6	3.0	0.7	2.0	.	.	.
	Scenario A	.	5.6	6.1	5.9	.	3.9	5.9	6.3	1.5	4.8	6.3
	Scenario B	.	4.4	4.3	4.2	.	3.1	3.2	4.2	0.8	2.6	3.5
East, South and South-East Asia, excl. China and India	Baseline	5.1	3.9	3.0	2.9	6.5	5.4	1.6	2.4	.	.	.
	Scenario A	.	5.3	6.2	6.5	.	4.8	6.8	6.9	6.2	15.4	19.3
	Scenario B	.	4.3	4.1	4.2	.	5.2	3.5	4.1	3.8	9.7	12.0
China	Baseline	8.8	8.9	7.1	6.1	11.8	3.4	5.1	5.3	.	.	.
	Scenario A	.	12.3	11.1	9.5	.	3.5	5.7	6.5	8.0	12.1	9.1
	Scenario B	.	10.8	9.3	7.8	.	3.1	4.9	5.5	4.7	7.3	6.3
India	Baseline	7.8	5.2	4.8	4.7	8.4	2.2	2.2	3.7	.	.	.
	Scenario A	.	8.1	9.9	10.3	.	4.7	8.9	10.0	5.0	11.8	15.2
	Scenario B	.	6.5	7.2	7.3	.	2.9	5.1	6.5	3.0	7.2	8.8

Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model.

Table 2

PUBLIC SPENDING, NET PUBLIC LENDING AND CURRENT ACCOUNT BALANCE UNDER THE TWO SCENARIOS, BY REGION/GROUP, CHINA AND INDIA, 2007–2030

		Average annual growth of public spending (Per cent)				*Average annual net public lending (Per cent of GDP)*				*Current account balance (Per cent of GDP)*			
		2007–2012	*2013–2018*	*2019–2024*	*2025–2030*	*2007–2012*	*2013–2018*	*2019–2024*	*2025–2030*	*2007–2012*	*2013–2018*	*2019–2024*	*2025–2030*
World	Baseline	3.6	2.1	2.3	2.8	-3.7	-3.6	-3.2	-3.0	-	-	-	-
	Scenario A	.	4.0	5.7	6.2	.	-2.7	-1.7	-1.7	-	-	-	-
	Scenario B	.	3.1	3.7	4.3	.	-3.5	-2.7	-2.4	-	-	-	-
Developed economies	Baseline	1.6	0.5	0.7	0.8	-5.6	-4.9	-3.7	-3.0	-0.5	-0.4	-1.3	-2.4
	Scenario A	.	1.2	3.0	3.5	.	-3.7	-2.5	-2.5	.	-0.4	-0.5	-0.8
	Scenario B	.	0.6	0.9	1.3	.	-4.8	-3.2	-1.9	.	-0.3	-0.5	-0.9
CIS	Baseline	3.1	2.0	1.6	1.7	1.2	0.6	0.4	0.9	2.5	0.2	0.7	1.4
	Scenario A	.	3.0	4.9	5.4	.	1.1	0.9	0.2	.	0.7	0.6	0.5
	Scenario B	.	2.5	3.5	3.8	.	0.7	0.2	-0.1	.	0.3	0.3	0.5
Africa	Baseline	7.2	1.6	1.2	2.2	-2.7	-4.3	-2.5	-1.1	-1.6	-4.3	-6.4	-5.8
	Scenario A	.	2.9	6.8	7.6	.	-2.8	-1.0	-1.1	.	-2.3	-1.5	-0.2
	Scenario B	.	2.2	4.2	5.0	.	-3.7	-2.4	-2.0	.	-3.6	-4.6	-4.0
Latin America and the Caribbean	Baseline	5.8	2.2	1.8	2.3	-2.4	-3.6	-3.2	-2.6	-2.7	-3.5	-3.8	-3.4
	Scenario A	.	4.1	5.5	6.0	.	-3.0	-2.4	-2.5	.	-2.5	-0.7	0.1
	Scenario B	.	3.1	3.7	4.0	.	-3.5	-3.4	-3.4	.	-3.1	-2.6	-2.0
West Asia	Baseline	5.0	3.0	1.8	2.8	4.7	0.5	-0.7	-0.1	7.9	2.4	0.8	2.0
	Scenario A	.	3.8	5.5	5.9	.	0.9	-0.7	-0.7	.	4.3	1.5	0.8
	Scenario B	.	3.3	3.9	4.5	.	0.5	-1.0	-1.0	.	3.3	0.8	0.8
East, South and South-East Asia, excl. China and India	Baseline	5.5	3.3	2.4	2.8	-2.8	-2.9	-3.2	-3.0	-1.6	-4.2	-4.5	-3.3
	Scenario A	.	8.5	7.1	6.8	.	-2.8	-2.8	-2.9	.	-2.2	-0.5	0.0
	Scenario B	.	6.2	4.8	4.7	.	-3.0	-3.6	-3.8	.	-3.7	-3.6	-2.9
China	Baseline	9.0	7.1	7.3	6.6	-1.0	-0.2	-1.3	-2.5	4.8	6.8	8.4	8.3
	Scenario A	.	12.2	9.9	8.7	.	-0.1	-0.0	-0.0	.	3.3	1.6	1.5
	Scenario B	.	10.4	8.8	7.8	.	-0.3	-1.0	-1.5	.	4.6	3.9	3.6
India	Baseline	9.7	4.9	4.7	4.9	-8.3	-9.6	-10.0	-10.1	-6.0	-4.8	-2.7	-1.9
	Scenario A	.	9.4	10.2	10.3	.	-6.2	-3.1	-3.0	.	-4.5	-1.8	-1.1
	Scenario B	.	7.4	7.6	7.7	.	-7.9	-6.7	-6.9	.	-4.7	-2.7	-2.2

Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model.

institutional structures play a role. Some developed countries succeed in achieving an export-led strategy by wage-compression measures. In deficit countries, some degree of growth was apparently supported by renewed debt accumulation of the domestic sectors. These two sets of countries influence the configuration of global imbalances shown in figure 8.B. Larger external imbalances will also affect developing countries, though these will not be as large as in the baseline scenario because developing countries were assumed to agree on regional mechanisms of trade cooperation (see table 2).

Third, more binding constraints arise for developing and emerging economies in the implementation and outcomes of the policies they will aim to undertake. The new configuration of external imbalances suggests that there will be a build-up of global instabilities similar to the ones experienced in the run-up to the financial crisis. These renewed sources of instability likely result from the assumption that developed countries in scenario B would continue to rely on monetary expansion mechanisms without counterpart fiscal expansionary stances and without sufficiently robust growth of domestic employment (see tables 1 and 2). Yet, despite the more adverse external conditions, the external environment that developing countries face in scenario B represents an improvement over the baseline scenario, owing to an enhanced regional and South-South cooperation.

Fourth, more extreme outcomes are experienced by the subset of developing countries that are not part of the G20. In a nutshell, countries not members of the G20 have a lot to loose and a lot to gain if countries in the G20 fail or succeed, respectively, in promoting a coordinated and sustained recovery from the crisis. Figures 9 and 10 show growth and distribution outcomes for the five sub-groups encompassing countries which are not represented at the G20 table: (i) other developing countries of Latin America, (ii) other developing countries of East Asia, (iii) other developing countries of South Asia, (iv) countries of North Africa and (v) countries of sub-Saharan Africa except South Africa. On the conditions of the baseline scenario, figure 9 shows that growth rates will be grossly inadequate to the challenges imposed by their developmental needs, while figure 10 shows that the tendency of the share of labour income to remain at such low levels carries serious threats to social and economic stability in these regions.[5] By contrast, these regions show a very promising response to the conditions laid out in scenario A.

However, additional difficulties emerge in scenario B. For these sets of countries it was assumed that ex-ante policy changes towards improving income distribution would be considerable since their starting conditions are admittedly very critical. Other measures like demand stimuli, industrial promotion and labour market policies, as well as efforts towards increased regional trade, are similar in intensity to those undertaken by the developing and emerging economies in the G20. Nevertheless, the outcomes in terms of growth performance are somehow more disappointing than for other developing economies. The reason is not hard to find; these countries are particularly vulnerable to adverse external conditions and under scenario B the external environment that countries not in the G20 face is more challenging. More in particular, they rely more on the performance of advanced economies, directly or indirectly, than the larger developing and emerging economies part of the G20. For example, while under the conditions of international cooperation postulated in scenario A these five groups of countries will get close to current account balance towards 2030, this is not the case under scenario B. Current account deficits of countries in Latin America and East Asia not represented in the G20 will hover around 3 per cent, and those of South Asia and Africa around 5 per cent. In these simulations, as current account deficits rise considerable bottlenecks for the expansion of demand emerge as well.

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5 Some degree of caution is required regarding the reliability of such figures for many countries in the developing world. In general, in many of these economies a large sector of the population is engaged in informal or unincorporated productive activities. The data set in the model is based on National Account statistics from the UN Department of Statistics and other sources which record the so-called mixed-income, but these tend to follow diverse methodologies and are based on surveys with gaps of various years. For example, records of mixed income in many developing countries of East Asia may likely be overestimating their contribution to total GDP. In our analysis, the pattern of these variables over time is a better guide than their level.

Figure 8

GLOBAL IMBALANCES UNDER TWO SCENARIOS, 1980–2030

(Per cent of world output)

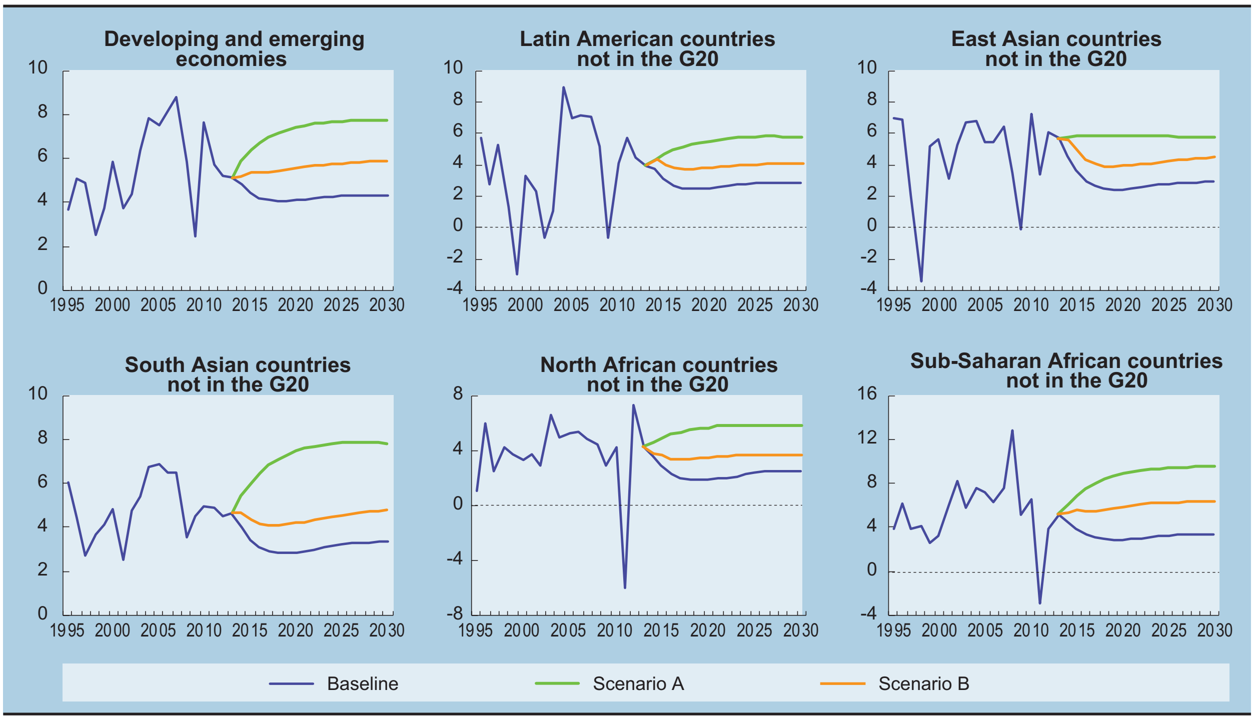
Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model.

Note: The shaded area shows the simulation period. Deficit and surplus classification was based on the average current account (CA) position between 2004 and 2007.

Figure 9

GDP GROWTH, DEVELOPING COUNTRIES AND MAIN GROUPS OF COUNTRIES NOT IN THE G20, 1995–2030

(Per cent)

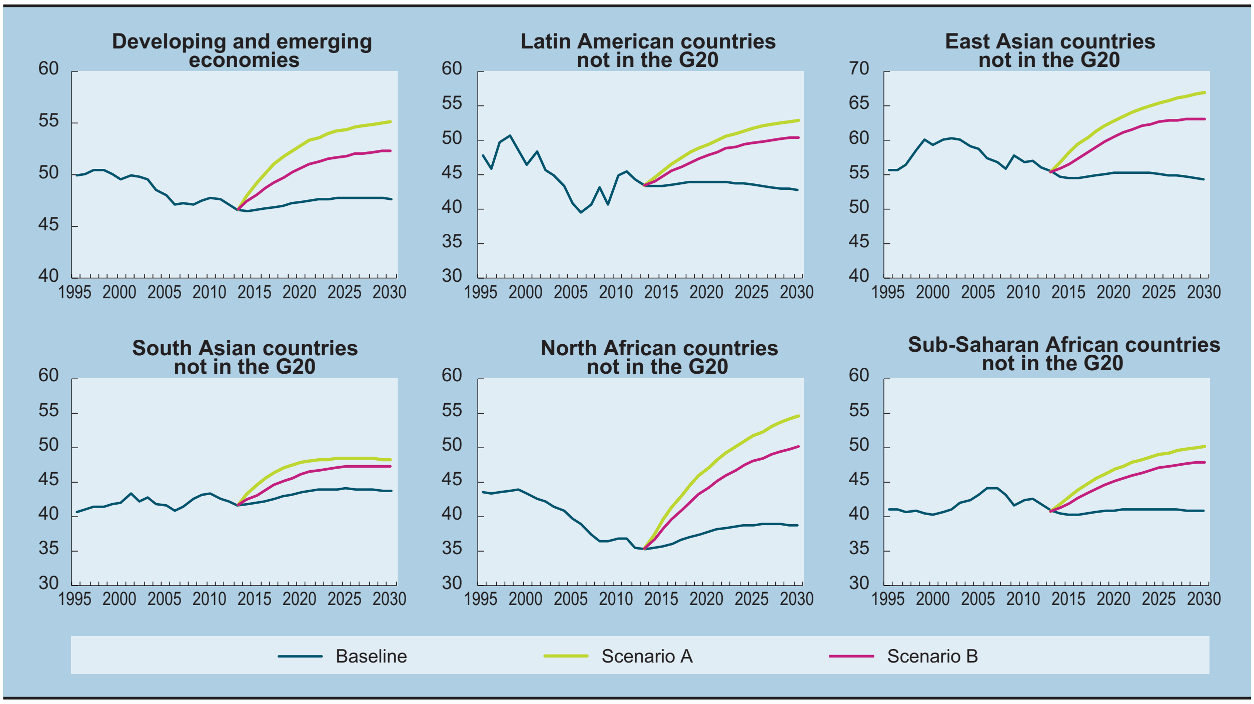


Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model.
Note: Growth refers to GDP at constant 2005 PPP dollars.

Figure 10

LABOUR-INCOME SHARE, DEVELOPING COUNTRIES AND MAIN GROUPS OF COUNTRIES NOT IN THE G20, 1995–2030

(Per cent of GDP)



Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model.

Concluding remarks

This modelling exercise highlights that demand-driven coordinated policy efforts (such as scenarios A and B) would lead to economic global outcomes significantly better than the baseline scenario, in which current policies are maintained. These outcomes are consistent with meaningful improvements in terms of the global number of jobs and the quality of jobs, measured in the form of wages and social infrastructure support. In particular, a higher degree of international coordination would deliver higher growth rates for GDP and employment in *all countries* and would reduce global imbalances (scenario A). But even in the case that developed countries persevere with their current policy stances, developing countries still can improve their economic performances by providing a coordinated economic stimulus. Hence, encouraging regional cooperation and South-South trade would need to be an important component of their development strategies.

In addition, the configuration of outcomes for the countries that are not part of the G20 also merits the attention of policy makers in the G20. In as far as the G20's guiding vision of strengthened international coordination for a global recovery (and beyond) is realised, it should have significantly positive effects on countries not represented at their table. The G20 would have in this way justified its raison d'être. If, however, the G20 countries fail to deliver on this promise, countries not part of the G20 would have a great deal to loose, and even if some degree of policy coordination among the developing countries is achieved. ■

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