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BACKGROUND NOTE:

A COORDINATED POLICY SCENARIO FOR JOB CREATION AND STRONGER GLOBAL GROWTH WITH MEDIUM-TERM REDUCTION OF PUBLIC DEBT RATIOS AND BENIGN GLOBAL REBALANCING

United Nations Secretariat contribution to
the G20 Framework Working Group

9 May 2012

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A coordinated policy scenario for job creation and stronger global growth with medium-term reduction of public debt ratios and benign global rebalancing

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Background information

The United Nations Secretariat (UNS) has undertaken analytical work on policies that could support a stronger employment recovery worldwide. These efforts include, among others, quantitative estimates of the employment evolution in different policy scenarios for 2012-2016 based on the United Nations Global Policy Model (GPM).[1]

GPM provides an integrated framework for monitoring ongoing developments in different aspects of the global economy for different countries and regions, and examining the potential effect of government responses (policy scenarios). As it views the world as an integrated system, it is well adapted for assessing the effects of policy coordination.

As a contribution to the debate on employment, we would like to share with G20 members the forthcoming UNS quantitative estimates regarding two scenarios for short and medium-term prospects regarding growth, employment as well as other key macroeconomic indicators.[2] The first refers to the forthcoming *WESP 2012 update baseline scenario*, which is roughly in line with the MAP assumptions. The second refers to *a coordinated policy scenario for job creation and stronger global growth*, which shows how better coordinated macroeconomic, structural and trade policies can strengthen output and employment growth, while at the same time being compatible with medium-term reduction of public debt ratios and benign global rebalancing.

We hope that these inputs can contribute to the Employment Report's goal of elaborating "employment implications of growth developments (that) will be based on simple and transparent calculations and assumptions so as to provide a flexible framework for updates and scenario analysis" (as mentioned in point 6 in the proposed agenda of the employment report).

[1] A full description of the model is available at http://www.un.org/en/development/desa/policy/un_gpm.shtml In addition http://www.un.org/en/development/desa/policy/publications/ungpm/gpm_concepts_2010.pdf provides the underlying concepts of GPM as well as some empirical illustrations, while http://www.un.org/en/development/desa/policy/publications/ungpm/gpm_technicaldescription_main_2010.pdf describes the technical features of GPM.

[2] This input is extracted from the forthcoming issue of the United Nations World Economic Situation and Prospects (WESP 2012 update).

I. Quantitative estimates and key results

Baseline scenario

The baseline simulation from the GPM takes on board key policy directions described in the baseline projections of the forthcoming *WESP 2012 update*. These include, among others, the latest projections of the GDP and CPI forecast for G20 economies that are reported in Table 1. The other assumptions are roughly in line with the MAP assumptions.

Table 2 presents the baseline scenario for key macroeconomic variables by group of countries.[3] These include GDP growth; Growth of government spending; Growth of private investment; Fiscal balance; Net private sector financial surplus; Current-account balance and Government debt.

With continued policies and other baseline assumptions, global economic growth at best would average 2.9 per cent per year during the period 2013 to 2016, far from sufficient to deal with the jobs crisis or bring down public debt ratios.

Coordinated policy scenario for job creation and stronger growth

The alternative scenario based on the growth-oriented agenda includes a shift in fiscal policies away from austerity and towards more jobs creation through, inter alia, more spending on infrastructure, energy efficiency and social programmes and tax and subsidies measures to stimulate private investment projects on these areas, continued expansionary monetary policies aligned with stronger financial regulation stemming capital flow volatility and enhanced development assistance to the poorest nations.

At the same time, policies are assumed to be coordinated to a certain degree with stronger fiscal impulses provided in countries with more fiscal space as well as in the surplus economies so as to help bring about a global rebalancing.

The composition of fiscal stimulus will also influence the size of the multiplier. Increases in Government spending on infrastructure investment, for instance, tend to have larger multipliers than tax credits or direct income transfers, especially when comparing the cumulative multiplier effects over a number of years.

The GPM simulations show that under such conditions, the World Gross Product (WGP) would grow at an average rate of 4.0 per cent between 2013 and 2016, with both developed and developing economies seeing growth accelerate by between one and two percentage points in comparison with the baseline (see figure A).

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[3] For tractability issues, the GPM views the world economy as an integrated system composed of different blocs of countries, even though some blocs are in fact constituted by a single economy. For this reason, the results of the simulations are reported by group rather than by country.

Most importantly, employment rates, especially among developed countries, would return to near pre-crisis levels unlike in the baseline scenario (figure B). Also in developing countries employment growth would be significantly higher. The employment deficit caused by the global crisis of 2008-2009, estimated at 48 million jobs in 2011, would by and large dissipate by 2016.

The simulations results show further that these outcomes are achievable while improving fiscal balances and stabilizing public debt ratios over the medium run (as shown in Table 3) and to gradually decline thereafter. Government budget balances would quickly improve given the relatively mild, but well targeted fiscal impulses assumed in the scenario.

Current account imbalances would be reduced gradually, in part because surplus countries are providing greater fiscal stimuli, triggering stronger domestic private investment and consumption growth in those countries. With investments in energy efficiency and more sustainable (and greener) energy supplies, world energy prices would stabilize to lower levels over the medium run. Food prices would also stabilize as stronger demand is met with more rapidly increasing supply underpinned by increased investment in sustainable food production. Thus, external surpluses of major commodity exporting economies also adjust gradually.

Even with this perhaps slow employment recovery, the scenario underscores that providing more fiscal stimulus in the short run and avoiding premature fiscal austerity is a feasible way to effectively deal with the global jobs crisis while at the same time inducing a benign and more sustainable rebalancing of the global economy. It would require much more forceful international policy coordination and shifting orientation of what is in the plans of the G20, however.

Figure A: Employment ratios of selected countries or country groups
(per cent of working age population)

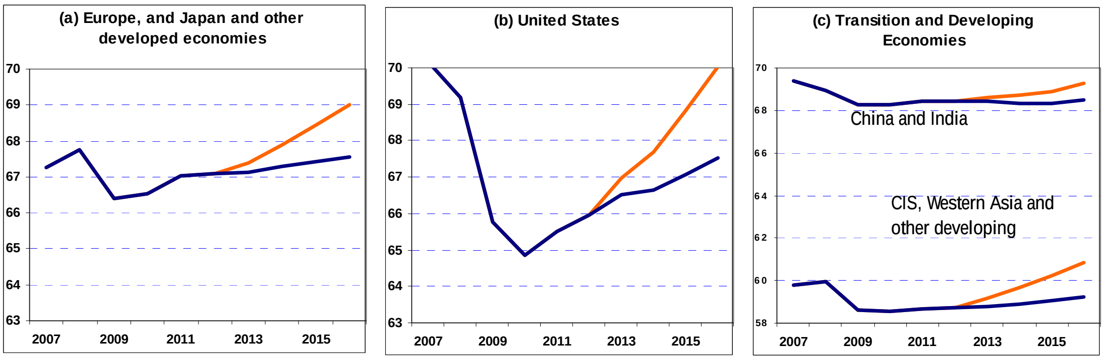
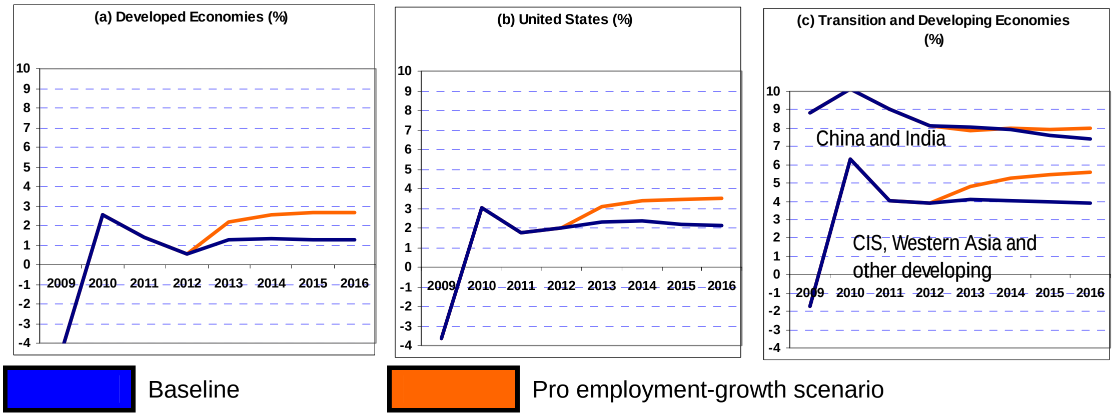


Figure B: Growth rates of selected countries or country groups (per cent)



Source: United Nations Global Policy Model (http://www.un.org/esa/policy/publications/ungpm.html)

Appendix

Table 1: Country-specific assumptions used for the baseline scenario about GDP and CPI forecast for G20 economies

	GDP Growth Rate		CPI (% Change)	
	2012	2013	2012	2013
World	2.5	3.1	2.6	2.6
Argentina	3.8	4.0	9.7	10.5
Australia	2.7	2.8	3.6	4.8
Brazil	3.3	4.5	5.0	4.6
Canada	2.0	2.4	1.9	1.8
China	8.4	8.5	4.0	3.6
European Union	0.0	1.2	1.9	1.8
France	0.1	0.7	2.1	1.8
Germany	1.0	2.0	1.6	1.7
India	6.7	7.2	7.4	6.9
Indonesia	6.1	6.3	5.0	4.8
Italy	-1.7	0.2	2.7	1.6
Japan	1.7	2.1	0.7	0.3
Republic of Korea	3.3	3.9	3.0	3.0
Mexico	3.4	3.9	3.9	4.3
Russian Federation	4.4	4.4	6.5	6.7
Saudi Arabia	4.9	3.7	5.0	3.9
South Africa	2.8	3.5	4.8	4.8
Turkey	3.7	5.1	5.2	6.0
United States	2.1	2.3	1.6	1.9
United Kingdom	0.5	1.7	1.5	1.7

Source: forthcoming *WESP 2012 update*, based on data of the United Nations Statistics Division and individual national sources.

Table 2: Baseline policy scenario for key macroeconomic indicators, 2011-16

GDP GROWTH (%)	2011	2012	2013	2014	2015	2016
United States	1.8	2.0	2.3	2.4	2.2	2.1
Europe	1.7	0.0	0.9	1.1	1.1	1.1
Japan and other developed countries	0.8	1.8	2.1	1.7	1.6	1.5
China and India	9.0	8.1	8.1	7.9	7.6	7.4
CIS and West Asia (major oil exporters)	4.4	4.5	4.4	4.1	3.9	3.9
Other developing countries	3.9	3.6	3.9	4.0	4.0	4.0
Current Account Deficit (% of GDP)						
United States	-2.9	-3.0	-3.2	-3.4	-3.8	-4.2
Europe	0.0	0.4	0.5	0.5	0.5	0.4
Japan and other developed countries	0.0	-0.3	-0.3	-0.4	-0.4	-0.5
China and India	2.1	2.6	3.0	3.3	3.5	3.6
CIS and West Asia (major oil exporters)	6.2	4.6	3.2	1.8	1.5	1.6
Other developing countries	-0.4	-0.7	-0.4	-0.1	0.1	0.3
Growth of private investment (const. prices) (% per annum)						
United States	6.4	6.0	5.2	5.4	5.3	5.0
Europe	3.6	0.3	3.0	2.9	3.1	3.0
Japan and other developed countries	4.3	2.7	3.2	3.3	2.8	2.6
China and India	9.4	8.9	6.9	6.2	5.6	5.1
CIS and West Asia (major oil exporters)	8.8	7.3	9.0	8.2	7.3	6.9
Other developing countries	8.1	5.9	3.8	4.0	4.1	4.1
Growth of government spending (const. prices) (% per annum)						
United States	1.2	1.3	-1.1	-0.9	-0.7	-0.6
Europe	1.4	2.7	-1.4	-1.6	-1.5	-1.5
Japan and other developed countries	1.8	1.6	0.5	0.5	0.6	0.7
China and India	8.7	9.6	9.6	8.6	8.2	7.9
CIS and West Asia (major oil exporters)	2.2	3.3	1.7	1.8	1.7	1.8
Other developing countries	3.9	5.8	3.3	3.3	3.4	3.5
Net private sector financial surplus (% of GDP)						
United States	8.0	7.1	5.8	4.6	3.4	2.3
Europe	5.9	7.2	6.6	5.8	5.0	4.2
Japan and other developed countries	8.1	7.2	6.3	5.6	4.9	4.3
China and India	5.3	5.6	6.3	6.7	6.9	6.9
CIS and West Asia (major oil exporters)	6.7	3.7	1.8	0.2	-0.5	-0.9
Other developing countries	1.9	1.7	2.0	2.3	2.4	2.5

Net government financial surplus (% of GDP)						
United States	-11.0	-10.1	-9.0	-8.0	-7.2	-6.4
Europe	-6.0	-6.8	-6.2	-5.3	-4.5	-3.7
Japan and other developed countries	-8.2	-7.5	-6.7	-5.9	-5.3	-4.8
China and India	-3.2	-3.0	-3.3	-3.4	-3.4	-3.3
CIS and West Asia (major oil exporters)	-0.5	0.9	1.3	1.6	2.0	2.5
Other developing countries	-2.2	-2.4	-2.4	-2.4	-2.3	-2.2
Government debt (% of GDP)*						
United States	76.3	77.0	76.3	74.8	73.3	71.5
Europe	71.6	74.3	75.1	75.3	75.0	74.4
Japan and other developed countries	136.7	135.3	134.0	133.4	132.9	132.4
China and India	22.7	20.6	20.0	19.6	19.5	19.3
CIS and West Asia (major oil exporters)	36.4	37.5	38.2	38.2	37.4	36.5
Other developing countries	34.4	34.5	35.1	35.5	36.0	36.3

Source: United Nations Global Policy Model, available from http://www.un.org/en/development/desa/policy/un_gpm.shtml.
* Public debt is measured on a cash basis and, data permitting, nets out intragovernment debt.

Table 3: Coordinated policy scenario for job creation and stronger global growth, 2011-16

GDP GROWTH (%)	2011	2012	2013	2014	2015	2016
United States	1.8	2.0	3.1	3.4	3.5	3.5
Europe	1.7	0.0	2.1	2.6	2.7	2.7
Japan and other developed countries	0.8	1.8	2.4	2.5	2.5	2.4
China and India	9.0	8.1	7.9	8.0	8.0	8.0
CIS and West Asia (major oil exporters)	4.4	4.5	5.6	5.7	5.8	5.9
Other developing countries	3.9	3.6	4.5	5.0	5.3	5.5
Current Account Deficit (% of GDP)						
United States	-2.9	-3.0	-3.0	-3.0	-3.1	-3.2
Europe	0.0	0.4	0.1	-0.1	-0.4	-0.5
Japan and other developed countries	0.0	-0.3	-0.3	-0.4	-0.5	-0.7
China and India	2.1	2.6	2.9	3.2	3.4	3.5
CIS and West Asia (major oil exporters)	6.2	4.6	3.8	2.8	2.7	2.8
Other developing countries	-0.4	-0.7	-0.3	0.0	0.3	0.4
Growth of private investment (const. prices) (% per annum)						
United States	6.4	6.0	4.5	6.5	7.2	7.4
Europe	3.6	0.3	5.1	6.2	6.6	6.4
Japan and other developed countries	4.3	2.7	3.6	5.3	5.7	5.6
China and India	9.4	8.9	6.8	6.0	5.8	5.7
CIS and West Asia (major oil exporters)	8.8	7.3	9.5	10.2	10.0	9.9
Other developing countries	8.1	5.9	4.3	5.9	7.1	7.7
Growth of government spending (const. prices) (% per annum)						
United States	1.2	1.3	0.4	1.0	1.4	1.4
Europe	1.4	2.7	1.0	1.6	1.7	1.6
Japan and other developed countries	1.8	1.6	0.7	1.0	1.1	1.1
China and India	8.7	9.6	9.7	8.6	8.5	8.6
CIS and West Asia (major oil exporters)	2.2	3.3	1.8	4.5	5.3	5.8
Other developing countries	3.9	5.8	4.2	5.4	5.9	6.1
Net private sector financial surplus (% of GDP)						
United States	8.0	7.1	6.1	5.2	4.3	3.5
Europe	5.9	7.2	6.6	5.8	5.0	4.3
Japan and other developed countries	8.1	7.2	6.3	5.4	4.5	3.6
China and India	5.3	5.6	6.3	6.7	6.8	6.8
CIS and West Asia (major oil exporters)	6.7	3.7	2.2	1.0	0.5	0.3
Other developing countries	1.9	1.7	2.1	2.5	2.7	2.7

Net government financial surplus (% of GDP)						
United States	-11.0	-10.1	-9.1	-8.2	-7.4	-6.7
Europe	-6.0	-6.8	-6.5	-5.9	-5.4	-4.8
Japan and other developed countries	-8.2	-7.5	-6.6	-5.8	-5.0	-4.3
China and India	-3.2	-3.0	-3.4	-3.4	-3.4	-3.3
CIS and West Asia (major oil exporters)	-0.5	0.9	1.6	1.9	2.1	2.4
Other developing countries	-2.2	-2.4	-2.4	-2.5	-2.4	-2.3
Government debt (% of GDP)*						
United States	76.0	77.0	76.0	74.0	72.0	70.0
Europe	72.0	74.0	75.0	74.0	74.0	73.0
Japan and other developed countries	137.0	135.0	134.0	132.0	130.0	128.0
China and India	23.0	21.0	20.0	20.0	19.0	19.0
CIS and West Asia (major oil exporters)	36.0	38.0	38.0	37.0	36.0	35.0
Other developing countries	34.0	35.0	35.0	35.0	35.0	0.4
CUMULATED EMPLOYMENT CREATED ABOVE THE BASELINE (millions)						
United States	0.0	0.0	1.0	2.4	4.1	5.8
Europe	0.0	0.0	1.1	2.6	4.4	6.2
Japan and other developed countries	0.0	0.0	0.1	0.3	0.5	0.7
China and India	0.0	0.0	3.4	7.0	11.0	15.2
CIS and West Asia (major oil exporters)	0.0	0.0	0.6	1.4	2.3	3.3
Other developing countries	0.0	0.0	7.4	15.6	24.4	33.7

Source: United Nations Global Policy Model, available from http://www.un.org/en/development/desa/policy/un_gpm.shtml.
* Public debt is measured on a cash basis and, data permitting, nets out intragovernment debt.