

TRADE AND DEVELOPMENT REPORT, 2012

Policies for Inclusive and Balanced Growth

United Nations Conference on Trade and Development (UNCTAD)

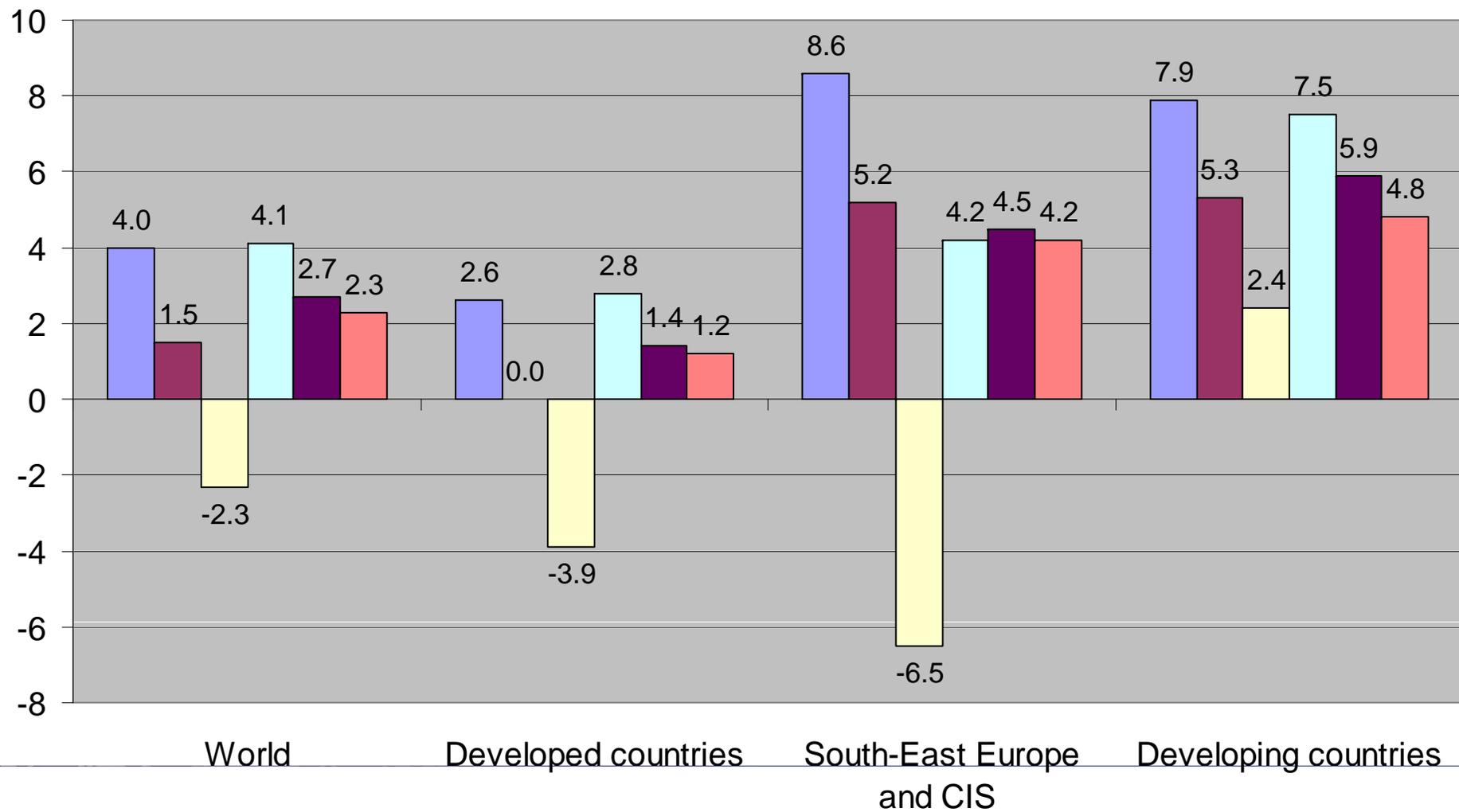
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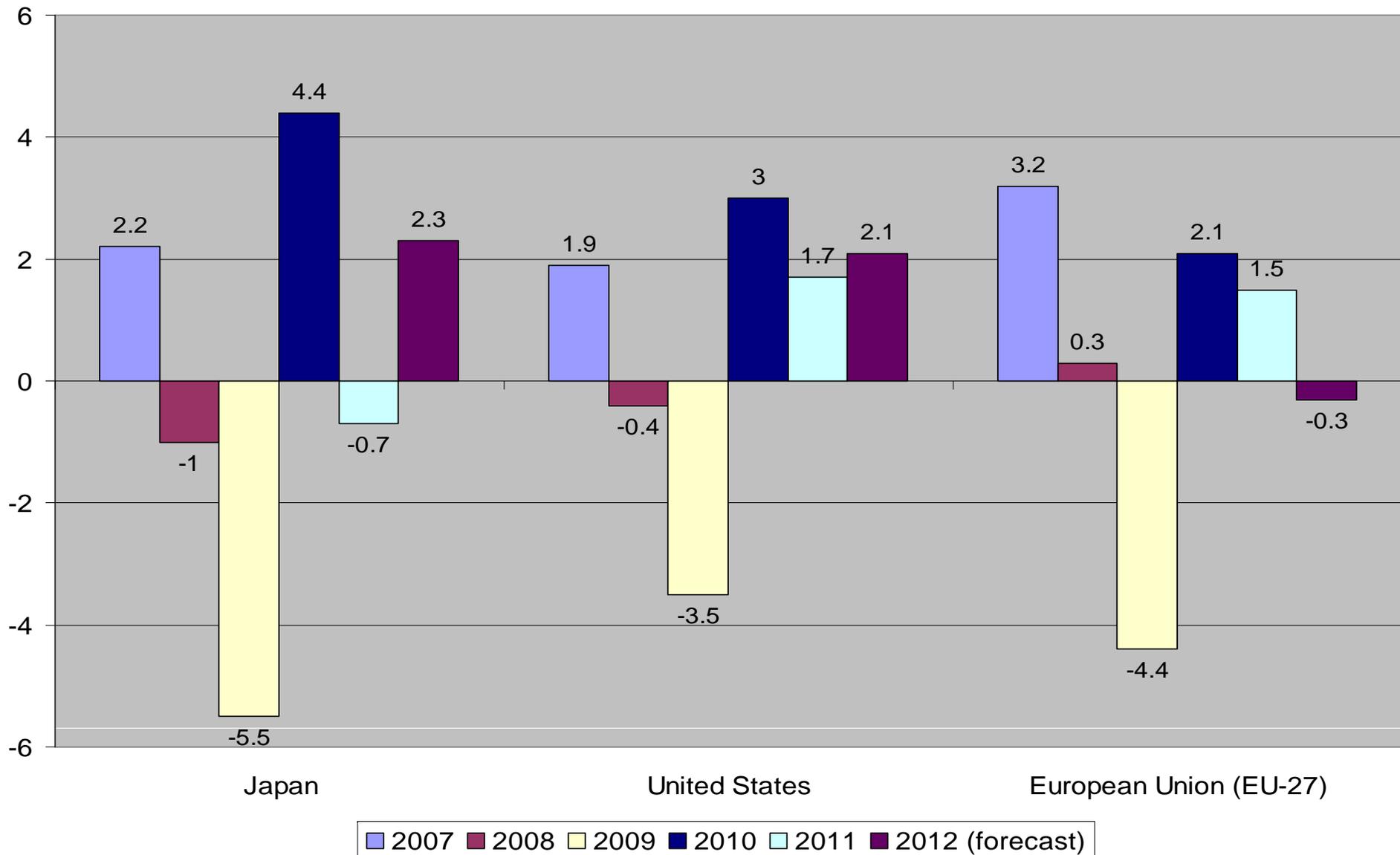
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT 1

Global economic growth is slowing further, with strong downside risks

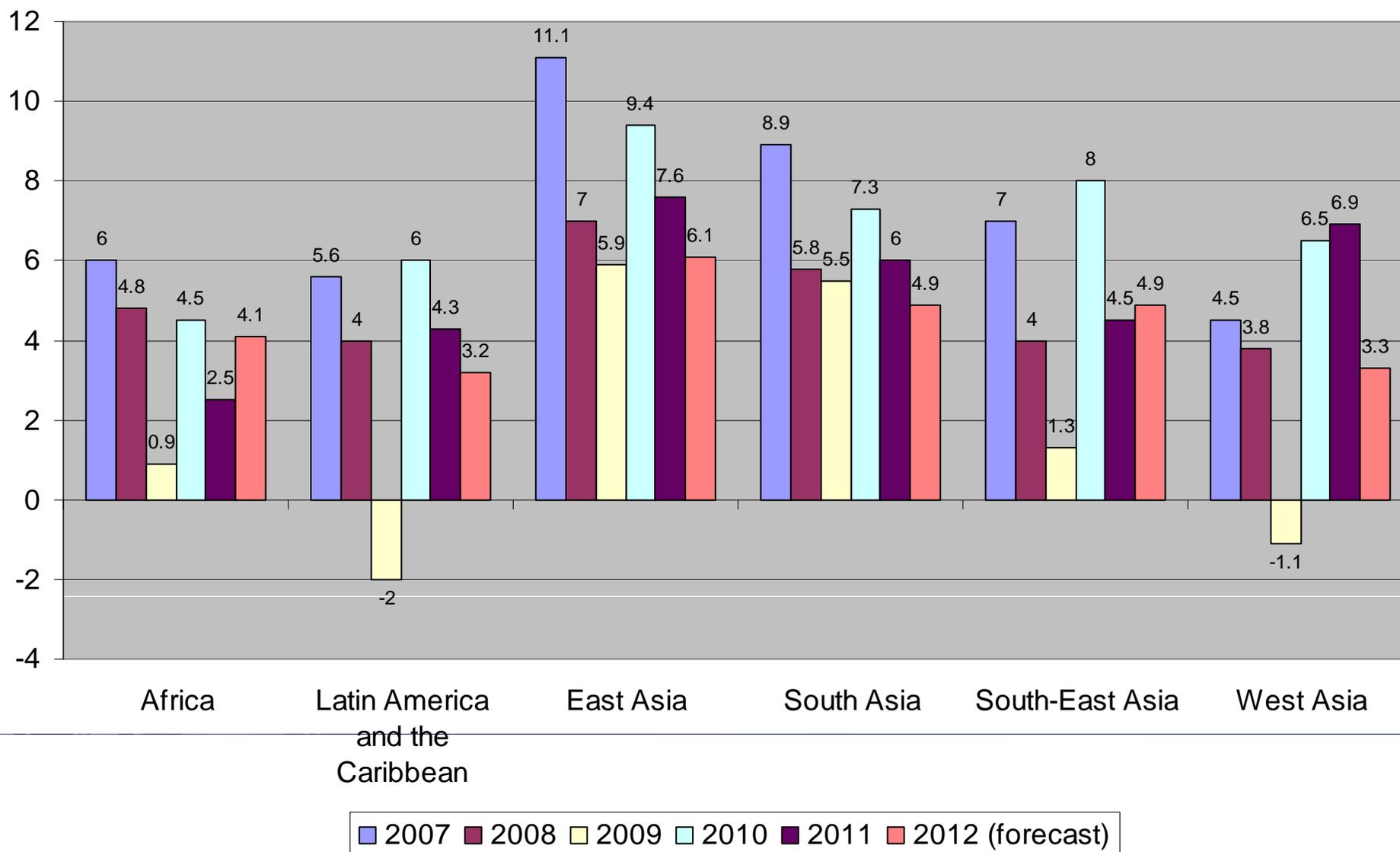


■ 2007 ■ 2008 ■ 2009 ■ 2010 ■ 2011 ■ 2012 (forecast)

Growth in developed economies remains very sluggish

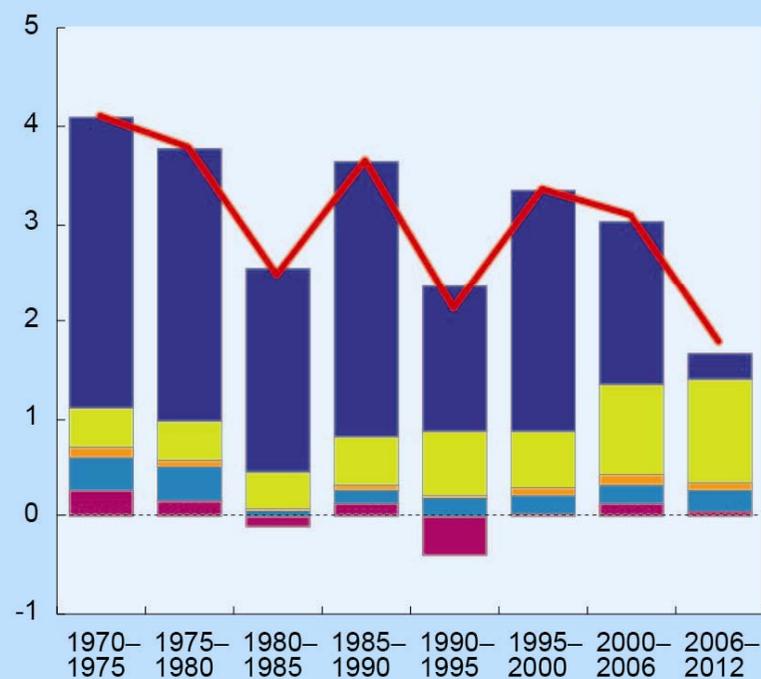


Developing economies driving the recovery



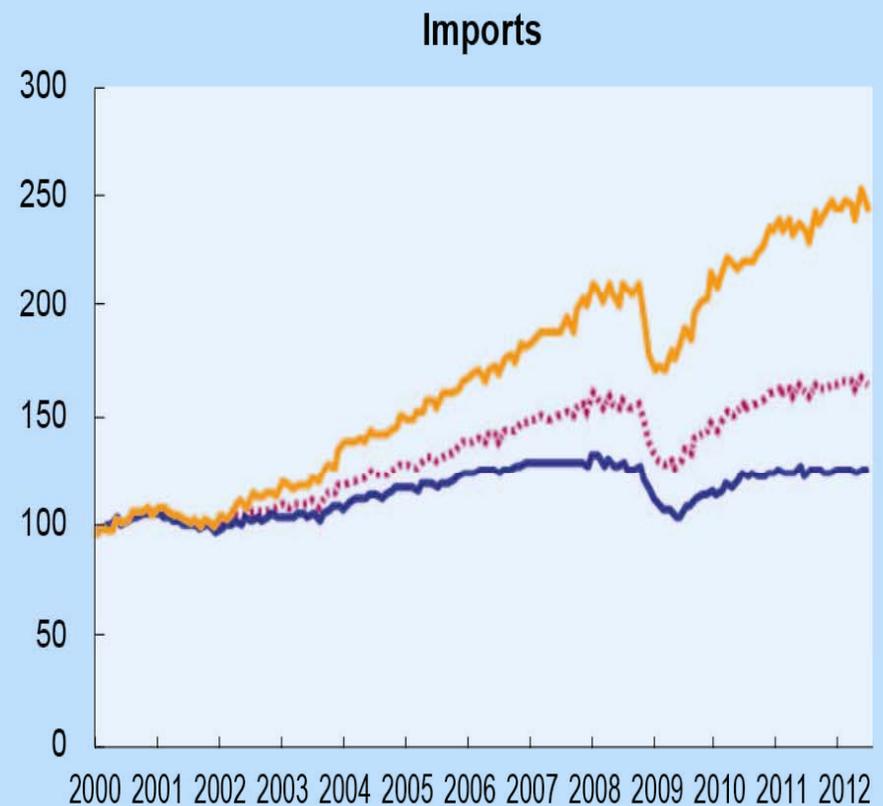
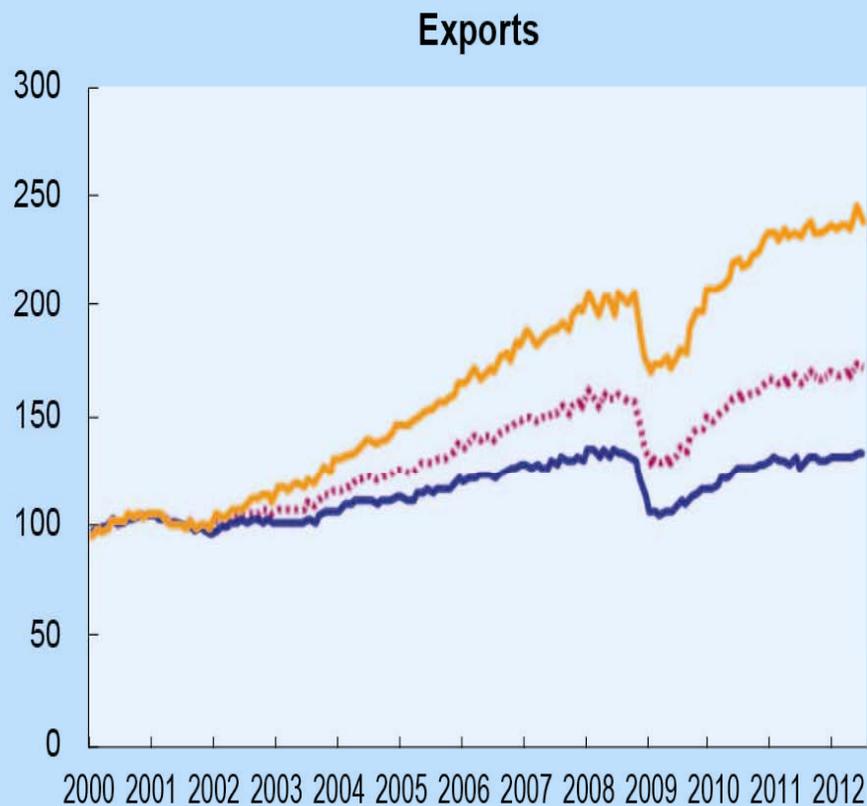
The role of developing countries in the world economy keeps increasing

GDP growth, selected country groups, 1970–2012
(Per cent)



World merchandise trade is expanding less

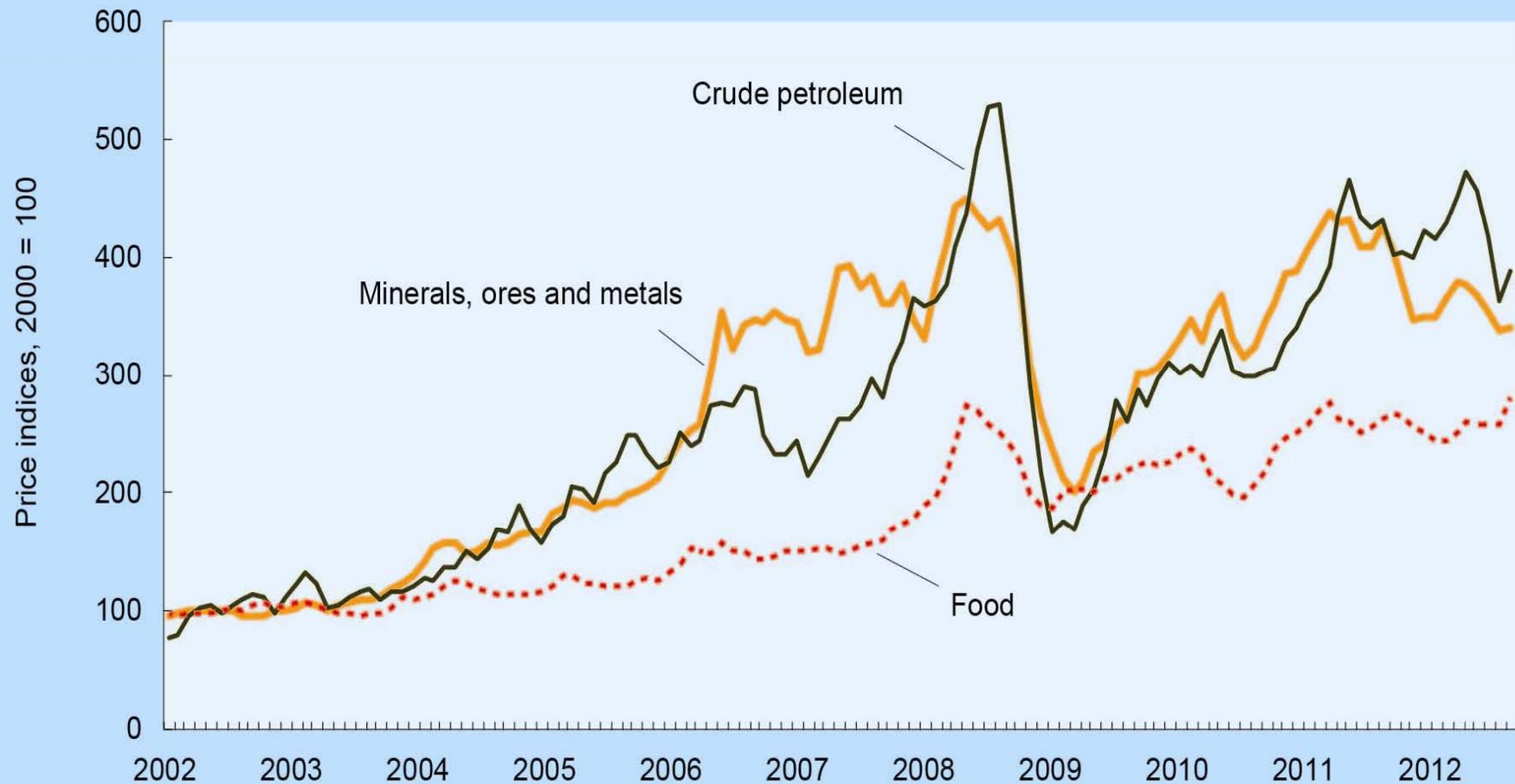
World trade by volume, January 2000 – June 2012
(Index numbers, 2000 = 100)



World Developed countries Emerging market economies

Commodity prices have recovered amidst high volatility

Commodity prices, selected categories, January 2002 – July 2012
(Index numbers, 2000 = 100)



Current economic policies do not support strong and balanced growth (1)

1. A correct diagnosis of the causes of the crisis and the obstacles to recovery is crucial

- High public deficits are the consequence, not the cause of the crisis
- The main problem hindering growth in developed economies is faltering demand, due to unemployment, deleveraging and wage compression. Fiscal austerity worsens these problems

2. All macroeconomic effects of fiscal and incomes policies must be taken into account

- By hampering growth, fiscal austerity neither leads to fiscal consolidation nor restores financial markets' confidence
- Further wage compression hits demand, growth and employment
- Such measures taken simultaneously by many trading partners do not significantly improve competitiveness in any of them but amplify recessionary effects

Current economic policies do not support strong and balanced growth (2)

3. There is room for expansionary policies, especially in countries with a current-account surplus

- Policymakers should use fiscal, credit and incomes policies for recovering (in developed economies) or sustaining (in developing and transition economies) domestic demand.
- The economic stimulus provided by such policies depends on their distributional effects, as they can enhance the purchasing power of agents with a high propensity to consume.

4. The currently pursued structural reforms are no substitute for expansionary macroeconomic policies

- The current problem is insufficient demand, i.e. reforms aimed at improving the supply side are inappropriate, especially if they further weaken demand (e.g. labour market flexibility in some developed countries)
- Structural reforms should reinforce social safety nets and expand the role of public policies for supporting investment as is happening in several developing countries
- Reforms should also address the root causes of the crisis by reforming the national and international financial systems, and reversing the trend towards increasing income inequality

The relationship between income inequality and growth

- ***Ongoing debate:***

- Income concentration is needed to generate savings and investment. Thus, policies aimed at reducing inequality tend to undermine economic efficiency and growth.

VS.

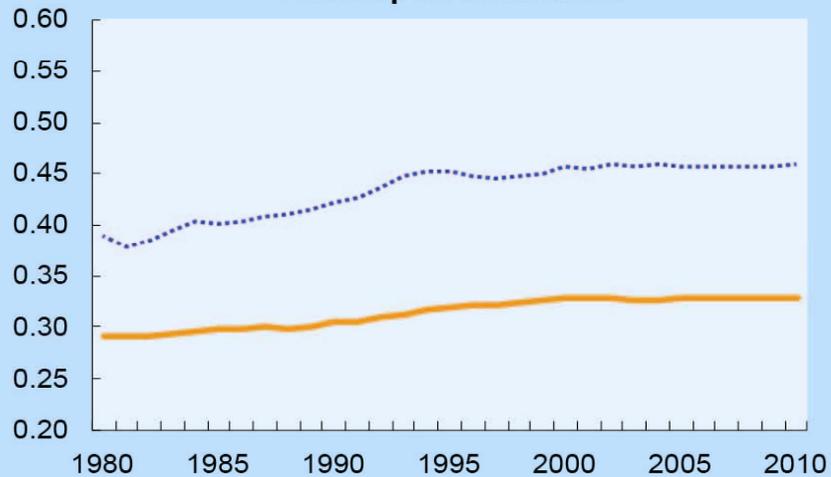
- High inequality dampens aggregate demand, deprives many people of access to education and credit, and represents an enormous waste of development potential.

Recent theoretical and empirical work finds a negative correlation between inequality and growth

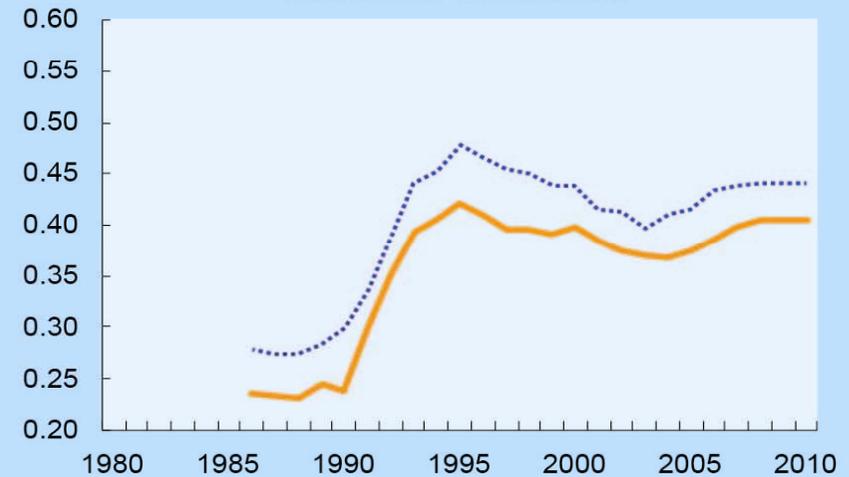
Rising inequality is neither a necessary condition for sound economic growth, nor its natural result. By contrast, full participation of all citizens in the proceeds of the economy as a whole is indispensable for successful and sustained development.

Income inequality has increased significantly in most regions since the 1980s

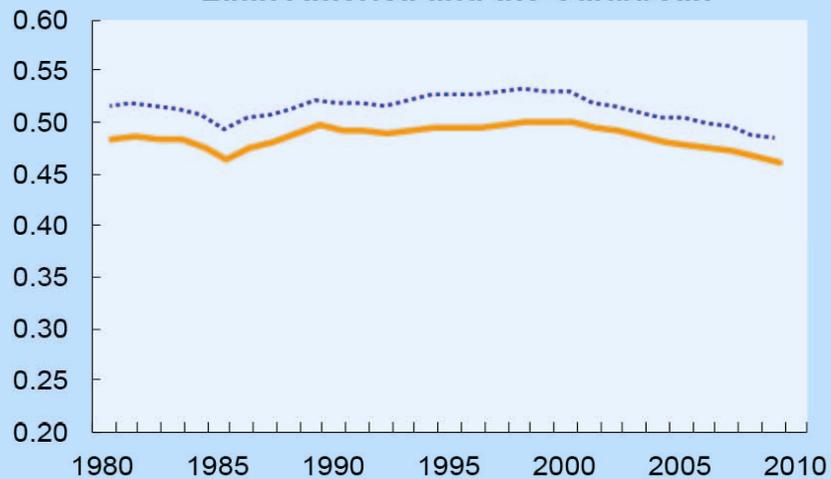
Developed economies



Transition economies



Latin America and the Caribbean



Asia

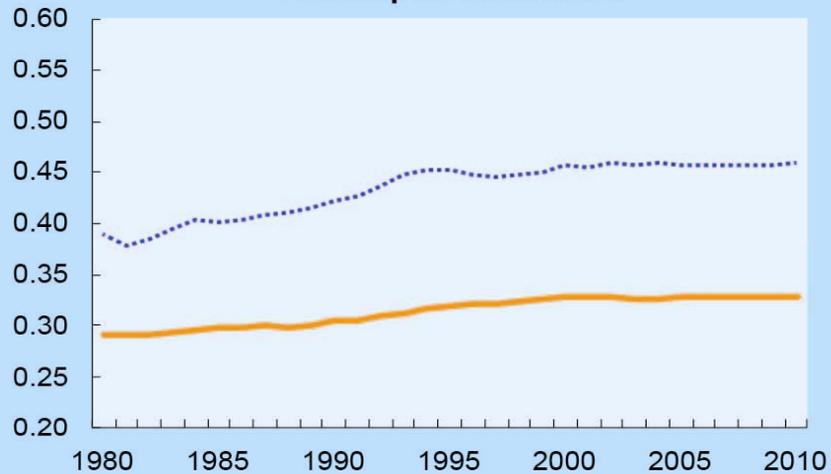


..... Gini coefficient for gross income

———— Gini coefficient for net income

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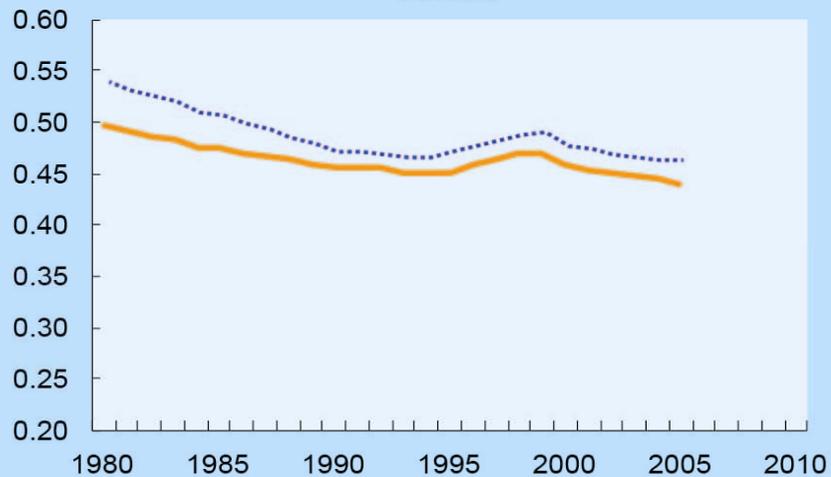
Developed economies



Transition economies



Africa



Asia

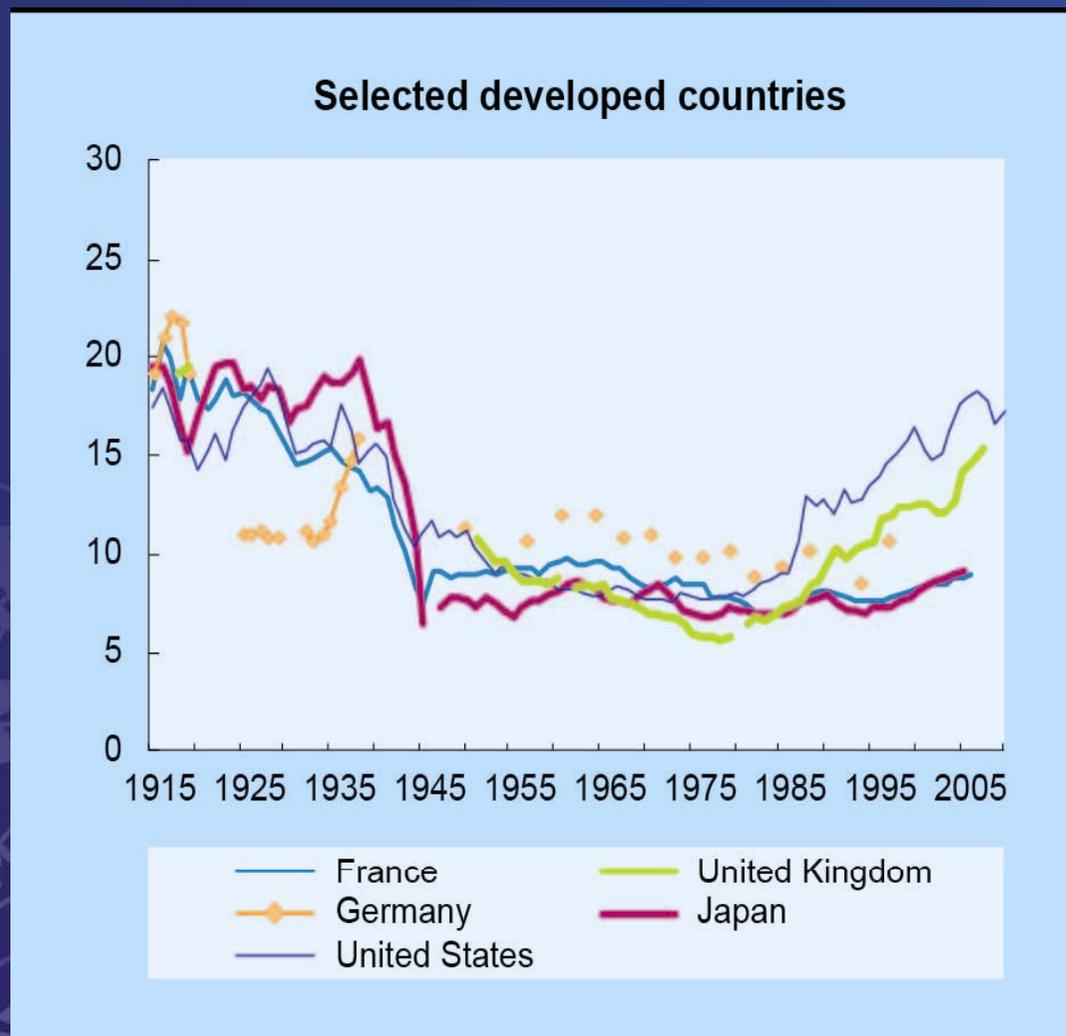


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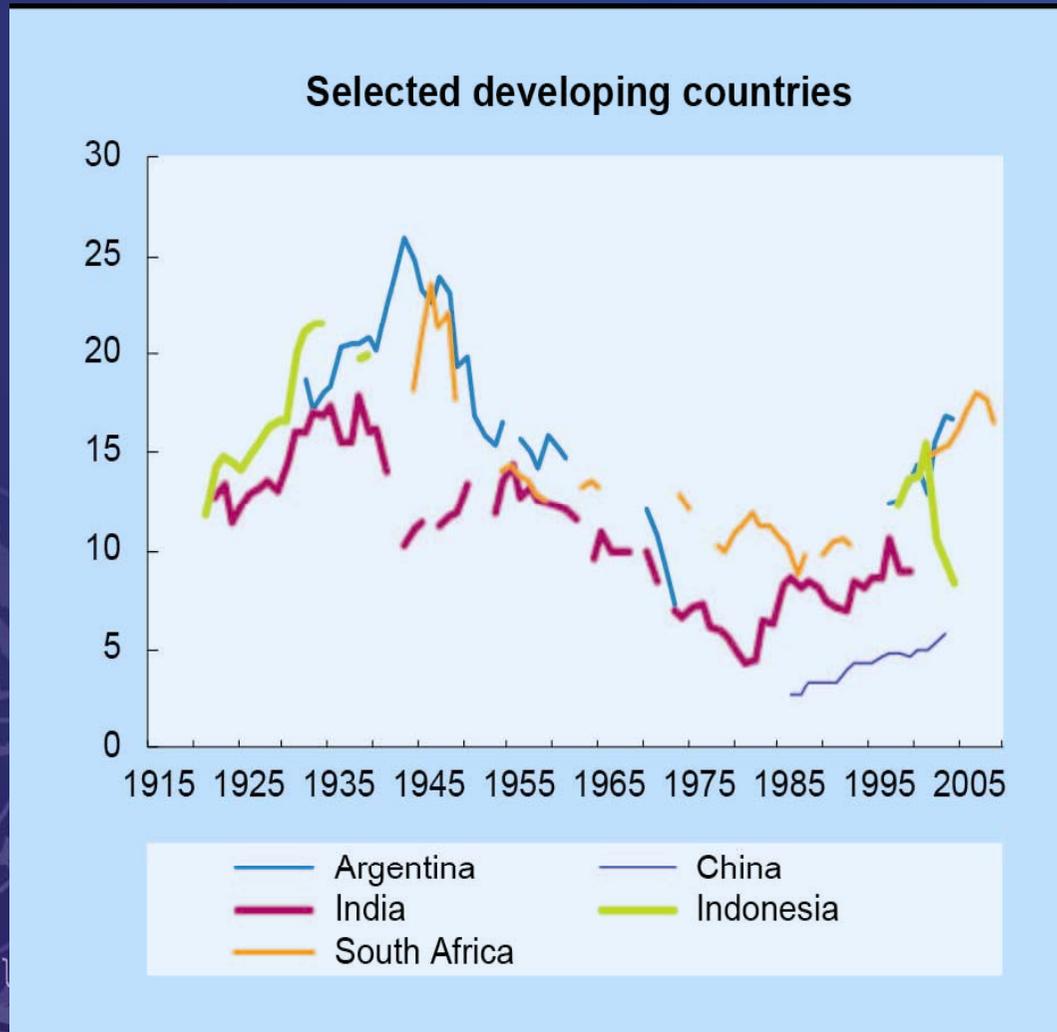
Top incomes have increased significantly in developed economies ...

Share of income of the top 1 per cent in total income, 1915–2010, per cent



... as well as in developing economies

Share of income of the top 1 per cent in total income, 1915–2010, per cent



Distributional effects of globalization and rapid technological change depend on initial conditions, economic policies and institutions

- In developed countries, recent increases in inequality have been related to behavioural changes in the corporate sector towards maximizing shareholder value. Wage restraint has been accompanied by rising income shares among the top income groups, including rentiers and the “working rich” in top management positions
- In developing and transition economies, distributional outcomes relate to changes in production structures. In some cases, inequality rose in connection with rapid income growth and industrialization (e.g. China). In others, higher inequality resulted from de-industrialisation, privatisations and financial crises (e.g. Latin America and transition economies)

Recommendations for labour market policies

- Relying on wage compression as the main tool for job creation ignores the important effects of income distribution on demand growth and employment
- Collective bargaining, complemented by government recommendations or general guidelines, should prevent the wage share from falling and the emergence of large differences in wages for similar occupations.
- Other instruments may be used to correct the market outcome in favour of those with weak negotiation power or excluded from the formal sector. These include:
 - Legal minimum wages
 - Enhanced public employment
 - Measures to increase the income of informally employed and self-employed.

Recommendations for fiscal policy

- Progressive taxation and public spending designed to improve the provision of essential goods and services to low-income groups can also contribute to the process of inclusive growth. For example:
 - Profits from productive entrepreneurial activity may be taxed at a lower rate than profits from purely financial activity and capital gains that provide no benefits for the overall economy.
 - Taxation could be increased on top incomes resulting from rent-seeking activities as compared to productive work.
 - In resource-rich developing countries, governments should receive a fair share of commodity rents and ensure that commodity earnings benefit the entire population and not just a few domestic and foreign actors.
- By enlarging fiscal space, governments can apply counter-cyclical policies, redistribute income and finance investment for more sustainable and inclusive growth.

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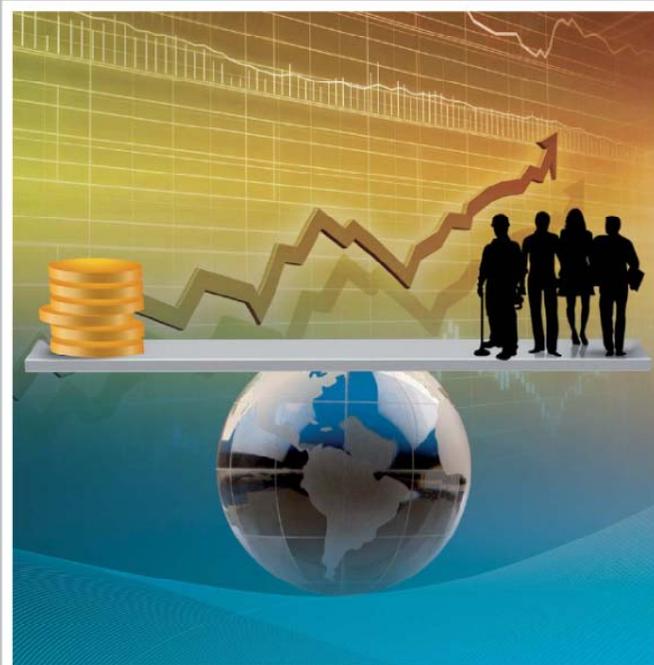
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