“World economy on life support: we need a Global Green New Deal to achieve Sustainable Development Goals”

Igor Paunovic, Senior Economist, UNCTAD

Moscow, 22 November 2019
Content of the presentation

• Current state of the world economy
• Structural problems of the world economy
• A possible alternative – a Global Green New Deal
• How to finance it?
• Main messages
Current state of the world economy

- The context – the slowest recovery in the last 100 years – talk of “secular stagnation”
- Economic growth of the world economy around 2.3% in 2019, slower than the 3.0% in 2018
- Trade is slowing down again, from 4.5% in 2017 to 2.8% in 2018, and will be even slower (perhaps around 2%) in 2019
- International prices of commodities are again weakening
- Model of growth based on debt: from $145 trillion before the GFC to $255 trillion today
### Current state of the world economy

#### TABLE 1.1 World output growth, 1991–2019
(Annual percentage change)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.8</td>
<td>3.5</td>
<td>2.7</td>
<td>-1.7</td>
<td>4.3</td>
<td>3.2</td>
<td>2.5</td>
<td>2.6</td>
<td>2.8</td>
<td>2.8</td>
<td>2.5</td>
<td>3.1</td>
<td>3.0</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Developed countries</td>
<td>2.6</td>
<td>2.2</td>
<td>1.6</td>
<td>-3.5</td>
<td>2.6</td>
<td>1.5</td>
<td>1.1</td>
<td>1.3</td>
<td>1.9</td>
<td>2.3</td>
<td>1.7</td>
<td>2.3</td>
<td>2.2</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1.2</td>
<td>1.2</td>
<td>1.0</td>
<td>-5.4</td>
<td>4.2</td>
<td>-0.1</td>
<td>1.5</td>
<td>2.0</td>
<td>0.4</td>
<td>1.2</td>
<td>0.6</td>
<td>1.9</td>
<td>0.8</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>3.6</td>
<td>2.6</td>
<td>2.0</td>
<td>-2.5</td>
<td>2.6</td>
<td>1.6</td>
<td>2.3</td>
<td>1.8</td>
<td>2.5</td>
<td>2.9</td>
<td>1.6</td>
<td>2.2</td>
<td>2.9</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td>European Union (EU 28)</td>
<td>2.2</td>
<td>2.2</td>
<td>1.2</td>
<td>-4.3</td>
<td>2.1</td>
<td>1.8</td>
<td>-0.4</td>
<td>0.2</td>
<td>1.8</td>
<td>2.3</td>
<td>2.0</td>
<td>2.5</td>
<td>2.0</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euro zone</td>
<td>2.1</td>
<td>1.9</td>
<td>0.9</td>
<td>-4.5</td>
<td>2.1</td>
<td>1.6</td>
<td>-0.9</td>
<td>-0.2</td>
<td>1.4</td>
<td>2.1</td>
<td>1.9</td>
<td>2.4</td>
<td>1.9</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>2.0</td>
<td>1.8</td>
<td>1.0</td>
<td>-2.9</td>
<td>2.0</td>
<td>2.2</td>
<td>0.3</td>
<td>0.6</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>2.3</td>
<td>1.6</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>1.7</td>
<td>1.3</td>
<td>1.6</td>
<td>-5.6</td>
<td>4.1</td>
<td>3.7</td>
<td>0.5</td>
<td>0.5</td>
<td>2.2</td>
<td>1.7</td>
<td>2.2</td>
<td>2.2</td>
<td>1.4</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>1.6</td>
<td>1.0</td>
<td>-0.2</td>
<td>-5.5</td>
<td>1.7</td>
<td>0.6</td>
<td>-2.8</td>
<td>-1.7</td>
<td>0.1</td>
<td>0.9</td>
<td>1.1</td>
<td>1.6</td>
<td>0.9</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.8</td>
<td>2.5</td>
<td>1.7</td>
<td>-4.2</td>
<td>1.7</td>
<td>1.6</td>
<td>1.4</td>
<td>2.0</td>
<td>2.9</td>
<td>2.3</td>
<td>1.8</td>
<td>1.8</td>
<td>1.4</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>EU member States after 2004</td>
<td>1.9</td>
<td>5.4</td>
<td>2.4</td>
<td>-3.4</td>
<td>1.6</td>
<td>3.1</td>
<td>0.7</td>
<td>1.2</td>
<td>3.0</td>
<td>3.9</td>
<td>3.2</td>
<td>4.7</td>
<td>4.3</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>Transition economies</td>
<td>-4.9</td>
<td>7.2</td>
<td>1.6</td>
<td>-6.6</td>
<td>4.5</td>
<td>4.6</td>
<td>3.5</td>
<td>2.4</td>
<td>0.9</td>
<td>-1.9</td>
<td>0.7</td>
<td>2.1</td>
<td>2.8</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russian Federation</td>
<td>-4.7</td>
<td>6.8</td>
<td>1.2</td>
<td>-7.8</td>
<td>4.5</td>
<td>4.3</td>
<td>3.7</td>
<td>1.8</td>
<td>0.7</td>
<td>-2.5</td>
<td>0.3</td>
<td>1.6</td>
<td>2.3</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Developing countries</td>
<td>4.8</td>
<td>6.3</td>
<td>4.9</td>
<td>2.7</td>
<td>7.8</td>
<td>6.2</td>
<td>5.0</td>
<td>5.0</td>
<td>4.5</td>
<td>4.0</td>
<td>3.9</td>
<td>4.4</td>
<td>4.2</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>2.6</td>
<td>5.8</td>
<td>3.1</td>
<td>3.4</td>
<td>5.4</td>
<td>1.4</td>
<td>6.0</td>
<td>2.2</td>
<td>3.5</td>
<td>2.7</td>
<td>1.6</td>
<td>2.7</td>
<td>2.8</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>3.1</td>
<td>3.8</td>
<td>1.7</td>
<td>-1.9</td>
<td>6.0</td>
<td>4.5</td>
<td>2.8</td>
<td>2.8</td>
<td>1.0</td>
<td>-0.4</td>
<td>-1.5</td>
<td>0.9</td>
<td>0.7</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>6.3</td>
<td>7.5</td>
<td>6.1</td>
<td>4.3</td>
<td>8.8</td>
<td>7.5</td>
<td>5.6</td>
<td>6.1</td>
<td>5.7</td>
<td>5.5</td>
<td>5.8</td>
<td>5.6</td>
<td>5.3</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>10.6</td>
<td>10.9</td>
<td>7.9</td>
<td>9.4</td>
<td>10.6</td>
<td>9.5</td>
<td>7.9</td>
<td>7.8</td>
<td>7.3</td>
<td>6.9</td>
<td>6.7</td>
<td>6.9</td>
<td>6.6</td>
<td>6.1</td>
<td></td>
</tr>
</tbody>
</table>
Current state of the world economy
Current state of the world economy

- Advanced economies have not established robust recoveries (relying on asset markets, low wages and tax cuts)… all are slowing, some close to recession.

- Developing countries relying on commodities and debt with danger of deflationary spirals; some already in recession …

- Tariff tensions are contributing to drop in trade growth; drop in China’s imports already having negative spillover effects;

- But trade slowdown predates tariff war, symptom of a bigger problem and wider policy mistakes

- Global economy is financialized and fragile; global demand is weak, investment is sluggish,

- Global recession looming -- policy makers are not sufficiently prepared.
Structural problems of the world economy

- Labour income share (left axis)
- Government expenditure (per cent of GDP; right axis)
Structural problems of the world economy

- Insufficient levels of investment
- Addiction to debt
- Footloose capital with destabilizing consequences
- Excessive trust in free trade
- Reduced role of the State
- Fiscal restrictions
- Excessive dependency on expansionary monetary policy
- Limited policy space
- Insufficient attention to climate change issues
- Economic, social and political disorder
Structural problems of the world economy

Financial Times
Cover page,
18 September 2019
CNN: ‘There is nothing here’: The future is uncertain for 70,000 in the Bahamas left homeless by Dorian.
To achieve SDGs we need a Global Green New Deal

• An ambitious 2030 Agenda to avert economic, social and environmental breakdown; in its essence, it is a massive investment push in a series of interconnected public goods
• From billions to trillions; $2-3 tr per year (UNCTAD); $1.6tr for the US (Sanders)
• But the rules of the hyperglobalisation game haven't changed since 2009 producing inequality, indebtedness, instability and insufficient investment
• Will the perpetrators of financial breakdown in 2008-09 prevent environmental breakdown? Maximising finance, securitization, de-risking, special purpose vehicles, PPPs, disaster bonds, etc … a recipe for more inequality and less sustainability!!
• No evidence that private capital delivers public goods to scale
• What is needed is a global green new deal: reclaiming policy agenda from footloose capital, economic justice and reversal of decades of environmental degradation .. Turning vicious into virtuous circles
To achieve SDGs we need a Global Green New Deal

Essential elements of a GGND are 3Rs:
1. Reflate
2. Regulate
3. Redistribute

If not:

- SDGs unattainable by 2030 under current scenarios. No external assistance: Average public debt-to-GDP ratios go from 47% of around 185% by 2030
- No deterioration in current debt ratios: Additional resources equivalent to average annual GDP growth of around 12%
Any green new deal will include the following components:
- End austerity; new policy priorities, full range of macro policies
- Scale up public investment to decarbonize energy, transport and agriculture
- Stronger and dedicated public banks
- Green industrial policies
- Increase in wage share
- Progressive tax measures

Such an agenda makes sense in terms of growth jobs and distribution as it also lowers emissions;
- assumptions: 1 percentage point increase in wage share; 2 percentage point increase in investment share each year (renewables); net transfers 1.5 percentage points higher; direct taxes 2 percentage points higher by 2030
- GDP rises from 1-1.5 per cent in developed countries, 1.5-2 per cent in developing (slower in China); 26m jobs in developed, 146m in developing (40m in China); CO2 emissions cut by 30-32b tons of CO2
Pull up the people, cool down the planet

- Reforms are needed at the international level to make this work:
  - Policy space and coordination .. Start with revising FTAs and ITs and supporting capital controls
  - Clamping down on corporate tax avoidance; BEPs project plus; a common unitary taxation system with global minimum tax rate set at 20–25 per cent, (the current average global nominal rates) plus “formulary apportionment”,
  - A new debt jubilee: a huge programme of debt relief and new rules to help debt distressed states in the future
  - A properly funded global climate bank to support green transitions all over the world but particularly in the South
  - A Green Marshall Plan; technology transfer plus specific adaption funds for developing countries different funding mechanisms SDRs; ODA; etc
  - Regional trade and financial arrangements should be strengthened
Where’s the money?

• We can’t afford to do it, or we can't afford not to do it? … the cost of going above two degrees ranges from $70tr to $550tr

• Most vulnerable communities will be hit hardest but no one will be spared on “uninhabitable earth” … a vicious circle

• We can think of mobilizing resources as an insurance policy, but it’s more than that, it’s an investment in our future… a parallel with the WWI and WWII

• Mobilizing resources from a variety of sources:
  • **Wasted**: macro mismanagement (expansionary austerity); fossil fuel subsidies, $400 billion up to $5trillion (IMF); agricultural subsidies of $700bn
  • **Misused**: central bank balance sheets since crisis up by 20 tr; huge expansion of private credit created on average $5.3 trillion dollars a year since 1980
  • **Hidden**: capital transfers and tax evasion, close to $700bn for developing countries alone
  • **Undelivered**: 3.4 trillion in ODA if advanced economies had kept to their 0.7 per cent commitment since 2002

• Political will and public leadership more important than public-private partnerships
Main messages

- Current state of the world economy is not promising – another recession might be in the cards, but policymakers are not prepared – with slow growth not possible to achieve SDGs
- Economic, social and political disorder accompanied with climate breakdown – radical change is needed
- Structural problems, such as inequality, insufficient investment, destabilizing capital flows, addiction to debt, monopolistic tendencies, must be dealt with
- TDR 2019 proposes GGND to deal with economic and environmental challenges and to achieve SDGs
- It shows that it is possible to have a strategy combining higher economic growth and decarbonization of the economy
Большое спасибо за внимание

igor.paunovic@un.org

www.unctad.org