TRADE AND DEVELOPMENT REPORT 2019

FINANCING A GLOBAL GREEN NEW DEAL

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UNCTAD

Looming threats, continued anxieties

- **Age of anxiety –** falling income share of labour, erosion of public spending, weakening of productive investment and unsustainable increases in carbon dioxide**.**
- **Global recession looming** but policy makers - nationally and internationally are unprepared
  - Advanced economies have failed to establish robust recoveries (reliance on asset markets, low wages and tax cuts). Growth is **slowing down**
  - Developing countries continue to rely on commodities and debt with its associate danger of deflationary spirals. Some are already in recession
- **Tariff tensions are contributing to drop in trade growth**; with the drop in China's imports already having negative spill over effects. The trade slowdown predates the tariff war
- **Global economy is financialized and fragile**; global demand is weak, investment is sluggish, inequality is growing. But multilateralism is disabled and cannot handle conflicts surrounding trade, debt, currencies or technology.
- **Fiscal expansion and income redistribution key to rebalancing and recovery**.


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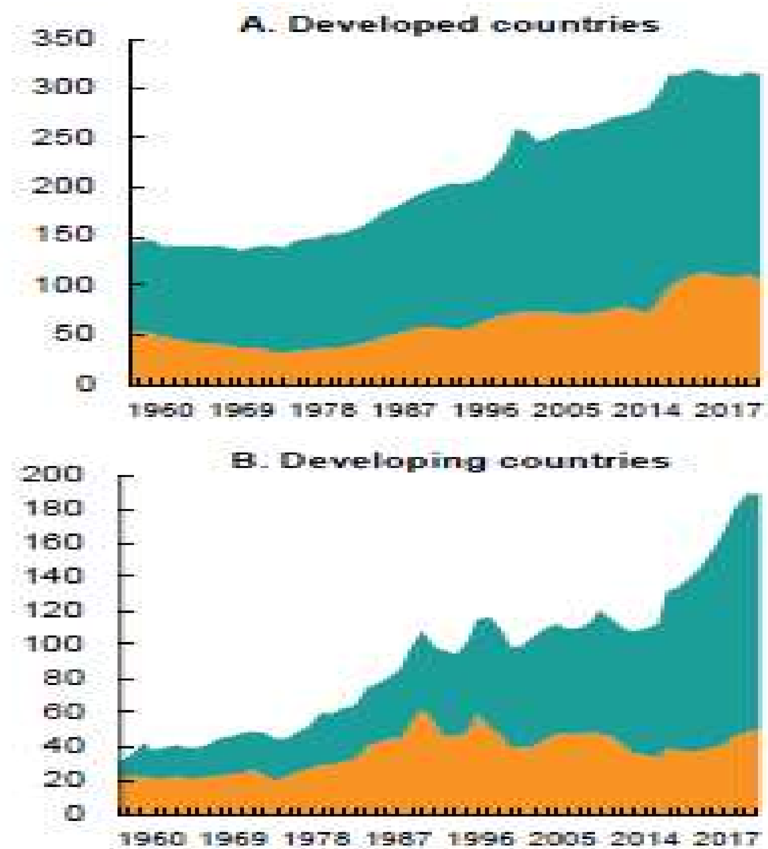
Till debt do us part…hyperglobalization after-effects

- Hyperglobalization has been debt driven; 14-fold increase in global debt stocks since 1980 – growth in private debt particularly marked
- Countries exposed to excessive foreign lending, financial crises and predatory investors in search of high short-term yields
- Reflects more than three decades of rampant financial deregulation, resulting in the rise of mega-banks and fast proliferating networks of non-bank financial intermediaries, the so-called "shadow-banking" sector in EU and US

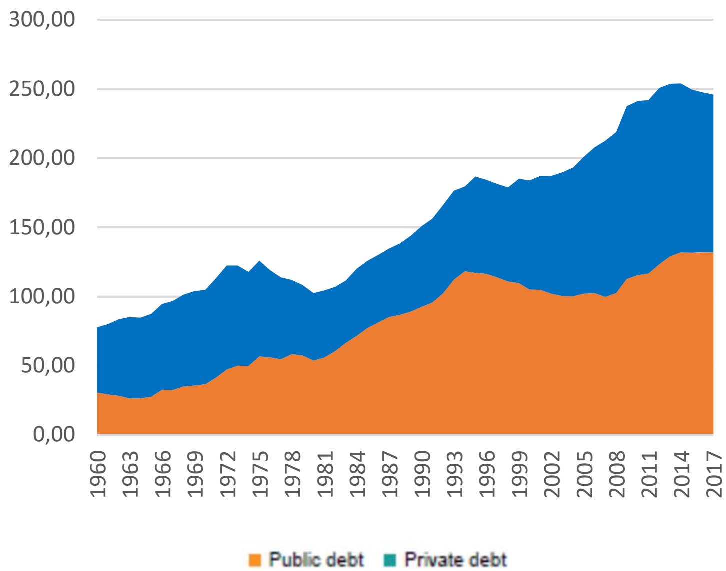
Total debt, developed and developing countries, 1960-2017(percentage of GDP)



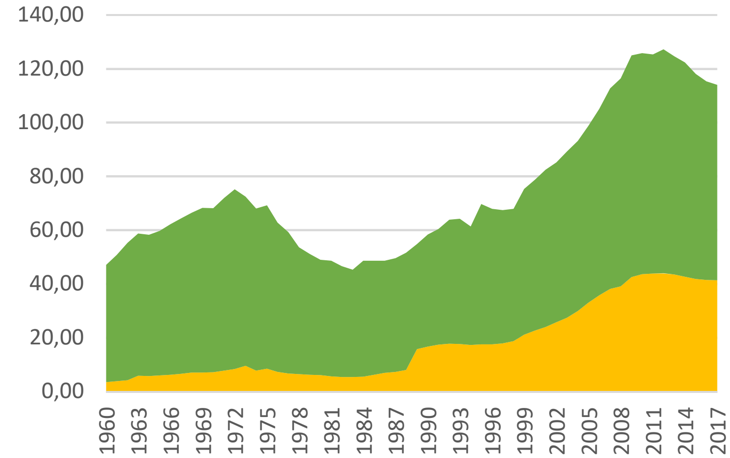
Italian indebtedness

- General government – public debt now at around 132% of GDP, but private sector debt has grown rapidly over the last three decades, while recently more tempered, and now accounts for 113% of GDP

Total debt, 1960- 2017 (percentage of GDP)



Private sector debt –1960- 2017 (percentage of GDP)



Non-financial corporation debt, loans and debt securities (percent of GDP)

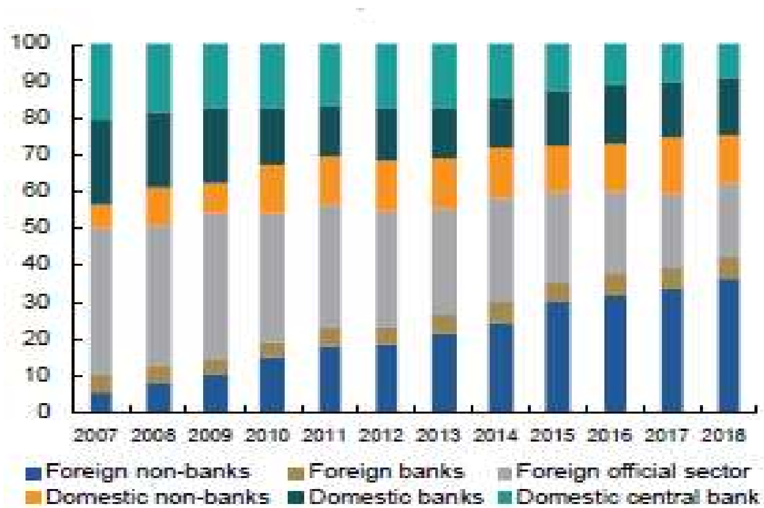
Household debt, loans and debt securities (percent of GDP)

(IMF, Global debt database and Italy, National statistics).

The business of debt

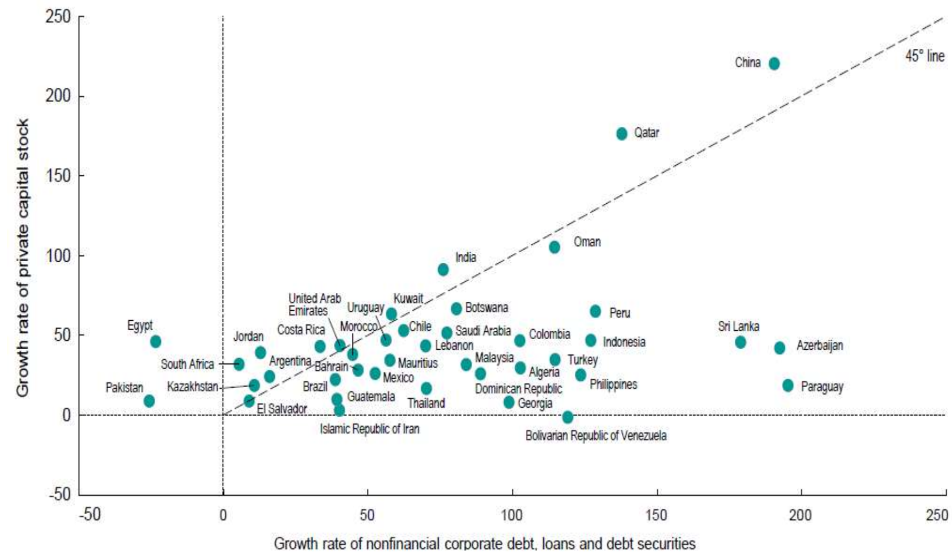
Who owns developing country government debt?

Composition of government debt by creditor type, 2004-2018



Private corporate debt grows faster than private capital stocks

Growth rates of private corporate debt and private capital stock, 2008-2015

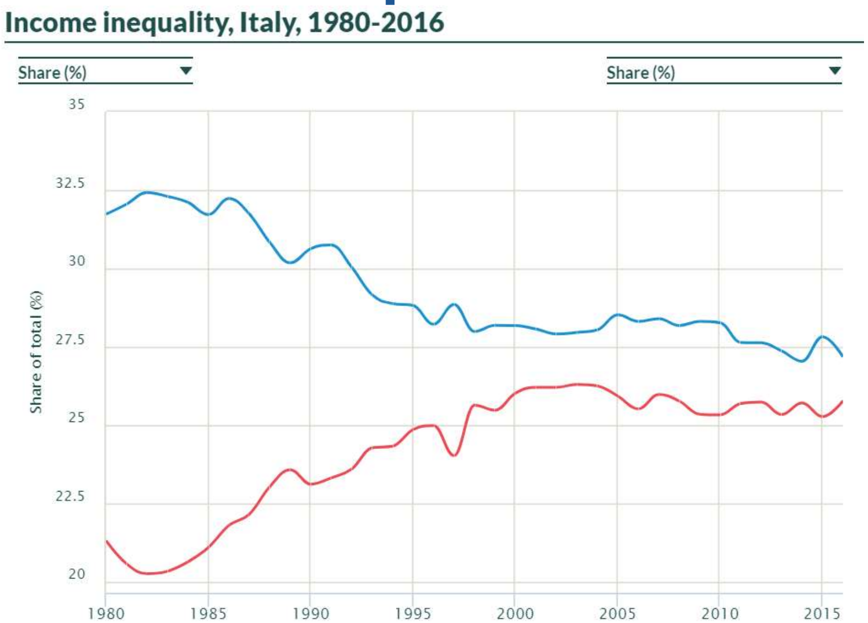


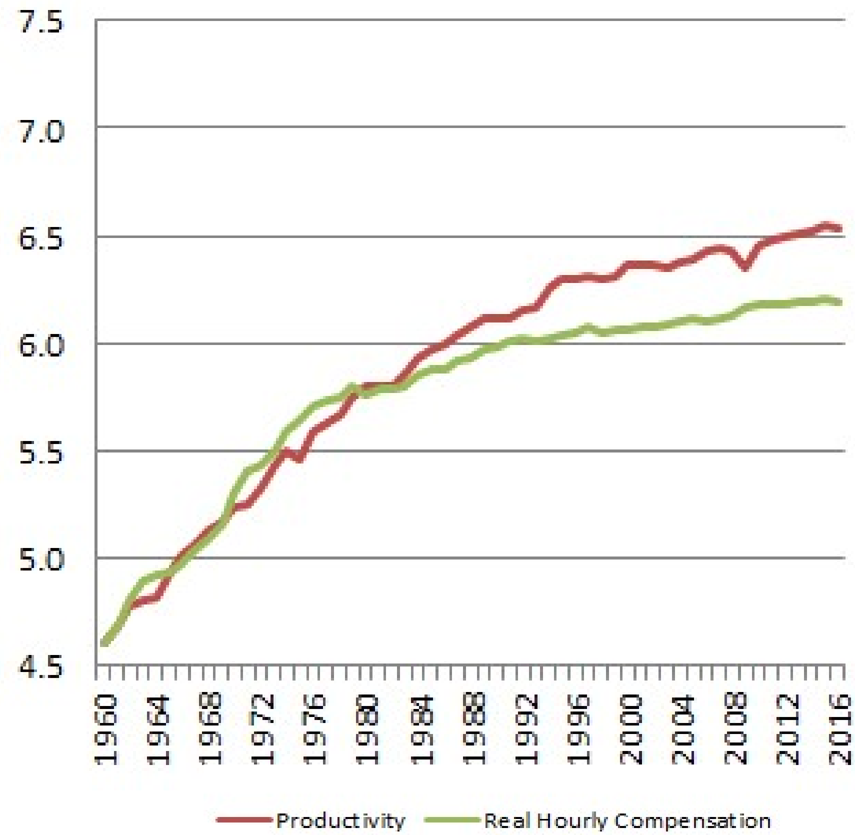
- Public debt has become more vulnerable to the vagaries of international financial markets: shifting ownership of developing country total government debt and its public and publicly guaranteed external debt.
- Much of private corporate debt fails to translate into developmental outcomes.
- Result is rising debt service costs, shrinking reserve cushions and heightened vulnerabilities to financial distress.

Another green new global deal?

- We are proposing **a global and integrated agenda -** by this we mean **pulling up the people while cooling the planet down.**
- Its an ambitious 2030 Agenda to avert economic, social and environmental breakdown; IPCC (2018) report insists on the need for a massive investment push in a series of interconnected public goods
- Demands trillions not billions; $2-3 tr per year (UNCTAD); $1.6tr per year for the US (Sanders)
- But the rules of the **hyperglobalisation game** haven't changed since 2009 neo-liberalism is a **"slash and burn"** agenda that has produced inequality, indebtedness, instability and **insufficient investment** (TDRs 2017 and 2018)

Italian income inequality and productivity and compensation





Post-tax national income - Top 10% share (25.7%)

Post-tax national income - Bottom 50% share (27.4%)

World inequality database
https://wid.world/country/italy/

Gap between Productivity and Real Hourly Compensation in Manufacturing, 1960 - 2016

Pull the people up, cool the planet down? Possible?

- A global and integrated response is necessary - cannot leave it to the perpetrators of global financial breakdown to address environmental breakdown, instead need to provide leadership to co-opt them
- **No evidence that private capital delivers public goods to scale**; plenty of evidence that its a recipe for more inequality and less sustainability
- What is needed is a **global green new deal**: reclaiming policy agenda from footloose capital, delivering economic justice for those thrown under the bus and reversing decades of environmental degradation
- Turning vicious into virtuous cycles:

– End austerity; new policy priorities
  - **Increase in wage share**
  - **New and progressive taxes**

– **Scaled up public investment** to decarbonize energy, transport and agriculture (efficiency plus renewables

– Creating space for **Green industrial policies** (technologies, land use, new sectors and skills)

– **Stronger and dedicated public banks**; greener Central Banks

Pull the people up, cool the planet down
How to make it possible?

- 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 **Green Marshall Plan**; technology transfer plus specific adaption funds for developing countries different funding mechanisms SDRs; ODA; “a restoration of their faith in the wisdom and the power of Government” (Keynes to Roosevelt, 1933.)
  - Regional trade and financial arrangements.
- A Bretton Woods moment?

Pull the people up, cool the planet down
Addressing the debt burden

- Revitalise and expand **special drawing rights (SDRs)** as a flexible and scalable financing mechanism to fund long-term country-by-country **environmental adjustment programmes**
- A **global SDG-related concessional lending programme** for low- and lower-middle-income developing countries combining a refinancing facility designed to allow participant countries to borrow on concessional terms and an additional lending facility designed to cover the external share of gross financing needs of the public sector until 2030.
- A **global sustainable development fund** capitalised and replenished by donor countries paying in their unfulfilled commitments to the ODA target and providing dedicated resources to compensate for what was only partially delivered over past decades (estimated at over $3.5 trillion since 1990).
- **Stronger regional monetary cooperation** to refinance and promote intraregional trade and develop intraregional value chains. Should move beyond regional reserve swap and pooling agreements that bridge liquidity constraints towards the more full-scale development of regional payment systems and internal clearing unions.
- **A rules-based framework to facilitate an orderly and equitable restructuring of sovereign debt** that can no longer be serviced according to the original contract, governed by a set of agreed principles and a body of international law.

Where's the money?

- Can we afford it? **or can we 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 cycle
- Mobilising resources from a variety of sources:
    - **Wasted:** macro mismanagement (expansionary austerity); fossil fuel subsidies, $400 billion up to $5trillion (IMF); agricultural subsidies of $700bn
    - **Abused:** $20tr rise in CB balance sheets since crisis; huge expansion of credit since 1980, on average $5.3 trillion dollars a year
    - **Hidden:** capital transfers and tax evasion, close to $700bn for developing countries alone
    - **Postponed:** $3.4 trillion in additional ODA (constant prices) since 2002 if advanced economies had kept to their 0.7 per cent commitment
- **Political will and global and national public leadership essential**