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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD



TRADE AND DEVELOPMENT REPORT 2017

**BEYOND AUSTERITY:
TOWARDS A GLOBAL NEW DEAL**

OVERVIEW



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UNITED NATIONS
New York and Geneva, 2017

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The Overview contained herein is also issued as part of the *Trade and Development Report 2017*.

OVERVIEW

Fifty years ago, at New York's Riverside Church, Martin Luther King made a passionate plea for a more equal, more just, more peaceful and more dignified world. Calling for "a radical revolution of values", King concluded, "We must rapidly begin ... the shift from a thing-oriented society to a person-oriented society. When machines and computers, profit motives and property rights are considered more important than people, the giant triplets of racism, extreme materialism and militarism are incapable of being conquered".

There is a contemporary ring to King's call for a more inclusive agenda. The "giant triplets" that he warned about are resurfacing, accompanied by a retreat into resentful nationalism and xenophobic comfort zones. The gaps between the rich, the middle class and the poor have almost certainly widened since King's time. And across much of the world, the drive to achieve full employment with strong welfare provision was thrown into reverse gear decades ago, as governments effectively reinvented themselves as "enablers" rather than "providers".

Ten years after the gales of financial destruction originating in Wall Street swept across the heartland of America and beyond, the world economy remains marooned in a state of sub-standard growth, while the social and economic inequities exposed by the crisis show few signs of moderating. Governments have closed down the most egregious loopholes and toxic instruments exposed by the crisis; but however good their intentions, the reality is that few who caused the crash have been held accountable for their actions, and little has been done to tackle its root causes.

As "hyperglobalization" with the help of the very visible hand of the State has recovered its poise, business as usual has set in; the push for "light touch" regulation is under way yet again, and

austerity has become the preferred response to “excessively” high levels of public debt. Meanwhile robots, rents and intellectual property rights are taking precedence over the livelihoods of people and their aspirations. History, it seems, has a troubling knack of repeating itself.

Unlike the textbook world of pure competition, hyperglobalization has led to a considerable concentration of economic power and wealth in the hands of a remarkably small number of people. This need not necessarily be antithetical to growth. But if history is any guide, it tends to generate political tensions that clash with wider public and social interests. Indeed, more clear-headed supporters of “the market”, since Adam Smith, have warned of the political dangers that can follow the concentration of economic wealth. It is therefore hardly surprising to find a popular backlash against a system that is perceived to have become unduly biased in favour of a handful of large corporations, financial institutions and wealthy individuals.

The real threat now is to the underlying trust, cohesion and sense of justice that markets depend upon in order to function effectively. No social or economic order is safe if it fails to ensure a fair distribution of its benefits in good times and the costs in bad times.

Insisting that “there is no alternative” is yesterday’s political slogan. People everywhere desire much the same thing: a decent job, a secure home, a safe environment, a better future for their children and a government that listens and responds to their concerns; in truth, they want a different deal from that offered by hyperglobalization. The 2030 Agenda for Sustainable Development, codified in a series of goals, targets and indicators, points in that direction. What is still needed is a supportive policy narrative and bold political leadership; there are hopeful signs that some of the discarded strategies and solutions that helped re-build the global economy after the Second World War are receiving a much welcomed twenty-first century makeover and are attracting a new generation determined to build a better world.

This time around, any new deal will need to “lift all boats” in both developing and developed countries and face up to the challenge that many of the imbalances inhibiting sustainable and inclusive growth are global in nature. Prosperity for all cannot be delivered by austerity-minded politicians, rent-seeking corporations and speculative bankers. What is urgently needed now is a global new deal.

The global economy: Ten years on

It is ten years since the world economy discovered the dangers of hyperglobalization. The sudden stop in interbank lending in August 2007, along with heightened counterparty risk, caused serious jitters in financial markets, plunged several financial institutions into an insolvency spiral and lit the fuse on a Great Recession. Most of these countries are yet to return to a sustainable growth trajectory.

Although the United States acted quickly to stem the financial collapse that came one year later, the subsequent recovery has been sluggish by historical standards, and unbalanced between the middle class and the wealthy, between Wall Street and Main Street, and between urban metropolises and smaller towns and rural communities. The crisis in Europe was more pronounced and has proved more obdurate, particularly in some peripheral economies where the resulting economic turmoil has had devastating social consequences. The rise in unemployment, in particular, has proved difficult to contain or reverse. A principal reason is that most developed countries, to varying degrees, retreated prematurely from the initial expansionary fiscal response to the crisis, relying instead on monetary policy. This helped banks and financial firms to stabilize and return to profit-making, but it was less successful in boosting consumer spending and investment. In response, policymakers have been nudging interest rates into negative territory in an unprecedented attempt to push banks to lend. Even so, a strong recovery has remained elusive.

Despite buoyant financial markets and signs of a cyclical bounce-back in Western Europe and Japan towards the end of the year, global economic growth in 2016 was well below the levels recorded in the run-up to the crisis. In the United States, signs of a slowdown towards the end of 2016 continued into 2017, with gross domestic product (GDP) growing at a rate of 1.4 per cent in the first quarter, while real wage growth remained sluggish despite falling unemployment, as reflected in a significant deceleration in household spending. Growth across the euro zone has varied significantly, being stronger in some of the smaller and poorer

countries in the first half of 2017, but subdued in the core countries. The good news is that unemployment has, on average, dropped to single-digit levels (with some notable exceptions such as in Greece and Spain), although the quality of new employment is a concern.

The United Kingdom's economy remained unexpectedly buoyant in the second half of 2016, following the Brexit vote, as a result of a fall in the value of the pound sterling, which boosted exports and increased household spending, propelled by higher consumer borrowing and rising house prices. But the subsequent deceleration (down to 0.2 per cent GDP growth in the first quarter of 2017) may persist due to new political uncertainties generated by a hung parliament as the Government negotiates a Brexit deal. In Japan, the recent recovery is, in reality, an uptick from a prolonged period of low growth, largely driven by exports following a correction to the long-standing overvaluation of its currency.

The absence of a robust recovery in developed countries and renewed volatility of global capital flows have constrained economic growth in developing countries, albeit with considerable regional and country-level variation. In general, the rapid recovery from the initial financial shock of 2008 has given way to a persistent slowdown since 2011. Growth in the world's two most populous economies – China and India – remains relatively buoyant, but the pace is slower than before the crisis and faces some serious downside risks. The start of 2017 has seen other larger emerging economies move out of recession, but with little likelihood of growth at the rates registered in the first decade of the new millennium.

Two factors have been exercising a major influence on growth. The first is that oil and commodity prices, while emerging from their recent troughs, are still well below the highs witnessed during the boom years. This has dampened recovery in the commodity-exporting countries. Second, with developed economies abnegating responsibility for a coordinated expansionary push, austerity has become the default macroeconomic policy position in many emerging economies facing

fiscal imbalances and mounting debt levels. This could worsen if an exit of foreign capital necessitates a cutback in imports in order to reduce trade and current account deficits that become harder to finance. Not surprisingly, anxious policymakers across the South, who are increasingly aware that they have limited control over some of the key elements of their economic future, are closely tracking the United States Federal Reserve's interest rate policy, the actions of commodity traders and the predatory practices of hedge funds.

The Latin America and Caribbean region is expected to register positive growth this year, but only just, following two years of contraction in 2015 and 2016 when GDP fell by 0.3 per cent and 0.8 per cent respectively. The average growth rate for the South American economies as a group is projected to be 0.6 per cent, but higher for the Caribbean, at 2.6 per cent. Commodity prices and political developments in Argentina and Brazil, which together account for over half of the region's output, will have a significant bearing on regional growth prospects. Growth in Mexico has flattened at a low but stable rate; however inflationary pressures, fiscal consolidation and uncertain policies of the Trump Administration have added downside risks to its growth this year.

Growth in the Asia-Pacific region remains robust, albeit lower than the recent historical trend, rising from 4.9 per cent in 2016 to an estimated 5 per cent in 2017. Much will depend on the performance of its two largest economies. How China manages the explosion of domestic debt since 2009 will be of great significance in this regard. China's estimated debt-to-GDP ratio is 249 per cent, compared with 248 per cent in the United States and 279 per cent in the euro zone. As the Chinese Government introduces measures to contain its rising debt, domestic demand could be squeezed, with adverse consequences for the rest of the region. India's growth performance depends to a large extent on reforms to its banking sector, which is burdened with large volumes of stressed and non-performing assets, and there are already signs of a reduction in the pace of credit creation. Since debt-financed private investment and consumption have been important drivers of growth in

India, the easing of the credit boom is likely to slow GDP growth. In addition, the informal sector, which still accounts for at least one third of the country's GDP and more than four fifths of employment, was badly affected by the Government's "demonetization" move in November 2016, and it may be further affected by the roll-out of the Goods and Services Tax from July 2017. Thus, even if the current levels of growth in both China and India are sustained, it is unlikely that these countries will serve as growth poles for the global economy in the near future.

Meanwhile, lower oil prices and the end of the commodity boom, especially since 2014, have adversely affected the African region (parts of which suffered a drought), with regional growth falling from 3.0 per cent in 2015 to 1.5 per cent in 2016. Only East Africa appeared to buck this trend with average growth in 2016 remaining above 5 per cent. This masks significant differences in the growth performance of individual countries in 2016, from above 7 per cent in Côte d'Ivoire and Ethiopia, to 1.1 per cent in Morocco and 0.3 per cent in South Africa. Indeed, South Africa fell into a "technical recession" as GDP declined in two consecutive quarters, by 0.3 per cent in the fourth quarter of 2016 and by 0.7 per cent in the first quarter of 2017. This was due to the poor performance of manufacturing and trade, though there were marked improvements in agriculture and mining. Nigeria saw its GDP contract by 1.5 per cent, while in Equatorial Guinea it fell by about 7 per cent. The recent predicament of many of these economies is the result of their continued failure to achieve growth through diversification; most of the countries remain heavily dependent on one or very few commodities.

Where will global demand come from?

Against a backdrop of policy unreliability and capricious expectations, boom and bust is likely to continue as the default growth pattern in many countries. There may be fleeting moments of more widespread optimism, but inclusive growth across the global economy will remain an elusive goal in the absence of sustained international efforts to manage a coordinated expansion.

There is much uncertainty as to where the stimulus for a more robust recovery could come from. In the past, the United States economy functioned as the principal driver of global demand, importing from the rest of the world and running large current account deficits. With the United States dollar serving as the world's reserve currency, there were sufficient capital inflows to finance not only those deficits, but also the large outflows of capital from the country. In the process, there emerged a mutually convenient relationship between the United States and the rest of the world.

That changed dramatically after the global financial crisis. Following a fall in the United States deficit after 2008, its net stimulus has stabilized at well below the pre-crisis level. Since 2013, other developed economies have posted growing current account surpluses, implying that, as a group, they no longer provide a net demand stimulus to the world economy. Meanwhile, developing and transition economies, as a group, ran surpluses until 2014, which turned into deficits thereafter. However, these deficits were much smaller in absolute size, and not nearly enough to counter the impact of the declining net demand from the developed economies.

China's current account surplus, which until 2010 was the largest in the world, has since been declining, albeit erratically. Germany has taken over running the largest surpluses, which have even increased recently. However, unlike the Chinese expansion, which during the boom fostered growth in a range of other developing countries by drawing them into value chains for exporting products to the more advanced countries, the German expansion has not had similar positive impacts in most developing countries. The resulting adverse effect on the global economy has been compounded by a wider trend in the euro zone, where austerity policies have augmented the region's current account surplus, exporting the euro zone's deflation and unemployment to the rest of the world.

Finding quick and effective ways to recycle and reduce those surpluses is a singularly critical challenge for the international economic community,

a challenge that will prove difficult to tackle as long as austerity remains the dominant macroeconomic mood in a hyperglobalized world. Since 2010, the majority of advanced economies have opted for “medium” to “severe” austerity, and even the countries that have considerable fiscal room for manoeuvre have resisted robust expansion. Until recently, some major emerging market economies were exceptions to this trend; but evidence suggests that they too are now curbing expenditure with a view to fiscal consolidation.

Significant long-term investments that enable expansion in lower income countries could be one means of reviving demand globally. It is, therefore, encouraging that Germany has recently announced its intention to launch a Marshall Plan for Africa. However, neither the scale nor the intent appears to match the original model that helped to rebuild post-war Europe. By contrast, China’s “One Belt, One Road” initiative seems more ambitious. If implemented as planned, the investments involved will be huge: an estimated \$900 billion. However, so far, much of the project is on the drawing board, and the pace of implementation as well as its impact will depend on how China manages its domestic imbalances, and on the mode of financing the proposed investments in participating countries.

Testing times for trade and capital flows

Ever since the United States Federal Reserve began to suggest it might taper its quantitative easing policies, capital flows have been volatile. Since the second quarter of 2014, net capital flows to developing and transition economies turned negative. This could have extremely adverse consequences, as discussed in last year’s *Trade and Development Report*. So far, the Federal Reserve has been ultra-cautious in nudging rates higher (just 50 basis points in the first half of 2017). Nevertheless, capital flight threatens even the stronger emerging economies. For example, China experienced sudden and large capital outflows that caused its foreign exchange reserves to fall from \$4.1 trillion in June 2014 to \$3.3 trillion in June 2016, and to a further \$3.1 trillion by end

October 2016. To stem this tide of outflows, the Government imposed some capital controls in November 2016, which had a stabilizing effect. That this could happen in a country that had been the favoured destination for global capital for decades, and still has the largest holdings of foreign exchange reserves in the world, suggests that no country is immune to the potentially destabilizing effects of mobile capital flows.

World trade is likely to pick up this year from its very sluggish performance in 2016, but there are doubts about the sustainability of the export surge from emerging markets that underlies this improvement. Given weak worldwide demand, global trade is unlikely to serve as a broad stimulus for growth, other than for particular countries that benefit from special circumstances. Moreover, hopes of an imminent breakthrough in multilateral trade negotiations, with a strong development orientation are fading.

Commodity prices, which increased last year and at the beginning of 2017, provided some boost to commodity-exporting developing countries. However, they are already easing off, and remain significantly below their average in the first decade of the millennium. Crude oil prices have been particularly volatile since early 2017, but in a generally downward direction, and are stuck at well below the \$50 mark despite tensions in West Asia. There are also signs of a rise in oil inventories in the United States as shale makes a comeback (in the context of earlier price increases and technology-driven cost reductions), which will further dampen oil prices over the medium term. Prices of metals have similarly registered declines recently due to weakening demand in the United States.

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In today's challenging and unpredictable global environment, efforts to build inclusive economies and societies will need to accelerate. Ending austerity and harnessing finance to serve society once again, rather than the other way around, are the most urgent challenges. Reinvigorating

the multilateral trading system as a global public good with renewed momentum and relevance is also essential for achieving the Sustainable Development Goals. But as long as organized business faces little pushback across several key sectors, increased market concentration and the spread of rent-extracting behaviour will continue apace. This will exacerbate inequalities that have been rising over the past three decades of hyperglobalization, and technological changes may worsen the situation if they hamper job creation, adding to a growing sense of anxiety. As good jobs become scarce, they are also more stringently rationed, and reinforce patterns of social discrimination, particularly along gender lines, but also affecting other disadvantaged groups. Correcting these imbalances requires systematic and concerted action at the national and international levels. Indeed, there is a pressing need for a global new deal.

Follow the money: The financial origins of inequality and instability

The world economy shifted abruptly after the early 1980s following an extensive deregulation of markets – particularly financial and currency markets – in rich and poor countries alike, and a steady attrition of the public sphere. An additional contributory factor was the idolizing of profit-making, not only across all aspects of economic life, but also in the social, cultural and political realms. The resulting withdrawal of public oversight and management of the economy included the curtailment, and sometimes even the elimination, of measures previously adopted by States to manage their integration into the global economy; “open for business” signs were enthusiastically hung up across the global economy.

Hyperglobalization found an eager group of technocratic cheerleaders to acclaim the creative and calming properties of competitive markets and profit-maximizing agents. But on the ground, it was financial interests that led the charge. Under hyperglobalization, finance was not only able to bend the real economy to its speculative endeavours; it also became

increasingly absorbed in interacting with itself. As a result, banks became bigger and more diversified and, along with a range of other financial institutions, invented a myriad of financial assets on which to speculate. This combination of leverage and financial innovation turned toxic in 2007, leading eventually to panic and meltdown a year later.

Since 2009, there have been efforts to temper the excesses of the financial sector with sundry government commissions, some legislative discipline on bank behaviour, heightened monitoring and calls for self-restraint, as well as the occasional fine for the most blatant displays of fraudulent behaviour. But the underlying macrofinancial structures have remained broadly intact. Despite the trillions of central bank dollars directed at the sector, the promised broad-based recovery has failed to materialize in most countries. Above all, there has been almost no effort to tackle the connections between inequality and instability that have marked the rise of unregulated finance.

Although financialization started in the early 1980s in many developed countries, various indicators show its marked acceleration in all countries from the early 1990s. In most developed countries, total banking sector assets have more than doubled since then, to over 200 per cent of GDP in many European countries and the United States, and to over 400 per cent of GDP in Japan. On a rough calculation, this makes banking a one hundred trillion dollar sector. The picture for developing and transition economies is different only in degree, with banking sector assets peaking at over 200 per cent of GDP in countries such as Chile, China and South Africa.

Increasing financial openness led to a rapid build-up of international positions by these ever-larger financial players, exposing individual countries to forces beyond the control of national policymakers, thereby intensifying financial vulnerability and heightening systemic risk. At the time of the 2008 financial crisis, the combined weight of banks' external assets and liabilities ranged from 100 per cent of GDP in Brazil, China and Turkey to more than 250 per cent of GDP in Chile and South Africa. In most developed countries, this indicator hovered

between 300 per cent and 600 per cent of GDP. Such an environment reflected the expansion of cross-border capital flows and foreign exchange trading that vastly exceeded the requirements of trading in goods and services. It also led to greater banking concentration, with the total assets of the top five banks representing up to four times the GDP in some developed countries, and up to 130 per cent of GDP in some large developing countries.

Financialization was given a further boost by the capture of regulatory and policy agendas, particularly in the most important financial centres. Faith in the efficiency of the market contributed to the political momentum for aligning public sector spending and services more closely with those of private investors. This opened the door for the privatization of health care, higher education and pensions, and in the process, in many countries it burdened households with rising debts. As their status and political clout rose, financiers promoted a culture of entitlement that switched from justifying to celebrating extravagant remuneration and rent extraction.

As Keynes recognized from his experience in the run-up to the Great Depression of the early 1930s, the tendency towards a widening income gap due to the free play of market forces, combined with the higher savings propensity of the wealthier classes, has its limits in insufficient aggregate demand (underconsumption) and excessive financial gambling that favours short-term speculative and rent-seeking activities over long-term productive investment. Also, as envisioned later by Minsky, while these conditions can lead to periods of prosperity and (apparent) tranquillity, an accelerating pace of financial innovation encourages even more reckless investment decisions. The result is an increasingly polarized and fragile global economic system, with stability feeding instability and instability leading to vulnerability and shocks.

This unfettered development of financial markets encouraged the extension of credit to poorer households, temporarily compensating for the stagnation and (relative) decline of labour incomes that accompanied the competitive pressures released by hyperglobalization. Consequently,

the level of consumption stabilized or even increased in many countries, but only because it was fuelled by rising household debt. At the same time, large financial and industrial conglomerates used their growing profits (derived, in part, from exploiting cross-border wage and corporate tax rate differentials) to borrow and speculate. Unsustainable debt-led growth in some countries and export-led successes in others led to widening global imbalances, adding new layers of vulnerability and risk to an inherently polarized and unstable system. Financial crises thus became more frequent and widespread. Many emerging market economies were the early victims, but these were warm-ups for the bigger showdown to come.

Two of the dominant socioeconomic trends of recent decades have been the massive explosion in public and private debt, and the rise of super-elites, loosely defined as the top one per cent. These trends are associated with the financialization of the economy and the widening ownership gap of financial assets, particularly short-term financial instruments. As such, inequality is hard-wired into the workings of hyperglobalization. Since the late 1970s, the gap between the top 10 per cent of income earners and the bottom 40 per cent widened in the run-up to 4 out of 5 observed financial crises, but also in 2 out of 3 post-crisis countries. While the run-up to a crisis is driven by “the great escape” of top incomes especially favoured by financial developments, the aftermath often results from stagnating or falling incomes at the bottom. When crises occur, macrofinancial dislocations, one-sided reliance on financial sector bailouts and monetary policy, with a consequent protracted weakness of aggregate demand and employment, tend to worsen income distribution and exacerbate tendencies towards instability.

Furthermore, as observed following major crisis episodes, such as the Asian crisis in 1997–1998 and the global financial crisis in 2008–2009, in the absence of international coordination, most countries will tend to pursue austerity policies in an often failed attempt to induce investors to return to their pre-crisis modus operandi. Thus, while profits accrue to top income earners during financial booms, during the crises that follow, the burdens are almost always borne by public sectors and transmitted

to domestic economies; the hardest hit are the most vulnerable sectors, while large financial and industrial conglomerates tend to be first on the financial life boats.

Revenge of the rentiers

Since the start of the hyperglobalization era, finance has tended to generate huge private rewards absurdly disproportionate to its social returns. Less attention has been given to the ways in which non-financial corporations have also become adept at using rent-seeking strategies to bolster their profits and emerge as a pervasive source of rising inequality.

Rents may be broadly defined as income derived solely from the ownership and control of assets or from a dominant market position, rather than from innovative entrepreneurial activity or the productive deployment of a scarce resource. These are being captured by large corporations through a number of non-financial mechanisms, such as the systematic use of intellectual property rights (IPRs) to deter rivals. Others have been acquired through the predation of the public sector, including large-scale privatizations – which merely shift resources from taxpayers to corporate managers and shareholders – and the handout of subsidies to large corporations, often without tangible results in terms of improved economic efficiencies or income generation. Yet others have involved near fraudulent behaviour, including tax evasion and avoidance, and extensive market manipulation by the managers of leading corporations for their own enrichment.

Given the multiplicity of rent-seeking schemes and lax corporate reporting requirements globally, it is difficult to measure the size of corporate rents. One way of approximating their magnitude is by estimating, by sector, surplus or “excess” corporate profits that deviate from “typical” profits. On this measure, surplus profits have risen markedly over the past two decades, from 4 per cent of total profits in 1995–2000 to 23 per cent in 2009–2015. For the top 100 firms, this share increased from 16 to 40 per cent.

The data point to growing market power as a major driver of rent-seeking. A rising concentration trend, particularly in developed-country markets, has been observed with increasing alarm. Moreover, the contagion is spreading. On several measures – market capitalization, firms’ revenues and their (physical and other) assets – concentration is rising across the world economy, but in particular the top 100 firms. Market concentration and rent extraction can feed off one another, resulting in a “winner-takes-most competition” that has become a visible part of the corporate environment, at least in some developed economies. The resulting intra-firm differences have contributed to growing inequality. In 2015, the average market capitalization of the top 100 firms was a staggering 7,000 times that of the average for the bottom 2,000 firms, whereas in 1995 it was just 31 times higher.

Significantly, while these firms were amassing ever greater control of markets, their employment share was not rising proportionately. On one measure, market concentration for the top 100 firms rose fourfold in terms of market capitalization, but less than doubled in terms of employment. This lends further support to the view that hyperglobalization promotes “profits without prosperity”, and that asymmetric market power is a strong contributory factor to rising income inequality.

Intense lobbying by the patent community has been a major force driving the consolidation of market power, along with regulatory capture by large corporations. As a result, the scope and life of patents, for example, have been expanded considerably, and patent protection has been extended to new activities that were not previously considered areas of technological innovation, such as finance and business methods. Patents are being granted for “innovations” in finance, e-commerce and marketing methods that are not tied to any particular technological product or process, but involve data and information processing in purely electronic form. This not only fosters greater concentration, but also restricts access to data and knowledge. Such a strategic, rather than productive, use of IPRs to boost excess profits by keeping rivals at bay has become a core rent-seeking strategy.

Multinational corporations' excessive use of patent protection for defensive purposes also directly affects innovation dynamics in major emerging economies such as Brazil, China and India. Sharp increases in United States affiliates' sales over the past two decades in relatively high-technology goods (e.g. information and communication technologies, chemicals and pharmaceuticals) in these three countries have generally been closely associated with their strongly expanding patent protection.

In addition, mounting evidence suggests that other non-financial rent-seeking strategies, such as tax evasion and avoidance, public sector gouging (of both assets and subsidies) and rampant market manipulation to boost compensation schemes for companies' top management, are being adopted by firms not only in the more advanced economies, but also, increasingly, in developing economies.

Reining in endemic rentierism, and the inequalities it generates, requires fixing the power imbalances that allow such behaviour to flourish. This will not be easy, but it is indispensable if the objective of truly inclusive and sustainable growth is to be realized. A good start would be to recognize that both knowledge and competition are first and foremost global public goods, and that their manipulation for private profit should be effectively regulated.

Rage against the machine

Hyperglobalization has ridden a series of technological waves that have compressed time and distance. These have lent an air of inevitability to the growth and distribution patterns that have emerged primarily from political and policy decisions, and have also shaped the policy response to growing worries about people being "left behind", with a singular emphasis on boosting education and training.

In reality, the rise and spread of new technologies and the associated breakdown of existing ways of life have been a recurring source of

policy debate and design since at least the Industrial Revolution, if not earlier. And if history is any guide, over time the benefits of new technologies can outweigh the costs. Past technological breakthroughs, such as the steam engine, electricity, the automobile and the assembly line, were disruptive, and resulted in substantial job losses and declining incomes for some sectors and sections of society, but only in the short run. These adverse effects were more than offset in the long term when the fruits of innovation spread from one sector to another, and were eventually harvested across the economy as workers moved to new and better-paying jobs.

Still, the digital revolution (in particular the rapid march of robot technology) is making people more anxious. On some accounts, because robots are exponentially getting smarter, more dexterous and cheaper, they are threatening to upend the world of work. With an ever-smaller number of highly skilled people required for their operation, large-scale job displacement and wage erosion are already seen to be hollowing out the middle class in the more advanced economies and halting its rise in emerging economies. The worry is that the 2030 Agenda's commitment to inclusive economies is being technologically subverted before it even gets off the ground.

While there may be cause for such concerns, in hard economic terms, these technological changes cannot explain current labour market woes. This is not to deny the potentially employment-threatening effects of digital technologies in the future; rather, to point out that their real novelty lies less in their wider scope, faster speed or greater dexterity than in their emergence at a time of subdued macroeconomic dynamism in the more advanced economies and stalled structural transformation in many developing economies. This has tended to hold back the investment needed to properly absorb the new technologies and to create new sectors that can provide improved employment opportunities for displaced workers.

Industrial robots can affect employment and income distribution through various channels, but in one way or another their spread

involves firms weighing the potential savings on labour costs against the cost of investment in the new capital equipment. This means that job displacement by robots is economically more feasible in relatively skill-intensive and well-paying manufacturing, such as the automotive and electronics sectors, than in relatively labour-intensive and low-paying sectors, such as apparel production. Many existing studies overestimate the potential adverse employment and income effects of robots, because they neglect to note that what is technically feasible is not always also economically profitable. Indeed, the countries currently most exposed to automation through industrial robots are those with a large manufacturing sector that is dominated by industries which offer relatively well-paying jobs, such as automotives and electronics. By contrast, robotization has had a relatively small direct effect in most developing countries so far, and this is unlikely to change in the foreseeable future, given their lack of diversification and technological upgrading.

Despite the hype surrounding the potential of robot-based automation, the use of industrial robots remains small, with an estimated total of only 1.6 million units in 2015. However, their use has increased rapidly since 2010, and is estimated to exceed 2.5 million units by 2019. The vast majority of operational industrial robots are located in developed countries, with Germany, Japan and the United States, combined accounting for 43 per cent of the total. Robot density (the number of industrial robots per employee in manufacturing) is the highest in developed countries and former developing countries that are now at mature stages of industrialization, such as the Republic of Korea. The recent annual increase in robot deployment has been the most rapid in developing countries, but this is mainly due to China, which has a large manufacturing sector.

The distributional effects of robotics are likely to be diverse and will depend on various factors, including a country's stage in structural transformation, its position in the international division of labour, demographic developments, and its economic and social policies. But there are already signs that industrial robots are increasing the

tendency towards concentration of manufacturing activities in a small group of countries. This concentration tends to harm inclusiveness at the international level, and given the sluggish global demand, poses significant challenges for developing countries to achieve structural transformation towards well-paying jobs in manufacturing. In this sense, robotics could make it more difficult for countries to pursue economic development on the basis of traditional industrialization strategies and achieve the goals of the 2030 Agenda for Sustainable Development.

Indeed, some of the adverse employment and income effects of robotization may well be felt in countries that do not use robots. This is because robotization can boost companies' international cost competitiveness, thereby spurring exports from the home countries at the expense of other countries, as the latter will be forced to bear at least part of the adverse distributional consequences from robot-based automation through reduced output and employment opportunities. Further, developing countries' employment and income opportunities in these sectors may be adversely affected by the reshoring of manufacturing activities and jobs back to developed countries. It is true that, so far, there is relatively little evidence for such reshoring, and where it has occurred, it has fallen short of the expected positive employment effects in developed countries. Such reshoring has mostly been accompanied by capital investment, such as in robots, and the little job creation that has occurred has been concentrated in high-skilled activities. This means that jobs that "return" with reshored production will not be the same as those that left.

Some have suggested that slowing down automation by taxing robots would give an economy more time to adjust, while also providing fiscal revenues to finance adjustment. But such a tax may hamper the most beneficial uses of robots: those where workers and robots are complementary, and those that could lead to the creation of digitization-based new products and new jobs. Others have suggested promoting a more even distribution of the benefits from increased robot use, based on the fear that robots will take over tasks with higher productivity and pay compared to the average tasks that continue to be performed by

workers. If unchecked, the distributional effects from robotics would increase the share of income going to the owners of robots and of the intellectual property they incorporate, thereby exacerbating existing inequalities.

Digitization could also create new development opportunities. The development of collaborative robots could eventually be particularly beneficial for small enterprises, as they can be set up easily without the need for special system integrators, and they can rapidly adapt to new processes and production-run requirements. Combining robots and three-dimensional printing could create additional new possibilities for small manufacturing enterprises to overcome size limitations in production and conduct business on a much larger scale; if local demand grows in tandem, participation in global value chains may become less a matter of necessity and more one of strategic choice. At the same time, digitization may lead to a fragmentation of the global provision and international trade of services, with a good deal of uncertainty as to whether digitally-based services would provide greater or less employment, income and productivity gains as compared to traditional manufacturing activities.

From a development perspective, the key question is whether the greater use of robots reduces the effectiveness of industrialization as a development strategy. This will depend on a number of factors, including who owns and controls robot technologies, possible first mover advantages from the use of robots, and in which manufacturing sectors their impact is likely to be the most pronounced. In all these respects, what will play a decisive role is the effective design and implementation of digital industrial policies, and ensuring that countries have the requisite policy space to implement them.

Harnessing the potential of the digital revolution so that it accelerates productivity growth and feeds a more equitable and more sustainable global economic expansion is undoubtedly required for achieving the goals of the 2030 Agenda. Ultimately, whatever the current impacts from the digital revolution, the final outcomes for employment and

inclusiveness will be shaped by policy choices, regulatory acumen and social norms.

Gender and the scramble for bad jobs

For most people, finding a “good job” is the route to a better life, and providing such jobs is key to creating an inclusive economy. Good jobs are associated with decent work; and they tend to be in the formal sector, where earnings are higher, job ladders accessible and working conditions better regulated. In a development context, these jobs are more likely to be located in the industrial than in the agricultural or services sectors.

For half the world’s population, finding a good job encounters the barrier of gender discrimination. The call for making hyperglobalization more inclusive has therefore, rightly, acquired a strong female voice. But there is much more to this challenge than increasing the participation of women in markets and boardrooms. And even adding a gender dimension to financial inclusion, entrepreneurship or trade facilitation offers, at best, a limited path to a more inclusive economy. The institutions and social norms underlying gender inequality tend to be reproduced in labour markets. In the workplace, most women experience discrimination and segmentation – practices that cannot be delinked from the wider pressures of hyperglobalization.

In particular, the prevailing global policy environment, combined with the forces of technology and structural change, has limited the availability of jobs, particularly “good jobs”, relative to labour supply. And the scarcity of good jobs has intensified both job rationing by gender and the exclusion of women from better work opportunities, even as women’s employment participation has increased and that of men has declined overall.

Against the backdrop of boom and bust cycles, austerity and mobile capital, there is a danger that greater gender equality in employment

can become gender conflictual, with women's employment rates rising (which they are in most countries of the world), and men's employment rates falling. This is an almost invisible phenomenon that is not widely discussed, and although its strongest manifestations are in the more advanced economies, it is now a troubling feature of job markets worldwide, barring some cases of declining women's labour participation in major economies such as China and India.

The hollowing out of traditional factory jobs and manufacturing communities has been a very visible feature of growing inequality in developed countries, and is taking a particularly heavy toll on middle-aged working class men. But the number of industrial sector jobs is also declining in many developing countries that are facing premature deindustrialization and stalled industrialization, and the negative impact is much larger on women's industrial employment than on men's. In developing countries, the share of industrial employment in men's total employment declined by an average of 7.5 per cent between 1991 and 2014, compared with a 39 per cent average decline for women. Moreover, as industrial production becomes more capital-intensive, women tend to lose jobs in this sector, even after controlling for education, thus challenging the argument that women lose these jobs because of differences in skills. With the increase in capital intensity and automation, it seems unlikely that a technological revolution in the South will improve gender equality.

Ultimately, an increase in employment opportunities in the industrial sector should offer a gender inclusive alternative, but one that will require a sustainable expansion in demand for industrial goods. For developing countries, higher net exports of manufactures improve industrial job prospects for women, provided that public policies provide a certain amount of protection against imports; hence less trade liberalization seems to be good for women workers. Expansive fiscal policies also contribute to inclusion by increasing labour demand in ways that lower job competition between women and men (it increases women's industrial employment without compromising men's access); thus austerity may be particularly bad for women.

Simply increasing economic growth, and hoping for a trickle-down effect on gender equality has not delivered; it has had a limited impact on women's relative access to good jobs. What is more worrying for gender equality is that increasing women's labour force participation without supportive demand-side policies and structures to productively absorb these new market entrants worsens gender segregation in labour markets and encourages the crowding of women into low-value-added, informal service sector activities.

Does gender segregation in labour markets (or occupational hoarding by gender) have a negative impact on labour overall, as reflected in the wage share of income? In general, class dynamics appear to be gender cooperative in the sense that what is good for women workers is also good for labour overall, including men. Controlling for other factors, there is evidence that the decline of women's relative access to industrial sector work has been associated with a decline in labour's share of income in developing countries since the early 1990s. However, at the same time, when good jobs are scarce, higher labour force participation by women constrains wage growth, potentially setting in motion a low-wage growth path characterized by increasing economic insecurity and gender conflict, since women's labour participation appears to adversely affect men's employment prospects.

Given the employment challenges associated with structural and technological change, and women's primary responsibility for both paid and unpaid care work, transforming unpaid and paid care activities into decent work should become an integral part of strategies aimed at building more inclusive economies.

A way forward: Towards a global new deal

At present, too many people in too many places are integrated into a world economy that delivers inequitable and unjust outcomes. Economic and financial crises, like that of 2008–2009, are only the more visible manifestations of a world economy that has become increasingly

unbalanced in ways that are not only exclusionary, but also destabilizing and dangerous for the political, social and environmental health of the planet. Even when a country has been able to grow, whether through a domestic consumption binge, a housing boom or exports, the gains have disproportionately accrued to the privileged few. At the same time, a combination of too much debt and too little demand at the global level has hampered expansion. The subsequent turn to austerity in response to the bust has hit some of the poorest communities hardest, leading to further polarization and heightening people's anxieties about what the future might hold. Meanwhile political elites have been adamant that there is no alternative. All this has proved fertile economic ground for xenophobic rhetoric, inward-looking policies and a beggar-thy-neighbour stance.

Identifying technology or trade as the villains of these developments distracts from an obvious point: without significant, sustainable and coordinated efforts to revive global demand by increasing wages and government spending, the global economy will be condemned to continued sluggish growth, or worse. Now is the ideal time to crowd in private investment with the help of a concerted fiscal push to get the growth engines revving again, and at the same time help rebalance economies and societies that, after three decades of hyperglobalization, are seriously out of kilter. However, in today's world of mobile finance and liberalized economic borders, no country can do this on its own without risking capital flight, a currency collapse and the threat of a deflationary spiral. What is needed, therefore, is a globally coordinated strategy of expansion led by increased public expenditures, with all countries being offered the opportunity of benefiting from a simultaneous boost to their domestic and external markets.

Moving away from hyperglobalization to inclusive economies is not a matter of simply making markets work better, whether by enhancing human capital, filling information gaps, smartening incentives, extending credit to poor people, or providing stronger protection to consumers. Rather, it requires a more exacting and encompassing agenda that addresses the global and national asymmetries in resource mobilization, technological know-how, market power and political

influence caused by hyperglobalization, which generate and perpetuate exclusionary outcomes.

In many ways, the current conjuncture is propitious for such a transformative agenda. The established order is under attack from both ends of the ideological spectrum, and its legitimacy is being called into question by the wider public. The Sustainable Development Goals agreed to by all members of the United Nations provide the political impetus for change. The aim should now be to harness this moment of consensus to ensure an appropriate combination of resources, policies and reforms needed to galvanize the requisite investment push and promote inclusive outcomes at both global and national levels.

Despite all the talk of its increasing irrelevance and imminent demise, the nation State still remains the basic unit of legitimacy and leadership in today's interdependent world, and to which citizens ultimately turn for economic security, social justice and political loyalty. But no less than in the past, achieving prosperity for all should involve paying close attention to the biases, asymmetries and deficits in global governance that can stymie inclusive and sustainable outcomes. Effective internationalism continues to rest on responsible nationalism, and finding the right balance remains at the heart of any meaningful multilateral agenda.

With this in mind, there needs to be widespread support for a global new deal. The original New Deal, launched in the United States in the 1930s and replicated elsewhere in the industrialized world, particularly after the end of the Second World War, established a new development path that focused on three broad strategic components: recovery, regulation and redistribution. While these components involved specific policy goals tailored to particular economic and political circumstances, they made job creation, the expansion of fiscal space and the taming of finance a common route to success along this new path.

Building a new deal today could draw on those same components; and, as before, States require the space to tailor proactive fiscal and

other public policies to boost investment and raise living standards, supported by regulatory and redistributive strategies that tackle the triple challenges of large inequalities, demographic pressures and environmental problems. However, the specific challenges of inequality and insecurity in the twenty-first century will not be tackled by countries trying to insulate themselves from global economic forces, but rather by elevating, where appropriate, some of the elements of Roosevelt’s New Deal to a global level consistent with today’s interdependent world.

Elements to consider include:

- **Ending austerity** – This is a basic prerequisite for building sustainable and inclusive economies. It involves using fiscal policy to manage demand conditions, and making full employment a central policy goal. Monetary expansion should also be used differently, so as to finance public investments which add to inclusive and sustainable outcomes. As part of a general expansion of government spending that covers physical and social infrastructure, the state can act as an “employer of last resort”; specific public employment schemes can be very effective in job creation, especially in low-income countries, where much of the workforce is in informal and self-employed activities. Both public infrastructure investments and employment schemes are important for reducing regional imbalances that have arisen in developed and developing countries.
- **Enhancing public investment with a strong caring dimension** – This would include major public works programmes for mitigating and adapting to climate change and promoting the technological opportunities offered by the Paris Climate Agreement, as well as addressing problems of pollution and degradation of nature more generally. It also means dealing with demographic and social changes that erode local communities and extended families by making formal public provision of child care and elderly care a necessity. In both respects, public investments should be designed to enable and attract more private investment, including SMEs and in more participatory ownership forms such as cooperatives.

- **Raising government revenue** – This is key to financing a global new deal. A greater reliance on progressive taxes, including on property and other forms of rent income, could help address income inequalities. Reversing the decline in corporate tax rates should also be considered but this may be less important than tackling tax exemptions and loopholes and the corporate abuse of subsidies, including those used to attract or retain foreign investment.
- **Establishing a new global financial register** – Clamping down on the use of tax havens by firms and high-wealth individuals will require legislative action at both national and international levels. Interim efforts in this direction could include a global financial register, recording the owners of financial assets throughout the world.
- **A stronger voice for organized labour** – Wages need to rise in line with productivity. This is best achieved by giving a strong voice to organized labour. At the same time, job insecurity also needs to be corrected through appropriate legislative action (including on informal work contracts) and active labour market measures. More innovative supplementary income support schemes could be considered for achieving a fairer income distribution, such as a social fund that could be capitalized through shares issued by the largest corporations and financial institutions.
- **Taming financial capital** – Crowding in private investment requires taming financial institutions to make them serve the broader social good. In addition to appropriate regulation of the financial sector, it is important to tackle private banking behemoths, including through international oversight and regulation, as well as to address the highly concentrated market for credit rating and the cosy relationship between rating agencies and the shadow banking institutions that have allowed “toxic” financial products to flourish.
- **Significantly increasing multilateral financial resources** – This should include meeting ODA targets, but also ensuring better capitalized multilateral and regional development banks. In addition, the institutional gap in sovereign debt restructuring needs to be filled at the multilateral level.

- **Reining in corporate rentierism** – Measures aimed at curtailing restrictive business practices need to be strengthened considerably if corporate rentierism is to be reined in. The 2013 OECD BEPS initiative is a start, but a more inclusive international mechanism for the regulation of restrictive business practices will be needed. Earlier attempts in the United Nations, dating back to the 1980s, would be a good place to begin. Meanwhile, stricter enforcement of existing national disclosure and reporting requirements for large corporations would be useful. A global competition observatory could facilitate the task of systematic information gathering on the large variety of existing regulatory frameworks, as a first step towards coordinated international best practice guidelines and policies, and to monitor global market concentration trends and patterns. Competition policy more generally should be designed with an explicit distributional objective.
- **Respecting policy space** – Meaningful reform of the many restrictive investment and intellectual property policies enshrined in thousands of bilateral – and the growing number of regional – trade and investment agreements, will be impossible without a fundamental overhaul of the current international investment regime. This should begin with rethinking its current narrow purpose of protecting foreign investors in favour of a more balanced approach that takes the interests of all stakeholders on board and recognizes the right to regulate at the national level. The international investment dispute settlement and arbitration system needs to be fixed, and if necessary, replaced by a more centralized system with proper appeal procedures and grounding in international law. An Advisory Centre on International Investment Law could help developing country governments navigate disputes with multinational corporations on more egalitarian terms.

In 1947, drawing on the values of the original New Deal, the international community sought to rebalance a world economy shattered by depression and war: the International Monetary Fund (IMF) opened its doors to business, the World Bank provided its first restructuring loan, the General Agreement on Tariffs and Trade (GATT) concluded its first

multilateral trade deal, George Marshall launched the most successful development cooperation project in modern history, and the United Nations opened its first regional office and convened its first major conference (on trade and employment). Seven decades later, an equally ambitious effort is needed to tackle the inequities of hyperglobalization in order to build inclusive and sustainable economies. ■

