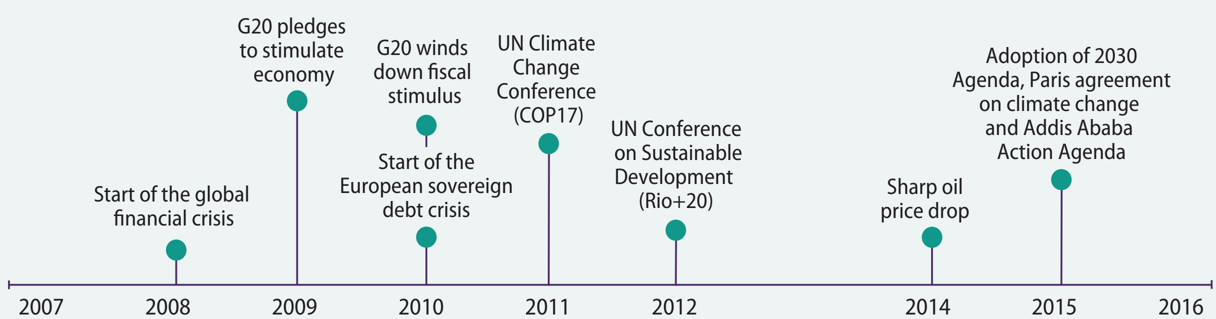
Chapter V

A new context for the 2030 Agenda for Sustainable Development

Key messages

- The turbulence of the present decade, which began with the spillover effects of the 2008-2009 global financial crisis, has demonstrated that global mechanisms designed to resolve trade and financial imbalances remain, as in the past, ill suited to preventing the eruption of large-scale economic and financial turmoil.
- Long-term stagnation in developed countries could act as a major constraint on growth in developing countries, create instability in trade and financial markets, and reduce the availability of investments and concessional finance to the least developed countries.
- Periods of difficulty present a rare opportunity to restructure the global economy. Coherent and internationally coordinated policy actions, with the adequate representation of developing countries, are needed for stable growth and employment creation. Policy coordination is particularly important in the areas of monetary and fiscal policy, international trade and the global financial system. In addition, effective financial regulation and supervision are needed to prevent financial bubbles driven by speculation and short-term destabilizing flows.
- An international countercyclical response comprising public works programmes, social protection, financial support and investment incentives for employment creation is needed to reactivate economic growth. As part of a global new deal, such a response would speed up economic recovery and address sustainable development, climate change and food security challenges.
- Policies must pay particular attention to reducing the social cost of the disruptions and displacements caused by globalization and technology which increase inequalities and result in political unrest.

Key events



We resolve to build a better future for all people, including the millions who have been denied the chance to lead decent, dignified and rewarding lives and to achieve their full human potential. We can be the first generation to succeed in ending poverty; just as we may be the last to have a chance of saving the planet. The world will be a better place in 2030 if we succeed in our objectives.

General Assembly resolution 70/1 (paragraph 50)

Introduction

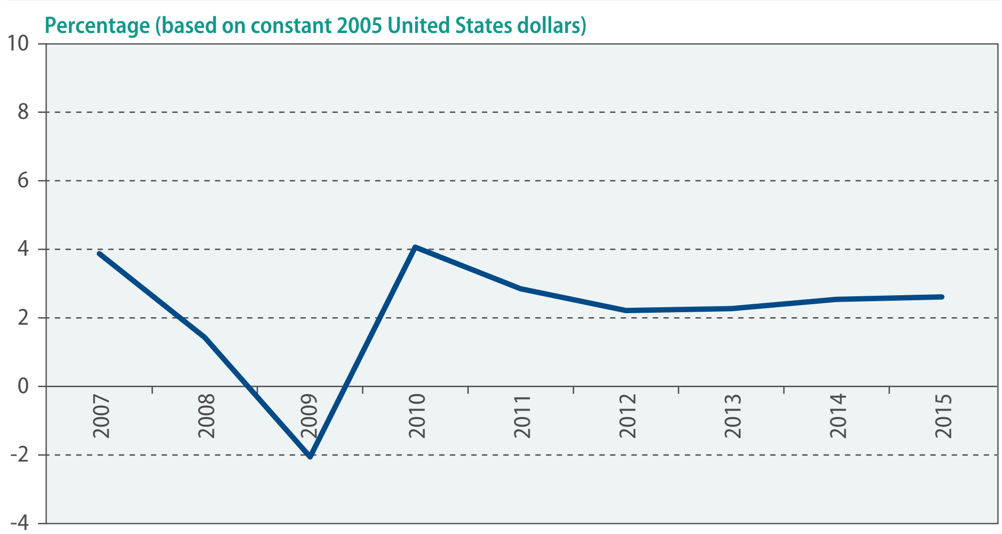
Rapid growth since the start of the new millennium has proved unsustainable

In the early years of the new millennium, which began in 2001, the world witnessed rapid growth and income convergence among countries, reversing the trend of previous decades. That rapid growth in the first years of the decade proved unsustainable, however, because it was based on a build-up of global and domestic imbalances, resulting in the global financial crisis of 2008-2009, followed by the European sovereign debt crisis which began in late 2009 and the adoption of contractionary policies in 2011 which extended the global economic downturn.

Since the global financial crisis, a return to robust and balanced growth has remained elusive

As a result, the average annual rate of global growth in the period from 2008 to 2015 dropped by over a full percentage point compared with the period 1998-2007 preceding the global financial crisis (see figure V.1). A return to robust and balanced growth remains an elusive goal, and in 2016 global economic growth was at its lowest level since the great recession of 2009. While forecasts reported in *World Economic Situation and Prospects 2017* project a modest recovery in global growth for 2017 and 2018, that growth is nevertheless expected to remain below the average annual rate during 1998-2007. The sluggishness of the global economy is bound up with the feeble pace of global investment, flagging productivity growth, dwindling world trade growth and high levels of debt. In 2016, world trade volumes expanded by just 1.2 per cent, the third lowest rate of the past 30 years (see chap. I for an extensive discussion of the current global economic context).

Figure V.1
Global growth, 2007–2015



Source: UN/DESA, based on data from the Statistics Division.

To a large extent, the impacts of the aforementioned factors have been self-reinforcing, reflecting the close linkages among demand, investment, productivity and trade. For example, the slowdown in world trade growth may compound weak productivity growth. For commodity-exporting countries, low commodity prices since mid-2014 have exacerbated these difficulties. In addition, conflict and geopolitical tensions continue to take a heavy toll in several regions.

This is not to say, however, that there has not been significant progress in many areas of human development, most notably the rapid progress in poverty reduction. The proportion of the world's population living in extreme poverty, as measured by the international poverty line of $1.90 a day, declined from 44.3 per cent in 1981 to 10.7 per cent in 2013.[1] Still, the dramatic declines at the global level are largely a reflection of sustained rapid economic growth in a few large countries, most notably China and India.

The 2008 crisis exposed the weaknesses of the global economic and financial architecture. These weaknesses and the continued weakness in the global economic context have important implications for the ability of Governments to implement the 2030 Agenda for Sustainable Development.[2] Such context presents difficult challenges to Governments in their efforts towards eradication of poverty, achievement of environmental sustainability and creation of more equitable and inclusive societies.

The 2030 Agenda, together with three other agreements—the Addis Ababa Action Agenda of the Third International Conference on Financing for Development,[3] the Sendai Framework for Disaster Risk Reduction 2015-2030[4] and the Paris Agreement[5] adopted under the United Nations Framework Convention on Climate Change[6]—constitute a new agenda. This agenda recognizes the intrinsic connection between the global challenges of improving human development and achieving environmental sustainability. The agenda is driven by an overarching vision attesting to a more complete understanding of multidimensional development, including the various interrelationships among economic, social, political and environmental issues.

Bold action and political commitment are required to achieve sustainable development

Addressing these challenges will require ambitious reforms and bold action. World leaders must agree on effective strategies for mobilizing financing for development and for ensuring both a stable global financial system and a fair multilateral trading regime—a regime that grants countries the space needed to build domestic production capacity and pursue sustainable development goals.

World leaders will need to redouble efforts to improve national and international macroprudential regulation and coordination, so as to prevent the imbalances that lead to the kind of crises witnessed in the past. Development will require the mobilization of financing and a global trading system that is aligned with development objectives. Policies specifically tailored to those who are being left behind will be required, and those policies will need to be aligned with policies that reduce insecurity and the vulnerability of communities and countries to economic, financial and environmental shocks. The fact that

1 Based on the latest data released from the World Bank PovcalNet database, released in October 2016, which are based on 2011 purchasing power parity (PPP) data.

2 General Assembly resolution 70/1.

3 General Assembly resolution 69/313 of 27 July 2015, annex.

4 General Assembly resolution 69/283 of 3 June 2015, annex II.

5 See FCCC/CP/2015/10/Add.1, decision 1/CP.21, annex.

6 United Nations, *Treaty Series*, vol. 1771, No. 30822.

these challenges are all interconnected presents policymakers with an opportunity to make rapid gains across the multiple dimensions of development.

Global trends and their implications for human development have been tracked in *World Economic Situation and Prospects* and *World Economic and Social Survey* reports, issued annually by the Department of Economic and Social Affairs of the United Nations Secretariat. Through their analytical lens, the present chapter examines the objectives set out in the global development agenda, as reflected in the 2030 Agenda for Sustainable Development, in relation to the new global context. The chapter then focuses on how that context evolved in the aftermath of three significant global economic events; discusses the main weaknesses of the global economic architecture and why addressing them is necessary for creating an enabling environment appropriate for the achievement of the goals under the 2030 Agenda; and elaborates on the difficult challenge of implementing an ambitious agenda at a time of rising inequality, continued environmental degradation, and persistent insecurity and vulnerability. The chapter concludes with a presentation of the critical reflections to be found in both the *World Economic Situation and Prospects* and *World Economic and Social Survey* reports followed by some final considerations.

Crisis, turbulence and a new global context for development

Momentous changes had occurred in the global economy in the aftermath of the Second World War, as described in the previous chapters, and the international context continued to evolve rapidly during the first one and a half decades of the new millennium with the expansion of global value chains and more deeply integrated global financial systems. Increased globalization was facilitated by policy changes (in particular the liberalization of trade regimes and rules regarding cross-border capital flows) in countries across the world as well as by technological changes which enabled much greater global integration of both production and distribution. The increased global economic integration through cross-border trade and financial flows had very major effects on production, investment, finance and macroeconomic policies across the world.

The period 2002-2007 was one of rapid economic growth and deeper global interlinkages, with large poverty reduction…

As explained in chapter IV, the period 2002-2007 was one of rapid economic growth during which prosperity seemed to be shared among countries more widely than before. The more rapid growth of some developing countries, led by China and India, inaugurated a period of convergence of the per capita incomes of developed and developing countries which continues today (Julca, Hunt and Alarcón, 2015). Trade expanded rapidly and prices of primary commodities increased, strengthening the export revenue of developing countries. As many of them (increasingly referred to as “emerging markets”) found it easier to access international financial markets, private flows dwarfed various forms of official and multilateral financing. The combination of rapid aggregate income growth led by trade expansion and greater access to global capital facilitated substantial declines in poverty. While this was often associated with greater inequality within countries, the belief in “a rising tide that would lift all boats” generally helped to obscure that phenomenon.

…but there were growing global imbalances which culminated in the 2008-2009 global financial crisis

The global financial crisis of 2008-2009 exposed the imbalances that had emerged in the period 1998-2007, and made evident the downside of a globally interconnected economic and financial system where trade and balance sheet effects spread across borders. The collapse of the boom in the United States of America resulted in the global transmission of the shocks on a scale that was unprecedented. This began with financial retrenchment which spread like wildfire though the financial sector and from the financial sector into the real economy. The situation continued to worsen, with government debt-related problems in Greece and other European countries (2010) and the austerity response (2011) following fairly close on the heels of the crisis.

In the aftermath of the global financial crisis, growth globally has been slow

In 2017, the global economic context remains challenging. Economic performance has been disappointing, with subdued growth, weak labour markets, low levels of investment and poor productivity growth, as discussed in chap. 1. With interest rates near zero in many developed countries, traditional policy instruments have had a limited effect in bringing the economies back to full strength. This has ignited a debate over the fundamental causes in developed economies of what some refer to as "secular stagnation"—that is, a combination of poor performance and constrained policy options (LaFleur and Pitterle, 2017).

In fact, the importance of this debate can hardly be overstated, as the economic performance of developed countries is a key determinant of an enabling environment for the 2030 Agenda for Sustainable Development. Long-term stagnation in those countries could constrain growth in developing countries, create instability in trade and financial markets, and reduce the amounts of investment and concessional finance available to the least developed countries. The fact that the world economy is so interconnected also refutes the argument that there has been a "decoupling" of developing countries from developed economies. Moreover, the post-crisis experience, in particular the financial market volatility in developing countries, has demonstrated how strongly the macroeconomic conditions and policy space of developing countries depend on the measures implemented in developed economies.

The 2008–2009 global financial crisis

The 2008-2009 global financial crisis resulted in what *World Economic Situation and Prospects 2009* called "the worst financial crisis since the Great Depression" (p. 1). The end of the global boom period was made evident first in the United States through the collapse of the market for sub-prime mortgages in late 2006 and, more broadly, of the housing finance market in mid-2007. The complexity and opaqueness that characterized financial markets and financial instruments led to the collapse of major banking institutions, with widespread consequences for a deeply globalized financial system. As institutions attempted to protect themselves from the unknown risks of the even more poorly understood financial assets and liabilities appearing on balance sheets, the world experienced a credit freeze. The financial crisis led to large-scale recessions in the developed countries.

Recognition of the need for effective global policy coordination has been slow as well

In their initial response, policymakers failed to recognize the systemic factors responsible for the crisis and the risks brought on by globalized financial operations. Governments embarked on a course of liquidity support for the financial system and specific financial institutions; however, it was only as the crisis intensified, in the second half of 2008, that policymakers improved their international coordination. Governments recapitalized ailing financial institutions and strengthened the guarantees on bank deposits and financial assets. *World Economic Situation and Prospects 2010* reported that the total amount of publicly guaranteed funding for financial sector rescue operations had reached about $20 trillion, or some 30 per cent of total world gross product (WGP) (pp. xii-xiii).

The crisis called for a strong countercyclical response, fiscal stimulus and a restructuring of financial systems

In the immediate aftermath of the crisis, a consensus rapidly emerged on the need for strongly countercyclical policy responses. This entailed both a return to Keynesian macroeconomic policies, including large-scale fiscal stimulus, and a restructuring of national and global financial systems so as to reduce the danger of future crises. *World Economic Situation and Prospects 2009* strongly recommended building on the liquidity and recapitalization measures that were already in place, with massive fiscal stimulus packages coordinated across the major economies (p. iv). *World Economic Situation and Prospects* has also argued in favour of directing fiscal stimulus towards strengthening the productive capacity of countries, pointing to the opportunities for additional spending on infrastructure, education, research and development, and expanding social protection systems.

Most major economies embarked on a course of adopting countercyclical fiscal and monetary policies. On the fiscal side, Governments announced massive liquidity injections and fiscal stimulus packages, estimated at $2.6 trillion (or 4.3 per cent of WGP) during 2008-2010 (*World Economic Situation and Prospects 2010*, p. xiii). Monetary policy responses to the crisis were bold and unprecedented; and the magnitude and pace of easing policy interest rates was impressive, with some Governments cutting their interest rates to near zero.

Central banks of major developed countries were also forced to take unconventional measures to ensure that the crisis did not deepen. Measures were put in place to ensure that market interest rates would come down along with the policy rate and that interbank market spreads would decline; and monetary authorities also provided liquidity to financial institutions and in specific financial markets. Central banks purchased public sector securities to influence benchmark yields more generally and intervened in the foreign exchange market to contain upward pressure on their currencies (see *World Economic Situation and Prospects 2010* for a complete description of the monetary policy measures taken).

The coordination of policy responses, in particular at the level of the G20, was an important feature of the global response to the crisis. At the London and Pittsburgh summits, held in April and September 2009, respectively, the leaders of the G20 countries pledged to continue the stimulus and other measures as long as necessary for recovery. It was also notable that leaders pledged to deliver on all aid and other international development commitments despite the large expenditures on stabilization and recovery. In fact, world leaders called for an increase in support for countries with external financing needs and expanded lending operations by the International Monetary Fund (IMF) and the World Bank to that effect. The combined fiscal and monetary interventions were effective in stabilizing national and global financial markets and alleviating the initial economic and social impact of the crisis.

Pressures to reduce fiscal expenditures led to premature reduction in stimulus measures, undermining a still nascent recovery…

The recovery in 2010 was fragile. Credit conditions remained tight in major developed economies as financial institutions continued to rebuild their balance sheets. Domestic demand was rebounding owing mainly to the strong fiscal stimulus in place, while unemployment and underemployment continued to rise. Nonetheless, the pressure to wind back fiscal stimulus started to mount by late 2009, undermining the benefits of the strong and coordinated fiscal stimulus that was in place.

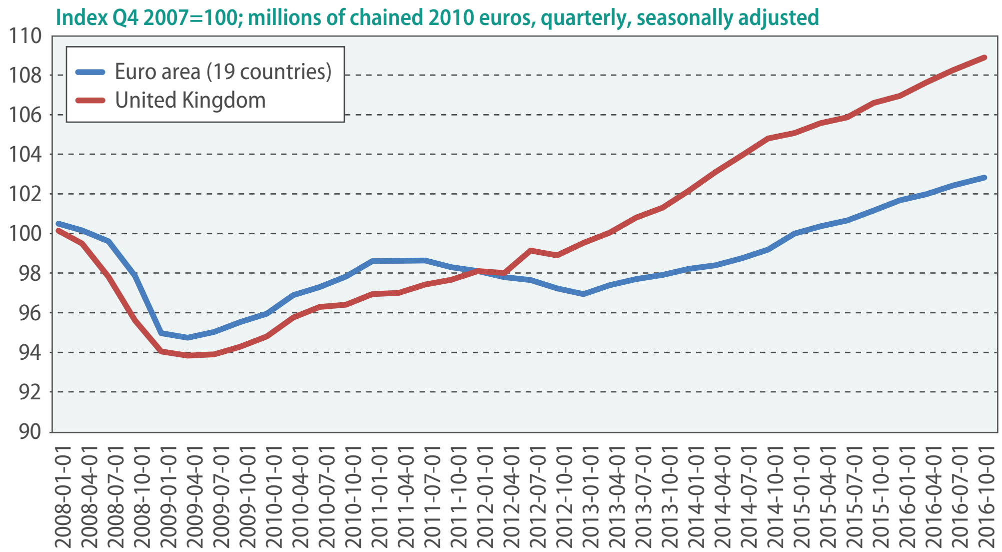
World Economic Situation and Prospects 2009 cautioned repeatedly that removing the fiscal stimulus policies would have devastating short- and long-term social consequences by, for example, raising long-term unemployment. Models generated by the Department of Economic and Social Affairs of the United Nations Secretariat demonstrated the benefits of coordinated stimulus by countries with large external surpluses (*World Economic Situation and Prospects as of mid-2009*, p. 16). *World Economic Situation and Prospects 2010*, warned—accurately—that the premature withdrawal of fiscal stimulus might lead to a "double-dip" recession (p. xi).[7]

7 Farrell and Quiggin (2011) discuss the strong response to the threat of systemic failure, and the subsequent return to contractionary fiscal policy.

...and contributing to a prolonged period of slow growth

The policy of surplus countries, most notably Germany, was in contrast to that recommended by *World Economic Situation and Prospects*. They sought rapid reductions in fiscal stimulus and a return to "normal" (and contractionary) monetary policies; and rather than a quick recovery, output in the eurozone returned to its pre-crisis level only in the third quarter of 2013. While the performance of the United Kingdom of Great Britain and Northern Ireland, which pursued similarly contractionary policies but had the benefit of its own currency, was significantly better, it returned to the pre-crisis level only in the third quarter of 2013 (see figure V.2).

Figure V.2
Real gross domestic product, euro area and the United Kingdom, 2008 Q1–2016 Q4



Source: Federal Reserve Bank of St. Louis.

European sovereign debt management

Concerns over unsustainable government debt in Europe undermined support for continued fiscal stimulus

The emergence of sovereign debt problems in Greece and other European countries in 2010 gave impetus to a reaction against Keynesian policies of fiscal stimulus, a reaction that was strongest within the central institutions of the European Union, including the European Central Bank and the European Commission. The European Central Bank, the European Commission and IMF constitute what is known as the "troika", which negotiated bailout packages with member countries of the European Union that were grappling with financial sector breakdown.

The works of Alesina (2010), Alesina and Ardagna (2010)[8] and Reinhart and Rogoff (2010) were influential in promoting a shift away from fiscal stimulus. The key conclusion of Reinhart and Rogoff (2010) was that when debt levels exceed a given threshold, average annual growth of gross domestic product (GDP) declines significantly. Alesina and Ardagna

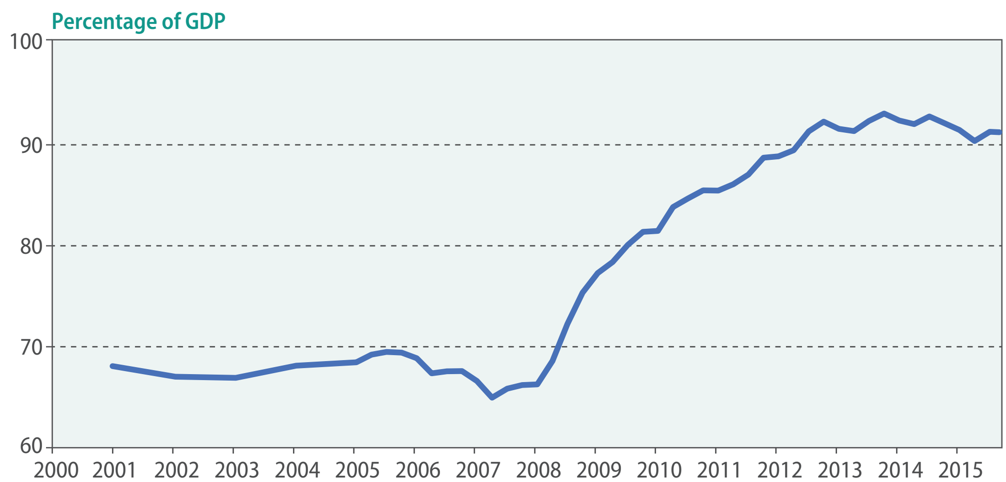
8 At a European Union meeting of ministers for economic and financial affairs, held in Madrid in April 2010, Alberto Alesina stated that "large, credible and decisive" spending cuts to rescue budget deficits had frequently been followed by economic growth. He was influential enough to be cited in the official communiqué of the meeting. Christina Romer—who, in her capacity as Chair of the President's Council of Economic Advisors, led the design of the United States Government's fiscal stimulus package devised to cope with the great recession of 2008-2009—acknowledged that the 2010 paper of Alesina and Ardagna had become "very influential" and that "everyone ha[d] been citing it".

(2010) argued that fiscal consolidation could, in some cases, boost economic growth, even in the short run.

Issued just before the G20 Toronto Summit, held on 26 and 27 June 2010, the *Fiscal Monitor* of 14 May 2010 (International Monetary Fund, 2010) provided the arguments for those who wished to embark on a course of rapid fiscal consolidation. Taking a contrary position, *World Economic Situation and Prospects 2010* (p. xi) argued that while concerns regarding public debt were justified, the effect of withdrawing fiscal stimulus prematurely would prove counterproductive.

European policymakers persisted in their efforts towards achieving fiscal consolidation and the debt crisis in Europe continued to drag on. Drastic measures to cut government spending made things only worse. Government debt in the eurozone reached nearly 92 per cent of GDP at the end of 2014, the highest level since the single currency had been introduced in 1999. While the proportion dropped marginally to 90.1 per cent in the third quarter of 2016, it is still well above the maximum allowed level of 60 per cent of GDP set by the Stability and Growth Pact rules designed to ensure that members of the European Union "pursue sound public finances and coordinate their fiscal policies" (figure V.3).

Figure V.3
Government debt in the eurozone, 2000 Q4–2016 Q3



Source: European Central Bank, Statistical Data Warehouse. Available at https://sdw.ecb.europa.eu/home.do?chart=t1.11.

Ex post, it is clear that aggressive fiscal consolidation measures in 2010-2014 had severe negative impacts on growth. The analysis of Reinhart and Rogoff (2010) was later found to be flawed, and subsequent analysis yielded a much more nuanced picture, demonstrating that there existed no consistent relationship between growth and public debt-to-GDP ratios (Herndon, Ash and Pollin, 2014; Pescatori, Sandri and Simon, 2014; and Chudik and others, 2015). Alesina and Ardagna also came under heavy criticism, and IMF itself later admitted that its fiscal consolidation advice in 2010 had been based on an ad hoc exercise (see Chowdhury and Islam, 2012).

Austerity and the lesser depression

The winding back of fiscal stimulus, which had already begun by 2010, evolved into a full-blown programme of austerity in 2011. The causes of the reversal were many, involving a complex interaction between policy debates and the perspective of economic interest groups. The interests of creditors, notably banks and the financial system more generally, prevailed over those of debtors, including national Governments on the European Union periphery, where the crisis was most acute.

At the core of the policy debate lay the differences between analysts who adopted a broadly Keynesian analysis of macroeconomic policy, reinforced by experience of the crisis, and those who viewed the problem as one of public profligacy, to be remedied by cutting back the public sector and making room for private investment. The resurgent anti-Keynesians sought to rehabilitate the policies of austerity which had contributed to the Great Depression (Blyth, 2013), using the idea of "expansionary austerity". This idea was popularized during the 1990s within the context of the fiscal criteria for convergence in the eurozone.

The shift from fiscal stimulus to austerity in many cases resulted in "double-dip" recessions

The Keynesian argument was that the shift from fiscal stimulus to austerity placed the recovery process in jeopardy (*World Economic Situation and Prospects 2011*, p. 1). By 2012, recovery from the crisis was evidently at risk of being derailed and there were continued concerns about the failure of policymakers to address the jobs crisis and avert a renewed global recession (*World Economic and Social Survey 2012*, p. xiii). Such fears were borne out to some extent in Europe, where numerous economies experienced double-dip recessions following the adoption of austerity policy stances. A clear-cut feedback loop between fiscal consolidation and economic weakness remained a risk (*World Economic Situation and Prospects 2014*, p. 26). Declines in public investment since 2010 have also put long-term growth prospects at risk in many countries.

The evidence extracted from this period, as presented in reports issued by the Department of Economic Affairs of the United Nations Secretariat, leads to three clear-cut conclusions: (a) other things being equal, countries that had experienced less austerity fared better than others (Quiggin, 2017); (b) the premature end to monetary stimulus brought about by the European Central Bank, the Central Bank of Sweden and other institutions was misguided, as the recovery remained fragile; and (c) the appropriateness of lowering interest rates, as fiscal stimulus was wound down, was excessive.

A brittle global financial architecture for sustainable development

The need for a more stable and equitable global financial architecture has become both obvious—and urgent—since the global financial crisis, but in fact the problems had been building for decades. *World Economic Situation and Prospects 2010* observed that the deficiencies of the global financial system had been mounting ever since its emergence in the wake of the 1971 breakdown of the Bretton Woods system; and that, in many ways, the developing country debt crises in the 1980s and the Asian financial crisis in the late 1990s could be regarded as "dress rehearsals" for the global financial crisis (pp. 91-92).

Open capital markets increased the risk of contagion from shocks arising in external financial markets, such as shifts in international rates (driven by United States prime rate changes), variations in the exchange rates between key reserve currencies, and shocks impacting foreign debt or equity markets. The contagion generated by financial crises caused widespread economic collateral damage. Financial market liberalization in past decades led to increased volatility and uncertainty, which has negatively impacted long-term investment. The negative consequences of the deficiencies of the global financial system have been clearly illustrated by the history of the last decade and a half and the staggering costs of financial crises. This has been documented in the *World Economic and Social Surveys* for 1999, 2001, 2006, 2010 and 2014/2015 (see the discussion in chap. IV).

Destabilizing financial flows and globalized balance sheets acted to transmit risks beyond the reach of national authorities

The global financial crisis was the latest proof of the risks associated with the interconnectedness and vulnerability of the global architecture. The momentous changes in the global economic and financial context described above had its roots in domestic and global imbalances which were transmitted through an increasingly interconnected world. Economic conditions spread quickly not only through trade and capital flows, but also as a consequence of the globalization of both the balance sheets of multinational organizations and financial and commercial interconnectedness. Given that volatility and income fluctuations were understood to worsen growth prospects over time, not only were the costs of the currency and banking crises massive in themselves, but they were responsible for a lowering of future growth potential.

Following the fiscal stimulus measures introduced in the immediate aftermath of the global financial crisis, many countries entered a period of fiscal retrenchment. This period of austerity was driven, in large measure, by the cost incurred by national Governments in accepting the bailout of financial markets, which led to debt levels deemed unsustainable by those same financial markets. The sovereign debt problems in Europe and the widespread fiscal retrenchment that followed recall the debt problems of previous decades in Latin America and other regions, as discussed in chap. III. Policies of those decades that were designed, in accordance with the Washington Consensus, to manage national debt through the use of drastic structural reforms and fiscal austerity found their echo in the most recent responses.

Prior to the 2008-2009 global financial crisis, insufficient attention had been paid to systemic risks

In the period before the crisis, insufficient attention had been paid to the systemic risks inherent in the operation and structure of the global financial system. There was a confident belief that the leading financial institutions were operating in an efficient market and that financial regulators would be able to correct large imbalances before they exerted large-scale macroeconomic impacts. The events of the present decade provide a strong argument for the kind of macroeconomic management that extends beyond simply preserving price stability and sustainable fiscal balances. Indeed, the *Survey* has continued to argue for the adoption of policies that do not generate large swings in economic activity and employment; that maintain sustainable external accounts and steer clear of exchange rate overvaluation; and that assure well-regulated domestic financial sectors, sound balance sheets within the banking system and sound external debt structures.

A more ambitious global development agenda

Implementation of the 2030 Agenda for Sustainable Development requires political will and bold policy action

When the deadline for the Millennium Development Goals (MDGs) was reached in 2015, significant progress and encouraging results had been achieved in many areas. For one thing, the global targets for both poverty reduction and access to safe drinking water had been reached five years ahead of schedule. Significant, albeit, uneven progress was also achieved in education, health, reducing hunger and child and maternal mortality, and improving gender equality and environmental sustainability.

The vision of the 2030 Agenda for Sustainable Development attests to a more complete understanding of development. Together with the Addis Ababa Action Agenda, the Sendai Framework for Disaster Risk Reduction and the Paris Agreement, the 2030

Agenda focuses globally and more ambitiously on improving human development, ensuring environmental sustainability and advancing the structural transformations needed for sustained economic growth. Building on the achievements of the MDGs, the 2030 Agenda embodies the commitment to eradicate all forms of poverty, reduce inequalities and reverse climate change, while ensuring that no one is left behind. It recognizes the importance of improving social and environmental conditions including with respect to education, health and those in vulnerable situations, and environmental protection and sustainability. Further, derived from previous United Nations development agendas and re-established at the core of the present one is the affirmation of the need to undertake major structural changes on the path towards sustained economic growth, economic diversification and employment creation. In essence, the 2030 Agenda addresses all of the issues encompassed by the evolving United Nations vision of development, as documented by the Survey starting from its earliest days of publication (see chap. I).

The continued weakness of the global economy will present a challenge to progress in implementing the 2030 Agenda

The current global environment of slow growth poses significant risks with respect to the achievement of Sustainable Development Goal (SDG) 1 (End poverty in all its forms everywhere), one of whose targets (1.1) is to "eradicate extreme poverty for all people everywhere" by 2030. In order to achieve this goal, the world would collectively need to lift more than 800 million people above the extreme poverty line within a time frame of 15 years. The challenge is particularly daunting in the least developed countries, where close to 40 per cent of the population live below that line. *World Economic Situation and Prospects 2017* warns that under the current growth trajectory, without a decline in income inequality, nearly 35 per cent of the population in the least developed countries may still remain in extreme poverty in 2030 (p. vi).

In the past decade, three issues have gained central importance in the discussion on how to realize the vision of the 2030 Agenda: (a) the rise in already high levels of inequality in many dimensions, recognized as a mounting problem which threatens progress under the broader agenda; (b) the growing urgency of reversing environmental degradation and the need to integrate environmental concerns and sustainability into all of the development objectives of the 2030 Agenda; and (c) the increasingly recognized fact that development status can be reversed by adverse shocks and that development requires resilient economies and societies with the capacity to adapt to changing circumstances.

Rising inequality

The importance of the impact of inequality on development is reflected in the proliferation of publications on this issue in the academic literature as well as among multilateral organizations.[9] Inequalities between countries are a result of differences in growth rates across countries. The improved performance of some prominent developing countries (most notably China and other East Asian economies) has helped reduce global inequalities, even if inequalities have increased within most countries.

9 See, for example, Milanovic (2007; 2012a; 2012b); Cornia (2011; 2014); Galbraith (2012); Chudik and others (2015); Lim (2014); Piketty (2014); United Nations (2013); United Nations Conference on Trade and Development (2012); United Nations Children's Fund and United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) (2013); Organization for Economic Cooperation and Development (2008); World Bank (2005); International Institute for Labour Studies (2008); and International Monetary Fund (2007).

Rising inequality between and within countries continues to be a problem

Inequality within countries has not seen much improvement in many regions for the past 30 years, with the exception of Latin America and the Caribbean (ibid., p. 26). Much of the inequality is a result of a rapid rise in the wage premium between high- and low-skilled workers, as shown by Autor (2014). According to that study, the factors that have contributed to the disproportionate erosion of the earnings of less educated workers and a widening skill gap include a declining minimum wage; a less progressive tax structure; growing automation in low-skilled jobs; a long-term decline in the size and power of labour unions; and the globalization of production, which demonstrates how changes in the production structure brought on by technological change and global value chains can lead to job losses and declining wages for workers in certain categories.

Mounting environmental concerns

The world has a long way to go to achieve a sustained decoupling between economic growth and the growth of carbon emissions and ensuring sustainable consumption and production patterns (SDG 12). Nonetheless, some progress has been made along the environmental dimension of sustainable development. For one thing, the level of global carbon emissions did not increase for two consecutive years (2014-2015). Since this phenomenon reflects, to some extent, slower economic growth in major emitters, it will not be sustained if growth accelerates. However, it also reflects declining energy intensity of economic activities and a rising share of renewables in the overall energy structure, which may have lasting impacts. Developing countries, in particular, have made significant advances in renewable energy use. However, the share of renewables in global power generation remains small.

It is recognized that the environment plays an integral role in many facets of human development

The significance of the natural environment and the challenges of developing alternative "greener" strategies for development were identified many decades ago, but such concerns became an integral part of the global agenda only in 2015. Given that climate change is associated with a greater risk of natural disasters, disaster preparedness and adaptation were given priority in development discussions. Preventive measures for dealing with food vulnerability in the event of disasters, as well as linking medium-term relief activities to development strategies, were perceived as being necessary. While establishment of a global disaster mechanism for mobilizing the resources required for an integrated risk management approach was also recommended, such a mechanism has yet to be developed despite the greater prevalence of climate change related events and other natural disasters. The 2030 Agenda reflects the goals included in the Sendai Framework for Disaster Risk Reduction, which has four priorities for action: (a) understanding disaster risk; (b) strengthening disaster risk governance to manage disaster risk; (c) investing in disaster risk reduction for resilience; and (d) enhancing disaster preparedness for effective response and to improve infrastructure in the aftermath of disasters.

Switching to low-emissions and high-growth pathways to meet development and climate challenges is both necessary and feasible. Such a switch, through necessitating a major overhaul of existing production systems, technologies and supporting infrastructure and entailing very costly socioeconomic adjustments in developing countries, would therefore require a significant level of international support and solidarity. The 2009 *World Economic and Social Survey* advocated for a global new deal capable of raising investment levels and channelling resources towards lowering the carbon content of economic activities and building resilience with respect to unavoidable climate changes.

Persistent insecurity and vulnerability

Persistent economic insecurity continues to threaten progress along sustainable development pathways

According to *World Economic and Social Survey 2008*, economic insecurity arises from the exposure of individuals, communities and countries to adverse events and from their inability "to cope with and recover from the costly consequences of those events" (p. vi). Various types of economic insecurity impact the achievement of a resilient development path and are of particular importance for vulnerable groups, such as women, informal workers, those in locations greatly affected by climate change or environmental degradation, ageing populations and migrants.

It is worth noting the insecurities arising from medium-term processes that can be very damaging. For example, while globalization has brought many benefits, it has also greatly increased the exposure of domestic economies to shocks from external sources. For example, greater liberalization of trade, income effects of terms-of-trade changes, movements of capital and volatile behaviour of financial markets pose threats to job security and income in certain sectors and for certain groups of workers.

Violence and conflict also generate insecurity and economic, social and environmental stresses are often among the root causes of violence and conflict. In fact, high unemployment, particularly youth unemployment, and food and energy price shocks can increase the risk of violence significantly (see the 2014/2015 *Survey*). Greatly increased economic inequalities across the world (as related to opportunity and to assets and income) have not only reinforced existing social inequalities but also generated counter-responses which can lead to social turbulence. Moreover, conflict itself exacts enormous socioeconomic costs—including human suffering—thereby undermining progress towards achieving development objectives.

In a more globally integrated world, external shocks can cause or compound domestic economic volatility and insecurity. To combat these external vulnerabilities, many countries have chosen expensive forms of self-insurance, which may include, for example, maintaining high levels of foreign exchange reserves, entailing a large cost to development in the form of forgone investments. However, mitigating risks in a global economy is only partly the responsibility of individual countries: such risks could be mitigated through appropriate capital management, including countercyclical measures at the global level. The international economic system must take a leading role in ensuring global financial stability, through improved international financial regulation designed to stem capital flow volatility and enhanced provision of emergency financing in response to external shocks so as to ease the burdens of adjustment.

Difficulties in mobilizing sufficient development financing

A prolonged global economic slowdown makes it difficult to mobilize the financial resources needed to achieve the SDGs by 2030

Closing the investment gap so as to ensure the achievement of the SDGs by 2030 requires the mobilization of significant financial resources. However, the prolonged slowdown in global economic growth makes the goal of generating long-term investment and increasing capital formation a particularly challenging one. There is a need to strengthen development cooperation, augment trade and official development assistance (ODA) flows, facilitate public-private partnerships as a complement to public investment, and enhance international tax cooperation to enable scarce financial resources to be redirected towards sustainable development in countries and regions that are facing challenging economic situations (LaFleur, Hong and Kawamura, 2015).

The period of weak economic growth has negatively affected government revenues in many countries, resulting in a worsening of fiscal positions. For the commodity-dependent developing economies, the growing strains on public finances have been particularly marked since the sharp decline in commodity prices in 2014. Foreign currency-denominated debt has been gaining in importance in pockets of the developing countries, leaving borrowers exposed to exchange rate risk. Higher financing costs have been incurred in countries that have suffered sharp currency depreciations.

Developing countries have experienced negative net resource transfers in 2015 and 2016

International finance is a critical complement to domestic revenue mobilization. However, for more than a decade, developing countries as a whole have experienced negative net resource transfers. After peaking at $800 billion in 2008, yearly net transfers from developing to developed countries are estimated to have amounted to about $500 billion in both 2015 and 2016 (*World Economic Situation and Prospects 2017*, p. 74 and figure III.1). Private sector international capital flows have also remained volatile amid major global uncertainties and risks. The macroeconomic policies adopted in developed economies in the aftermath of the global financial crisis have exerted a significant effect on capital flows, especially among emerging markets that have a high degree of financial market openness. In particular, the use of unconventional monetary policy instruments by the central banks of developed countries has had sizeable effects on cross-border flows. New empirical studies[10] indicate that the quantitative easing has amplified the procyclicality and volatility of capital flows to developing countries, with strong impacts on exchange rates and asset prices. In some cases, the large swings in cross-capital flows have led to increased financial vulnerability. For central banks and Governments of developing countries, managing volatile capital flows has presented a significant policy challenge in recent years.

It is encouraging that ODA remains on its long-term increasing trend, despite some recent temporary declines…

ODA and other forms of international public finance are critical channels for financing sustainable development, especially in the least developed countries. The austerity policies adopted in developed countries following the global financial crisis generally included reductions in overseas development aid. As noted in *World Economic Situation and Prospects 2014* (p. 88), following the emergence of the sovereign debt crisis, ODA dropped by 2 per cent in 2011, falling particularly sharply in the poorest countries. Bilateral ODA to East, West, Central and Southern Africa fell by 7.9 per cent between 2011 and 2012. Similarly, bilateral ODA to least developed countries fell by 12.8 per cent in the same period.

It is notable that, despite the decline observed during the sovereign debt crisis, ODA has been on a long-term rise and in 2015 was 82 per cent higher in real terms than in 2000 (*World Economic Situation and Prospects 2017* and Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC)[11]). Between 2015 and 2016, ODA increased by an additional 8.9 per cent in real terms, to $142.6 billion. Most of this increase has been a result of additional spending on refugees.

While the recent recovery of ODA flows from their post-crisis declines is welcome, those flows remain insufficient. In 2016, total ODA from DAC donors represented just 0.32 per cent of their gross national income (GNI), a figure well below the target of 0.7 per cent of GNI to which many developed countries were committed. DAC donors' total ODA provided to least developed countries was equivalent to 0.09 per cent of GNI, a figure that falls well short of the target of 0.15 to 0.20 per cent of GNI to which donors were committed.

10 Punzi and Chantapacdepong (2017); Tillmann (2016); Bluwstein and Canova (2016).

11 Based on OECD/DAC online database, available from http://www.oecd.org/dac/stats/idsonline.

The composition of ODA has also shifted towards environment-related transfers, notably those associated with efforts to reduce climate change and deforestation. *World Economic Situation and Prospects 2014* reported that aid having environmental sustainability as a principal objective grew more than threefold between 1997 and 2010, reaching $11.3 billion in 2010 (p. 89).

…but there is concern that shifting ODA towards environmental projects may come at the expense of traditional development assistance

While aid in support of environmental sustainability is welcome, there is concern that rather than expand the total amount of resources, provision of such aid is causing a diversion of traditional development aid. And given the fungibility of money, it is often hard to assess whether funds for achieving one objective have come at the expense of another. However, in numerous cases, such as that of Australia, funding for climate-related aid has been patently derived from traditional foreign aid money.[12] The reallocation of funding in the United States is a more complex matter, but it appears to follow a similar pattern.[13] More generally, there is no indication of a commitment to making funding for climate change mitigation and adaptation additional to development assistance. It is therefore likely that an increase in aid for, say, environmental programmes, will come at the expense of aid for traditional development projects.

While private capital flows have assumed greater importance, they are also more volatile

Within this context, private international capital flows have assumed greater importance. However, capital movements have shown a high level of volatility, leading to exchange rate volatility, credit and debt bubbles, inflation and asset price bubbles. Of even greater concern is the risk of sudden stops and withdrawals of international capital as a result of heightened risk aversion, which contribute to the spread of financial crises (*World Economic Situation and Prospects 2012*, p. 67).

Financing long-term investment for development has been further complicated by the build-up of foreign exchange reserves by developing countries for self-insurance, as discussed above. The policy of self-insurance, however, is costly and tends to exacerbate global imbalances. This being the case, capital account regulations may provide a better way of managing volatile financial flows (ibid., pp. 67-68).

Limited progress in trade liberalization for development

The progress of multilateral trade negotiations has been disappointing and they have recently suffered setbacks…

Discussions regarding trade liberalization in publications of the Department of Economic and Social Affairs of the United Nations Secretariat and of other international organizations have followed a standard format: an expression of disappointment at the lack of progress in the Doha round of trade negotiations, which broke down in the mid-2000s (see, for example, *World Economic Situation and Prospects 2008*); a discussion of the development outcomes that ought to have been delivered by an agreement in that round; and some critical observations on the proliferation of bilateral and plurilateral agreements, most notably the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership.

At its inception, the Doha round represented the best hope for a pro-development liberalization of the global trade system. There was cautious optimism that the round might be "revitalized" following commitments made at the G20 Pittsburgh Summit in September 2009, but there also remained concern that the process could be derailed through the proliferation of bilateral agreements (*World Economic Situation and Prospects 2010*, p. ix).

12 http://www.skynews.com.au/news/top-stories/2015/12/01/turnbull-pledges--800-million-for-climate.html.

13 http://www.brookings.edu/blogs/planetpolicy/posts/2014/11/17-green-climate-fund-roberts.

Hopes for a developmental trade round were not realized, and expectations dwindled: there existed only a very narrow window of opportunity for concluding the negotiations in 2011 (*World Economic Situation and Prospects 2011*, p. 65).

…which has led to the proliferation of regional trade agreements

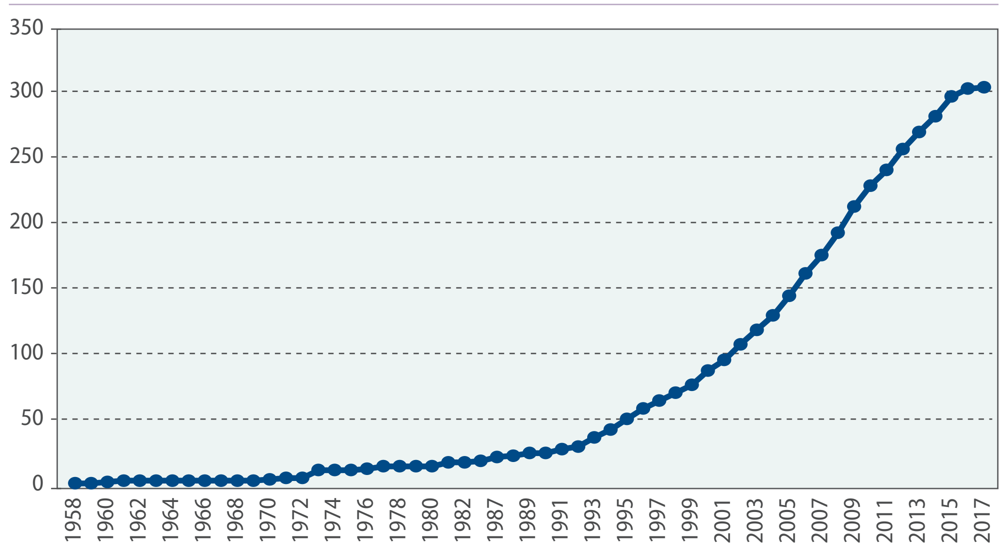
By 2012, the Doha round's failure had been recognized as negotiations reached a stalemate. From this, there emerged a more nuanced view of bilateral and regional deals. As the prospect of a global agreement receded, there was a growing incentive for countries to engage in the establishment of preferential bilateral and regional trade agreements (*World Economic Situation and Prospects 2012*, pp. 62-63). The World Trade Organization estimates that almost 300 preferential trade agreements are currently in force worldwide, half of which have come into effect since 2000 (see figure V.4). Moreover, after a delay associated with the global financial crisis, the expansion regained momentum. A particular feature of these agreements, which came to the fore after 2000, was the extension of their scope beyond trade to encompass "WTO-plus and/or WTO-extra provisions" such as those for non-tariff measures, the services sectors, intellectual property rights, and trade policy-related labour and environment issues (ibid., p. 63).

The proliferation of bilateral, regional and plurilateral agreements gave rise to many difficulties and inconsistencies (*World Economic Situation and Prospects 2014*, pp. 59-60). Many of the new and cross-cutting issues included in the agreements have been the subject of controversy. These include the extension of strong intellectual property rights, with notable implications for pharmaceuticals; investor rights under investor-State dispute settlement provisions; and the undermining of both State-owned enterprises and provisions for government procurement, perceived as advantaging multinationals over local small and medium-sized enterprises.

It now seems clear that prospects for significant progress towards a global agreement are limited in the near term. The failure to reaffirm the Doha mandate at the Tenth Ministerial Conference of the World Trade Organization, held in Nairobi from 15 to 19 December 2015, and the call by the United States to abandon the round make this clear. As noted in *World Economic Situation and Prospects 2015*, even the World Trade Organization has shifted to a plurilateral mode, as exemplified by the Trade in Services Agreement

Figure V.4

Number of regional trade agreements in force, 1958–2016



Source: World Trade Organization, Regional Trade Agreements Information System (RTA-IS). Available at http://rtais.wto.org/UI/PublicPreDefRepByEIF.aspx.

(pp. 54-55). The recent decision by the United States to abandon the ratification of the Trans-Pacific Partnership in favour of bilateral negotiations is further evidence of the move away from an environment where multilateral trade negotiations are conducted.

Critical reflections on a new global context and an ambitious development agenda

The historical cyclical pattern of growth, global imbalances and crisis has had an impact on human development. A review of the critical reflections found in various publications of the Department of Economic and Social Affairs, particularly *World Economic and Social Survey* and *World Economic Situation and Prospects*, yields important insights regarding what is needed to achieve the 2030 Agenda.

Key among those insights is that the risks posed by the unsustainable build-up of global imbalances must be recognized. The *Survey* was among the first international publications to perceive the impending threat of the global financial crisis and to reject the view that liberalized financial markets had reduced the vulnerability of national and global economies to systemic risk. It is noteworthy that this note of caution was sounded in the midst of a global boom which had in fact generated a great deal of complacency across the world, especially in some of the more successful developing economies. Recognizing the global financial crisis as it emerged, the *World Economic Situation and Prospects* reports were consistent in making the case for a moderate but coordinated and sustainable fiscal stimulus (see box V.1).

Better management of global economic and financial systems is needed to realize the vision of sustainable development

Better management of the global economic and financial systems is of the utmost importance for the implementation of the 2030 Agenda for Sustainable Development. A multilateral system that is able to resolve global imbalances before they turn into full-blown crises will provide an enabling environment for sustainable development. Establishing such a system involves promoting effective macroeconomic mechanisms; a more balanced global monetary system; sufficient availability of development assistance; a multilateral trading system that is open, rules based and aligned with development objectives; and building more effective global coordination in managing imbalances and preventing crisis. Stability and growth of the global economy combined with appropriate policy coordination would also help to address the sources of global inequality.

Accelerating progress in global coordination

Deeper and more complex global interconnections require more effective policy coordination in multiple areas…

The growing complexity and interlinkages across both economic sectors and countries call for more effective policy coordination so that the positive spillover effects of various policy interventions, at the domestic and international levels, can be maximized. Improved international policy coordination is needed to ensure consistency and complementarities among trade policy and investment policy and to better align the multilateral trading system with the 2030 Agenda, thereby ensuring inclusive growth and decent work for all. Deeper international cooperation is also needed in many other areas, entailing, e.g., expediting clean technology transfer, supporting climate finance, expanding international public finance and ODA, strengthening international tax cooperation and tackling illicit financial flows, providing a global financial safety net and coordinating policy designed to address the challenges posed by large movements of refugees and migrants.

Box V.1

World Economic Situation and Prospects reports sounded early alarms about growing imbalances

Starting in 2005, the *World Economic Situation and Prospects* report consistently warned of the unsustainability of the economic boom driven by credit-fuelled consumption in the United States of America. The 2005 report expressed concern about the sustainability of rising United States trade deficits and the likely impact on exchange rate instability. The report also warned about mounting global financial imbalances and overleveraged financial institutions, businesses and households; and strongly cautioned that in a highly integrated global economy without adequate regulation and global governance structures, the breakdown in one part of the system could easily lead to failure elsewhere.

The 2006 report continued to warn about the rising global imbalances, observing that "the possibility of a disorderly adjustment of the widening macroeconomic imbalances of the major economies [was] a major risk" (p. v) and the 2007 report singled out the possibility of a more severe downturn in United States housing markets as the key risk for the global economy. *World Economic Situation and Prospects 2009* noted that the near meltdown of the global economy did not come as a shock to those analysts (including those whose analyses appeared in earlier reports) who had focused on underlying imbalances in the real global economy and on the way in which they were obscured through the financialization of economic management.

The leaders of the G20 countries took initial steps towards effective policy coordination for a more balanced recovery at the Pittsburgh Summit, held on 24 and 25 September 2009. Those countries agreed to create a framework for fostering "strong, sustainable and balanced growth" of the world economy.[14] Under this framework, countries with significant external deficits, mainly the United States, would encourage private savings and undertake fiscal consolidation. Surplus countries, including China, Germany and Japan, would strengthen domestic sources of growth.

…including macroeconomic policies and trade, tax cooperation and tackling illicit financial flows, and technology transfer

In taking note of the absence of visible progress in building a cohesive regulatory system for international finance, *World Economic Situation and Prospects 2011* (p. 65) called attention to the suggestion set out in the communiqué of the G20 Seoul Summit (11 and 12 November 2010)[15] that "policy responses in emerging market economies with adequate reserves and increasingly overvalued flexible exchange rates m[ight] also include carefully designed macroprudential measures". *World Economic Situation and Prospects 2012*, for its part, asserted that "[f]inancial reforms are inadequate for containing systemic risks" and in that regard noted the limitations of national-level measures such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (p. xii). And as observed in chapter III of *World Economic Situation and Prospects 2014*, progress towards implementing banking reforms had been "slow and uneven" (p. 81). Moreover, an excessively rigid emphasis on risk reduction may constrain lending for development.

While these sensible suggestions were followed in several advanced economies in the 1960s and 1970s, by the 2000s, they had been all but forgotten, both in developed and in developing countries, thereby enabling the build-up of financial bubbles which culminated in the global financial crisis. For developing countries, an important issue often arises from the volatility in capital flows for reasons unrelated to domestic macroeconomic policy or performance. In this regard, *World Economic and Social Survey 2005*, noting the significance

14 See G20 Leaders Statement: The Pittsburgh Summit. Available at www.g20.utoronto.ca/2009/2009communique0925.html.

15 Seoul Summit document, 12 November 2010, para. 6.

of capital account regulations, indicated that such regulations "potentially ha[d] a dual role: as a macroeconomic policy tool with which to provide some room for countercyclical monetary policies that smooth out debt ratios and spending; and as a 'liability policy' designed to improve private sector external debt profiles" (p. 97).

One key lesson learned in the aftermath of the global financial crisis has been that robust and sustained fiscal support is important for dynamic economic growth

The global financial crisis, the sovereign debt problems in Europe and the fiscal retrenchment that followed led to a focusing of attention once again on the importance of fiscal spending in providing countercyclical support for economic activity. As indicated above, a key lesson extracted from the last crises has been that premature removal of fiscal support can undermine nascent recoveries and result in double-dip recessions. The challenge for policymakers, therefore, is to determine the proper timing with respect to winding down fiscal stimulus in the event of a crisis. Meaningful indicators for determining whether or when the recovery has become robust and self-supporting include (a) substantial improvements in employment conditions and (b) a reduction of output gaps. Large economies should also consider the international spillover effects of removing fiscal stimulus and should rely on a global framework for policy coordination.

Rebalancing the global monetary system

Developing economies continue to gain in importance in the globalized economic and financial system…

In *World Economic and Social Survey 2010*, it was pointed out that "the pattern of uneven development brought about by globalization" had so far been sustainable "neither economically nor environmentally", nor had it been "feasible politically" (p. xxiii). The *Survey* therefore offered a stark and, as it turned out, prescient warning to the effect that, as developing countries were that time around "much more significant and much better integrated into the world economy", the global crisis had "profounder implications and more serious consequences for development" (ibid., pp. xxiii-xxiv). While the world is becoming increasingly interconnected, those connections, by virtue of their nature and quality, need constant improvement. It has been convincingly argued in various editions of the *Survey*—particularly in a direct refutation in the 2008 *Survey* of the thesis of decoupling—that all of the developing regions remained critically dependent upon an external growth stimulus from the developed economies and that business cycles move broadly in tandem.

The continued dependence on the markets of the developed countries, even as actual production shifted to other regions, reflected the uneven pattern of economic integration. For example (and as noted in chap. IV), much of the rapid increase in intraregional trade in developing Asia (the most dynamic region of the world in the past decade) could be attributed to the emergence of a multi-location multi-country export production platform, organized increasingly around China as the final processor. Reduced demand from developed countries therefore translated into reduced demand for the raw materials and intermediates required for processing, a phenomenon that has become particularly evident in the past five years.

…but they remain plagued by currency and maturity mismatches in the balance sheets of economic agents and are vulnerable to the changes in economic and financial conditions in developed economies

The highly interconnected global economic and financial system helps to accelerate growth in developing countries but also makes them more vulnerable to fluctuations within the world economy. Further, financial asymmetries between developed and developing countries affect the latter's ability to participate in and benefit from the international financial system. As explained in the 2005 *Survey*, such asymmetries account for "three basic facts", namely, "(a) the incapacity of most developing countries to issue liabilities in their own currencies, a phenomenon that has come to be referred to as the 'original sin', (b) differences in the degrees of domestic financial and capital market development, which lead to an undersupply of long-term financial instruments in developing countries; and (c) the small size of developing countries' domestic financial markets vis-à-vis the magnitude of the speculative pressures they may face" (p. 74). What this means is that developing countries are plagued by variable mixes of currency and maturity mismatches in the balance sheets of economic agents, and are affected dramatically by changes in economic and financial conditions within the core capitalist economies, which they do not have the power to influence.

The *World Economic and Social Survey* reports have continuously stressed the need for international coordination of economic policies, with no exception being made for policies related to financial regulation. Indeed, it has been argued that without such coordination, financial regulation in any one country is likely to be less effective and even counterproductive, and that, through such regulatory arbitrage, risk can be increased and disseminated throughout the global financial system.

Recovering sustained growth requires greater private investments, productivity growth and a more balanced pattern of trade and capital flows

A resurgence of the large global imbalances and unsustainable patterns of growth that led to the global financial crisis can be averted only if at least three conditions are met. First, Governments must ensure a timely and deliberate transition from publicly funded economic stimulus towards self-supporting economic activity generated by private demand. Second, there must be a renewed push for investment spending geared towards support of productivity growth and the transformation of energy sectors and infrastructure required to meet the challenge of climate change. Third, a more balanced pattern of international trade and capital flows across countries must be achieved. As these three objectives are highly interdependent, their fulfilment will require close policy coordination and macroprudential regulation for global stability and for mobilizing resources for investment and development.

A global green new deal is needed to put the global economy on the path to sustainable development

In the immediate aftermath of the global financial crisis, the *Survey* saw a rare opportunity to restructure the global economy so as to put it on the path towards sustainable consumption and production, as well as towards closing the gaps between rich and poor countries. In 2009, the Department of Economic and Social Affairs of the United Nations Secretariat took up the call for a global green new deal. Implemented through international coordination, the global green new deal would also drive balanced global development. Comprising public work programmes and social protection (especially in developing countries), it would not only hasten economic recovery and job creation, but also address sustainable development, climate change and food security challenges. Those public works programmes would be launched not only in developed countries, which can resort to deficit financing, but also in developing countries, where resources are more limited and policies more likely to be held hostage by the global financial system.

The global green new deal would be part of the broader international countercyclical response to uncertain or tepid recovery and would consist of three main elements:

(a) Financial support for developing countries to prevent economic slowdown, to be provided through an inclusive multilateral system;

(b) Public investment packages in developed and developing countries aimed at reviving and greening national economies, to be put in place by national Governments;

(c) International policy coordination to ensure that the developed countries' spending packages would not only be effective in creating jobs in developed countries, but also generate strong developmental impacts in developing countries. This would involve collaborative initiatives of Governments in both developed and developing countries.

Mobilizing international financing for development

Improving the international financial architecture is crucial for developing countries. Over the years and since its inception, the *World Economic and Social Survey* report has been concerned with the design of the international reserve system, and, in particular, with the role of the United States dollar as the major international currency. As early as 2005, the *Survey* had highlighted the potential interaction between the macroeconomic risks associated with the current global imbalances and the potential vulnerabilities generated by the financial "innovations" and forms of consolidation that were being carried out. This could generate, accentuate and prolong global imbalances which could in turn wind down in a disorderly manner.

The accumulation of foreign currency reserves by developing countries generates a large flow of reverse aid; a greater role for SDRs as the basis for a renewed global reserve system is therefore needed

As was noted in *World Economic and Social Survey 2008*, "the tendency to accumulate vast amounts of foreign currency reserves in developing countries ha[d] its roots in more fundamental deficiencies of the international monetary and reserve system" (p. 48). According to the 2005 *Survey*, this in effect generated "a redistribution of income from developing economies to the major industrialized countries, a large flow of so-called reverse aid" (p. 183). This could be rectified partly through establishment of a greater role for special drawing rights (SDRs), in providing both much-needed liquidity to deficit countries and a stable counterweight to the United States dollar. The issuance of more SDRs through a permanent allocation would not only "solve the problems of adequately financing needs for extraordinary and temporary official liquidity" but also deal simultaneously with "the distributive issues associated with uneven distribution of seigniorage powers" (ibid., p. 184).[16]

Among the suggestions advanced by the 2005 *Survey*, there was one regarding countercyclical cross-border financing mechanisms. Thus, "multilateral development banks and export credit agencies could introduce explicit countercyclical elements in the risk evaluations they ma[d]e for issuing guarantees for lending to developing countries" (p. 94) or provide "special stand-alone guarantee mechanisms for long-term private credit that had a strong explicit countercyclical element" (ibid., p. 95). The 2006 *Survey* suggested the adoption of financial instruments that reduced currency mismatches and linked debt-service obligations to developing countries' capacity to pay, for instance, through gross domestic product (GDP)- or commodity-linked bonds (p. xv).

The *Survey* and *World Economic Situation and Prospects* have consistently argued that domestic savings are the key to increasing domestic investment, even in open economies. Successive *Survey* reports have emphasized that three challenges associated with the domestic financial system require particular attention in developing countries: "guaranteeing an adequate supply of long-term financing in the domestic currency; making financial services available to all groups of society; and developing an adequate system of prudential regulation and supervision that guarantees the stability of the financial system" (see, e.g., the 2005 *Survey*, p. 17).

International private flows can be volatile and ultimately undermine sustainable development

Volatile international portfolio and banking flows can ultimately undermine sustainable development. Aligning investment with the SDGs, including the goals of building sustainable and resilient infrastructure, requires policies and regulatory frameworks that incentivize changes in investment patterns. This can be addressed through the financial governance architecture and supported through various policy mixes including

16 In fact, the *Survey* has been making this argument consistently for over four decades, i.e., since the late 1960s.

pricing externalities, effective regulatory frameworks, blended finance and guarantees, and leveraging private investment through public intermediaries, such as development banks.

Encouraging long-term finance calls for a greater role of development banks

Long-term finance tends to be scarce in developing countries, as creditors prefer to offer short-term financing so as to reduce risk. *Survey* reports have argued that development banks should be the vehicle for addressing some of the unmet demand for long-term financing. The experience with development banks, however, has been mixed. As pointed out in the 2005 *Survey*, successful banks "fostered the acquisition and dissemination of expertise in long-term industrial financing" with success being "less dependent on the quantity of credit they supplied" (p. 23). Another common action of successful banks was to set clear time limits on the preferential treatment provided to borrowers. Interest rate subsidies were seen to be less important for success and in some cases, even counterproductive. Recognizing problems of inefficiencies and lack of accountability in the management of many development banks, the *Survey* therefore argued that "the institutional design should avoid excessive public sector risks and badly targeted interest rate subsidies, and should incorporate a view of the activities of development banks as complementary to those of the private sector and, indeed, a view of the banks themselves as agents of innovation that should in the long run encourage rather than limit private sector financial development" (ibid., p. 24). The role of development banks has been explicitly recognized in the Addis Ababa Action Agenda adopted at the Third International Conference on Financing for Development, held in Addis Ababa from 13 to 16 July 2015.

The 2012 *Survey* recognized the need for innovative thinking on the subject of international financing for development. It confirmed the potential of a number of mechanisms, even as it noted that realizing that potential would require international agreement and the corresponding political will to tap sources, as well as the design of appropriate governance of uses and allocation mechanisms. Some of these sources include taxes levied on international transactions and/or taxes that are internationally concerted, such as the air-ticket solidarity levy, financial or currency transaction taxes and carbon taxes; and revenues from global resources, such as SDR allocations and proceeds derived from the extraction of resources from the global commons, through, for example, seabed mining in international waters. Significantly, it was argued that international reserve asset creation—with IMF issuing more SDRs—could sharply boost finance for development and global public goods provision.

Expanding the benefits of trade

A rules-based multilateral trading system remains a key mechanism for growth and development but…

The assessments of preferential trade agreements often present the trade agenda as implicitly beneficial with respect to various issues, with the notable exception of those issues related to labour, State-owned enterprises and the investor-State dispute system. With the collapse of the Trans-Pacific Partnership in 2017, the most obvious question is whether, in the absence of a global agreement clearly linked to a development agenda, plurilateral agreements should be regarded as second-best alternatives, or as harmful distortions of the global system. Opaque negotiating procedures, in which corporate interests have free access while others are excluded, are a particular concern.

In retrospect, the continued focus on the Doha round, long after its prospects had faded, is perceived to have been an overly optimistic one and meant that plurilateral agreements like the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership, and the Trade in Services Agreement received insufficient attention. Moreover, those agreements were viewed, in large measure, as second-best substitutes for Doha round outcomes rather than as embodying a radically different mode of international governance, largely divorced from traditional concerns about trade liberalization and focused on protecting the interests of multinational corporations.

….uneven benefits from trade have led to social discontent and protectionist risks

Further progress towards revitalizing the Global Partnership for Sustainable Development (under Sustainable Development Goal 17) may be constrained by the apparent increase in many countries in the appeal of protectionism and inward-looking policies, reflecting in part growing discontent with the manner in which the costs incurred, and the benefits accruing, from deeper global economic integration have been distributed. While an open, rules-based multilateral trading system has generated substantial economic gains for many countries through improved efficiency in allocating resources worldwide, it has also been associated with widening income inequality, together with job losses and declining wages for workers in certain sectors and categories.

Greater concerted international efforts to improve global governance are therefore needed, along with more effective domestic redistribution policies, so as to ensure that the gains from global economic integration are inclusive. Trade adjustment policies—entailing, for example, training and job search assistance for workers directly impacted by trade liberalization—can also help to redress the imbalance. In the absence of such efforts, protectionist tendencies may escalate, which could prolong the slow growth in the world economy.

Strengthening national ownership, policy coherence and integration

Policy interventions must be relevant to the social, economic and political realities of each country

One of the more enduring and relevant lessons to be derived from the *Survey* for application to the 2030 Agenda in general and SDG 17 in particular, is the importance of policy coherence and integration that is appropriate for each country's context. Progress in multiple dimensions of development requires policy interventions that are specific to each particular context and that are able to build on the synergies and the co-benefits generated through addressing social, economic and environmental issues simultaneously. Balanced achievement of the SDGs requires a macroeconomic policy that is fully integrated with structural reforms and policies that target, for example, poverty, inequality and climate change. Fiscal policy can be made more effective through identification of key areas (such as sustainable infrastructure, education and green technology) for targeted investment, which can serve to stimulate growth in the short term, promote social and environmental progress and, at the same time, support productivity growth in the medium term.

Protecting lives and livelihoods from the effects of climate change is fundamental to a sustainable human development path

In the 2008 *Survey*, it was noted that policies which lower disaster risk could both prevent natural hazards from turning into disasters and dramatically reduce the danger to lives and the eventual costs of natural disasters. With the publication of the 2013 *Survey* began the effort to synthesize all of these issues and distil an understanding of the fact that social, economic, environmental and vulnerability issues are fundamentally interconnected. The *Survey* noted the link between inequality and environmental degradation, a link which is in fact examined inadequately in the general discussion on both of these issues.

The 2014/2015 *Survey* expanded the argument that coherent policies should make use of the interconnections both among various environmental goals themselves and among economic, environmental and human development goals in order to accelerate progress. The *Survey* identified six overarching lessons on how to achieve effective policy integration and coordination:

(a) A coherent and comprehensive policy framework which integrates economic, social and environmental interventions is critical to the minimization of trade-offs. Critical, also, is the need to identify positive synergies and trade-offs and to focus greater attention on policy consistency so as to facilitate the simultaneous attainment of multiple development objectives;

(b) Policies must be situated appropriately within the broader development policy framework of each country and so designed as to enable specific constraints to be overcome and positive synergies to be enhanced consistent with the context of each country;

(c) Careful consideration of starting conditions and constraints is important for determining which interventions and strategies can produce the best possible outcomes. When best practices are no longer producing sound improvements in outcomes, new practices and new solutions become necessary;

(d) If they are to be fully exploitable and effective, policies must integrate communities and be properly tailored to the needs of the poorest, the underserved and the most vulnerable populations, including those groups that have been traditionally overlooked such as indigenous people, people with disabilities and those living with HIV/AIDS;

(e) Improving the quantity and quality of human resources for the provision of social service delivery will be critical for the achievement of the SDGs. This will require efforts to retain effective civil servants, and an increase in investments in quality education;

(f) It is important that programmes be monitored and evaluated effectively so as to ensure policy coherence and efficacy, and adequate outreach to targeted populations. Such assessments should be supported by greater statistical capacity and data availability.

Efforts to improve the conditions of the most vulnerable must focus on the inequalities that define and perpetuate vulnerability

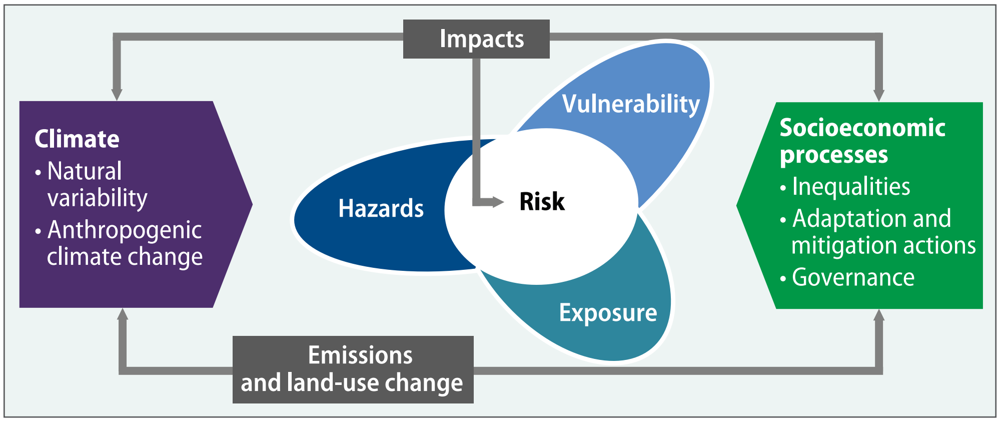
World Economic and Social Survey 2016 further elaborated on the links among economic status, inequality and the environment and highlighted the particular vulnerability of the livelihoods of disadvantaged population groups to the effects of climate change (see figure V.5). Focusing on inequalities across multiple dimensions as part of processes that undermine resilience, the 2016 *Survey* argued that there was an underlying structural basis for the existence of those inequalities and that, often, policies fail to understand, let alone resolve, such deeper issues.

The 2016 *Survey* contended that greater resilience of lives and livelihoods to the effects of climate change is fundamentally a development objective and noted that, in addition to investment aimed at improving infrastructure resilience, traditional development interventions would go a long way towards building resilience among people and communities, including, for example, through more diversified and secure livelihoods and better access to health services. The *Survey* argued that development policy must consider the range of options for addressing long-term human development, strengthening the adaptive capacity of individuals, and confronting the immediate vulnerabilities that threaten lives and livelihoods.

Without addressing underlying inequalities, interventions will have only a temporary impact

The 2016 *Survey* also maintained that multidimensional and intersecting inequalities are fundamentally connected to the vulnerability to climate change and put forth the bold argument that without addressing the particular conditions that result in inequalities, development interventions will have only a temporary effect on the disadvantaged segments of the population. On the basis of this argument, one may assert that improving the

Figure V.5
Human interface with the climate



Source: *World Economic and Social Survey 2016*, based on Intergovernmental Panel on Climate Change (2014), p. 3.

resilience of livelihoods to the effects of climate change offers policymakers the opportunity to tackle the structural inequalities that result in vulnerability.

Tackling climate change is an opportunity to address persistent inequality

Through the approach they took, the 2009, 2014/2015 and 2016 *Surveys* were able to suggest ways in which confronting the challenge of climate change might be perceived as offering an opportunity to resolve long-standing development issues which are at the root of persistent inequality. Sadly, the political economy-related conditions at both global and national levels that would foster the adoption of a green new deal were not present when those reports were issued.

Expanding opportunities and leaving no one behind

Eradicating poverty will require greater efforts to combat inequality

Ending poverty in all its forms in the current economic environment will require that countries tackle inequality issues more rigorously, which would include their commitments to sharing prosperity both within and across national borders. Policies aimed at reducing inequality, such as through investing in education, health and infrastructure, building stronger social safety nets, and mobilizing more inclusive financing, can play a crucial role. Reducing inequality may also have a positive feedback on growth, as a more equal distribution of wealth can lead to a more efficient allocation of resources and support aggregate demand.

The growing problem of inequality, particularly within countries, was recognized as a central issue for development well before it became the focus of international concern. The 2006 *Survey*, which was devoted entirely to the subject of the income divergence between countries, found that both external factors and domestic policies played important roles in determining the differences in growth performance among countries. The focus of part of this analysis was on domestic policies and processes, with the international community perceived as a facilitator of more conducive policies. Part of the observed growth divergence in laggard countries was attributed to gaps in public investment in, and spending on, infrastructure and human development.

In its 2005 edition entitled *The Inequality Predicament,* the *Report on the World Social Situation* (United Nations, 2005) traced trends and patterns in the economic and non-economic dimensions of inequality and examined their causes and consequences. The report focused on inequalities not only in income and wealth distribution, but also in the areas of health, education and opportunities for social and political participation. Analysed as well was how structural adjustment, market reforms, globalization and privatization affect economic and social indicators. *Report on the World Social Situation 2016* (United Nations, 2016), entitled *Leaving No One Behind: The Imperative of Inclusive Development*, examined how conditions of high inequalities and social exclusion will impact the commitment to a successful implementation of the 2030 Agenda for Sustainable Development and the key pledge of countries and stakeholders that "no one will be left behind" (preamble). The report demonstrates, in particular, that ethnicity, age, disability and migrant status affect access to opportunities, including health and education services, jobs, income and participation in political and civic life.

Reducing inequality requires policies designed to foster economic growth and increase investment in human development and in economic, social and environmental infrastructure

Reducing inequality requires policies designed to facilitate the easing of constraints on economic activity, the promotion of growth and increased spending on infrastructure and human development. The 2006 *Survey* argued that this can be achieved in many ways, and that several quite different forms of governance are compatible with more dynamic economic activity. The *Survey* also argued that accelerated economic growth does not always require immediate large-scale and comprehensive institutional reforms, as are often proposed in "big bang reform" packages. Incremental and relatively minor institutional changes can have profound results if there is a conviction that such changes are sustained. Additional spending on infrastructure and human development are essential as well to narrowing the gap between developed and developing countries. This requires establishing additional fiscal capacity through higher tax revenues, public-private partnerships, increased foreign aid, and other innovative financing mechanisms.

The 2008 *Survey* was entitled *Overcoming Economic Insecurity*. The issue of insecurity was a remarkably apt topic given the outbreak of the global financial crisis, which dramatically increased economic insecurity across the world. The *Survey* pointed out that through the use of average aggregates, countries could appear to be successful in terms of having assured higher per capita incomes, even when the majority of citizens did not experience rising standards of living (p. x). The combination of insecurity and inequality was seen as part of the downside of what some had described as "the new gilded age". Citing the domestic impact of various economic and other shocks upon food security, employment, livelihood, displacement and other forms of insecurity, the *Survey* argued that markets cannot be left to their own devices (ibid.).

Obviously, the nature and extent of regulation, mitigation, protection and relief depend on the kind of threats being faced and on capacities, resources and social choices at the local level. But the international community also has a role to play, one that so far has not been adequately recognized. In fact, it has become increasingly clear that global factors like trade-related treaties and the behaviour of global finance exert a huge effect on countries' performance, as was observed in the aftermath of the global financial crisis.

Protecting livelihoods and building resilience

The significance of the natural environment and the challenges of, as well as the opportunities for, developing alternative greener strategies for development were discussed in several *Survey* reports, namely, the 2008, 2009, 2011, 2014/2015 and 2016 editions. The 2014/2015 *Survey* focused, in particular, on environmental sustainability, and in that regard, noted that despite some progress in particular indicators (such as the near elimination of ozone-depleting substances and the global increase in terrestrial and marine protected areas), concerns about environmental damage and ecological imbalances remained pressing (pp. xv-xvi).

Low-emissions, high-growth economic pathways are necessary for sustainable development

The analysis in the 2014/2015 *Survey* consistently argued that switching to low-emissions, high-growth pathways in order to meet the development and climate challenge is necessary, since combating global warming requires eventual emissions reductions by developing countries too. Such a switch is feasible because technological solutions are available that can enable a shift in that direction. The concept of a green economy has emerged as a key underpinning of structural transformation; and progress has been made in understanding the possible pathways to achieving a more climate-friendly and efficient economy within the current global context and given different national conditions. The analysis noted the central role that would have to be played by Governments and the international community in both coordinating and financing these changes.

Recent progress could easily be reversed without concerted efforts by both the private and public sectors to continue to improve energy efficiency and promote renewable energy, supported through international cooperation on clean technology transfer and climate finance. Any backtracking in energy and environmental policy may endanger the environmental targets under the SDGs and the Paris Agreement on climate change.

Insecurity arising from economic shocks, conflicts and environmental shocks threaten to undo hard-won development gains in many countries

Combating economic insecurity caused by global crises, conflicts and environmental shocks is of paramount importance for preventing large reversals in the development gains of countries and for implementing a global development agenda. In the aftermath of the global financial crisis, it has become evident that policies devised to protect the most vulnerable from the effects of economic shocks are of continuing relevance. Three main reforms aimed at protecting the more vulnerable countries and populations from global economic shocks were identified:

(a) Building a renewed Bretton Woods framework, which would provide an international financial and monetary system ensuring the application of countercyclical measures and financial regulation, as well as a healthy balance between wages and productivity growth;

(b) Revisiting Marshall Plan principles as applicable to the creation of a more effective aid architecture;

(c) Designing a global new deal, encompassing, in particular, mechanisms to enable expansion and better management of markets and redistributive measures in the face of shocks.

Final considerations

Since 2007, it has been continuously demonstrated that global imbalances can, as in the past, destabilize even the largest economies despite the emergence of many agreements and institutions designed to manage the global economic and financial system. The global financial crisis reinforced the lesson that liberalized financial markets are not self-regulating and that globalized economic and financial systems create vulnerabilities for national and global economies. The premature return to tighter fiscal policies highlighted the limits of excessive dependence on monetary policy for stimulus; and the debt difficulties in Europe once again demonstrated that internal fiscal imbalances will lead to external crises having significant economic and social consequences.

The last ten years also offer a reminder that the causes of national and global crises are not new. As illustrated in previous chapters, instability of global capital and trade flows has, in many cases, led to economic and social difficulties, ranging from the collapse of the Bretton Woods system and the Latin American debt crisis of the 1980s to the most recent challenges. Global institutions can build on the collective global knowledge of this history and on the shared experience of recovering from turbulent times. Through this process, global institutions can find ways to be more effective in fulfilling their mission to ensure a stable global financial system, to mobilize financing for development, and to ensure a fair multilateral trading regime which allows countries space for building domestic production capacity and pursuing sustainable development goals.

A review of the critical reflections to be found in various publications of the Department of Economic and Social Affairs issued during the 2007-2016 period have yielded a variety of insights applicable to determining what is needed to achieve the goals under the 2030 Agenda within a context of slower global growth and narrow policy space. Lying at the core of those insights is a recognition of the need to prevent another unsustainable build-up of the global imbalances that inevitably leads to crisis. For emerging market economies, the accumulation of adequate—but not excessive—foreign reserves and increasingly overvalued flexible exchange rates require macroprudential measures carefully designed to prevent domestic instability. Financial reforms must be enacted to contain systemic risks and to counter an excessively rigid emphasis on limiting risk at the expense of financing development initiatives. For developing countries, volatility in capital flows justifies capital account regulations as a means of empowering monetary policies and improving private sector external debt profiles.

The above-mentioned suggestions are not new. Indeed, they were applied in several advanced economies in the 1960s and 1970s. However, their loss of importance in subsequent decades enabled the build-up of instability in the 2000s which culminated in the global financial crisis. The destructive potential of crises and instability that are exported across borders, particularly to small open economies and those exposed to global commodity markets, justifies recalling forgotten lessons, fostering innovative thinking and taking bold action to break the cycle of imbalances and turbulence.

There is a need for more effective macroeconomic mechanisms, geared towards such goals as balancing fiscal and monetary policy, providing appropriate support to both the financial and the non-financial sectors of affected economies, preventing premature removal of support, ensuring robust social safety nets and longer-term adjustment programmes for affected populations, also ensuring that developing countries are better represented and providing sufficient development assistance. In this regard, an open multilateral trading system is fundamental for continued growth and development. At the same time, it is critical to ensure that such a system results in positive development outcomes; and this requires policies designed to help those who are being left behind and those who are vulnerable to economic disruption, climate shocks or conflict. It is also critical that inequality be tackled head on, particularly within the context of globalization and technological progress, which are transforming the very essence of labour demand.