



THE  
**GROWTH**  
DIALOGUE

A voice fostering economic growth

# Global Challenges, Global Solutions: The Big Picture

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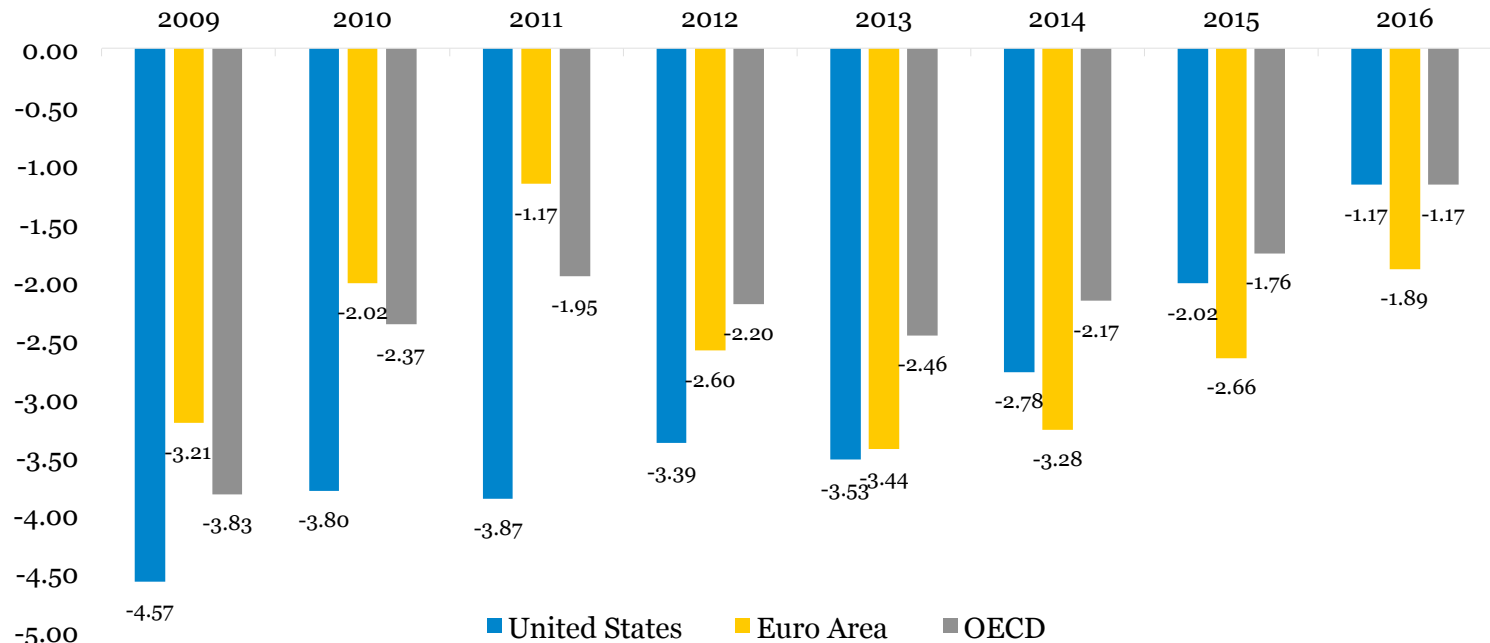


# The Global Economy Hangs in Delicate Balance: FT's Report from Davos 2016

- Rogoff: Anyone telling the “This Time is Different story” for China has their head in the sand
- Spence: It is a fragile and deteriorating situation globally with little in the way of counter-measures
- Shiller: There is a substantial risk of further such drops (in financial markets).
- Phelps: Fears that new technologies may further upset advanced economies...are a cause for worry



# Output Gaps Persist: A Drag on Economic Growth in the OECD

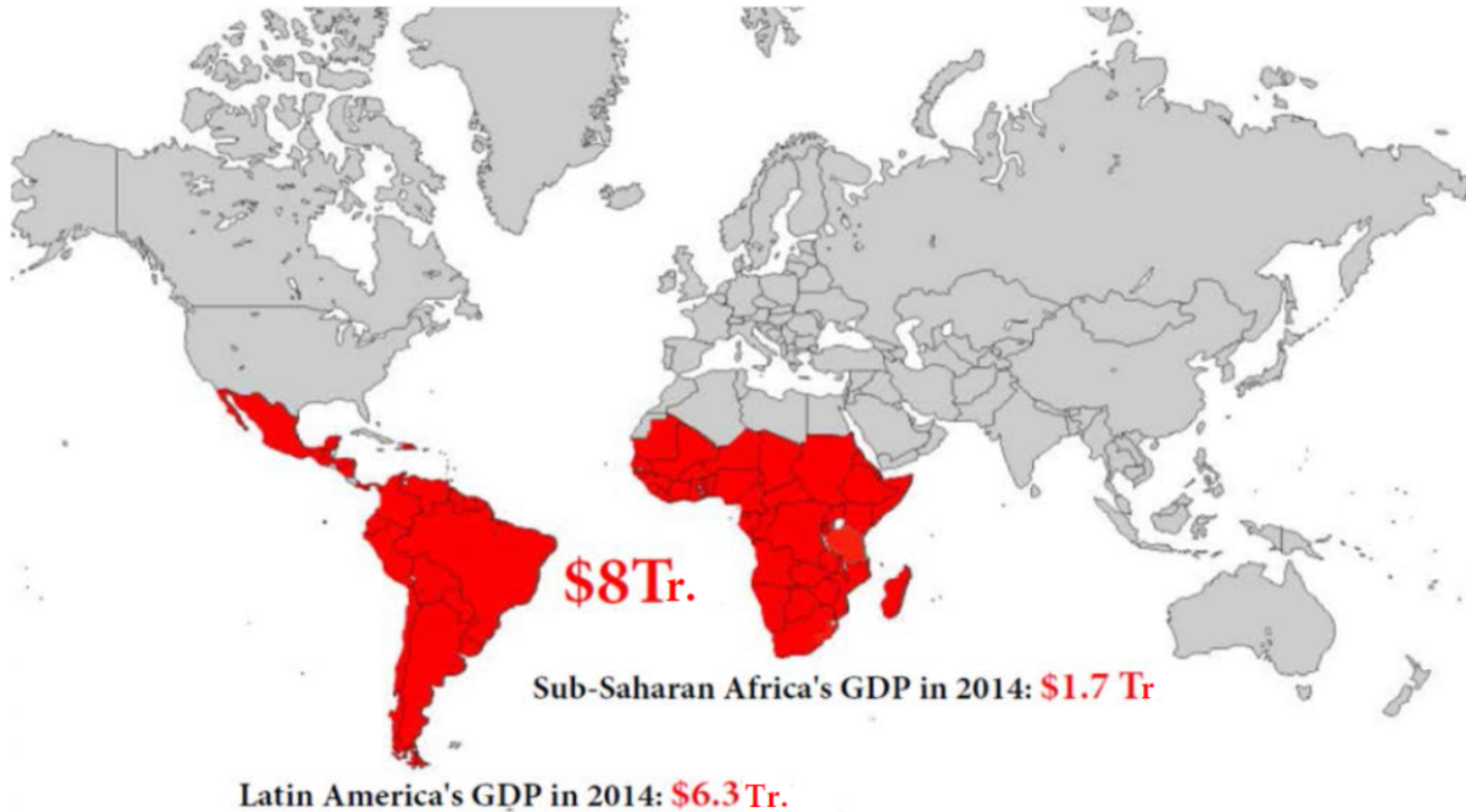


Source: OECD



# Lost Output in Perspective

Loss to world GDP from aggregate OECD output gaps (2009-2016): **\$ 7.9 Tr.**



Sources: Based on OECD and World Bank data



# Developing Countries' Output Gap

## Output gaps in developing countries

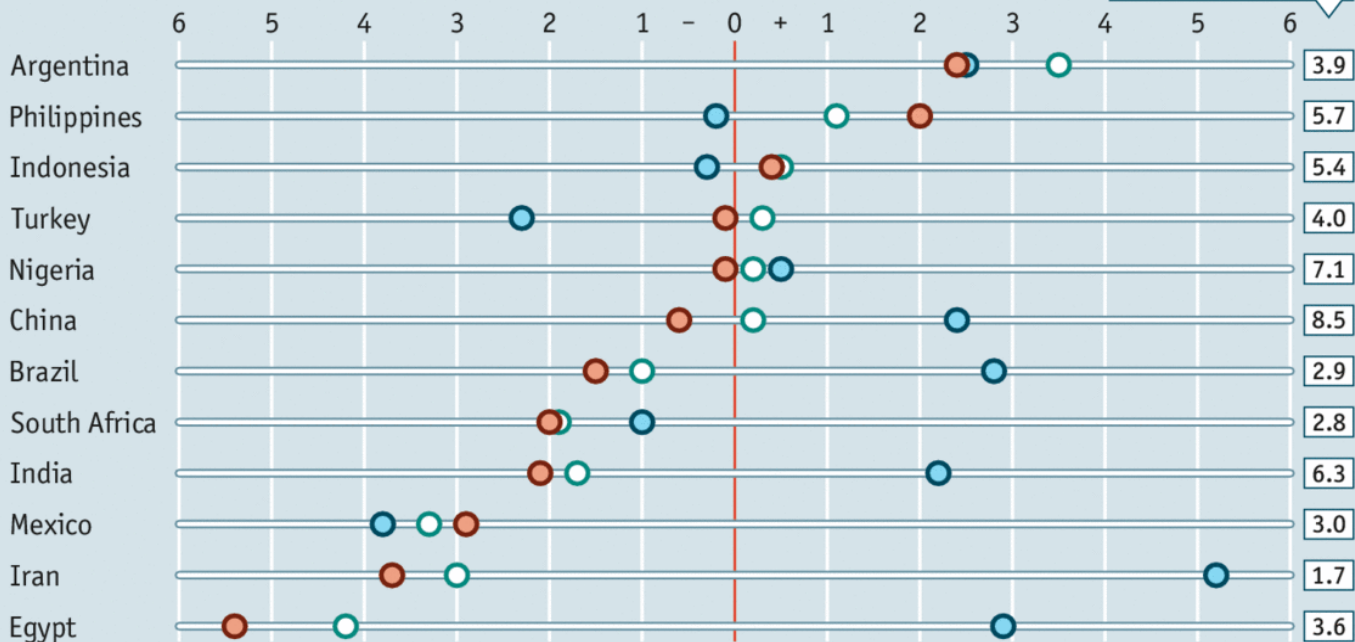
Difference between actual and potential GDP, as % of potential GDP

● 2010

○ 2013\*

● 2014†

Potential GDP growth rate, 2014, %



Source: World Bank

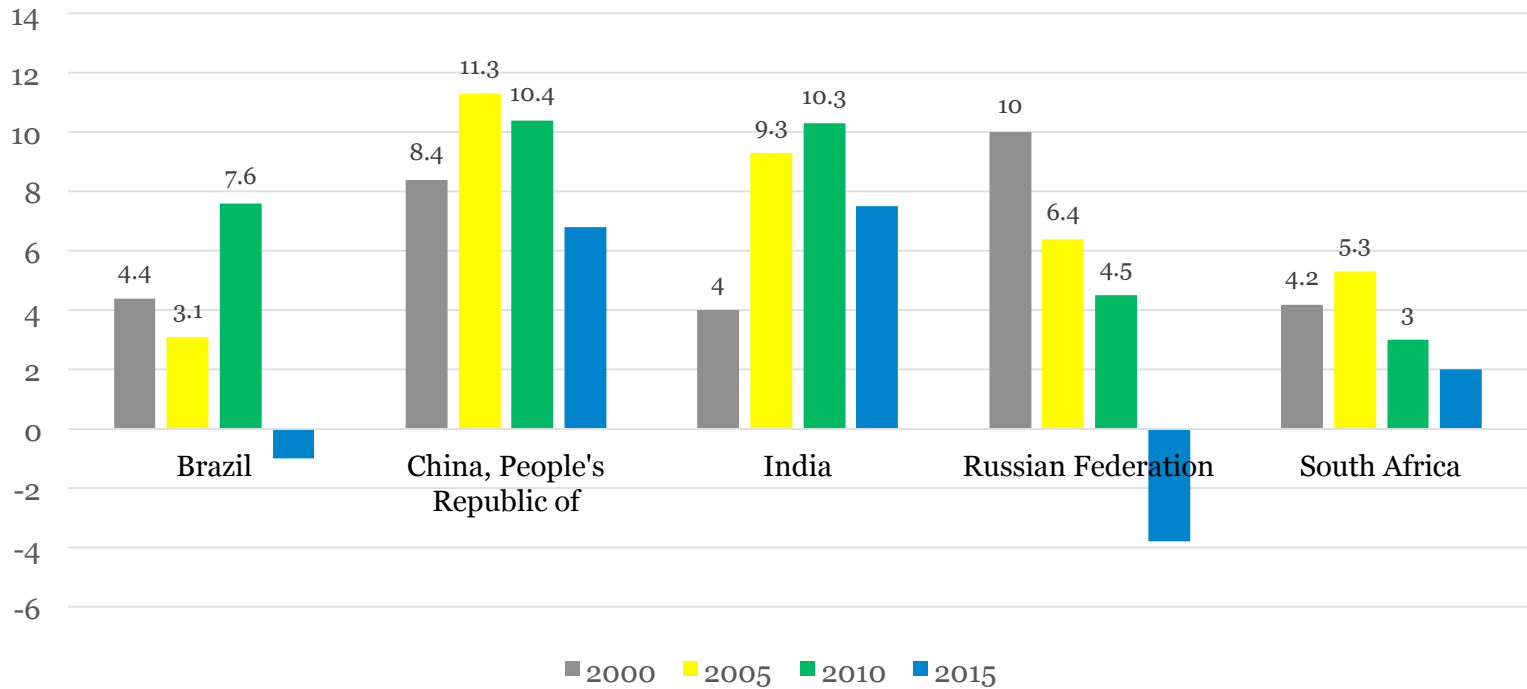
\*Estimate †Forecast

Source: The Economist



# Most BRICS are in Trouble

## BRICS: Real GDP Growth

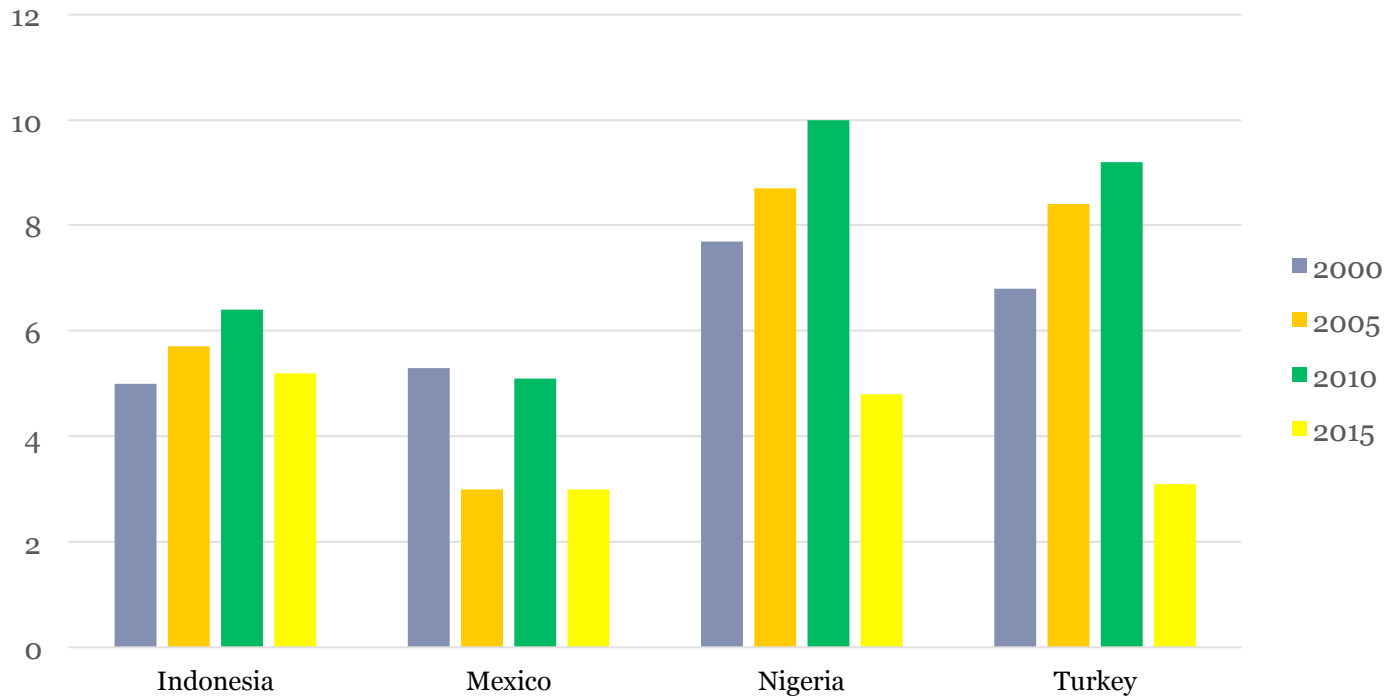


Source: IMF



# Expect Modest Help Elsewhere

## MINT: Real GDP Growth

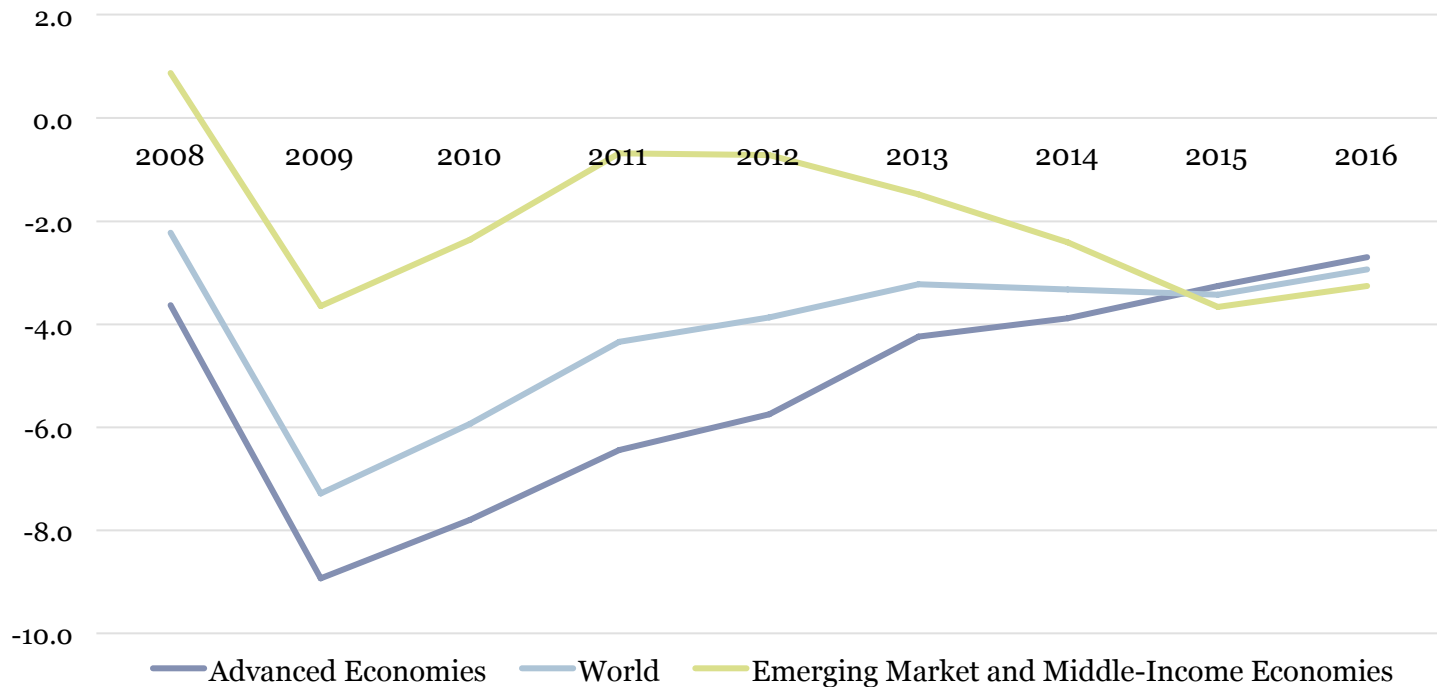


Source: IMF



# Global Stimulus Lacking Punch

## Fiscal Balance (% of GDP)



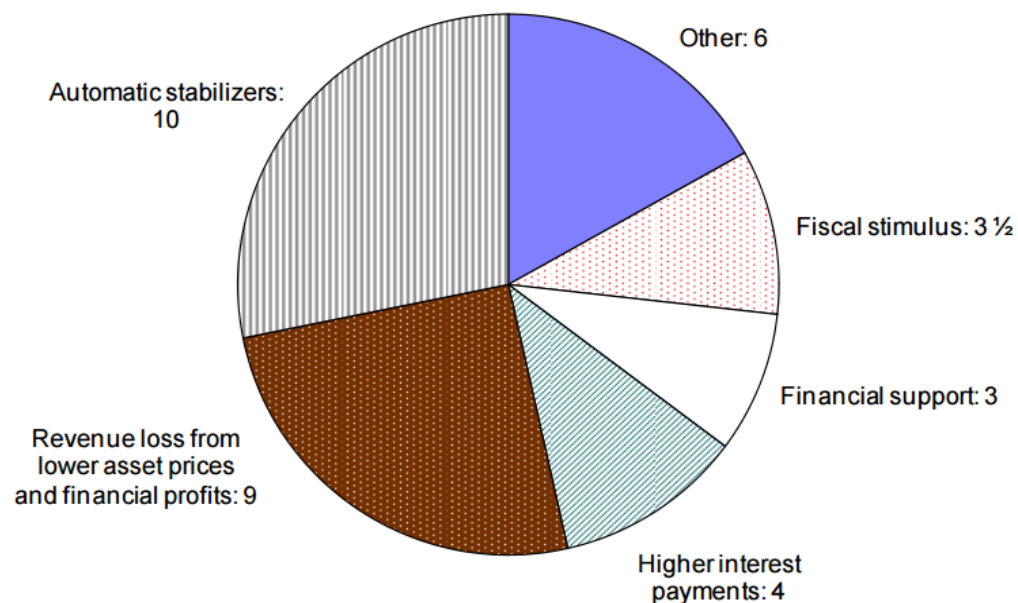
Source: Fiscal Monitor 2015





## Fiscal Deterioration is More Cyclical than Counter-cyclical

Figure 3. Sources of Increase in Government Debts between 2007 and 2014,  
Advanced Economies  
(in percentage points of GDP)

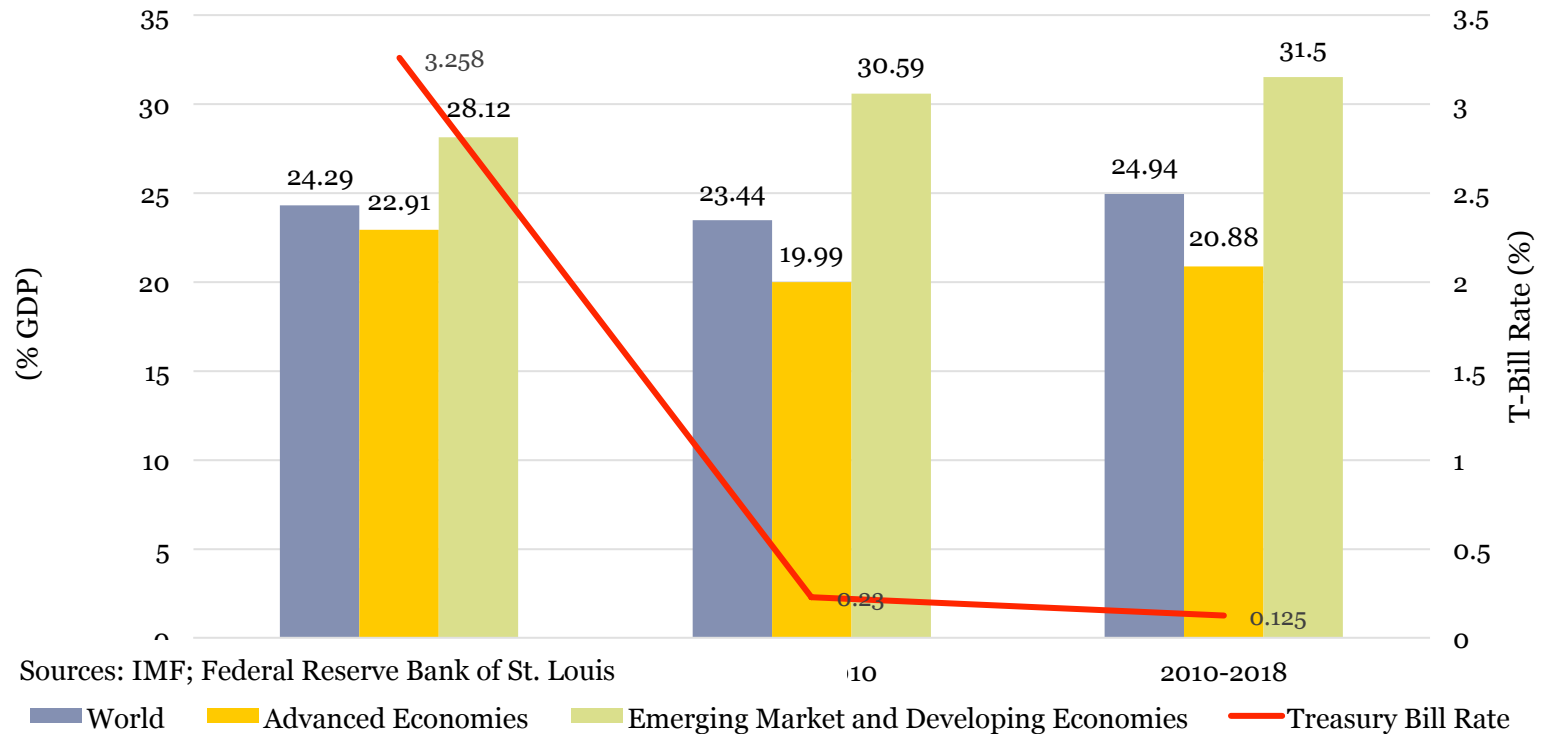


Sources and note: IMF, World Economic Outlook projections and staff estimates. The overall increase in the general government debt/GDP ratio for advanced economies amounts to about 35 percentage points on average (weighted by GDP at PPP) between end-2007 and end-2014.



# Investment is weak despite historically low interest rates

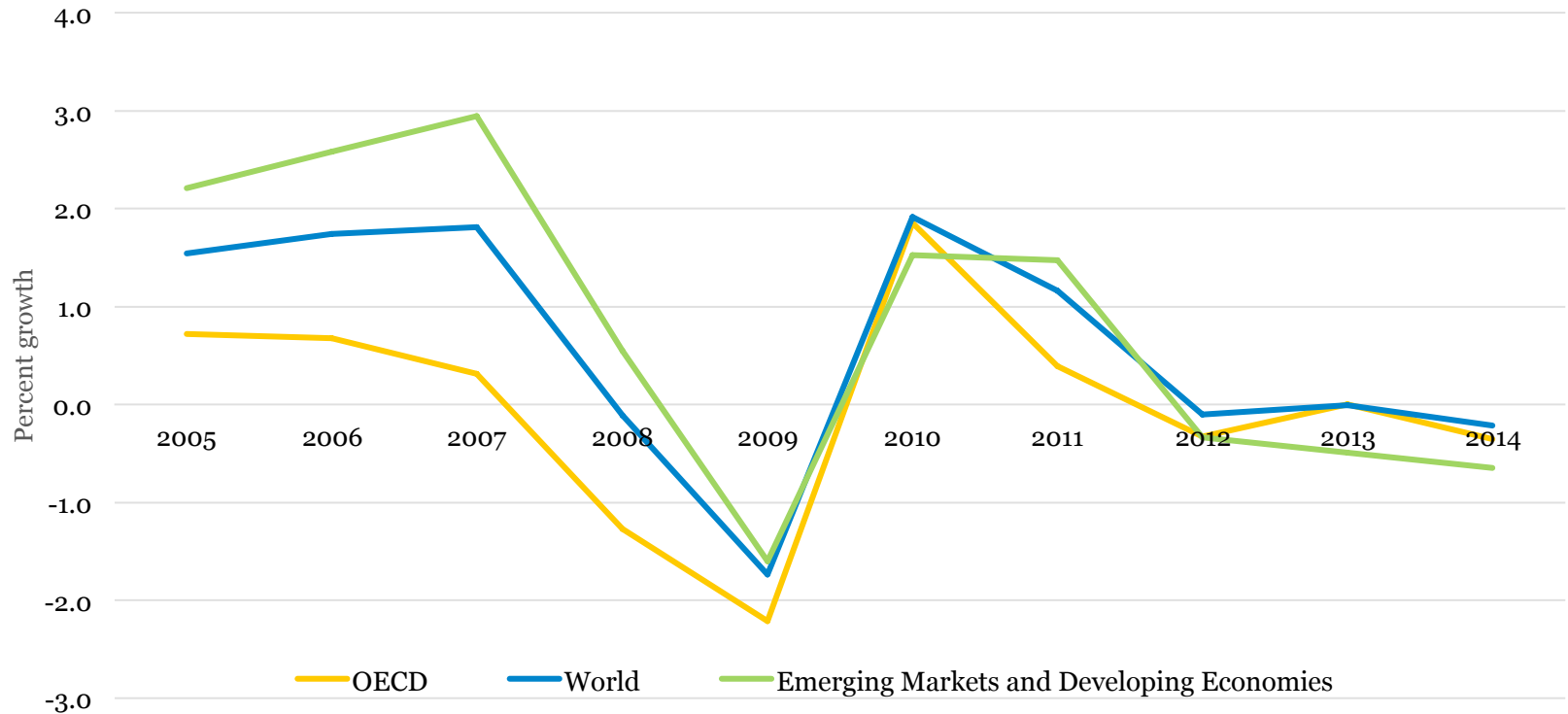
## Investment (% of GDP)





# Global TFP is Disappointing

## TOTAL FACTOR PRODUCTIVITY GROWTH



Source: The Conference Board

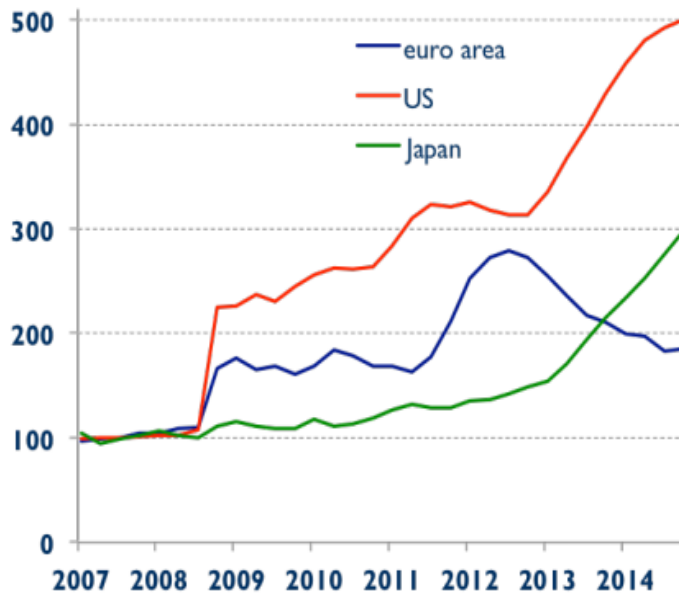
**Definition:** Total Factor Productivity (TFP) is the portion of output not explained by factor inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are utilized in production.



# Monetary Easing Hits Its Limit

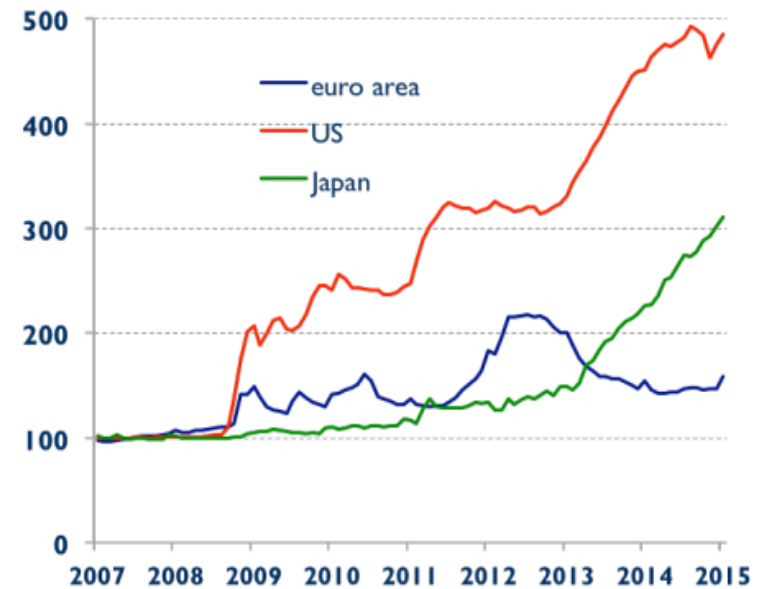
## Central banks' balance sheets

(index 2007=100; quarterly data)



## Monetary base

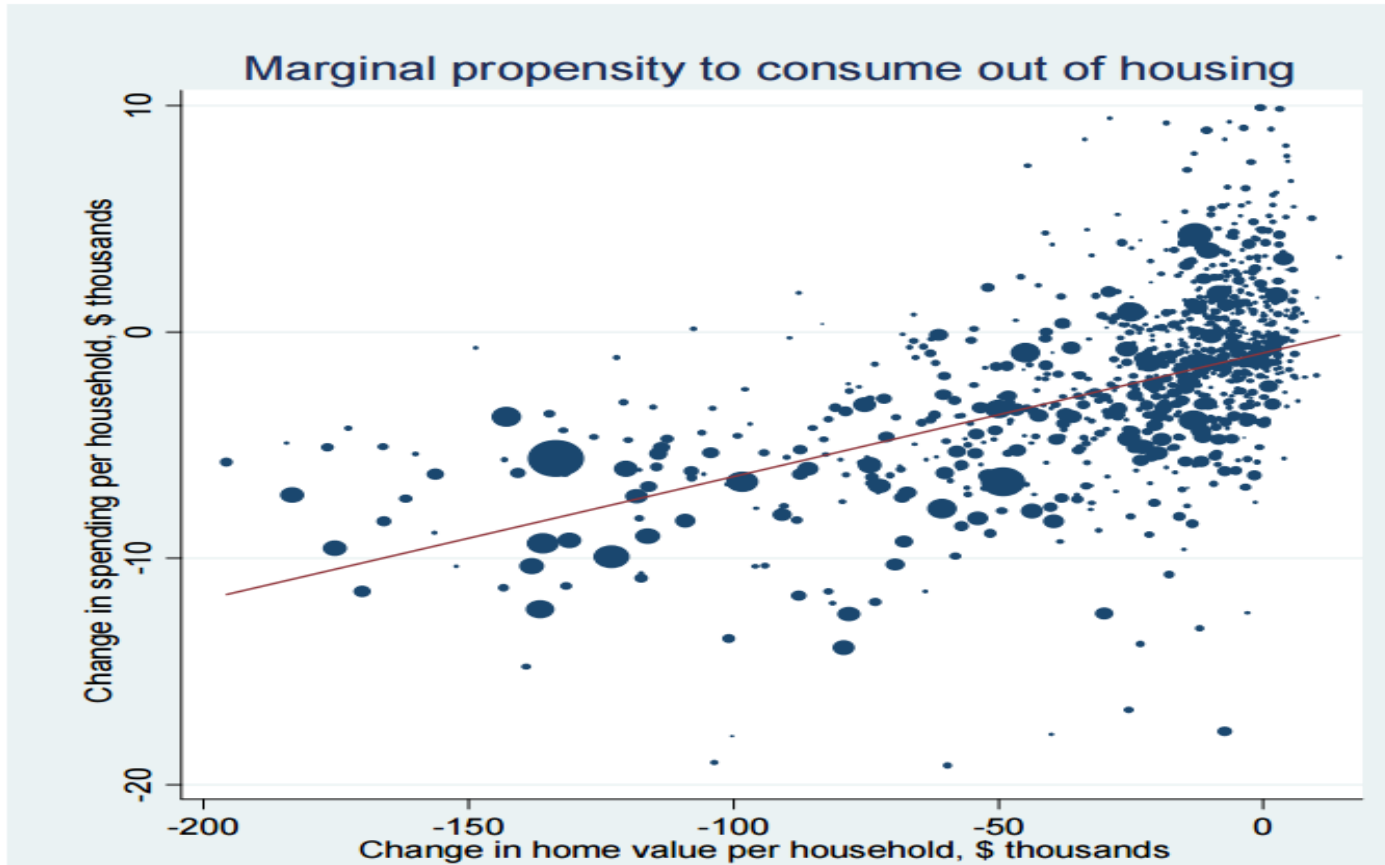
(index 2007=100; monthly data)



Sources: ECB, Federal Reserve Board, Bank of Japan and ECB staff calculations.



# Asset Prices, Confidence and Spending: A Downward Spiral



Source: Sufi, Mian and Rao (2013), "Household Balance Sheets, Consumption, and the Economic Slump"

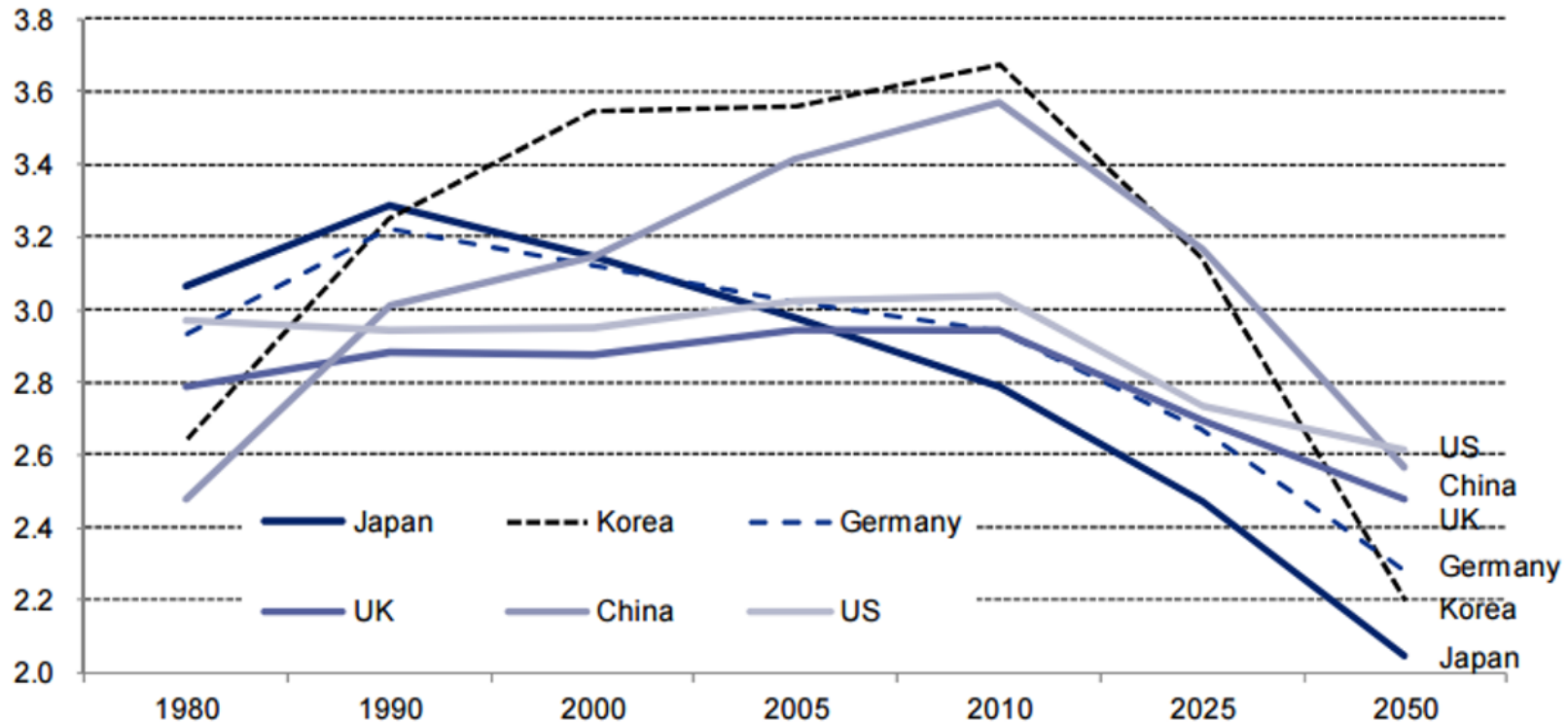


## Taking Stock of the Growth Story

- Capital stock isn't growing amid concerns over low growth and disruptive technologies
- TFP has been near zero since 2012
- Labor markets troubled with low employment elasticities and job displacement
- Brynolfsson: Moving to a world with more wealth and vastly less work (Davos, 2016)
- Dependency ratios are rising in many



## Dependency Ratio is Falling in All Major Economies



Source: UN (2007) World Population Prospects.



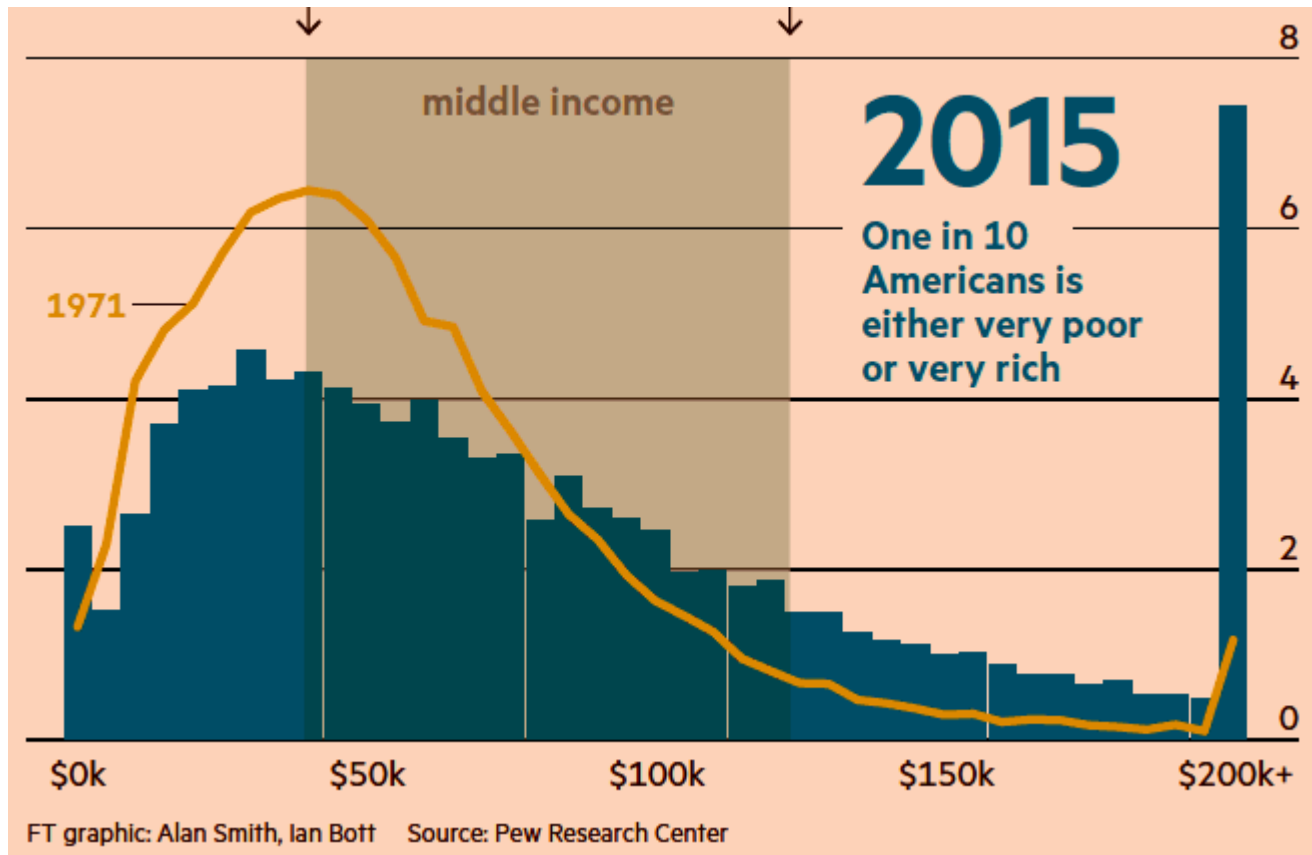
# Inequality is Rising

- Pew Survey data shows middle class shrinking from 61% to 50% of the US population since the 1960s
- Beijing struggles to meet the needs of its middle class despite the necessity of shifting to domestic demand for new sources of growth
- New technologies promise to worsen income distributions as jobs at risk and real wages are falling
- High risk of setbacks for the new middle-class in Latin America in particular and for more urban poverty in Sub-Saharan Africa





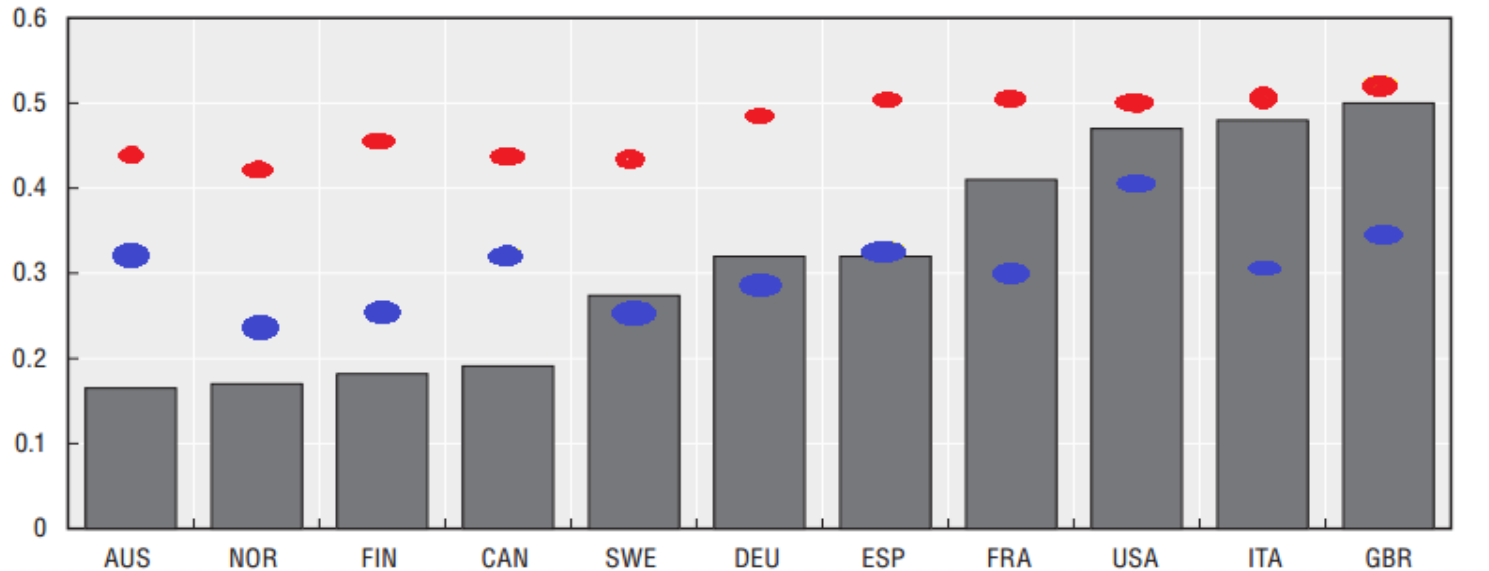
# The declining Middle Class in the US





# Opportunities Today and Tomorrow

Intergenerational earnings elasticity and GINI, Selected OECD Countries



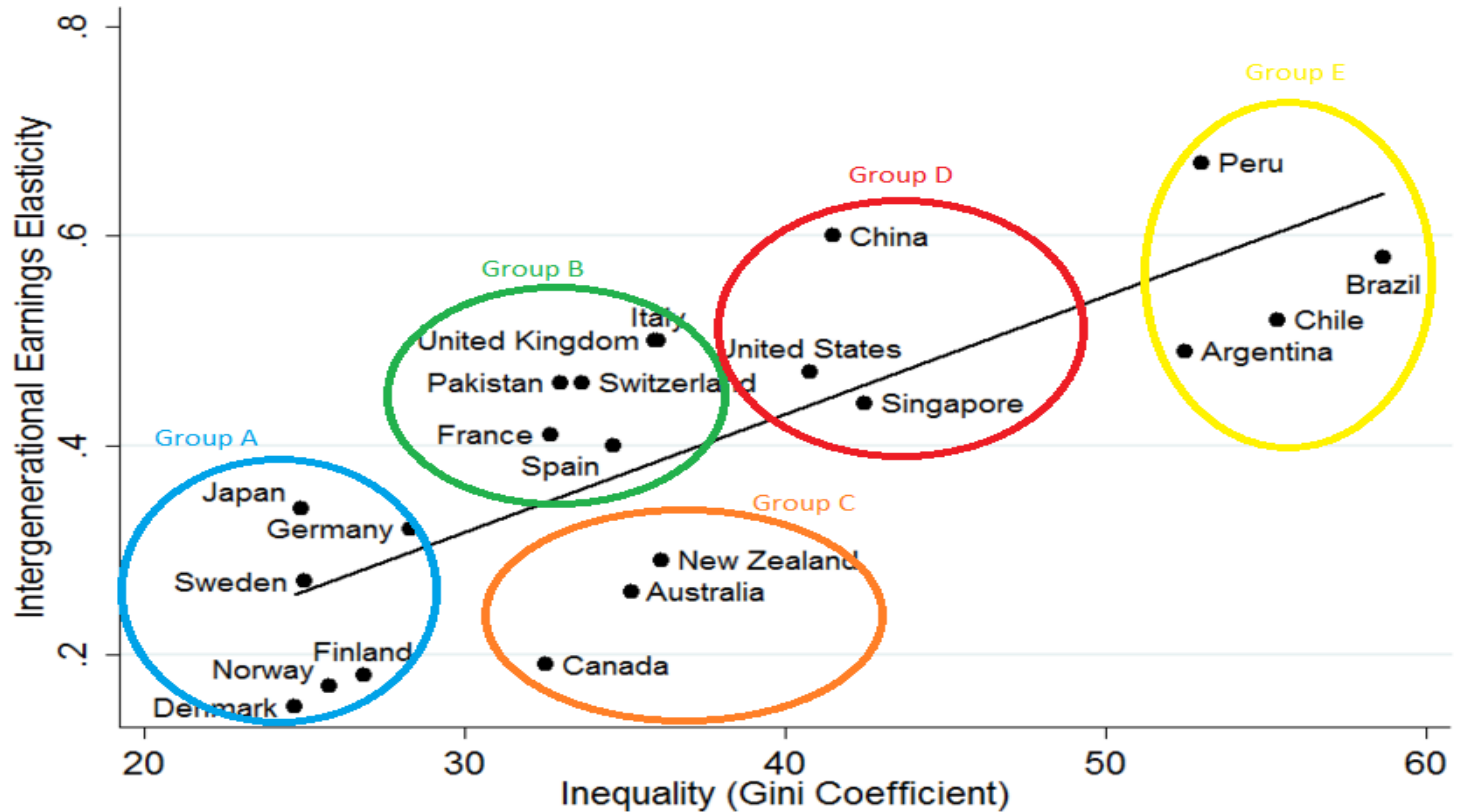
The height of each bar measures the extent to which individual earnings reflect parental earnings. The estimates are the best point estimate of the intergenerational earnings elasticity resulting from an extensive meta-analysis carried out by Corak (2006) and supplemented with additional countries from d'Addio (2007)

● GINI before taxes and transfers  
● GINI after taxes and transfers

Source: OECD; Pew Research Center



## The Great Gatsby Curve



Source: Corak (2012)



## The Great Gatsby Curve

Group A	Japan, Germany, Sweden, Finland, Norway and Denmark	Shared prosperity and shared opportunity
Group B	UK, Italy, France, Spain and Switzerland	Moderately unequal prosperity and uneven opportunity
Group C	New Zealand, Australia and Canada	Moderately unequal prosperity but shared opportunity
Group D	United States, China and Singapore	Uneven prosperity and moderately uneven opportunity
Group E	Argentina, Chile Brazil and Peru	Highly uneven prosperity and mixed opportunity



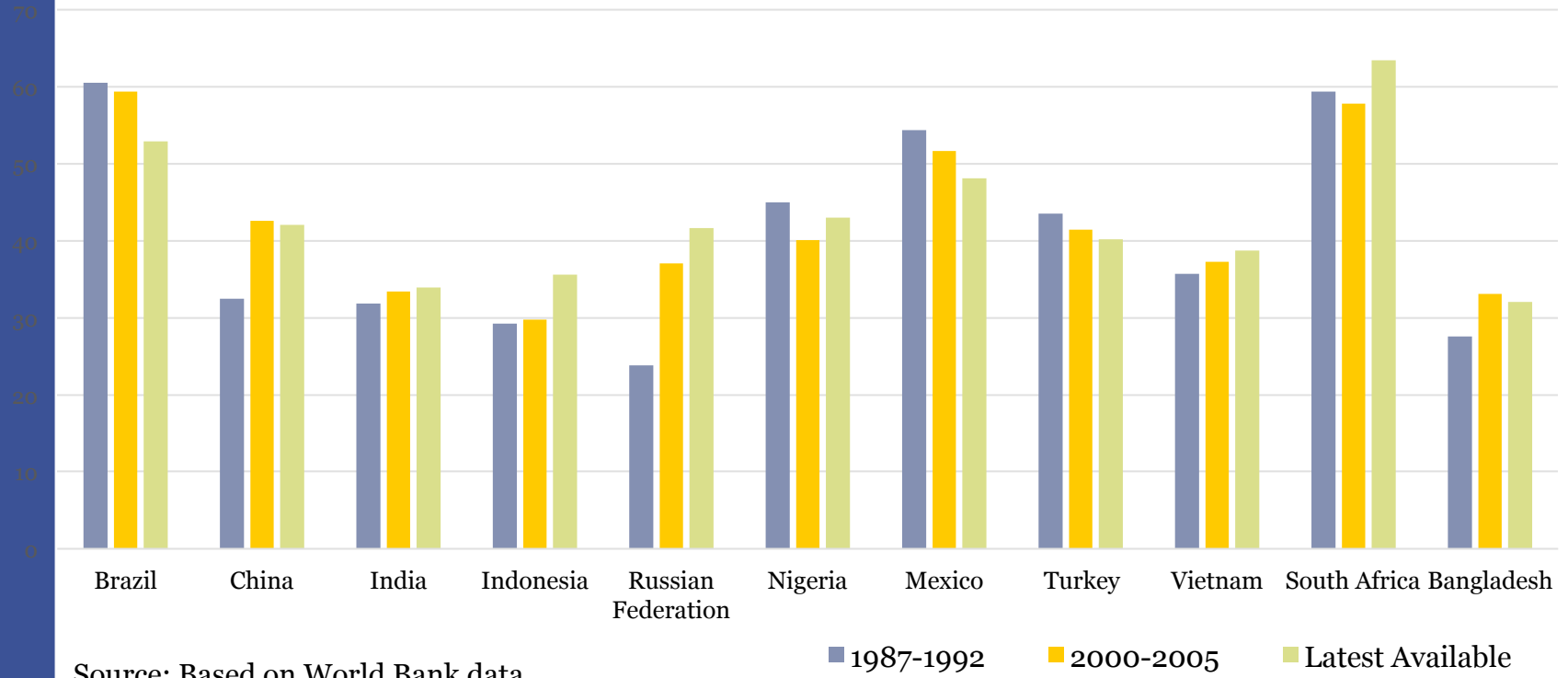
# Implications for Inclusive Growth Strategies in Developing Countries

- Global growth drivers are weak, yet few have fiscal space and many have over-borrowed
- Carmen Reinhart's view that a new wave of financial crises is looming
- New growth strategies will be more locally driven, but whose price signals to follow?
- Inefficiencies of logistics and lack of energy can no longer be tolerated; challenge is how to recycle financial surpluses and liquidity
- There is a mismatch between public expectations and what governments can deliver > political unrest



# Inequality on the rise in many emerging market economies

## Trends in Gini Coefficients

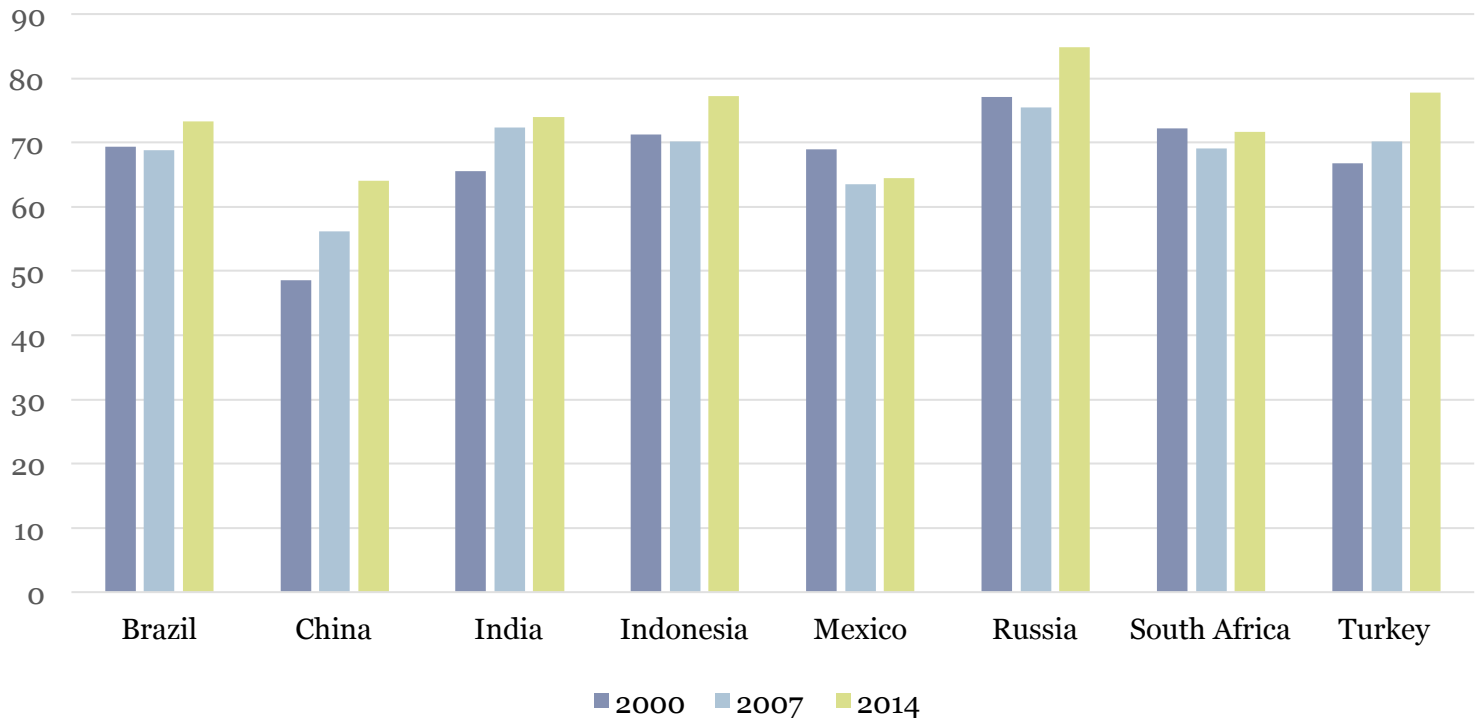


Source: Based on World Bank data



## Wealth Inequality in Emerging Market Economies will Create New Challenges

### Wealth Share of Top Decile (2000-2014) (%)



Source: Credit Suisse Global Wealth Report (2015)



# Five Major Challenges for EMDEs

- Managing instability of capital flows, exchange rates > look at resiliency (Rojas-Suarez)
- Wringing inefficiencies out of the system—logistics, wasted subsidies, corruption
- Shifting resources to higher productivity sectors, diversifying exports, breaking bottlenecks, and becoming more competitive
- Reducing mandated government spending to favor higher investment levels and higher productivity
- Preserving income gains of the working poor—investing in affordable transport, cleaner energy





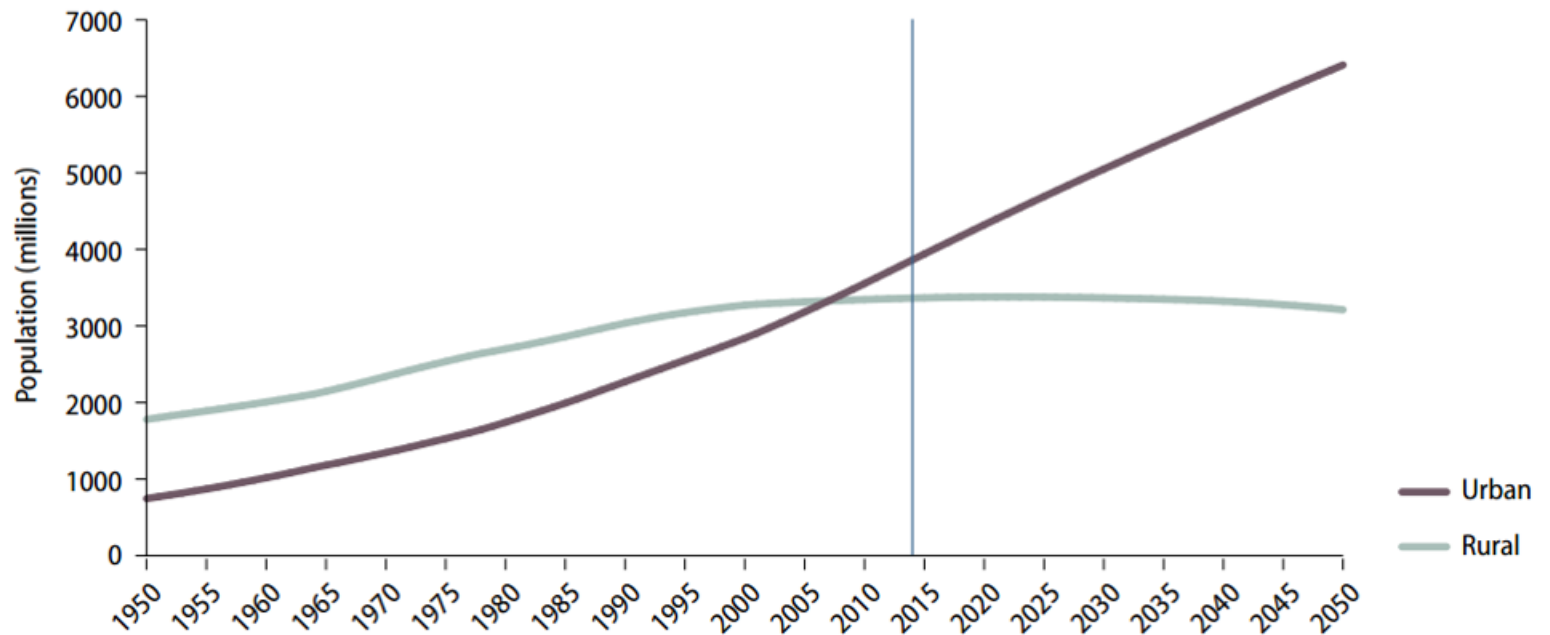
# The Overarching Urban Challenge

- People continue moving towards cities
- We cannot solve development challenges facing Africa and South Asia w/o effective urban strategies linked to national strategies
- We cannot effectively deal with climate change w/o dealing with carbon emission in cities
- The urbanization trends continues unabated with Africa now posing the largest challenge as populations become urbanized but do not escape poverty > what alternatives are there to new slums?



# GENERAL URBANIZATION TRENDS

Urban and rural population of the world, 1950–2050

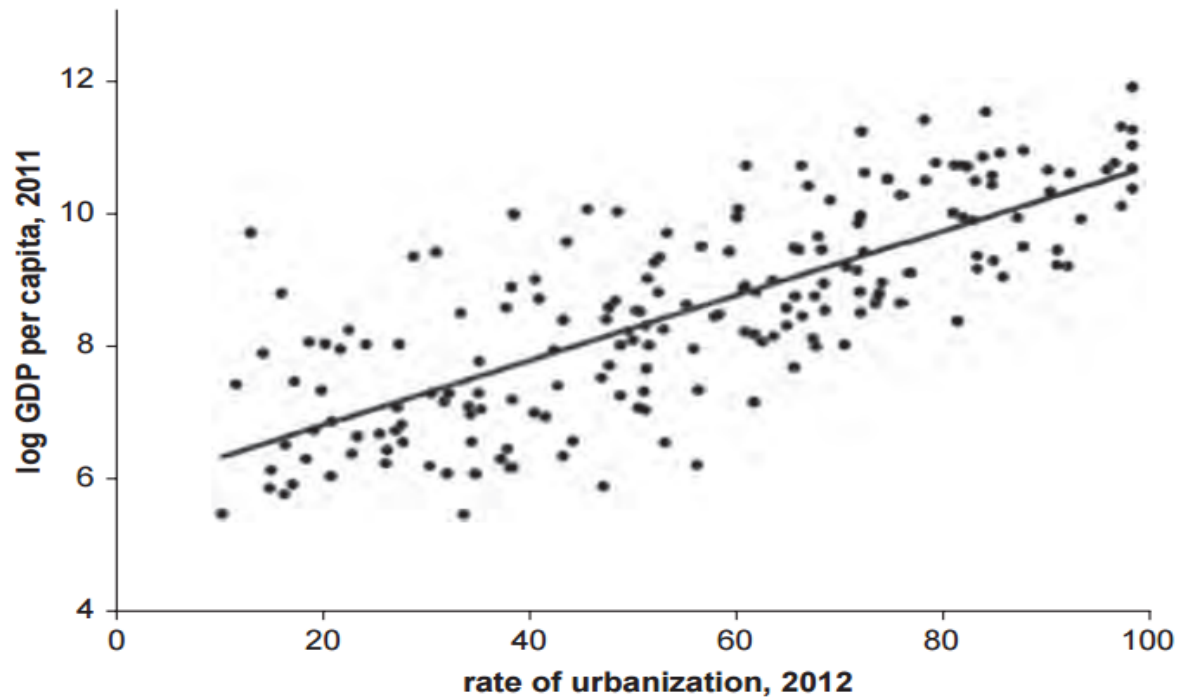


Source: United Nations Population Division



# We are clear on two-way causation

**Figure 1.1: Urbanization and GDP per Capita**



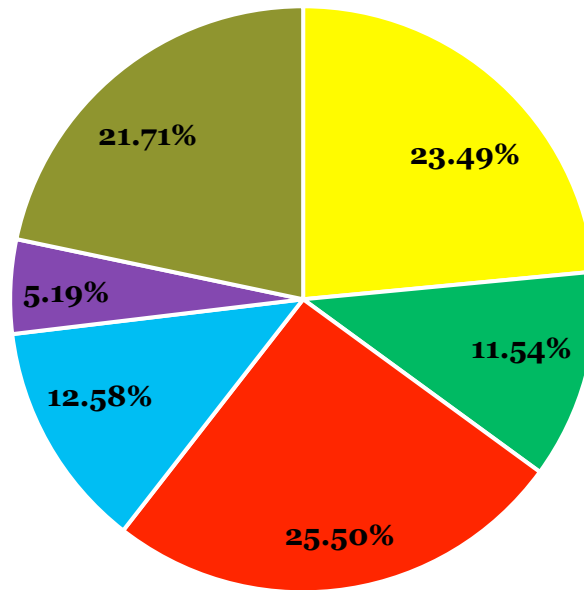
*Source:* World Bank. 189 countries. The horizontal axis urbanization rate is the percentage share of population living in cities in 2012. The vertical axis represents the natural log of GDP per capita in 2011 U.S. dollar.



# Future Urban Growth Pattern: Most Increases are not in Megacities

**Contribution to Urban Population Growth by City Size,  
2015-2030 (Thousands)**

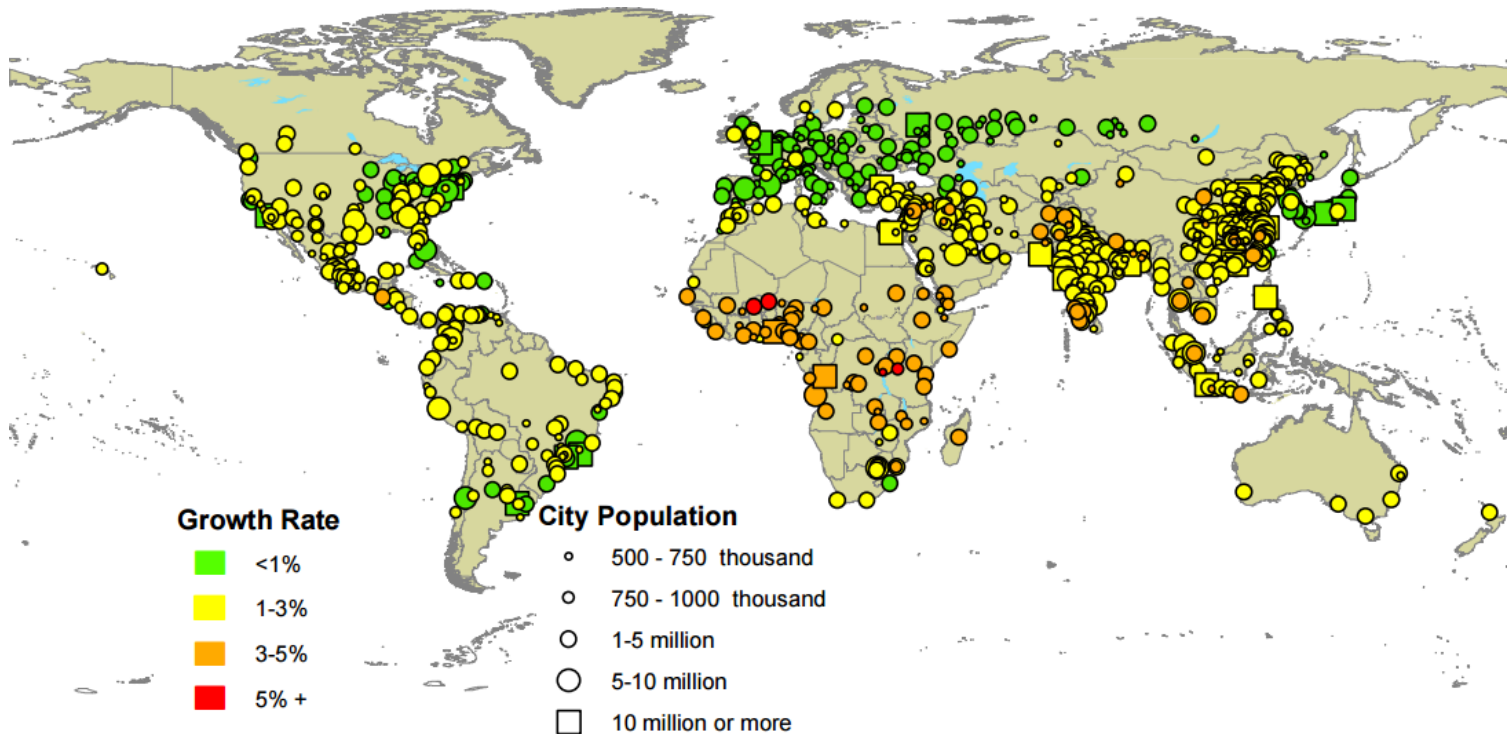
**1.1 Billion**



- 10 million or more
- 5 to 10 million
- 1 to 5 million
- 500 000 to 1 million
- 300 000 to 500 000
- Fewer than 300 000



## Growth rates of urban agglomerations by city size class (2014-2030)



**Note:** Designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Source: United Nations Population Division



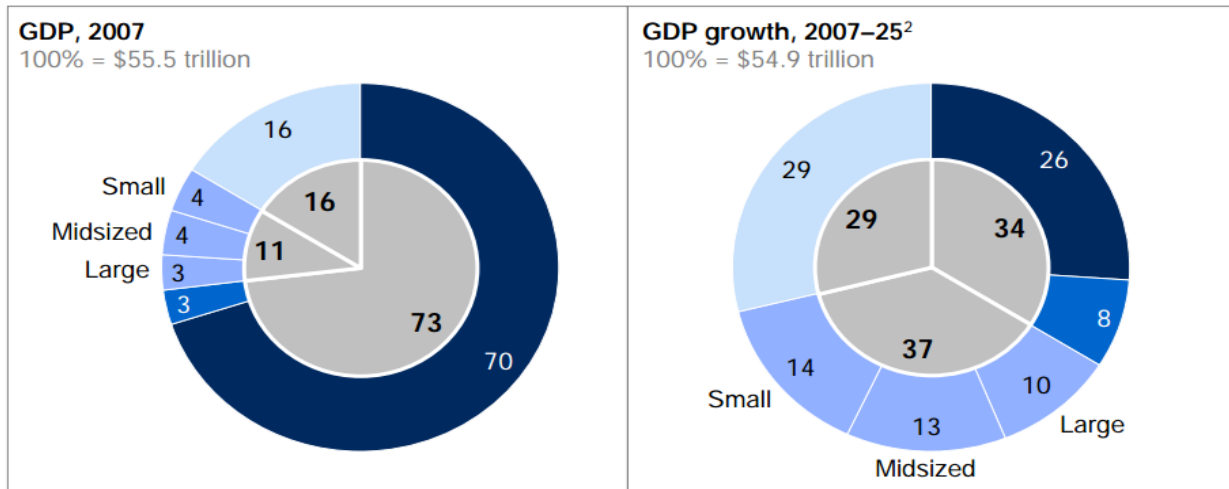
# Intermediate Size Cities are Key

## Exhibit E2

**Middleweight cities in emerging markets are poised to deliver nearly 40 percent of global growth by 2025, more than the entire developed world and emerging market megacities combined<sup>1</sup>**

Contribution to GDP and GDP growth by type of city %

- Developed economies
- Emerging market megacities
- Emerging market middleweight cities
- Emerging market small cities and rural areas



<sup>1</sup> Megacities are defined as metropolitan areas with ten million or more inhabitants. Middleweights are cities with populations of between 150,000 and ten million inhabitants.

<sup>2</sup> Real exchange rate (RER) for 2007 is the market exchange rate. RER for 2025 was predicted from differences in the per capita GDP growth rates of countries relative to the United States.

SOURCE: McKinsey Global Institute Cityscope 1.0

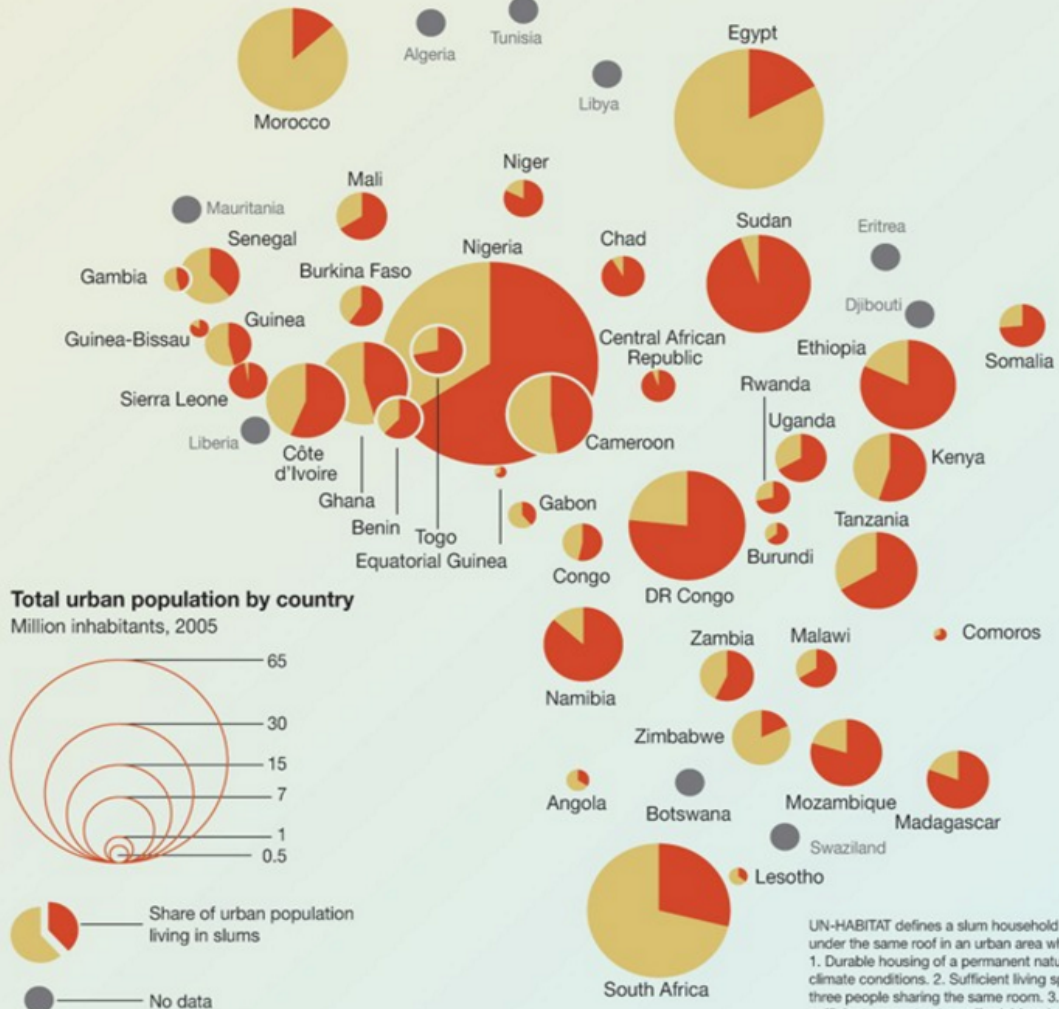


## Do We Have Strategies and Financing for Secondary Cities?

- Zipf's Law seems to work for mega-cities
- Inadequate infrastructure investment in intermediate-size cities puts pressure on primate cities: look at electrification rates in Tanzania
- Connectivity lapses in Sub-Saharan Africa stymie regional development
- Given Rodrik's findings on manufactures, where does SSA find competitive advantage?
- Preventing sprawl requires either greater densities or investment in secondary cities



## Slum population in urban Africa



UN-HABITAT defines a slum household as a group of individuals living under the same roof in an urban area who lacks one or more of the following:  
1. Durable housing of a permanent nature that protects against extreme climate conditions.  
2. Sufficient living spaces, which means not more than three people sharing the same room.  
3. Easy access to safe water in sufficient amounts at an affordable price.  
4. Access to adequate sanitation in the form of a private or public toilet shared by a reasonable number of people.  
5. Security of tenure that prevents forced evictions.

Source: UNDESA, *The World Urbanisation Prospects, The 2009 Revision*, 2010.





# Major Challenges Facing Us

- To redefine effective growth strategies
- To recognize the necessary role of public policy to deal with employment and inequality trends
- To link national development policies with smart city strategies beyond mega-cities
- To see urban approaches as central to the achievement of climate change objectives
- To see sustainable and shared growth as goals that can be met despite global challenges



# Let's Not Forget the Paris Goals



Source: CNN



## Questions for Discussion

- Does the new global reality imply that governments should seek new growth strategies?
- What are the most immediate dangers faced by policymakers related to prolonged economic slowdown?
- Are there policies that are both pro-growth and pro-equity and if so how does one get consensus built to finance and implement them?
- How do EMDEs effectively tap into liquidity pools to finance needed infrastructure?