Excellencies,

We are gathered here for this key session, on the heels of the G20 and IMF/World Bank meetings. There is consensus in those forums, and here in the United Nations, about emerging signs of recovery in advanced economies. Yet downside risks remain, compounded with fears of new threats. The most prominent comes from possible spill overs derived from the exit from unconventional monetary policies, which is in the order of trillions of dollars.

While recovery is emerging, by and large economies are growing at below pre-crisis trends and also below their potential. The world economy has been spurred by the collective monetary stimulus of advanced economies (be it thru asset purchase programs or near zero interest rate policies), moderation in fiscal adjustment, with some still expected to remain in tightening mode, and the efforts of few countries to enhance domestic demand. As advanced economies growth recovers, there has been a slowdown in emerging market economies and some developing countries. Their slowdown is of concern as during the downturn phase they have been the locomotive of global growth.

Global Link project forecasts growth to be 2.1 per cent for 2013 and 2.9 per cent for 2014. Underlying these aggregate numbers, developing countries, including emerging economies, would register a slowdown to 4.5% in 2013. The role of China factor is important, as its growth is expected to be slowing down from an average of 9.6 per cent in 2008-2011 to an average of 7.6 in 2012-2014 per cent, as it adopts an adjusted new growth path.

Emphasis has to turn to ensuring that policies adopted do not derail the fragile recovery and, instead, stimulate more robust, inclusive and sustainable economic growth. In this context, it is important for emerging markets to build defensive mechanisms to counter the threats of spillover effects, while addressing long term challenges. Considering their potential and opportunities, as well as demographic dynamics, growing inter-linkages and hyper-connectedness, emerging markets and developing countries, need to address their long standing structural challenges. Of particular relevance are infrastructure constraints and human resource development; greater attention to these would help improve productivity and competitiveness, while attracting the desired foreign direct investment flows.

Going forward, we need a credible set of structural reforms to transform what is a cyclical recovery in advanced economies, and stimulate domestic demand in emerging markets. As the exit from the easy monetary policy stance emerges, careful fiscal management, combined with normalized private sector credit growth supported by structural reforms, will be critical to driving sustainable growth.

As we deal with the global outlook and prospects, we have to recognize that the crisis did leave some deep scars. Besides output and financial losses, there has been a major dislocation of jobs, calling now for the creation of almost 600 million new jobs. We need to find ways to ease the pain caused by social distress during the crisis. We talk about the gaps towards achieving the MDGs and lifting 1.2 billion out of extreme poverty as set by Goal 1,

---

1 This is the number of extreme poor nowadays. It is estimated that if we continue as business as usual there will be 970 million people in extreme poverty by 2015.
but evidence has yet to emerge about how these poverty numbers could be affected by the growing vulnerabilities that the crisis brought. In parallel there are growing concerns about the consequences of inequalities on growth, as those will linger for some time and threaten the sustainability of growth and development.

******

The sustainability of growth will depend on how we address inequalities. There is much debate regarding the relationship between income inequality and growth. There are a number of economies where growth is associated with reduced inequality, while there are many others where growth had the opposite effect on income distribution. For example, China and Brazil registered high growth rates during 1995-2005 but had very different outcomes on inequality. In China, the Gini coefficient increased from about 0.35 to 0.42 while it declined from 0.6 to 0.57 in Brazil during the same period.

It is important to note that both global inequality and inequality within countries have been on the rise during the past two decades\(^2\). In a number of countries, the distribution of assets, incomes and wages has become increasingly unequal. According to an estimate by UNICEF,\(^3\) the richest and poorest population quintiles earned 83 per cent and 1 per cent of global income, respectively.

Some Asian countries with historically low levels of inequality have experienced a rise in inequality levels (e.g. Bangladesh and Indonesia). Most OECD countries have also experienced a rise in the level of inequalities, while post-Soviet transition countries have seen a huge surge in inequality. However, a handful of countries historically characterised by high levels of inequality have been able to reduce inequalities in the past ten years. This includes countries in Latin America, including Brazil, Ecuador and Argentina, and a smaller number in Sub-Saharan Africa (e.g. Cameroon and Mali). This suggests that domestic policies and institutions can play a crucial role in determining the patterns and trends in inequality. I will turn to this point later.

Importantly, key evidence shows that income inequality hurts economic growth. A simple analysis\(^4\) of the correlation between the Gini coefficient and the length of growth spells shows that “more inequality seems associated with less sustained growth”. Further research\(^5\) shows that “…a 10 percentile decrease in inequality (represented by a change in the Gini coefficient from 40 to 37) increases the expected length of a growth spell by 50 percent.” Additionally, the same study points out that “closing, say, half the inequality gap between Latin America and emerging Asia would more than double the expected duration of a growth spell in Latin America.”

In developing countries, concentration of assets has been found to inhibit productive investment and restrict growth potential and thereby hinder the development process. Growing levels of inequality, not just in income, but also in access and opportunities – leading to inadequate education, health care and social protection – can create volatility,

---

\(^2\) See, for example, Milanovic (2006) that defines global inequality as a measure of population-weighted inter-country inequality (also referred as international inequality) and inequality due to income differences within countries.

\(^3\) UNICEF's April 2011 Policy Paper, ‘Global Inequality: Beyond the Bottom Billion”, which reviewed the income distribution in 141 countries,


trigger crises and diminish productivity. In both developed and developing economies, rising inequalities have been associated with excessively debt-financed consumption and investment patterns that have then contributed to financial and economic crises.

Furthermore, the standard Kuznets-Curve analysis that assumes rising inequality as a price that has to be paid for development at lower levels of per capita income does not hold ground in recent empirical studies. Off course a certain degree of inequality may incentivize investment and growth, but it is clear that high inequalities for prolonged periods eventually make it difficult to sustain growth. Nor is it the case that inequalities systematically decline and remain low in developed countries: the increase in economic inequality observed across most of the developed world suggests that domestic policies and institutions play a key role in determining distribution.

********

Policy matters. Structural changes to support an enabling environment can reduce inequality if appropriate employment, corporate governance, competition policies, and wage, and income distribution policies are in place. For example, the impacts of globalization and technological change on domestic income distribution are not uniform. Rather, they crucially depend on how macroeconomic, financial and labour market policies interact with the forces of globalization and technological development.

What has worked in different countries can help in devising policies to reverse rising trends in inequalities, and ensure substantial poverty reduction without relying only on “trickle down” effects. In Latin America for example, targeted tax and redistribution policies have proven very effective, especially when they provide incentives to improve human capital through education and health.

A broad approach to poverty reduction and addressing inequality requires incorporating social, economic and political dimensions, integrating improvements in health, education, economic development, and governance structures. In particular, in our globalized and high-tech world, education at all levels, from pre-school to tertiary education, and job training and retraining, along with effective health care, are crucial to increasing equality of opportunities, both in developed and in developing countries.

Financial sector policies are also important tools for decreasing inequality. Financial inclusion, for example, has been shown to provide positive effects on poverty eradication. In addition, greater access to credit for SMEs could have a significant impact on reducing inequality. Policies that tax ‘rent seeking’ activities based on intermediating, instead of producing, could also be effective. Taxes and policies to curb short term oriented profits and bonuses could serve the double function of reducing oversized profits while also changing incentives in the financial sector towards a longer-term decision frame and orientation.

Finally, it is important to bear in mind that, even if it has decreased recently, income inequality across countries still accounts for about half of global inequality. That is, opportunities in life still depend largely on an individual’s country of residence. Thus, an international environment that enables poor countries to grow faster, in a stable way and without significantly increasing internal inequality, is important for reducing aggregate global inequality.

---

6 See for example, Stiglitz, “The Price of Inequality”

7 Global inequality combines inequality across and within countries.