

# Global Imbalances, Under-consumption and Over-borrowing: The State of the World Economy and Future Policies

Francis Cripps, Alex Izurieta, Ajit Singh

First published: 14 March 2011

<https://doi.org/10.1111/j.1467-7660.2011.01687.x>

Accessibility issue? [Request accessibility update.](#)



PDF

## ABSTRACT

This contribution addresses the question of whether growth convergence can be sustained in the global economy without compromising welfare and without causing major crises. It employs a simplified stock-flow analytical framework to examine the proposition that the pace and pattern of global growth is conditioned by 'under-consumption' in some regions of the world and 'over-borrowing' in other regions. A baseline projection using the Cambridge-Alphametrics model (CAM) illustrates consequences of resumed global imbalances after the 2008–2009 crisis. An alternative scenario exemplifies the case in which China and India shift towards internal income redistribution and domestic demand-orientated policies and suggests that this will not be sufficient to correct global imbalances or induce improved growth rates in other developing regions. Finally a more ambitious development perspective is simulated. Such a scenario requires internationally-coordinated policy efforts, with a greater role for governments in the management of demand, income distribution and environmental sustainability, as well as measures to reduce instability of exchange rate and commodity markets.

## REFERENCES

Akyuz, Y. (2008) 'Managing Financial Instability in Emerging Markets: A Keynesian Perspective. Turkish

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Akyuz, Y. (2010a) 'China Cannot Be a Global Locomotive but it Must Adjust. *IDN—In Depth News Viewpoint* 8 April. (<http://other-news.info/index.php?p=3349>; accessed 22 July 2010).

[Google Scholar](#) 

Akyuz, Y. (2010b) 'Export Dependence and Sustainability of Growth in China and the East Asian Production Network. South Centre Research Paper No. 27. Geneva : South Centre.

[Google Scholar](#) 

von Arnim, R. (2009) 'Recession and Rebalancing: How the Housing and Credit Crises will Impact US Real Activity', *Journal of Policy Modeling* 31(3): 309–24.

[Web of Science®](#)  | [Google Scholar](#) 

Baker, D. (2010) *False Profits. Recovering from the Bubble Economy*. Sausalito , CA : PoliPointPress.

[Google Scholar](#) 

Barbosa-Filho, N., C. Rada, L. Taylor and L. Zamparelli (2006) ' Fiscal, Foreign, and Private Net Borrowing: Widely Accepted Theories Don't Closely Fit the Facts', in *Proceedings of the 34th Brazilian Economics Meeting*. ANPEC — Associação Nacional dos Centros de Pósgraduação em Economia [Brazilian Association of Graduate Programs in Economics].

[Google Scholar](#) 

Blecker, R. (19982000) ' International Capital Mobility, Macroeconomic Imbalances, and the Risk of Global Contraction. CEPA Working Paper Series III No. 5. New York : Center for Economic Policy Analysis (amended November 2000).

[Google Scholar](#) 

Bryant, R., D.A. Currie, J.A. Frenkel, P.R. Masson and R. Portes (eds) (1989) *Macroeconomic Policies in an Interdependent World*. Washington , DC : International Monetary Fund.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

---

Cripps, F. and W. Godley (1978) 'Control of Imports as a Means to Full Employment and the Expansion of World Trade. The UK Case', *Cambridge Journal of Economics* 2: 327-34.

[Web of Science®](#)  | [Google Scholar](#) 

---

Cripps, F., J. Eatwell and A. Izurieta (2005) 'Financial Imbalances in the World Economy', *Economic and Political Weekly* 40(52): 5453-56.

[Google Scholar](#) 

---

Cripps, F., G. Gudgin and J. Rhodes (1979) 'Technical Manual of the CEPG Model of World Trade', *Cambridge Economic Policy Review* 3 (June).

[Web of Science®](#)  | [Google Scholar](#) 

---

Cripps, F., A. Izurieta and T. McKinley (2007) 'Developing a Global Model for Trade, Finance and Income Distribution. Technical Paper No. 1. Brasilia : UNDP International Poverty Centre. <http://www.ipc-undp.org/public/IPCTechnicalPaper1.pdf>

[Google Scholar](#) 

---

D'Arista, J. (2007) 'US Debt and Global Imbalances. PERI Working Paper Series No. 136. Amherst , MA : Political Economy Research Institute.

[Google Scholar](#) 

---

Davidson, P. and J. Kregel (1994) *Employment, Growth and Finance. Economic Reality and Economic Growth*. Cheltenham : Edward Elgar.

[Google Scholar](#) 

---

Dos Santos, C. and Antonio C. Macedo e Silva (2010) 'Revisiting "New Cambridge": The Three Financial Balances in a General Stock-flow Consistent Applied Modeling Strategy. Levy Economics Institute Working

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

Felipe, J. and F.M. Fisher (2003) 'Aggregate Production Functions: What Applied Economists Should Know', *Metroeconomica* 54(2-3): 208-62.

[Google Scholar](#) 

Felipe, J. and J.L.S. McCombie (2006) 'The Tyranny of the Identity. Growth Accounting Revisited', *International Review of Applied Economics* 20(3): 283-312.

[Google Scholar](#) 

Galbraith, J.K. (2008) *The Predator State. How Conservatives Abandoned Free Market and Why Liberals Should Too*. New York : Free Press.

[Google Scholar](#) 

Galbraith, J.K. (2010) ' Inequality in the World Economy. An Empirical Investigation. Seminar delivered for the OECD Directorate for Employment, Labour and Social Affairs. ELSA Seminars Series (18 June).

[Google Scholar](#) 

Galbraith, J.K. and E. Garcilazo (2004) 'Unemployment, Inequality and the Policy of Europe: 1984-2000', *Banca Nazionale del Lavoro Quarterly Review* 228: 3-28.

[Google Scholar](#) 

Godley, W. (1995) ' The US Balance of Payments, International Indebtedness and Economic Policy. Levy Economics Institute Public Policy Brief No. 23. Annandale-on-Hudson , NY : Levy Economics Institute of Bard College.

[Google Scholar](#) 

Godley, W. (1999) ' Seven Unsustainable Processes: Medium-term Prospects and Policies for the United States and the World'. Levy Economics Institute Strategic Analysis, January (revised October 2000) . Annandale-on-Hudson , NY : Levy Economics Institute of Bard College.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

---

Harcourt, G.C. (1972) *Some Cambridge Controversies in the Theory of Capital*. Cambridge : Cambridge University Press.

[Google Scholar](#) 

---

Harcourt, G.C. (2006) *The Structure of Post-Keynesian Economics. The Core Contributions of the Pioneers*. Cambridge : Cambridge University Press.

[Google Scholar](#) 

---

Van der Hoeven, R. (2010) 'Employment, Inequality and Globalization: A Continuous Concern', *Journal of Human Development and Capabilities* 11(1): 115-42.

[Web of Science®](#)  | [Google Scholar](#) 

---

ILO (2010) *Global Employment Trends*. Geneva : International Labour Office.

[Google Scholar](#) 

---

Irvin, G. (2008) *Super Rich. The Rise of Inequality in Britain and the United States*. Cambridge : Polity Press.

[Google Scholar](#) 

---


Izurieta, A. (2005) 'The Hazardous Inertia of Imbalances in the US and World Economy', *Economic & Political Weekly* XL(34): 3739-50.

[Google Scholar](#) 

---

Izurieta, A. and A. Singh (2010) 'Does Fast Growth in India and China Help or Harm US Workers?', *Journal of Human Development and Capabilities* 11(1): 115-42.

[Web of Science®](#)  | [Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

Manage Preferences

Accept All

Reject Non-Essential

---

Kregel, J. (1971) *Rate of Profit, Distribution and Growth: Two Views*. London and Basingstoke : Macmillan.

[Google Scholar](#) 

---

McCombie, J.S.L. (1982) 'Economic Growth, Kaldor's Law and the Static-Dynamic Verdoorn Law Paradox', *Applied Economics* 14 (March): 279–94.

[Web of Science®](#)  | [Google Scholar](#) 

---

Montalvo, J.G. and M. Ravallion (2010) 'The Pattern of Growth and Poverty Reduction in China', *Journal of Comparative Economics*. 38: 2–16.

[Web of Science®](#)  | [Google Scholar](#) 

---

Naastepad, C.W.M. and S. Storm (2006) 'OECD Demand Regimes (1960–2000)', *Journal of Post Keynesian Economics* 29(2): 213–48.

[Google Scholar](#) 

---

Onaran, O. (2009) 'A Crisis of Distribution', *Economic & Political Weekly* XLIV(13): 171–8.

[Google Scholar](#) 

---

Patnaik, P. (2006) 'The Diffusion of Development', *Economic & Political Weekly* XLI(18): 1766–72.

[Google Scholar](#) 

---

Patnaik, P. (2008) 'The Accumulation Process in the Period of Globalisation', *Economic & Political Weekly* XLIII(26–27): 108–13.

[Google Scholar](#) 

---

Patnaik, P. (2010) 'The Diffusion of Activities', *Economic & Political Weekly* XLV(10): 40–45.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Robinson, J. (1979) *Aspects of Development and Underdevelopment*. Cambridge : Cambridge University Press.

[Google Scholar](#) 

Ros, J. (2009) 'Poverty Reduction in Latin America. The Role of Demographic, Social and Economic Factors', *CEPAL Review* 98 (August): 35-45.

[Google Scholar](#) 

Roubini, N. (2005) 'Global Imbalances: A Contemporary Rashomon Tale with Five Interpretations'. Nouriel Roubini's Global Economics Blog, 1 May. <http://nourielroubini.blogspot.com>

[Google Scholar](#) 

Rybiński, K. (2006) 'Global Imbalances and Implications for Emerging Markets. Address at the Panel Discussion on Scenarios for Emerging Markets at the OKB Roundtable, Vienna (14-15 December).

[Google Scholar](#) 

Setterfield, M. (ed.) (2010) *Handbook of Alternative Theories of Economic Growth*. Cheltenham : Edward Elgar.

[Google Scholar](#) 

Singh, A. (1998) 'Saving, Investment and the Corporation in the East Asian Miracle', *Journal of Development Studies* 34(6): 112-37.

[Web of Science®](#)  | [Google Scholar](#) 

Singh, A. and A. Zammit (forthcoming, 2011) 'The Global Economic and Financial Crisis. Which Way Forward?', in P. Arestis, R. Sobreira and J.L. Oreiro (eds) *An Assessment of the Global Impact of the Financial Crisis*. Basingstoke : Palgrave Macmillan.

[Google Scholar](#) 

Sobhan, B. (2010) 'Challenging the Injustice of Poverty in South Asia. Centre for Policy Dialogue Discussion

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Taylor, L. (1991) *Income Distribution, Inflation and Growth*. Cambridge , MA : MIT Press.

[Google Scholar](#) 

Taylor, L. (2004) *Reconstructing Macroeconomics. Structuralist Proposals and Critiques of the Mainstream*. Cambridge , MA and London : Harvard University Press.

[Google Scholar](#) 

Taylor, L. (2010) *Maynard's Revenge: Keynesianism and the Collapse of Free Market Macroeconomics*. Cambridge , MA : Harvard University Press.

[Google Scholar](#) 

Temple, J. (2006) 'Aggregate Production Functions and Growth Economics', *International Review of Applied Economics* 20(3): 301-17.

[Google Scholar](#) 

Truman, E.M. (2005) ' Postponing Global Adjustment: An Analysis of the Pending Adjustment of Global Imbalances. International Institute for Economics Working Paper Series No. 05-6. Washington , DC : Institute for International Economics.

[Google Scholar](#) 

UNCTAD (2009) *Trade and Development Report*. Geneva : United Nations Conference on Trade and Development.

[Web of Science®](#)  [Google Scholar](#) 

UN-DESA (2006a) ' World Economic Situation and Prospects'. New York : United Nations Department of Economic and Social Affairs.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

---

UN-DESA (2008) ' World Economic Situation and Prospects'. New York : United Nations Department of Economic and Social Affairs.

[Google Scholar](#) 

---

UN-DESA (2009) ' World Economic Situation and Prospects'. New York : United Nations Department of Economic and Social Affairs.

[Google Scholar](#) 

---

UN-DESA (2010) *Rethinking Poverty*. Report on the World Social Situation 2010. New York : United Nations Department of Economic and Social Affairs. <http://www.un.org/esa/socdev/rwss/docs/2010/fullreport.pdf>

[Google Scholar](#) 

---

UN-GA (2009) ' Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System'. New York : United Nations Office of the President of the General Assembly.

[Google Scholar](#) 

---

Vos, R. (2010) 'The Crisis of Globalization as an Opportunity to Create a Fairer World', *Journal of Human Development and Capabilities* 11(1): 143–60.

[Web of Science®](#)  | [Google Scholar](#) 

---


Vos, R., L. Taylor and R. Paes de Barros (eds) (2002) *Economic Liberalization, Distribution and Poverty. Latin America in the 1990s*. Cheltenham and Northampton , MA : Edward Elgar.

[Google Scholar](#) 

---

White, W. (2010) ' Opening Remarks', delivered at the INET Conference 'Anatomy of Crisis — The Living History of the Last Thirty Years: Economic Theory, Politics and Policy?', King's College , Cambridge , UK (9 April).

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

Manage Preferences

Accept All

Reject Non-Essential

## ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

## HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

## OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

## CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

**WILEY**

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



**Manage Preferences**

**Accept All**

**Reject Non-Essential**