

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

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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.

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