

# Macro Headwinds in the Global Economy and Labour Market



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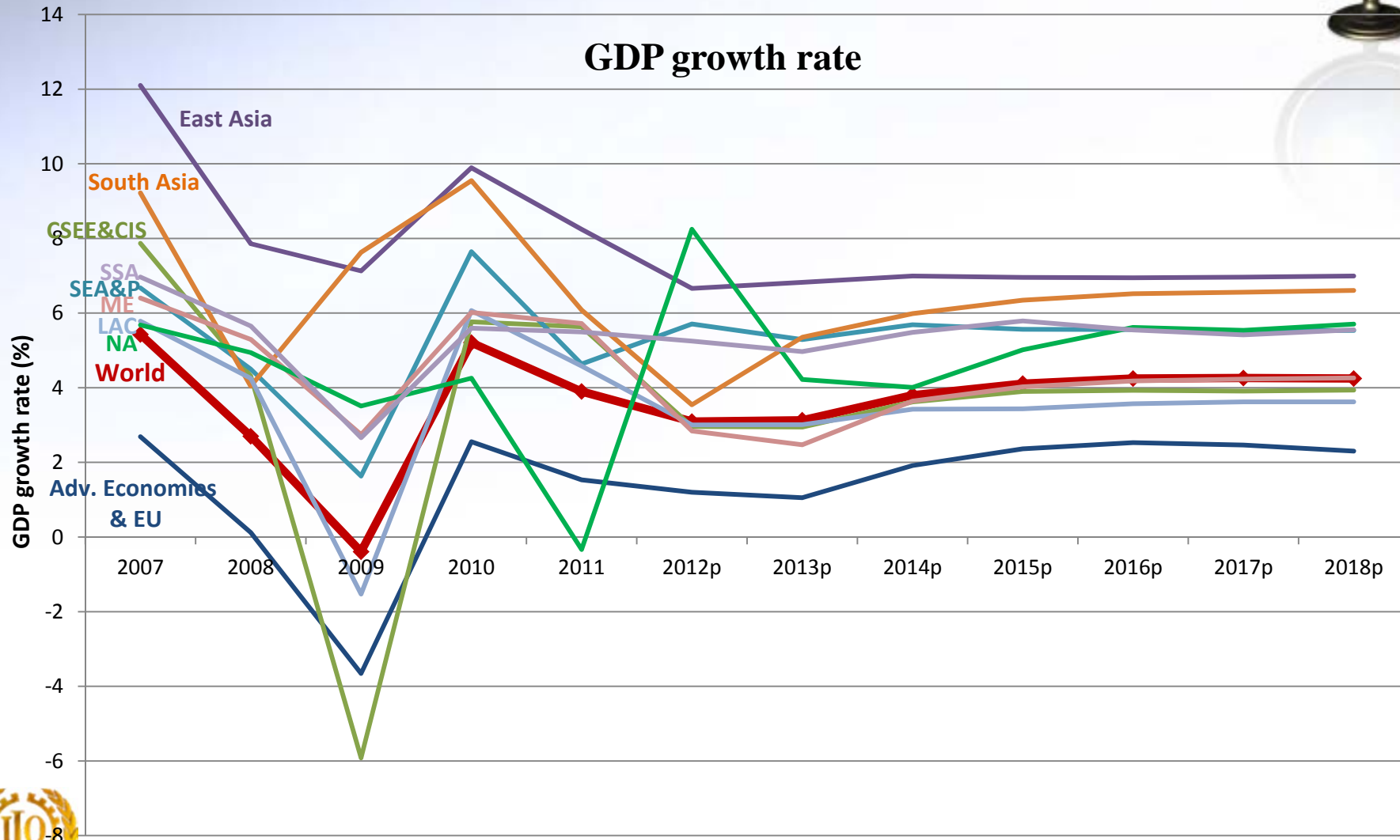
ILO



# Global employment has not recovered from the impact of the crisis



*GDP growth recovery wobbly, jobs crisis persists.*

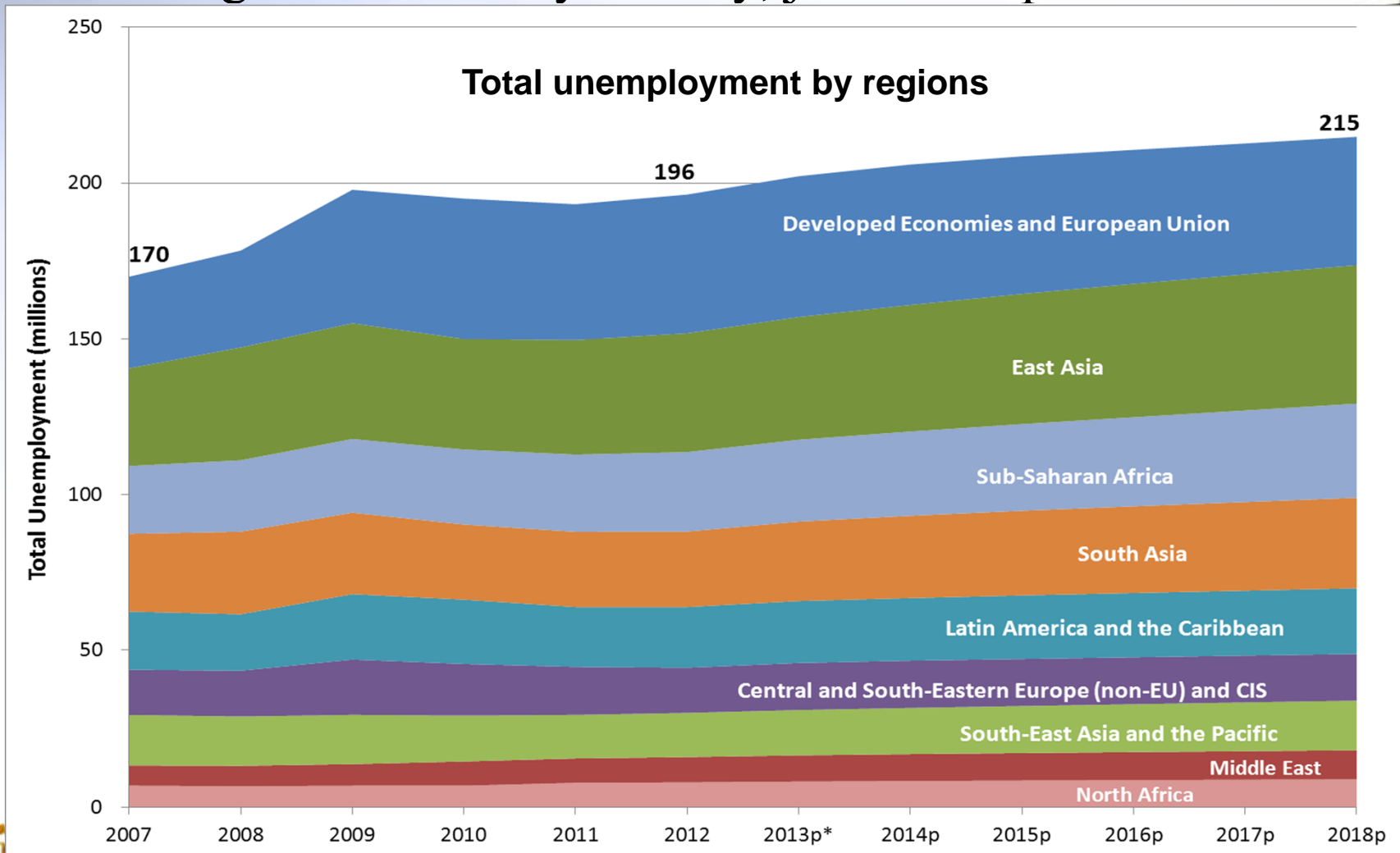


Source: ILO - Trends Econometric Models, July 2013.

# Global employment has not recovered from the impact of the crisis



- GDP growth recovery wobbly, jobs crisis persists.



Source: ILO - Trends Econometric Models, July 2013.

# So double whammy for employment -no recovery from earlier GDP recovery now another wobble in GDP



Jobs Crisis Gap (millions) by Region, 2007 -2013	
<b>WORLD</b>	<b>32.2</b>
Developed Economies & European Union	<b>15.8</b>
EU28	<b>10.1</b>
USA	<b>4.9</b>
Central & South-Eastern Europe (non-EU) & CIS	<b>0.6</b>
East Asia	<b>8</b>
South-East Asia & the Pacific	<b>-1.6</b>
South Asia	<b>0.5</b>
Latin America & the Caribbean	<b>1.2</b>
Middle East	<b>1.9</b>
North Africa	<b>1.3</b>
Sub-Saharan Africa	<b>4.5</b>

Source: ILO - Trends Econometric Models, July 2013.



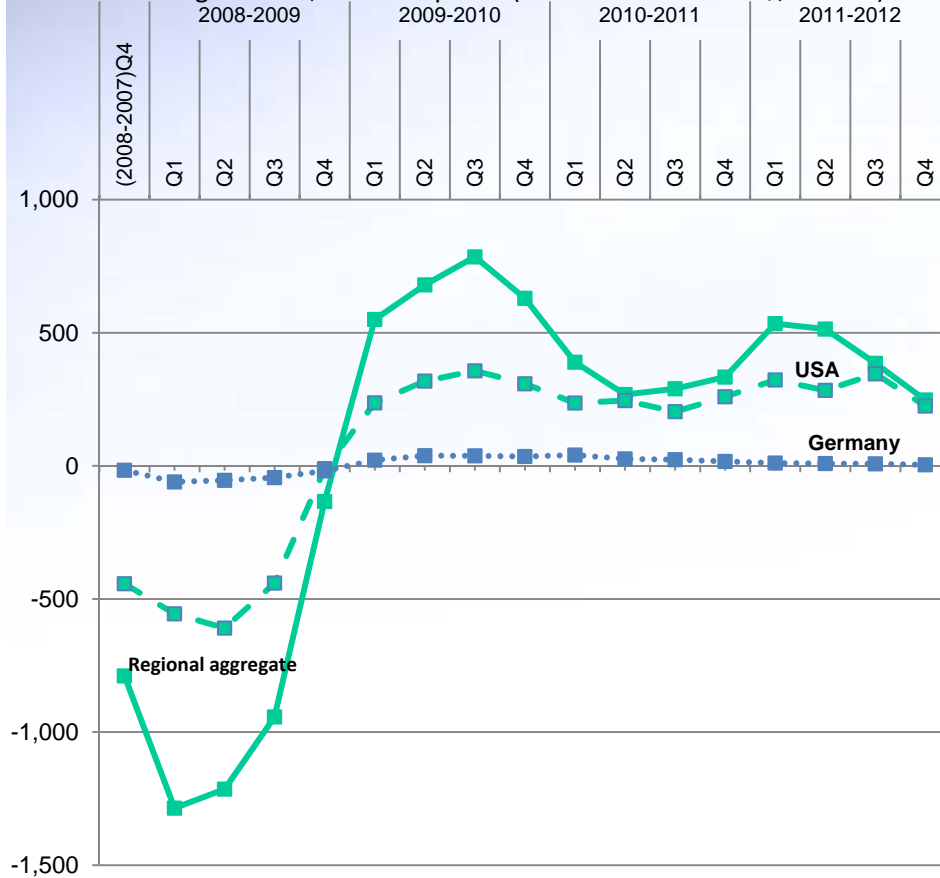
# Relationship between GDP growth and Employment

Absolute change in quarterly GDP and total employment levels, compared to a year earlier (Q4 2008 to latest quarter available)

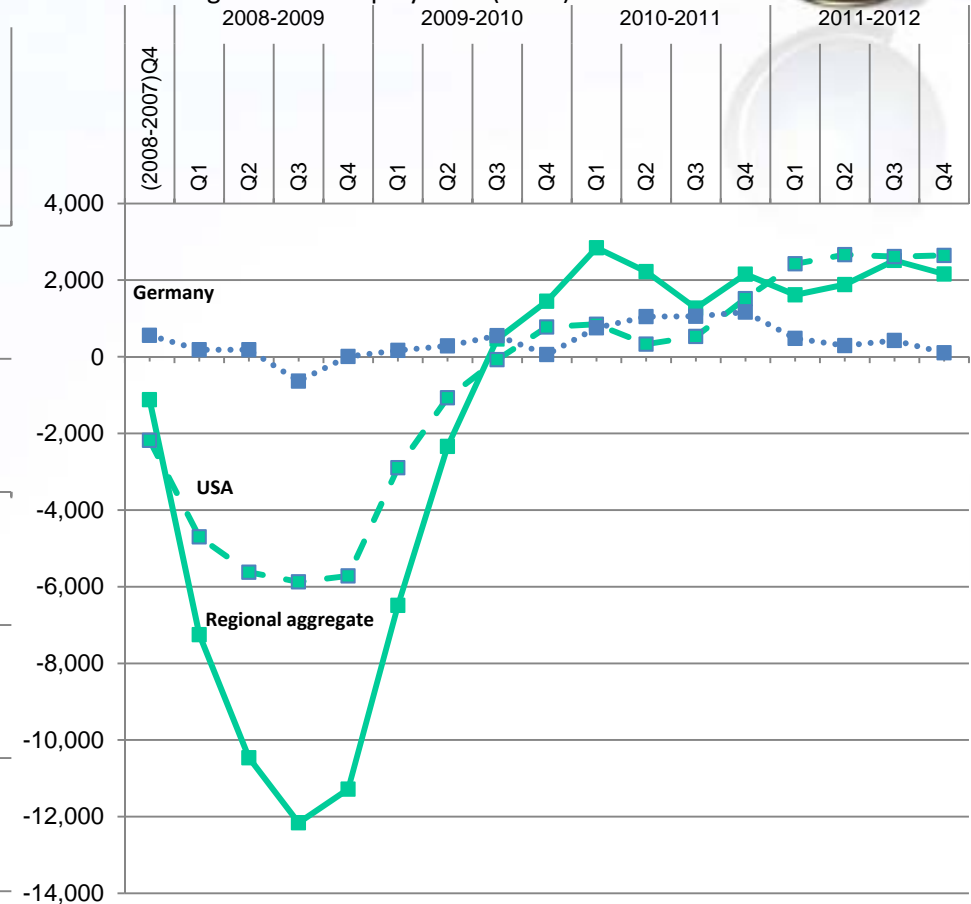


## Developed Economies & European Union

Absolute change in GDP, constant prices (constant 2005Q1 US\$, billions)



Absolute change in total employment (000's)



Sources: International Monetary Fund World Economic Outlook April 2013; Laborsta Short-term Indicators, OECD Short-Term Indicators, Eurostat Quarterly tables.

Note: The estimated output and employment loss can only be calculated by considering the simple average over the quarter.

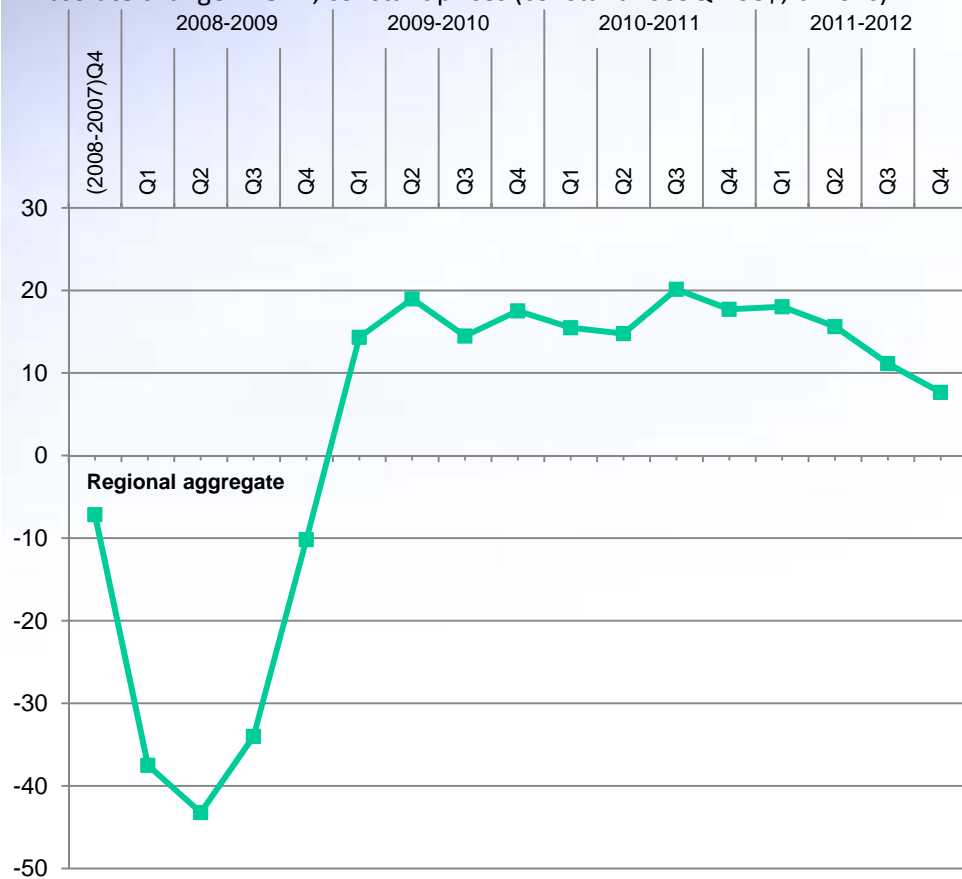
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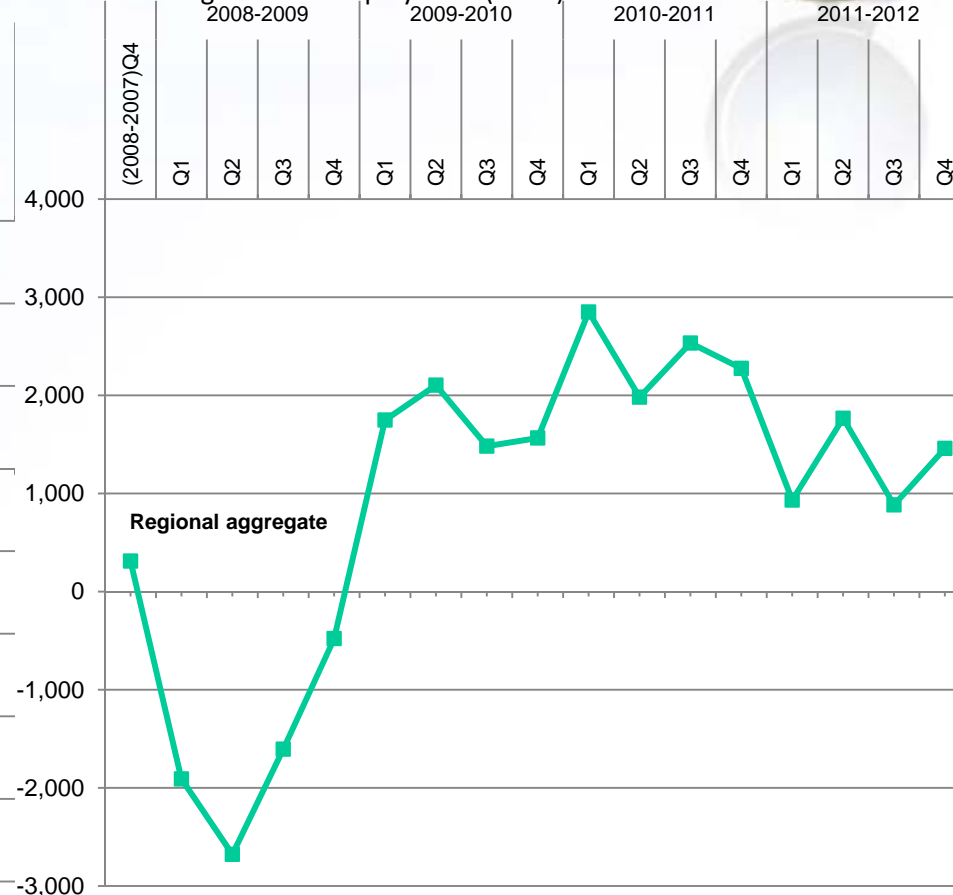


## Croatia, Republic of Moldova, Russian Federation and Turkey

Absolute change in GDP, constant prices (constant 2005Q1 US\$, billions)



Absolute change in total employment (000's)



Sources: International Monetary Fund World Economic Outlook April 2013; Laborsta Short-term Indicators, OECD Short-Term Indicators, Eurostat Quarterly tables.

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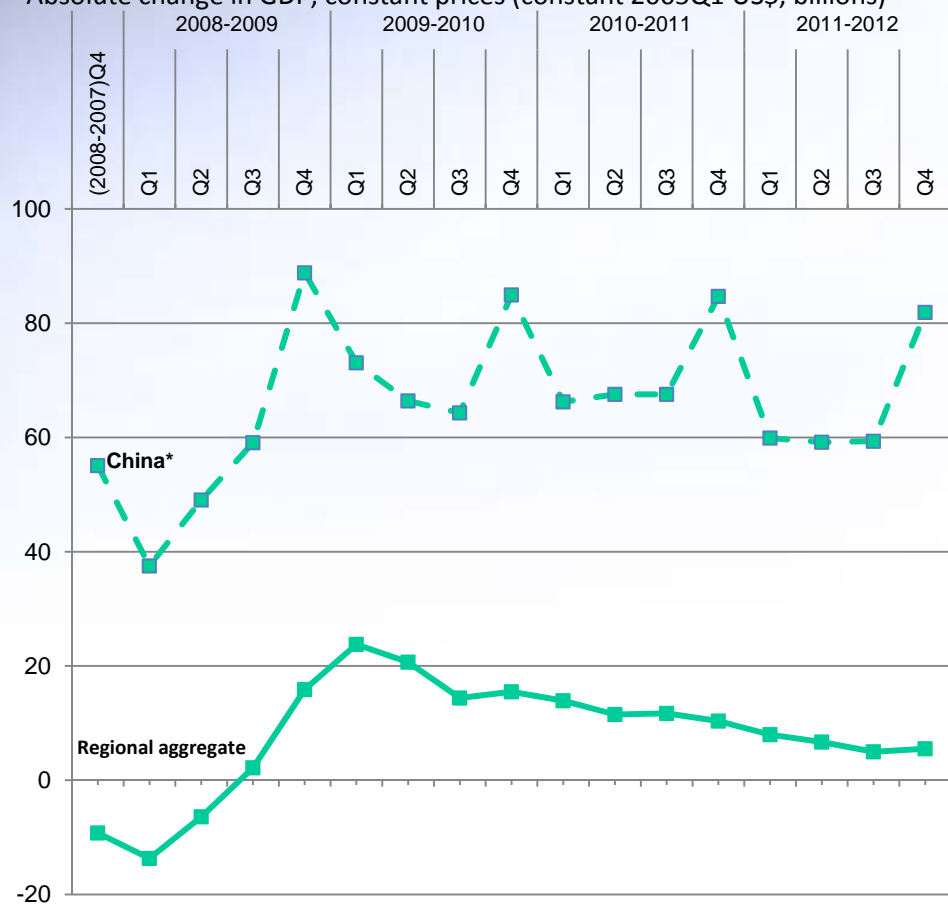
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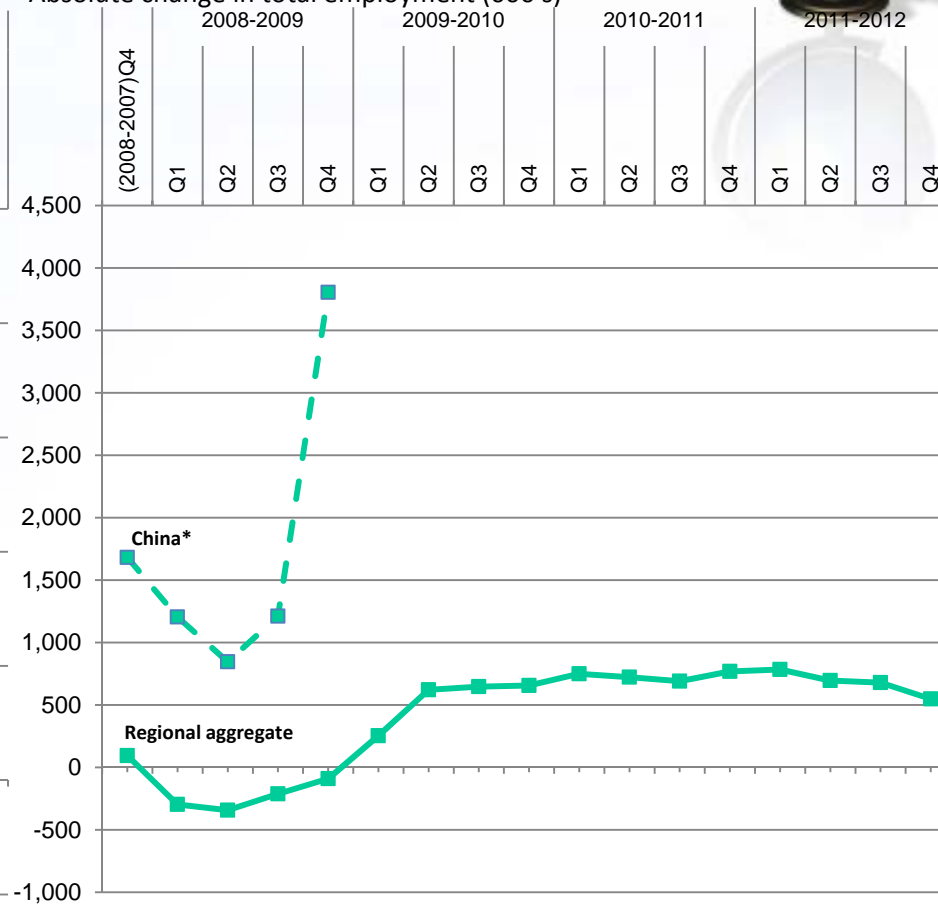


## China, Hong Kong - China, Republic of Korea and Taiwan - China

Absolute change in GDP, constant prices (constant 2005Q1 US\$, billions)



Absolute change in total employment (000's)



Sources: International Monetary Fund World Economic Outlook April 2013; Laborsta Short-term Indicators, OECD Short-Term Indicators, Eurostat Quarterly tables.

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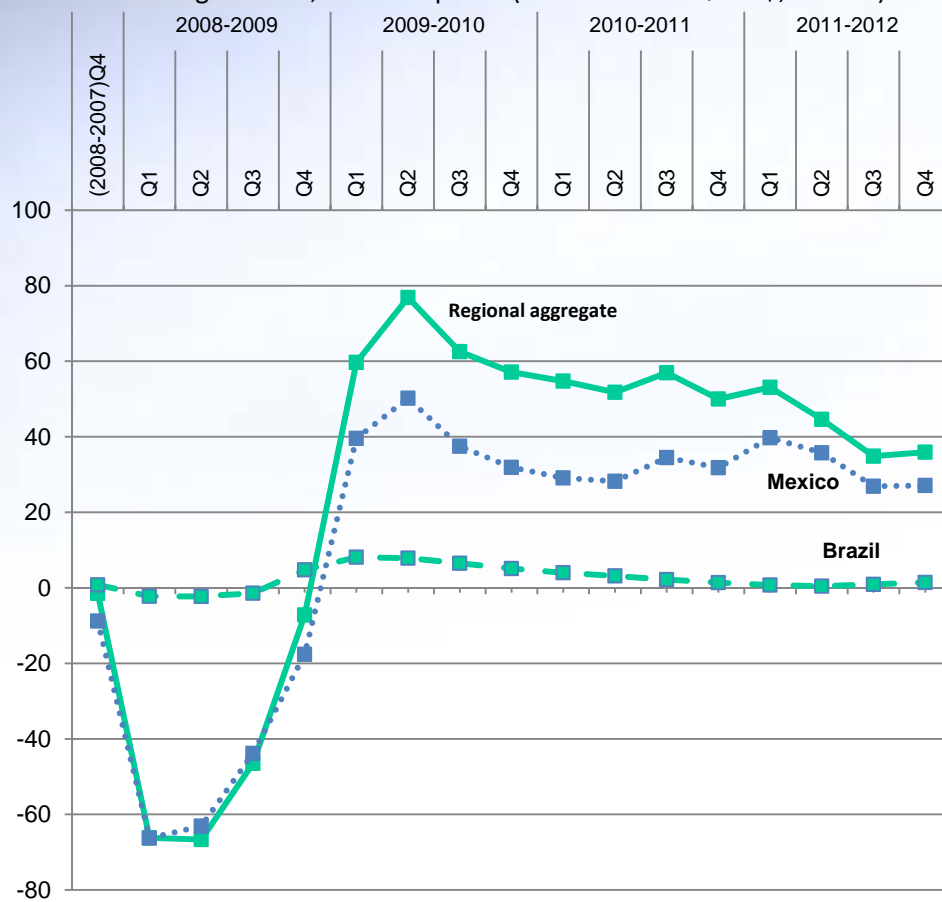
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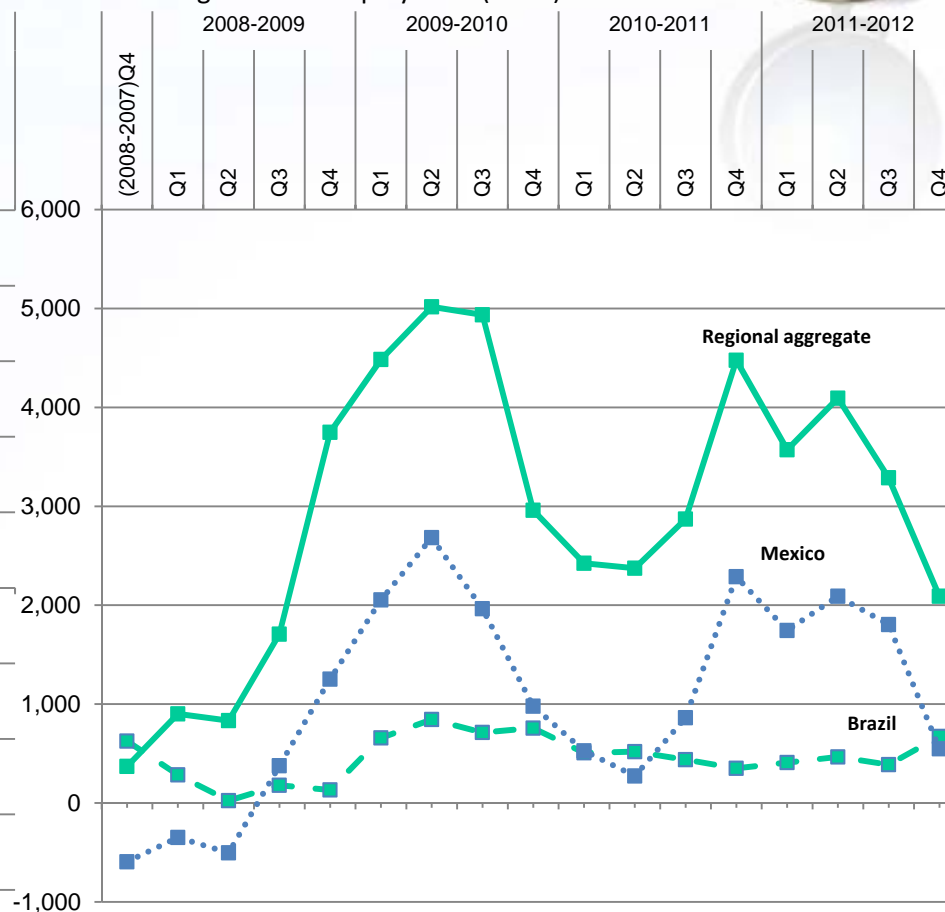


## Latin America\*

Absolute change in GDP, constant prices (constant 2005Q1 US\$, billions)



Absolute change in total employment (000's)



Sources: International Monetary Fund World Economic Outlook April 2013; Laborsta Short-term Indicators, OECD Short-Term Indicators, Eurostat Quarterly tables.

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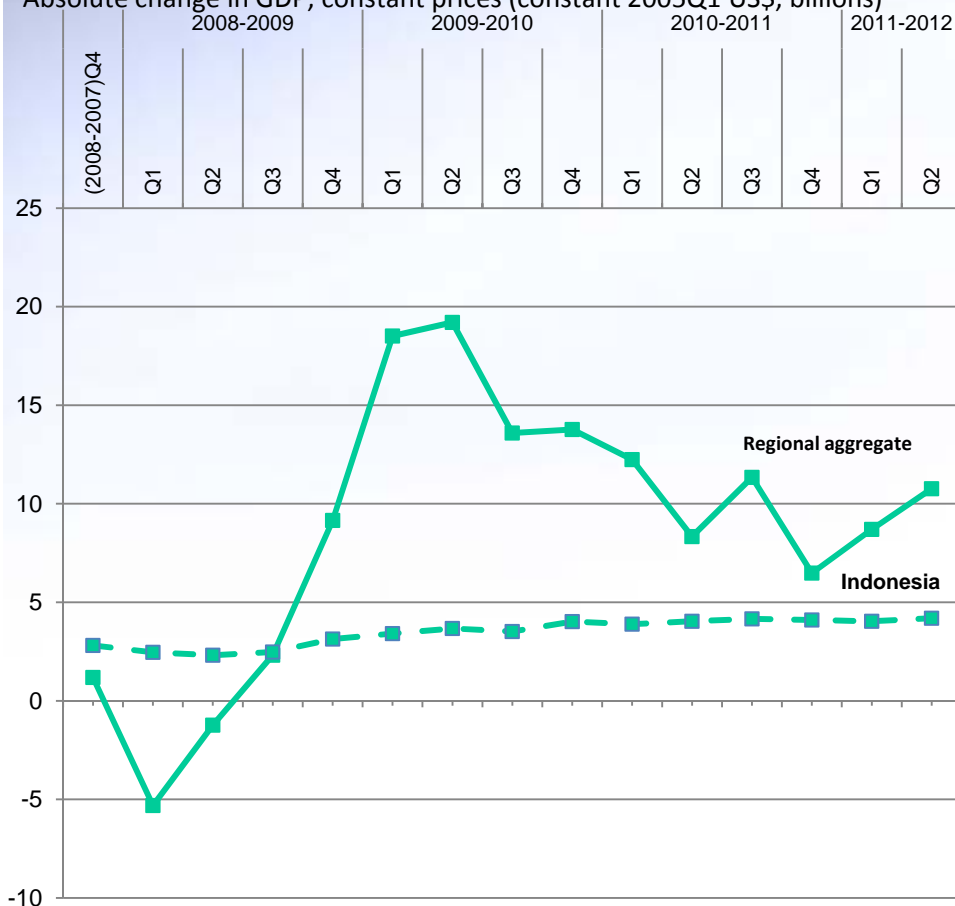
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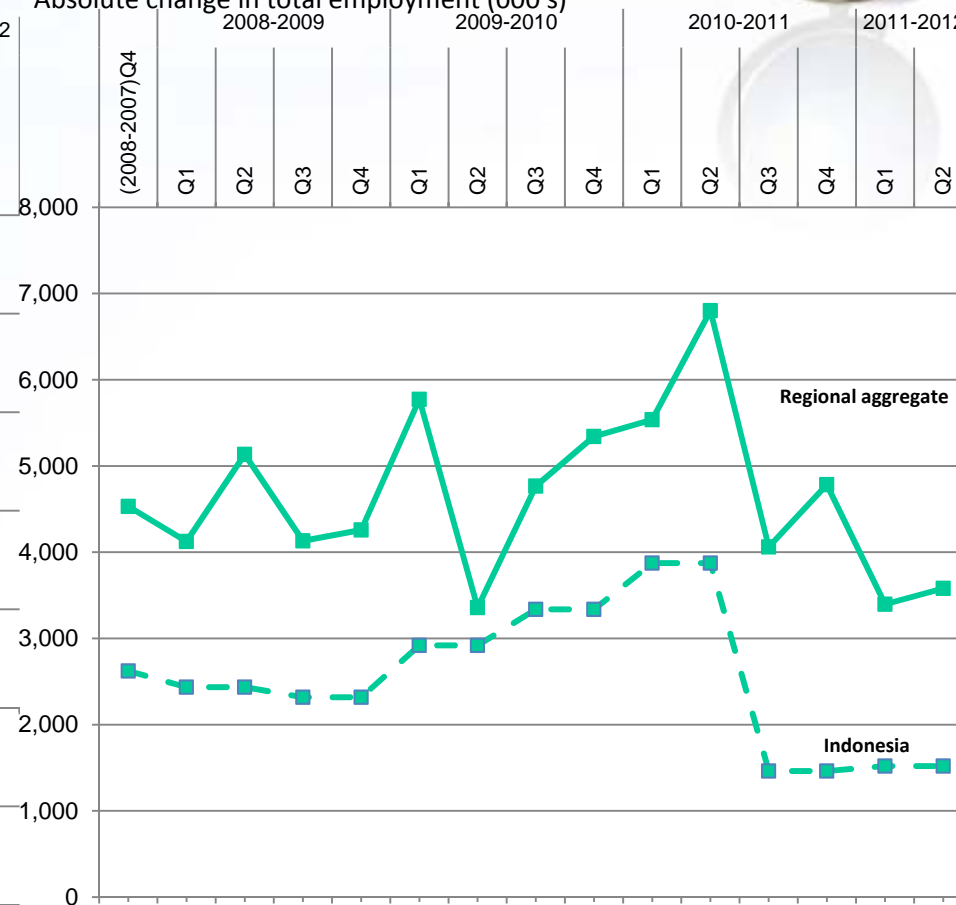


## Southeast Asia

Absolute change in GDP, constant prices (constant 2005Q1 US\$, billions)



Absolute change in total employment (000's)



Sources: International Monetary Fund World Economic Outlook April 2013; Laborsta Short-term Indicators, OECD Short-Term Indicators, Eurostat Quarterly tables.

Note: The estimated output and employment loss can only be calculated by considering the simple average over the quarter.



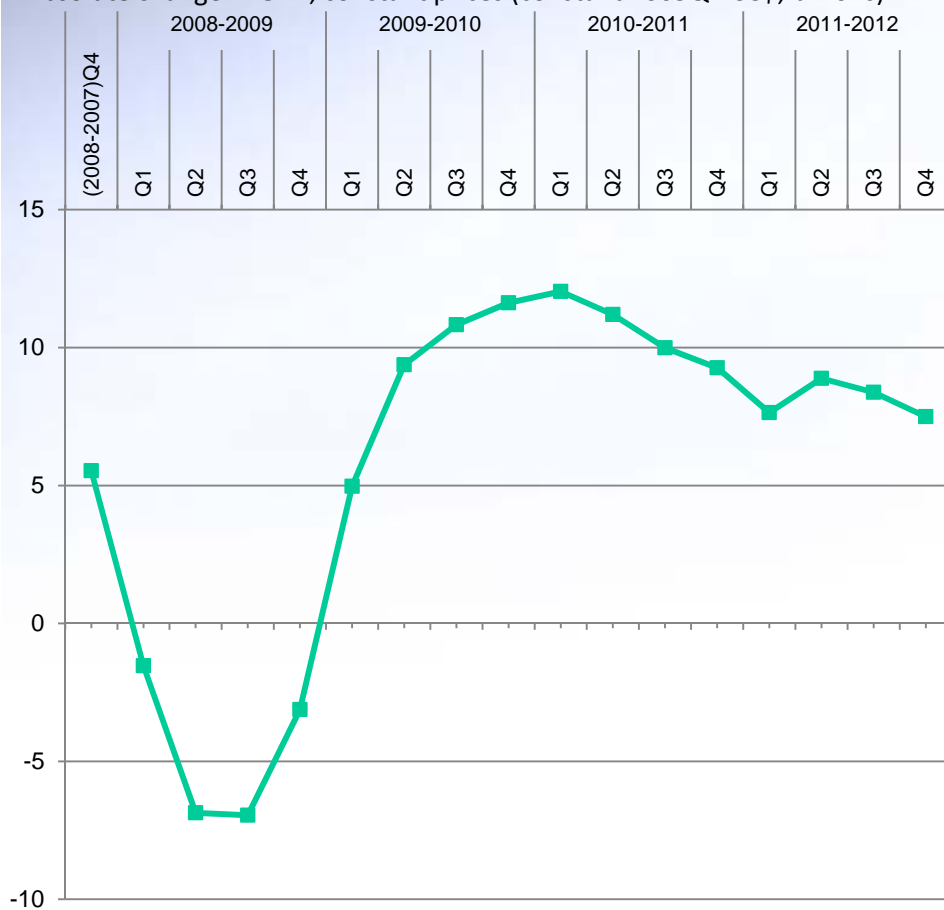
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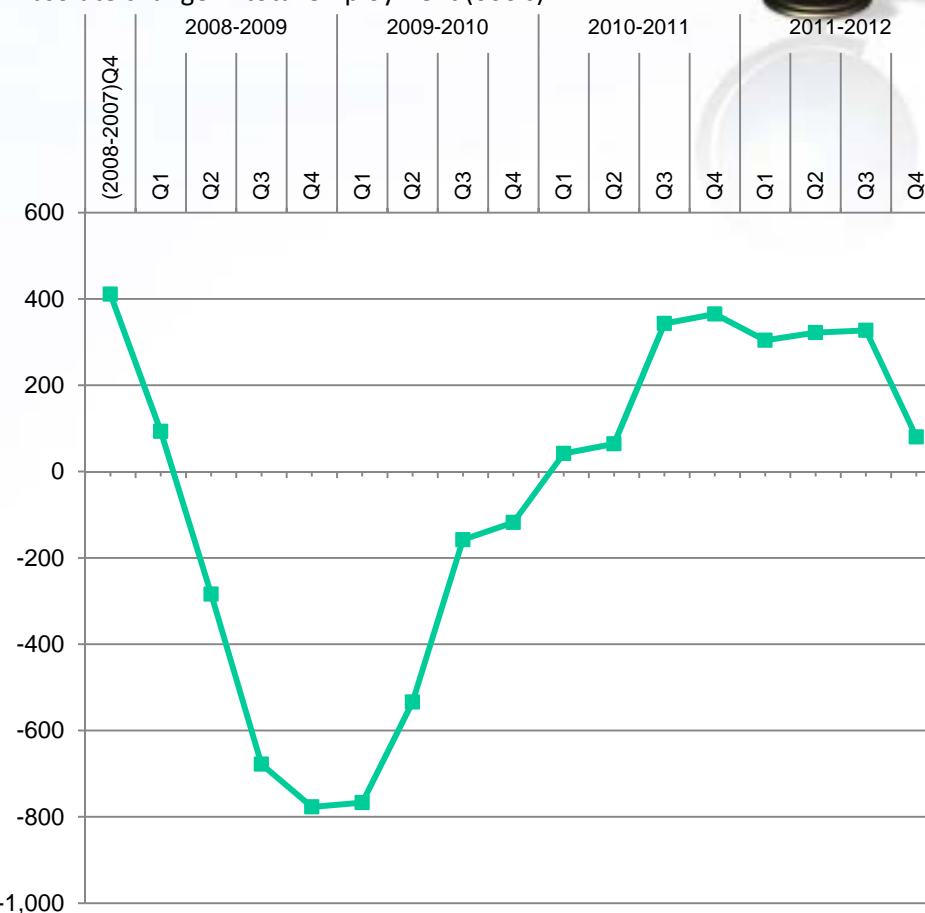


## South Africa

Absolute change in GDP, constant prices (constant 2005Q1 US\$, billions)



Absolute change in total employment (000's)



Sources: International Monetary Fund World Economic Outlook April 2013; Laborsta Short-term Indicators, OECD Short-Term Indicators, Eurostat Quarterly tables.

Note: The estimated output and employment loss can only be calculated by considering the simple average over the quarter.

# Relationship between GDP growth and Unemployment



**Impact** : Country classification with respect to the percentage point change in total unemployment rate and GDP growth rate, for the crisis impact period (Q208-Q209)

GDP growth rate, quarterly percent change from one year earlier (percentage point change)	Total unemployment rate (percentage point change)			
	Variation (in percentage points) Q208 to Q209	<2	2 to 5	>5
>-2		Australia	New Zealand	
-2 to -5		France, Norway, Poland, Portugal	Israel	Iceland
<-5		Austria, Belgium, Germany, Hungary, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Slovak Republic, Slovenia, Switzerland	Canada, Chile, Czech Republic, Denmark, Finland, Sweden, Turkey, United Kingdom, United States	Estonia, Ireland, Spain

**Recovery**: Country classification with respect to the percentage point change in unemployment rate and GDP growth rate, for the crisis impact period, latest quarter available and 2009Q2

GDP growth rate, quarterly percent change from one year earlier (percentage point change)	Total unemployment rate (percentage point change)			
	Variation (in percentage points) Q213 to Q209	> -2	-2 to -5	< -5
< 2		Australia, Poland, Portugal		
2 to 5		Belgium, Czech Republic, France, Israel, Italy, Korea, Netherlands, New Zealand, Norway, Spain		
5 <		Austria, Canada, Denmark, Finland, Hungary, Iceland, Ireland, Japan, Luxembourg, Mexico, Slovak Republic, Slovenia, Sweden, Switzerland, United Kingdom, United States	Chile, Estonia, Germany, Turkey	

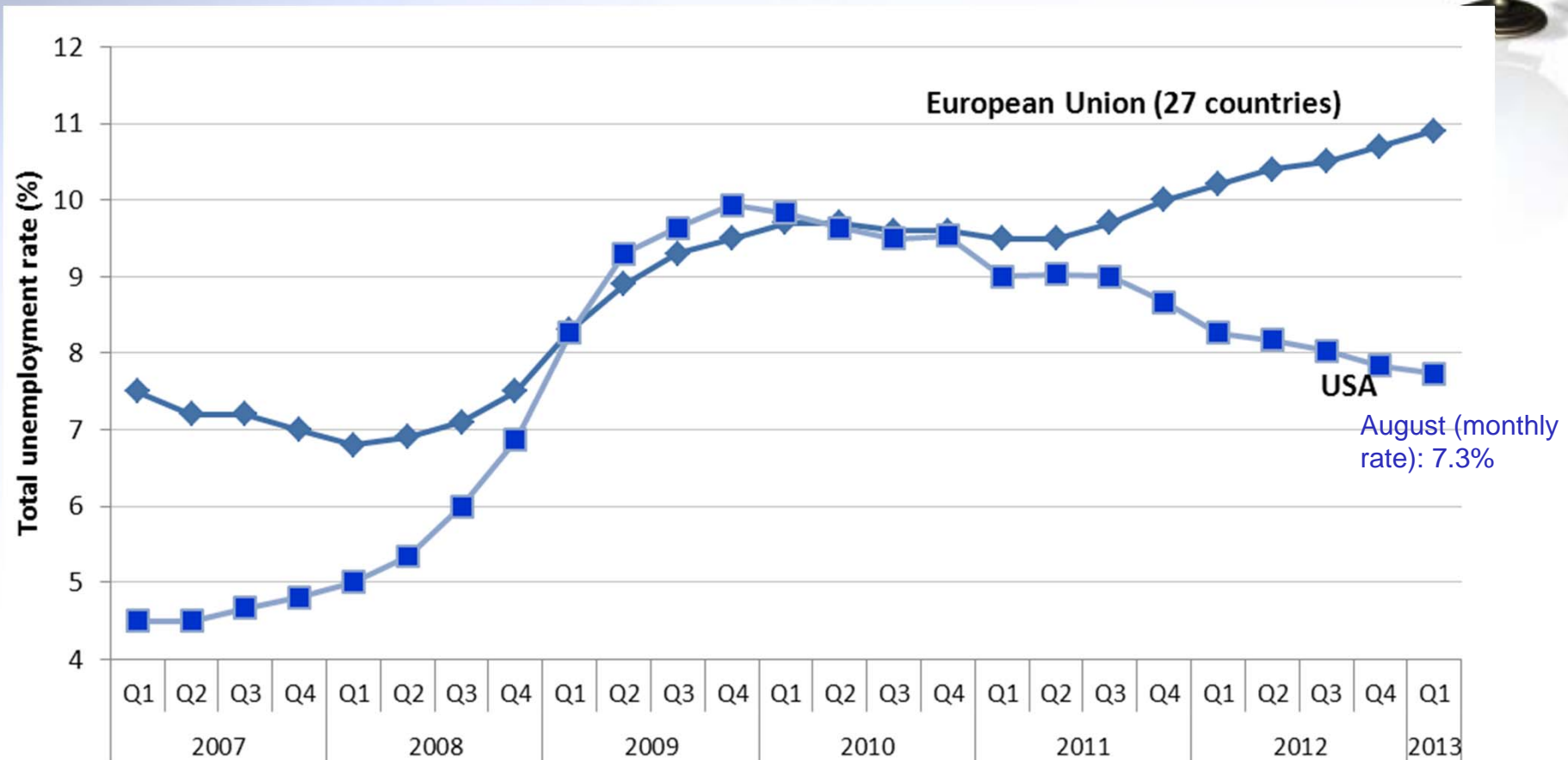


Source: Calculated based on OECD statistics and Eurostat

# Relationship between GDP growth and Unemployment - Advanced economies



Level of total unemployment rates (Q1 2007 to latest quarter available)

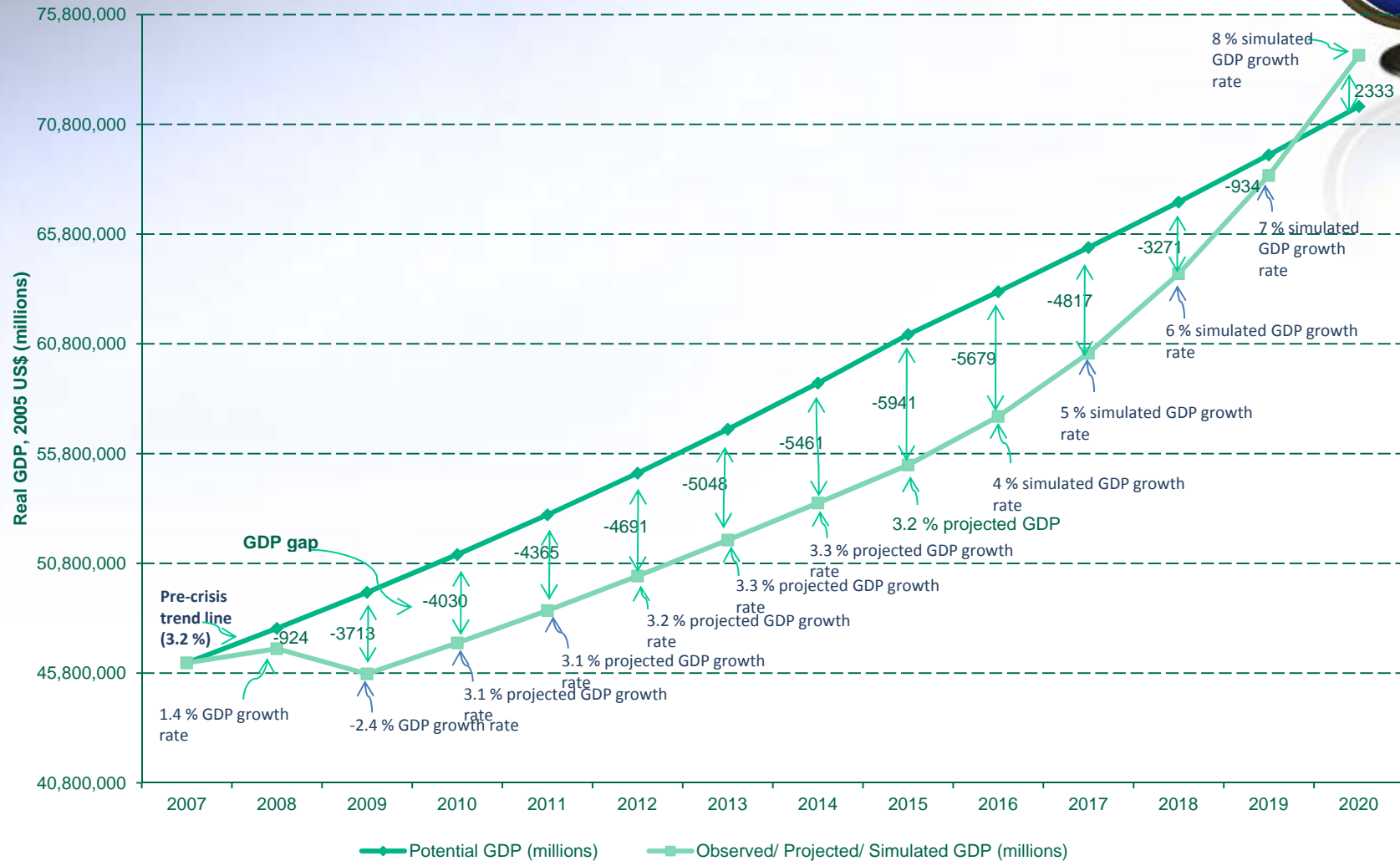


Source: Eurostat and OECD



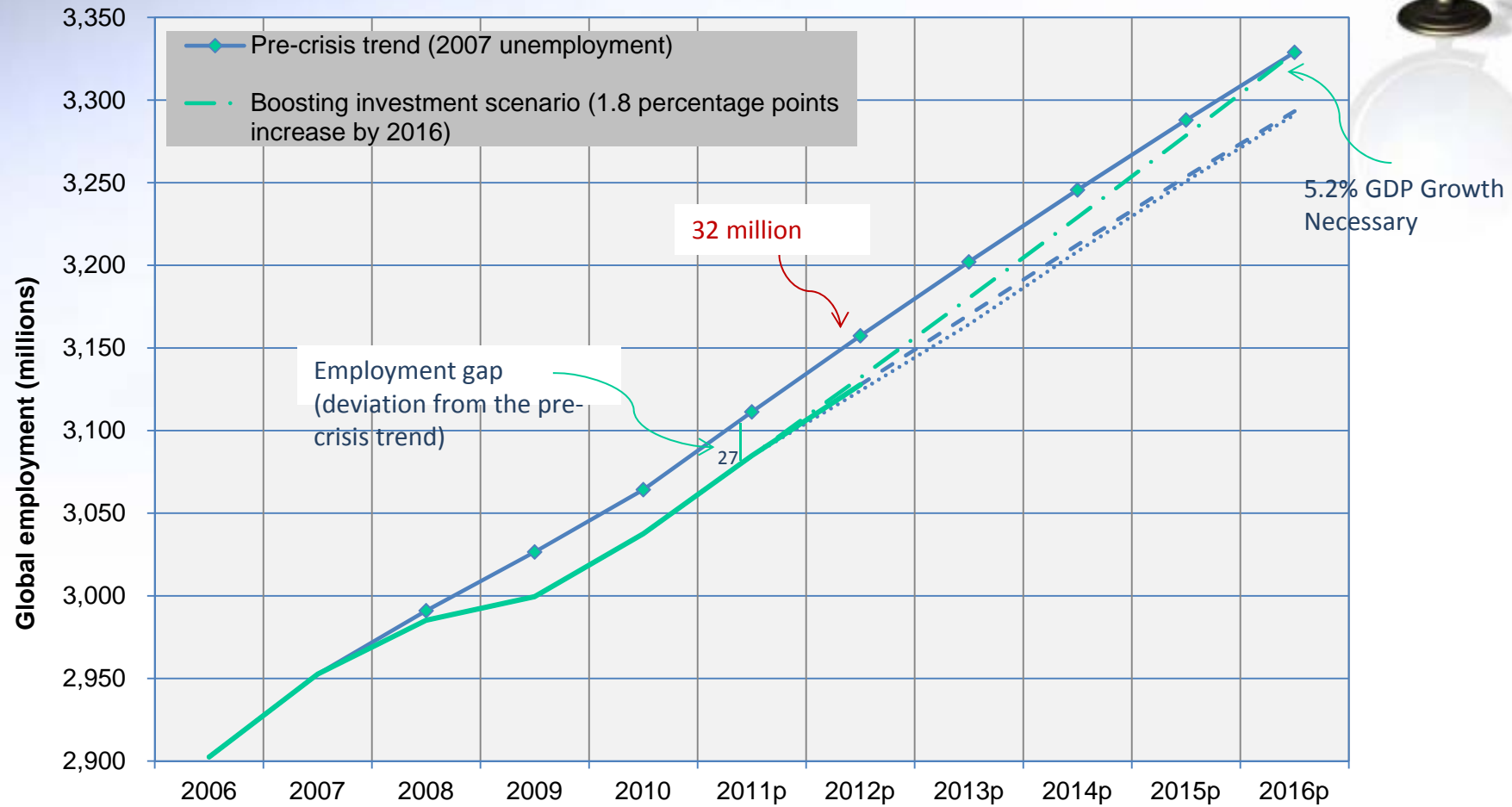
# Projected potential for future growth of GDP and employment

## Global real GDP based on 164 countries, 2005 US\$ (millions)



Source: ILO estimates and IMF World Economic Outlook.

# Employment Gap



*There are eight prominent, negative feedback loops fuelling the downgrade in growth and employment prospects: the macro headwinds in advanced economies*



1. Households are not spending more as they repair their balance sheets to recover from loss of asset and wage income.
2. Firms are also not making further investments despite low interest rates, and accommodating liquidity by the Federal Reserve's "QE2" plus to buy 85 billion \$ worth of mortgage bonds per month until unemployment rate drops to 6.5%, and European Central Bank's LTRO plus OMT "to do whatever it takes" to buy government bonds and increase liquidity. N.B. Taper talk has raised yields.
3. Banks and other lending institutions still carry large piles of nonperforming assets, including sovereign debt, on their balance sheets, hampering them to expand credit in the advanced economies.
4. Doom loops: bank risk → bailouts → sovereign debt increase → bond prices fall & yields rise. Private sector bailouts have largely led to mushrooming public debt and budgetary deficits, in some euro area countries have raised costs of borrowing, bond yields.



*There are eight prominent, negative feedback loops fuelling the downgrade in growth and employment prospects: the macro headwinds in advanced economies*



5. To bring down bond yields, public debt and budgetary deficits, austerity measures have focussed on both raising revenues and reducing public expenditures. Of the 7 Euro countries examined, revenues improved in Italy, France, Germany, and Greece, while they fell or remained constant in Ireland, Portugal and Spain. On the other hand, expenditures only increased in France, while they fell in the other 6 countries.
6. The cost of adjustment, for both, generating growth through increased competitiveness, and effecting austerity through reduced debt and budget deficits, have dually cascaded onto the labour markets, particularly in the Eurozone. First, given weak domestic demand, the main driver of growth has come to be export competitiveness. The lack of exchange rate flexibility in the Eurozone, preventing external devaluation, has led to cuts in the wage bill through wage and employment cuts. Second, these competitiveness-induced cuts in the wage bill have also dovetailed with the austerity-induced public expenditures cuts, being effected through cuts in the public sector wage bill.
7. Private austerity plus public austerity measures lower aggregate demand, GDP, N
8. Cyclical and structure: structural problems in labour markets – Beveridge curve between unemployment and vacancies shifted





# Transmission of crisis & recovery: Exports , consumption & investment

**Impact:** Country classification with respect to the percentage point change in Consumption and Exports, for the crisis impact period (Q208 -Q209)



		Household Consumption		
Variation (in percentage points) Q208 to Q209		<2	2 to 5	>5
Exports	>-2	Argentina, Iceland, Ireland, New Zealand, Poland	Brazil, Turkey	
	-2 to -5	Australia, Chile, France, Korea, Mexico, Spain, United Kingdom, United States	India	Russian Federation
	<-5	Belgium, Estonia, Hungary, Indonesia, Israel, Italy, Luxembourg, Netherlands, Portugal, South Africa	Austria, Canada, Czech Republic, Denmark, Finland, Germany, Japan, Norway, Slovenia, Sweden, Switzerland,	Slovak Republic
Export fall				
Consumption cushion				

**Recovery:** Country classification with respect to the percentage point change in Consumption and Exports, Q209 to Q213

		Household consumption		
Variation (in percentage points) Q213 to Q209		< 2	2 to 5	5 <
Exports	< 2	Argentina, Australia, Brazil, Chile, Indonesia, Israel, New Zealand, Norway, Russian Federation, Sweden	Chile	
	2 to 5	Canada, France, India, Japan, South Africa, Switzerland, Turkey, United States	Finland, United Kingdom	
	5 <	Austria, Belgium, Czech Republic, Denmark, Estonia, Germany, Hungary, Ireland, Italy, Korea, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia	Mexico, Spain	Iceland
Export led recovery				
Consumption led recovery				



Source: ILO's calculation based on OECD statistics

# Average quarterly growth rate of Gross Fixed Capital Formation, by region and selected countries, for impact and recovery period



	Impact	Recovery
Averages of regions and selected countries	Q2_09-Q2_08	Q4_12-Q4_09
East Asia <sup>1</sup>	-0.46	0.31
European Union (27 countries)	-4.5	0.39
United States	-4.70	1.46
South Africa	1.12	1.80
India	0.43	3.11
South East Asia and Pacific <sup>2</sup>	6.57	3.74
Latin America <sup>3</sup>	-3.08	3.80
Russian Federation	-3.05	4.01
China <sup>4</sup>	5.17	4.05 <sup>5</sup>

<sup>1</sup> Japan, Korea

<sup>2</sup> Australia, India, Indonesia, New Zealand

<sup>3</sup> Argentina, Brazil, Chile, Mexico

<sup>4</sup> Calculation based on annual growth rates data taken from the World Bank WDI

<sup>5</sup> Calculation based on last available data: 2011

Source: ILO's calculation based on OECD Statistics



# Euro Area European Central Bank Loans (Growth Rates)



## Euro Area Loans to Financial Intermediaries, Non-financial Corporations and Households (Growth Rates)

	2010	2011	2012	2013 Q1	2013 Q2	2013 May	2013 June	2013 July	2013 Aug.*
Insurance Corporations and Pension Funds	7.3	1.5	-2.2	6.1	11.3	12	11.3	14.4	12.1
Other Financial Intermediaries	3.6	-3.8	1.3	0.6	-3.2	0.3	-3.2	-5.7	-6.1
Non-financial Corporations	0	1.2	-2.3	-2.4	-3.3	-3.2	-3.3	-3.7	-3.8
Households	2.9	1.6	0.5	0.4	0	0.2	0	0.1	0.1

Source: European Central Bank Monetary Statistics October 2013

\*2013 August: provisional



# Selected macroeconomic data for European countries



## General government gross debt as % of GDP

	2007	2008	2009	2010	2011	2012
<b>EU (27 countries)</b>	<b>59</b>	<b>62.3</b>	<b>74.6</b>	<b>80</b>	<b>82.5</b>	<b>85.3</b>
Belgium	84	89.2	95.7	95.5	97.8	99.6
Bulgaria	17.2	13.7	14.6	16.2	16.3	18.5
Czech Republic	27.9	28.7	34.2	37.8	40.8	45.8
Denmark	27.1	33.4	40.7	42.7	46.4	45.8
Germany	65.2	66.8	74.5	82.4	80.4	81.9
Estonia	3.7	4.5	7.2	6.7	6.2	10.1
Ireland	25.1	44.5	64.8	92.1	106.4	117.6
Greece	107.4	112.9	129.7	148.3	170.3	156.9
Spain	36.3	40.2	53.9	61.5	69.3	84.2
France	64.2	68.2	79.2	82.4	85.8	90.2
Italy	103.3	106.1	116.4	119.3	120.8	127
Cyprus	58.8	48.9	58.5	61.3	71.1	85.8
Latvia	9	19.8	36.9	44.4	41.9	40.7
Lithuania	16.8	15.5	29.3	37.9	38.5	40.7
Luxembourg	6.7	14.4	15.3	19.2	18.3	20.8
Hungary	67	73	79.8	81.8	81.4	79.2
Malta	60.7	60.9	66.4	67.4	70.3	72.1
Netherlands	45.3	58.5	60.8	63.1	65.5	71.2
Austria	60.2	63.8	69.2	72	72.5	73.4
Poland	45	47.1	50.9	54.8	56.2	55.6
Portugal	68.4	71.7	83.7	94	108.3	123.6
Romania	12.8	13.4	23.6	30.5	34.7	37.8
Slovenia	23.1	22	35	38.6	46.9	54.1
Slovakia	29.6	27.9	35.6	41	43.3	52.1
Finland	35.2	33.9	43.5	48.6	49	53
Sweden	40.2	38.8	42.6	39.4	38.4	38.2
United Kingdom	44.2	52.7	67.8	79.4	85.5	90



Source: I

# Selected macroeconomic data for some Euro countries



ECB: EU 0.5 trillion 3-year credit line  
LTRO for banks to cut bond yields

ECB's bond-buying plan  
-Outright Monetary Transactions (OMT)

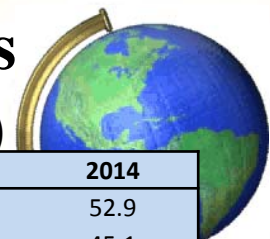
**Table: 10-year bonds yields\***

	March, 2011	June, 2011	September, 2011	December, 2011	March, 2012	June, 2012	September, 2012	December, 2012	March, 2013	June, 2013
<b>Greece</b>	12.4	16.7	17.8	21.1	19.1	27.8	20.9	13.3	11.4	10.1
<b>Ireland</b>	9.7	11.4	8.5	8.7	6.9	7.1	5.3	4.7	3.8	4.0
<b>Portugal</b>	7.8	10.9	11.3	13.1	13.0	10.6	8.6	7.3	6.1	6.3
<b>Spain</b>	5.3	5.5	5.2	5.5	5.2	6.6	5.9	5.3	4.9	4.7
<b>Germany</b>	3.2	2.9	1.8	1.9	1.8	1.3	1.5	1.3	1.4	1.5
<b>Italy</b>	4.9	4.8	5.8	6.8	5.1	5.9	5.3	4.5	4.6	4.4
<b>France</b>	3.6	3.4	2.6	3.2	3.0	2.6	2.2	2.0	2.1	2.2

Source: European Central Bank (\*Harmonised long-term interest rates for convergence assessment purposes)



# Selected macroeconomic data for some Euro countries



## General Government Revenue, Expenditure, Budget Balance, and Gross Debt (% of GDP)

		2008	2009	2010	2011	2012	2013	2014
<b>Total Revenue</b>	France	49.9	49.2	49.5	50.6	51.7	53.3	52.9
	Germany	44	45.1	43.6	44.5	45.2	45.2	45.1
	Greece	40.7	38.3	40.6	42.4	44.7	43.5	43.9
	Ireland	35.7	34.7	35.2	34.9	34.6	34.8	35
	Italy	45.9	46.5	46.1	46.2	47.7	48.2	47.7
	Portugal	41.1	39.6	41.6	45	41	43.1	42.6
	Spain	37	35.1	36.6	35.7	36.4	36.8	35.9
<b>Total Expenditure</b>	France	53.3	56.8	56.5	55.9	56.6	57.2	57.1
	Germany	44.1	48.2	47.7	45.3	45	45.4	45.1
	Greece	50.5	54	51.3	51.9	54.7	47.3	46.5
	Ireland	43.1	48.6	66.1	48.2	42.2	42.3	39.4
	Italy	48.6	52	50.5	50	50.7	51.1	50.2
	Portugal	44.7	49.7	51.5	49.4	47.4	48.6	46.6
	Spain	41.5	46.3	46.3	45.1	47	43.3	42.9
<b>Budget Balance</b>	France	-3.3	-7.5	-7.1	-5.3	-4.8	-3.9	-4.2
	Germany	-0.1	-3.1	-4.1	-0.8	0.2	-0.2	0
	Greece	-9.8	-15.6	-10.7	-9.5	-10	-3.8	-2.6
	Ireland	-7.4	-13.9	-30.8	-13.4	-7.6	-7.5	-4.3
	Italy	-2.7	-5.5	-4.5	-3.8	-3	-2.9	-2.5
	Portugal	-3.6	-10.2	-9.8	-4.4	-6.4	-5.5	-4
	Spain	-4.5	-11.2	-9.7	-9.4	-10.6	-6.5	-7
<b>Gross debt</b>	France	68.2	79.2	82.4	85.8	90.2	94	96.2
	Germany	66.8	74.5	82.4	80.4	81.9	81.1	78.6
	Greece	112.9	129.7	148.3	170.3	156.9	175.2	175
	Ireland	44.5	64.8	92.1	106.4	117.6	123.3	119.5
	Italy	106.1	116.4	119.3	120.8	127	131.4	132.2
	Portugal	13.4	23.6	30.5	34.7	37.8	38.6	38.5
	Spain	38.8	42.6	39.4	38.4	38.2	40.7	39

Source: European Commission- European Economic Forecast Spring 2013



*Although euro area countries had succeeded in cutting deficits in the past two years, average government debt has risen to 90.6 per cent in 2012 from 87.3 per cent a year earlier.*

# Compendium of labour market policies enacted or contemplated



Public Expenditure Measures			Public Revenue Measures		Labour Market Measures
Public wage freeze/cut	Reduction in the size of government	Pension reform and reduction in subsidies	Increase in social security contribution	Increase in income tax	Minimum wage
<b>Austria</b> -freeze for 2013 <b>Cyprus</b> - 10% cut for new entrants - freeze for 2 years <b>Czech Republic</b> - 10% wage cut - freeze at 2011 level <b>Greece</b> - 10% cut for local political staff - 15% cut in public sector salaries <b>Hungary</b> - freezing gross wage bill and abolishing bonuses <b>Ireland</b> - 10% pay cuts to new entrants <b>Italy</b> - freeze until 2014 - incremental cuts to central government ministries between 2012-2014 <b>Portugal</b> - 5% pay cuts for senior public sector staff and politicians <b>Romania</b> - 25% cut <b>Slovakia</b> - 10% cut in state wage bills <b>Slovenia</b> - 15% cut <b>Spain</b> - 5% wage cut in 2010, frozen in 2011 <b>UK</b> - freeze for 2 years until 2014	<b>Austria</b> - hiring freeze until 2014 <b>Belgium</b> - 5.5% during 2008 – 2012 <b>Cyprus</b> - 5000 over the next 5 years <b>France</b> - replacement freezing scheme affecting 30400 civil servants <b>Greece</b> - 1:10 hiring attrition rule - Reduction of 150000 public sector jobs until 2015 <b>Ireland</b> - reduction by 24750 staff over 2008 levels <b>Portugal</b> - recruitment freeze <b>Spain</b> - Hiring freeze in 2012 <b>UK</b> - 7.4% drop in public employment since late 2009 - 330000 jobs cut by 2014 (target) <b>Romania</b> - replacement of 1 staff for 7 leaving	<b>Austria</b> - stricter eligibility conditions on pensions and early retirement <b>Belgium</b> - retirement age from 59 to 62 <b>Bulgaria</b> - 1 yr increase of retirement age <b>France</b> - retirement age from 60 to 62 <b>Greece</b> - reduction of supplementary pensions 10-20% <b>Hungary</b> - removal of 13 <sup>th</sup> monthly pension - restrictions to disability pensions - reduction in housing, student, pharmaceutical subsidies <b>Ireland</b> - progressive tax-relieved levy on the gross pay of pensionable public servants <b>Italy</b> - increase in women retirement age to 65 - requirement to work 41 years before retirement <b>Luxembourg</b> - 10% cut of subsidies to companies <b>Romania</b> - increase in retirement age to 65 (men) / 63 (women) by 2030 <b>UK</b> - removal of child benefits for high income families	<b>Czech Republic</b> - increase for high income earners <b>Estonia</b> - increase in unemployment insurance tax up to 4.2% <b>France</b> - increase of 0.2 point of 2% social security contribution on capital income <b>Hungary</b> - increase by 1% <b>Italy</b> - extension of tax base <b>Latvia</b> - increase by 2 percentage points as of 2011 <b>Romania</b> - introduction of the obligation to pay 5.5% health contribution when income is higher than €173 <b>Slovakia</b> - nonmonetary benefits proved to employees became subject to social security and health contributions <b>Poland</b> - increase in disability pension contribution paid by employers by 2 percentage points	<b>Cyprus</b> - contribution on gross pensionable earnings (3%) - temporary contribution on gross earnings of public/ private sector employees for 2 years <b>Greece</b> - new progressive taxation scheme with 9 brackets (before: 4) with a 45% top rate (from 40%) in 2010 <b>Hungary</b> - increase in corporate income tax rate to 19% from 2010 <b>Italy</b> - 3% tax on individual income above €300000 <b>France</b> - temporary 3% increase on high income households - 5% increase in corporate tax <b>Portugal</b> - 3% increase in corporate tax rate <b>Spain</b> - temporary increase in personal income tax <b>UK</b> - increased tax for the wealthy <b>Latvia</b> - increase of the general rate from 23% to 26% in 2010 - taxation of fringe benefits in 2010	<b>Bulgaria</b> - Raise from BGN 270 to BGN 290 (monthly minimum wage as a % of average wage decline from 39.5% in 2008 to 33.7(p)% in 2011) <b>Greece</b> - Cut of 22% (32% for those under age 25) <b>Ireland</b> - one euro cut to €7.65 in 2010, reversed in 2011 <b>Spain</b> - freeze



Source: EC Stability and Convergence Programme, IMF Fiscal Monitor, October 2012, OECD Fiscal Consolidation Survey 2010

# The space for stimulus versus consolidation

Variations in budget balance, private net savings and the current account balance between 2007 and 2004 (in pps)

Region	Budget Balance	Private net savings	Current account balance
<i>Advanced economies</i>	2.28	-2.44	-0.16
<i>Newly industrialized Asian economies</i>	3.55	-3.02	0.53
<i>European Union</i>	2.02	-2.89	-0.87
<i>Central and eastern Europe</i>	2.19	-4.91	-2.71
<i>Commonwealth of Independent States</i>	1.91	-5.93	-4.02
<i>Developing Asia</i>	2.13	1.84	3.97
<i>Latin America and the Caribbean</i>	0.33	-0.98	-0.65
<i>Middle East and North Africa</i>	6.63	-0.46	6.17
<i>Sub-Saharan Africa</i>	0.93	1.89	2.82

Variations in budget balance, private net savings and the current account balance between 2012 and 2007 (in pps)

Region	Budget Balance	Private net savings	Current account balance
<i>Advanced economies</i>	-4.79	5.22	0.42
<i>Newly industrialized Asian economies</i>	-2.12	0.74	-1.38
<i>European Union</i>	-3.00	3.86	0.87
<i>Central and eastern Europe</i>	-0.62	3.99	3.37
<i>Commonwealth of Independent States</i>	-4.76	4.81	0.05
<i>Developing Asia</i>	-2.08	-3.57	-5.66
<i>Latin America and the Caribbean</i>	-1.28	-0.78	-2.05
<i>Middle East and North Africa</i>	-5.09	2.83	-2.26
<i>Sub-Saharan Africa</i>	-3.56	-0.95	-4.50
<i>United States</i>		8.0	
<i>Ireland</i>		9.0	
<i>Japan</i>		9.0	
<i>Spain</i>		7.0	
<i>United Kingdom</i>		5.0	

Source: IMF, World Economic Outlook Database, October 2012





# So what policy can be advocated responsibly?



- Short term stimulus in Europe – medium term austerity
- IMF studies 173 budget cuts in countries – consistent contraction (Guajardo, Leigh, and Pescatori; Ball, Leigh, and Loungani; Rogoff, Reinhart; Pollin, Ash and Herndon)
- Balanced budget multiplier a la Stiglitz – capital markets don't like big deficits – but high expenditures matched by high revenues – raise aggregate demand, but won't raise deficits or bond yields
- Policy sequencing – fiscal policy, conventional monetary policy –  $r$  & liquidity, unconventional monetary policy, govt buys bonds – to cut  $r$ , increase HH and firm liquidity to raise expenditures &  $I$
- Mutualisation of debt; lending of last resort to banks: De Grauwe
- Brussels summit 28 June, agreed to EFSF lending directly to bank
- Targeting stimulus better towards the real economy – Policy inventory results
- Structural problems in labour market have to be addressed
- Subsidising the tax wedge on wage is different from cutting down the tax wage, coz aggregate demand doesn't fall with the subsidy
- Wage subsidies have worked – Kurzarbeit in Germany
- But wage cuts to increase competitiveness won't work because of:



(i) interest rate zero lower bound; (ii) Beggar my neighbour; (iii) zero sum