Regional slowdown underlines urgency for new macroeconomic policy paradigm

With Asia and the Pacific showing signs of strain arising from persisting uncertainty in developed nations, it is time to reorient macroeconomic policies to address structural impediments to growth by promoting inclusive and sustainable development in a region with nearly two-thirds of the world’s poor and widening income inequalities despite rising prosperity.

Taking up the call by world leaders at the landmark June 2012 United Nations Conference on Sustainable Development, also known as Rio+20, to adopt forward-looking macroeconomic policies to realize “the future we want”, the Survey makes a strong case for ending decades of neglect of the developmental role of macroeconomic policies.

The oil prices shocks in the 1970s and the 1980s Latin American debt crisis contributed to the primacy of inflation targeting over the distributive and developmental role of fiscal policy believing that this is good for growth which, in turn, will generate resources for poverty reduction and other development goals.

However, there is little empirical basis for such a belief. Countries with low single digit inflation and low budget deficits were not immune to economic crisis nor were their growth performances spectacular. On the other hand, the Republic of Korea saw real growth of 8 per cent in the 1960s and 1970s amid double-digit inflation while Indonesia grew by 7.7 per cent in the 1970s with inflation over 17 per cent. They also saw a rapid decline in poverty -- for example, from around 60 per cent to around 11 per cent in Indonesia. In recent years, Kyrgyzstan, the Lao People’s Democratic Republic, Mongolia, Sri Lanka, Tajikistan and Uzbekistan have grown at more than 5 per cent despite relatively high inflation levels.

There is strong evidence of public social investment stimulating growth as evident in the dramatic economic transformation in East Asia starting in the 1960s with universal provision of basic education playing a crucial role. A study of East and South-East Asia shows that a 1 per cent increase in mean years of schooling can raise GDP growth by between 0.24 and 0.45 per cent.

A job guarantee, improved income security, access to health care, education, and modern, efficient energy sources can empower hundreds of millions of economically and socially marginalized people in the Asia-Pacific region who will both contribute to GDP growth and become new drivers of domestic consumption demand.

The Survey estimates the public investment required in ten Asia-Pacific countries to finance a package of policies to strengthen the social and environmental pillars of sustainable development, including (i) a 100-day-per-year job guarantee to all informal sector workers; (ii) a universal pension; (iii) disability benefits to all persons with disabilities; (iv) universal health coverage by 2030; (v) universal basic schooling by 2030; and (vi) universal access to modern energy services by 2030.

ESCAP calculations show the spending needed would range between 5 and 8 per cent of GDP. A macroeconomic simulation exercise shows such investment would not jeopardize fiscal sustainability and price stability, making this a win-win policy approach for people, planet and the economy.