Note for ECOSOC Roundtable dialogue on

Growth, poverty reduction and equity: The emerging paradigm

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The world economy is currently in the midst of an economic boom, reflected in high commodity prices, increased rates of income growth for a number of developing countries and improved balance of payments for the developing world as a whole as shown in current account surpluses and increased capital flows. These have involved a tendency to more convergence of per capita incomes across the countries of the world than was evident in the previous decades. Yet this boom has also highlighted some major weaknesses in the pattern of growth.

The most important weakness is that high income growth is not generating adequate employment growth, especially of "good quality" employment. This is even true of the fastest growing developing countries such as China and India, where rates of open unemployment are increasing sharply even as GDP growth continues to be high. In other developing countries, employment has stagnated, and everywhere the quality of employment has deteriorated for a large proportion of workers.

Recent economic growth has also been accompanied by sharp increases in inequality in most countries. This has meant that poverty reduction has been much slower than could be expected, given the rate of aggregate growth. New forms of poverty have emerged, especially among unskilled migrants and marginalised groups In general, citizens of the developing world experience greater volatility of incomes, more material insecurity, and reduced access to what used to be called "basic needs" and public services. A critical feature is the persistence of agrarian crisis in much of the developing world, despite a period of relatively high agricultural prices in world trade. The economic boom has also been associated with accelerated degradation of natural resources in the developing world, with adverse long-term consequences.

Many of the problems listed above can be traced at least partly to low and insufficient levels of public expenditure in critical areas such as physical infrastructure, agriculture and rural development, health, sanitation and education. And this reflects the fact that across the developing world, rigid norms of fiscal discipline have imposed deflationary policies upon governments, whereby expenditure in these critical areas becomes constrained.

The international correlate of this is a new pattern of global imbalances. In the past few years developing countries have been providing net resources to the rich countries, particularly the US. Developing country governments increasingly do not spend all their foreign exchange receipts (whether these come through export surpluses or capital inflows or foreign aid) because of the fear of the adverse effects of currency appreciation and the felt need to keep higher levels of foreign exchange reserves to guard