Global Imbalances

Amar Bhattacharya gave a comprehensive overview of key data highlighting the importance of emerging countries to global growth. Furthermore, he noted that underpinning this growth are increases in domestic savings and, to some extent, elevated commodity prices. Rising commodity prices are not, however, unambiguously good for developing countries. Thirty-eight of the forty low-income countries are net food importers, and thirty-five are net fuel importers.

He outlined two key paradoxes characterizing modern capital flows. The first is the paradox of capital flowing "uphill," that is, from developing to developed markets. The second is the paradox of developing countries exporting safe capital and importing risky capital. He drew attention to the large needs for capital investment around the world, particularly in the areas of agriculture, infrastructure, and climate. Such investment is needed to meet an expanded set of Millennium Development Goals, ensure food security, and develop tools of climate change adaptation and mitigation. Given the failures of financial markets to allocate savings to these areas of obvious importance, it is critical to design new mechanisms to recycle savings, perhaps between Southern partners.

Lord Nicholas Stern underlined the profound scale of change that was needed to keep the impact of global warming within the critical two degree increase. In confronting the myriad of contemporary challenges, he argued that it was critical to employ an integrative strategy. Approaching each issue on its own was an insufficient approach. He also noted that there was a necessity of building platforms across and between broad classes of public and private investors.

Professor Joseph Stiglitz challenged the idea that the global economy was characterized by a savings glut. Such an approach constituted a misdiagnosis of contemporary economic problems. Instead the economy was experiencing a shortfall in global aggregate demand. The global economy was experiencing, in other words, an investment as opposed to savings glut. He also noted that existing institutions were having problems confronting contemporary economic challenges and reacting to the shifting balance of power. As a result, profound institutional changes were needed in global economic governance.

Patrick Bolton, the panel moderator, asked the presenters about their thoughts on new global economic governance. The panelists suggested that southern states should ignore the usual opposition from some of the developed world and push forward with establishing new institutions.

Responding to a question about PPPs, Nicholas Stern noted the power of example. Governments may reduce policy risks, but it is important not to go it alone. Joseph Stiglitz remarked that it is important to steer clear of those PPPs where the private earns the profit while the public gets the losses. Amar Bhattacharya noted that it was probably true though that infrastructure would need a subsidy component. Furthermore, collaboration across sovereign wealth funds would likely be very worthwhile.