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# International Economic and Financial Conditions

Agricultural Outlook Forum 2003

John B. Taylor

Under Secretary of Treasury for International Affairs

February 20, 2003

# Global Outlook and Policy

- Two things that matter
  - Economic *growth* (***productivity growth***)
  - Economic *stability*
- Worldwide
  - Industrial Countries
  - Developing and Emerging Market Countries

# Recent Productivity Growth (Past 10 years)

• East Asia	5.5
• United States	2.1
• Europe	1.2
• Latin America	0.7
• Middle East	-0.1
• Sub-Saharan Africa	-0.5

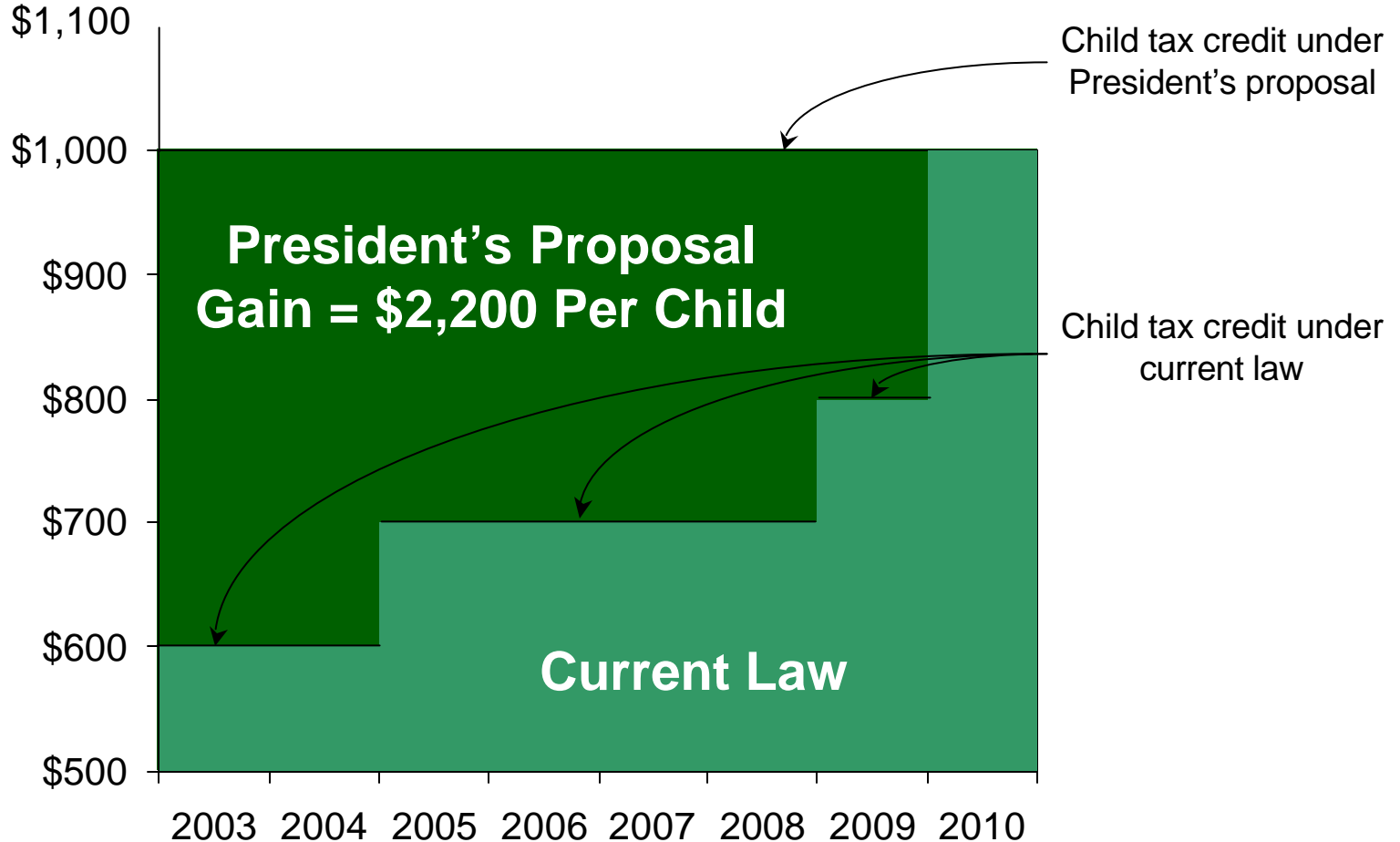
# Recent Trends in Economic Stability

- Industrial Countries:
  - recessions shorter, less frequent
- Emerging Market Countries:
  - Increase in financial crises in the 1990s
  - 60 percent more than the 1980s
  - 15 major crises since 1994 Mexico crisis
- Common elements:
  - Fixed exchange rate
  - Currency mismatches
  - Poorly regulated and supervised financial sector

# Two Key Components of Jobs and Growth Package

- Accelerate Tax Cuts of 2001
- Eliminate double tax on dividends

# Child Tax Credit



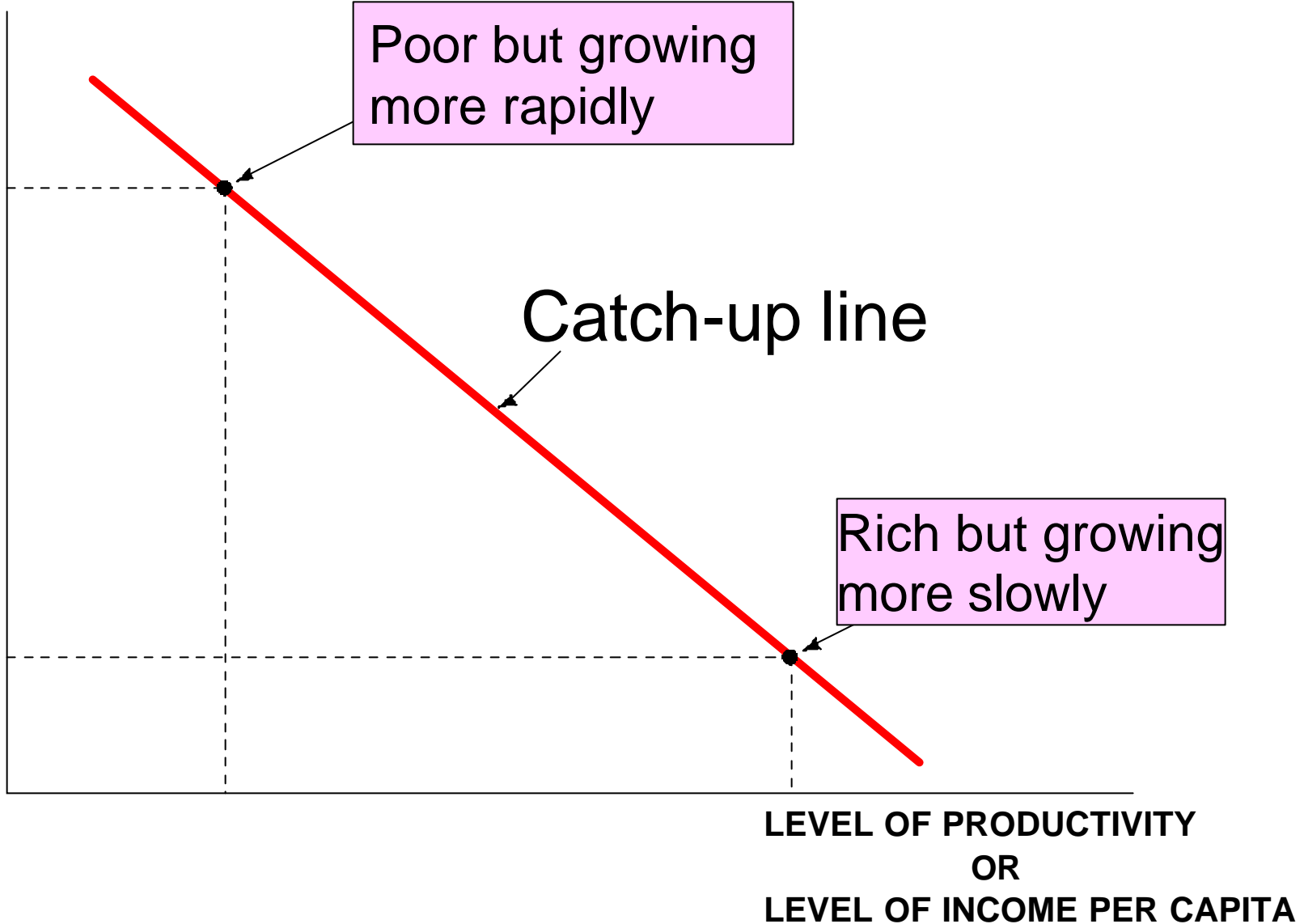
*Significantly larger tax credit for children now to bolster the expansion and create jobs.*

# Why Is Productivity Growth So Low In Many Poor Countries?

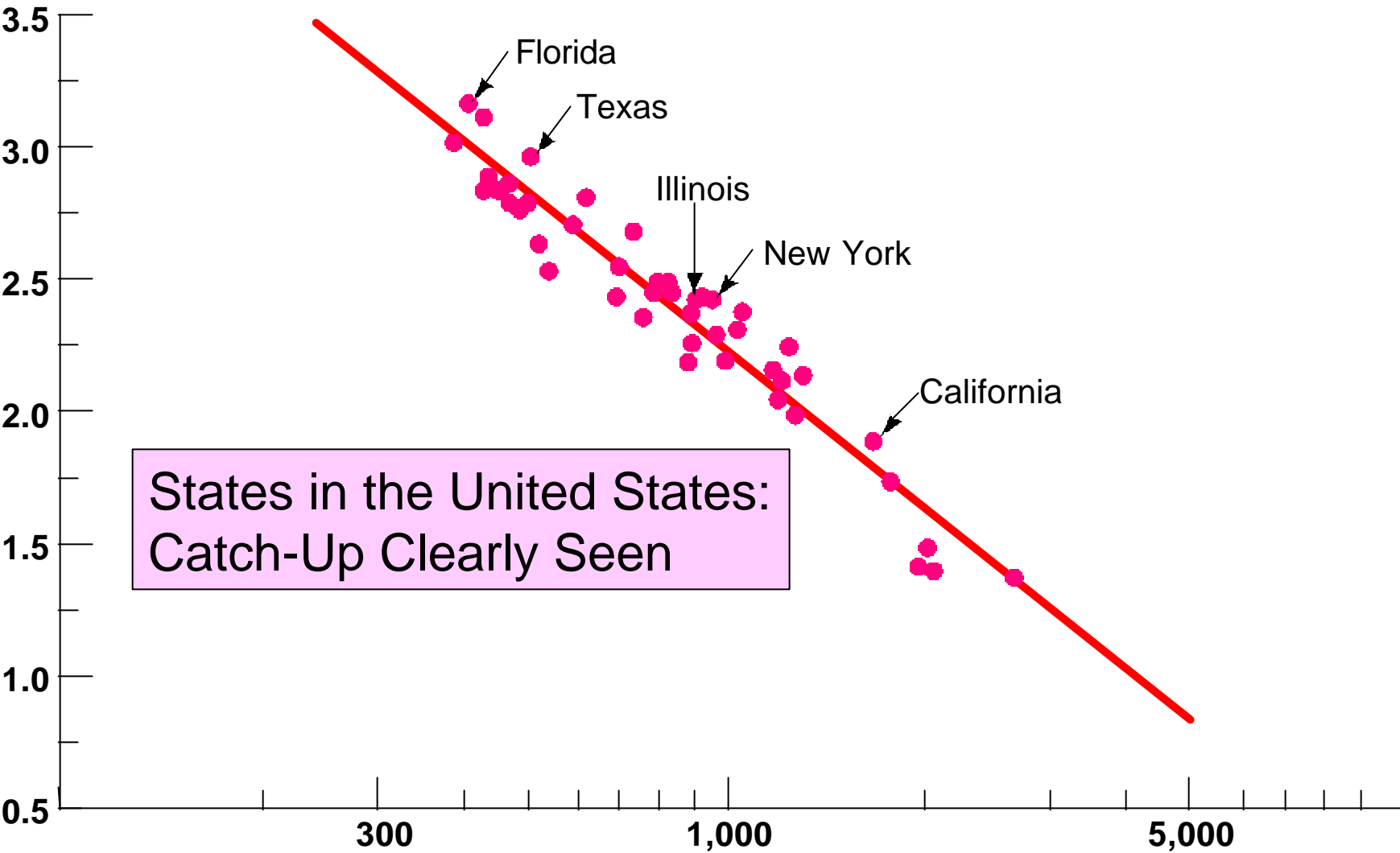
- Productivity ( $Y/L$ ) depends on:
  - **capital** ( $K/L$ ) and **technology** ( $T$ )
- If there are no impediments to the spread and use of *capital* and *technology*, then countries behind in productivity should **be catching-up**
- Capital and technology would go to where they are relatively scarce because the returns are so high



GROWTH RATE OF  
PRODUCTIVITY  
OR  
GROWTH RATE OF  
INCOME PER CAPITA



# GROWTH RATE OF INCOME PER CAPITA, 1880-1980

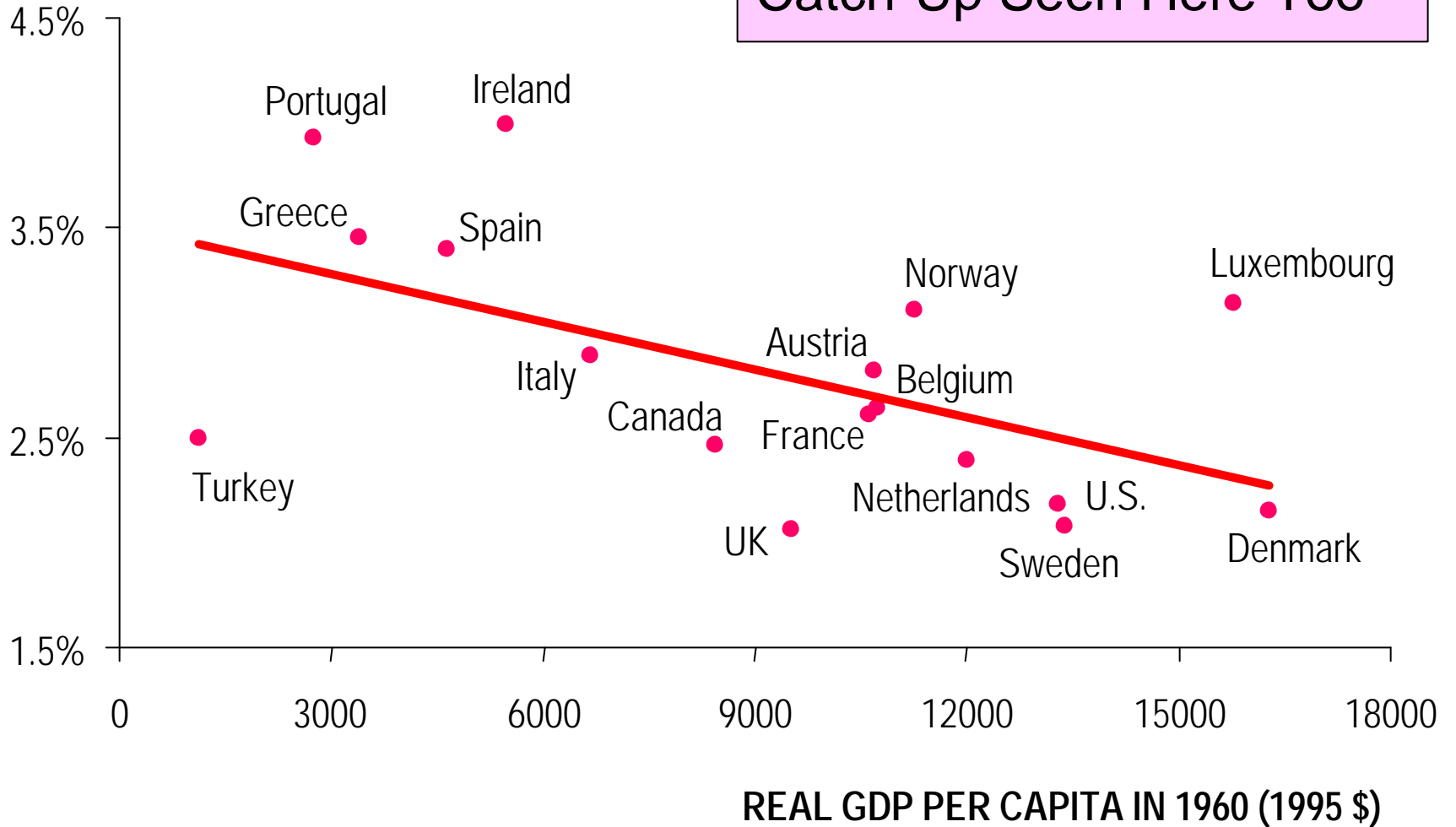


States in the United States:  
Catch-Up Clearly Seen

INCOME PER CAPITA IN 1880  
(RATIO SCALE)

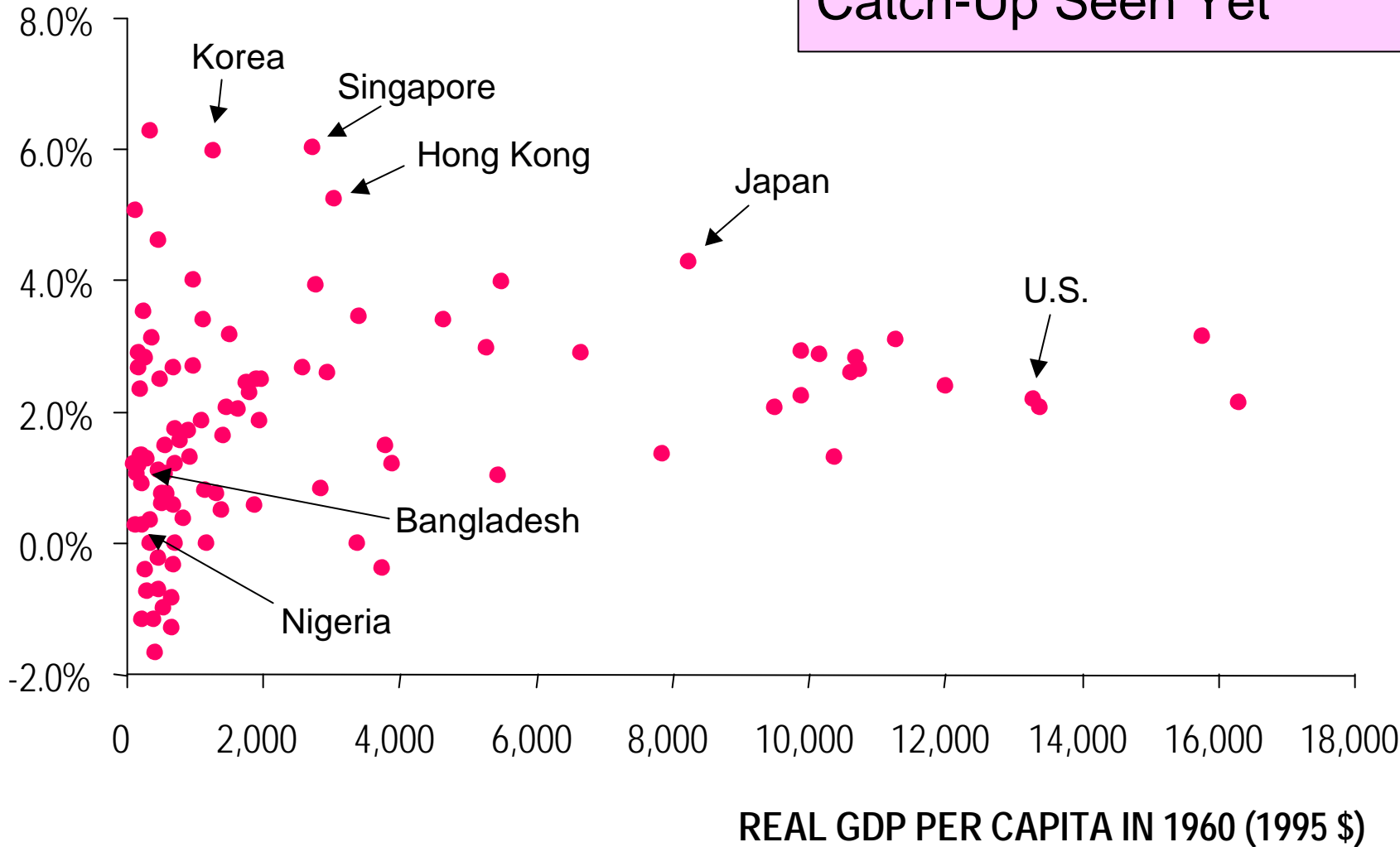
# ANNUAL GROWTH RATE OF REAL GDP PER CAPITA, 1960-1999

More Advanced Countries:  
Catch-Up Seen Here Too



# ANNUAL GROWTH RATE OF REAL GDP PER CAPITA, 1960-1999

All Countries: Not Much Catch-Up Seen Yet



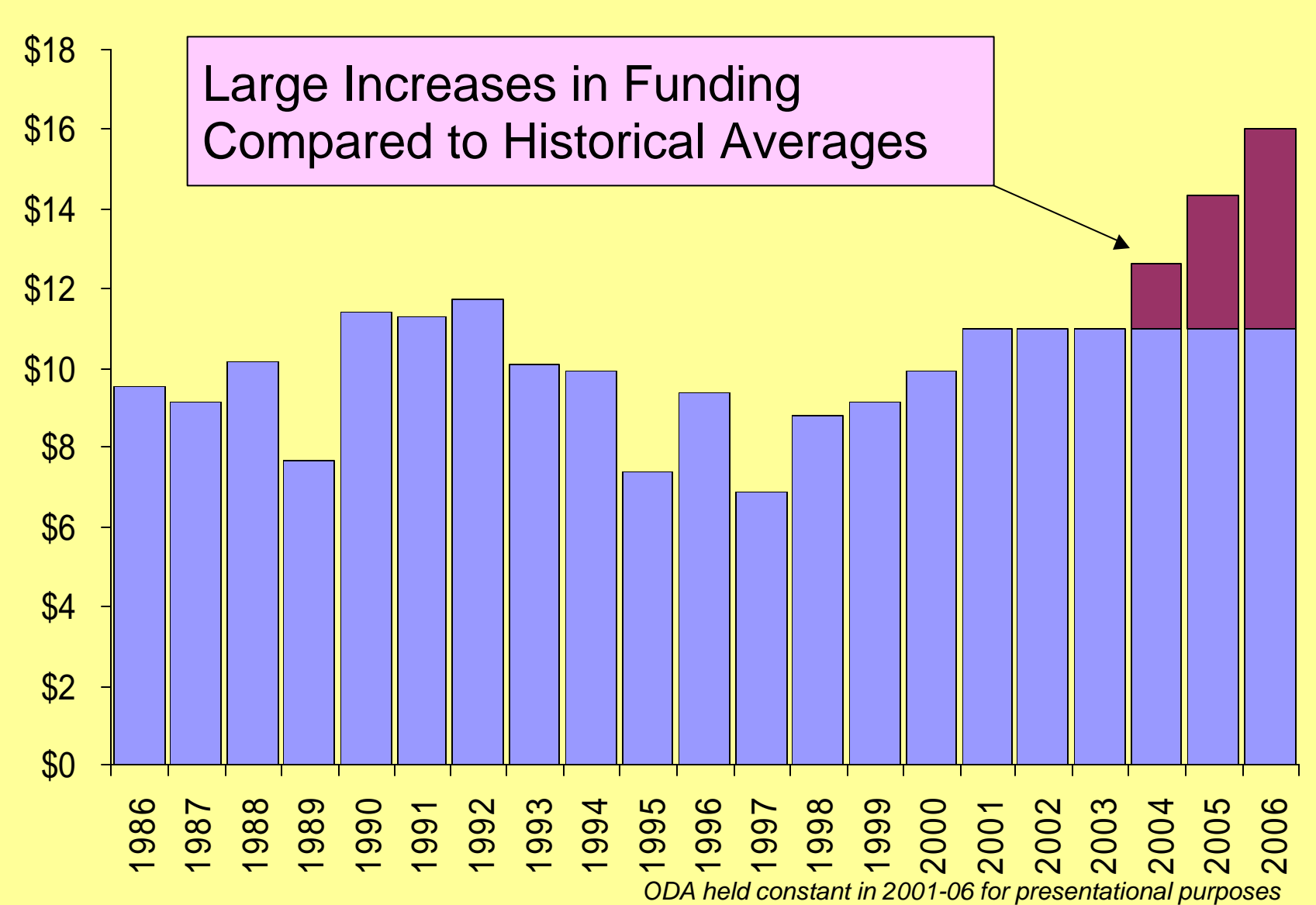
# Why Isn't There More Catch-Up

- Poor governance
  - weak rule of law, corruption
  - creates disincentives to invest, to start up new firms, to expand existing firms
- Poor education
  - reduces human capital
  - impedes adoption of new technologies
- Restrictions on economic transactions
  - lack of openness to trade, state monopolies, and excessive regulation
  - reduce incentives for innovation and investment needed to boost productivity

# The New Foreign Aid Agenda

- **Increase foreign aid**
  - (1) Funding for Millennium Challenge Account to increase to \$5 billion a year by 2006 — a 50% increase over and above existing U.S. development assistance
  - (2) Contribution to World Bank's International Development Association (IDA) increase by 18%
  - (3) Larger fraction of IDA aid in form of outright grants rather than loans
- Let **good performance** determine which countries get aid for economic development
- Insist on **measurable results**

# U.S. OFFICIAL DEVELOPMENT ASSISTANCE US\$ BILLION, 1986-2006



# Good Policy Performance is Part of the Millennium Challenge Account

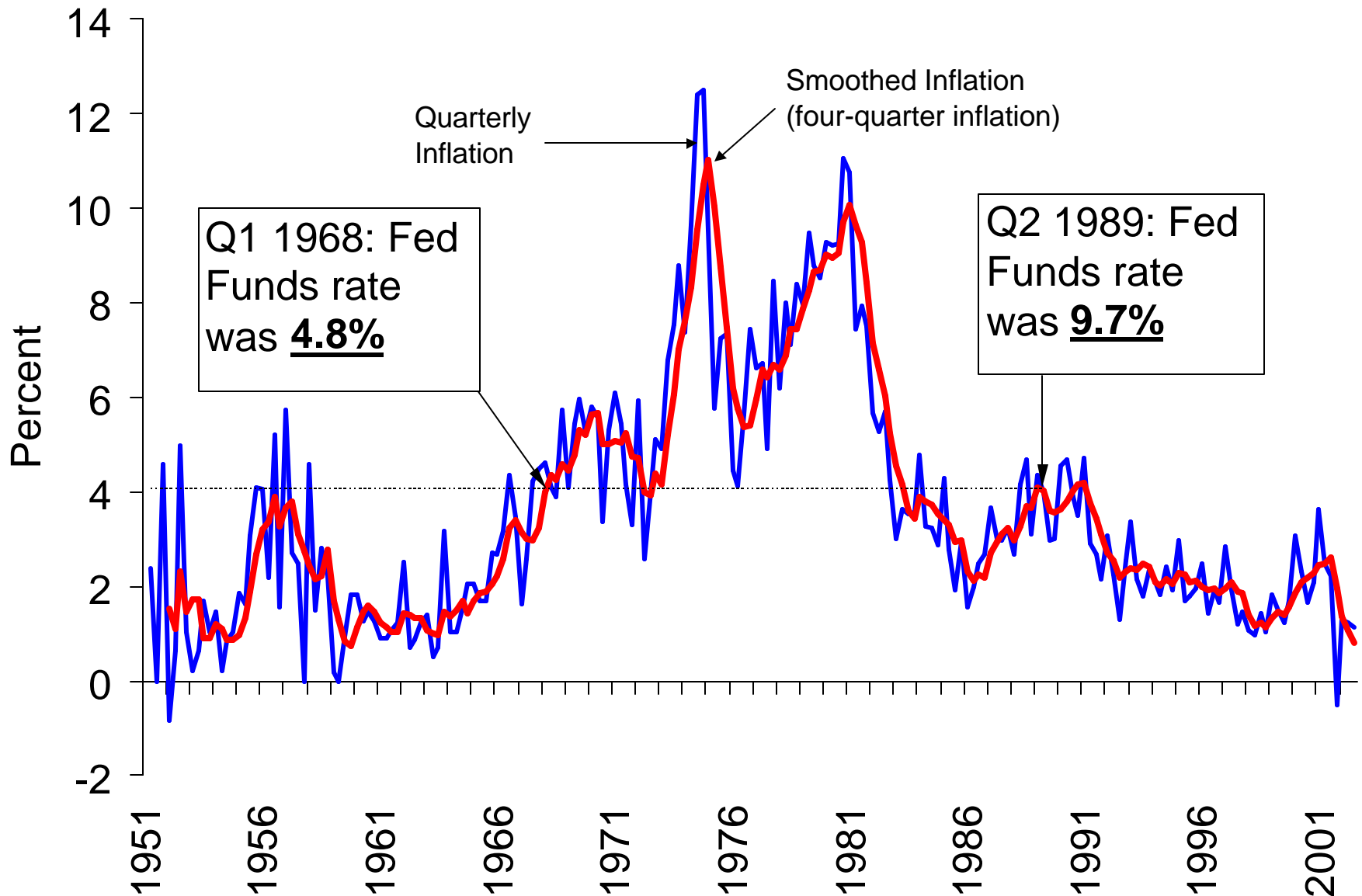
- “Ruling justly”
  - lack of corruption, rule of law
- “Investing in people”
  - good education and health policy
- “Encouraging economic freedom”
  - good trade and macro policy



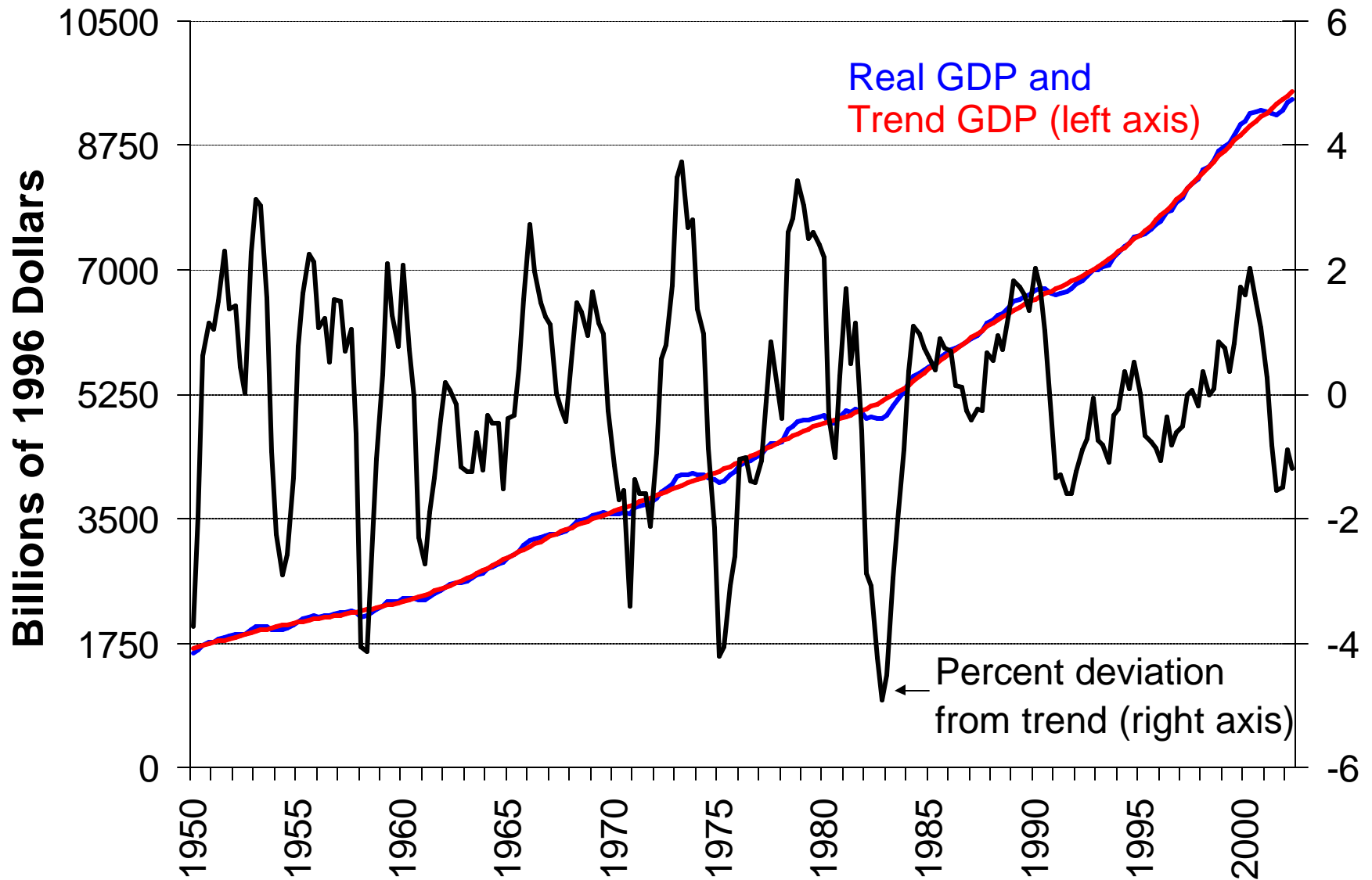
# International Monetary Policy Today

- **47** countries with flexible exchange rates and low inflation goals
- **50** countries either dollarized, in currency unions, or using currency boards
- **75** with fixed or heavily managed exchange rates
- **7** with multiple exchange rate regimes (way down)

# U.S. Inflation



# U.S. Real GDP



# Emphasis on Crisis Prevention

- EM Countries: Get own policies right
- IMF: focusing on core policy issues: monetary, fiscal, exchange rate
- US/G7/G20:
  - Develop better models/indicators (bluechip)
  - Emphasize difference between economic and non-economic considerations

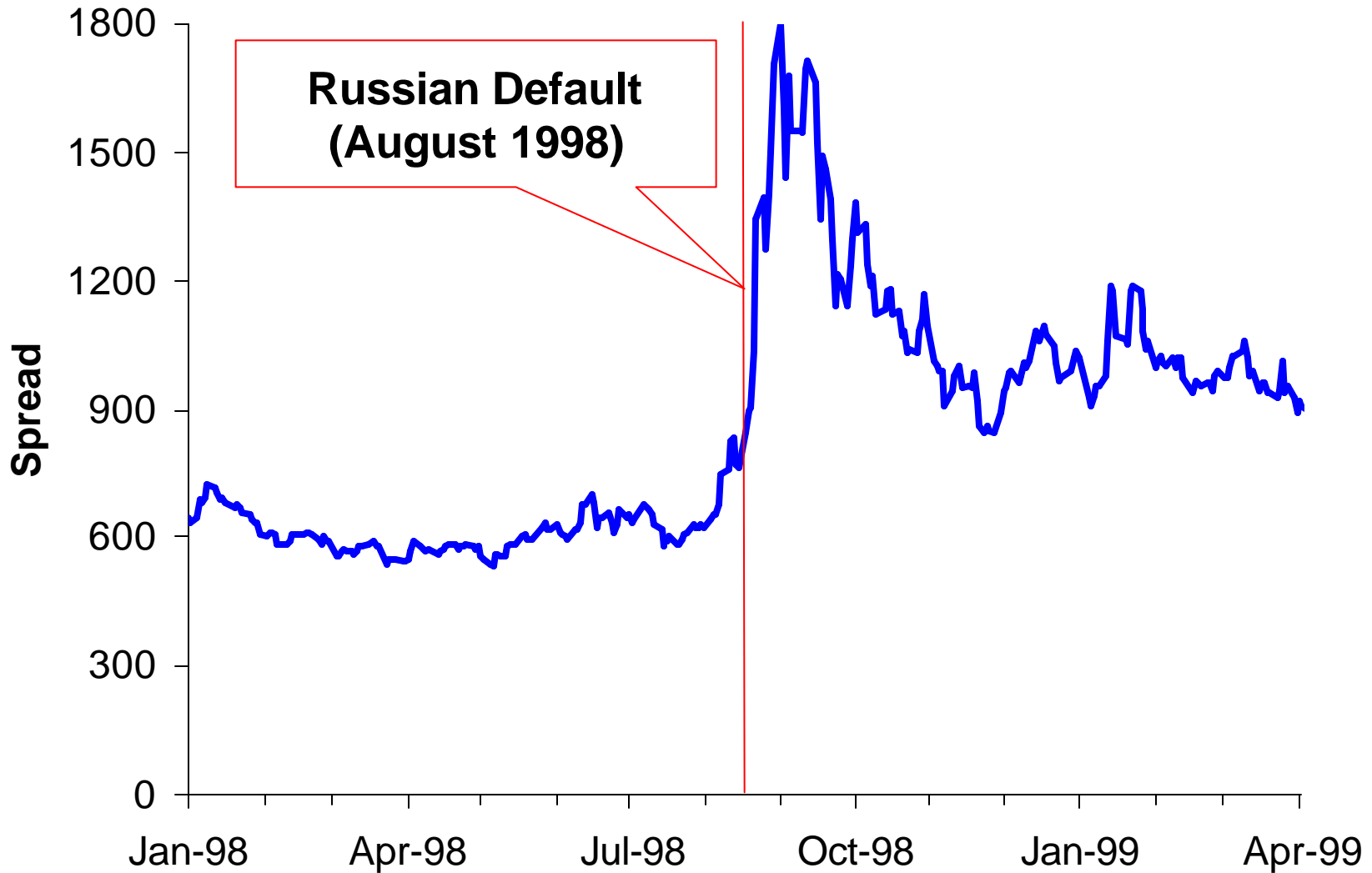
# Reducing Contagion

- Need not be “automatic”
- Greater differentiation—policies, countries
- Policy response:
  - assistance to impacted countries if policies are good e.g., Uruguay (2002)
- Results very favorable
  - Contagion is way down
  - Many crises have been prevented

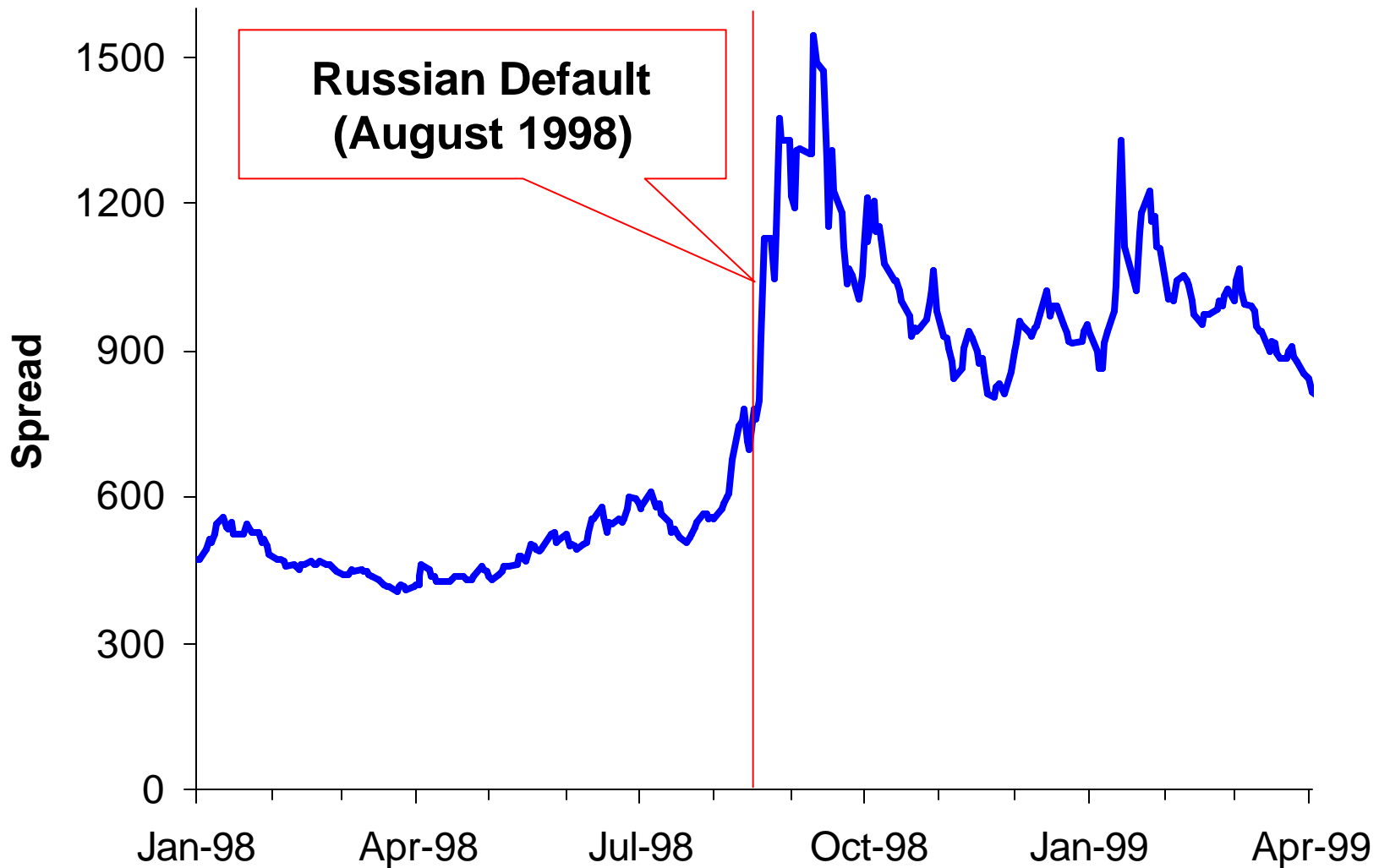
# Asia EMBI+ (1998-1999)



# Africa EMBI+ (1998-1999)

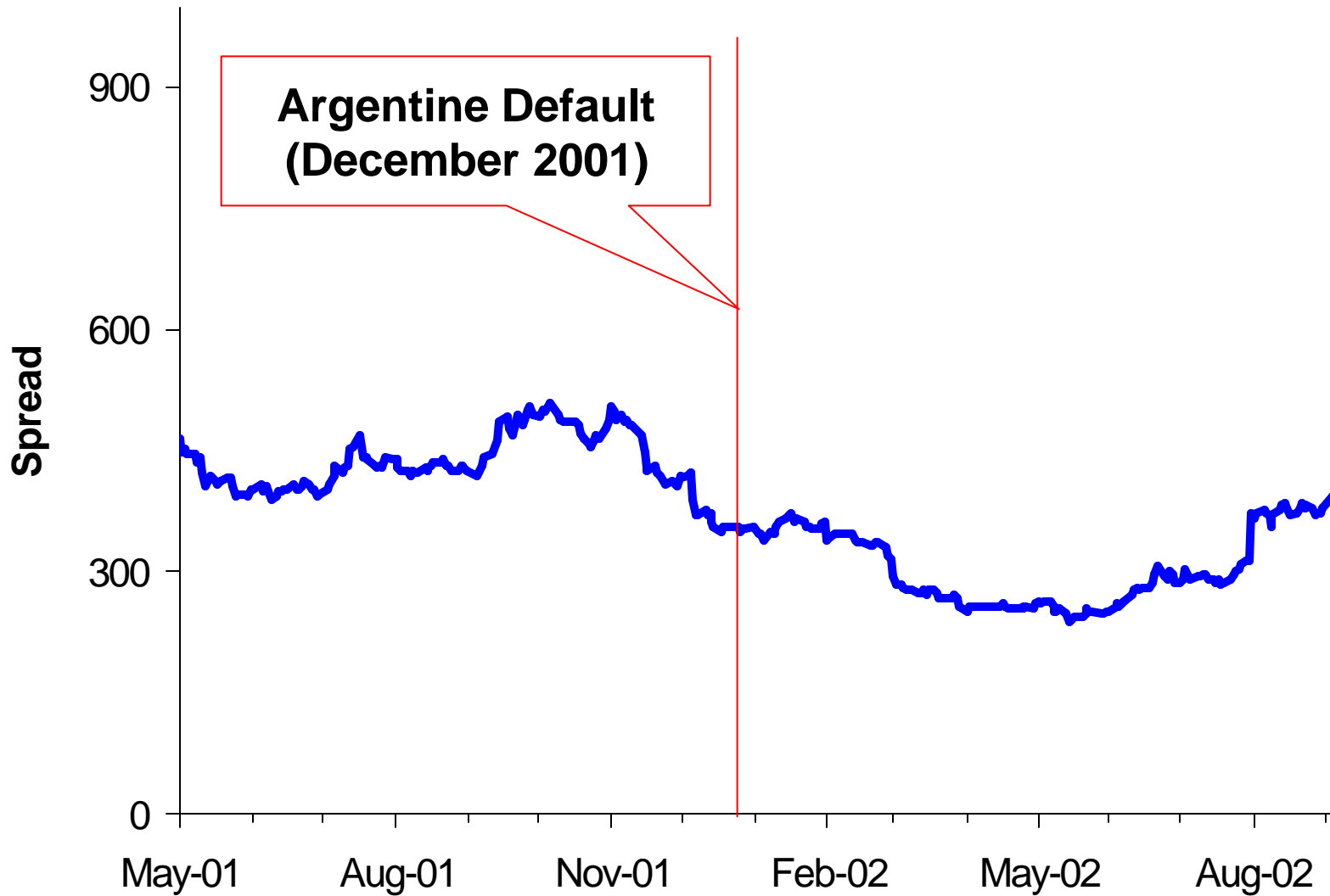


# Latin America EMBI+ (1998-1999)

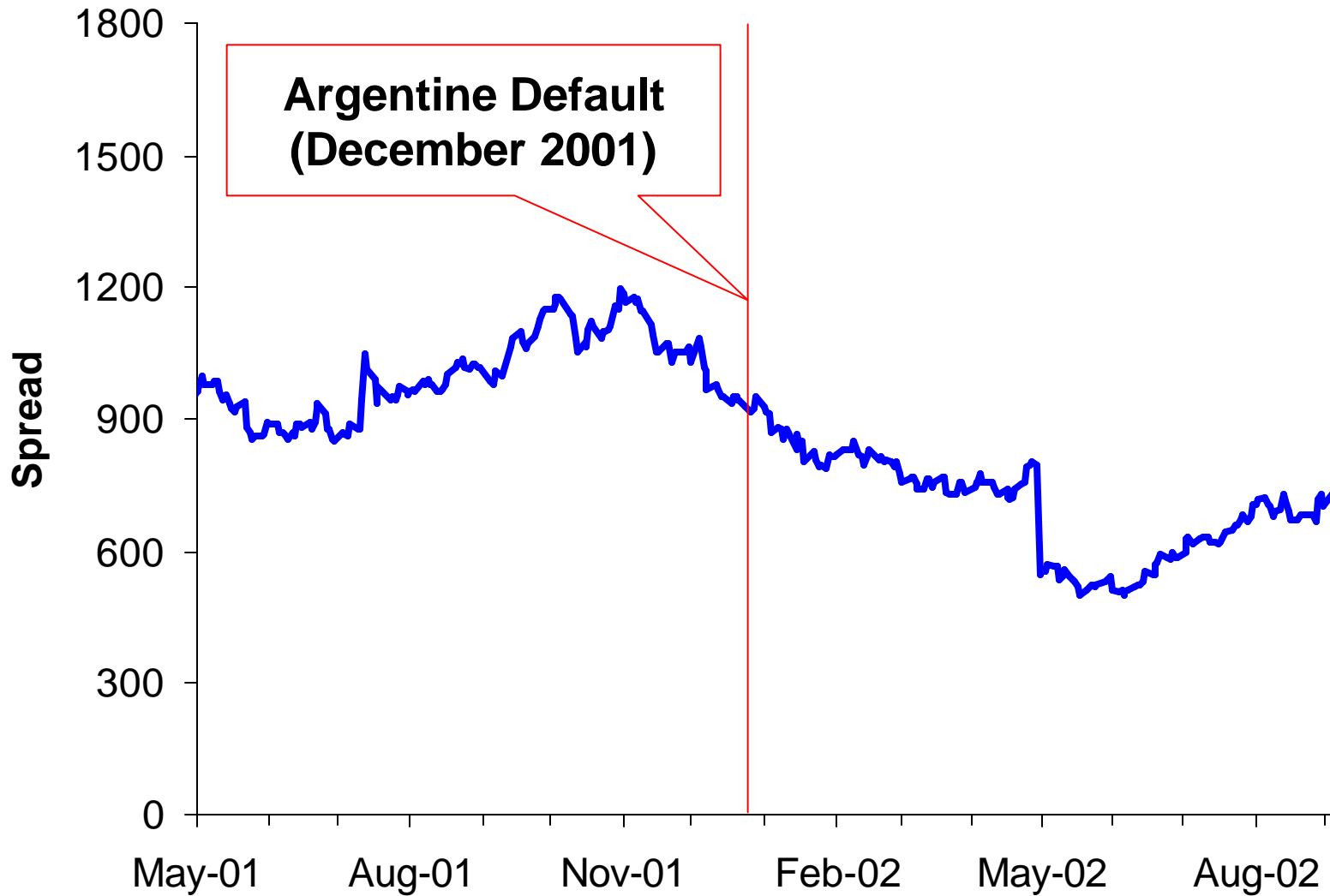




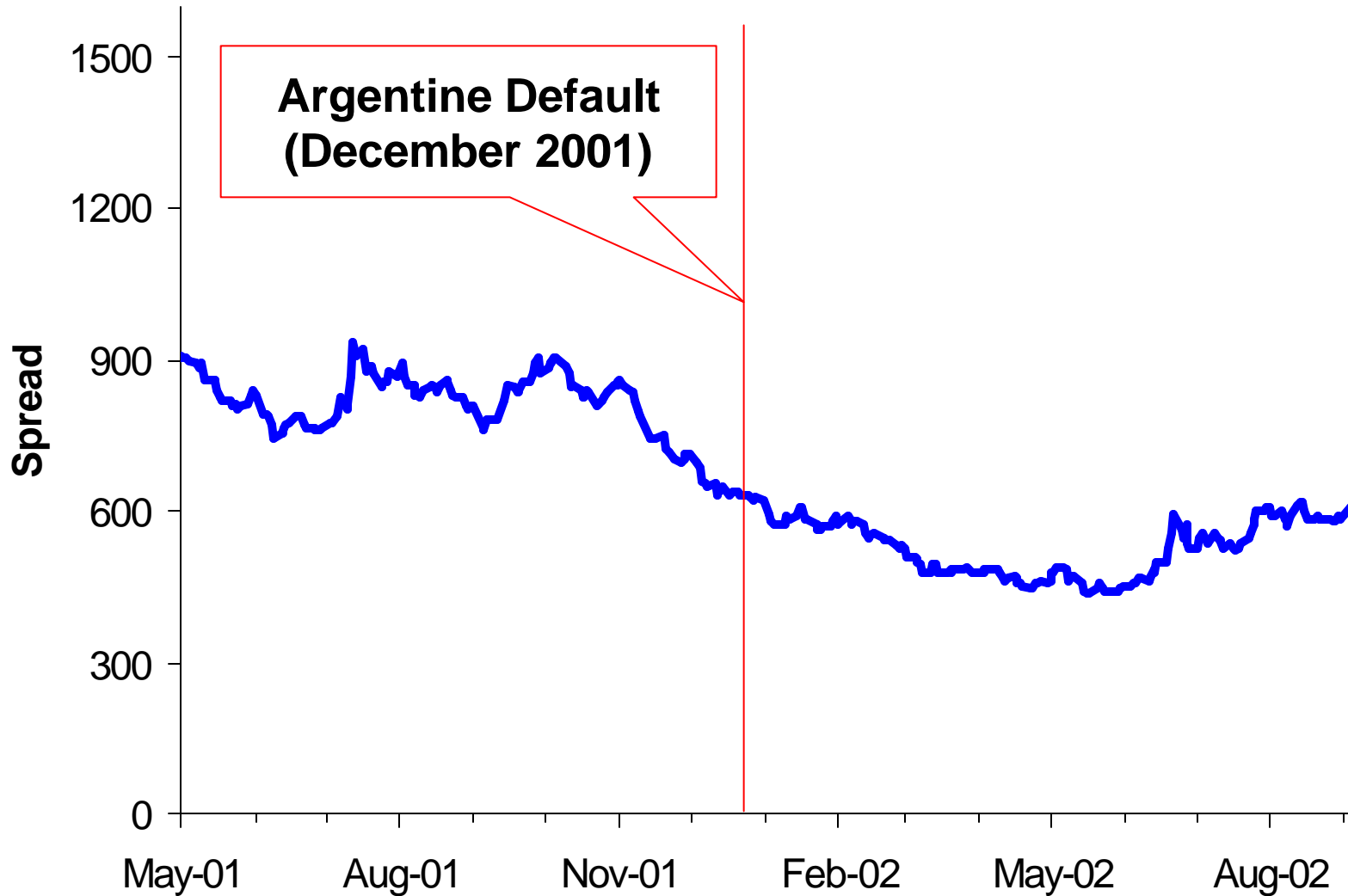
# Asia EMBI+ (2001-2002)



# Africa EMBI+ (2001-2002)



# Europe EMBI+ (2001-2002)



# Clarifying Limits on Loan Access

- Move gradually in direction of less reliance on large assistance packages
  - No lending into unsustainable situations
- Avoid use of large-scale bilateral loan assistance: IMF is main source of emergency support
- Formally justify exceptional access

# Reform Process for Sovereign Debt Workouts

- More orderly and predictable
  - But not more likely
- Two approaches
  - Decentralized: Insert contingency clauses in bonds
  - Centralized: create international panel or court