

# Global Ramifications of Reoriented US Policies towards Employment Generation

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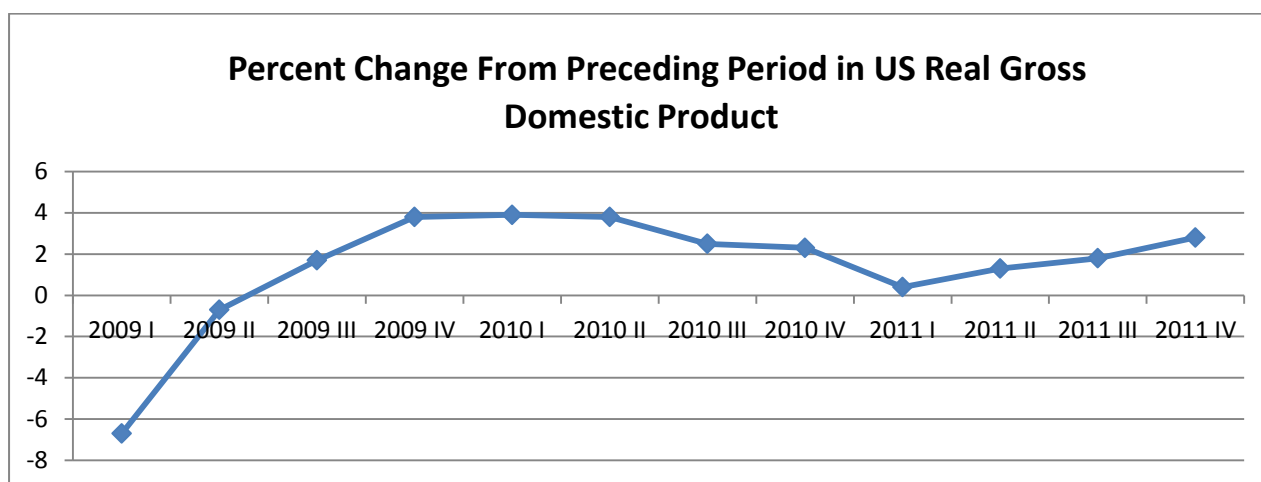
## AUGUR Working Paper for Work Package #1

### Introduction

The US economy suffered one of the worst recessions of the post-World War II era. Only in the third quarter of 2009 did it come out of the negative GDP growth rate of 2008-09. Thereafter, on a quarterly basis, it has grown between 2 and 4 per cent, with the exception of first quarter of 2011 (Graph 1).

Surprisingly, this recovery in the GDP growth rate has not been accompanied by a corresponding increase in employment. During the recovery period, the unemployment rate actually increased from 8 per cent, which was already high, to around 10 per cent (Graph 2). Only in the latter part of 2011 did it begin to come down. In spite of some recovery of the GDP growth rate, unemployment remains a major concern for the US.

Graph 1



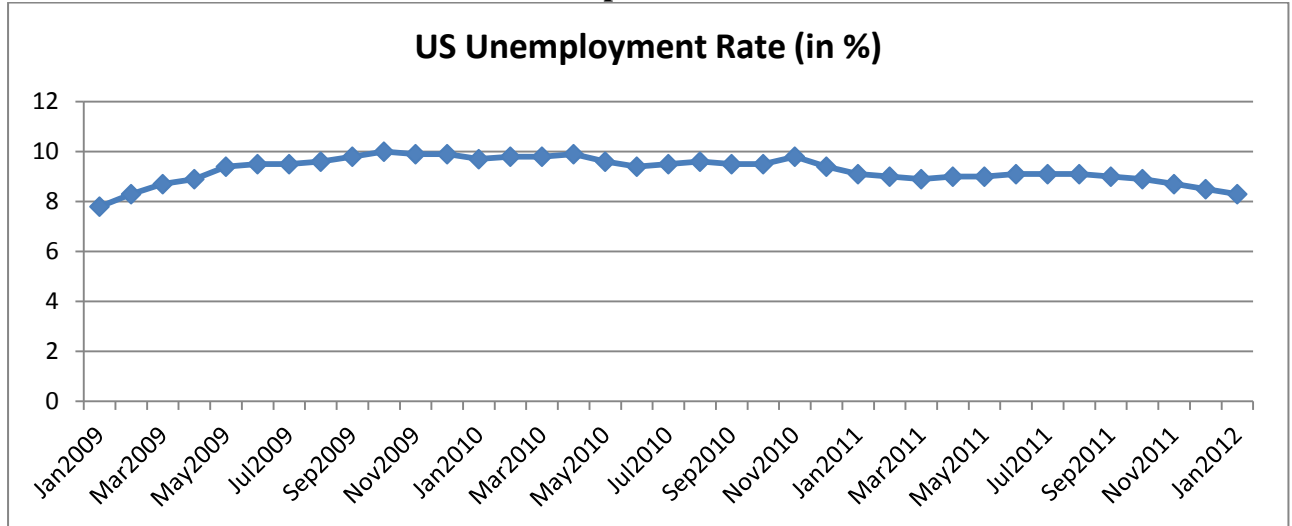
Source: Bureau of Economic Analysis, US Dept. of Commerce

If we look at the recent policy discourse in the US Congress, there is clear pressure from Republicans on President Obama to reduce government expenditure and taxes. For the financial year 2012, the Republican proposal known as ‘The Path to Prosperity’ or ‘the Ryan Plan’, was announced on April 5, 2011.

This plan aims at expenditure cuts of \$5.8 trillion over ten years. But it also aims at reductions in tax income by \$4.2 trillion below current projections. The plan makes major

changes to healthcare and Social Security, which are expected to pass more of the costs of such programs onto individuals. The plan will also reduce energy research and other applied research and development expenditures.

**Graph 2**



Source: Bureau of Labour Statistics, US Dept. of Labour

In response to the Republican victories in the 2010 Congressional elections, President Obama's administration targeted reductions in annual fiscal deficits. The Bowles–Simpson Commission, set up by the President in 2010, recommended steep reductions in domestic and military spending, elimination of many tax breaks in return for lower overall rates, and reduction of benefits for Social Security and Medicare. However, the plan did not receive the number of votes within the commission needed to be directly sent to Congress.

The budget proposal of 2012 represented a shift from the Obama administration's strategy in previous years of using increased government spending, such as the American Recovery and Reinvestment Act of 2009, to tackle the recession. The 2012 budget plan projects cutting deficits by \$1.1 trillion over the next ten years. This is to be implemented through making selective cuts in spending, while increasing support in specific areas such as education and clean energy in order to promote long-term economic growth.

The long term trends of the US economy show that average annual employment growth is close to zero. And the average growth rate of GDP generally has a central tendency towards the range of 2-3 per cent. So long term trends show a low output growth and very low employment growth (Graph 3).

US output and employment growth in the last 30 years has usually responded to recessions with an ensuing boom period. And all of these boom periods have been associated with

excess lending by the financial system. This phenomenon has led to a credit boom-and-bust cycle. This had happened because of ambitious speculation about the future growth of some key sectors.

The boom period of the 1990s was associated, for example, with innovations in information technology, which created huge speculation about its high growth potential. But this boom ultimately culminated in the 'dot com bust' in 2001. This crash helped send the US economy into a deep recession. And the economy was revived with the housing boom speculation, which led, in turn, led to excessive lending to this sector. Ultimately, this cycle led to the subprime market crisis and the economy thereafter fell into a much bigger recession.

This pattern represents a break from the experience of the period between WW-II and the early 1970s, when both output and employment grew steadily and there was no deep recession. This period was generally associated with a broadly Keynesian policy framework based on relatively high levels of government spending.

After the 1970s, however, there was a marked change in the policy framework across the advanced capitalist countries. Government expenditures have been reduced and monetary policy has been increasingly used to reduce inflation. The responsibility for ensuring growth has been increasingly placed on the private capitalist sector. Consequently, there has been generally low output and employment growth and periodic credit boom-bust cycles.

**Graph 3**



Source: CAM Database

After 2007 and following the subprime market crisis, the US economy has experienced a sharp recession. Both output and employment fell drastically. US policy makers have been

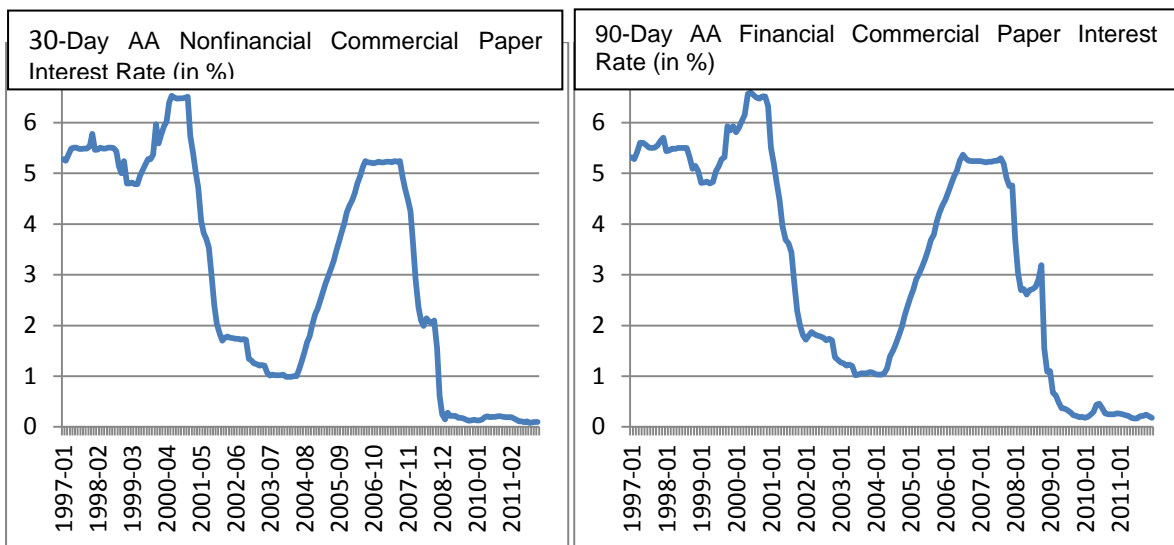
struggling to identify the policy options necessary to stimulate higher rates of economic growth.

As already mentioned, there have been generally two different policy approaches to reigniting higher rates of economic growth and employment expansion in the US. On the one hand, there is the policy prescription, largely suggested by the Republicans, which involves the continuation of low fiscal expenditures coupled with low taxes, expansionary monetary policies designed to incentivize the private sector to invest, and policies for liberalized trade and capital flows. On the other hand, there is a policy paradigm, which is usually associated with the Democrats, which recommends higher government expenditures, higher taxes on the rich and more restrictive trade policies.

The objective of this paper is to use the CAM model to simulate the impact of these two alternative economic policy packages. By using the CAM model, we will try to simulate different scenarios for the US economy and the world economy based on alternative sets of policies adopted by the US government to tackle the problem of unemployment. The alternative sets of policies have been based on the ongoing policy struggle between Republicans and Democrats.

The first set of policies or scenario 1 can be described as representative of the Republican policy orientation. This policy framework has the following dimensions: government will reduce taxes and spending, and thus allow the private sector to take the initiative in restoring growth and ensuring employment. This policy framework is compatible with a free trade regime. Thus, there are only minimal attempts to pressure China to revalue its exchange rate and few attempts to change the tax structure in order to reduce the incentive for the outsourcing of production. By and large till now, the US has followed free trade policies, with the attempt to maximize the benefits from WTO global agreements.

**Graph 4**

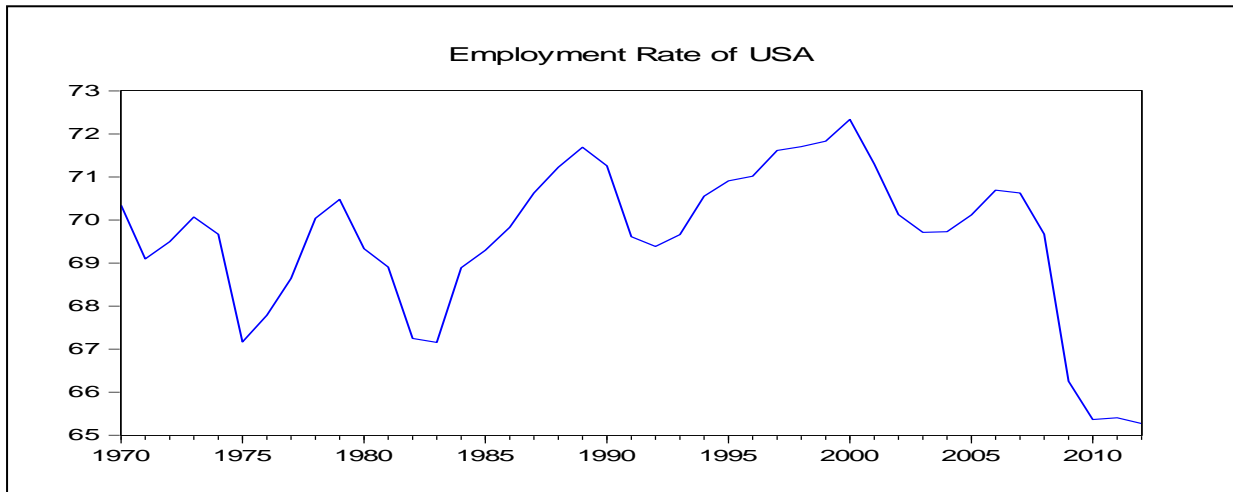


Source: <http://www.federalreserve.gov/releases/h15/data.htm>

The second set of policies or scenario 2 can be deemed as representative of the Democratic policy orientation. In accordance with this policy framework, the government will increase fiscal spending and increase tax revenue in order to finance the increasing spending. However, given the structure of the US economy, with a substantial current account deficit, the multiplier effect of increasing fiscal expenditure will be weak. Hence, in order to avoid this problem, we assume that the US will also adopt protectionist trade policies.

An increase in employment and, hence, output could also be achieved through expansionary monetary policy, or a reduction in the policy interest rate. But the short-term interest rate in the US (such as for commercial paper) is already close to zero (Graph 4). So, the economy is close to 'liquidity trap'. Any further space for pushing down the interest rate is almost non-existent. In this situation, in order to fulfill the objective of enhancing employment, we have not included any instruments of monetary policy in the two above-mentioned sets of policies.

**Graph 5**



Source: CAM Database

To establish the employment target, we have looked at the long term trend of the employment rate in the US. The central tendency hovers in the range of 69 to 71 per cent. From the mid-1980s to the year 2006, the average employment rate was more than 70 per cent. But from 2007 onwards, the US economy has experienced a drastic reduction in the employment rate (Graph 5). So for the objective of reviving the employment rate, we assume that policy makers will target the employment rate at 71 per cent.

### **1. What happens if the US adopts less interventionist policies**

In the first scenario we develop a scenario under which the US government will reduce taxes. Thus, the income of the government will be reduced. Further, we assume that the government will reduce its debt. These two policies indicate that the government will have to cut down on fiscal expenditures. The reduction in taxes coupled with an already low interest rate (close to zero for the short term rate) will induce the private sector to take the initiative to restore growth and this will likely lead, in turn, to employment generation.

There will be no market restrictions, such as restricting the imports of goods and services, placed on the private sector. So the principles of free trade that have been adopted under the WTO regime will remain intact. The tax incentives for corporations will not be revoked for outsourcing. Further, real exchange rate depreciation (which is not prevented by the WTO) will not be given priority as a policy measure.

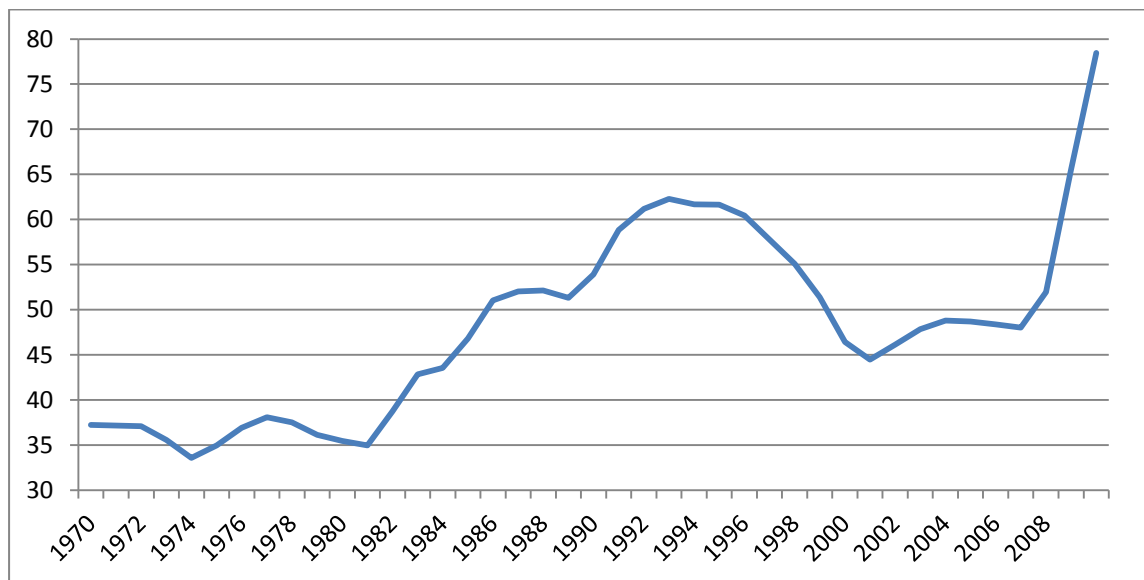
This policy package is somewhat similar to what Republicans are advocating in the US Congress. But they are unlikely to be adopted as long as the current President is a Democrat, even if he is obliged to accept some degree of fiscal conservatism.

**The Scenario:**

1. The Government will put a restriction on its debt. During the period of 1970 to 2009, the Debt-GDP ratio has varied between 33 per cent and 70 percent. And the average debt-GDP ratio over this period is roughly around 47 per cent. If we exclude 70s, as early years of this decade is marked with collapse of Bretton Woods system followed by two oil shocks, stagflation and experimentation on practicing monetarism and all these would have anyway put up a restriction on fiscal expenditure, between 1981 to 2009 the average debt-GDP is roughly, 51 per cent. Out of these 29 years, for 20 years US had a Republican President. The 20 republican years are consists of two separate period- 1981-1992 and 2001-08. In these republican periods the annual average debt-GDP ratio are 49 and 48 per cent respectively. And in the Clinton era the average annual debt-GDP ratio is 57 per cent. So we put up a ceiling on Govt.’s Debt-GDP ratio not to cross 50 per cent.

**Graph 6**

**US Govt’s Debt-GDP Ratio (in per cent)**



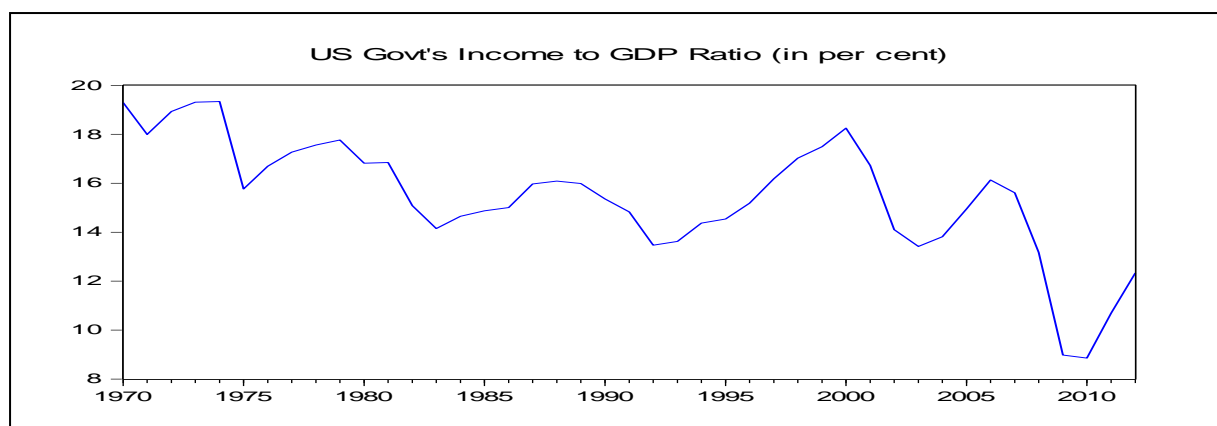
Source: CAM Database

2. The Govt. income-GDP ratio of US in last four decades has varied between 8 to 20 per cent. And in the two republican eras of 1981-92 and 2001-08 the annual average

of Government. income-GDP ratio is 15 per cent. So to capture the low tax regime we assume that the Government income-GDP ratio is, at the most, 15 %.

- Further, we assume that private sector growth will take the lead role in pushing up the employment ratio to 71 per cent. The higher private sector growth will be reflected in higher private investment.<sup>1</sup>

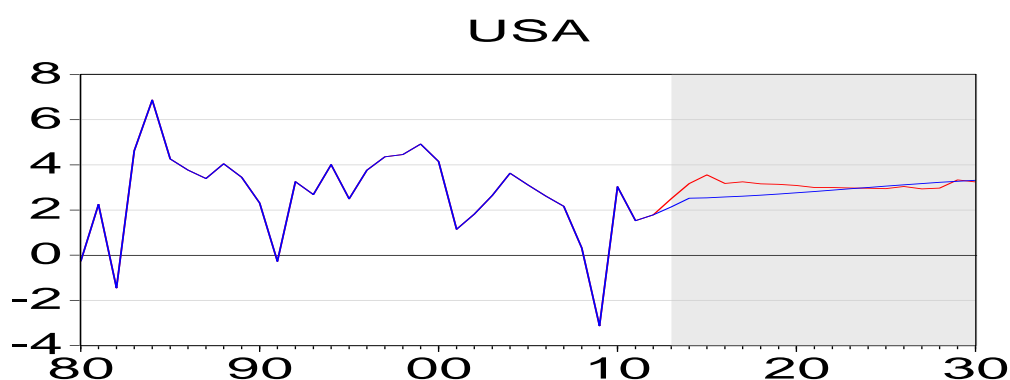
**Graph 7**



Source: CAM Database

### The Results for the US Economy

**Graph 8: GDP Growth rate in USA as per Scenario 1 (Red Line) and Baseline Scenario**



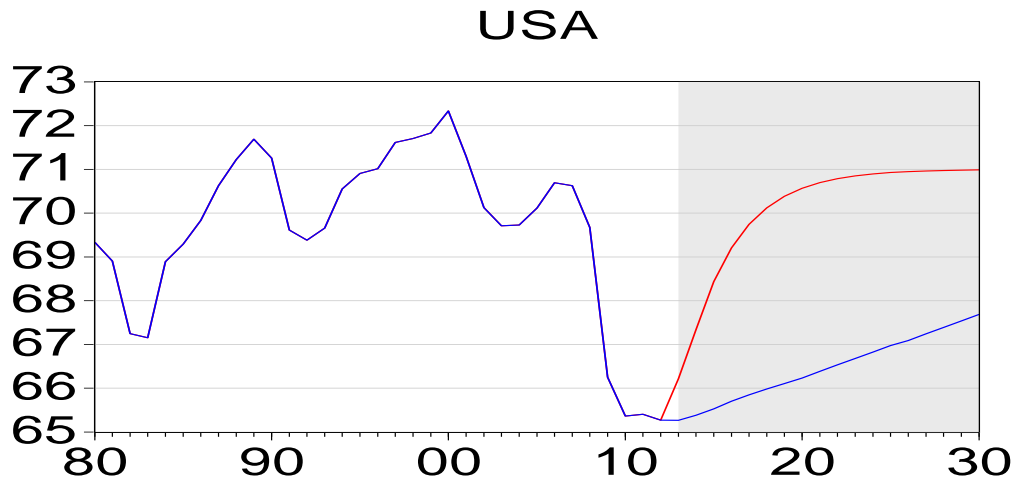
According to the CAM model, this set of policies would lead to a recovery of the GDP growth rate. It would gradually increase to 3.6 per cent by 2015 and thereafter it would slowly come down and settle around the base line projection, i.e., about 3 per cent by

<sup>1</sup> We have not used private investment as an instrument variable to increase employment. Rather, we set a direct employment target and assume as employment increases private investment is required to increase but at what extent that will be decided by the model given the constraints fixed by us on expenditure and income.



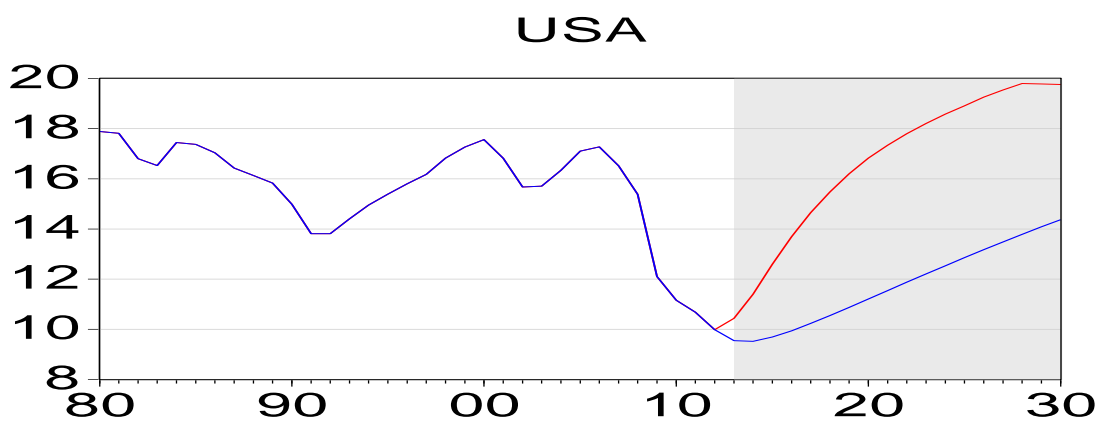
2021 (Graph 8). The initial impact on employment rate would be large. The employment rate would increase to 70 per cent by 2018. And thereafter it would grow slowly, reaching 71 per cent by 2027 (Graph 9). This result would be 3 to 4 per cent higher than that for the baseline projection.

**Graph 9: Employment Rate in US as per Scenario 1(Red Line) and Baseline Scenario**



The main instrument behind this growth in output and employment is the private sector's investment boom. Private investment as a ratio to GDP would increase from 11 per cent in 2011 to 20 per cent by 2030 (Graph 10). However, such a high rate of private investment has not been achieved by the US during the last 30 years.

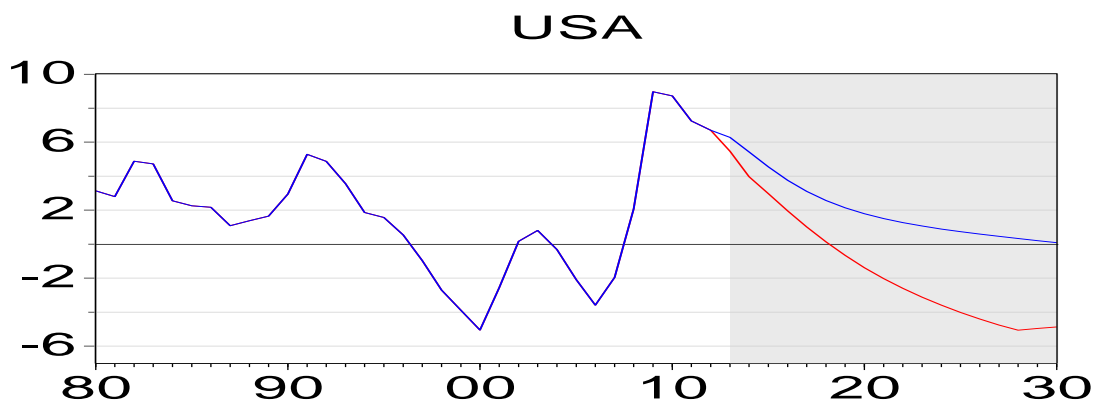
**Graph 10: Private Investment to GDP Ratio in the US as per Scenario 1(Red Line) and Baseline Scenario**



During the 1980s and again during 2000-2005, the private investment-GDP ratio was the highest, i.e., about 18 per cent. So it would require an unprecedented motivation by the US capitalist class to undertake such extensive investment.

Further, even we assume that private investors would undertake such a high level of investment, it will be financed through creating higher level of net credit. The net lending of the private sector to GDP ratio from 2018 onwards will become negative and this ratio will continuously decline. So the projected high investment will be coupled with credit boom. The net lending of the private sector to GDP ratio will reach to -3.6 per cent by 2024 and cross -5.1 per cent by 2028. The ratio of net lending of the private sector to GDP was -3.6 per cent in 2006, just prior to the subprime market crisis. And it was -5.1 per cent in 2000, just prior to the bursting of the dot com bubble (Graph 11). The credit boom can sustain for a longer period if it is coupled with increasing output growth rate. Increasing output growth rate usually helps to create the expectation that the investments are likely to making positive returns and loans will be paid back. But the CAM model projects that the US GDP growth rate will reach close to 3.5 per cent by the year 2015 and thereafter it will continuously decline till the year 2028. Thereafter, the GDP growth rate will increase marginally. So the declining GDP growth rate coupled with credit boom will create the possibility of financial crisis. So the possibility of financial crisis will increase from 2018 onwards.

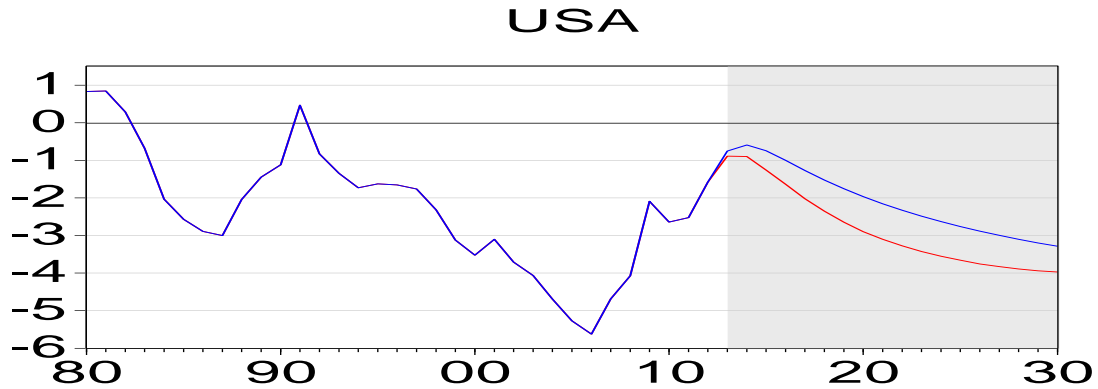
**Graph 11: Private Sector Net Lending to GDP Ratio in the US as per Scenario1 (Red Line) and Baseline Scenario**



The current account deficit of the US would be wider in scenario 1 than in the baseline scenario (Graph 12). So, this trend should help in the growth of exports of other countries. So the current account surplus and output growth of these countries should go up. But it seems the benefit of increasing current account deficit of US will not go to any particular country; but every country will grow at a marginally higher rate. North Europe and Central Europe would both have current account surpluses that were marginally higher than they were in the baseline projection. The UK and South Europe would still have

current account deficits, but they would be lower than in the baseline projection. The current account deficit of East Europe would remain pretty much the same in both scenarios.

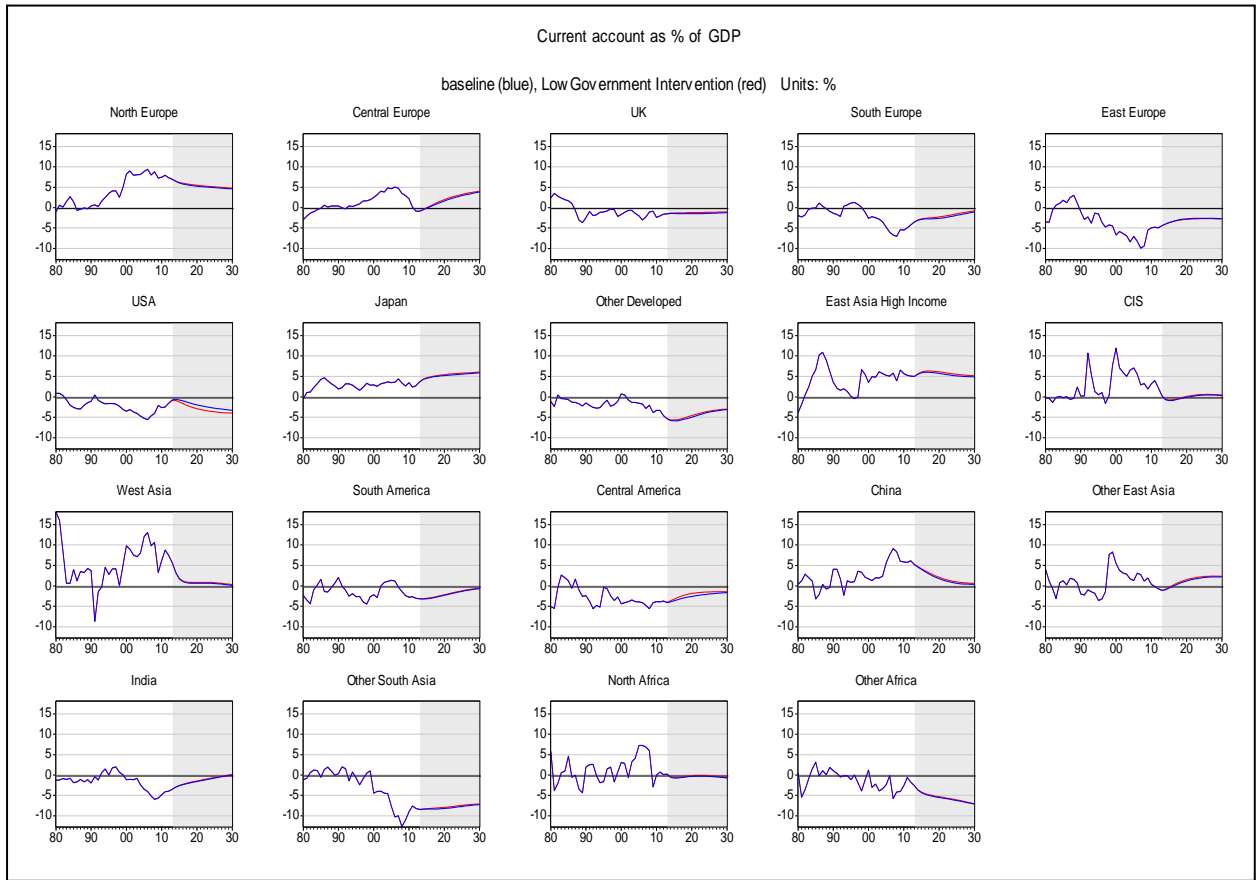
**Graph 12: Current Account Surplus to GDP Ratio in the US as per Scenario1 (Red Line) and Baseline Scenario**



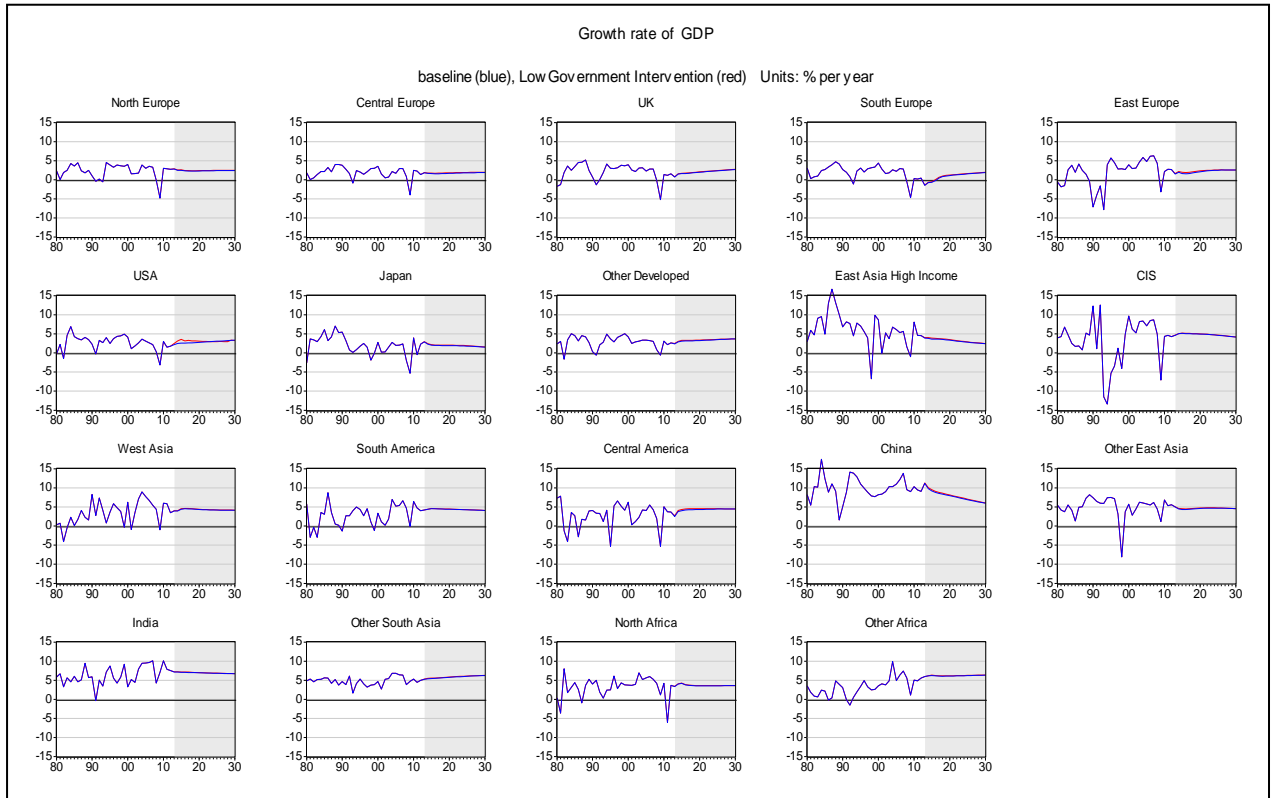
In Asia, China's current account surplus would be marginally higher than the baseline scenario. The current account surpluses of High Income East Asian countries and Other East Asian countries would also marginally increase from its baseline projection. West Asia's current account surplus would be similar to its base line projection.

The projections of the growth of GDP and employment for the European blocs suggest that the increase in the US current account deficit would not benefit them (Graph 14 and 15). Their GDP growth rates would settle down to 2-3 per cent, the rate generated by the baseline scenario. China and East Asian High Income countries would experience a marginal higher growth than the baseline projection.

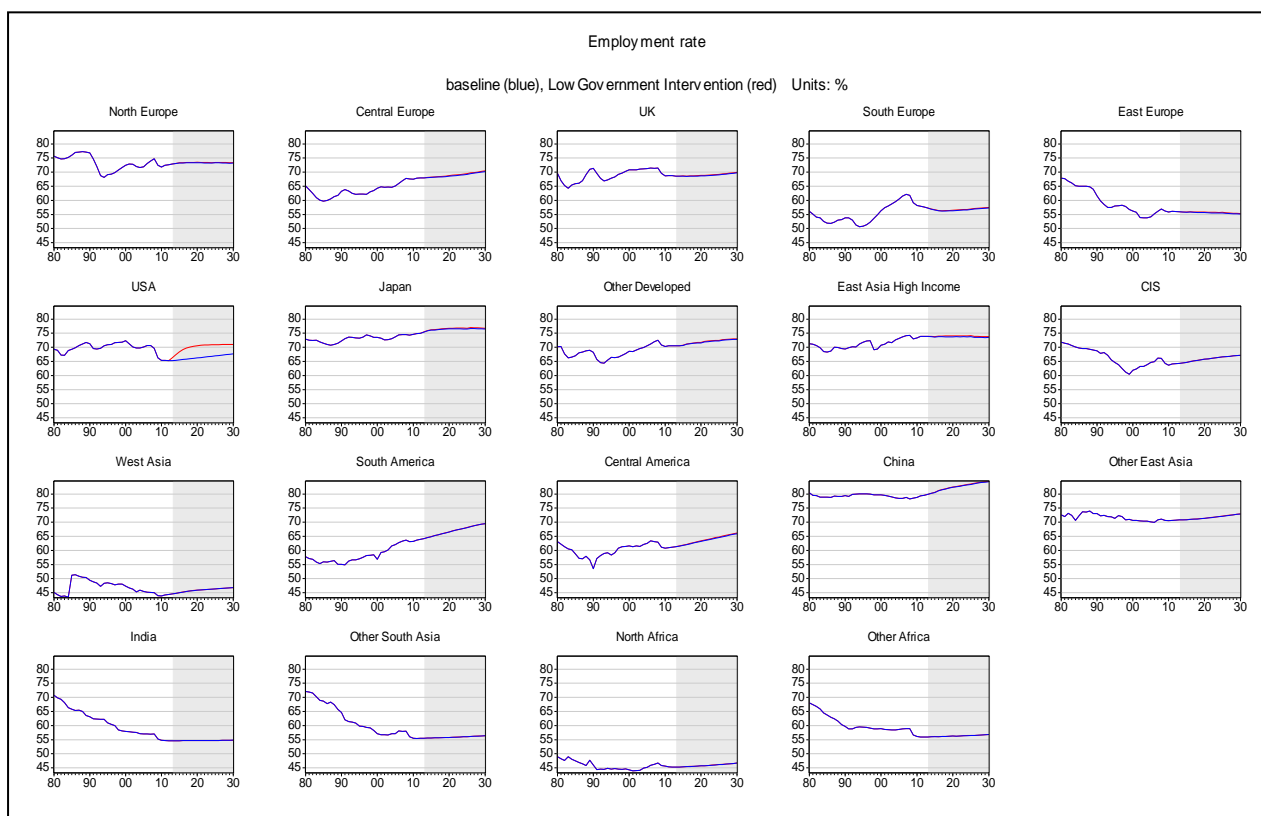
**Graph 13: Current Account as a percent of GDP for all blocs**



**Graph 14: GDP Growth Rate of all blocs**



**Graph 15: Employment Rates for all the blocs**



## 2. What happens if the government takes a more pro-active policy stance?

In the second scenario, we develop a possible case under which the US government would raise fiscal spending and increase its tax revenue in order to finance this spending. We are also assuming that the government would be more flexible about the debt levels than in the previous scenario.

We are assuming that increased government spending would stimulate more private investment through an improvement in the state of the economy. As Krugman points out:

*“Under the kind of conditions we’re now facing, the main determinant of business investment is the state of the economy..... This, in turn, means that anything that improves the state of the economy, including fiscal stimulus, leads to more investment, and hence raises the economy’s future potential”<sup>2</sup>.*

<sup>2</sup><http://krugman.blogs.nytimes.com/2009/09/28/crowding-in/>

However, a possible problem with increased government spending is that given the economic structure of the US and its large current account deficit, a significant proportion of the multiplier might leak out through increased imports. Therefore, it is likely that increased fiscal spending in the US would be accompanied by policies that would reduce such leakages.

There have been numerous instances of protectionist measures used by the US government in conjunction with its fiscal stimulus packages. The 'Buy America' campaign is a good example of such a policy direction. Hence, we will also incorporate protectionist elements into US policies when we construct the second scenario.

This scenario will be similar to what the Democrats wanted to implement but were unable to undertake due to various political restrictions. Our objective is to use simulations based on the CAM model to identify how the US economy and the world economy would react to such a set of policies.

It must be mentioned that unless the current President wins a handsome majority in the US elections, we do not expect implementation of such a policy package. However, this exercise is intended to highlight the consequences of an expansionist fiscal policy combined with a protectionist US trade policy on the US economy and rest of the global economy.

### **The Scenario:**

We assume in scenario 2 that:

1. The government will actively use fiscal spending to boost the economy. But there will also be a concern for the sustainability of the government debt. So we assume that the maximum government debt to GDP ratio that the US government will manage to reach without creating instability is 90 percent of GDP. It is notable that US government debt reached about 100 percent of GDP after the increase of the debt ceiling in 2011<sup>3</sup>. Therefore, in order to avoid such instability, we also assume that government tax revenue will increase.
2. For achieving an increase in tax revenue, we assume that the government will raise the taxes on the rich. This assumption tallies well with some of the current proposals regarding increasing taxes on very rich people in the US (e.g., the so-called 'Buffett tax'). However,

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<sup>3</sup><http://www.foxnews.com/politics/2011/08/04/us-debt-reaches-100-percent-countrys-gdp/>

such proposals are facing strong opposition from the Republicans. To program this in the CAM model, we impose a condition that the maximum income to GDP ratio that the government can attain is 20 percent. During the last two decades, the maximum government income-to-GDP ratio attained by USA was around 18 percent during the year 2000.

3. We assume that government policies will essentially focus on creating employment, and thus we program a target of 71 per cent for the employment rate, defined as the employment to working-age population rate, in the US. We have already explained why we have chosen such a target.

4. We hypothesize that increased government spending will boost the economy and as the state of the economy improves, business and consumer confidence will improve. Private investment will respond to this improved economic environment, and thus there will be a 'crowding-in' of private investment in the US economy. Private investment will also help the US economy achieve the targeted rate of employment.

However, a major potential problem is that, given the structure of the US economy, economic growth that is driven by a fiscal stimulus will likely lead to a higher current account deficit. This has been verified by running the CAM model with the specifications mentioned above. This resultant simulation shows that US current account deficit would deteriorate significantly once such a fiscal stimulus is introduced. So, in such a scenario, it is more than likely that the US government would impose protectionist measures in order to reduce the import leakages as much as possible.

To model these protectionist trends, we have made the following assumptions in our scenario:

5. The real exchange rate of the US will be depreciated in a way that allows expenditure switching towards the domestic market. By making exports cheaper and imports dearer, the real exchange rate adjustment will boost domestic industries, which, in turn, will generate employment and allow the US employment rate to reach the targeted level.

We introduce conditions that the depreciation of the real exchange rate will boost net exports of primary products, manufacturing goods and services of the US.

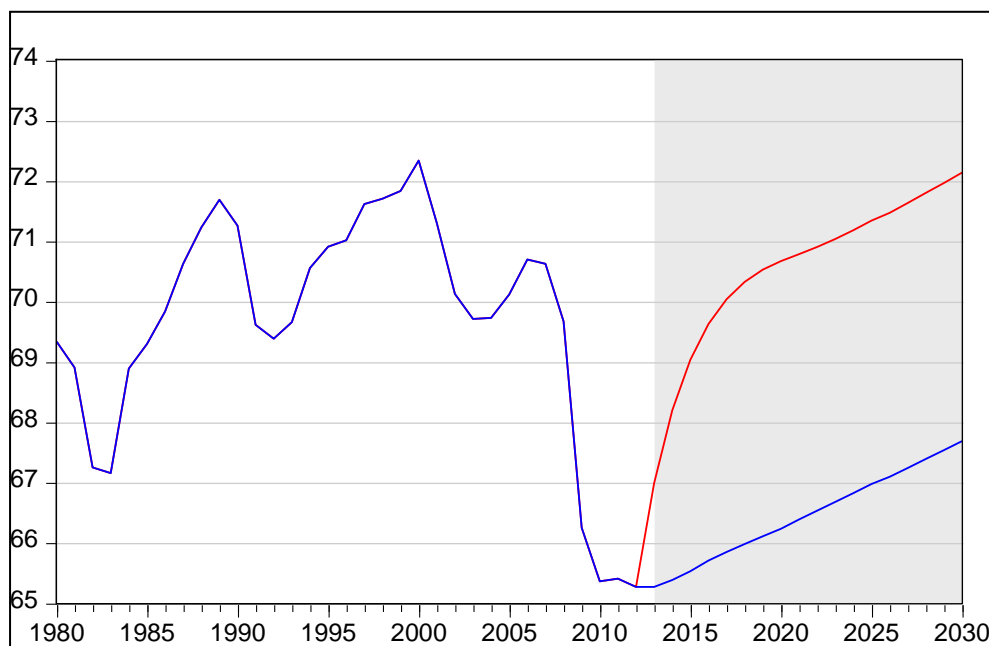
By making imports dearer, the exchange rate adjustment is likely to make domestic fuel prices higher in the US market. This is expected to have a dampening impact on US energy demand. The lowering of energy demand may have some negative impact on US growth.

6. We also assume that the US will form regional trade agreements with some of its traditional trading partners and suppliers of raw materials. After studying the trade structure of the US, we have noted that the US has good trading relations with the country groups OD<sup>4</sup> and ACX. To ensure that these countries are not adversely affected by the protectionist policies of US, we place conditions on the simulation so that these countries will maintain their market share for manufacturing goods in the US.

### Results for the US

The results of our simulation show that the combination of increased fiscal spending and increased protectionism works well for the US economy. The employment to working-age population ratio recovers and then rises to historically high levels by 2020. This is shown in Graph 16.

**Graph 16: Employment rate (%) in the US as per Scenario 2 and the baseline scenario**



Note: In all the subsequent graphs, the variables from the baseline scenario are shown by the blue line and the variables from 'Scenario 2' are shown by the red line.

One of the drivers for this employment growth would be the increase in private investment. Graph 17 shows that the ratio of private investment to GDP in the US would increase to

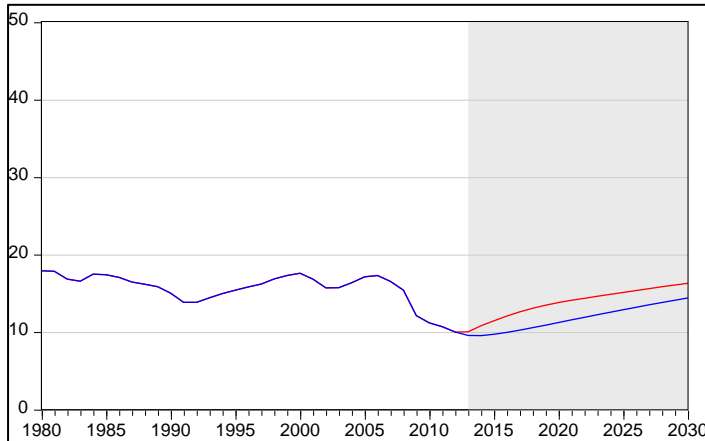
<sup>4</sup> Countries in OD blocs are Australia, Canada, Israel and New Zealand. And Countries in ACX blocs are Mexico, Costa Rica, Cuba, Guatemala, Honduras, Haiti, Jamaica, Nicaragua, Panama, El Salvador and other small countries in central America.



about 18 per cent of GDP by 2030. Thus, in Scenario 2, it would achieve a significantly higher path than it did under the base line scenario. It is worth noting that private investment as a percentage of GDP had been higher during the 1980s and 2000-2005.

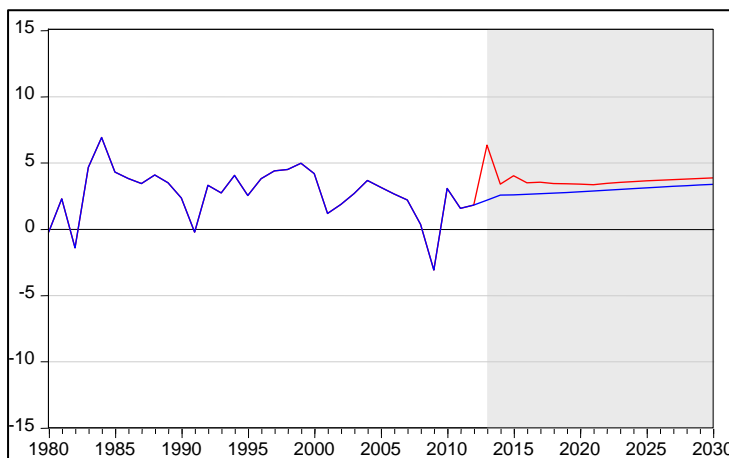
**Graph17: Private Investment in USA, Ratio to GDP (%)**

**(Scenario 2 and baseline)**



Not surprisingly, the GDP growth rate of the US would also be much stronger in the new scenario. After a brief spike the GDP growth rate would settle within a range of 3-4 per cent during the period 2020-2030. This performance would be consistently better than that of the baseline scenario though it would not reach the historical levels achieved during the mid-1980s and early 1990s.

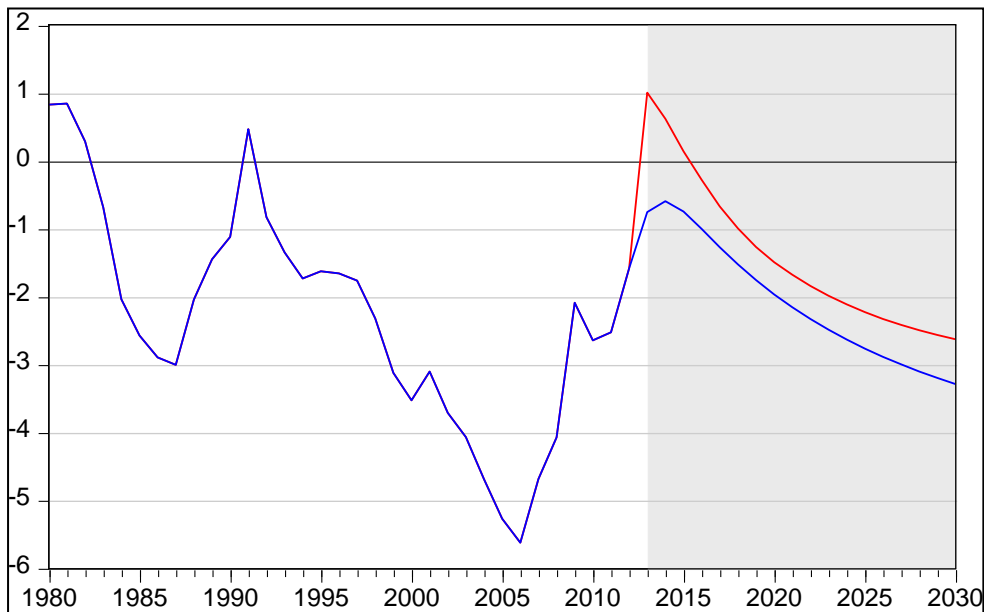
**Graph 18: US GDP Growth rate (%)**



The current account balance of the US would improve considerably due to the protectionist policy measures taken in the second scenario. Though this balance would become positive,

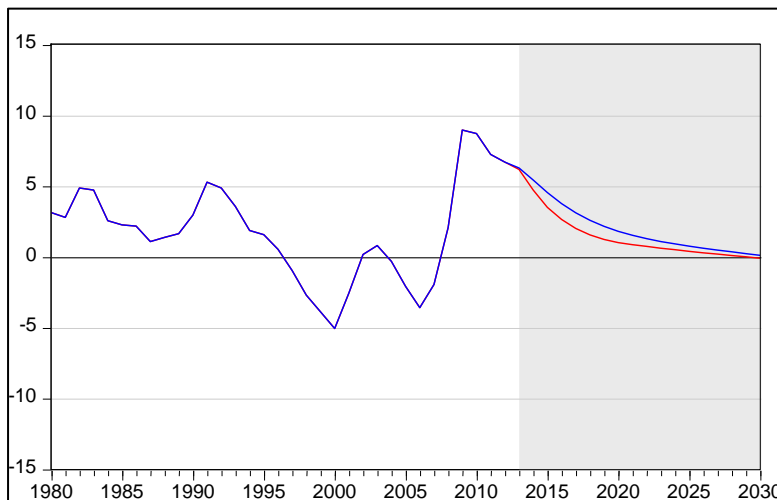
gradually it would decline into deficit and settle down to around -2.5 of GDP. This is shown in Graph 19. This improvement in the current account balance would stem specifically from an increase in the net exports of manufactures. Though the US trade balance in services and primary commodities would remain positive, it would decline slightly from current levels.

**Graph 19: US Current Account Balance as a % of GDP**



The private sector's net lending to GDP would also be in a more favorable position in this scenario. Unlike in the previous scenario, it would stabilize at a much higher level than the deficits that it reached during the financial crisis.

**Graph 20: Private Sector Net Lending as a percentage of GDP**



## **Results for the Rest of the World**

For the rest of the world, the results for the second scenario are mixed (see graphs 21-23). ‘Other Developed Countries’ and Central America are straightforward beneficiaries of the revival of the US economy. The increase in the GDP growth rate of these blocs could be traced back to the improvement in the trade balances of these countries vis-à-vis the US. It is worth highlighting here that in scenario 2, we have assumed that the US forms regional trade blocs with these countries.

For other blocs, the results are less positive. These blocs would share the negative fall-out from the improvement of the US current account deficit. However, as this negative shock is spread over a large number of blocs, the impact of US protectionist policies would not be too accentuated for any individual bloc. Among the European blocs, North Europe and Central Europe would maintain positive current account balances in this scenario albeit at a slightly lower level than those in the baseline scenario.

The UK and South Europe is projected to have current account deficits at a level that would be very close to those in the baseline scenario. These current account deficits would be small and would likely improve. In contrast, the results for East Europe would show deterioration of the current account balance to around 6 per cent of GDP by 2030.

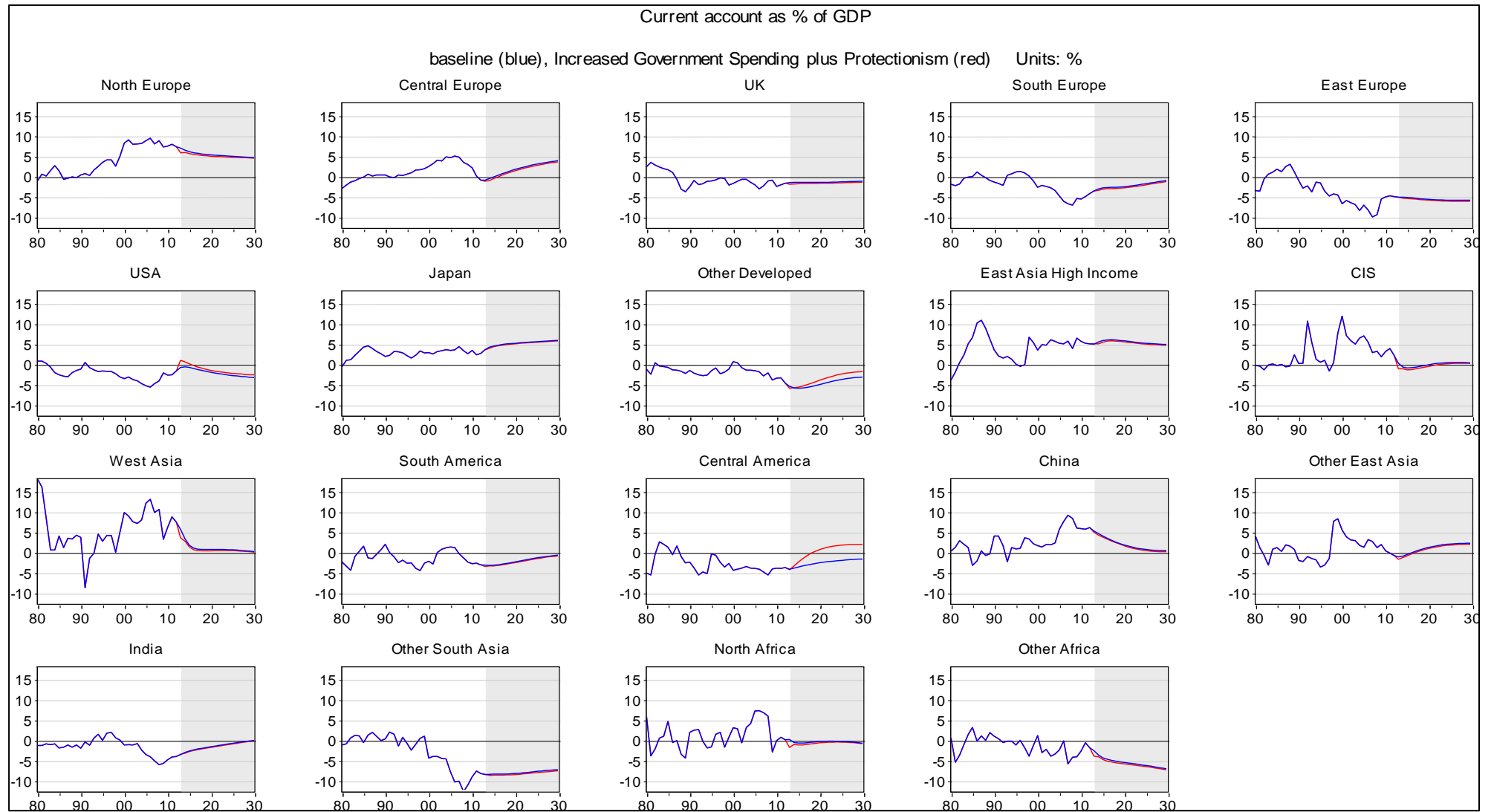
Among the Asian blocs, China’s current account surplus would vanish by 2025 and its current account would stay in balance afterwards. Japan and High Income East Asia would continue to have major surpluses in their current account but the high current account surplus of West Asia would come down sharply. This seems to be a result of lower US demand for their exports (mainly oil) and a decline of oil prices. For India and Other East Asia, there would be an improvement in their current account.

The GDP growth rates and employment trends of the European blocs suggest that the US policies would be unlikely to hit them very hard. The simulation results indicate that all the European blocs would likely settle down to a growth rate of 2-3 percent for the period 2015-2030. However, in each of these blocs, there would be a small initial negative adjustment due to US protectionist policies that would not be eliminated over the course of a few years.

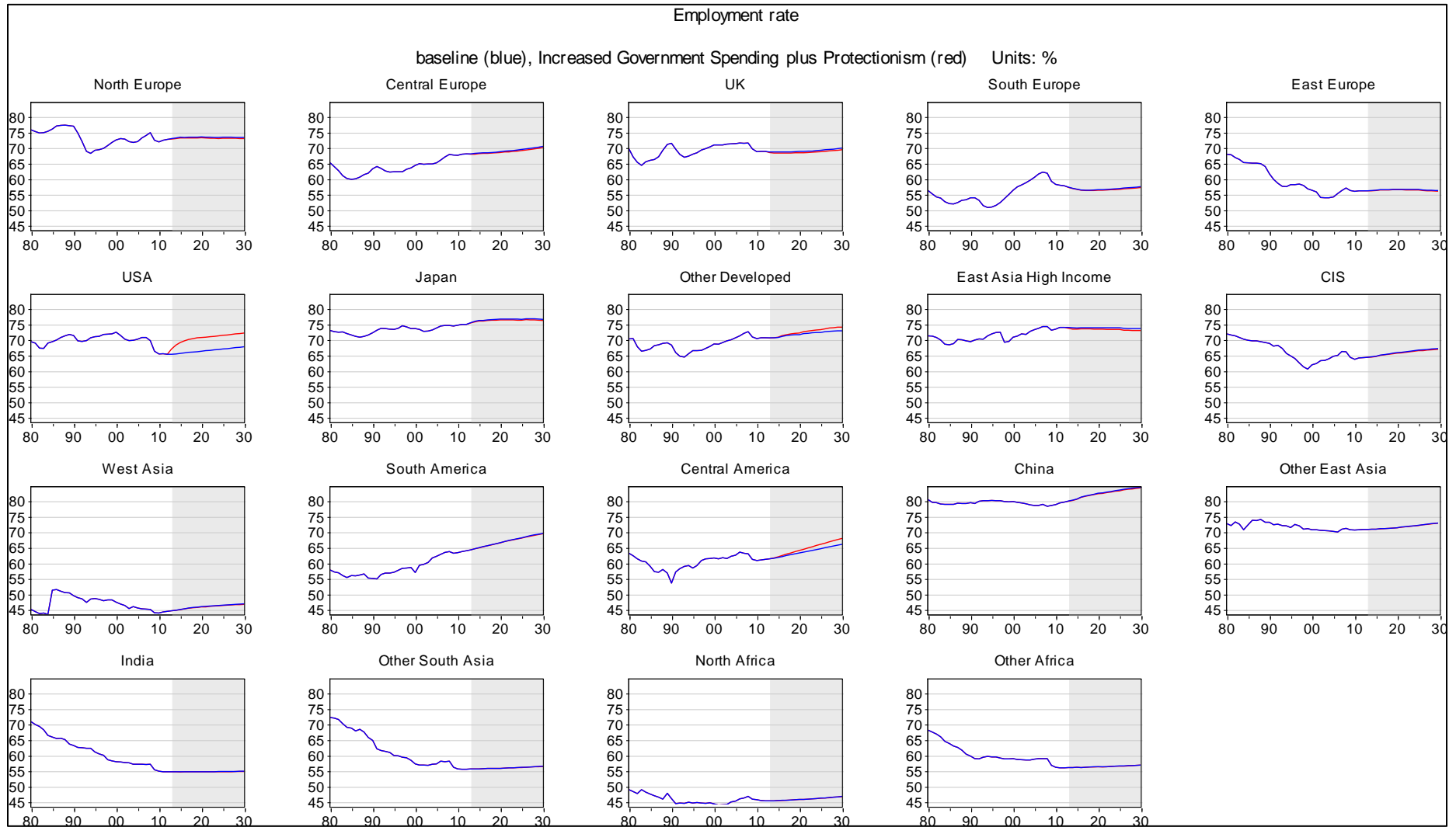
Among other countries, China would experience a decline in its growth rate, which would settle around 6 per cent by 2030. India's growth rate would be around 6-7 per cent. When the impact of US policies under this scenario on growth rates of any of these blocs is compared to that under the baseline scenario, it does not seem very pronounced.

Given these results, we do not foresee a situation in which some of the major countries would retaliate against US protectionist policies. But it would be an interesting exercise to build a scenario based on the assumption of such retaliation—though we do not intend to do so here.

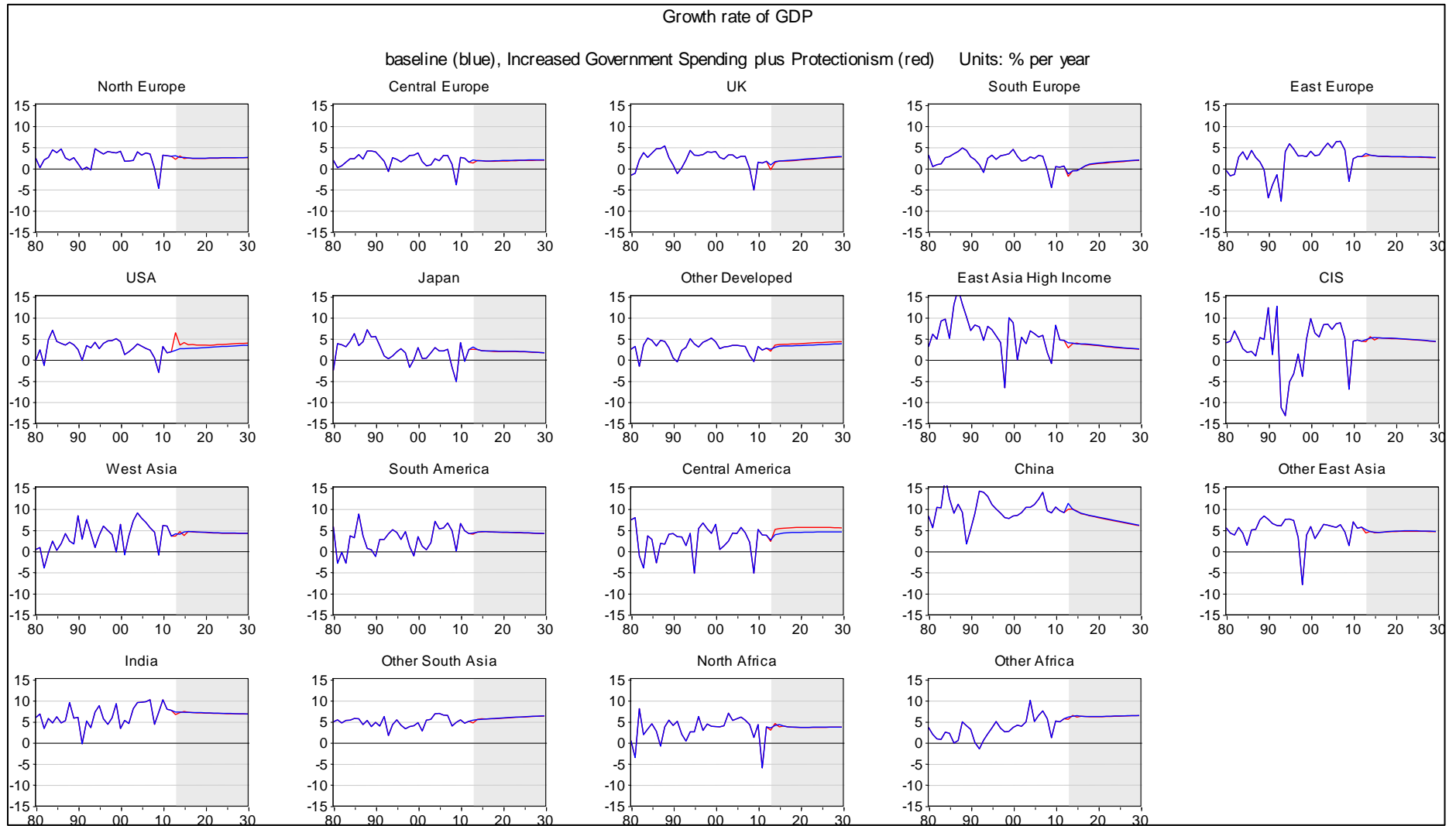
Graph 21: Current Account as a percent of GDP for all blocs



**Graph 22: Employment Rates for all blocs**



**Graph 23: GDP Growth Rate of blocs**



## **Conclusions:**

The prospect of ensuring a reasonable level of employment in the US economy by reducing government intervention is unlikely to occur. Such a policy would require private investment in US to reach around 20 per cent of GDP, a level not seen in the last 30 years of US history. Further, such a private investment boom in growth would always be subject to the advent of a sudden recession.

Scenario 1 shows that from the 2018 onwards, net private sector lending would be negative. By 2024-25, it would reach a level similar to that seen during the bursting of the dot com bubble; and by 2028-29, it would reach a level similar to that experienced during the deflation of the housing boom. So if the US government adopted a set of policies that relied only on a boom in private investment to generate faster growth in output and employment, this may imply accumulation of very high levels of debt which almost always (especially when GDP growth rate is stagnating or coming down) leads to formation of asset price bubbles and instability. Therefore, it is likely that purely private investment driven growth process would be courting the likelihood of another sharp recession.

On a global level, these policies would imply higher current account deficit for the United States and a relatively more positive current account position for the rest of the world. However, a worsening of the current account balance of the US could create global instability through the downward pressure on the value of dollar.

If one combined the domestic instability of the US, which would ensue from very high private sector borrowing, a gradual worsening of the imbalance in the US current account would heighten the likelihood of another recession by 2024-25. Hence, this set of policies would be unlikely to provide a medium-term solution to the economic problems faced by the United States.

In contrast, increasing state intervention coupled with implementing moderately protectionist policies would likely ensure the achievement of a 71 per cent employment rate on the basis of a rate of private investment that was less than 18 per cent of GDP. Such a rate of investment is a historically realistic option given past US trends.

Moreover, our simulation demonstrates that in a scenario with greater government intervention and with some degree of trade protectionism, net private lending would not likely become negative until about 2030. So, in this scenario, the likelihood of a deep recession would be significantly lessened and the sustainability of growth in output and employment would be much more assured.



In scenario 2, the US economy would enjoy higher growth than in scenario 1. However, the current account deficit would be lower in scenario 2. As a result, other countries in the world could face marginally worse current account conditions. But our simulation shows that the output and employment prospects of the rest of the world would not be much different from those projected by the baseline scenario. As a result, in order to ensure reasonably high and sustainable employment in the US, the policies of scenario 2 appear to be preferable.

However, there is a major caveat. It is assumed here that since most of the trading partners of the US would not be too hard hit by US trade protectionism, they would not retaliate. But if other countries also try to boost their economy by using trade protectionism, then the global scenario would have to be significantly different. The role played by the G20 will be important to avoid such a scenario.