UNCTAD warns of further slowdown in growth due to fiscal austerity, wage cuts

GENEVA, Sept. 12 (Xinhua) -- The growth rate of global output is expected to further slow down this year to 2.3 percent mainly due to fiscal austerity and wage compression that weaken growth in developed countries, said a report released Wednesday by the United Nations Conference on Trade and Development (UNCTAD). The Trade and Development Report 2012 said developed economies as a whole are likely to grow by only 1.1 percent in 2012, which contrasts with a much stronger performance in developing and transition economies, where GDP growth remained at 4.9 percent and 4.3 percent. China is expected to grow by 7.9 percent this year, according to the report. It added the growth of world merchandise trade may face a further deceleration from 5.5 percent in 2011 to 3.5 percent this year. The report, titled "Policies for inclusive and balanced growth," said austerity did not achieve expected results of reduced fiscal deficits, job creation and renewed confidence of financial markets. Over the past two years, it said, a number of developed countries were shifting too soon from economic stimulus measures to government budget cuts. The result, according to the report, is that without sufficient state spending to inject life into domestic markets, already weak demand for goods and services further stagnated or weakened and cuts the export prospects of developing countries. A number of developing countries are carrying out continued countercyclical policies that support domestic demand, but these will not be sufficient if growth does not pick up in large, advanced economies, it said. "The only way out of the slump is stimulus," said Heiner Flassbeck, director of globalization and development strategies at UNCTAD. Flassbeck said China is still outstanding in terms of its domestic demand dynamics. He said a growth rate of around 8 percent by the end of this year would be very good. "What I'm in favor of is the government seems to be replanning. They choose to stimulate the economy again, so that is not further decelerating," he said. The report, which focused especially on income inequality, said trends over the last 30 years show income inequality increasing both within countries and between them. The share of wages in total income has fallen in most developed and in many developing countries, it said. The report said policies that preserve the share of workers in national income and redistribute income through progressive taxation and public spending would improve equality as well as economic efficiency and growth.