

EUROPE'S WORLD [Forthcoming in July 2009]

SOLVING THE MULTIPLE GLOBAL CRISES TOGETHER

Mohan Munasinghe

Director General, Sustainable Consumption Institute, University of Manchester, UK
Chairman, Munasinghe Institute for Development (MIND), Sri Lanka.

Co-laureate 2007 Nobel Peace Prize (Vice Chair, Intergovernmental Panel on Climate Change-AR4)

Note: The author is grateful to Vinod Thomas, Senior Vice President, World Bank, Washington DC, for useful ideas.

The world is facing multiple economic, social, and environmental threats, best characterized by a “bubble” metaphor based on false expectations, where a few enjoy immediate gains while the vast unsuspecting majority will pay huge “hidden” costs in the future. These threats can interact catastrophically, unless they are addressed urgently and in an integrated fashion, by making development more sustainable. Piecemeal responses will be ineffective, since the problems are interlinked and feed on one another.

Economic, Social and Environmental Bubbles

The most urgent and visible problem is the economic collapse. Chart 1 shows how a greed-driven asset bubble rapidly inflated the value of financial instruments well beyond the true value of the underlying economic resource base. The collapse of this bubble in 2008 caused the global recession. It is estimated to contain about \$100 trillion of “toxic” assets (twice the annual global GDP).

Meanwhile, a social bubble based on poverty and inequity continues to undermine the benefits of rapid economic growth of recent decades, excluding billions of poor from access to productive resources and basic necessities, like food, safe water and sanitation, energy, health care, shelter, and a clean environment. In 2000, the top 20 percentile of the world's population by income, consumed 60 times more than the poorest 20 percentile. Poverty is now exacerbated by the economic recession, which is worsening unemployment and access to survival needs. This bubble cannot be ignored indefinitely, without grave consequences for humanity.

Finally, mankind faces the bubble of environmental externalities, whereby myopic economic activities continue to severely damage the natural resource base on which human well being ultimately depends. Beyond degradation of local air, land and water resources, climate change is the ultimate global manifestation of this threat, where carbon dioxide emissions which have driven growth since the industrial revolution will result in catastrophic impacts that will undermine progress for centuries to come. Ironically, the

worst impacts of climate change will fall on the poor, who have no responsibility for causing the problem.

And what are our current priorities as we face these challenges? Governments have very quickly found over four trillion dollars for stimulus packages to revive shaky economies. However, only about 100 billion dollars per year is devoted to poverty reduction, and far less to combat climate change. Furthermore, the recession is dampening enthusiasm to address more serious long term poverty and climate issues.

The Immediate Way Forward

Remarkably, the current crisis itself offers a way forward. The broad worldwide support for unprecedented stimulus packages provides impetus to move in new directions that were hitherto taboo. There is greater motivation for coordinating policies among leading players. Multiple threats can yield multiple dividends, if prompt action is undertaken in several areas, like investments, social safety nets, and price policies.

First, leaders need to resist pressures to use the increased spending merely to protect current expenditures (especially wasteful subsidies and bailouts). Investing a more significant part of the fiscal packages in key areas of infrastructure (like energy, water, transport and agriculture) and social development (typically education and health), can stimulate the economy, increase employment, and protect the environment.

The time is ripe to promote green and carbon saving technologies, while the United States, China, Europe, and others consider large infrastructure investments. It would pay to take advantage of declining capital costs of renewable energy by investing in these technologies now – anticipating the resurgence of fossil fuel prices. Energy efficiency can also yield large gains in major sectors like energy, industry, transport, construction and agriculture. Finally, arresting deforestation in Brazil, Indonesia and elsewhere could boost sustainable livelihoods while absorbing atmospheric carbon.

Second, with hundreds of millions more people likely to slip into poverty, the developing world is too big to be allowed to fail -- it contributes over 47% to the \$55tn world economy, produces more than half OECD imports, and contains 3 billion people living on less than \$2.50 a day. Donors need to expand poverty reduction efforts, because delaying action during an economic crisis has a huge and irreversible human cost. Financial packages need to focus on investments with a high potential for job creation, sustainable livelihoods and access to assets for the poor.

Sound social safety nets are required to protect the vulnerable. Conditional cash transfer programs in Mexico, Brazil and other countries show that it pays to provide income to the poorest families, while encouraging them to invest in the health and education of children. Devoting about one percent of GDP for such efforts can make a huge difference.

Third, this is the time to reform pricing policies. Energy subsidies – a quarter trillion dollars in 2005 worldwide – represent energy wastage, a fiscal drain and harm to nature. A stated goal of these subsidies is to assist the poor, yet the bulk of the gains do not reach their target. Therefore, they need to be phased out.

Reformed energy prices need to reflect not only economic costs (linked to world fuel prices) but also taxes representing environmental damage due to air pollution and carbon emissions. Furthermore, when subsidies are removed, targeted safety nets must protect the basic needs of the poor – using well known methods. Other areas for price reforms include water, fertilizer and chemicals, where subsidies amount to several percentage points of GDP in many countries.

Improvements in global governance should include market regulatory reforms, giving more weight to the developing world within the IMF/World Bank, making the UN system more responsive, and shifting emphasis from G7 to G20. It may be useful for the G20 to create two advisory bodies – B20 and C20, consisting respectively of business and civil society leaders nominated by the G20.

A Long Term Vision

Based on the foregoing, a longer term vision for the future is summarized in Chart 2. The top row recognizes that our current focus is on surface level indicators such as poverty, inequity, exclusion, resource scarcities and conflict, mis-governance and environmental harm, driven by powerful phenomena like globalization and unconstrained market forces based on the “Washington Consensus”. Present trends pose significant risks leading to a breakdown in global society, due to the ineffectiveness of governments seeking to cope with multiple, interlinked crises, using myopic, reactive and uncoordinated responses. A recent example is the futile attempt to alleviate oil scarcities by promoting corn-ethanol, which meanwhile worsened food security arising from a drought-driven worldwide grain shortage.

The second row shows that a transitional step forward is possible today, by influencing key common drivers of change, including consumption patterns, population, technology and governance. This will help address a broad range of issues in an integrated manner, shaping global trends and managing market forces. The immediate way forward, described earlier, is a key part of this transition.

More broadly, using known practical measures that make development more sustainable today, business and civil society could help governments move proactively towards the ultimate goal of sustainable development. The emphasis is on early action, to overcome the huge inertia of “supertanker earth”, and begin steering it away from its risky current path towards safer waters, using existing experience and tools. To begin this transition, a comprehensive practical framework called “sustainomics” was proposed by author at the 1992 Rio Earth Summit, which has been widely applied since then (Munasinghe 2007).

The third row follows on from the successful implementation of the second (transition) row. Here, our children and grandchildren might pursue their long term goal of a truly global sustainable development paradigm. They would need to work on deep underlying pressures linked to basic needs, social power structure, values, choices, and knowledge base. Fundamental changes are necessary, driven by social justice and equity concerns, through inspired leadership, a networked, multi-stakeholder, multi-level global citizens' movement, responsive governance structure, improved policy tools, advanced technologies and better communications (including the internet).

Climate Change Responses

As we approach the Copenhagen Climate Summit (COP15), Chart 3 shows how a long-term consensus might evolve to reconcile development aspirations and climate change responses. On this stylized curve of environmental risk against a country's level of development, poor nations are at point A (low GHG emissions and low GNP per capita), rich nations are at point C, and intermediate countries are at point B. The following elements are essential for a workable global compact:

- industrial countries (already exceeding safe limits) should mitigate and follow the future growth path CE, by restructuring their development patterns to make both production and consumption more sustainable and delink carbon emissions from economic growth;
- The poorest countries must be provided an adaptation safety net, to reduce vulnerability to climate change impacts;
- Middle income countries could adopt innovative policies to “tunnel” through (along BDE -- below the safe limit), by learning from past experiences of the industrialized world;
- Developing countries should be encouraged (with technical and financial assistance) to simultaneously continue to develop (and grow) more sustainably, by following a less carbon-intensive growth path that also reduces climate vulnerability.

The ability of Europe to find a common position on climate change (despite its diversity), would serve as a good example to the rest of the world, striving to reach a consensus.

Conclusions

This is a unique opportunity to progress on all fronts, but if it is squandered, the multiple dangers could lead to a multiple catastrophe. If they are confronted together, we have the bright promise of a multiple dividend sustained over many years. To make this happen, governments worldwide need to collaborate more closely with each other, and with business and civil society. More than ever, the well being of future generations depends on our choices today.

Further Reading

Munasinghe, M. (2007) *Making Development More Sustainable: Sustainomics Framework and Practical Applications*, MIND Press, Munasinghe Institute for Development, Colombo

Toxic assets ~\$100 trillion (10¹²), Global GDP \$55 trillion

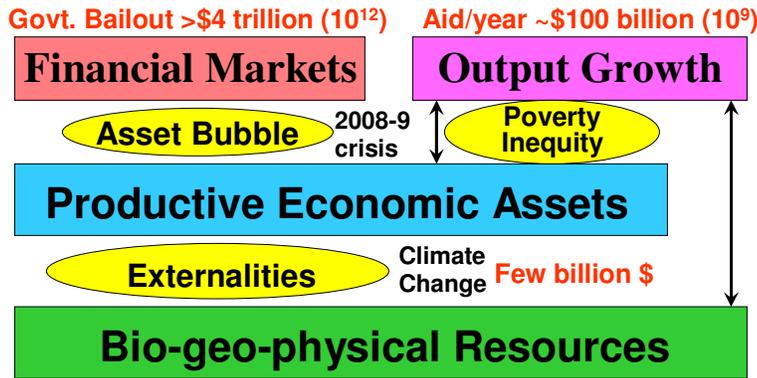


Chart 1: Multiple Global Crises and Human Priorities

<u>Levels</u>	<u>Indicators</u>	<u>Time</u>	<u>Human Interventions</u>
Main Issues	Econ. Crises, Poverty, Inequity Exclusion, Resource Conflicts, Hunger, Envir. Harm & CC	Now ←	High risk from unrestrained, myopic market forces (“Washington consensus”, globalisation etc.) – Reactive: piecemeal - mainly govt.
Immediate Drivers	Consumption Patterns Population Technology Governance	Transition ←	Making development more sustainable (MDMS) NOW with systematic policy reform to manage market forces (Sustainomics) – Proactive: integrated, harmonious approach - govt., business, civil soc.
Underlying Pressures	Basic Needs Social Power Structure Values, Perceptions, Choices Knowledge Base	Long Term ←	Fundamental global sustainable dev. transition catalysed through grass roots citizens movements, driven by social justice and equity, innovative leadership, policies, info. flows, tech. (new SD paradigm) – Proactive: civil soc., business, govt.

Source: Munasinghe (2007)

Chart 2: A vision for the future

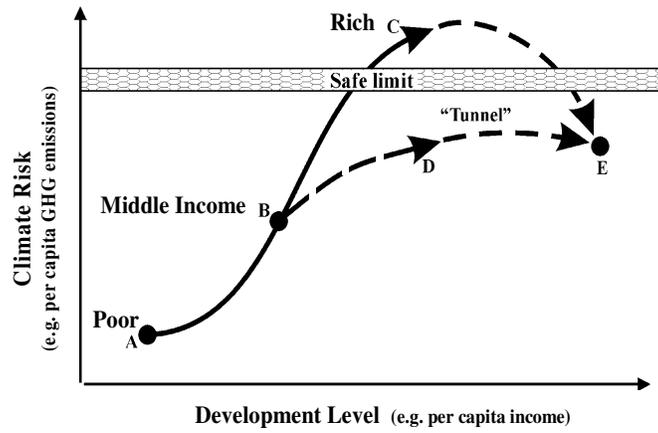


Chart 3: Reconciling development aspirations with climate change responses