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Global crisis and beyond: Sustainable growth trajectories for the developing world

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Abstract. *Despite recent signs of output recovery, casual resumption of the growth model that crashed in 2008–09 will exacerbate the domestic and global imbalances that caused the crisis in the first place – to the detriment of the real economy, equitable development, and employment recovery. The model's environmental unsustainability is also evident. The author therefore argues for a broad policy agenda including reform of the international financial system, development strategies re-focused on wage-driven domestic demand and viable agriculture, fiscal promotion of greener technologies and demand patterns, and redistributive social policies to reduce inequalities and act as macroeconomic stabilizers in downturns.*

In early 2009, there was much gloom about the world economy. The worst financial crisis since the Great Depression had apparently broken out in full fury; asset markets in the United States, Europe and then in most developing and emerging markets had crashed and were exhibiting extreme volatility; world trade collapsed; volatile capital flows made things much worse even for developing countries that had been fiscally and externally "disciplined", as they were affected by a crisis that was not of their making.

By comparison, the situation just a year later seemed to be a sea change. Developing countries (particularly in Asia) were the first to come out of the crisis; indeed, many of them had experienced only a deceleration of still positive growth, rather than negative growth. Output growth in the world economy – including in several of its more important component parts – was recovering from the extreme lows of late 2008 and early 2009 (figure 1). The United States, the United Kingdom and the Euro Area had all been declared "out of recession", as income had recovered, especially from the second quarter of 2009. Stock markets were upbeat once again, and private capital flows had resumed to some developing countries (though not all). There was renewed optimism that

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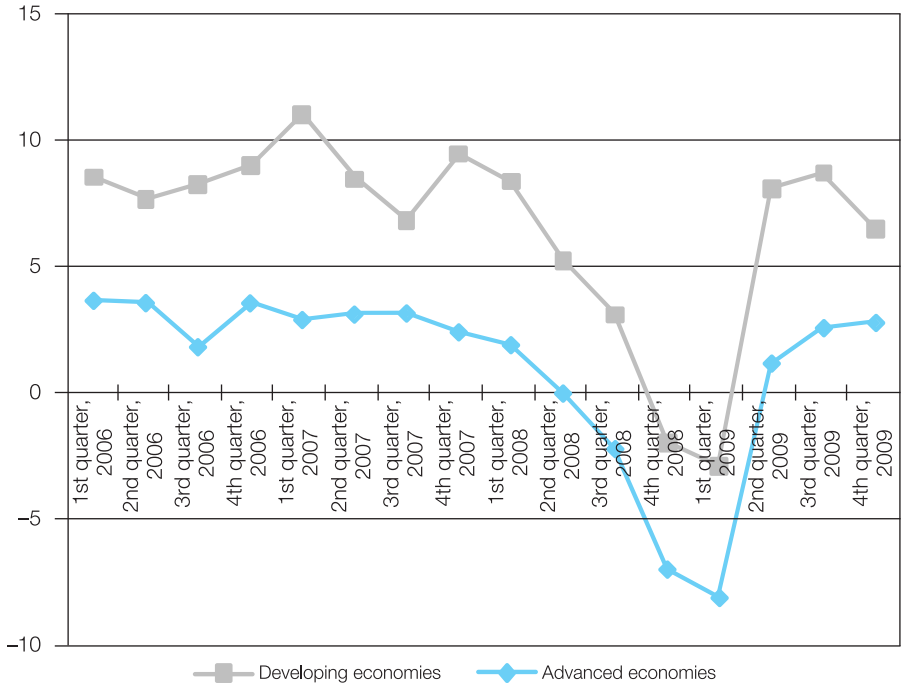
Figure 1. GDP growth (annualized percentage change quarter-over-quarter)



Source: IMF: *World Economic Outlook* (January 2010 Update).

the world economy would grow again in 2010, with especially rapid recovery in the developing world.

Much of this improvement was related to the apparently uncoordinated but nonetheless synchronized recovery packages that were introduced in the wake of the crisis. Across the world, governments responded not only with huge bailouts of troubled financial institutions but also with large fiscal stimulus packages that were effective in staving off depression. Many observers were tempted to see the global recession of 2008–09 as a mere blip in a process of continuing and dynamic global economic growth.

But this easy inference was never really valid, as recently evidenced by the sovereign debt crises erupting in countries like Dubai and Greece. These eruptions are part of a wider pattern, since there are two sets of reasons why the process of growth may not continue in a stable and sustained fashion – the first set is structural, and the second, conjunctural.

Causes and effects

On a structural level, the three basic imbalances that caused the most recent crisis of international capitalism have still not been resolved: the imbalance between finance and the real economy; the macroeconomic imbalances between major

players in the international economy; and the ecological imbalance that will necessarily become a constraint on future growth, not only because of climate change but also because of other environmental problems and the demand for energy.

These structural problems are a reflection of the past and current pattern of economic growth in both developed and developing countries, which suffers from several limitations, paradoxes and inherent fragilities. These are elaborated in the next section, but what is important to note at this point is that unless these problems are resolved, sustained growth is no longer possible in the global economy. Further, even the resolution of these problems is likely to be associated with severe and potentially protracted crises in particular areas and countries. These structural problems in turn are associated with several conjunctural problems, such that there continue to be several "downside risks" for future growth and particularly for improved well-being among much of the world's population, especially those already in more precarious and fraught material circumstances.

First, the problems in finance remain just below the surface because they have not been adequately addressed. The stagnation or decline of real estate markets and concerns with sovereign debt (whether in Dubai or Greece) are compounded by continuing disincentives for "efficient" behaviour and incentives for excessive risk-taking in financial markets. Moral hazard is in fact greater than ever before, because bank bailouts were not accompanied by adequate regulation (Stiglitz, 2009; Kregel, 2010). In early 2010, the government bond markets in some developed countries in Europe (particularly Greece) had become the focus of speculative attacks, and once again huge bailouts were being organized. These were designed to protect not only the countries subject to such speculation, but also the banks that had lent irresponsibly. The resistance to debt restructuring that would force banks to take part of the responsibility for the crisis reflects a broader inability to discipline finance, and an associated tendency to allow financial players to persist in destabilizing activities.

As a result, the problems in global finance are far from over, and they are likely to strike again with even greater ferocity in the foreseeable future. The impact is currently being felt in some capitalist economies like Greece and Ireland, as well as emerging markets like Estonia and Latvia, where severe austerity packages with savagely deflationary effects are being imposed on populations because of the pressures created by mobile finance. But it may be even more true of developing countries, many of which are even being encouraged to deregulate their own financial markets despite all the evidence of the financial fragility such deregulation entails.

Second, this has direct implications for certain global markets that directly affect people's lives, namely, the markets for food and fuel. It is now an open secret that the huge volatility in food and oil prices that created so much havoc in the run-up to the crisis – especially in the developing world – resulted not so much from any real economic forces as from the involvement of financial players in those markets (UNCTAD, 2009; Wahl, 2009; Ghosh, 2010). This was particularly

so because futures contracts led to the emergence of "index investors" who simply bet on changing prices and thus drove up prices far beyond those necessitated by any real changes in demand and supply. Commodities emerged as an attractive investment avenue for financial investors from around 2006, when the United States' housing market showed the initial signs of its ultimate collapse. This was facilitated by financial deregulation that allowed purely financial agents to enter such markets without requiring them to hold any physical commodities, such as the Commodity Futures Modernization Act of 2000, which effectively deregulated commodity trading in the United States by exempting over-the-counter (OTC) commodity trading (outside of regulated exchanges) from oversight by the Commodity Futures Trading Commission. This allowed any and all investors – including hedge funds, pension funds and investment banks – to trade commodity futures contracts without any position limits, disclosure requirements, or regulatory oversight. According to the Bank for International Settlements, the value of outstanding amounts of OTC commodity-linked derivatives for commodities other than gold and precious metals increased from US$5.85 trillion in June 2006 to US$7.05 trillion in June 2007 and to as much as US$12.39 trillion in June 2008 (BIS, 2009, table 22A, p. A106). This generated a bubble which, from futures markets, was transmitted to spot markets as well.

From mid-2008 commodity prices started falling as index investors began to withdraw, and the downturn was accentuated by the global recession. But this fall proved to be quite short-lived, as prices started rising again from early 2009, even before there was any real evidence of global output recovery. Between April 2009 and January 2010, the FAO's Food Price Index went up by 22 per cent.[1] Once again, this increase does not reflect real-economy forces: global supply and demand for most commodities remain broadly in balance. The recent price increase, as before, reflects heightened speculative activity in commodity futures. Such forces are on the prowl again as the economic recovery gains ground. Since there has been no regulation of commodity futures markets and the bulk of contracts is still transacted in OTC trading rather than in regulated exchanges with sufficient margin requirements, the dangers of volatility persist. Commodity speculation has been further encouraged by the immense moral hazard generated by financial bailouts, which have greatly increased the markets' appetite for risky behaviour.

Obviously, this is bad news for most people in the developing world, since the international transmission of prices tends to be more rapid when prices rise than when they fall (Ghosh, 2010). Indeed, food prices in most developing countries were in general considerably higher in early 2010 than they were two years before (FAO, 2010); and they have been increasing much faster than nominal wages (which have been mostly stagnant). The most direct channel of food-price inflation is of course trade. Countries in which a very large proportion of the

[1] See http://www.fao.org/worldfoodsituation/FoodPricesIndex/en/.

basic food requirement is met through domestic supply have thus experienced less volatility than those that rely on imports for a considerable part of their domestic consumption. For example, rice prices in China were broadly stable throughout the period of extreme volatility in global rice prices (FAO, 2009). But even in these countries, food-price inflation has been much higher than general inflation. Furthermore, the global crisis has constrained the ability of many developing countries to import more food (because of declining exports and capital-flow reversals) and reduced their capacity for enhanced public spending to ensure food distribution to the poor. For many developing countries, this has also been compounded by exchange rate shifts that have made imports – including food – much more expensive in domestic currency terms.

Developing countries are thus caught in a pincer between volatile global prices, on the one hand, and reduced fiscal space, on the other. Price volatility and changes in marketing margins mean that the benefits of price increases generally do not reach the actual producers, even as consumers – already hit by stagnant wages and falling employment – suffer from higher prices. Among more vulnerable populations, the effects of renewed food price increases in terms of real incomes, hunger and malnutrition are likely to be devastating (Chhibber, Ghosh and Palanivel, 2009). The FAO estimated that in February 2010, 32 countries were experiencing food emergencies, with many more facing moderate food crises.

Third, the unwinding of global macroeconomic balances – which must necessarily occur – means that the United States cannot continue to be the engine of growth for the world economy. So other countries must find alternative sources of growth, in domestic demand (ideally through wage-led growth) or by diversifying their exports. There is some evidence that this is happening, but thus far nowhere near the extent required. Stimulating more bubbles in non-tradeable sectors like real estate and stock markets in the hope that this will once again generate more real economic growth is not a sustainable alternative. Yet this is the direction that most policy measures have taken. Without significant restructuring of global demand in favour of the large segments of the world's population that still have to meet basic needs, world growth will not just be more unequal: it will simply run out of steam.

Fourth, unfortunately, such reorientation of global economic growth has been made more difficult by the pro-cyclical nature of the adjustment measures being imposed on those developing and transition economies that have been hit hardest by the crisis. Despite all the statements to the contrary, the IMF has continued to impose stringent pro-cyclical conditionalities on most of the countries that seek emergency assistance, while others are being forced into deflationary measures by the combination of falling exports and capital flow reversals. In Hungary, Pakistan and Ukraine, for example, IMF assistance has come with conditions on reducing fiscal deficits through measures such lowering public expenditure, gradually eliminating energy subsidies, raising electricity rates, freezing public sector wages, capping pension payments and postponing social benefits. The focusing of monetary policy on inflation has led the IMF to suggest

or insist upon higher interest rates even in the context of recession in Iceland, Latvia, Pakistan and other countries (Third World Network, 2009).

This reduces current and future growth potential in these economies. Even in developing countries where the impact of the global crisis was less extreme, fiscal balances have been upset first by rising oil and food prices (in importing countries) and then by recession that affected tax revenue. Since much of the policy response has been aimed at preventing institutions from collapsing, proportionately more government resources have been spent on bailouts and monetary and fiscal incentives for business than on maintaining public services or increasing employment. This has had an adverse impact on social indicators in a number of countries. Indeed, the crisis may already be responsible for a deceleration or even a reversal of poverty reduction, especially in the developing world, with an estimated 73 to 100 million more people in poverty than would otherwise be the case (United Nations, 2010).

Fifth, both the nature of the previous economic boom and the effects of the current crisis suggest that, for various reasons, consumption demand – especially that driven by (broadly defined) wage income – is likely to remain depressed for some time, and this will prevent a more balanced recovery. The constraints on consumption growth in the United States and Europe are now well known: both public and private sectors have very high debt-to-GDP ratios, and the process of redressing these imbalances is either already under way or likely to start very soon. In the United States, where the debt-driven private consumption boom was most marked, household savings rates have already started rising from their very low levels (Papadimitriou, Hansen and Zezza, 2009), and a similar process is under way in Europe. Increased public spending was expected to make up for this inevitable repairing of private balance sheets – and this is what actually happened over the past year. However, the remarkably rapid political backlash against "excessive" government spending – even though it has little validity within a Keynesian macroeconomic framework – seems to have affected both the ability and the willingness of governments in the developed economies to engage in further spending to ward off potential recession. The dangers of an early withdrawal of stimulus measures are thus very high (as noted also in IILS, 2009).

This is especially bad news because the economic orientation of the largest developing countries continues to be towards export-led growth, despite slackening of global markets. Such export orientation also means that these countries' domestic consumption has been – and indeed continues to be – relatively depressed. In "successful" developing countries, the relative lack of mass demand was an important factor enabling export-driven growth, both because of its association with lower wages and because it allowed more export surpluses to be squeezed out. However, it was also instrumental in preventing the achievement of more balanced growth based on the development of domestic or regional markets. This factor contributed significantly to the unbalanced nature of the previous boom.

The nature of the pre-crisis boom

Much was wrong with the global economic boom that preceded the crisis. Not only did the boom prove unsustainable – based as it was on speculative practices enabled and encouraged by financial deregulation – but it also drew recklessly on natural resources in a manner that has created a host of ecological and environmental problems, especially in the developing world. Furthermore, because its benefits were spread so unequally, most people in the developing world – even those in the most dynamic economic segment of Asia – did not really gain from the boom.

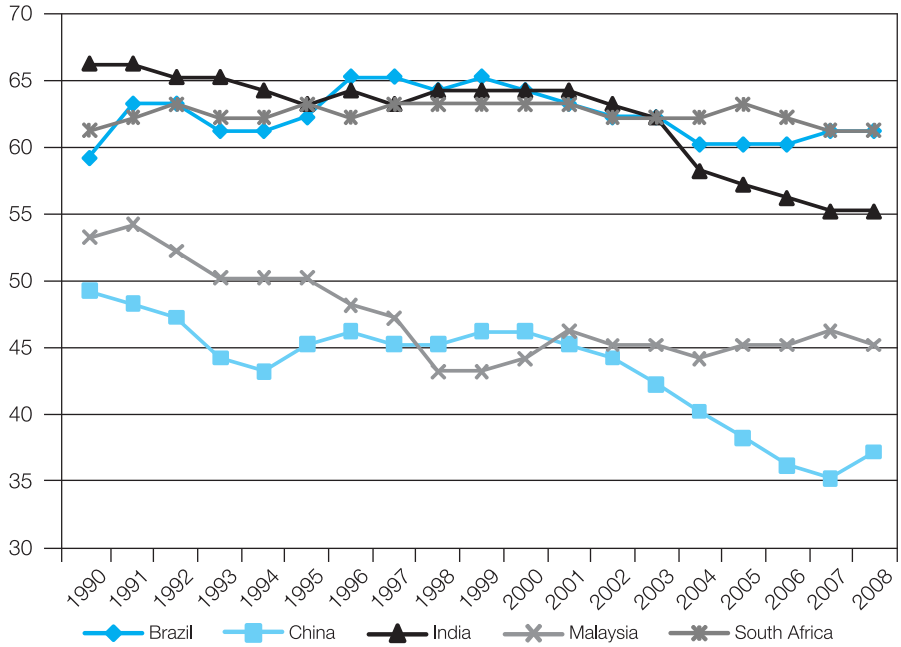
The financial bubble in the United States attracted savings from across the world, including from the poorest developing countries. For at least five years, there was a net transfer of financial resources from the South to the North (BIS, 2008). The governments of developing countries opened up their markets to trade and finance, gave up on monetary policy and pursued "fiscally correct" deflationary policies that reduced public spending. So development projects remained incomplete, and citizens were deprived of the most essential socio-economic rights. Despite popular perceptions, there was no net transfer of jobs from North to South. In fact, industrial employment in the South barely increased over the past decade, even in China, the "factory of the world".[2] Instead, technological change in manufacturing and the new services meant that fewer workers could generate more output. Old jobs in the South were lost or became precarious, while the majority of new jobs remained insecure and low-paying, even in fast-growing China and India (Patnaik, 2009). The developing world's persistent agrarian crisis hurt peasant livelihoods and generated global food problems. Widening inequality meant that the much-hyped growth in emerging markets passed most people by, as profits soared but wage shares of national income declined sharply. In most countries, real wage growth remained well below labour productivity gains in the period 1990–2006, and the wage share of national income declined in all major regions of the world during the two decades between 1985 and 2005 (IILS, 2008).

Almost all developing countries have adopted an export-led growth model, which calls for containing wage costs and domestic consumption for the sake of international competitiveness and growing shares of world markets. As shown in figure 2, household consumption as a share of GDP in some of the more "successful" developing economies has declined since 1990, in some cases quite significantly, reflecting the strategy of squeezing the home market in order to push out more exports.

In many developing countries, this strategy led to a peculiar combination of rising savings rates and falling investment rates. In Malaysia, for example,

[2] It is worth noting that China's manufacturing employment was broadly stagnant in absolute numbers between 1997 and 2004, despite very rapid increases in manufacturing output over the same period (Chandrasekhar and Ghosh, 2006). This reflected technological change associated with rapid gains in labour productivity. While manufacturing employment subsequently grew, the increases remained well below manufacturing output growth (China, 2009).

Figure 2. Share of household consumption in GDP (%)



Note: Shares are calculated in current price terms for both consumption and GDP.

Source: United Nations Statistics Division, National Accounts database, http://unstats.un.org/unsd/snaaama/Introduction.asp [accessed 10 March 2010].

investment rates plummeted from 42 to 21 per cent of GDP between 1998 and 2006, while savings rates rose from their already high levels to rates in excess of 40 per cent (Ghosh, 2009). And a similar story could be told about many other developing countries. This, in turn, led to an accumulation of international reserves that were then invested in what appeared to be safe assets abroad. This is why the pre-crisis boom was globally a matter of the South subsidizing the North: through cheaper exports of goods and services, through net capital flows from developing countries to the United States in particular, and through flows of cheap labour in the form of short-term migration. The collapse of export markets brought the whole process to a sharp stop for a time, though such a strategy would have proved unsustainable beyond a point in any case, especially when a number of relatively large economies seek to use it at the same time. Indeed, not only was this strategy a recipe for widening global inequality, but it also sowed the seeds of its own destruction by generating both downward pressures on prices because of increasing competition and protectionist responses in the North.

In the pre-crisis boom, domestic demand tended to be profit-driven, based on high and growing profit shares in the economy and significant increases in the income and consumption of newly "globalized" middle classes, which led to bull-

ish investment in certain non-tradeable sectors – e.g. financial assets and real estate – and in luxury goods and services. This enabled economies to keep growing even though agriculture was in crisis and employment did not expand enough.

The patterns of production and consumption that emerged meant that growth also involved rapacious and ultimately destructive exploitation of the environment. The costs – in terms of excessive congestion, environmental pollution and ecological degradation – are already being felt in most developing societies, not to mention the implications in terms of the forces generating climate change. The ecological constraints on such growth are already being felt, most unfairly, among those regions and people that have gained the least from the overall expansion of incomes.

There have been other negative effects associated with this growth pattern. Within several developing countries, it has led to an internal "brain drain" with adverse implications for future innovation and productivity growth. The skewed structure of incentives generated by the explosive growth of finance directed the best young minds towards careers that promised quick rewards and large material gains, rather than painstaking but socially necessary research and basic science. The relocation of certain industries and the consequent local demand for skilled and semi-skilled labour did lead to increased opportunities for educated employment, but it also led bright young people to enter into work that is typically mechanical, in jobs not requiring much originality or creativity, and offering them little opportunity to develop their intellectual capacities. At the same time, crucial activities that are necessary for the economy were inadequately rewarded. Farming in particular became increasingly fraught with risk and subject to growing volatility and declining financial viability. The undermining of peasant livelihoods also put the crucial task of food production on a more insecure footing in many countries. Meanwhile, non-farm employment did not increase rapidly enough to absorb the labour force even in the fastest growing economies of the region (IILS, 2008).

In short, the recent boom was neither stable nor inclusive, both across and within countries. The crisis, unfortunately, has so far been much more inclusive.

The impact of the crisis

Financial crises are not new for developing countries, but this was the first time that almost all of them were infected by a crisis that originated in the financial markets of the North. The Asian crisis of 1997–98 had already brought home the fact that financial liberalization can result in crises even in so-called "miracle economies", whose pace and pattern of GDP growth were significantly better than those of the rest of the world.

Subsequent experience showed that currency and financial crises have devastating effects on the real economy. Even when crises are essentially financial in origin and in their unfolding, their effects unfortunately do not remain confined to the realm of finance. The ensuing liquidity crunch and wave of bankruptcies

result in severe deflation, with attendant consequences for employment and the standard of living. The post-crisis adoption of pro-cyclical (often IMF-inspired) stabilization programmes – as in Thailand and Indonesia after the Asian financial crisis – can make matters worse by adding policy-driven downturn to a situation of asset deflation, thereby accelerating the collapse of output and employment. Following the wave of crises that occurred during the 1990s and early 2000s, governments in developing countries became so sensitive to the possibility of future crises that they adopted very restrictive macroeconomic policies and restrained public expenditure even in crucial social sectors. Where the post-crisis strategy was also associated with continued financial deregulation and weakened emphasis on credit for small borrowers, it tended to reduce financial inclusion even while it increased financial fragility, as is now evident in countries like Indonesia (Ghosh and Chandrasekhar, 2009).

Past experience of crises had also led to a more cautious and calibrated approach to banking and financial sector reform in some countries. This prevented extremely adverse financial effects – particularly in China and India – and also allowed the Asia-Pacific region as a whole to recover faster from the crisis of 2008–09.

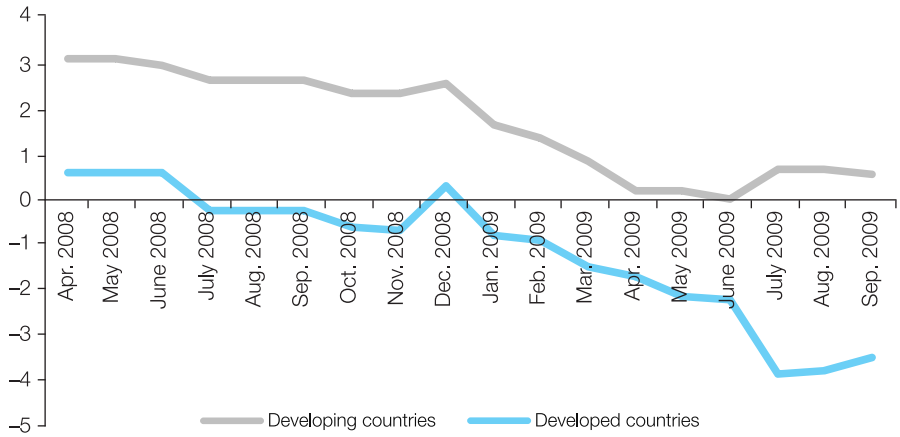
The real-economy impact of the crisis has mostly been felt in employment, and this is where the effects of the crisis continue to be widespread and serious. Employment declined sharply in export-oriented sectors, creating negative multiplier effects across other sectors. The effects on social sectors and on human development conditions in general have been marked (Chhibber, Ghosh and Palanivel, 2009; Green, King and Miller-Dawkins, 2010).

Of course, employment tends to recover more slowly and to a lesser extent than output both over the standard business cycle and, experience suggests, in the aftermath of financial crises, (Reinhart and Rogoff, 2008). In this sense, the delayed recovery of employment would seem to be only normal, and not cause for excessive concern. But this current crisis has followed a boom in which, despite rapid increases in economic activity, employment – especially in the formal economy – had simply not kept pace. So labour markets across the world were increasingly characterized by more casual, non-formal contracts and the growth of precarious forms of self-employment rather than "decent work". In other words, while the boom failed to generate enough productive employment, the crisis has already had severe effects in reducing levels of employment that were already inadequate across the world.

The collapse of employment that occurred as the crisis unfolded is evident from figure 3, which shows the percentage change in total employment in developed and developing countries.[3] Obviously, the fall was greatest in developed countries.

[3] The most recent data provided here and in the subsequent figures should be interpreted with some caution, since they show the evidence only from reporting countries with the most recent data, which could be revised once a fuller data set is available.

Figure 3. Total employment (percentage change over the same period of the previous year)



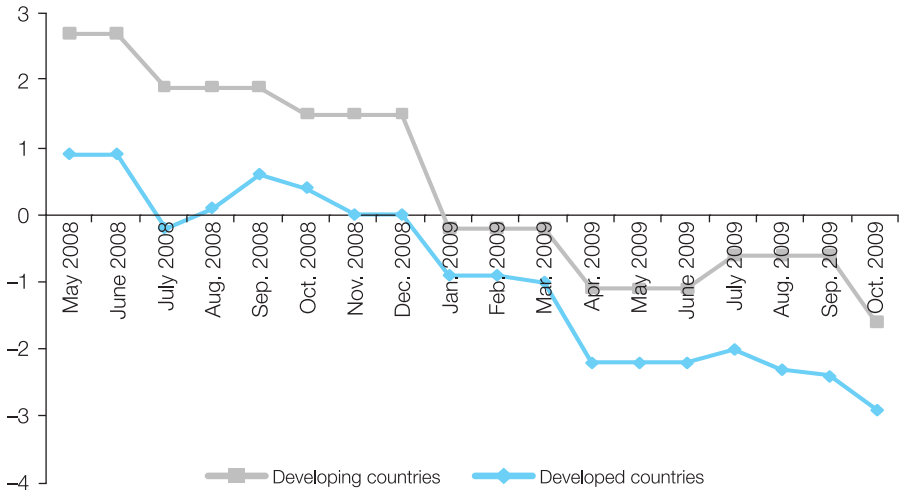
Source: ILO Global Job Crisis Observatory (Global employment trends), available at http://www2.ilo.org/pls/apex/f?p=109:1:0.

The recent slight recovery in employment growth rates in developing countries may be interpreted as a sign that the worst of the crisis is now over for the developing world, even on the employment front. However, this is not really the case. Wage employment in non-agricultural activities continued to plummet over the course of 2009 (figure 4). So the apparent recovery of total employment in developing countries is likely to have occurred largely through various forms of self-employment, reflecting the lack of social security and unemployment protection in most developing countries. Indeed, where there is no real social option to continue in open unemployment, underemployment expressed in self-employed activities is much more likely to be the norm.

Within non-agricultural employment, the sharpest recent decline has occurred in manufacturing employment; and what is more significant is that this decline has persisted even though manufacturing output in developing countries as a group rebounded quite rapidly after March 2009. This suggests that even for manufacturing – and certainly in services – self-employment has been the only "buoyant" form of job creation since the crisis broke. Self-employment in manufacturing is increasingly indicative of home-based work for complex, often global, production chains. But it does allow for more underemployment in the face of reduced demand, rather than open unemployment.

Another aspect of the same tendencies is reflected in unemployment rates. In August 2009, open unemployment rates were around 40 per cent higher than they were a year previously in developed countries, but only around 10 per cent higher on average in developing countries taken as a group (ILO, 2010). For the reasons noted above, open unemployment is rarely an option for people in developing countries that do not have properly functioning systems of unemployment insurance or protection from job loss. As a result, many workers

Figure 4. Non-agricultural wage employment (percentage change over the same period of the previous year)



Source: ILO Global Job Crisis Observatory (Global employment trends), available at http://www2.ilo.org/pls/apex/f?p=109:1:0.

who lose their job, as well as new entrants to the labour market, have no option but to engage in some form of self-employed economic activity as the only alternative to wage employment. This is why rates of open unemployment have been fluctuating around a largely stable trend through the crisis. However, the rapid rise in self-employment, often in very low-paying and precarious activities, is essentially a response to the lack of opportunities for wage employment.

What all of this suggests is that the worst effects of the crisis for most people in the world – the worsening of labour market conditions, greater risk of unemployment and reduced incomes from employment – still remain as strong as ever. Without serious policy efforts to deal specifically with employment – which, in turn, imply significant changes in economic trajectories – it is hard to feel optimistic about global economic prospects, especially for the developing world. Yet such changes are not just desirable but also very feasible – given the required political will.

An alternative approach to growth and development

It is now a cliché to say that every crisis is also an opportunity. Of course, as the global financial crisis unfolds and creates downturns in real economies everywhere, it is easy to see only the downside: jobs are lost, many firms go bankrupt, the value of workers' financial savings is wiped out, and material insecurity becomes widespread. But this global crisis offers a greater opportunity than

there has been for many years, for the world's citizens and their leaders to restructure economic relations in a more democratic and sustainable way.

There are several prerequisites. First, the need to reform the international financial system is now widely recognized because the existing system has failed to meet two obvious requirements, namely: preventing instability and crises, and transferring resources from richer to poorer economies. Not only has the global economy experienced much greater volatility, with a higher propensity to financial meltdown across emerging markets and now industrialized countries, but even its periods of economic expansion have been based on the global poor subsidizing the rich. Within national economies, this system has encouraged pro-cyclical policy-making; it has rendered national financial systems opaque and impossible to regulate; it has encouraged bubbles and speculative fervour rather than real productive investment for future growth; it has allowed for the proliferation of "parallel transactions" through tax havens and loose domestic controls; it has reduced the crucial developmental role of targeted credit. Given these problems, there is no alternative to systematic state regulation and control of finance. Since private players will inevitably attempt to circumvent regulation, the core of the financial system – banking – must be protected. This can only be done through "social ownership". Some degree of socialization of banking (and not just socialization of the *risks* inherent in finance) is therefore inevitable. This is also important in developing countries because it enables public control over the direction of credit, without which no country has industrialized. The case of Brazil provides a vivid illustration of how this can be achieved.

Second, the excessively export-oriented model that has dominated the growth strategy of most developing countries and some developed countries (such as Germany) for the past few decades needs to be reconsidered. Not only is this shift desirable – it has also become a necessity because the United States can obviously no longer continue to be the engine of world growth through increasing import demand in the near future. This means that countries that have relied on the United States and the European Union as their primary export markets and important sources of final demand must seek to redirect their exports to other countries and, above all, redirect their economies towards more domestic demand. This requires a shift towards wage-led, domestic-demand-driven growth – particularly in the larger economies. This can be achieved not only through direct redistributive strategies but also through public expenditure aimed at providing more basic goods and services.

Third, fiscal policy and public expenditure must – as the above implies – be brought back to centre stage. Clearly, fiscal stimulation is now essential, in both developed and developing countries, to cope with the adverse real-economy effects of the current crisis and to prevent economic activity and employment from falling further. Fiscal expenditure is also required to undertake and promote investment in order to manage the effects of climate change and promote greener technologies. And public spending is crucial to advance the development project in the South and fulfil the promise of minimally acceptable standards of living for everyone in the developing world. Social policy – the public

responsibility for realizing the social and economic rights of citizens – is desirable not only as such but also because it contributes positively to development. It is indeed increasingly evident that social policies which are often seen simply as welfare or redistributive measures – e.g. employment schemes, incentivized cash transfers to particular groups, social protection like unemployment benefits – can become important macroeconomic stabilizers, by providing automatic counter-cyclical buffers in economic downturns. India's National Rural Employment Guarantee Scheme, for example, not only provides more days of employment per amount spent than any of the country's previous employment programmes, but it has also been an important means of injecting purchasing power into a depressed rural economy and limiting the adverse effects of the economic downturn on effective rural demand. Similarly, China's new health insurance programme, whereby the government would cover up to 85 per cent of the costs of health care, is likely to contribute significantly to releasing more disposable income to households and thus boost their consumption, adding to domestic demand from this quarter.

Fourth, conscious attempts must be made to reduce economic inequalities, both between countries and within countries. The limits of what passes for "acceptable" inequality in most societies have clearly been crossed, and future policies will have to reverse this trend. Both globally and nationally, the need to reduce inequalities must be recognized, not only in income and wealth, but also, most significantly, in the consumption of natural resources. This is obviously important for political stability and social cohesion, yet it has important economic effects as well, since domestic wage-led demand tends to be a more stable basis for economic growth than external demand. Emphasis on workers' rights in both formal and informal economies requires employers to focus on increasing labour productivity and therefore tends to shift the fulcrum of technological change across the economy. Indeed, the focus then has to be on raising the aggregate productivity of labour across the economy – rather than in specific sectors or enclaves – and on reducing the incidence of unpaid labour and improving its conditions.

However, even with greater economic equality, the challenge of curbing unsustainable consumption is more complicated than might be imagined, because unsustainable patterns of production and consumption are now deeply entrenched in the richer countries and are aspired to in developing countries. Many millions of people in the developing world still have poor or inadequate access to the most basic prerequisites of a decent life, such as health, nutrition, education and minimum physical infrastructure, including electricity, transport and communication links, and sanitation. Universal provision of these will inevitably require greater per capita use of natural resources and more carbon-emitting production. So both sustainability and equity require a reduction of the excessive resource use of the rich, especially in developed countries, but also among the elites in the developing world. This means that redistributive fiscal and other economic policies must be specially oriented towards reducing inequalities in resource consumption, both globally and nationally. For example,

within countries essential social and developmental expenditure could be financed by taxes that penalize resource-wasteful expenditure.

Fifth, this agenda ultimately requires new patterns of both demand and production. Hence the crucial importance of the current research focus on developing new means of measuring *genuine* progress, well-being and quality of life. Quantitative GDP growth targets, which still dominate the thinking of policy-makers, are not simply distracting attention from these more important goals, but they can even be counterproductive. For example, a chaotic, polluting and unpleasant system of privatized urban transport, involving many private vehicles and over-congested roads, actually generates more GDP than a safe, efficient and affordable system of public transport that reduces vehicular congestion and provides a pleasant living and working environment. So it is not enough to talk about "cleaner, greener technologies" to produce goods that are geared to the old and now discredited pattern of consumption. Instead, we must think creatively about such consumption itself, and work out which goods and services are more necessary and desirable for our societies.

Sixth, also required is a more comprehensive approach to agriculture and rural development, which recognizes the role of public intervention. While agriculture still provides the basic livelihood of around half the labour force in the developing countries, there has been a prolonged period of agrarian crisis across the developing world, which has persisted through commodity-price booms and declines. The crisis has been largely policy-driven (although climate changes have played some minor role). And at some level, this is good news because it means the crisis can also be reversed through appropriate policies which bring back the role of public research and extension as well as state intervention in water management, input provision and crop price management in order to make developing-country agriculture more viable and productive.

Seventh, market forces alone cannot be expected to produce the required changes in patterns of demand and production technologies in non-agricultural activities, since the international demonstration effect and the power of advertising will continue to create undesirable wants and unsustainable consumption and production. However, public intervention in the market cannot take the form of knee-jerk responses to constantly changing short-term conditions. Instead, planning – not the detailed planning that destroyed the reputation of command regimes, but strategic thinking about the social requirements and goals for the future – is absolutely essential. Fiscal and monetary policies, as well as other forms of intervention, will have to be used to redirect consumption and production towards those social goals, to bring about the required shifts in socially created aspirations and material wants, and to reorganize economic life so that it becomes less rapacious and more sustainable.

This is particularly important for quality of life in urban areas: the high rates of urbanization in developing countries mean that even in many countries that are now dominantly rural, more than half the population will live in urban areas within two decades. Yet, because we – in the developing world especially – still do not plan for the future to make our cities pleasant or even liveable for

most residents, we tend to create urban monstrosities of congestion, inequality and insecurity.

Eighth, since state involvement in the economy is now an imperative, it is necessary to develop methods and practices to make such involvement more democratic and accountable both within countries and internationally. Large amounts of public money are being used – and will continue to be used in the near future – for financial bailouts and to provide fiscal stimuli. How this is done has huge implications for distribution, access to resources and the living conditions of the ordinary people whose taxes will be paying for this. It is therefore essential that the global economic architecture be redesigned to function more democratically. And it is even more important that states across the world, when formulating and implementing economic policies, should be more open and responsive to the needs of the majority of their citizens.

Finally, we need an international economic framework that supports all of this, which means more than just controlling and regulating capital flows so that they do not destabilize any of the above strategies. The global institutions that provide the organizing framework for international trade, investment and production decisions are also in need of reform to become not only more democratic in structure but also more *genuinely* democratic and people-oriented in spirit, intent and functioning. Financing for development and conservation of global resources must become the top priorities of the global economic institutions. This, in turn, means that those institutions cannot continue to operate on the basis of an economic model that is increasingly discredited because it is so unbalanced.

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