Structural Policies for Sustainable Growth

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The 2009 G-20 Pittsburgh Summit declared "strong, sustainable and balanced growth" as the overarching goal of its coordinated efforts to steer the global economy out of the crisis. Two years later, we know that growth in the advanced countries has been sluggish at best and global imbalances persist. Particularly, Europe is probably facing a prolonged period of low growth, since all possible solutions to the European debt crisis will require a downward adjustment of wages, prices and public spending in Southern Europe. For Europe, there is no way of spending itself out of this crisis. The effectiveness of pushing up aggregate spending, as it has been recommended by a wide range of U.S. scholars and policymakers to those European countries which still dispose of some fiscal headroom, can be questioned. If the decline in growth is structural in nature, short-term fiscal stimulus will not have a lasting effect on growth, but will instead drive public debt to an even higher level and thus limit growth potential in the long run for the aging societies in Europe.

The traditional pattern of wealth generation is overstepping the boundaries of the global ecosystem. The depletion of the stocks of natural capital is beginning to impinge on productivity and adversely affecting the potential for present and future growth. The loss of aggregate productivity is not fully visible in national accounts since part of the implicit cost is externalized and shifted in time and space. Macroeconomic indicators would look much different if these costs would have been adequately monetized and integrated.

Against this background, we have to concentrate on long-term reforms, resolving the imbalances within Europe and on a global scale, while at the same time addressing the sustainability of growth by initiating structural reforms. Advanced countries and rising powers need to face up to the long-term challenge of structural transformation if they want to properly manage the systemic risks inherent in the present model of wealth creation and global governance. Sustainable growth dynamics can only be secured if countries of all income levels switch to a trajectory of a green economy. In this, the G-20 must lead the way and, in addition to domestic adjustment, provide resources and technologies to low-income countries which depend on external support. Stability and shared prosperity will prove to be elusive goals for the G-20 unless it begins to address key destructive factors which threaten the very foundation of the world economy, namely growing social disparities and excessive pressure on global ecosystems. Thus, the G-20 needs to move quickly and simultaneously on two issues: overcoming the instabilities of financial markets and global imbalances while laying the ground for sustainable growth through building a low-carbon, resource-light world economy. Global leadership in this regard is not just a cause of enlightened self-interest but also an expression of moral responsibility. According to the value judgment of the respected German Advisory Council on Global Change, the protection of natural life support systems for the benefit of future generations is as much an ethical imperative as the abolition of slavery and the condemnation of child labor.

The dominant model of industrialization over the past 250 years has been geared toward the use of fossil energy. This particular mode of economic development has fundamentally shaped social relations and public policies on issues, such as regulation, infrastructure, transport, research,

innovation, foreign affairs and security.[1] As a consequence, resource-intensive industrial civilization has significantly overstepped planetary boundaries. According to an internationally recognized metric, "ecological footprint", the world presently consumes the resources of 1.5 planets, which means that the present generation is drawing down the existing stock of natural capital at the expense of future generations. By 2030, aggregate global demand is expected to reach a consumption level of two planets.[2] It is estimated that the global middle class will more than double in the coming two decades, from 1.8 billion people to almost 5 billion in 2030[3] due to rapid income growth in rising powers. This will lead to further pressure on global ecosystems. Social inequities and human deprivation are other dimensions of systemic risks in the world economy. Some observers see globalization itself threatened by the erosion of trust as explosive popular discontent could lead to further protectionism and economic nationalism.

In order to safeguard the social and environmental prerequisites of stable growth and prosperity, the G-20 needs to mobilize political will in support of a new global social contract for a low-carbon, sustainable world economy. In order to meet the 2°C climate protection guard rail agreed upon by the global community at the 2010 Cancún climate change meeting, the G-20 must promote radical increases in energy and resource efficiency and initiate the decarbonization of energy systems and production processes. The German Advisory Council on Global Change has suggested focusing on three pivotal areas of transformation: energy/transport, urbanization and land use. It estimates that the costs of transition to a low-carbon world economy would be $200 billion to up to $1 trillion per year by 2030 and significantly higher between 2030 and 2050. However, these outlays amount to just a few percentage points of global GDP and would be offset by savings of similar magnitude later. Presently, the energy sector causes around two-thirds of greenhouse gas emissions. Urban spaces are responsible for three-quarters of global final energy demand. Their population will double to six billion by 2050, implying a concomitant expansion of energy needs. The land-use systems in agriculture and forestry, including deforestation, generate almost a quarter of global greenhouse gas emissions. Future developments in this sector will be shaped by the need to provide enough food for a world population of over 9 billion in 2050 and by the growth in demand due to the increasing use of bio-energy and bio-based raw materials. Pressures in the energy sector are compounded by the ethical imperative of providing 3 billion people access to essential modern energy services who continue to be excluded from such amenities of modern life.

The G-20 has repeatedly expressed its intent to "move toward greener, more sustainable growth". It had, for example, committed itself to "rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption….and have our energy and finance ministers, based on their national circumstances, develop implementation strategies and timeframes, and report back to leaders at the next summit".[4] The result of this process was disappointing. Reports on their policies for phasing out fossil fuel subsidies have been delivered by the members to the next G-20 summit, but the process has stalled at the point where no consensus could be reached as to which subsidies could be called "inefficient".

Due to their weight in the global economy and their political clout, G-20 countries must play a stronger role in the "Great Transformation" toward a low-carbon society. This does not imply that the governments alone will have to provide all the solutions and all the action. The paradigm shift from fossil to post-fossil models can only succeed if it is organized as an open societal search process, which includes low-income countries and responds to their specific needs for poverty eradication and broad-based social development. The normative foundations for the design of transformative trajectories can be found in universally accepted standards, such as the United Nations conventions for human rights and labor rights, and the Millennium Declaration. The principle of common but differentiated responsibilities as enshrined in the Rio Declaration and the U.N. Framework Conven-

tion on Climate Change allows for individual paths according to a country's capabilities. It also means that industrialized countries will have to carry the main burden of radical shifts in emissions and resource use. Still, they should not shy away from the task since technological solutions and effective instruments for comprehensive decarbonization as well as solid business and financing models for the transition are readily available. These elements, however, need to be brought into play through new modalities of interaction between politics, society, science and the economy.

European countries seem to experience a shift in popular attitudes toward sustainability which could indicate widespread societal support for a new global social contract. A survey conducted in July 2011 on behalf of the Bertelsmann Foundation[5] found that 91 percent of Germans espouse international rules for the use of natural resources and environmental goods and 61 percent endorse the view that the government should promote global public goods rather than narrow national interests. Similar results in other countries could signal a global trend toward post-materialistic values with an increasing emphasis on autonomy, self-expression and quality of life. The growing relevance of the paradigm shift toward sustainability in the political process is demonstrated by the recent decision of the German Parliament to establish a Study Commission on Growth, Wellbeing and Quality of Life which is expected to organize an ambitious work program with numerous studies by external experts and will come up with a comprehensive report of analysis and policy proposals.

The report of the *Commission on the Measurement of Economic Performance and Social Progress* led by Joseph Stiglitz and advised by Amartya Sen provides an implicit critique of the narrow focus on aggregate GDP growth rates. The report argues that in the run-up to the financial crisis "…neither the private nor the public accounting systems were able to deliver an early warning, and did not alert us that the *seemingly* bright growth performance of the world economy between 2004 and 2007 may have been achieved at the expense of future growth".[6] The sole focus on aggregate growth without considering qualitative factors, distributional aspects, and environmental degradation can mislead policymakers and the public with regard to the long-term effects of policies. Structural policies need to look behind the growth figures and ask for the effects of policies on long-term development. The effort of some of the G-20 countries to include "green" policies into their 2009 stimulus packages was a promising start, but only 14 percent of the stimulus packages could be regarded as "green" according to a study by HSBC.[7] Unfortunately, there was no follow-up to this effort, aiming at a mainstreaming of sustainability considerations in macroeconomic policies.

In their efforts for balanced and sustainable growth, the G-20 would be well advised to provide a platform for dialogue and exchange of experience on the ongoing work in member countries and their transformation toward a low-carbon, sustainable economy. One possible option in this regard could be the establishment of a high-level panel on systemic risks in the global economy as suggested in the 2009 report of the Stiglitz Commission to the President of the U.N. General Assembly. The panel would consist of scholars and practitioners from all regions and follow the successful model of the Intergovernmental Panel on Climate Change. The panel would not be charged with writing its own reports but rather systematically compiling and assessing the existing body of knowledge and policy recommendations ("report of reports"). The thematic mandate of the panel should be broadly defined to encompass all relevant dimensions of global change and resulting risks.

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Endnotes

[1] WBGU (2011).
[2] WWF International (2010).
[3] Kharas (2010).
[4] Pittsburgh Summit Declaration.
[5] Bertelsmann Foundation (2011).
[6] Stiglitz, Sen, and Fitoussi (2009) p. 9.
[7] HSBC (2009).