

It Is Time for Change Not Reform

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The global crisis is being discussed so much that there seems to be no aspect left that has not been analyzed in depth.

What is crisis? I personally define it as a historical situation where the ruling elites do not want to adopt a new way of life, while the rest do not know how or are unable to do so. So talking about crisis actually we are talking about the need and possibility of change.

Until recently, this question of “Do we need a change?” seemed to be more of a tribute to political correctness at various high level fora in western hemisphere. Living in Vienna or London seemed so secure, comfortable and predictable. So why change?

The dark side of globalisation was unfolding somewhere far away. Famine - not about us, lack of water, and absence of sanitation, diseases and poverty - sure it exists somewhere but what has it to do with us here in these "blessed" parts of the world? Sure we should help those "unlucky people" living in unprivileged parts of the world. Besides, charity has always contributed to self-esteem.

This cosy “societe de plaisir” atmosphere is gone almost overnight. We’ve got a wake up call as affluent nations have all been badly affected at the same time by the economic crisis. The extraordinary thing about the present moment is that several fundamental adjustments are taking place at the same time. That is what makes the outcome so unpredictable. For the same reason, it may not be possible to salvage the same old system.

British statesman Robert Bulwer-Lytton famously said that, “a reform is a correction of abuses; a revolution is a transfer of power.” But, between reform and revolution, there is always the potential for reinvention. If we do not want to witness the revolution, we should consider serious, genuine measures to restructure the economic system to reflect new global realities. It is clear globalisation needs to take a new course. It is also clear that the model of development that must be embraced by all countries must have some basic pre-requisites – like respect for the environment and concern for inclusion and equity.

The crumbling modern world economy has always been skewed and its rewards asymmetric. More than 3 billion people have been excluded from the benefits globalisation has brought about. During the last ten pre crisis years world GDP has grown at 2.5 per cent a year, but 100 million have been added to the ranks of the world’s poor. Among the world’s 100 biggest

economic players, 51 are corporations and only 49 nations. One per cent of the world's richest people have income equal to the income of 57 per cent of the world population.

The productive capacity of the 3bn people who live on less than \$2 a day has been marginalised. By depriving them of the income they need, we have set limits to our own markets and consigned them to ill health, lack of education, conflict and misery. Instability is inherent in asymmetry. The system was bound to collapse and it did.

The fundamental problem of the current nature of globalisation and the development path it chooses is the urge to corner wealth and prosperity. That leads to cutthroat competition for resources and markets. Even that would not have been a problem – provided it was done within limits. But as is well known within the Club of Rome circles, sky is the limit if business is allowed free reign.

Today, trust and confidence are key words for economic recovery. But reliance on traditional human values has been as good as dead. We are so complacent about North-South relations, about the failing health of natural eco-systems, about the unquestioned supremacy of the market and its ability to solve all problems. We find comfort in being able to blame someone and everyone. The truth is we could just as easily blame ourselves for blindly succumbing to this leveraged society. But the economic mess has to be cleared and new structures put in place. The existing structure has outlived its relevance.

It is time for change, not reform.

Among the several imbalances in need of correction, the main one is political. It has to do with the way power is concentrated: not just within countries but between the national nature of politics and the global reach of markets; between Western-dominated multilateral institutions and the eastward shift of economic wealth. The weakness of multilateral institutions in responding to these new realities is making it hard to deliver adequate concerted policy responses appropriate to the scale of the problem. The current crisis, however, is creating a new impetus to strengthen multilateralism and share power and responsibility. The birth of the new G-20 testifies to this.

The first task in recovery effort thus must be to bring the peripheral economies and people into the centre. Left to the market, this will not happen. Private capital flows to the developing world are slumping sharply, with net inflows dropping in 2009 to about one-third of the peak \$1.2 trillion reached two years ago. Remittances are on the decline, with a fall of at least 5 percent forecast for 2009.

These trends could lead to deeper social turmoil with political implications. Most attention has been focused now on developed countries, where people face the loss of homes, assets, and jobs. These are real hardships. But people in developing countries have much less cushion in terms of savings, insurance, unemployment benefits and sustenance access.

World Bank estimates that 53 million more people will be trapped in poverty this year, subsisting

on less than \$1.25 a day, because of the crisis. This comes after soaring food and fuel prices of recent years, which pushed 130 to 155 million people into extreme poverty, many of whom have still not recovered.

The world was already faltering to reach the eight Millennium Development Goals by 2015. These targets now look even more distant. Take infant mortality, one of the most compelling causes: World Bank now estimates that an additional 200,000 to 400,000 babies will die this year because of the drop in growth.

The environmental imbalance between the resources we consume and the capacity of the planet to replenish itself is a major problem. The trillions of dollars in quick fix the various stimulus packages are attempting to do is basically to rekindle the same global economy with some environmental-friendly intentions or actions on the side. The Global Plan for Recovery and Reform, as the G-20 declaration is called, refers to issues of sustainable development only towards the end in paragraph 27.

The economic system can no longer be built purely on the basis of profit maximization but must incorporate a range of values. Financial success should be measured according to an expanded spectrum of economic, environmental and social criteria: the 'triple bottom line' of 'People, Planet, Profit'. And it's important to realize it is not an either or choice any more. Quite the contrary, they cannot exist apart. In fact, such a course alone can form the basis of a new Green Deal for the world's development. Where governments guide the future course in public interest but let private business flourish with ethical checks weaved into legal norms and mechanisms.

Corporate social responsibility and environmental impact mitigation need to become more than afterthoughts. In their Declaration, the G20 commit to implementing policies to strengthen transparency and accountability, but limit this to requiring enhanced disclosure of financial problems. We need to go much further and include social and environmental concerns as an integral part of the standard annual audits of all enterprises. That is the first step – to recognise the ecological footprint of economic activities and let the gross domestic product of a nation reflect that in its balance sheets. The movement to green national accounting system cannot be postponed indefinitely.

The resurrection of the global economy, however, offers a unique window of opportunity to realign the whole economic train on the tracks of a green recovery. The stimulus package, used to that end, could indeed herald a new prosperity built on a low-carbon economy – unwinding and moving away from production and consumptions patterns that have scarred the earth and are testing its resilience. With the market economy in the doldrums, the G-20 leaders are in a position now to influence its future course in ways that they normally cannot. Governments are in a dominant position and in charge of resuscitating the markets – that is what makes the current situation so unique.

The sooner we make the right conclusions, the less painful will be the recovery. The aim should

be not to resurrect the old economic system but to tailor the recovery in a way compatible with the long-term development goals.

The movement towards a low-carbon economy is a clear political necessity and a blueprint for sustainable growth in the future, while pumping of trillions of dollars into fossil energy is equivalent to pumping them into toxic assets.

The challenge thus is to embed “green economic policy” in national economies worldwide. Leadership by one country, whether the United States, Germany or Japan, or region like in the European Community is not enough. Latest estimates by the International Energy Agency show renewable sources account for only \$10 billion of the \$250-300 billion allocated to annual energy subsidies worldwide. Such perverse subsidies must be the obvious targets for change.

Renewable energy technologies are no longer a niche energy solution, and in not too distant a future are going to fundamentally change the way we generate electricity. As a result of substantial investments over the past 5 years, the solar industry has dramatically improved solar technologies and established roadmaps for further cost reductions. In fact, electricity generated from solar installations is already reaching parity with peak energy and retail energy prices in many regions.

Now is the time for world leaders, businesses and communities to build the platform for renewable energy to be replicated on a much greater scale. This will not only improve energy autonomy, but also serve to mitigate greenhouse gas (GHG) emissions and deliver an economically viable solution to climate change. To achieve it the global climate change deal agreed to in Copenhagen at the end of 2009 should include concrete targets and policies for a rapid transition to low carbon economy in the coming decades.

New rules of the game are needed in many spheres if globalisation has to be reshaped to become more sensitive to the needs of our home planet and to human needs. What has to be done away with is the traditional game of power play and restricting access to prosperity only for the rich. That is simply not sustainable. Leadership calls for taking the right decisions at the right time. Yesterday it was too early, tomorrow it might be too late.