



## SUSTAINABLE RESOURCES 2003

### **The Macroeconomics of Sustainable Development**

Seven years before the Brundtland Report, *Our Common Future*, drew worldwide attention to the principle of **sustainable development**, another international panel of experts had already introduced the concept. In 1980, the Independent Commission on International Development Issues, chaired by former German Chancellor Willy Brandt, issued *North-South*, a report which called for *sustainability in social development and economic growth, as well as the natural environment*. “The conquest of poverty and the promotion of sustainable growth are matters not just of the survival of the poor but of everyone,” the Brandt Commission declared (*N-S*, 75). “Our survival depends not only on military balance, but on global cooperation to ensure a sustainable biological environment, and sustainable prosperity based on equitably shared resources” (124). Perhaps the original proposals of the Brandt Report nearly twenty-five years ago can help solve this critical equation today: **how can the world eliminate poverty and increase economic growth without harming the environment?**

While many approaches to *development* have been tried, most experts agree on certain fundamentals for ending poverty in poor societies: food, housing, health care, schools, and jobs; utilities, communications, and security; civil, legal, accounting and banking systems; and markets which aim for economic growth. But the link between development and growth is highly politicized, with different nations and interest groups defining ‘development’ to suit their own interests. (Who decides, for example, whether developing nations are ‘emerging economies’ or ‘failed states’? If foreign aid is essential or destabilizing to development? Why self-reliant development is less important than export-led development? And how poor nations can be expected to grow when they spend most of their money on debt payments?) It’s simply an accepted fact that the intrinsic values of social development are given less weight in the global marketplace than the external economics of production and finance.

Likewise, in terms of *natural resources*, the present world economic system is inept at appraising three things: the value of raw materials as they are found in nature; the value of the labor that is used to process those resources into products; and the value of these goods when they are discarded back into the natural world as waste. The unpaid social and natural costs of modern products are subsidized by the cheap labor and raw materials which keep their prices artificially low on world markets. *The strategy for solving the global macroeconomic equation is to ensure that the social and ecological resources which support the production and distribution of goods are priced according to their actual worth (without causing significant inflation).*

The *first task* in getting prices right and rectifying the disequilibrium in the global economic system is to generate a new framework of understanding between *government* and *business* through comprehensive reforms and greater cooperation in **world trade** and **global finance**. This convergence of viewpoints has been slow in coming. Since the 1970s, many programs for reversing poverty and reducing wasteful production and consumption through *governmental regulation* have ignored the profit incentives, entrepreneurial innovation, and efficiencies-of-scale necessary for making sustainable development initiatives commercially viable. On the other hand, voluntary ‘partnerships’ between multinational corporations, non-governmental organizations, and developing nations have often provided a rationale for governments to ignore hard targets on equitable social development, the protection of workers and their incomes, and effective safeguards for the natural environment, affording Big Business and Big Finance new opportunities to profit from the *privatization* of basic public services and natural resources. By restructuring world trade and financial policy, the Brandt Commission

*maintained, the public and private sectors could work together in achieving balanced social development, reliable economic growth, and ecological stability in the production and distribution of resources.*

The *second task* in ensuring that material resources are not underpriced in the global macroeconomic system involves **energy** and **technology**. Since economic growth has become synonymous with industrial production and increased consumption, both of which are notorious for creating pollution, many people assume that economic growth is impossible without despoiling the environment. But with a concerted effort to shift the world's energy base from fossil fuels to renewable resources, and transform the industrial base from heavy toward lighter technology, *we may eventually be able to minimize pollution and maximize production and consumption at the same time.* This would offer a much cleaner alternative for economic growth, particularly in developing nations eager to lift their people out of poverty by building modern social infrastructure. While it is true that the increasing robotization of light technology will displace many workers, millions of new jobs will also be created by these new industries, particularly in education, telecommunications, computers, space technologies, biotechnologies, and alternative energy production. As the Brandt Report insisted, a rapid transition to a renewable energy platform, the massive transfer of technology to developing nations, and the certainty of steady employment and livable wages are vital to the health, prosperity, and security of all people. The *third task* in ensuring that renewable resources are commensurately priced requires a major change in **international monetary policy**. The US dollar has been the virtual international currency since 1944. It was redeemable at a fixed price for gold until 1971, when world currencies were allowed to float freely against one another. Most people are under the impression that the dollar note which replaced gold as the world's reserve standard is a fiat currency, so that the collateral base for US paper money is, in effect, 'faith in the American government'. As many economists have pointed out, however, since 1973, under a US arrangement which guaranteed that OPEC denominate all future oil transactions in dollars, *the global supply of oil has effectively served as the asset base of the world's principal currency, US dollars.* America's promise to redeem foreign money for these **oil dollars** is based on the strategic ability of its military to secure the oil fields, pipelines, and shipping lanes of several of the world's major petroleum-producing nations. This geo-political assurance has stabilized the *American dollar as the exclusive currency for global oil purchases, and as the currency of preference for settling the balance of payments in most other international trade and financial transactions.*

With the oil dollar as collateral, and with no global adjustment mechanisms to prevent trade imbalances and disproportionate financial flows, *world reserve assets have increased nearly 2000% since the early 1970s.* This proliferation of the money supply, driven largely by the US, has resulted in an enormous increase in global liquidity, international credit, and world trade over the last thirty years. Massive capital inflows into nations with trade surpluses have led to economic booms, overproduction, and excess capacity, followed by decreased purchasing power, falling prices, and diminished profits. Then, as debtors struggled to pay the interest on the debt they incurred when credit was abundant, major bankruptcies, credit contractions, and recessions occurred in different regions, notably Latin America (1980s), Japan (1990s), Southeast Asia (1997) and Russia (1998).

This cycle is now rebounding back on the US. As the only nation that finances its growing debt to the rest of the world through debt instruments denominated in its own currency, the US has had the luxury of importing much more than it exports. *By subsidizing the world's trade surplus, generating enormous amounts of credit and finance through its trade deficit, America has morphed from the world's largest creditor into the world's largest debtor* (the US trade deficit is presently \$480 billion a year.) The massive foreign investment in US assets, which fueled a giant surge in credit, an unprecedented stock market boom, and a huge expansion of debt in America during the 1980s and 90s, has recently led to bankruptcies, declines in business investment, and recession. To slow the current recession and prevent the bubbles of consumer debt and housing prices from bursting the United States continues to raise new credit from abroad to finance its \$500 billion annual budget deficit, while attempting to stimulate its economy through tax cuts and increased government spending, mostly on military capacity and homeland security. Many economists note that whatever the US defense rationale (a 'war on terrorism' and a 'patriot act'), *US officials apparently find such measures necessary to prevent foreign currencies from being used for oil trading, and to counter possible domestic unrest in the event of a major financial default, thereby protecting the credit-generating advantages of US dollar hegemony and a swelling current account deficit.* But with inflation and interest rates near zero, the US is running out of

monetary tools to prevent price deflation. As the American dollar weakens against the currencies of its trading partners, and as falling prices, profits, and demand drive the world deeper into recession and deflation, further expansion of the US money supply and the issuance of new credit will not stimulate personal consumption and will only make America's debt harder to pay off. When foreign investors challenge the creditworthiness of the United States by switching their money out of American assets into their own national currencies, exports to the US will collapse, the US current account bubble will burst, and the dollar will depreciate sharply against those overseas currencies, plunging the entire world into a major recession. America will no longer be the engine of global economic growth, and *a difficult readjustment process will take place in the US and across the world.*

**Sustainable resources** as a measure of human need and interdependence with Nature could serve a vital function in the new global monetary system. As the US balance of payments is restored by the collapse of the oil dollar, a scarce global reserve will be sought to anchor the world's new currency. Just as oil had succeeded gold, a *'basket' of precious energy commodities may succeed oil as the asset base of the new international currency* (supporting either a 'trading band' of major currencies such as the dollar-euro-yen, or a payments adjustment currency such as the IMF's Special Drawing Rights, or perhaps both; in any case, it is unlikely that the world community would ever pin its fortunes on the reserve assets of a dominant nation or resource again).

An engine of economic growth will also be needed. *Sustainable development programs could play a crucial role in global recovery by providing new sources of public spending.* The Brandt Commission predicted that the eradication of poverty, significant increases in non-polluting resource productivity, and the creation of equitable rules in trade and finance, including debt relief for poor nations, would generate a pool of expanded savings to boost aggregate demand worldwide. *And as sustainable public goods development and ecological resources stimulate demand, market prices can then reflect actual development and environmental costs,* supported by an enlargement of world income, expanded profit incentives, and higher investment valuations.

As the Brandt Commission anticipated, it will take a monumental agreement of world leaders, endorsed by business, finance, and the global public, to establish a new global macroeconomic framework, including adjustment mechanisms to prevent protracted imbalances in international trade and capital flows. But the Brandt Report has set the standard for global economic coordination. ***Building new capacity for development and environmental renewal through higher resource productivity and the generation of aggregate demand will eliminate poverty and produce more wealth with fewer resources, sparking global economic recovery and stabilizing the life-supporting capacity of Earth.*** For further information, see [www.Brandt21Forum.info](http://www.Brandt21Forum.info)

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