

Knitting together global society

Rethinking macroeconomics

Sustained and widespread future prosperity will require basic reforms in global governance and in macroeconomic science. Such reforms will not be easy, as they will require entirely new ways of thinking.

The crash of 2008 exposed deep failures at the core of macroeconomic policy making and thinking in the United States. The rapid spread of the crisis from its epicentre on Wall Street to nearly the entire world underscored the interconnectedness of the global economy. The American purveyors of the *ancien régime* hope that a few superficial fixes will get us back on track. This is not to be.

Sustained and widespread future prosperity will require basic reforms in global macroeconomic governance and in macroeconomic science. Such reforms are never easy, as they require new ways of thinking. Two key aspects of this new thinking are a focus on human ecology – humanity in the context of the physical environment – rather than a single-minded focus on markets, and on finding global solutions for global structural problems. A return to prosperity will also require the reassertion of core values in economic life: integrity, fairness, justice for the weak, and sustainability for the future.

Watershed

We find ourselves at a watershed in history, with multiple dramas unfolding simultaneously. Four global changes in particular pose major challenges.

First, dramatic shifts in global power and wealth are under way. With the rise of Asia, Western economic dominance is coming to an end. We are heading towards a multi-polar world, both politically and economically. Such tumultuous changes in power could give rise to new tensions, destabilizing political competition and even to misguided war.

Second, we are witnessing the unprecedented global-scale impact of human society on the physical environment, and

the economic disasters that follow. The scale of the world economy has risen roughly 100- to 1000-fold during the past two centuries. The ecological consequences are staggering. Around 30 billion tonnes of carbon dioxide each year are now emitted into the atmosphere by burning fossil fuels. Around 60,000 major dams, rapidly depleting groundwater and human-induced climate change are dramatically altering the world's hydrological cycle, leading to severe water crises in many regions.

Third, we are still adding 75–80 million people to the world's population every year. But we have not yet learned to live sustainably. We support 6.8 billion people in part by degrading the natural environment. The case for stabilizing the human population through a rapid and voluntary reduction in fertility to 'replacement' levels (roughly two children per woman) is very strong, but far from being achieved.

Fourth, we are all intricately interconnected, by trade, finance, ideas, technology and production systems, as well as disease, pollution, climate change, violence, mass migration and war. But our politics remain mostly local, as do our social networks. Our institutions and ethics come from a different era and have not yet been 'updated' to knit together a globally stable society.

Market failings

A lot will have to change in terms of how we think about the world and the global economy. The economic textbooks will have to be completely rewritten, as they offer only deeply flawed solutions to the problems we face. This is in large part because of the single-minded focus on markets as the 'solution' to local and global problems. Yet markets have failed to solve many crucial problems. Markets alone are relatively ineffective at rescuing the poorest of the poor from extreme poverty. Markets alone are very bad at addressing environmental crises. Markets are deeply flawed in addressing the needs of future generations. Market forces



Reuters / Johannes Eisele

ATTAC activists demand climate justice, Frankfurt, Germany, December 2009.

therefore need to be complemented by politics, social ethics and a strong and vibrant civil society.

This requires a new kind of economic governance.

Taking the long view

We would do well to start the new macroeconomics by facing up to three interconnected challenges: climate and energy security, food and nutrition security (including land use, water use and biodiversity) and poverty reduction. In each area, we need new institutions that can help the world to take the long view, making assessments of needs, investment priorities, and means (public and private) of financing those investments. These new institutions will help to connect business, policy and science, a three-way relationship that is vital in every major area of concern, but is still largely non-existent. Many people will shudder at the prospect of such planning, but the purpose of public-private-civil society cooperation is not to develop a rigid plan but a flexible, forward-looking framework for action.

Macroeconomists trained in the past 30 years believe that demand increases depend mainly on interest rates and deficit or tax levels. Yet increased spending on new, sustainable technologies will depend on establishing a policy framework that harmonizes regulations, land use, public financing and private investment.

Large-scale stimulus, in other words, requires the nitty-gritty of public-private planning, technology assessments, demonstration projects and complex project financing. The next generation of large-scale investments – in renewable and nuclear energy, electric vehicles, sustainable buildings and urban design – are in fact still hostage to the lack of clear public policies in these areas.

A low-carbon economy

The way we produce energy requires a major systemic overhaul at a global scale. We will need to shift progressively towards renewable energy sources. We will need to capture and sequester the carbon dioxide emitted from continued fossil-fuel use. We will need to decide on the future of nuclear power, and find ways to expand its use while reducing dramatically the threats of proliferation and nuclear terror. Markets alone will not find the way forward.

Currently, it costs nothing to put carbon dioxide into the atmosphere. At a minimum, such emissions should be capped by regulation, or taxed, or both. But more than that, technological changes on a large scale will require major social decisions about public safety, land use, intellectual property and many other considerations.

The transition to a low-carbon economy will require wide-ranging institutional changes at national and



international levels. In the US, the Department of Energy could be reconstituted as a Department of Energy and Climate Change, bringing together the required expertise and financing under one agency roof. At the global level, the governance of climate change and energy security issues could be housed in a new Global Energy and Environment Organization to replace the secretariat of the UN Framework Convention on Climate Change. The new organization could then pull together the various international bodies and treaty secretariats into an effective, unified structure that could help oversee global technical analyses, R&D, compliance with global environmental agreements, and international financial flows for climate-change mitigation and adaptation.

New global institutions will also be needed to help the world cope with another phenomenon very likely to beset us: the large-scale migration as parts of the world become inhospitable as a result of ongoing ecological destruction.

Changing the global food system

The global food system is in similar peril. Already around 1 billion people are chronically hungry, and perhaps another 1–2 billion suffer from chronic deficiencies in micronutrients. As the world's population grows, and as climate change and water stress become more severe, the challenge of feeding the world will multiply.

It is striking to realize that the agricultural sector is the leading cause of human-induced climate change. Roughly one-third of all greenhouse gas emissions are due to agriculture, if we include the carbon dioxide emissions from deforestation (mainly to clear land for farming and pasture), energy use in agriculture (including the production of chemical fertilizers), methane released by ruminant livestock and rice paddies, and nitrous oxide released by the heavy use of nitrogen fertilizers. We will need new technologies (including food crops with new traits, irrigation methods, pest control, water conservation, and so on), and new patterns of food consumption, based on healthier and more sustainable diets. As with energy and transport, considerable technological changes based on new R&D will be vital.

New institutions

One of the catchphrases of recent years has been that we should use 'existing mechanisms' to solve problems rather than create new institutions. This is a recklessly reactionary point of view. Today's global institutions were created after World War II, in a different time facing a very different set of challenges. The G20 is new because the world economy has been recast as a result of the rise of the emerging economies. The world's macroeconomic challenges are new because we have hit generational roadblocks due to persistent extreme poverty, escalating environmental threats and deepening energy insecurity.

The challenge we face is to bridge the divide between macroeconomics and global governance, both in scientific and in policy terms.

Climate change mitigation and the transition to sustainable energy systems require a truly global policy framework.

Given its fragile finances and diminished global stature, the United States cannot lead the world on these issues; it can only partner with others in efforts to find solutions. In short, macroeconomics needs an overhaul not only in concepts and tools, but in global cooperation as well.

We must bolster international economic cooperation on the fly and in the heat of crisis. As a first step, the G20 should be supported as the new forum for macroeconomic decision-making. We have moved from a G7 that was in fact largely a G1 (the US) to a larger grouping that rightly includes Brazil, China, India, Indonesia and other emerging markets. Representation, broadly speaking, has expanded from roughly one billion people in the G7 high-income countries, to around 4.2 billion people at the G20 table. Still, the G20 must now include the voices of the poor, especially those in Africa, which would bring another one billion to the table. A permanent seat for the African Union would be a vital start.

As a practical matter, strong regional cooperation would greatly facilitate stronger global cooperation as well. Despite its many critics, the European Union is the best model here. If the African Union and other regional groupings were to emulate the efficacy of the European Union through similar regional institutions, the myriad tasks of global economic governance – whether at the UN or the G20 – would be greatly simplified. The recent summits between the European Union and its African and East Asian counterparts signal an important way forward.

Mobilizing expertise

Finally, another fundamental problem of governance is the lack of interface between politicians and 'knowledge communities'. The US Congress is nearly scientifically illiterate. The politicians posture without understanding the technical underpinnings of the structural challenges we face: their magnitude, timing, spatial extent and future dynamics, or the costs of mitigation and adaptation. The real experts are very far from the podiums and negotiating tables.

We cannot feed the planet by going back to traditional farming. We cannot solve the problems of energy, transport and health by relying on outdated technologies. Leaving science to the margins of political decision making or, even worse, overriding the science, is life threatening. The proper mobilization of expert knowledge is a fundamental need and challenge. Without expertise, we are flying blind into a complex and harrowing future. ■

□ Jeffrey Sachs (2008) *Global Cooperation and Sustainable Development*, Lecture at the School of International and Public Affairs, Columbia University, 10 November.

□ Jeffrey Sachs (2009) *Rethinking macroeconomics, Capitalism and Society* 4(3). Berkeley Electronic Press.

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