Is Sustainable Development Hindering Economic Recovery?*

Jomo Kwame Sundaram

The global economic and employment situation is alarmingly protracted, with recovery not expected any time soon. In October 2012, then IMF chief economist Olivier Blanchard indicated he did not see a global economic recovery before 2016. Now, in mid-2016, it is clear that the global crisis has dragged on for several reasons; many governments, especially in advanced economies, still prioritize fiscal austerity and tough labour market reforms, even though such measures undermine livelihoods, incomes, the social fabric and economic recovery prospects.

Meanwhile, despite ‘quantitative easing', investments remain depressed, blocking employment creation. Easy credit before the crisis led to over-investment in sectors expected to be profitable. Hence, despite low-interest rates, with the overhang of excess capacity, there has been less private investment in recent years.

Since 2007, employment rates have only risen in six of the 36 developed economies, while youth unemployment rates have increased in four-fifths of advanced countries and two-thirds of developing countries. With higher inequality and unemployment, as well as shrinking incomes and domestic markets, it is obviously unrealistic for everyone to recover by exporting. Even developing countries, long pressed to produce for export, are switching course – producing increasingly for the domestic market once again.

Having suffered more current and capital account difficulties with greater openness, many emerging market economies still feel compelled to accumulate large reserves for ‘self-protection'. Meanwhile, financial globalization has not enhanced growth but has instead exacerbated volatility and instability.

Recovery for All

There have been few efforts since 2008 to enhance national ‘policy space' for economic recovery, especially for sustainable development. Increased public investment and other spending, including for social protection, can help turn this situation around, creating tens of millions of jobs. For decades after the end of World War Two, most advanced economies have used counter-cyclical fiscal policy to great effect. Such deficits have not only financed strong, sustained and inclusive recovery, and growth in their own economies but also abroad -- as with the US Marshall Plan at the beginning of the Cold War, so crucial to European post-war reconstruction, recovery and take-off.

A cruel logic has been invoked to justify recent inaction. First, huge financial resources were deployed to selectively rescue ‘too big to fail' private financial interests. Then, the resulting greatly increased sovereign debt was invoked to impose fiscal austerity, ostensibly in deference to bond markets. To make matters worse, Eurozone countries are not only constrained by this fiscal fetish, but also by their lack of exchange rate policy space, resulting in insurmountable obstacles to recovery in a monetary union not among equals. And despite strong evidence to the contrary, the presumption that public spending crowds out private investment continues to deter government-led economic recovery efforts.

Perhaps most frustrating in the recent period have been the limited efforts at multilateral cooperation for global recovery since 2009 -- the year of the G20's London and Pittsburgh summits, including the Global Jobs Pact, on which there has been little meaningful progress since. As a consequence, subsequent years have seen little progress towards a strong, sustained and inclusive recovery. Instead, after decades of promoting globalization, often recklessly, the recent period has seen a gradual turn to creeping protectionism and currency warfare.

Thankfully, after decades of promoting economic, including financial liberalization and pro-cyclical macroeconomic policies, even the IMF, under its recent French leadership, has become more careful, if not skeptical of its own earlier analysis, policy prescriptions, and priorities. But the earlier conventional wisdom still prevails in most of its operations, policy conditions and advice.

Why Sustainable Development?

How can the world get out of this cul-de-sac, worsened by the short-termism of markets, especially financial markets, electoral politics and powerful corporate interests?

Although inclusive multilateralism has been battered by various challenges, including its slow progress, it remains the best option available. Hence, the UN system has to be bolder, but also has to be allowed to play a greater leading role. In early 2009, the UN Secretary-General proposed a Global Green New Deal. The GGND proposed cross-border public-private partnerships, especially to generate renewable energy and increase food production, recognizing that market forces alone would not generate the investments needed to address climate change as well as to ensure adequate and affordable food production.

If pragmatically implemented, UN initiatives – such as the GGND, the Global Jobs Pact and the Social Protection Floor – can help overcome the current stasis. Likewise, if sufficiently supported, the recently approved UN Decade of Action against Malnutrition can help improve nutrition for all.

As the quadrennial High-Level Political Forum, mandated by the Rio+20 Summit on Sustainable Development in 2012, meets for the first time in mid-July, it is crucial that global leaders recognize that sustainable development is not a luxury which the world cannot afford in these dire times. Instead, it must be recognized as providing the essential sense of common purpose for collective action by the multilateral system, not only for it to stay relevant, but also to lead us all out of the darkness of our times.

* This article was originally published in the Inter Press Service news on July 14, 2016.