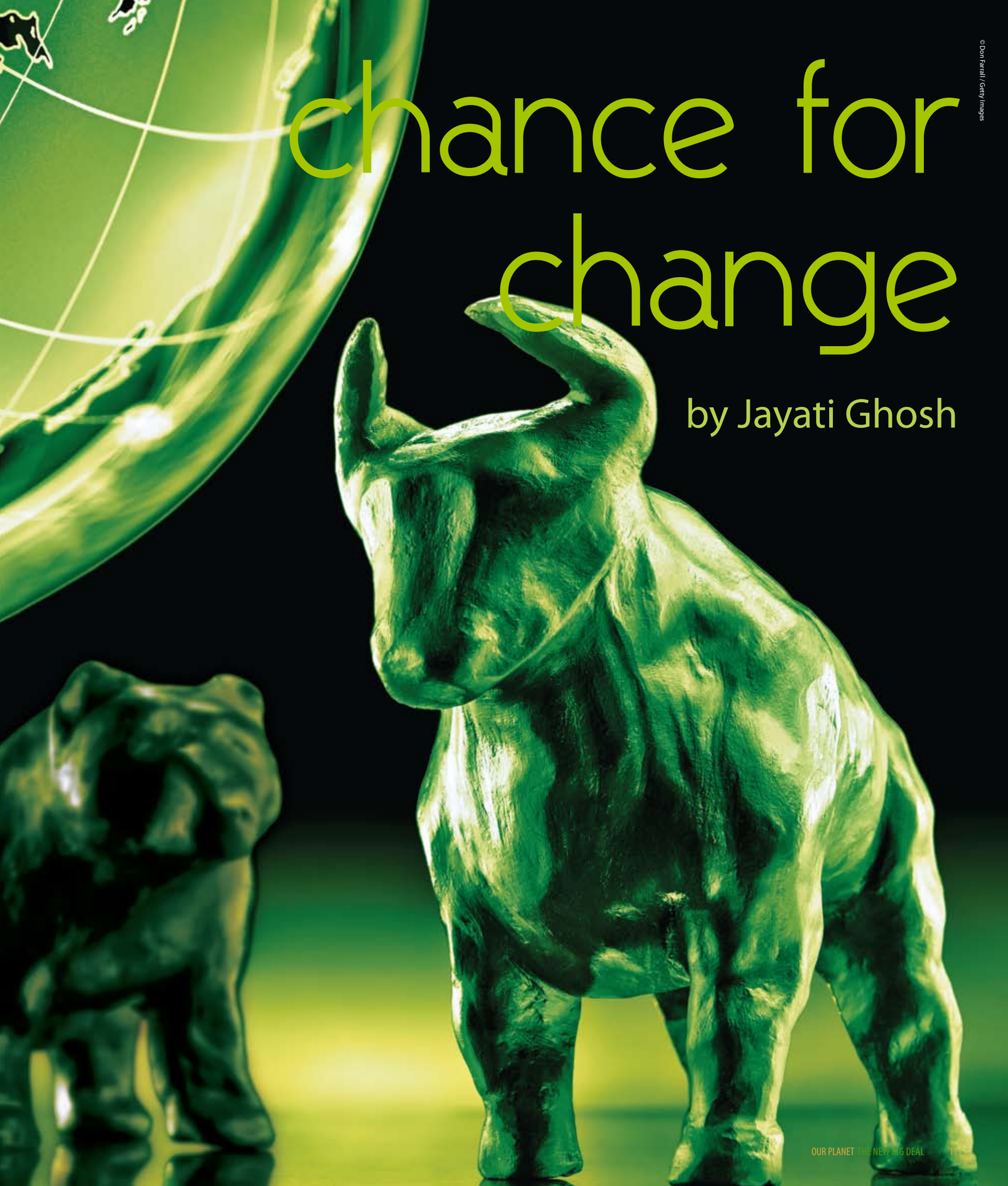


# chance for change

by Jayati Ghosh



It has become a cliché, but it is true nonetheless: every crisis is also an opportunity. Of course, as the global financial crisis unfolds and creates downturns in real economies everywhere, it is easy just to see the downside, as jobs are lost, the value of financial savings of workers is wiped out, and material insecurity becomes widespread. In fact, this global crisis offers a greater opportunity than we have had for some time for the world's citizens and their leaders to restructure economic relations in a more democratic and sustainable way.

Such restructuring is essential, because so much was wrong with the economic boom that preceded the crisis. Everyone now knows that it was unsustainable, based on speculative practices that were enabled and encouraged by financial deregulation. But it also drew rapaciously and fecklessly on natural resources. And it was deeply unequal. Contrary to general perception, most people in the developing world did not gain.

The financial bubble in the US attracted savings from across the world, including from the poorest developing countries, so that for at least five years the South transferred financial resources to the North. Developing country governments opened up their markets to trade and finance, gave up on monetary policy and pursued fiscally "correct" deflationary policies that reduced public spending. So development projects remained incomplete and citizens were deprived of the most essential socio-economic rights. Despite popular perceptions, no net transfer of jobs from North to South took place. In fact, industrial employment in the South barely increased in the past decade, even in China, the "factory of the world".

Instead, technological change in manufacturing and the new services meant that fewer workers could generate more output. Old jobs in the South were lost, or became precarious, while the majority of new jobs were fragile, insecure and low-paying, even in fast-growing China and India.

The persistent agrarian crisis in the developing world hurt peasant livelihoods and generated global food problems. Rising inequality meant that the much hyped growth in emerging markets did not benefit most people, as profits soared but wage shares of national income declined sharply.

So the recent growth was not inclusive. Unfortunately, it is likely that the slump will be only too much so, forcing those who did not gain earlier to pay for the sins of irresponsible and unregulated finance. As economies slow down, more jobs will be lost and people — especially those in the developing world who did not gain from the boom — will face loss of livelihood and deteriorating living conditions.

If we are to prevent this, we need a clear world-wide change in economic strategy. It has several necessary elements.

**First**, everyone now recognises the need to reform the international financial system, which has failed to meet two obvious requirements: preventing instability and crises, and transferring resources from richer to poorer economies. Not only have we experienced much greater volatility and propensity to financial meltdown across emerging markets and now even industrial countries, but even the periods of economic expansion have been based on the global poor subsidising the rich.

This system has encouraged pro-cyclicality — the unnecessary amplification of swings — in national economies. It has rendered national financial systems opaque and impossible to regulate. It has encouraged bubbles and speculative fervour rather than real productive investment for future growth. It has allowed for the proliferation of parallel transactions through tax havens and loose domestic controls. And it has reduced the crucial developmental role of directed credit, where a proportion of lending is allocated to specific sectors of the economy.

Given these problems, there is no alternative to systematic state regulation and control of finance. Since private players will inevitably attempt to circumvent regulation, the core of the financial system — banking — must be protected, and this is only possible through social ownership. Therefore, some degree of socialisation of banking (and not just socialisation of the risks inherent in finance) is inevitable. This is also important in developing countries because it enables public control over the direction of credit, without which no country has ever succeeded in industrialising.


**Second**, fiscal policy and public expenditure must be brought back to centre stage. Clearly, fiscal stimulation is now essential in both developed and developing countries, so as to cope with the adverse real economy effects of the current crisis and to prevent economic activity and employment from falling. Fiscal expenditure is also required to undertake and promote investment to manage the effects of climate change and promote greener technologies. And public spending is crucial to advance development in the South and fulfil the promise of achieving minimally acceptable standards of living for everyone. Social policy — the public responsibility for meeting the social and economic rights of citizens — is both desirable in itself and contributes positively to development.

**Third**, restructuring the world order will have to be based on conscious attempts to reduce economic inequalities, both between countries and

within them. We have clearly crossed the limits of “acceptable” inequality in most societies, and future policies will have to reverse this trend. Globally and nationally, we have to recognise the need to reduce inequalities in income and wealth — and also, most significantly, in the consumption of natural resources.

This is even more complicated than might be imagined, because unsustainable patterns of production and consumption are now deeply entrenched in richer countries — and are aspired to in developing ones. But many millions of citizens of the South still have poor or inadequate access to the most basic conditions of decent life, such as even minimum levels of sanitation, health, nutrition, education and physical infrastructure, such as electricity and transport and communication links. Ensuring their universal provision will inevitably require greater per capita use of natural resources and more carbon-emitting production. So both sustainability and equity require a reduction of the excessive resource use of the rich, especially in developed countries, but also among elites in the developing world. Redistributive fiscal and other economic policies must be specially oriented towards reducing inequalities of resource consumption, globally and nationally.

**Fourth**, we need an international economic framework that supports all this. Capital flows must be controlled and regulated so that they do not destabilise any of these strategies. Financing for development and for the conservation of global resources must be the top priorities of the global economic institutions, but they cannot continue to base their approach on a completely discredited and unbalanced economic model.

**Fifth**, since state involvement in economic activity is now imperative, we should be thinking of ways to make this more democratic and accountable both within countries and internationally. Large amounts of public money will be used for financial bailouts and to provide fiscal stimuli, and how this is done will have huge implications for distribution, access to resources and the living conditions of the ordinary people whose taxes will be paying for them. So we must design the global economic architecture to function more democratically. And it is even more important that states across the world are more open and responsive to the needs of the majority of their citizens when formulating and implementing economic policies. 



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