



SPECIAL MEMORANDUM FOR DELEGATES OF THE JOHANNESBURG SUMMIT 2002

**Where Supply-Side Economics & Sustainable Development Converge:
The Generation of Real Demand**

Is it possible to increase economic growth and eliminate poverty without harming the environment?

Picture yourself, God forbid, in the throes of world depression. Stock markets have imploded and business has ground to a halt. You've lost your job. Cash is unbelievably scarce and debts are piling up. You're forced to decide whether to take your four year-old to the doctor or pay the electric bill. You can't afford fresh vegetables, that new shirt, or a favorite magazine. You don't even want to drive up to your friend's house in the country because fuel is so expensive. Like everyone, you feel the pain of loss, of shock and betrayal. Can we survive? How could this happen? Why has the system failed us?

Whether or not it actually happens, imagining yourself in that bitter moment of deprivation is helpful in revealing what is truly vital and practical. You begin to know what half the world's people are already experiencing. You see our common problems with new objectivity and vision. You understand the need for workable global solutions, not stagnant ideologies and nearsighted policies. You also start to wonder, "Why isn't the economy moving ahead and growing? And what *is* growth exactly?"

Until now, national economic growth has been synonymous with growth in resource consumption – and the level or rate of our consumption is the major sticking point that divides business and financial interests from the development and environmental community. Their views are highly polarized. **Supply-side economists** want to open markets through deregulation, privatization, and liberalized capital flows in order to increase the supply of resources available for production and consumption. **Sustainable development economists** want to regulate markets to end poverty in developing nations and reduce the resource demand for production and consumption in all societies. As we stare numbly into the abyss of global depression, it becomes clear that both strategies miss the central issue. *Neither type of resource capital – private or natural – will stimulate new economic growth today.*

When we convene at the conference table as world representatives, our focus should be on reframing the problem to break this impasse. Most of us, first of all, would likely recommit ourselves to the market economy, which has proven to be unsurpassed for its efficient exchange and rapid feedback, its personal incentives and vital innovation. However, **supply-side economics** – or monetarism – is not an optimum system because, as we learned from the 1930s, it has no means of reversing a deflationary cycle. Supply-side policies actually redistribute money and resources from the local poor to the global rich by aggressively building up capital and product inventory, implementing tight money policies to constrain inflation, cutting taxes to boost incentives for growth, and driving down the cost of labor and raw materials. This monetarist emphasis on overcapacity de-couples market prices from their unpaid social and natural costs – which *ends up stifling investment and innovation, destroying local savings, eliminating social services, cutting public spending on infrastructure, suppressing consumer demand, deflating prices, creating personal debt, generating mass poverty, and devastating the environment.*

For their part, pro-development groups regard local economic development as a basic social right, while ecologists center their economic agenda on the protection of nature. The coalition for **sustainable development** was conceived during a time of prosperity in developed nations, when it seemed politically feasible to align the ideals of social justice

and ecology against the excesses of private capital, and attempt to legislate away the problems of economic inequality

and environmental degradation through governmental action. Economic development is clearly a human right, and ecologists are perfectly correct that resource and commodity prices will need a total revaluation in terms of their real natural costs. But the majority of these plans for reversing poverty and environmental destruction ignore the cost-benefit tradeoffs, profit incentives, and entrepreneurial innovation necessary to make anti-poverty and green programs commercially viable. By focusing on the elimination of poverty and the reduction of wasteful production and consumption through public regulation, rather than actual market demand, most programs for sustainable development *offer no dynamic means of counterbalancing the supply-side buildup of capital, goods, and services, and inadvertently contribute to the deflationary risk of underconsumption.*

In their different ways, monetarism and sustainable development emphasize resource capital over human capital – but *doesn't economic demand arise from basic human needs to begin with?* Isn't it the materialization of people's inherent potentials – through need, initiative, labor, belonging, sharing, saving, purchasing ability, and demand – that sparks growth in every community in the first place? Both schools of thought must ultimately converge their policy goals in what supply-side economics mostly ignores and what sustainable development most fears: *our practical capacity for personal consumption*. In a time of faltering growth and deflationary chaos, **monetarist and sustainable development analysts must base their targets for production and consumption on how much the world's people can realistically earn, save, invest, and spend. It is in the interest of all of us, therefore, to widen our horizons and grasp this new reality: through an enlargement of world income and the generation of real global demand, market prices can reflect actual development and environmental costs, supported by expanded profit incentives and higher investment valuations.**

Pretending that there is a crash is a useful experiment in separating our illusions from what really matters, and allowing us to focus clearly on the global interests of humanity above our own. But what if it *did* happen? Is there a viable strategy today for sustainable growth? The last time the world was struck by a major depression, it took the stimulus of government spending through public service programs, the largest war in history, new international economic institutions, a massive European relief program, and the liberation of a majority of the world's people from colonial rule, to lift us from the depths of monetary turmoil and get the economy booming. Though world affairs are far different today, we face an eerily familiar supply-side crisis: goods and services are plentiful, but few people can afford them. *What will spur global recovery this time? Where are the blueprints now for macroeconomic revitalization?*

Consider the bold series of measures proposed in 1980 by the Independent Commission on International Development Issues, chaired by former West German Chancellor and Nobel Laureate **Willy Brandt**. In their breakthrough reports, *North-South: A Programme For Survival* and *Common Crisis: North-South Cooperation for World Recovery*,

the Brandt Commission outlined a comprehensive international plan to build new capacity for development and environmental renewal as a means of stimulating and managing global economic demand:

- ❑ **An emergency relief program for developing nations** – including food, aid, housing, health care, prevention of disease, education, and the transfer of appropriate technology, information, and skills – to satisfy people's basic needs and enhance their rights to property, resources, and civil participation, providing a stable basis for economic growth
- ❑ **The restructuring of global trade, monetary, and financial rules and institutions** to reverse export-led development and trade imbalances; to inaugurate debt relief and create a world reserve currency, offering increased liquidity and borrowing capacity for developing nations; and to establish new regulation of global exchange and interest rates, international currency and investment markets, commodity prices, aid flows, and current account imbalances
- ❑ **The rapid transition to a renewable resource base**, including technologies for non-intensive energy use in production, transportation, and building; taxes on consumption and pollution; user fees for the global commons; and new corporate accountability and liability
- ❑ **Global negotiations** by a broad coalition of international representatives, linking the world's interdependent issues – poverty, development, environment, trade, money, and finance – into a new framework for global economic decision-making and institutional coordination

Brandt's vision was that the eradication of poverty, the creation of equitable economic rules, and significant increases in resource productivity would generate a pool of expanded savings to boost aggregate demand, while ensuring stable currencies and liquidity with little inflation. In *developing nations*, these measures would reduce capital costs, encourage the development of small, decentralized businesses, create new sources of income, generate jobs, reduce debt, boost returns on investment, 'leapfrog' the historical stage of industrial pollution, and create better living conditions. In *developed nations*, these policies would also encourage changes in consumer lifestyles, slowing resource depletion and pollution, while expanding trade, employment, real wages, and spending.

Everyone is waiting for a new stimulus to rouse the global economy out of its deep slump and launch us on a path to real prosperity. Hopefully, it won't require a harrowing Second World Depression for us to break through our ideological biases and create the right conditions for sustainable growth. ***Sooner or later, we're going to recognize that higher resource productivity and the generation of real demand will eliminate poverty and***

produce more wealth with fewer resources, sparking global economic recovery and stabilizing the life-supporting capacity

of Earth. Maybe it's time to take a fresh look at the extraordinary plan proposed by the Brandt Commission for the 21st Century. For details, see www.Brandt21Forum.info

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