

SUSTAINABLE DEVELOPMENT IN GLOBAL ECONOMY

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The actual paper comes with an approach regarding the sustainable development in today's world and the global economy. The way of proceeding is the following: the main causes of the current economic crisis are analyzed and it is demonstrated that applying economic guidelines, which are not founded on sustainability in order to achieve the large quantitative and artificial growth from last decade grounds the current challenges. This paper is based on qualitative research and offers proposals for possible solutions for the current economic crisis from the standpoint of sustainability: development of the "green" industries, jobs, technologies and growth,. Researching different aspects of the interconnection between sustainable development and sustainable economy the following conclusion might be drawn: the global economy is less probable to take its ascendant rhythm no sooner than 2012.

Keywords: sustainable development, global economy, crisis, environmental technologies

JEL Code: F20

Introduction

Sustainable development is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations to come. The term was used by the Brundtland Commission, which coined what has become the most often-quoted definition of sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations Council, 2006).

The discussions regarding this concept started at the Environment Conference which took place in 1972 in Stockholm and idea issued at that time was a signal to express the worries and concerns due to the human action on the environment (Report of the United Nations Conference on the Human Environment, 1972). In 1985, after the discovery of the ozone layer above Antarctica, it started a serial of proposals in order to reduce the toxic substances that affects the ozone layer. After that, in 1992 at Rio de Janeiro conference "Summit of the Earth" where 170 states attended the event were adopted conventions regarding the problems of changing climate (to reduce the carbon dioxide emissions), conserving the biological diversity (to protect the species endangered) and to stop the massive deforestations.

During the last ten years, different organizations have tried to measure and monitor the proximity to what they consider sustainability by implementing what has been called sustainability metrics and indices (Boulanger, 2008). Sustainable development is said to set limits on the developing world. While current first world countries polluted significantly during their development, the same countries encourage third world countries to reduce pollution, which sometimes impedes growth. Some consider that the implementation of sustainable development would mean a reversion to pre-modern lifestyles (<http://www.menominee.edu/sdi/whatis.htm>).

Of course, this concept of "sustainable development" raises several critics at different levels. John A. Baden, the founder and Chairman of the Foundation for Research on Economics and the Environment reckons that the notion of sustainable development is dangerous because "the consequences are proceedings with unknown effects or potentially dangerous" ([230](http://www.free-</p></div><div data-bbox=)

eco.org/articleDisplay.php?id=624). Moreover, he adds that economy like ecology, the interdependence rules applies. Isolated actions are impossible. He states that a policy which is not enough carefully thought will carry along various perverse and adverse effects for the ecology as much for the economy. Many suggestions to save our environment and to promote a model of “sustainable development” risk indeed leading to reverse effects.

These measures were introduced in a sustainable plan called “Agenda 21” ten years later at the Johannesburg Conference. Although, everyone can save the planet just by doing small things like recycling, using efficient light and smart saving energy systems it looks like that Romania is far away from this concepts and nowadays the only who look concern about this are the homeless who collect the paper, iron and copper in order to make some money.

Lester Brown, founder of World Watch Institute, mentions in his report “Rescuing a planet under stress and a civilization under trouble” that the key point of sustainable development represents the reconciliations of two human aspirations, first is the of further economic and social progress and second, the preservation of the environment as o only and unique way to improve out quality life. The main issues of this report are:

- the maintaining huge number of poor around the globe;
- degradation of the environment and continuing aggravation of natural disasters;
- maintenance of unemployment
- manifestations of economical crises that makes a lot of incommensurable damages;

Joseph Stiglitz, Obama’s consultant and also ex-Bill Clinton consultant, Nobel Prize laureate mentioned for reasons of this actual crises which didn’t respect any of sustainable development rules of the economy

- the promoting of Roosevelt administration of relaxing monetary policies and eliminations of regulatory measures by FED;
- removal of interdictions of commercial banks to do risking transactions;
- other measures were in bad assets accounting (toxic assets) off balance sheets of credit and insurance institutions;
- refusal of authorities to regulate the financial derivates; reducing taxes for the riches, and other measures that increase tendency “living on credit”; artificial creation of money through the uncontrolled amplification of the derivative financial instruments, resulting in stimulation of lending to firms and population capacity versus economic reality (Stiglitz, 2002).

Jacques Attali, the former advisor of Francois Mitterrand, considers that actual world system is broke and it comes with some numbers: the value of toxic assets around the world is \$ 14.000 billions; total credit loans are \$80.000 billions and banks reserves overall amount is \$2000 billions. He continues by adding that the movements of virtual values without coverage in the real economy and financial support from the banks and other credit institutions will end up like in a pyramid-game. Therefore, banks have suspended credit to remodel their own funds, which leads to a spiral from stopping lending money to stopping of investments, reducing productive activities, increased unemployment and the last step to reduce purchasing power parity and commercial activities, which led a financial crisis to turn in a global crisis comparable with the one from 1929-1933 (Attali, 2008).

Lester Brown, known researcher in the field of global problems and sustainable development, in his famous report “Plan B” notes the spectacular development of China and India concluding by:”Western economic model cannot work for China or to India, neither to the other 3 billion people in Western countries and in a world economy increasingly integrated, the existing model will not work either for industrial countries.”(Report Plan B: Rescuing a Planet under Stress& a Civilization in Trouble 2003).

In the annual report of World Watch Institute were presented some interesting results. Among them that the world is different from physically to philosophically from the world known by Adam Smith, David Ricardo and other past economists making the conventional economy to be

inappropriate and not sustaining human activities. All dimensions of economic activities have changed so much in the last twenty years and this global slump is the sign that should be reviewed some basic economic concepts and ideas to promote reform in the conceptual economy. World Watch Institute also considers that besides the economic growth, considered the main purpose of the economy, the global economy should pass to the development objective which is not limited only to economic growth. The development means improving people's welfare, and this requires above all, improving the lives of the poor. By promoting welfare, it is meant to increase the quality of education system, reduce poverty while preserving the country's ambient and to maintain environment and cultural traditions (Strategia Nationala pentru Dezvoltare Durabila a Romaniei, 2008).

For us as a country are essential short term solutions to get out of this economic crisis, and also medium and long term ones for sustainable development of the country using the framework provided by the European integration, assurance of competitiveness and convergence with the EU, including the preparation of adoption euro and the reduction of historic disparities between us and developed countries. For this mission is needed all the cooperation among political forces, policy makers in the state and institutions.

From pessimism to optimism

After six month of continuous decline on international trade, the global economy begins to recover and a glimmer of hope can be seen. Two thirds of the capital markets that Standard & Poor's tracks have increased by more than 20%

(http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_news). Different indicators in different parts of the world have improved considerably. House markets in US and UK are starting to breathe as mortgage rates fall and homes become more affordable. The confidence index of investments in Germany turned on green for the first time in the past two years. (www.investmenttools.com/equities/world/germany_dax.htm)

This entire event can only by well received, because in the end the crisis brought a lot of panic and despair. In September 2008, when the financial system was on the edge of collapse investors shunned all but safest assets, consumers stopped consuming and businesses started to close down. But this optimism has two traps, one obvious, and another more subtle. The first one is that this optimism is unjustified and this progress is not a comeback, but the rate of declining is slowing. The second trap, for politicians especially, is that confidence and better news create ruinous and complacency. Optimism is one thing, but the news of economy recovering can block the development and also can block policies adopted in order not to fall into a new crisis. As the returning on green of the capital markets can be easily to read and interpret because usually the markets make it on returning on growing before economies copy their trend. But many comebacks are consumed in vain. Between 1929 and 1933, Dow Jones index grew with more than 20% four times only to fall more than it had been originally. The current index has experienced five increases of 10% followed by more powerful decreases. Economic statistics are hard to interpret. The last six months have seen decreases, each one with a different trajectory. Decreasing production is due to the huge inventory that was adjusted. Unsold goods and the inability to take loans ended by companies cutting the production by more than sales fell. Once companies will deplete their stocks and start to produce, only than can be said that manufacturing industry has passed the most difficult obstacle (The Economist Intelligent Unit, 2009).

OECD economies

Even if this challenge will have passed two other more are on the horizon: banking system and the recovery of the loans, particularly for US and UK. Demand has plunged due to the increasing prices of assets, which has determined the population to save more money. History has shown that such crises are long and the recovery is slow. The next recession will be seen in the emerging

countries, where most of them were hit by the capital flows. Last year, the emerging economies imported 5% capital of their GDP in order to cover the deficits and now face the problem when the investors are reluctant to invest in these markets. According to IMF (International Monetary Fund) in its Report from 2009, emerging countries received \$1.8 trillion in 2008 and most of the capital went to Central and Eastern Europe. If these markets will recover, the investors' confidence will be very hard to follow the trend. This crisis sent the global economy into a recession that, from several points of view, is stronger than the Great Depression. Last prediction of IMF says that the global economy will decrease by 1.3% this year, the first decline in 60 years. During these times, the central banks pumped trillions of dollars into economies, have used a number of financial instruments to facilitate the lending and interest rate have reached almost zero. All rich countries came up with a series of fiscal measures to stimulate demand. Deficits budgets in rich countries will grow on average of 9%, 6 times higher than before the crisis. The Great Depression showed how bad the situations can be if the government do not intervene. There was never tried a stimulating effect on a global scale, therefore it is not known yet the effect it has.

A healthy increase in demand in based on government and private sector demand. The news in private sector tends to be everywhere the same – unpleasant. Most of the world hopes that the only country that can make a difference is US. Adjustments in the US house markets were the first signs of comeback. This marked experienced a 30% fall, manufacturing 20% fall and offensive policies of stimulating the economy were used in a lot of countries. Strongly stimulated by the government, the economy will start to regress in the 4th quarter of 2009. But is hard to see the recovery of an economy that is already robust, facing also unemployment. The status of the global economy will reduce the US exports. US banks are now full of public money, but balance sheets are still of toxic assets. Consumerism and investments will slow down because the population needs to give back the money and also to save some in deposits. US private sector, which increased by 70% of GDP from 2000 to 2008 is barely relaxing. Deposits reached a 4% from merely zero before the crisis. Worries related to increasing unemployment and bankruptcies could easily return the economy into a greater recession (IMF's Report, 2009).

In the UK, given the size of financial sector, property market and consumer indebtedness the financial adjustment will be higher. Meantime, a weak pound will help the exports but UK government will pump less money into economy compared to US. At the first sight, the situation should be better for Germany and Japan. Both have experienced drastic reduction in production compared to the other countries due to the collapse of trade and manufacturing industry, but in none of them the people are indebted to the banks as in the Anglo-Saxon countries. Once the inventory will adjust the recovery will be rapid. In practice, this is unlikely, especially in Germany. While production declines, unemployment reaches two digits and is hard to hope that the consumers will start to spend again and government has not shown too much enthusiasm and good will to stimulate consumption. What is worst is that German banks are still in trouble. IMF prediction for bad assets in EU sums \$1,1 trillions.

(www.marketoracle.co.uk/Article7092.html)

Instead, Japan has acted strongly on financial stimulation. The last package of tax cut and government consumption made public this year is the biggest financial boost compared to the other rich countries. The economy is unlikely to return this year, but with reserved of 200% of GDP, Japan has enough space to come up with this stimulus. With exports plunged, Japan should focus more on its domestic market, but the last two decades proved that Japan is not able to make this transition. Meanwhile, in China, where the equilibrium on inventories was made and where the government has the strength and liquidity necessary to support any action, the comeback is on the way. The first measures started to be felt: increased loans and increased investments in infrastructure in a sustainable manner. This year IMF reckons a 6.5% growth, but China has its

problems. Two thirds of demand comes from government, in particular for infrastructure development.

All this collected date make optimism falling instantly due to massive and unsustainable transfusion, the production will stabilize at some point. Despite the overall size of the crisis, any improvement is not foreseeable. When we are talking about growth, this is very timid and has no capacity to stop the rising unemployment and for years many countries will depend on their governments. This is provoking two digits unemployment in most of the rich countries. Deflation will lead to lower prices and wages due in large part of decreasing inflation due to decrease of petrol's price. Debt will increase due to weak growth, the extension of financial stimulus and high cost of correcting this crisis. OECD started the crisis with debt amounting 75% of GDP and in 2010 will reach 100% of GDP and in 2014 to 140% of GDP (www.imf.org/external/pubs/ft/weo/2009/01/pdf/c1.pdf). Continuing with unemployment, low foreign investments and a large burden on the public debt, OECD countries will face real serious economic and social problems. Although it is clear that the world economy will not resume soon its positive trend, it is certainly that the rate of growth of world economy will be lower than before the crisis.

Green at the horizon

Barack Obama is right when is saying that a lot of governments, not least his own, are spending heavily to create green jobs. Various countries like Canada, China, France and Indonesia have pledged to support the green industry in an effort to revitalize their fading economies. Religious leaders, trade unionists and the General Secretary of U.N., among others, welcomed the green stimulus as a remedy for global economy. In the end, this shift to "green" has a triple advantage: a return to economic growth, a response to global warming and a long-waiting response to the dependence of imported fuels.

Roland Berger, a world wide consulting firm, said in a special report that German government wants to do something similar. It is estimated that global expenditure on environmental technology is \$1 trillion/year and will increase by 5.4%/year until 2020. These businesses support already 1.5 million jobs in Germany the number could double if the state provides more tax incentives, subsidies or other incentives for investing in green sector.

UN produced a report where was encouraging the governments to promote the "green" employment and aims to achieve ten times more jobs in clean industry by 2030. Critics of these studies, argues that they leave many important questions unanswered. The first would be that it is difficult to know how many jobs would have been created in other sectors using that amount of money. A recent report from Peterson Institute of International Economics (2009) and the World Resources Institute, two NGOs, seek to make these calculations only for America. It found that \$1 billion invested in "green" energy is creating 31,000 "jobs-years". That compares with 25,000 jobs-year for road construction and only 7000 for tax cuts. These green stimuli will be more than good, because they will concentrate investments in areas like wind and hybrid cars industry. But the large number of employment lead to the researcher conclusion that the green industry will increase demand on the internal market, which otherwise would not occur. More highlights suggest that if you simply redirect capital from one use to another will not make the number of created jobs so big.

J.M Keynes said: "The debate on the future of humanity will end up focusing in particular on this point: that the limit that can be set for loving money and the willing of making money very fast, as the main driver of economic mechanism".(Liberalism and Labor, 1972)

These appraisals are still valid nowadays in the analysis of this economic crisis and the debates on the evolution of the global economy in the XXI century.

Unfortunately, the Keynesian model brought the breach between the State and its people. The breach was gradually and accepted with enthusiasm by a population who became assisted and

more and more dependable by the State. Probably, not even this slump or the next to come, same powerful at this one, will not convince the State and its people that its fundamentals need to be changed. In order to do that is mandatory that the one elected should not want the absolute power. Of course, it's a paradox but a real world cannot be built with paradoxes.

This article is a result of the project „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co-funded by the European Social Fund through the Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by the Bucharest Academy of Economic Studies.

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