

# The Current Economic Crisis and Its Effects on Sustainable Structural Change in Economy and Trade

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2

**General wisdom seems to suggest that periods of economic crises are times for belt-tightening and cost-cutting measures. While there is quite some truth to that, under capitalism, times of severe recession are also the moment when economic distortions and asymmetries between supply and demand are overcome, when radically new structures of the economy emerge and break-through technologies are adopted. The tremendous challenges posed by the current systemic crisis require bold and pro-active responses that can lay the groundwork for more sustainable economic, social and environmental development. In other words, the crisis offers a big opportunity to restructure economic incentive and governance systems accordingly.**

## Root Causes of the Current Systemic Crisis

3

Three key Causes:

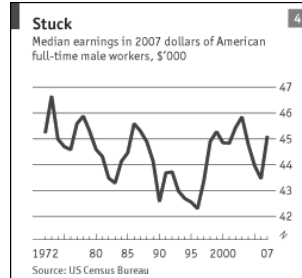
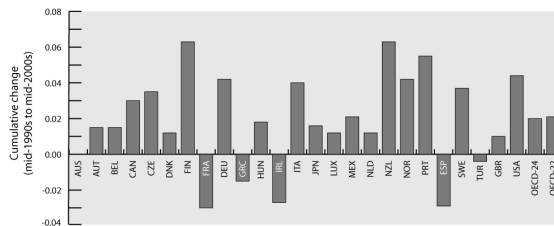
- Rapid increase of income disparity and inequality, notably in OECD countries, but also many developing countries
- Commodity price hike
- Financial speculation and the “financialization of non-financial corporations”

Ample availability of financial capital glossed over the thirst and second root cause

## Fruits of Economic Growth Have not been Equally Divided

4

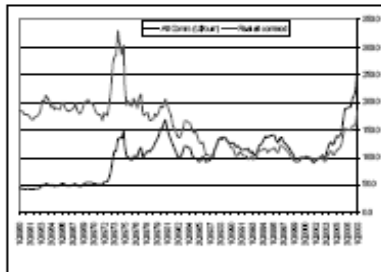
Cumulative Change of GINI coefficient mid-1980s-2006



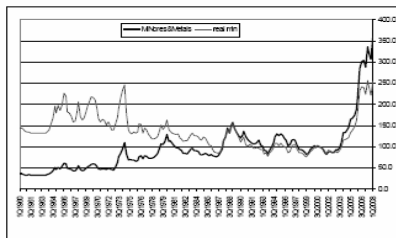
- According to recent OECD report, despite strong economic growth in recent years, two thirds of OECD countries experienced an increase in poverty and inequality.
- No less than 75 percent of US household income gains recorded in 1993-2006 accrued to the richest 1 percent of households. In Germany, the total income gain of households has gone to the richest 10 percent of households since 2003.
- The recent widening of inequalities marked a complete reversal of the previous trend. From the 1930s to the late 1970s wealth disparities in developed countries declined sharply.
- According to ILO, in 51 out of the 73 countries for which data were available, the share of wages in total income declined over the past two decades. Likewise, the income gap between the top and bottom 10 per cent of wage earners increased in 70 percent of the countries for which data were available..

## Recent Commodity Price Boom

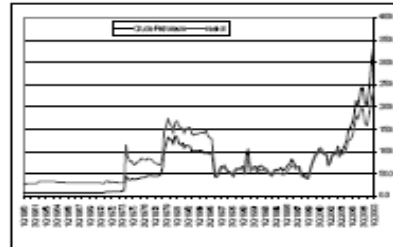
All Commodity Prices (blue – nominal; red - real) 1960-2<sup>nd</sup> Quarter 2008 (2000=100%)



Minerals and Metals



Crude Petroleum



- Real price level for oil and minerals & metals reached historical heights
- This was problematic for "brown economy", because whereas labor productivity increased by some 260 percent globally in the last 30 years, energy, material and resource efficiency improved by well below 100 percent.

## Financial Casino

- Unregulated international financial markets have led to a situation, in which only 10 percent of generated profit of producing companies in many developed countries was re-invested, whereas some 90 percent ended up in financial markets in search for speculative profit - a phenomenon called "financialization of non-financial corporations"
- Footnote: Total investment in speculative capital (including derivatives etc) was estimated by the Bank for International Settlements at almost \$600 trillion at the end of 2007. This is 10-11 times the equivalent of the global GDP (estimated between \$55 and 65 trillion for 2007), which already contains inflated figures of value generation in the financial services sector.
- This was compounded by the shareholder value concept and its short-term reliance on profit centers for maximizing short-term earning reports of companies, which made impossible strategic, sustainable orientation and decision in real production and service operations.

## A Viable U-turn out of the Crisis

7

Three-pronged strategy:

- Bailing out of banks and reform of international financial system are necessary, but in themselves insufficient measures (lopsided approach might perpetuate crisis)
- Growth in profits and the profit share must be re-directed from financial assets towards their reinvestment in new capacity and employment, in product and process innovation, which can support more economically, socially, and environmentally productive investment opportunities
- Strengthening mass purchasing power, active labor market policy, skills and flexibility of labor for innovation and future productivity and resource-efficiency growth

## Sustainable Structural Change in Economy and Trade

8

- AIM: Re-establishing equilibrium between supply and demand, changing focus and patterns of production and consumption along sustainable development lines -- "green" restructuring, combined with a new industrial revolution.

Four main results:

1. Can improve the quality of life of people and social equity, as well as provide opportunities for new income-generation activities;
2. Saves material, energy and resources and drastically lowers environmental impact, including reduction of GHG emissions;
3. Increases competitiveness and the level of innovation of companies; and
4. Reduces dependency on fossil fuel, enhances energy security, and makes access to energy affordable.

## Three Prominent Areas of Sustainable Structural Change

9

Conceptual underpinning: Creating sustainable growth poles as part of a Green New Deal approach

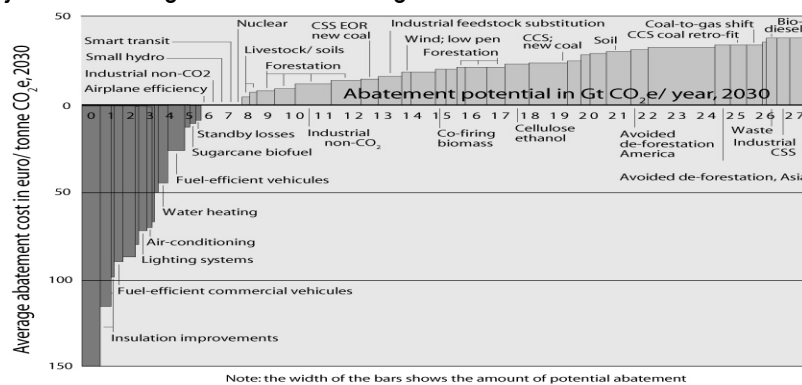
Promising areas:

- Enhancing energy/material/resource efficiency
- Transition to sustainable agricultural practices
- Harnessing renewable energy for sustainable rural development

## Example: Enhancing Energy Efficiency (EE)

10

Objective: Cutting costs and reducing carbon emissions



- Enhanced EE leads to direct cost cuts (very important in general, but particularly at crisis times)
- EE alone could offer 27 GtCO<sub>2</sub>e of reduction possible at relatively low cost. This emission volume would represent almost 2/3 of the 42 GtCO<sub>2</sub>e reduction globally required by 2030.
- EE opportunities would create energy savings that translate into a 17 percent annual rate of return in the period to 2020.

## Example: Promoting Sustainable Agriculture

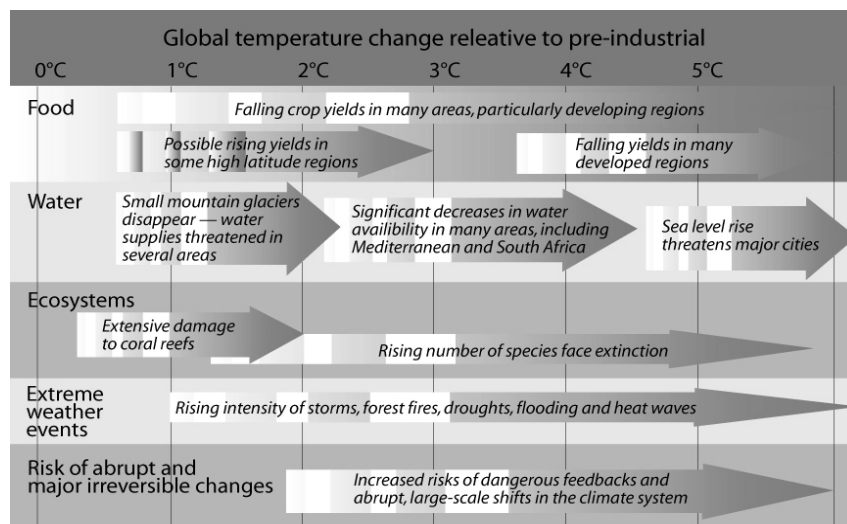
11

**OBJECTIVE:** Creation of employment and income opportunities through new production methods that generate a more than sufficient income stream to pay back initial investment and fuel self-sustained and sustainable development in the medium term (and this even in the absence of internalization of multiple benefits or avoided costs).

E.g. Advantages of Organic Agriculture:

- 25-60% more energy efficient than conventional agriculture
- Higher income through price premia and higher yields (in most developing countries)
- 1/3 more labor intensive
- No use of agro-chemicals (Africa imports 90% of required agro-chemicals)
- If global agriculture were to go organic, the thus managed soil would mitigate anything between 2.5 to 4 Gt CO<sub>2</sub>e or 35 to 60 percent of the increase of all GHG emissions between now and 2030
- Fosters development and use of local knowledge and local varieties
- Less exposed to key distortions in international agricultural markets (i.e. subsidies, domination of large seed, agro-chemical, food-processing and retail companies)
- Better adaptation to climate change (weather extremes and water constraints)

12

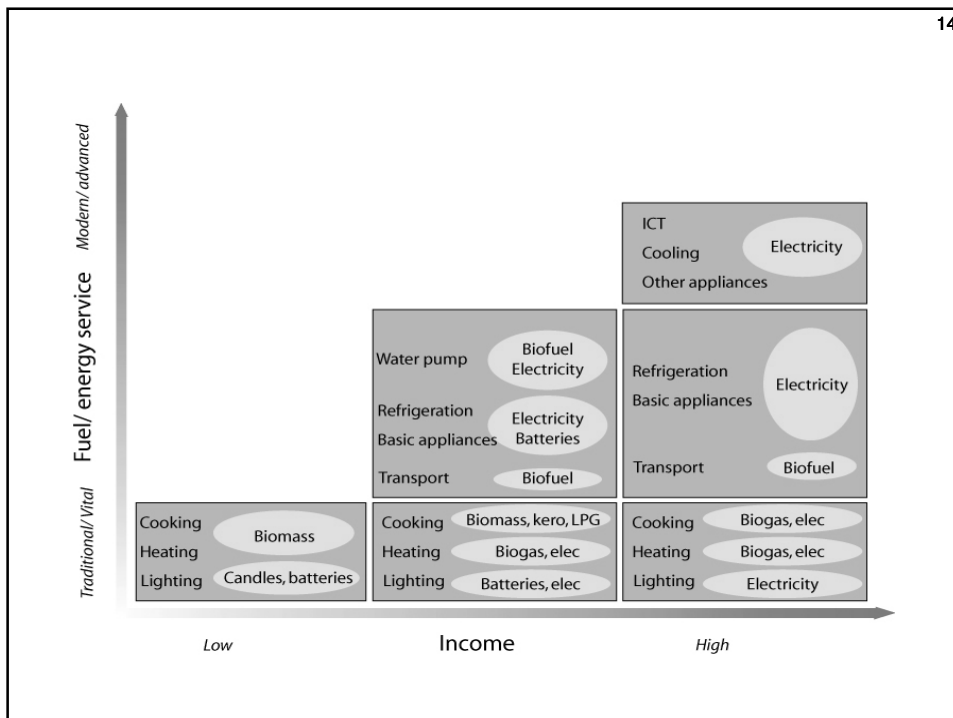


## Example: Harnessing Renewable Energy for Sustainable Rural Development <sup>13</sup>

OBJECTIVE: Creation of employment and income opportunities through new production methods that generate a more than sufficient income stream to pay back initial investment and fuel self-sustained and sustainable development in the medium term (and this even in the absence of internalization of multiple benefits or avoided costs).

Advantages of integrated renewable energy (RE) solutions:

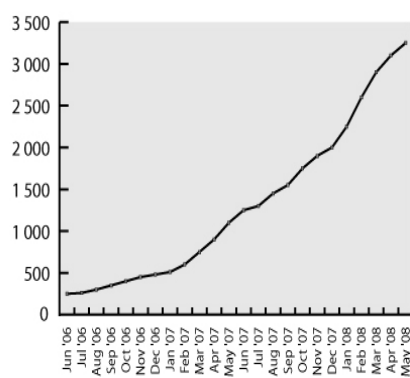
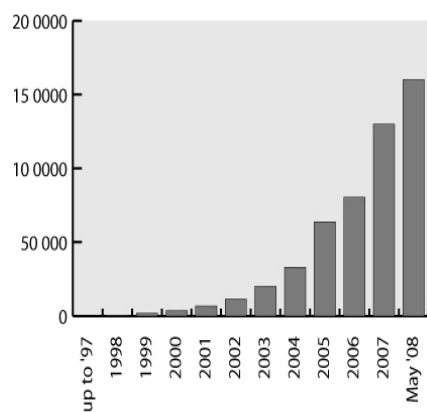
- Lack of electricity and heavy reliance on traditional biomass are hallmarks of poverty in developing countries (one quarter of the world population has no access to electricity, mostly in South Asia and Sub-Saharan Africa)
- Integrated, decentralized RE solutions will provide a sufficient mix of thermal, mechanical and electric power that provides completely new and a wide range of opportunities for handling, storing, processing and transport of agricultural products, in particular food items
- Off-grid RE solutions will also provide opportunities for handicraft sector
- Lots of employment and income-generation opportunities
- Discouraging migration to urban areas
- Reducing indoor air pollution (death toll of 1.5 million)



**Number of Solar Home Installations  
(cumulative)**

**Number of Biogas Facilities  
(cumulative)**

set up by Grameen Shakti in Bangladesh



Website on Relevant UNCTAD Activities

[www.unctad.org/trade\\_env](http://www.unctad.org/trade_env)

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