How to Build the Global Green New Deal*

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The demands for a "Global Green New Deal" were never about some Utopian vision or naïve perception of global togetherness: combined and co-ordinated global efforts are necessary to ensure the survival of the planet and of human life on it.\

But the Covid-19 pandemic is driving home the urgency of internationalism — and not just through the sheer rapidity and force of the global spread of the disease. The unfolding of the pandemic, the national policy responses and the economic impacts, all demonstrate how such processes can dramatically increase inequalities between and within countries, and also that solutions simply cannot be found within any one country.

The sharp increases in global inequality resulting from the pandemic could have been expected, but even so they have been startling in their speed and intensity. Other than China (where the infection originated and which went through some gruelling months, but which has since recovered significantly), developing countries have been massively and disproportionately affected. In most cases, the impact has not been because of the spread of the disease: as yet most such countries have not become epicentres of the outbreak and in general show lower rates of contagion than some countries in Europe and pockets of the United States. Rather, thus far this has been primarily an economic disaster for the developing world: a perfect storm of collapsing export and tourism revenues, dramatic capital flow reversals, and currency depreciations that have added to problems of external debt servicing. Since developing countries and emerging markets as a group have around $1.6 trillion of debt repayments due in 2020 ($415 billion of which has to be paid by low and low-middle income countries), even as their foreign exchange inflows have collapsed, it is more than likely that many countries will be forced into default.

Covid-19 containment strategies have also involved lockdowns in many if not most developing countries, with consequences for large increases in domestic inequality. The most devastating material impacts are already being felt by informal workers, who face a dismal spectrum of probabilities of loss of livelihood, from declining earnings among the self-employed to job losses among paid workers. These are likely to get much worse in the coming months. Even so, except in just a handful of countries, very few governments have declared strong measures to cope with these effects—and are thus letting loose forces that could be even more devastating for poor people across the world. In the worst-case scenario, this could even mean that more people die from hunger and the inability to treat other problems than because of the virus. The proportion of workers who would suffer directly and immediately from a lockdown is huge. Globally, more than 60 per cent of all employment is informal, and most of this is in enterprises that rarely if ever get the benefit of any government subsidies or protection, even in periods of crisis. In the developing world, the proportion is even higher—70 per cent—so two out of every three workers are informal and enjoy little or no social protection to enable them to ride out a period of enforced idleness without remuneration.

Such a collapse of income and employment will obviously have serious repercussions over time in terms of negative multiplier effects on aggregate demand, so these problems will persist well after lockdowns are lifted. At the same time, the lockdowns have also affected supply, disrupting both production and distribution. So supply chains will take time to recover, if they do at all. This in turn means that most developing countries cannot expect a significant improvement in their economic prospects any time soon. Furthermore, while the crisis has made several governments in advanced countries suddenly realise that monetised deficits need not be inflationary, in developing countries fiscal constraints are reinforced by external constraints. In other words, there is much more limited fiscal space even if they can freely print their own currency.

This effectively means that if the current extraordinary situation is not to trigger the biggest economic depression the world has known, extraordinary national and international measures are necessary. This requires national leaders who have vision and are willing to co-operate—and unfortunately, both seem lacking at present. But if this combination could somehow be generated, there are several immediate steps that must be taken to resuscitate the global economy and deal with the public health issues the pandemic has brought to the fore. If these do succeed in stemming the collapse, there will be need for much further drastic actions, which would re-orient economic activity to be more sustainable and ecologically balanced, while changing the highly unequal global economic and financial architecture to bring about more equitable and just outcomes.

Since the matter is so urgent, we do not have the luxury of building alternative associations or organisations to deal with these global challenges. Consequently, despite many valid concerns concerning their functioning, we have to make do with existing international institutions, to somehow make them fit for purpose to meet the scale of the challenge. This is clearly a problem, since the multilateral economic organisations (the IMF, the World Bank and the WTO) have thus far given little reason for optimism that they will be either sensible or less influenced by the major powers. But we cannot repeat the mistakes made after the 2008 crisis, simply rescuing the big players in global capitalism without putting in conditions that would make them more accountable and socially responsible.

Fortunately, even within the existing international financial architecture, some immediate measures that are sorely required are possible. The first is the immediate issue of Special Drawing Rights (SDRs) by the IMF. SDRs are supplementary reserve assets (determined as a weighted basket of five major currencies) to supplement countries' official foreign exchange reserves. They are crucial because they create additional liquidity at no extra cost, and they are distributed according to each country's quota in the IMF, so it cannot be discretionary and is not subject to other kinds of conditionality or political pressure. (It is true that recently the IMF disgraced itself by not allowing the government of Venezuela to access its own quota, but such overtly political use of SDR balances is not mandated by the IMF Articles of Agreement and should be condemned and disallowed. At least 1-2 trillion SDRs must be created and distributed.) The significance of SDR issuance is that it accrues to all member countries without conditionality, and does not take the form loans on which interest must be paid.

This will make a huge contribution to ensuring that global international economic transactions do not simply seize up even after the lockdowns are lifted, and that developing countries in particular are able to engage in international trade. Advanced economies with reserve currencies are much less likely to need to use them, but they can be a lifeline for emerging markets and developing economies, providing additional resources to fight the pandemic and economic disaster. At the moment, swap lines provided by the US Federal Reserve play the stabilising role in global economic transactions. But this is a much less desirable than issuing SDRs (it was also the major prop after the 2008 global financial crisis), as it is not a norm-based multilateral arrangement but unilateral decision of the US Fed, which in turn reflects strategic national interests and reinforces global power imbalances – all at a time when the US has shown it is singularly unfit for global leadership.

While the IMF has always had the power to create SDRs, they have been used very little as an instrument of increasing global liquidity. So far, only 204 billion SDRs have been created and distributed (around US$ 281 billion). Of these 176 billion SDRs were allocated in 2009, to help countries cope with the aftermath of the global financial crisis. But these amounts are tiny relative to global transactions: in 2018 global trade alone amounted to around $19.5 trillion, while gross capital flows have been many multiples of that. The reluctance to increase SDR issuance has usually been based in the fear of stoking inflation. But the world economy has just experienced more than a decade of the largest ever increases in liquidity due to "quantitative easing" by the US Fed, and still advanced economies were fighting deflation, rather than inflation, because of depressed demand everywhere. A massive increase in SDRs right now would not lead to global inflation, for the same reason. If anything, supply chain break down could well lead to specific supply shortages and therefore cost-push inflation. But if some of the resources released by SDR issue can help to counter supply bottlenecks then that too would not be a problem. Indeed, since such bottlenecks are bound to emerge because of the lockdowns, directed public spending to reduce or eliminate such shortages, especially of items of mass consumption and required investment, is essential.

The second pressing international priority is dealing with external debt problems. There should be an immediate moratorium or standstill on all debt repayments (both principal and interest) for at least the next three months, as countries cope with the spread of the disease and the lockdown effects. This moratorium should also ensure that interest payments do not accrue over this period. Some countries (like Argentina) have announced this unilaterally for a portion of their foreign debts that are governed by national laws. But to extend this to all external debt—and for other countries to be able to do this as well—some international co-ordination is required. A number of senior economists and financiers (including the former head of Credit Suisse) have suggested a two year moratorium on African debt repayment. It could be argued that this is simply an acknowledgement of reality, as very few developing countries will be in a position to service their loans when almost all foreign exchange inflows have effectively stopped. In any case, if everything else is on hold in the global economy today, why should debt payments be different? Surely they too should be on hold.

But this is only a temporary measure, kicking the can down the road. Eventually substantial debt restructuring will be necessary. In the wake of such an extensive cessation of production and trade, very few borrowers will be in a position to repay their debts in full. There is a real risk that this leniency will be extended to large corporations but not to sovereign debtors: it is absolutely crucial to provide for very substantial debt relief, especially to low and middle income countries. Once again, while some countries can seek to repudiate external debts because of the extraordinary circumstances, there are costs for individual countries to do so on their own, and international co-ordination is essential to minimize these costs.

The third immediate policy required in many countries, particularly emerging markets that have experienced dramatic reversals in capital flows, is establishing capital controls to stop the bleeding. These must be brought in to curtail the surge in outflows, reduce illiquidity driven by sell-offs in emerging markets, and arrest declines in currency and asset prices. Otherwise, in addition to the decline in export revenues, capital outflows will cause such massive depreciations of emerging market currencies that much international trade will simply become out of reach, while domestic stock and bond markets could easily tailspin, creating further domestic economic pain. This will only accelerate economic decline, not just in these countries, but in world trade. Once again, since it is harder for individual countries to impose the necessary capital controls, some co-operation (even if only regional at this point) would be essential.

The fourth significant measure requires a change in attitudes to public health in almost all countries. Decades of neoliberal policy hegemony have led to drastic decline in per capita public health spending in rich and poor countries alike. It is now more than obvious that this was not just an unequal and unjust strategy, but a stupid one: it has taken an infectious disease to drive home the point that the health of the elite ultimately depends on the health of the poorest member of society, and those who advocated reduced public health spending and privatisation of health services did so at their own peril. What has also emerged is that this is true at a global scale as well, so the current pathetically nationalist squabbles over access to protective equipment and drugs betrays a complete lack of awareness of the nature of the beast. This disease will not be brought under control unless it is done so everywhere, so once again international co-operation is not just desirable but absolutely essential.

Failures to address these urgent issues with the required speed and co-ordination can have devastating effects. It could even lead to further calamity, expressed in wars and other disasters compounding the current health pandemic and economic contraction. Only if the extremity of the situation is adequately understood can the requisite political will be found.

And then, of course, if humanity is to survive and prevent even greater catastrophes like those likely to be brought about by climate change and other ecological forces, we will require further rethinking on the trajectory of the global economy, addressing the inequalities across and within countries, dealing with and reducing the environmental damage already caused. In fact, such thinking has to start at once, because these immediate measures must accord with these medium term goals. This will require much more fundamental changes to the global architecture, which are not beholden to the existing legal and quasi-legal structures that have underpinned neoliberal globalisation, but seek to transform them fundamentally.

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