

towards sustainable economies:  
challenging neoliberal economic globalisation





*“Trade exists. But present trade flows are not the ones that we envision for our peoples. Trade should be gender-fair, equitable, environmentally sustainable and just. There should be a redistribution of resources and power from the rich to the poor.”*

FOEI Asia-Pacific-Oceanic group.

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# introduction

Friends of the Earth International (FOEI) campaigns for fair and environmentally sustainable societies that meet people's needs. However, in order to campaign for sustainable societies, FOEI has also found it necessary to challenge neoliberal economic globalisation, which works in the opposite direction, preventing sustainability.

Neoliberal economic policies are failing people in many different ways. We live in a world in which inequality is on the increase and many millions are unable to meet even their most basic needs. Forests are being clear-cut, minerals strip-mined and fossil fuels exploited at completely unsustainable rates to provide natural resources for the 'global economy'. Democracy is being eroded as power is concentrated in fewer and fewer hands. Biological and cultural diversity are dwindling at an alarming rate. Hard won social and environmental standards are threatened.

If we continue on this course, the prospects for both current and future generations seem grim. The real challenge for human-kind will be providing a decent quality of life for a predicted population of 10 billion people in 2050, whilst reducing environment impacts to sustainable levels. Neoliberal economic globalisation is increasing the scale of that challenge. Yet the official line is that 'there is no alternative'.

We disagree. FOEI believes that a different, democratic, equitable and sustainable future is within our grasp. This paper sets out guidelines for developing fair and sustainable economies. It calls for new economic goals, including the equitable and sustainable use of limited resources and recognition of the importance of economic diversity; new devolved, transparent and participatory economic decision-making processes based on the principle of economic subsidiarity; stronger local and regional economies that increase local control of resources; investment in the 'real' productive economy; effective corporate

control, including corporate accountability and liability mechanisms and international anti-trust legislation; and stronger multilateral governance of non-economic concerns including equity and sustainability.

This paper is the result of a two-year dialogue between FOEI members living in very different economic and political circumstances in the North, South, East and West. We hope it will serve as a useful contribution to a constructive public debate concerning the future of our economies.

Friends of the Earth International is a federation of independent organisations in 66 countries in Africa, Asia, Europe, Latin America and North America. FOEI's Trade, Environment and Sustainability Programme was established in 1992 and is coordinated by FOEI member groups in each continent, all of whom are equally responsible for both strategy and policy.

# break the taboo - recognise the failings of neoliberal economics

## why neoliberal economic globalisation is a problem

We live in a rapidly changing world. The phenomenon of globalisation - in particular, the advent of rapid global communication and the spread of new technologies - is altering the way people live their own lives and relate to each other. Globalisation has many facets - economic, political, social, cultural and technological. This paper concerns itself with just one of those facets, neoliberal economic globalisation, which has significant negative impacts on people and their environment right around the world.

Neoliberal economic globalisation encourages the pursuit of profit regardless of social and environmental costs. It is associated with increasing levels of inequality, both between and within countries; the concentration of resources and power in fewer and fewer hands (resulting in an erosion of democracy); economic, social, political and economic exclusion; economic instability; spiralling rates of natural resource exploitation; and a loss of biological and cultural diversity. It prevents the maintenance and development of locally-appropriate and sustainable systems of commerce; and leads to weaker international agreements in other key areas (on the environment and development, for example).

Furthermore, the 'global North', using the resources of the 'global South' at rock-bottom prices, has incurred an ecological debt to the South. Yet it is still those impoverished countries in the South that find themselves compelled to play the neoliberal game - exporting more and more - in order to pay off the only debts that seem to count: the financial ones. Ironically, this leads to oversupplied world markets, falling commodity prices and decreasing returns on Southern exports. These worsening terms of trade make it ever more difficult for the South to pay its financial debts.

Overall, the key issue that needs to be addressed is the fact that because of these impacts the policies promoted

by proponents of neoliberal economics *undermine* those needed to develop sustainable societies. Just and sustainable societies require, almost by definition, equity, democracy, diversity and sustainable production and consumption. They require stronger local communities and economies *and* stronger and more cooperative relationships at the international level.

The real challenge for human-kind will be providing a decent quality of life for a predicted population of 10 billion people in 2050, whilst reducing environment impacts to within system limits. Neoliberal economic globalisation is increasing the scale of that challenge. Yet the official line is that 'there is no alternative'.

Something has to give. Since sustainable societies are the only long-term option we have, that something must be neoliberalism. The time has come to develop alternative approaches, to map out a framework for sustainable economies. That is what this paper attempts to do.

## why neoliberal economics is out of date

Neoliberal economic theory has several significant flaws. Perhaps the most significant of these is the 'win-win' theory of comparative advantage.

Comparative advantage theory states that all countries will benefit by investing in those sectors in which they produce goods most efficiently and then trading with each other. However, it was developed at a time when capital was firmly anchored in domestic economies. Today, with new and powerful information technology and open borders, capital can be moved around the world virtually instantaneously. As a result, it is increasingly difficult for those countries that do *not* hold the winning cards (a stable economy, low costs and good infrastructure, for example) to retain or attract internationally mobile investment capital. In other words, *absolute* advantage increas-

ingly applies and the system is *not* mutually advantageous for all.

Furthermore, benefits are increasingly going to companies and their owners, rather than countries and their citizens. On the one hand, potential investors (both domestic and foreign) can play governments off against each other, extracting tax concessions or sweeteners and generally demanding lower corporate taxes and standards; and transnational companies can minimise their tax obligations by shifting their profits to low-tax countries. On the other hand, governments are increasingly prevented from benefitting from inward investment by placing obligations or performance requirements on foreign investors; and it is now clear that wealth does not automatically 'trickle down' to a population as has been previously argued.

Critically, neoliberal economic globalisation is also unsustainable. Those who first proposed 'free trade' as a solution to the world's economic problems were probably (and unsurprisingly) unaware that heightened demand for the world's finite resources would be a significant limiting factor in the 21st century. As a result, our current economic model is based on increasing and unsustainable rates of resource use. There is no invisible hand guiding the market towards sustainability. These resources need to be husbanded; and sustainable economies need to be managed.

For all these reasons, neoliberal economic globalisation is, for many millions, a 'win-lose' rather than a 'win-win' scenario. However, these theoretical flaws are being ignored. This may be because those countries fortunate enough to *have* absolute advantage are often those who have developed their economies and societies by exploiting the world's people and resources - those who owe an ecological debt to the rest of the world. Ironically, these countries tend to be the strongest supporters of the neoliberal 'myths'.

## **neoliberal economics also has real, negative impacts...**

Neoliberal economic globalisation is flawed in practice as well as in theory. The implementation of neoliberal policies has had real and diverse negative impacts on the day-to-day lives of millions of people and their environment, in all regions of the world - from peasant farmers unable to compete with food imported from more 'efficient' countries and Southern communities moved from their homes to make way for massive mining-for-export operations, through to people in the North who face increasingly insecure employment and the erosion of hard-won environmental and health standards [1]. This is why so many people, from different walks of life and different parts of the world, joined forces to protest against the World Trade Organisation in Seattle in 1999.

In order to arrest the present divisive process - whereby a few benefit significantly yet many lose - it is necessary to acknowledge that the current process of neoliberal economic globalisation has led to excessive resource use, increasing inequalities, and declining standards of living for many people. An alternative approach is necessary.

## **...but it's still taboo to query it**

However, despite this panoply of theoretical and practical drawbacks, it appears to be completely taboo to criticise neoliberal economics in most governmental and academic circles. Indeed, those that dare to even hint at any such concerns risk losing both employment and credibility (as shown by changes in World Bank personnel in 2000, for example). Criticisms threaten neoliberalism's winners - those people, companies and countries whose power and wealth allow them to benefit significantly from international trade and investment. Nothing can change until this taboo is broken.

## **we need a new approach to economics**

Economics needs to be brought into the 21st century - it needs to be flexible, fair and sustainable and about more than money, profits and growth. Sustainable economics needs to permit the development of diverse economies; and be broadened to include environmental and sustainability concerns. Furthermore, economics needs to be opened up and democratised: people need to know about, understand and be able to influence the development of sustainable economies.

Specifically, governments need to agree new goals for sustainable economies in the form of a coherent and internationally-agreed set of social, economic and environmental principles (see below). The inappropriate one-size-fits-all neoliberal mentality needs to be replaced with an understanding of the benefits of economic diversity (see below); and economic subsidiarity needs to be introduced, to enable decisions to be made at the most local level possible, with full participation (again, see below).

This is not to say that international trade and investment have no part to play in sustainable economies. They *can* be part of a sustainable society, but this will always be dependent on their impact on levels and patterns of consumption and production, cost internalisation and the distribution of benefits. (In fact, it is important to distinguish between 'free trade' ideology and the *freedom* to trade: they are not the same thing at all).

# change course - establish new economic goals

## sustainable societies need healthy economies

It almost goes without saying that a healthy level of economic activity is essential to any sustainable society. However, the nature of that economic activity is all important. Critically, optimum levels of economic activity should meet people's real needs and reduce resource use to sustainable levels; and access to resources and benefits from the use of those resources should be distributed equitably within and between countries and regions.

Importantly, economic growth is not always necessary to achieve these goals: in fact the indiscriminate pursuit of growth often undermines them. Whilst economic growth may be desirable in both Southern and Northern countries *if it delivers the desired results*, improving the quality of economic activity - rather than increasing its quantity - must be the key concern of policymakers (especially in Northern countries, where resource use is already excessive).

## economic diversity

The prevailing neoliberal economic model reduces self-reliance and encourages a high degree of dependence on the global economy. There is little or no room for diversity: a one-size-fits-all model is promoted by politicians and enforced by influential economic institutions. This inflexible approach has proved particularly difficult for many impoverished countries wishing to build-up infant industries, promote local employment, protect cultural diversity and/or restrict resource exports. It also encourages an undesirable level of dependence on the global economy - witness the 1997 Asian financial crisis, which spread rapidly from country to country. The one-size-fits-all model ignores the value of economic diversity.

Diversity is integral to sustainability and this applies to economics just as much as any other field. Economic diversity includes diverse economic strategies,

diversified economies (which implies a range of sectors and activities, rather than an economy dependent upon one or two particular commodities) and diversity within sectors (meaning no monopolies). Countries and communities should have the option to select those economic mechanisms and strategies that they believe best suit their economic, social, cultural and environmental needs at any one time. These decisions should be made with a view to optimising economic activity and maintaining a degree of self-reliance, in order to encourage the development of strong and diverse economies capable of withstanding and adapting to external shocks.

In other words, nations should have the right to steer their economies, *within* parameters agreed internationally (concerning equity, human rights and global resource use limits, for example) and on the basis of democratic and participative decision-making (which effectively rules out old-style state-planned economies).

## economic subsidiarity

Economics affects everyone and even international agreements have many significant and widespread 'side-effects'. For example, negotiations in the World Trade Organisation can influence production and consumption patterns, domestic economic stability, exchange rates, regional and domestic trade, the viability of small and medium sized enterprises, employment, and spending on health, education and the environment - all factors likely to have direct or indirect impacts on individuals.

The world of economics needs to be opened up: people need to be more directly involved in economic decision-making. This could be achieved in part by devolving decision-making downwards by applying the principle of economic subsidiarity (ie decision-making at the lowest appropriate level). Multi-layered decision-making would also be advantageous because it could help to introduce checks and balances between and by decision-making bodies, reducing the

likelihood of abuse of power in any one sphere.

What might economic subsidiarity mean in practice? One principle objective would be to enable people to decide what their own needs are and the extent to which they need to trade internationally, regionally or simply outside their own economies to meet those needs. In other words, local economies should be able to choose the extent to which they wish to be self-reliant, generating their own wealth and jobs, yet retain an option to trade. This type of decision-making would of course require democratic and participatory economic decision-making systems nationally as well as internationally (see below). Another important objective would be to restore decision-making on key economic issues (from market-opening through to budget allocations for health, education and the environment) to democratically-elected governments.

At the same time, however, it is absolutely essential that we *increase* effective decision-making at the international level in relation to a broad range of issues that are vital to sustainable economies but cannot be resolved by countries operating in isolation. These include, for example, poverty eradication, equity and burden-sharing, global resource use levels, sustainable production and consumption and transboundary pollution.

## new goals for sustainable economies

Economic diversity and economic subsidiarity do not negate the need for common economic, social and environmental goals and rules. Indeed, many of these have already been agreed within the United Nations, but have not been applied to economics (or in some cases, implemented at all).

It is now clear that high levels of economic growth do not automatically generate social and environmental benefits. In fact all too often the opposite is true. Deregulation, combined with increased

production and consumption, is leading to lower social and environmental standards and increased resource use and pollution. In addition, the wealth generated tends to be very unequally distributed.

Simply attempting to maximise GDP is no longer sufficient. A credible and productive system of economics should have as its goal the satisfaction of people's needs through the equitable and sustainable use of the planet's limited resources. Poverty eradication, social and cultural sustainability, intergenerational equity and human dignity must be key objectives. Production and consumption levels need to be managed; and special and differential treatment for impoverished countries and people should be an integral component, allowing increases in consumption for impoverished people.

## principles not profit

To achieve these objectives, 21st century societies will require sophisticated national and international economic policies that promote optimum levels of economic activity based on key social and environmental principles, which should be agreed in full internationally. These include the following:

- Democratic public accountability and transparency of governments, businesses and other organisations, underpinned by a public right to know, right to participate and citizen access to justice.
- The polluter pays principle, supported by legal liability and redress, for environmental and social impacts.
- Equitable cooperation, self-determination and special and differential treatment to guide international relations and inter-governmental negotiations.

- Respect for diversity in biological, cultural and economic systems, and regard for the welfare of non-human species as well as humans.

- Respect for human rights - notably the right to enjoy a healthy life in a supportive environment, the right to peace and security, and the right to equal status and treatment for all irrespective of gender, ethnicity, religion or class. Such rights to extend fully to indigenous peoples.

- Respect for high environmental, health and safety, social, labour and health standards.

- Equity between and within generations, including redistribution of control over resources such as land and repayment of the ecological debt.

- Economic and political subsidiarity - devolving power and authority to the most local level appropriate.

- The precautionary principle, applied widely to policies and technologies at all levels.

## the precautionary principle

The precautionary principle, frowned upon by many supporters of the current economic model, deserves special mention, since its implementation is a key component of sustainability.

In a world in which resources are limited and production complex, it makes sense to take a cautious approach to commerce. Use of the precautionary principle is intended to protect future generations from unknown or uncertain environmental and health impacts. The precautionary principle should also permit people to make decisions (jointly or via democratically elected bodies) about their own

exposure to environmental and health risks on the basis of independent and accurate information *and* ethical and cultural preferences.

Conventional 'risk-assessment' procedures are not a substitute for the precautionary principle: even when sufficient data is available for risk-assessment to proceed, (often highly) political decisions about risk are still required. Involving people in decision-making in this respect therefore requires genuinely democratic decision-making processes.

# get smart - measure economic welfare accurately

## calculating economic welfare in the 21st century

We cannot begin to develop a more effective, equitable and sustainable economic system until we refine the way we measure economic welfare. Currently, GDP does not measure quality of life, social progress, poverty eradication, human development or environmental quality. Furthermore, important social roles, including both the care of children and the elderly and household work are generally excluded - in other words, they are not accorded any economic value unless they are paid for. At the same time however, economic transactions relating to crime, ill-health and environmental degradation (medical treatment for victims of crime or cleaning up oil spills, for example) are given a positive value, even though they may reflect a deteriorating quality of life.

In order to develop truly sustainable societies, that we enjoy living in, we need to take a much more sophisticated approach to measuring our economic welfare. If we are to determine when and how economies need to be improved, we need to be able to measure our economic activity accurately. A new measurement of economic welfare is therefore required.

## valuing work fairly

Valuing work fairly is essential in a sustainable economy. At present, formal measures of economic growth only value paid work and even those values are determined by the market. Thus a banker is regarded as contributing more than a doctor or a teacher; and unpaid work in child-rearing, caring and subsistence farming - largely done by women - is completely ignored. So too is voluntary work for schools and charities or as magistrates.

Contributions such as these are essential to a well-functioning society and contribute as much if not more to quality of life than the formal economy. Children are raised and many basic needs met within the 'informal' economy. However, the current system of measurement not only values these contributions unfairly, it also distorts economies by allocating resources to cash-cropping, export-oriented production and natural resource-exploitation, rather than to education, health and social support.

## including the real costs of transport

Transport (shipping, air-freight and road haulage) is subsidised both directly and indirectly - most notably because the costs of fuel do not reflect their full environmental and social impacts. This means that highly-polluting and habitat-destroying forms of production and trade are favoured over local production and commerce. If the real social and environmental costs of transport were incorporated into consumer prices, trade patterns would shift in favour of the local, strengthening local economies and protecting the environment, both globally and locally.

# plan for the future - cut resource use and conflict

## resources are limited...

Many natural resources, both renewable and non-renewable, are already severely over-used. To take a few examples: 1,200 million hectares of agricultural land has been degraded so badly over the last 45 years that the average farmer cannot afford to restore it; 13 of the world's 15 major ocean fisheries are over-fished or under threat; and 56 million hectares of forest across the globe were lost between 1990 and 1995. Excessive use of fossil fuels is leading to climate destabilisation; and the prevalence of toxic chemicals and metals is having a major impact on health. In fact, if people all over the world were to consume at the levels that many in the North do already, we would need at least eight planets to provide us with the resources we need by the year 2050.

Faced with facts like these, it is quite clear that resource use must be reduced significantly; and that unsustainable economic growth - as prescribed by the current economic model - conflicts with this goal. Global resource use has to be within sustainable levels for the long-term health and benefit of all. This will require significant changes to production and consumption patterns (which will in turn require effective and far-sighted international agreements).

## ...but underconsumption is a problem too

However, we need to differentiate between overconsumption, predominantly in the North, and underconsumption, predominantly in the South. The rules of the WTO and the Bretton Woods institutions (the World Bank and the International Monetary Fund (IMF)) work together to encourage the uncontrolled exploitation of natural resources for export, promoting the extraction of biologically-important natural resources that fuel over-consumption problems in the North and environmental degradation in both the South and the North. Governments, working together, must address fundamental questions concerning the distribution of and access to these resources.

## reduce resource use, reduce conflict

To a certain extent, the current drive to open up markets is in reality little more than the age-old battle for resources. Rather than devising yet another system laying out rules that determine how countries will compete for scarce resources, we should focus on reducing the use of those resources and allowing people to access them much more equitably. Reducing resource use, primarily in the North and within the overall context of sustainable economies, is *more* likely to bring peace and security than neoliberal economic globalisation.

## reduce resource use, increase jobs

Whilst many businesses claim that rapid resource extraction and other environmentally destructive activities are necessary to protect jobs, nothing could be further from the truth. True, these activities can generate high profits. However, replacing energy and materials use with labour and investing in resource conservation rather than exploitation can generate higher levels of employment *and* support a better quality of life.

For example, sustainable forestry creates more - and longer lasting - jobs than clear-cutting. Energy efficiency and renewable energy technologies are more labour intensive than coal mining and fossil-fuel power generation - and are cheaper for consumers. Recycling and reuse also require more skilled labour than mining new materials and landfilling the wasted ones.

Recognising jobs in the informal sector - particularly those in the home and the community - is also essential when assessing the relative merits of various economic activities. For example, jobs generated by increased mining for export may not seem so appealing when set against the numbers of jobs lost to subsistence farmers moved off their land.

## the right to restrict resource use

Sustainable production and consumption are essential elements in an environmentally and socially sustainable society. Communities should have the right to restrict the use and sale of their resources, in order to meet their own basic needs, with an option to trade. This would help to ensure equitable access to resources for people around the world and reduce overconsumption. It would also imply an end to the imposition of export-led development policies (see below).

## reduce, reuse, recycle

'Reduce, reuse and recycle' policies are absolutely key to reducing resource use in the North. Such mechanisms can enable significant improvements in the efficiency of resource use. Wherever possible, governments should aim to introduce appropriate market and/or regulatory mechanisms to stimulate these activities (such as virgin fibre taxes; border tax adjustments; and recycling targets) at both the national and international levels.

## sufficiency policies and demand management

Recycling is one way to increase the efficiency with which we use resources. However, reaching sustainable resource use levels whilst still allowing for increased consumption by impoverished people, will require more than increased efficiency: it will also necessitate demand-management. For example, energy utilities can provide energy-saving services - to warm your home and cool your beer, for example - by increasing insulation and improving energy management instead of providing energy. In general, we need to focus on strategies that lower resource use - especially in the North - *and* improve quality of life. These are known as sufficiency strategies. Government policies can set a framework within which demand management and sufficiency strategies can be profitable for businesses to promote.

# share resources - eradicate inequality and poverty

## access to resources and a healthy environment as human rights

*“Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care...”* (Article 25, UN Universal Declaration on Human Rights, 1948). Yet for many people living in already impoverished countries, access to and control over the very resources they need to provide food, water, clothing and shelter is declining, with little or no compensation in the form of finance or social security. This has a particularly severe impact on women, who are often responsible for providing food and other basic necessities for their families. Loss of access to land and the growth of urban slums in the South are also major problems that need to be addressed as a matter of urgency.

In a sustainable economy, access to resources, a healthy life and a healthy environment would be considered human rights.

## reversing redistribution

Current economic policies, such as those promoted by intergovernmental organisations like the IMF and the WTO, effectively redistribute resources from the already impoverished to the rich, aggravating poverty and inequality.

Furthermore, inequality is increasing both within and between countries. In 1960, the 20% of the world's population living in the richest countries had thirty times the income of the poorest 20%. By 1997, the richest were 74 times richer (UNDP Human Development Report, 1999). Marginalisation on the basis of gender and other social characteristics is also increasing. Furthermore, repayment of debt has resulted in a tragic 'reverse Robin Hood' transfer of wealth from impoverished countries to rich Northern creditors.

Redistribution needs to be reversed, in order to reach a balance whereby access to resources and benefits from the use of those resources is distributed equitably within countries, between regions and amongst people. On the basis of new internationally agreed goals (see above), governments and others should be obliged to incorporate measures that enhance equity into all economic policies and mechanisms.

## ecological debt and debt cancellation

Heavy financial debt burdens on impoverished countries encourage governments to allow increased exploitation of natural resources for export in order to generate foreign exchange. The export-led development programmes of the Bretton Woods institutions have reinforced this short-term and damaging approach, creating a vicious circle in which world markets are oversupplied, commodity prices tumble, and poverty-stricken countries are forced to increase exports. In addition, heavily indebted countries are often forced to slash environmental and social spending, making it difficult for governments to pursue sustainability objectives.

Thus rich, importing countries have ready access to cheap supplies of natural resources and have, in fact, incurred an ecological debt to the countries of the South which far outweighs the official financial debt of the South (which is valued at about US\$355 billion in total).

The first step on the road to equity must be the cancellation of financial debt, to allow impoverished countries to invest in more sustainable development policies and to permit changes in production and consumption patterns. (A key point to be borne in mind is that it is unacceptable to reduce resource use in the North, whilst Southern countries are still obliged to export commodities to pay debt.) Furthermore, debt eradication should not be linked to export-led development (see below) as debt relief is at the moment.

# change priorities - invest in the real economy

## **promoting economic stability**

The financial crises of the past few years provide clear evidence that sustainable development is impossible in a climate of boom and bust economic instability. Neo-liberal economic globalisation and speculative investment flows set the stage for crises in which poverty has increased and government spending on social welfare programmes and environmental protection has been slashed (these developments have been particularly evident in Asian countries such as Indonesia, for example). Policies which promote economic stability (and contribute to or at least do not undermine sustainability in general) must be a key component of sustainable economies.

ment in the real economy and discourage investment in the 'virtual' monetary economy. Specifically, priority should be given to productive foreign direct investment (FDI) and domestic investment over and above speculative investments (so-called 'hot' money). Secondly, FDI and domestic investment should be subject to internationally agreed environmental and social standards (applied by, for example, the World Bank and export credit agencies in the case of FDI). Thirdly, a Tobin tax (a small tax on currency exchanges) should be introduced, to dampen speculation and to generate and redistribute financial resources specifically allocated to measures that promote sustainable societies.

## **controlling investment flows**

Governments need to be able to control investment flows, both domestically and globally, to promote stable and welcome investment in the real, productive economy. Screening of foreign investors, locally-decided performance requirements, preferences for local and domestic enterprises and regulation of both domestic and foreign investors - all with a view to promoting sustainable economies - should be the norm.

Any intergovernmental investment agreements should focus on new economic goals (as outlined above) and the regulation and responsibilities of corporations. (As such, the WTO would be an entirely inappropriate forum in which to negotiate such an agreement.)

## **a presumption in favour of the real economy**

We also need to focus on separating the 'money' economy and the 'real' productive economy, since the former is now much more profitable than the latter and draws investment away. There should be a presumption in favour of the real economy in all government decision-making processes. In addition, national and international regulation and incentives should be developed in order to boost invest-

# rebalance trade - reinvigorate local economies

## rebalancing trade

There is a clear need to rebalance trade, deprioritising international trade, giving a higher priority to local and regional trade (and small and medium-sized enterprises) and promoting more local self-reliance.

Whilst a certain degree of international trade may be inevitable and even desirable, healthy and sustainable local economies and communities are the key to meeting people's basic needs. However, they are being undermined by the current trade liberalisation process in many ways. In general, an undue focus on international trade causes imbalances between the local and the international to the detriment of the local. In particular, smaller local businesses find it impossible to compete with large transnationals operating with economies of scale; and in many countries existing sustainable communities are threatened.

Furthermore, international trade has serious environmental and social consequences, partly because of long-distance transport and fuel consumption; and partly because of the nature and volume of goods traded.

## strengthening local economies and communities

People must have the right, through democratically elected governments, to strengthen protection of their local and national environments; to promote small-scale, sustainable economic activity; and to exert control over their local and shared natural resources. As stated above, local economies should be able to choose the extent to which they wish to be self-reliant, generating their own wealth and jobs, yet retain an option to trade.

Furthermore, communities, including indigenous people, farmers, landless peasants and women, should be entitled to equitable access to existing agricul-

tural land, water, seeds and other productive resources; and the ability to make decisions concerning the use of those resources. In order to do this, communities' rights to make decisions concerning their local, traditional resources need to be recognised, even where no legal rights have previously been allocated; and people need to have an input into relevant economic-decision making bodies (see *economic subsidiarity* and *economic democracy* above).

This is not to say that *all* decisions should be taken locally. The nature of the issue in hand should determine whether it is dealt with locally, nationally, regionally or internationally. Implementing the principles of economic subsidiarity and economic democracy, with decision-making taking place at a number of different levels in a democratic manner, should enhance input from the local level, encourage diverse economies and provide checks and balances that discourage the abuse of power at any one level.

## favouring national and local environmental and health laws

National, regional and international trade rules should not override laws designed to protect communities, the environment and public health. In particular, countries need to retain the ability to protect farming and rural communities, secure food supplies, control investment and insist that imports are properly labelled. There should be a general presumption in favour of national and local environmental and health laws (whether or not they disrupt trade). In particular, all relevant dispute panels, in whatever fora, should be required to give a presumption of validity to national and local laws and policies.

It is also important to bear in mind that it is possible to design and implement policies that have unintended negative effects in other countries. Governments should have a legal duty of care to examine whether their current or planned activities have a net negative impact on the

environment, health or optimal economic welfare in other countries and to take this into account when developing policies.

## ending export-led development

Economic forces, particularly export-led development are leading to an increasing concentration of land and power in the hands of the few; and the marginalisation and impoverishment of the many. Export-led development only benefits a minority of people. Add to this the fact that the underlying theory is no longer valid and the need to rebalance trade in favour of the local, and it becomes clear that export-led development policies should be abandoned.

# regulate corporations, reduce corporate influence

## the erosion of democracy

Corporations have been given a free rein over the last few decades on the basis that they would deliver economic growth more effectively if left to their own devices. On this basis, deregulation - the removal of environmental, health, safety and other standards - is accepted; and companies are increasingly able to exert pressure on governments, especially those that are weak or corrupt.

As a result of this perception and because of the leverage provided by economic liberalisation, corporations are increasingly able to influence intergovernmental negotiations and rule-making. Indeed, official summits between Heads of State and Chief Executive Officers are now routine and the UN Secretary-General, Kofi Annan, has proposed a Global Compact between the UN and business. Corporate power is too great, and widely abused. Corporations exert unacceptable influence over governments and intergovernmental processes. This trend is eroding democracy and needs to be reversed.

## revising the corporate role

If the goals of the global economy were changed in line with the suggestions in this position paper, the role and indeed the nature of companies would change too. They would be expected, both in general terms and via international and national regulation (see below) and incentives (such as border tax adjustments) to contribute to a range of goals. They would be required to contribute to generating optimum levels of economic activity *and* to implement high environmental and social standards (including minimising resource use, reducing pollution levels, ensuring high labour standards and promoting gender equity). They would be expected to be broadly accountable to citizens. Changes to economic welfare measurements would also encourage governments to ensure that companies meet these goals.

## corporate responsibility

Both domestic companies and companies planning to operate in a foreign territory should be obliged to adhere to the following principles: (1) prior informed consent by the community, determined by community processes, to be affected by a corporate project or activity; (2) conduct of social and environmental impact analysis; (3) legal financial and criminal liability for environmental clean-up, rehabilitation, and pollution control; (4) provision of royalty payments to communities within whose localities resources are being extracted by the corporation; (5) community rights against social, cultural, physical, and economic displacement due to a corporate project; and (6) respect for human rights and high environmental and social (including labour) standards.

## regulating corporate activity

In order to help bring about and maintain this new role, corporations - especially transnationals - must be made fully and fairly accountable to local communities and elected governments. This requires limits to mergers and measures to prevent and dismantle monopoly power; and binding regulations to ensure transparency, accountability and high social, human-rights and environmental standards. This should be negotiated within the United Nations and implemented through national law.

## producer liability

Companies must also take responsibility for their products. Whilst technical progress can be beneficial, the burden of proof concerning safety and sustainability must rest with those responsible for new products and technologies; and liability must remain, ultimately, with producers.

## international competition and international anti-trust laws

Under certain circumstances, competition can encourage the efficient use of resources and enhance sustainability. Nevertheless, the current neoliberal focus on increasing competition *at all costs* is having severe negative impacts on the economy, society and the environment.

Companies facing stiff competition are buying up competing companies, in order to reduce competition *and* cut operating costs (by cutting duplicate departments, for example). As a result mergers and acquisitions are increasing rapidly, with severe, negative impacts, including job losses, the demise of many small, local businesses and increasing concentration of power in fewer and fewer hands. At the same time, social, health and environmental standards are being lowered, again in an effort to cut corporate costs.

It is crucial that international competitiveness no longer be an *over-riding* objective for policy-makers (it should be replaced with the objectives outlined above). Competition has its place but it needs to be just one of many key goals; and it needs to be regulated, in part by introducing international anti-trust laws to prevent the development of cartels and other anti-competitive practices.

## the polluter should pay

It is neither just nor sustainable for communities or governments to bear the costs associated with pollution. The polluter should pay the costs of preventing or cleaning up pollution or other environmental damage. This normally means that companies should bear these costs as a result of environmental taxes or regulations.

## **open up - ensure transparency and democracy**

### **democratising economic decision-making**

Creating democratic and sustainable economies is an ambitious goal that can only be realised by ensuring that international policies genuinely reflect and address peoples' hopes and aspirations for a just, fair and equitable society nationally and globally. To achieve this, political decentralisation is essential. It will be absolutely necessary to ensure that nations and communities are *the* key decision-makers; that all relevant decision-making bodies - from the local through to the international - are genuinely representative and participatory; and that people have real opportunities to participate in economic decision-making.

### **one-nation one-vote means equal participation**

Despite the WTO's one-nation one-vote structure, WTO negotiations are notorious for the way in which weaker countries are sidelined, with developing country negotiators often being either excluded from or ignored during meetings. All intergovernmental institutions should ensure full internal transparency concerning all negotiations and related activities; and participation in full meetings and/or steering committees should be decided by self-selection. Full and fair participation needs active financial and technical support.

### **governments and accountability**

It is right and proper that governments negotiate international agreements that have been mandated by their citizens. However, governments should be fully accountable for their actions and this can only happen when it is possible to determine what those actions are. The external transparency of intergovernmental trade and other similar negotiations needs to be increased significantly, through a variety of means, including the involvement of independent observers in all relevant meetings and the introduction of a presumption in favour of derestricting all official documents.

# update infrastructure - redesign rules and institutions

## stronger rules required

International law, rules and enforcement need to be strengthened. At the moment, the powerful hold sway in the WTO, the Bretton Woods institutions and the United Nations.

In the WTO, it is generally the case that only those rule-changes and negotiations that benefit the already strong are initiated and discussed (in spite of the WTO's one-nation one-vote structure). Because the resulting agreements tend to suit the more powerful players, enforcement of WTO agreements is strong. In the Bretton Woods institutions - the World Bank and the IMF - the voting structure means that the richest and strongest countries have the whip-hand anyway. Since loans can be withheld and high credit-ratings lost, enforcement is relatively easy.

Within the United Nations, the same power struggles have been played out in a slightly different way. Many useful agreements have been reached, but - again because of the influence of those who stand to lose - few are implemented and enforcement is non-existent. Corporate influence is increasing, with a Global Compact proposed between the UN and business.

This situation cannot continue. The regional and international elements of rebalanced trade will require a real and effective system of multilateral trade rules and agreements (based on new economic goals, economic diversity and economic subsidiarity, as outlined above) which would be integrated with and complement rather than destroy non-trade related national and international legislation. In particular, the influence of corporations must be restrained (see above).

## new approach, new infrastructure

Regional and international institutional infrastructure is as out-of-date as neoliberalism and needs to be either updated

or replaced in line with substantive agreements as outlined in this position paper.

## bring trade and economics institutions into the United Nations

Current conflicts are mirrored by the institutional divide between the United Nations, the World Trade Organisation and the Bretton Woods institutions (the IMF and the World Bank). International and regional trade and finance institutions should be incorporated fully into the United Nations (which itself needs to be improved and strengthened) as originally intended.

## sustainable economies and the WTO

Sustainable economies, based on the principle of economic subsidiarity and economic diversity, will still require multilateral rules and intergovernmental institutions, but these institutions will not be based on out-of-date neoliberal economics. Debates concerning the continued existence of the WTO are therefore academic. Either it adapts to support sustainable economies, losing its mandate to promote 'free trade', or it is replaced by a more suitable institution.

## sustainable economies means changing the IMF and the WB too

The 'free trade' focus of the WTO is mirrored by the structural adjustment programmes (SAPs) of the International Monetary Fund (IMF) and multilateral development banks, which require developing countries to open their markets (this point still applies to the World Bank's newer Poverty Reduction Strategy Papers). Together, these trade and finance institutions protect the interests of multinational capital rather than the majority of the world's people and the environment.

Developing sustainable economies will mean changing the way in which the

World Bank and the IMF operate. Specifically, the introduction of new economic goals, the introduction of economic subsidiarity and rebalancing trade would mean decision-making being devolved in part to the regional and national levels; budgetary decisions being taken on the basis of a significantly different set of priorities; an end to involuntary export-led development; and an end to market opening as a condition of debt relief.

## multilateral treaties on the environment take precedence over trade

Multilateral treaties on the environment, development, health, labour and human rights, take precedence over trade. Global trade rules should be amended to reflect this point.

## giving governments incentives to cooperate

Given the competitive nature of intergovernmental relationships it is not surprising that multilateral cooperation is rare. Nevertheless, this kind of cooperation is essential if we are to resolve a range of urgent yet intractable global problems, including international debt relief and climate change.

Governments should be allowed and encouraged to cooperate internationally to promote development and solve common environmental challenges. Reduced international competition and an ability to use trade measures to achieve new economic goals (as outlined above) should help. In addition, incentives to cooperate and penalties for non-cooperation should become a standard feature of multilateral treaties designed to bring about those goals.

## resolving disputes

Where there are rules there will be disputes. An open, independent and effective international dispute settlement system will therefore be necessary. As stated above, governments should have

a duty of care when it comes to designing and implementing domestic policies to protect the environment and promote health, when those policies could have undesirable effects in other countries. International court(s) should be mandated to resolve disagreements in this respect; and disputes should be resolved on the basis of agreed principles (as outlined above).

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For further details of the impacts of free trade, please see *The World Trade System: how it works and what's wrong with it* and *The World Trade System: winners and losers, a resource book*, available at [http://www.foe.co.uk/campaigns/sustainable\\_development/publications/trade/](http://www.foe.co.uk/campaigns/sustainable_development/publications/trade/)