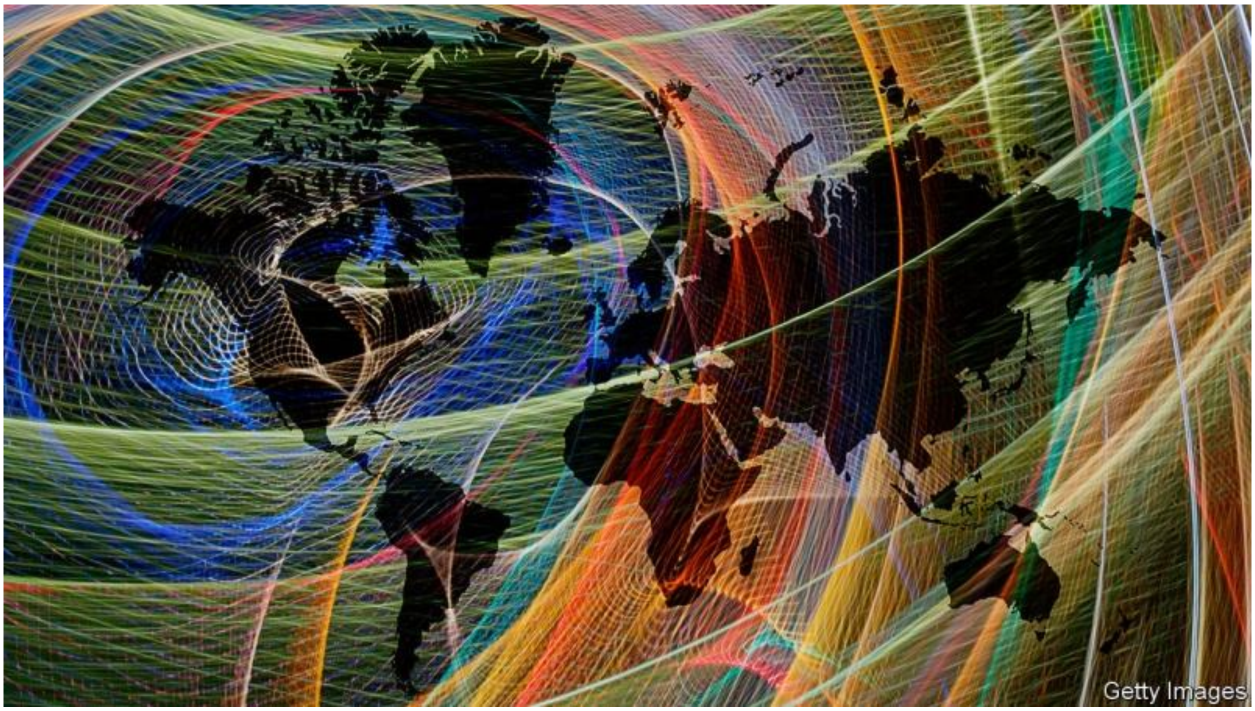
The Economist

Growth Can Overcome the Loss of Faith In Global Co-operation

Economic, social, environmental and governance reforms are essential, says Christine Lagarde of the IMF



In the musical "Hamilton", the main character and a founding father of America, Alexander Hamilton, ponders a crucial question just before he lifts his pistol in a duel: "What is a legacy?" We need to ask ourselves the same question, as we look at the great challenges of the 21st century.

For many, one answer is the United Nations' Sustainable Development Goals (SDGs). Set out in 2015 with the hopes of being achieved by 2030, they embody the contours of the world we want and indeed need: free of poverty and deprivation; a fairer world; a world that respects natural limits.

They are the antidote to the loss of trust in institutions of all kinds, and the loss of faith in global co-operation. The SDGs overlap with the mandate of the International Monetary Fund to the extent that they affect sustainable and inclusive economic growth. This is the case in four main areas: economic, social, environmental and governance.

Consider the economic challenges of low-income countries. Over 1bn people have been lifted out of extreme poverty since 1990, amid global integration. This is a remarkable achievement, unprecedented across the entire span of human history. Yet almost 800m people remain mired in extreme poverty today.

With health too, child mortality has fallen by half since 1990, thanks in no small part to the Millennium Development Goals, the precursor of the SDGs. But more than 5m children still die each year before their fifth birthday, and in nearly all cases basic medical interventions could save their lives.

The same is true with education. There has been great progress, but great gaps remain. In sub-Saharan Africa about a fifth of children do not attend primary school; the figure is a third for lower secondary school, and more than half for upper secondary school. And too many of those in school are not learning. Across the world, 58% of students in primary and lower secondary school—617m children—do not have basic proficiency in reading and mathematics.

Given what we know about the future of work, how can anybody thrive in the modern economy without at least a secondary education? As H.G. Wells put it, “Human history becomes more and more a race between education and catastrophe.” According to UNESCO, world poverty would be cut in half if all people completed secondary education. And one could make similar points about the importance of the other basic economic needs, such as health care, clean water and sanitation, clean energy, and even the availability of finance.

There are complications, however. The need to ramp up spending comes at a time when debt in low-income countries is looking increasingly precarious. Some 40% of them now face high risk of debt distress or are unable to service their debt fully, up from just 21% five years ago. On top of that, low-income countries are borrowing more on non-concessional terms, increasing interest service costs. If implementing the SDGs is a race, it is increasingly an uphill one.

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Ultimately, supporting the SDGs in low-income countries must be a global priority. It is not only the right thing to do; it is the smart thing to do. It is not only about solidarity; it is about self-interest. For without sustainable development at home, the bubbling economic and social pressures—made worse by rapid population growth and growing environmental stress—will surely spill across borders, including through mass movements of peoples.

Now, consider the second broad dimension of the SDGs: inclusion—both in terms of income inequality and gender equity.

Income inequality has become one of the global economy’s greatest challenges. For sure, some regions have seen remarkable progress in reducing poverty and expanding the middle class over the past few decades. And inequality has been reduced between countries. But not within countries.

Since 1980 the top 1% globally has seen twice as much of the gains from growth as the bottom 50%. Over that period, income inequality has been on the rise in most advanced economies. This is partly due to technology, partly due to global integration, and partly due to policies that favour capital over labour.

The implications are alarming, especially among these advanced economies. In these countries, rising inequality is contributing to the withering-away of entire communities and ways of life. It is leading to the unravelling of social cohesion and sense of a common destiny. And it is fuelling the growing tendency to replace deliberation with demonisation; partnership with parochialism.

A key issue here is that inequality can undermine the idea of a meritocratic society, as a small minority gain privileged access to the many tangible and intangible benefits needed to get ahead, whether it is education, cultural enrichment or well-placed connections. Such exclusion, whereby inequality of outcomes feeds through to inequality of opportunities, hurts productivity because it deprives the economy of the skills and talents of those who are excluded.

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What about that other dimension of inclusion, gender equity? The sad reality is that girls and women all over the world continue to face the daily indignities of discrimination, harassment, and too often violence as well.

Just focusing on the economic dimension of gender equity, the situation is sobering. About 90% of countries have some legal restriction on women's economic activity. In sub-Saharan Africa, IMF researchers estimate that lowering gender inequality by ten percentage points could boost growth by two percentage points over five years.

And men need not lose out. By bringing more women into the fold, the economy can benefit from their talents, skills, unique perspectives and ideas. This diversity should boost productivity and lead to higher wages for all.

How do we increase this participation? In low-income countries, it means reducing gender gaps in health and education, supporting financial inclusion, investing in infrastructure and ensuring better access to clean water and sanitation. In advanced economies, policies such as parental leave and access to affordable and high-quality childcare can help a lot.

There is also the need to boost female leadership in the corporate world. Adding one more woman in senior management or to a corporate board raises the return on assets by eight to 13 basis points (hundredths of a percentage point), according to one study. The IMF has just released research—"Women in Finance: A Case for Closing Gaps", by Ratna Sahay and Martin Cihak (here)—showing that in the financial sector, a higher share of women on bank boards is associated with greater financial resilience. At the same time, more women on banking supervision boards is associated with greater financial stability.

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Yet there is a long way to go. Across the world, less than a fifth of bank board members and only 2% of bank chief executives are women. Finance would benefit enormously from greater diversity. More diverse views in leadership means less likelihood of sinking into the quagmire of groupthink and unconscious biases. More diverse views in leadership means more prudent decision-making and a greater focus on longer-term sustainability.

The third SDG dimension is environmental: making sure that economic progress respects the natural limits of the planet. With each passing year, as heatwaves become habitual and storms become more frequent and ferocious, climate change casts a shadow over our well-being and especially the well-being of our children. The moral is clear: if we turn on nature, nature will turn on us.

Yet there are signs of hope. A few months after the SDGs were signed, the nations of the world joined the Paris Agreement to reduce carbon emissions with the goal of stopping global temperatures rising by more than two degrees Celsius over pre-industrial levels. This was a momentous achievement, a remarkable testament to the enduring power of multilateralism.

In turn, this commitment will entail moving towards a zero-carbon global economy over the coming decades. This will not be easy, but I am convinced that the world will be able to take the actions necessary to secure our collective future.

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To nudge this energy transition along, the IMF believes the best way is to put a price on carbon. This has many advantages. It is easy to administer if done by integrating carbon charges into fuel-tax systems. It provides the right incentives for all dimensions of decarbonisation: better energy efficiency, shifting away from fossil fuels in electricity generation, and moving towards electrification in vehicles, buildings and industrial processes. It can reduce dangerous levels of air pollution. Plus, carbon taxes can raise revenue of about 1% to 2% of GDP a year.

Yet we have a long way to go. Even after China's emissions-trading system comes into force in 2020, some 80% of global emissions will remain unpriced, according to the World Bank.

The fourth SDG pillar is good governance. In a real sense, governance is the foundation upon which everything else is built. Take corruption, a true economic and social plague. By undermining trust and delegitimising institutions, corruption makes it hard for countries to take the collective decisions needed to advance the common good.

Think about it. If some do not pay their fair share of taxes, governments cannot raise the revenue needed for SDG priorities.

Even worse, the legitimacy of the whole system is undermined. If corruption is rampant, governments might be tempted to spend money on projects that generate kickbacks but little social value—again, undermining the SDG agenda.

This is just the public sector. We also need the private sector to invest in long-term, sustainable projects that support the SDGs. But they are unlikely to do so if forced to pay a "corruption tax". The genuine risks and uncertainty that come with any investment decision will surely be magnified by corruption.

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The private sector is not always the innocent victim, of course. Corporations and investors are often too willing to offer bribes. Major financial sectors are often too willing to welcome any kind of money.

What is the solution? Criminal enforcement is essential, but on its own is not enough. IMF evidence shows that successful anti-corruption initiatives are built on institutional reforms that emphasise transparency and accountability, such as in all aspects of government budgets. For this reason, the IMF is increasing its focus on strong economic institutions. And when we find corruption to be macroeconomic in magnitude, we will not shy away from saying so.

These four areas—economic, social, environmental and governance—point to how the IMF's efforts support the SDGs. Though we work on them today, realising them is for the future: for our children and their children's children.

In “Hamilton”, after the protagonist poses the question about one’s legacy, he answers before losing his fateful duel: “It’s planting seeds in a garden you never get to see.”

Christine Lagarde is the managing director of the International Monetary Fund. The article is adapted from the inaugural Helen Alexander Memorial Lecture that she presented on September 17th 2018 in London (full text here). The lecture series is in honour of Dame Helen Alexander, a pioneering figure in British business and the chief executive of The Economist Group from 1997 to 2008.