

This is an electronic reprint of the original article (Publisher's PDF).

Please cite the original article:

Imppola, J. 2020. Global economy and its sustainability in the globalized world. In: T. Kliestik (ed.) Globalization and its socio-economic consequences : Sustainability in the global-knowledge economy. Žilina: University of Žilina, 04008.

<https://doi.org/10.1051/shsconf/20207404008>

DOI: 10.1051/shsconf/20207404008



SeAMK 

SEINÄJOEN AMMATTIKORKEAKOULU
SEINÄJOKI UNIVERSITY OF APPLIED SCIENCES

Global economy and its sustainability in the globalized world

Jorma Jaakko Imppola¹

¹Seinäjoki University of Applied Sciences, School of Business and Culture, Kampusranta 11, FI-60101 Seinäjoki, Finland

Abstract. Globalized economy has changed the whole world both in good and in bad. The changes in economy have significant impact on the everyday life, which affect practically everyone. Because the economy, monetary systems and financial markets form the operational platform of the globalized world, it is necessary to understand their role. As the economy is one of the three main pillars of the sustainability, it is impossible to develop the global sustainability without stable and sustainable economy. The inequality of the distribution of wealth and prosperity is the most critical factor of economic sustainability and the ever-increasing accumulation of wealth and money is one of the most crucial factors jeopardising the global sustainability. People and nations struggling economically are usually having the biggest challenges with both social and environmental sustainability. Wealth works dually: it enables rich people and nations to increase their consumption footprint and they hinder poor people and nations to make consumer decisions and investments needed to improve sustainability. The rich countries have outsourced their unsustainable industrial activities to poor countries having undeveloped legislation and maximized their profits by utilising these socially and ecologically unsustainable labour and production practises, which most are illegal in the rich countries.

1 GLOBAL ECONOMY AND MONEY

Money and finance are the bloodstreams of global economy. Without those, the global economy as we understand it could not exist [1]. All the transactions between individuals, companies and countries are using some kind of unit of payment and the fluent and reliable flow of money is essential for the functionality of global economy [2]. Without a functional and reliable payment system would the global economy be difficult or even impossible [3].

1.1 Quantity of economy and money

The global economic system requires a global monetary system, which enables all the needed transactions. As the barter economy is because of obvious reasons not feasible solution, an international monetary system is required. According to the latest World Bank statistics [4] the accumulated world GDP is 85 791 billion USD. According to the CIA World Factbook [5] the quantity of global M3 (broad money) was at the end of 2017 about

86 470 billion USD. Since that the M3 has definitely grown and an educated guess is that the global M3 is today about 100 000 billion USD, which equals to about 13 000 USD per person in the whole world. It is evident, that the quantity of money is not a problem in global economy – there is more than enough of it to everyone.

1.2 Global sustainability

In the Encyclopædia Britannica the concept sustainability was defined by James Meadowcroft as “the long-term viability of a community, set of social institutions, or societal practice” [6]. The concept sustainable development has been defined according to Cheever and Campbell-Mohn as “an approach to economic planning that attempts to foster economic growth while preserving the quality of the environment for future generations” [7].

Classically the sustainability has been illustrated as a building with three supporting pillars:

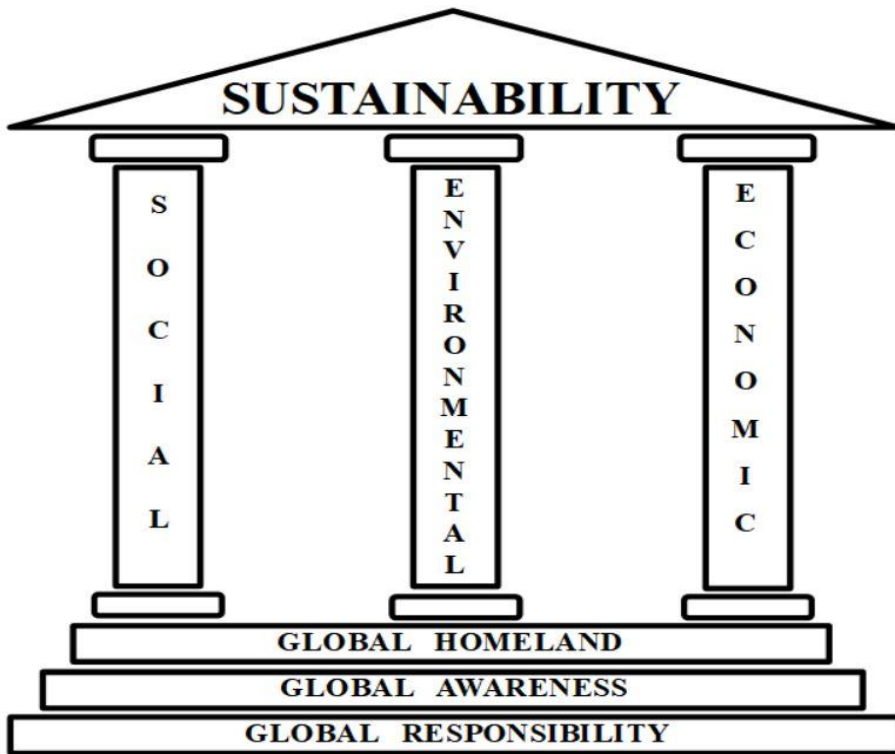


Fig. 1. Sustainability and its three pillars.

Usually the focus has been on environmental sustainability, which of course is important pillar of sustainability, but it cannot be seen as the only or even as the most important pillar of sustainability. All the three pillars must be managed in order to achieve sustainability. If the challenges whose seem to be with environmental sustainability are inspected a bit deeper, usually the root causes can be found on social and/or economic sustainability.

The foundation of holistic sustainability lies on the recognition, that there is no “us” or “them” - we are all living in a global homeland and only together we can improve it. We all must also be aware of the limits and functional mechanisms of our global homeland, which eventually can enable us to make the required responsible decisions in order to achieve holistically sustainability.

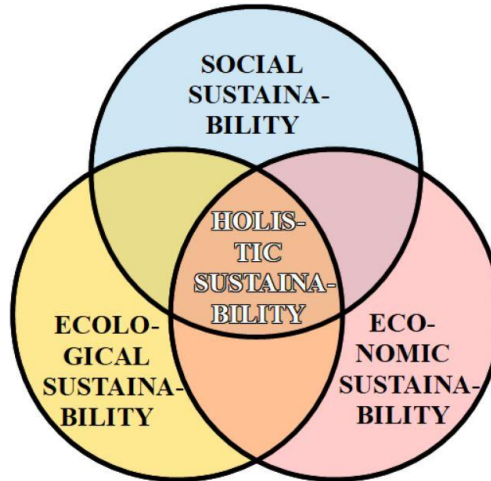


Fig. 2. Holistic sustainability.

The only way to achieve truly holistic sustainable global development is to recognize and include all the three pillars of sustainability. Of course, the globalization has brought lots of development and even prosperity in the world – but too often with the price of social and economic exploitation and inequality, and this has created severe sustainability problems in our globalized world. As holistic sustainability is all-inclusive and interactive concept the sustainability, problems cannot be solved without understanding and improving all the three dimensions of it.

For example, ecological sustainability problem like deforestation of the Amazonas is caused by social and especially economic problems of the local people. Of course, they understand the harmfulness of burning down the rain forest, but they are forced to do it because of low social and economic situation they experience.

1.3 Global growth and prosperity

The global growth during the last two centuries has been significant and simultaneously has the average wealth and life expectation increased. This development can be visualized by comparing global wealth and health statistics of years 1818, 1916, 1958 and 2018 provided by gapminder.org.

The following Fig. 3. has been compiled by using the time-based statistics of PPPS inflation-adjusted GDP per capita levels and life expectancies of different countries at years 1818, 1916, 1958 and 2018. The size of the bubbles describe the population of each country.

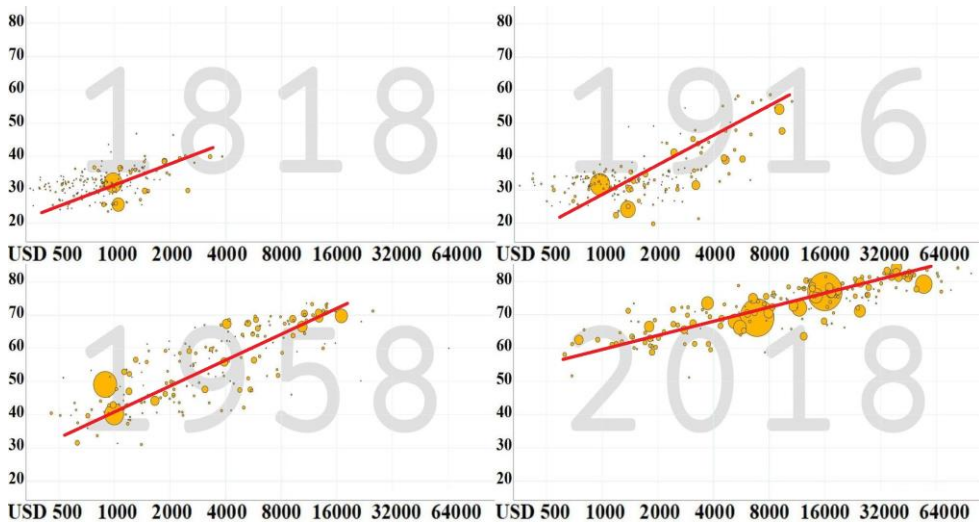


Fig. 3. Development of global life expectancy and wealth statistics of years 1818, 1918, 1948 and 2018 by using the graphics available at the gapminder.org webpage [8]. Modification and compilation by the author.

As the Fig. 3. clearly shows, has the development during the previous 200 years included significant growth of both GDP per capita and life expectancy, but also the differences between the countries have been increased. Today the economic inequality between the countries of the world are bigger than ever. Why – despite of this really impressive global development of both average GDP per capita and life expectancy - the economic differences between the poorest and wealthiest nations had become so wide?

It is evident, that the economic sustainability challenge has become only bigger, especially during the last 60 years. The average expected lifetime has increased globally but simultaneously a large share of countries have been stuck into relatively low GDP per capita.

2 ACCUMULATION OF GLOBAL WEALTH

When Italian economist Vilfredo Pareto noticed at 1906 that 20 richest percent of the Italian population owned 80 percent of Italian land [9]. This famous 20/80 ratio can be seen also as the first analysis of wealth distribution in the world. According to the latest statistics, things have changed quite much.

2.1 Share of incomes

As illustrated in Fig. 3. years 1980 – 2016 have been very good for the global top 1%, as they have increased their share of incomes from the level of 16% to the level of 21%.

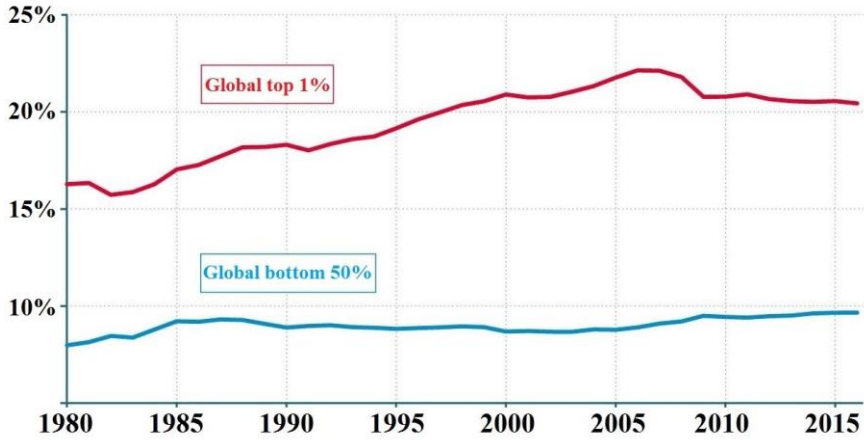


Fig. 4. Development of global share of incomes between the top 1% and bottom 50%. [10].

Without the financial crisis, which started at 2008 the top 1% income increment might be even higher. Since 1985 the share of incomes development of the poorest 50% been relatively flat and there has been practically no increase.

2.2 Distribution of wealth

The current distribution of wealth can be clearly seen in so-called global wealth pyramid.

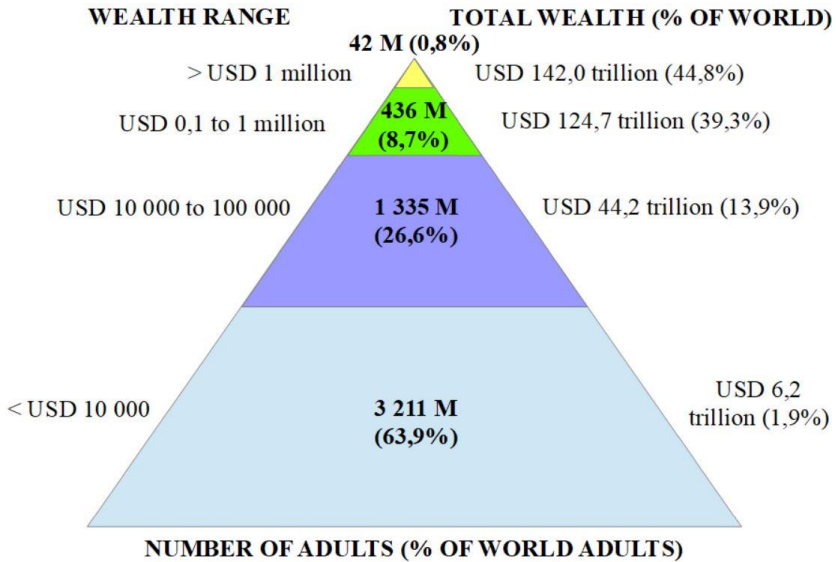


Fig. 5. The global wealth pyramid 2018 [11]. Modification by the author.

When compared with the classical discovery of Vilfredo Pareto at 1906 that the richest 20% owned 80% of the land, today the wealthiest 9,5% of world adults own 84,1% of the total wealth. Development during the previous 110 years has clearly made the wealth distribution inequality bigger. Can this be considered economically sustainable at all?

Very clear image of the current situation can be seen at the following Fig. 6, which shows how the wealth of the richest 1% of the world population has been developed during the previous years.

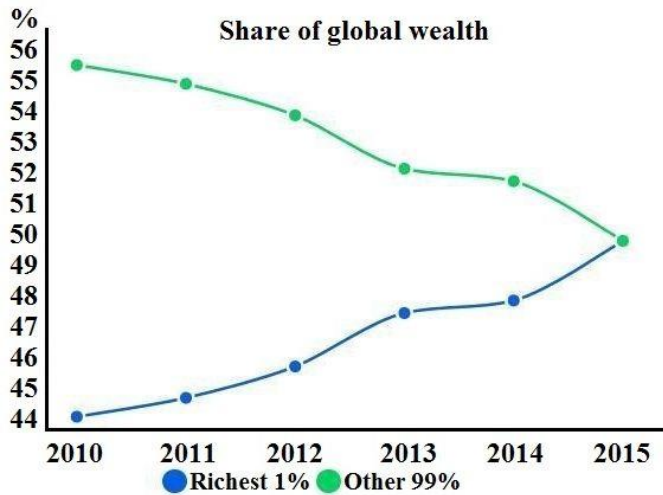


Fig. 6. Share of global wealth 2010 - 2015 [12] [13]. Modification by the author.

Despite the financial crisis of 2008 the wealthiest individuals, companies and even countries seems just to become richer by the time. Globalization has improved the general wellbeing of the whole world, as was illustrated at Fig. 3, but the economically unsustainable inequality keeps on growing. Of course the economic situation of the poor countries and their citizens has improved, but the economic situation of rich countries and their citizens has improved relatively and absolutely much more.

2.3 Outsourcing of substandard working conditions

Since early 1990's the industrial countries have outsourced and offshored a significant part of their industrial production activities to the developing countries. Of course the main motivation has been cheaper labour costs, but also stricter work safety and working hours legislation with tightening environmental and chemical legislation in the industrial countries has made it appealing to move labour intensive, more controlled or even forbidden activities to developing countries with less advanced legislation and almost non-existing work safety and working hours legislation.

Currently the word "slavery" has been used, when talking about this phenomenon. Working conditions familiar from the books of Charles Dickens, which are long gone history in the western world, are unfortunately even today the reality in many underdeveloped countries. In the names of internalization, globalization, free capitalism and profit maximization many multinational companies are brutally utilizing this social and economic unsustainability.

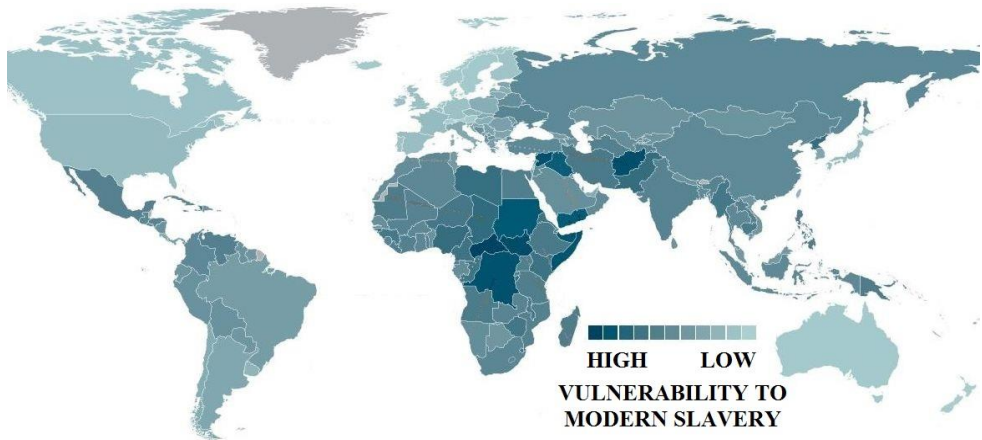


Fig. 7. “Slavery map” of the world [14]. Modification by the author.

Most of the things we the wealthy consumers buy and consume today in the rich countries are made in cheap labour countries having high vulnerability to modern slavery. Companies like to outsource their production into these cheap labour countries because the production costs (including logistics costs) are significantly lower than in developed world. The wealthy consumers in the developed world seem not to care the fact, that the working conditions are in many cases beyond all acceptable standards and the workers' salaries are barely covering the basic necessities. The cheap prices of many products imported from cheap labour countries are achieved by the brutal social and economic unsustainability.

3 CONCLUSION

Currently Sustainable global economy – is it achievable or just a myth? Today plenty of well-deserved attention has been paid into the environmental sustainability challenges like climate change, deforestation and overpopulation [15-19]. Sadly, much less attention has been paid into challenges of social and economic sustainability, whose can be identified as the root causes of many environmental sustainability problems [20]. The “usual suspect” for these problems is the lack of money, but in reality there exists plenty of money for fixing these problems. As the short-term profitability of these urgently needed sustainability investments is far less than for example profits, when investing on some financing derivatives or real estate speculation in big cities, the money cannot be found [21-22]. The wealthy people and organizations controlling the use of large quantities of money prefer short-term gain instead of helping to solve our long-term sustainability problems.

Before we blame the faceless financial operators for their unsustainable behaviour, we must also look the mirror and ask why we as the wealthy consumers of the developed world mostly prefer cheap retail prices over holistic sustainability? We have the possibility to choose, our relatively good economic situation (when compared with those people living in a cheap labour countries with substandard salaries) allow us to make holistic sustainable consumption choices without setting our standard of life any lower.

References

1. E. Hardingham, J. Vrbka, T. Kliestik, J. Kliestikova, Will cognitive technology-driven automation lead to economic growth?, *Journal of Self-Governance and Management Economics* **6**, 13–18 (2018)
2. M.A. Fox, Drive-in theatres, technology, and cultural change, *Economics, Management, and Financial Markets* **13**, 24–39 (2018)
3. A.D. Meilă, Regulating the sharing economy at the local level: How the technology of online labor platforms can shape the dynamics of urban environments, *Geopolitics, History, and International Relations* **10**, 181–187 (2018)
4. The World Bank Group, *GDP (current US\$) World Bank national accounts data, and OECD National Accounts data files*. [Online]. Available: <https://data.worldbank.org/indicator/ny.gdp.mktp.cd> (2019)
5. Central Intelligence Agency, The World Factbook *Stock of Broad money*. [Online]. Available: <https://www.cia.gov/library/publications/the-world-factbook/fields/235.html> (2019)
6. J. Meadowcroft, Encyclopædia Britannica. *Sustainability*, [Online]. <https://www.britannica.com/science/sustainability> (2017)
7. F. Cheever, C.I. Campbell-Mohn, Encyclopædia Britannica. *Environmental Law/Sustainable development*, [Online] https://www.britannica.com/topic/environmental-law/Principles_of_environmental-law#ref750231 (2016)
8. Gapminder. *Gapminder tools*. Interactive global statistics visualization tool. [Online] [https://www.gapminder.org/tools/#\\$state\\$time\\$value=1948;&marker\\$color\\$which=time&use=indicator&scaleType=time&spaceRef:null;;;&chart-type=bubbles](https://www.gapminder.org/tools/#$state$time$value=1948;&marker$color$which=time&use=indicator&scaleType=time&spaceRef:null;;;&chart-type=bubbles) (2019)
9. D. Lavinsky, *Pareto Principle: How To Use It To Dramatically Grow Your Business*. [Online] <https://www.forbes.com/sites/davelavinsky/2014/01/20/pareto-principle-how-to-use-it-to-dramatically-grow-your-business/#158971f73901> (2014)
10. F. Alvaredo, L. Chancel, T. Piketty, E. Saez, G. Zucman, *World Inequality Report 2018, Executive Summary*, **9** [Online] <https://wir2018.wid.world/executive-summary.html> (2018)
11. J. Davies, R. Lluberias, A. Shorrocks, *Credit Suisse Global Wealth Databook 2018, The global wealth pyramid*, **20** (2018)
12. K. Thompson, *Trends in Global Wealth Inequality and Poverty*, [Online] <https://revisesociology.com/2017/01/06/global-wealth-inequality-trends/> (2017)
13. Oxfam, *AN ECONOMY FOR THE 1%*, [Online pdf-file] https://www-cdn.oxfam.org/s3fs-public/file_attachments/bp210-economy-one-percent-tax-havens-180116-en_0.pdf (2016)
14. The Minderoo Foundation Pty Ltd, *Global Slavery Index, Global Findings*, [Online] <https://www.globalslaveryindex.org/2018/findings/global-findings/> (2018)
15. J. M. Alcaraz, L. Susaeta, E. Suarez, C. Colon, I. Gutierrez-Martinez, R. Cunha, F. Leguizamon, S. Idrovo, N. Weisz, M. F. Correia, J. R. Pin, The human resources management contribution to social responsibility and environmental sustainability: explorations from Ibero-America, *International journal of human resource management* **30**, 3166-3189 (2019)
16. C. K. Lau, The economic consequences of business sustainability initiatives, *Asian Pacific Journal of Management* **36**, 937-970 (2019)

17. J. N. Barrot, E. Loualiche, J. Sauvagnat, The Globalization Risk Premium, *Journal of Finance* **74**, 2391-2439 (2019)
18. J. Hromcova, P. Agnese, Globalization, welfare, and the attitudes toward higher education, *Economic Modelling* **81**, 503-517 (2019)
19. A. Siekelova, I. Podhorska, Provision of trade credit under the conditions of globalization, *16th international scientific conference of Globalization and its socio-economic consequences*, Rajecké Teplice, Slovakia, 2005-2013 (2016)
20. M. Skare, M. Porada-Rochoń, Tracking financial cycles in ten transitional economies 2005–2018 using singular spectrum analysis (SSA) techniques, *Equilibrium. Quarterly Journal of Economics and Economic Policy* **14**, 7–29 (2019)
21. A.D. Meilá, The social structure of cities: The multidimensional nature of urban inequality, *Psychosociological Issues in Human Resource Management* **6**, 115–120 (2018)
22. V. Grybaitė, J. Stankevičienė, An empirical analysis of factors affecting sharing economy growth, *Oeconomia Copernicana* **9**, 635–654 (2018)