We need a new Marshall Plan to reinvigorate the global economy

By Louis-Philippe Rochon
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The mounting evidence against the failure of economic policies around the world is becoming difficult to ignore. Canada's lacklustre performance is only part of the dismal global picture: Europe's economy is a disaster, as are those of some of the biggest developing countries. Both the World Bank and the International Monetary Fund have recently revised growth forecasts downward for 2016 and 2017.

In light of IMF reports claiming that austerity policies do more harm than good, the 30-year economic experiment with unfettered free-market policies is coming to an end. Despite repeated promises to bring prosperity to the masses, neoliberalism has proven to be a failure. It has undisputedly benefited the very few and left a disenfranchised, marginalized, angry working class in its wake – and these people are quickly gaining political clout.

The failure of fiscal austerity is apparent and has had a tremendous negative impact not only on output and growth, but also on wealth inequalities, wages, unemployment, labour participation, job quality and the environment. The solution often proposed by politicians, technocrats and policy wonks is more austerity, betraying their limited understanding of the real world.

Monetary policy has clearly run out of steam. The many years of near-zero interest rates have had little impact on output. Central banks are now scrambling to reinvent monetary policy in ways deemed "unconventional." Yet quantitative easing has also failed to spur growth, so central banks are now trying negative interest rates. My guess is that it won't work either. At some point, lowering rates amounts to nothing more than pushing on a string.

This failure to reinvigorate the global economy has exposed the intellectual void among mainstream economic thinking. The time has come to rethink economics and economic policies.

There are just two possible solutions: Continue with more of the same and live with stagnation for another decade or more, or discard the failed policies and commit to a global fiscal expansionary strategy.

This brings up Canada's recent flirtation with Keynesian fiscal policy under the current government. While a good start, it will have limited effect if other countries are following the same old policies. Eventually, domestic expansionary policies will hit the global austerity wall. Countries must move forward in step to expand domestic and international demand.

In 1947, U.S. secretary of state George Marshall made a historic speech at Harvard University, laying the foundation for what would become an ambitious plan to rebuild war-torn Europe – a plan that ultimately contributed to an unprecedented period of worldwide economic growth. As we near the seventh decade of the European Recovery Program, better known as the Marshall Plan, it is an appropriate time to reflect on a new global growth strategy to help our economies rebound from an almost decade-long economic and financial crisis, and to address the growing frustration and sense of despair of the poor and the working class around the world.

In other words, we need a new Marshall Plan, tailored to the needs of a 21st-century global economy, where governments take front place in the creation of wealth and prosperity.

For the skeptics, consider the success the concerted fiscal expansion had on the world economy seven years ago. Indeed, in 2009, at the height of the financial crisis, countries around the world agreed to adopt Keynesian fiscal expansionary policies. The impact was impressive: It stopped the downward economic spiral and contributed to a (modest) spurt of growth.

However, by 2010, at the G20 meetings in Toronto, governments agreed to revert to austerity. Fiscal expansion was cut too short and the effect of this ill-advised decision is now obvious.

There are many important questions to consider. What would this new Marshall Plan look like? How long would it be in effect? The first step is to convene a special meeting of the G20 to discuss the current state of global economic conditions.

The world has become too liberalized, too quickly. We need to step back, evaluate the problems and start rebuilding. To do so will require serious reform. Among the top three priorities that need to be discussed:

- **Unemployment and income inequalities:** Creating jobs is no longer sufficient. We need a global commitment to full employment as both a social and economic objective. We also need a commitment to a global redistribution of wealth.
- **Finance reforms:** Liberalized financial regulations have proven to be destabilizing. This calls for capital controls of some kind.
- **A new financial architecture:** It should be based on a new international currency for the purpose of international trade, governed by an international clearing union.

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