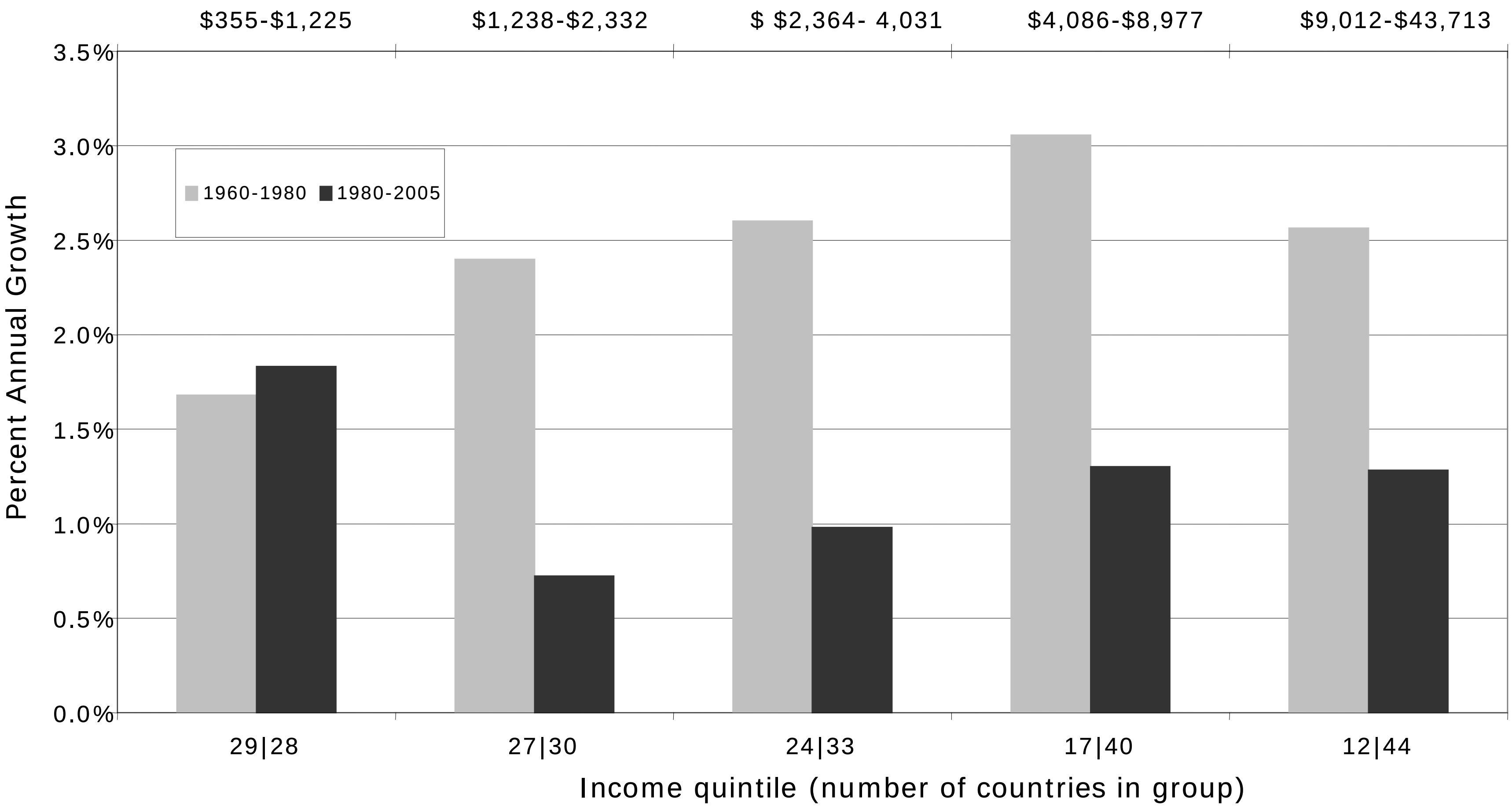
ECONOMIC DEVELOPMENT, INEQUALITY AND CLIMATE CHANGE

Tufts University
Global Development And Environment Institute
44 Teele Avenue • Medford, MA 02155
The 2007 Leontief Prize
for Advancing the Frontiers of Economic Thought
"Climate Change, Economic Development, and Global Equity"
Wednesday, October 17, 2007, 5:00pm
Coolidge Room, Ballou Hall, Medford Campus, Tufts University

Jomo K. S.
UN Assistant Secretary General
for Economic Development
17 October 2007
International day for the eradication of poverty

Av. annual growth by income group, 1960-80 vs 1980-2005



Source: **Weisbrot *et al*. (2007: Figure 2.1).**

Growth and welfare

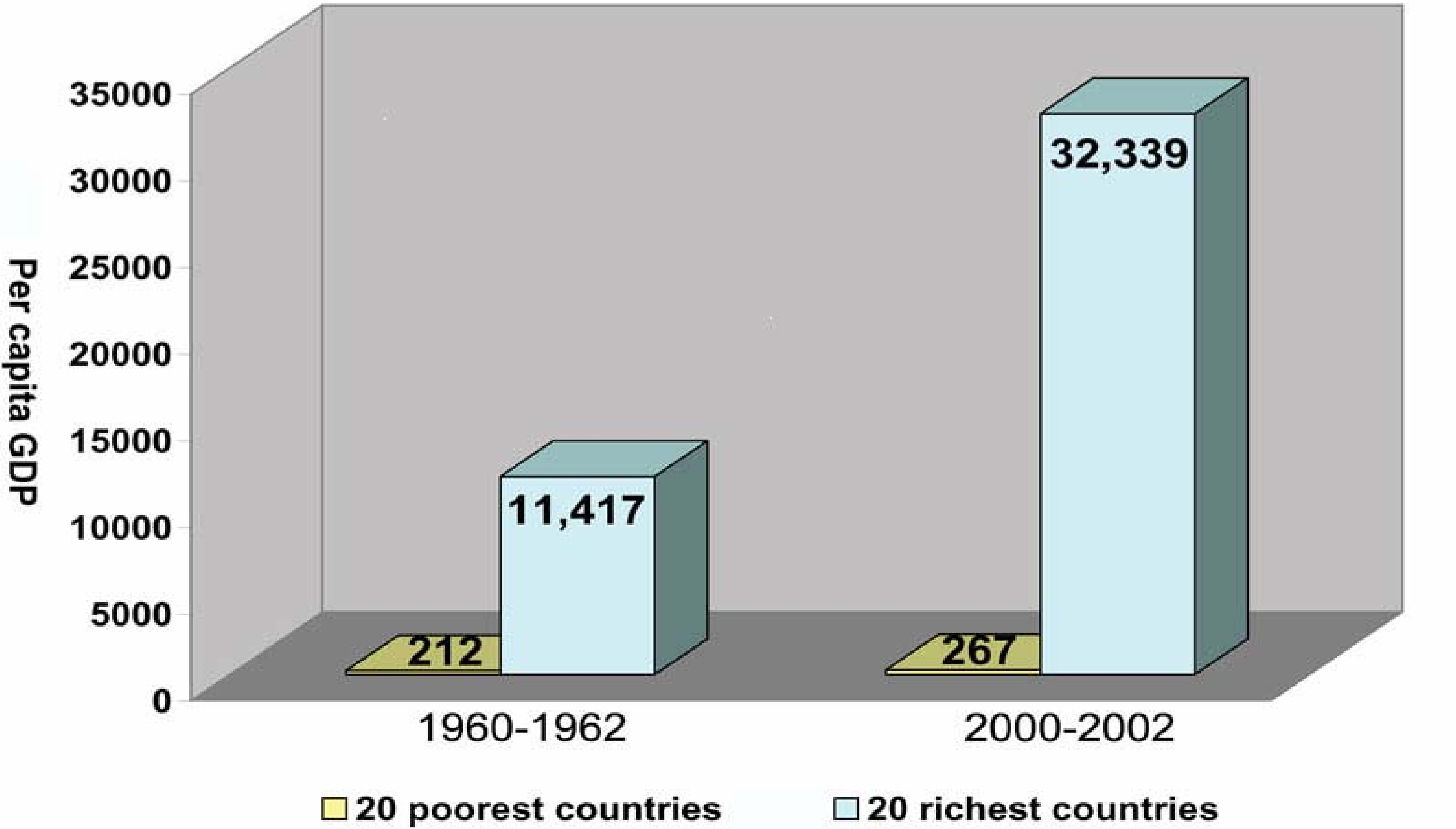
- Growth slower 1980-2001, compared to 1960-80
- Welfare improvements more modest since 1980s
- Ergo, poverty reduction slower

with less growth, worse distribution

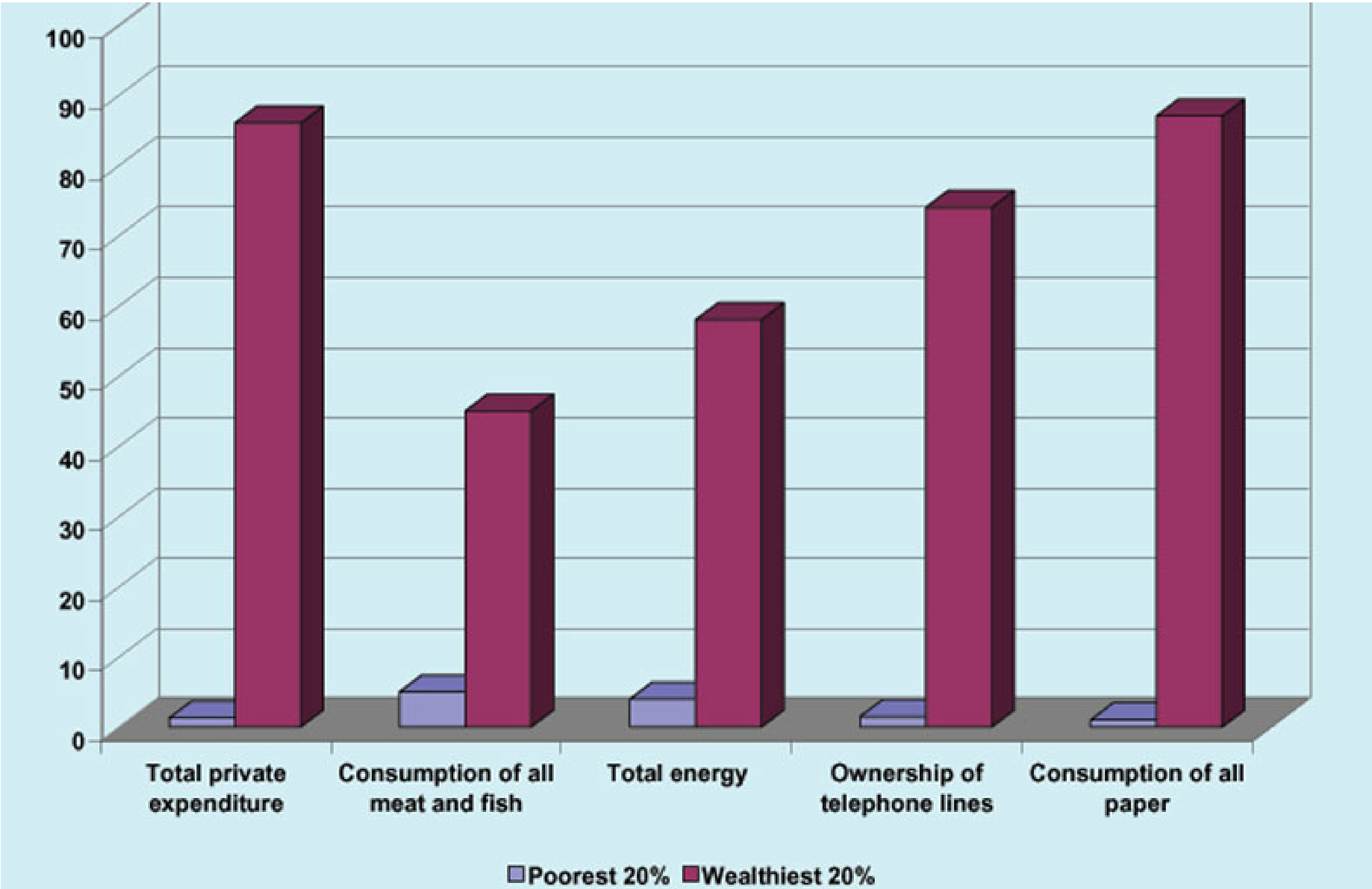
Recent growth after 2001

- Higher growth in South, inequality persists
- Jobless growth spreads; No poverty reduction without employment growth

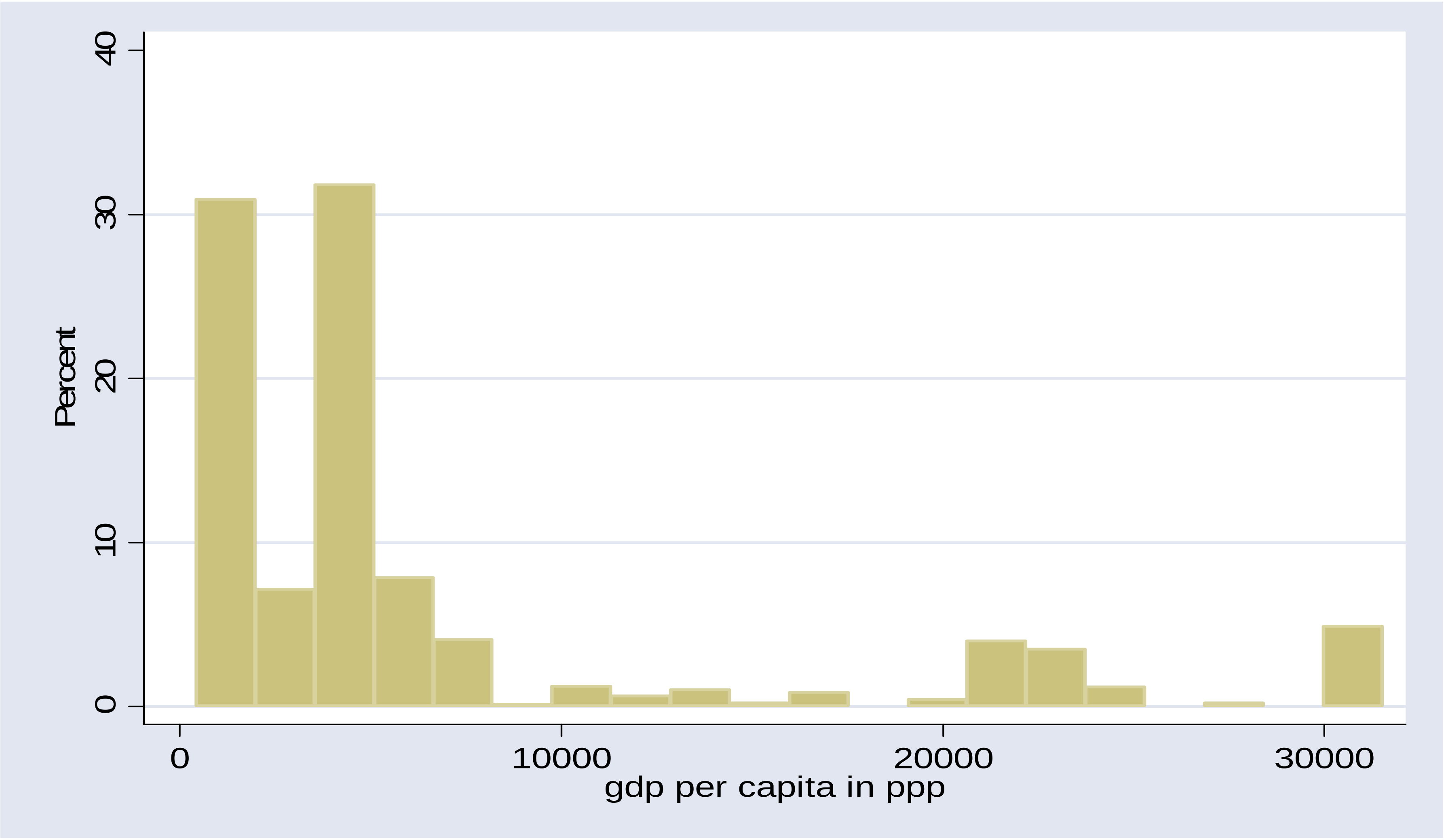
Huge inequalities! Per capita GDP in 20 poorest + 20 richest countries



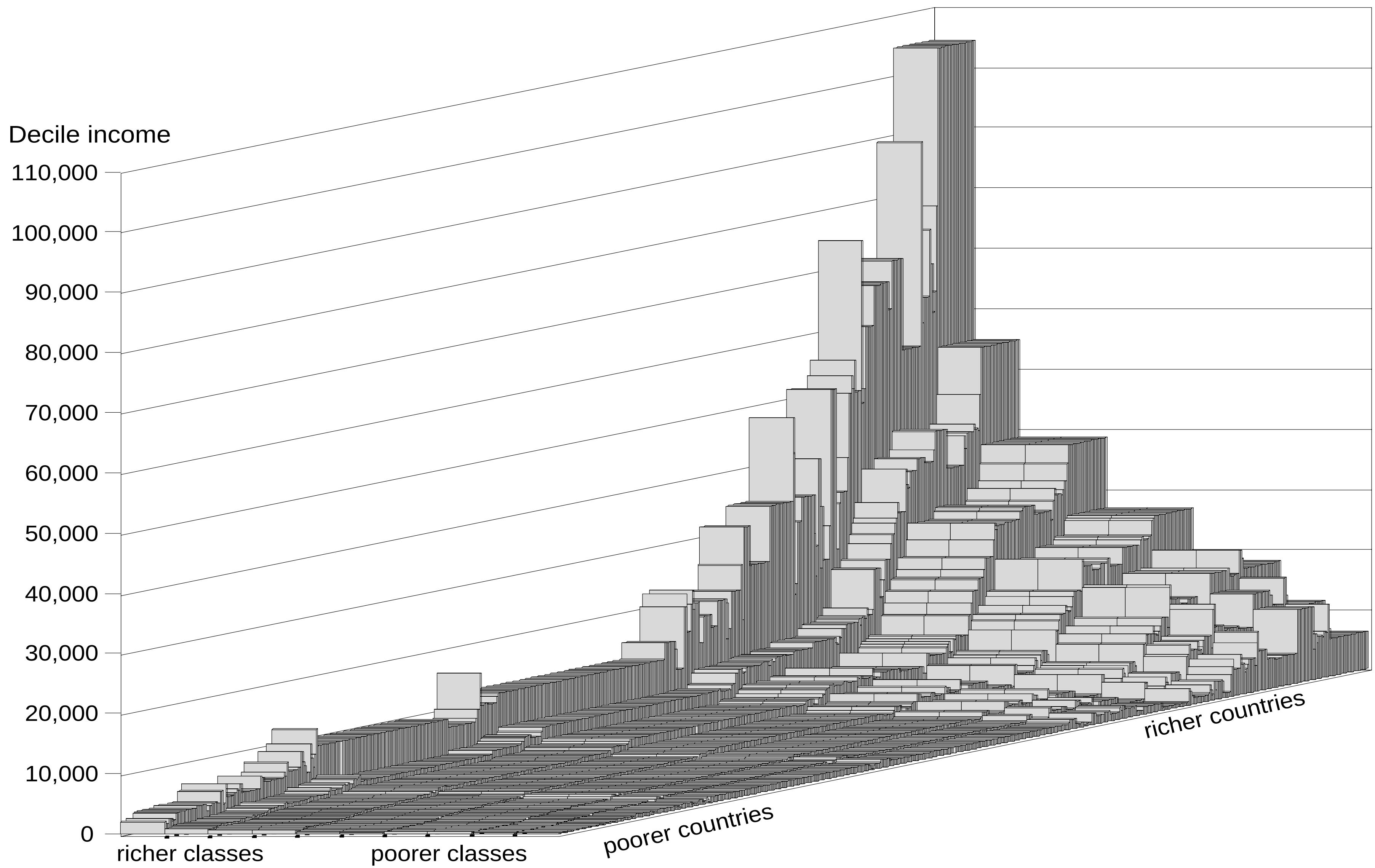
Shares of Global Private Consumption



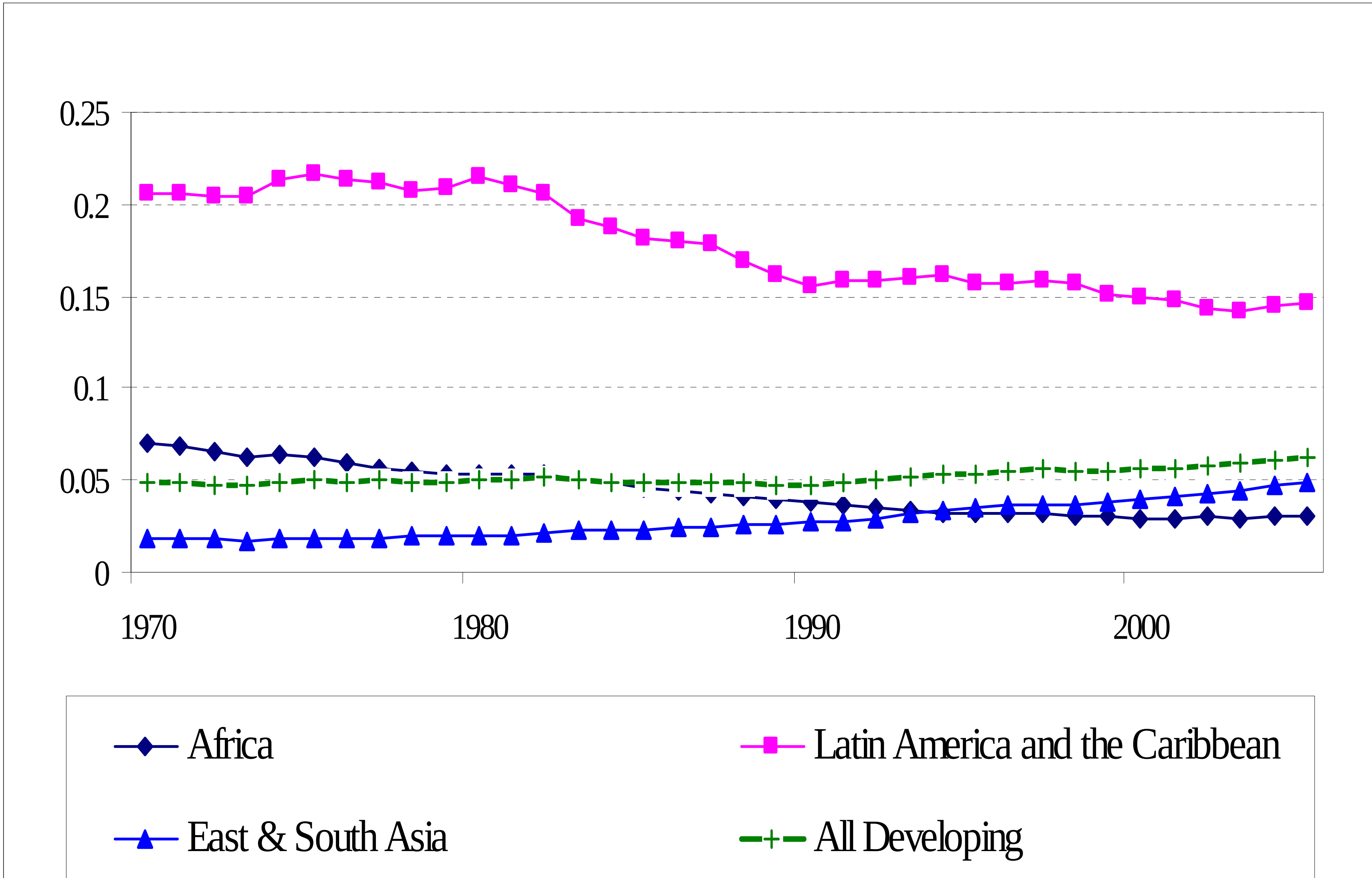
Distribution of people by per capita income + country, 2000



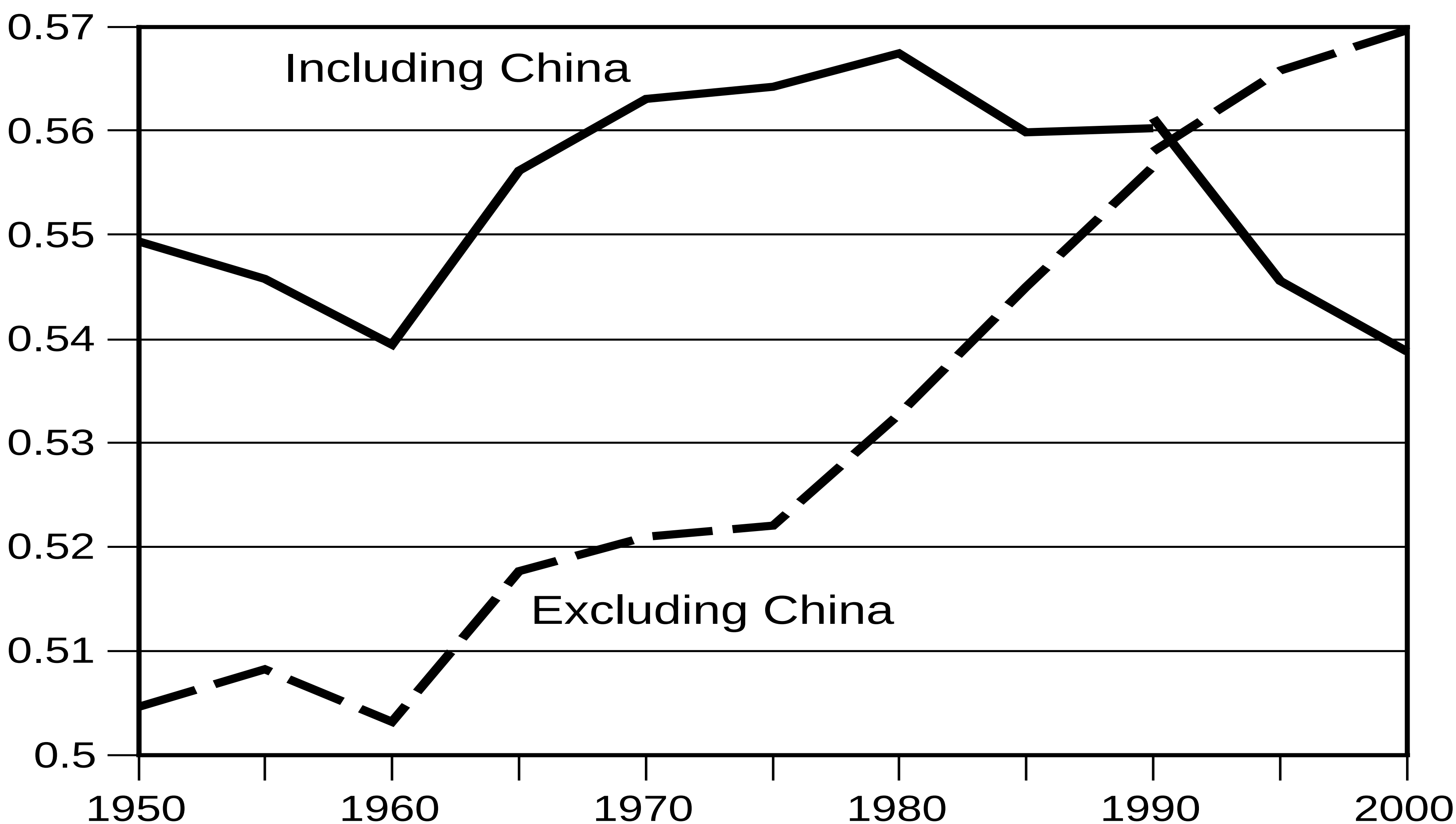
Global income distribution



Divergence grows except for Asia



Inter-country Ginis, with and without China



Inter-country income inequality

	1980	1990	2000
All countries	**0.585**	0.578	**0.553**
World – China	**0.537**	0.558	**0.567**
World – India	0.560	0.564	0.547
World – (China + India)	**0.473**	0.510	**0.541**
World – E. Europe	0.606	**0.593**	**0.563**

Source: Berry and Serieux (2007: Table 4.2)

Contributions of China + India to world inequality

	1980	*1990*	*2000*
China	**11.1%**	**1.0%**	**-12.6%**
India	**3.7%**	**0.8%**	**-2.6%**
Combined	**26.9%**	**10.0%**	**-13.3%**

Source: Berry and Serieux (2007: Table 4.2)

Inequality matters?

- Pre-2005: Policy focus on poverty, not inequality
- 2005: World Bank's *WDR 2006* + UN's *RWSS* (*Inequality Predicament*) both focused on inequality, and advocated equity and reduced inequality despite important differences
- Efficiency wages vs L flexibility
- Asset → income inequality
- Functional distribution of income

Poverty trends depend on definition

- Ravallion: $1/day *poverty line*
- Bhalla: national income accounts not compatible with income surveys; WB exaggerates poverty to keep itself in business
- Sen: Needs fulfillment -- not ‘money-metric’ – measure

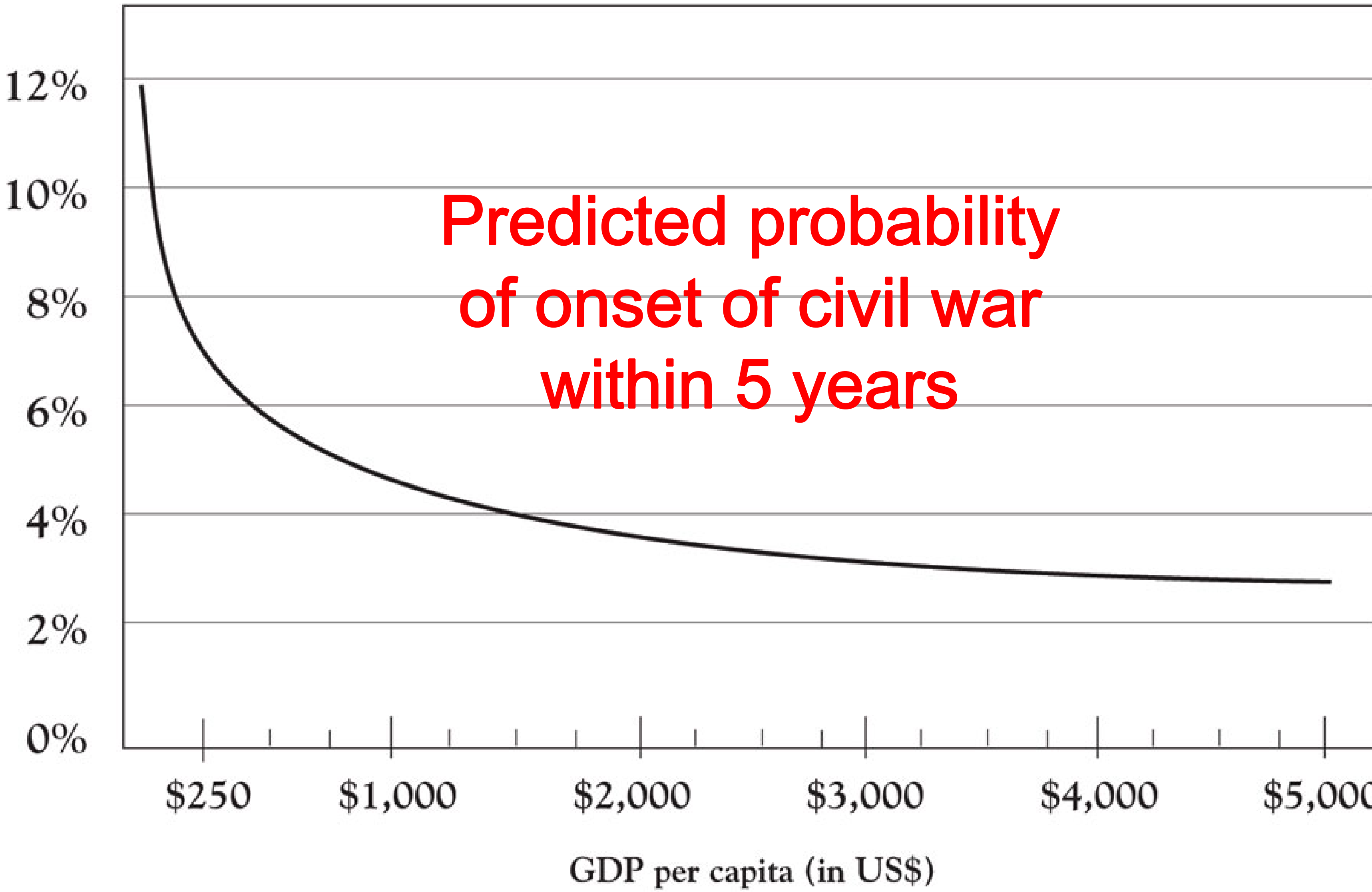
Pro-poor growth **definitions**

- 1. Ravallion: ‘*trickle down*’
- 2. Kakwani: increased share of national income by *income share*
- 3. Woodward and Simms: increased share of national income by *population share*

Poverty trends vary by region

	% living on < $2/day in 2001	Change in proportion and number of poor people between 1981 and 2001	
		%	**millions**
World	**53**	**-8**	**81**
East Europe + Central Asia	20	15	70
Middle East + North Africa	23	2	19
Latin America + Caribbean	25	-3	3
East Asia + Pacific	47	-23	-252
Sub-Saharan Africa	77	2	134
South Asia	77	-9	106

Poor Countries More Likely to Suffer Civil Conflicts, Reducing Growth by 40% average



Historical trends

- Last 2 centuries: Increased growth → uneven development → increased divergence (Madisson; Bourguignon & Morrisson)

- Industrial Revolution;

  K transfers from India, W. Indies

- Imperialism of free trade
- Hobson’s ‘new imperialism’

Post-WW2 Golden Age

- Post-WW2 ‘Golden Age’: high growth in both North + South
- Divergence reduced

Following:

- Decolonization
- M-substituting industrialization
- Rural development

Divergence again from 1970s

1970s' transition

- End of Bretton Woods system, 1971
- Oil price hike → petrodollars recycling → low real interest rates + high commodity prices → N/S divergence:
- 'Stagflation' in North,
- high growth + inflation in LA
- high growth in E Asia
- African slump

Analytical counter-revolution

- 1970s' stagflation → Thatcher, Reagan → decline of Keynesian econ. influence
- Conservative revolution against post-war Keynesian consensus
- 1980s' debt crisis → 'counter-revolution' against development economics
- World Bank history:
  mid-1980s: Anne Krueger, Deepak Lal

Review *4 issues* quickly

- Trade liberalization
- Financial liberalization
- International economic governance
- Climate change

Trade Liberalization

International terms of trade moving against developing countries

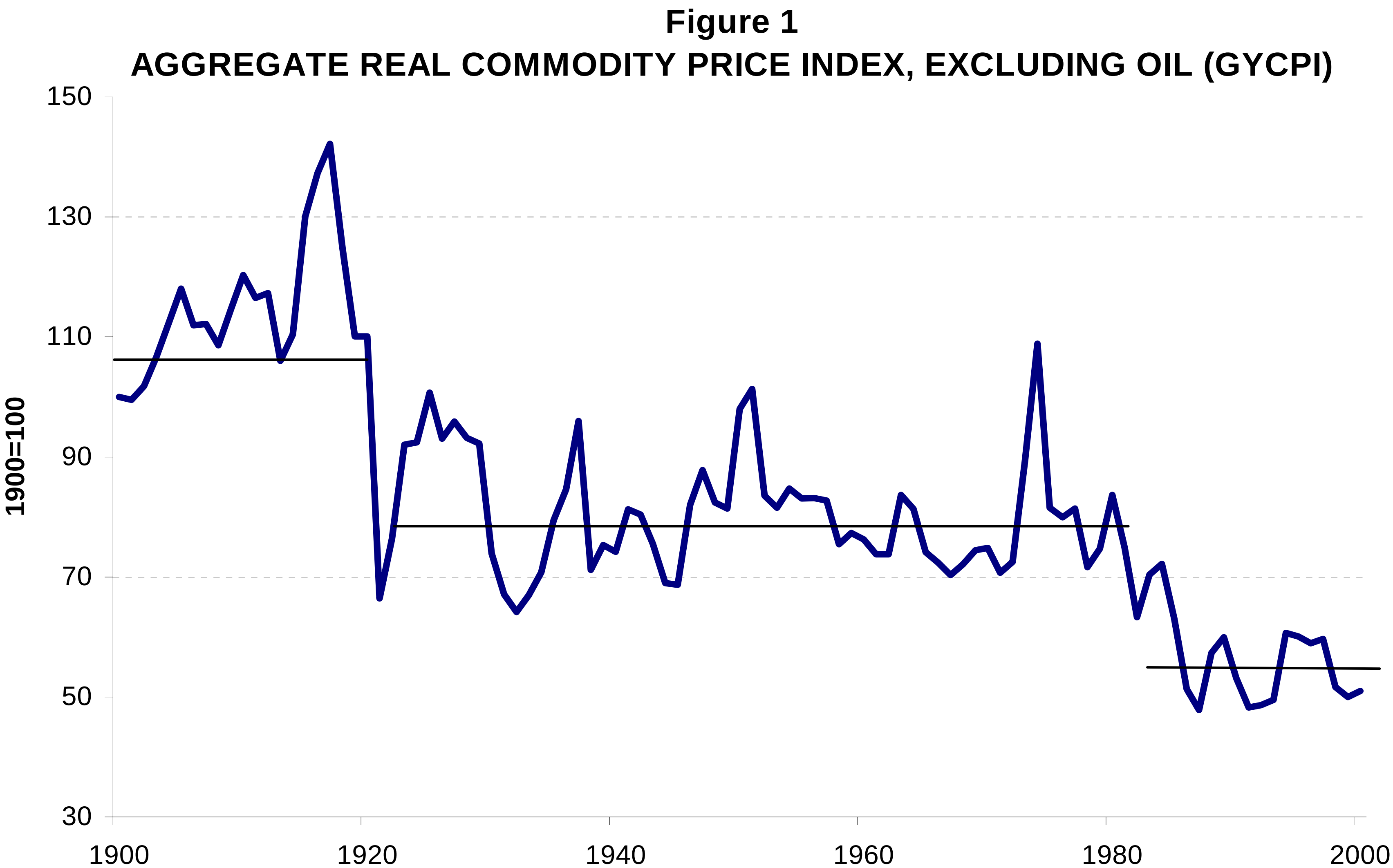
1. Primary commodities vs. manufactures

Hans Singer, Raul Prebisch

Grilli & Yang (IMF)

Ocampo & Parra in Jomo (2005)

Commodity Price Index, 20C



Source: Grilli and Yang (1988); Ocampo and Parra (2003).

Trade Liberalization

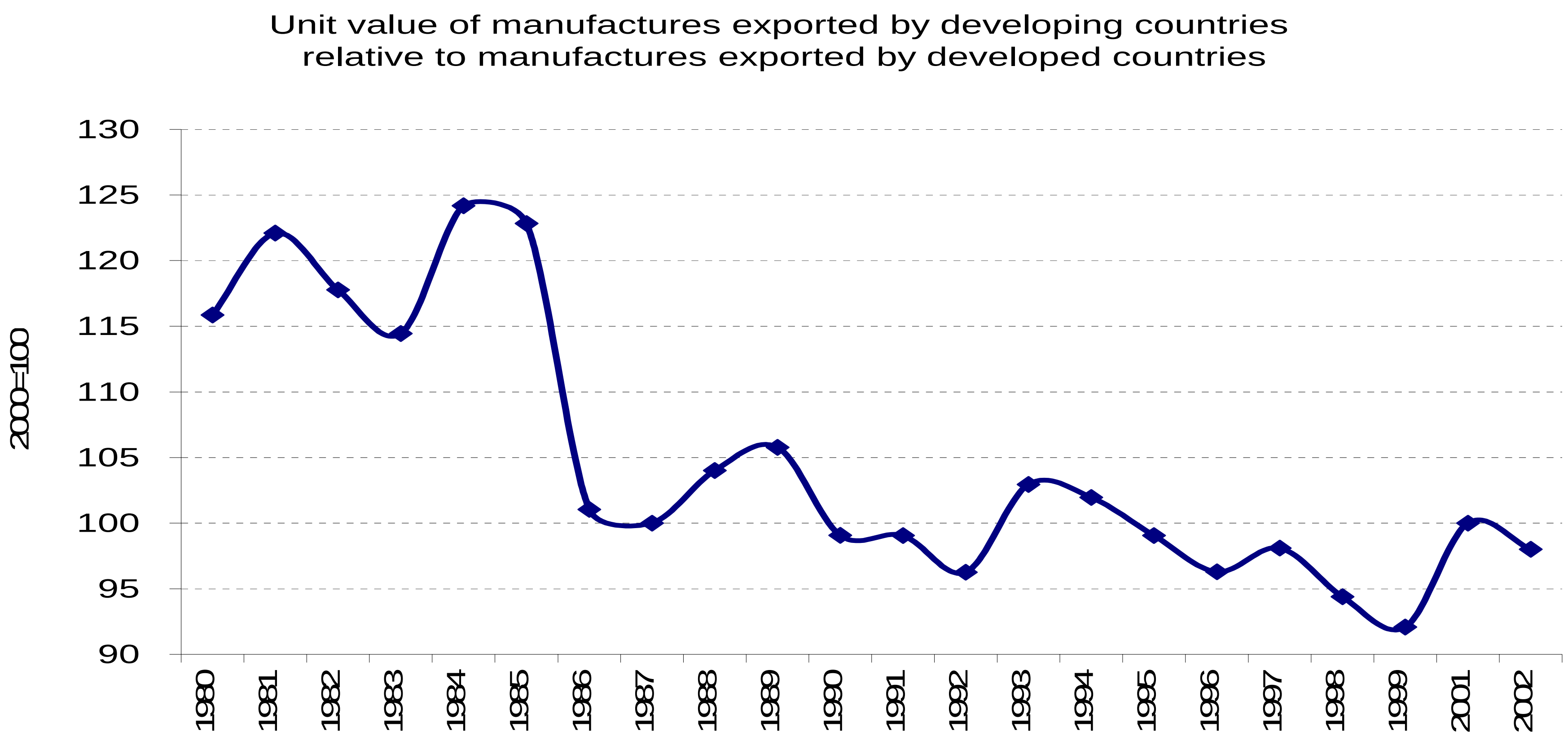
International terms of trade have moved against developing countries

1. Primary commodities vs. manufactures
2. Tropical vs. temperate agriculture
3. South vs North manufactured Xs

Generic manufactures vs monopolistic manufactures protected by IPRs?

→ Immiserizing growth?

South vs North Manufactured Exports’ Terms of Trade



Trade liberalization costs

Loss of *tariff revenue*

Loss of *production + export capacities*

Cost of building *new* internationally competitive productive + export *capacities + capabilities*

[Above obscured by comparative statics of international trade analysis + CGE models]

International financial liberalization

Converse of advocates' claims:

1. K flows ***not*** from K rich to K poor

   Except E Asia early + mid-1990s

2. Costs of funds ***not*** lower

3. Some old sources of volatility + instability reduced, but ***new sources*** introduced

Old Warnings Ignored

- Keynes: beauty contests → casino capitalism
- Tobin: sand in wheels of finance
- Drucker: changed world economy

  1985: 89% X-border flows not related to real economy → 1996: >97%
- McKinnon: Sequencing economic liberalization
- K account liberalization should be last

Asian crisis *mea culpas*

- IMF: opposed AMF → currency crisis theories [1. trade balance; 2. fiscal balance] → cronyism [corp. gov.]
- Krugman Plan B
- Bhagwati: Wall St-US Treasury nexus
- Fischer: Controls on inflows
- IMF 2003: Financial globalization
- Koehler, IMF Article 6
- Rogoff, *et al*.; Rajan, *et al*.

Effects of liberalized K flows

- Exchange rate appreciation →
  high sterilization costs
  negate ostensible benefits

Also:

- asset market bubbles
- consumer binges

Foreign capital inflows not really developmental

- Most ST K flows not developmental
- Most to other advanced economies
- Only significant for about 12 countries
- >80% FDI for M&As in 1990s
- ‘Green-field FDI’ crowds out domestic investment
- Most to others for mineral extraction
- Invt incentives reduce net benefits
- Weakness of domestic industrial K → dominance of fin. sector in SEA

Domestic financial liberalization versus development

1. Deflationary macroeconomic influences
2. Counter-cyclical financial instruments + institutions eliminated
3. Developmental financial instruments + institutions eliminated
4. Inclusive finance initiatives undermined

BWIs' governance

- IMF conceived as 'international financial cooperative' in 1944
- BWIs: 1 dollar, 1 vote;
- declining basic votes:

  1944: 11.3%/44 →

  2007: 2.2%/184
- Only 1 country with veto

Slower growth because of structural adjustment reforms

Structural adjustment reforms despite *dubious theoretical justification* (Washington Consensus) including:

- global economic governance
- loan policy conditionalities
- reduced ‘policy space’
- trade liberalization
- financial liberalization
- deflationary macroeconomics
- pro-cyclical macroeconomics
- privatization
- strengthened IPRs
- ‘good governance’, esp. property rights

Changed role of the state

- Stabilization (macro) + structural adjustment (micro) programs
- Reduced growth, development + redistribution roles
- Less taxes + less progressive taxation
- Reduced govt role in most countries, especially social spending
- Privatization, contracting out

Conditionalities, benchmarks, best practices, advice

- ‘Do as we say, not as we did’:

  like ‘kicking away the ladder’
- ‘Double standards’, e.g. counter-cyclical policies for North, but not South
- BWIs’ macro framework, e.g. <25% of PRSPs have employment strategy

WTO

- ITO (1948 Havana Charter) → GATT → Uruguay Rd, Marrakech → WTO
- Consensus decisions, but green rooms, etc
- ‘single commitment’, no more choice
- broader scope: agriculture, services
- ‘trade-related’ issues (e.g. TRIPs)
- dispute settlement mechanism
- financial services liberalization
- Singapore issues

Doha Round not developmental

- Modest concessions (e.g. 97% market access @ HK)
- Doha Round gains:

  more for developed economies;

  most for 5 developing countries
- India’s gains from international agricultural trade liberalization?!
- Divide and rule
- NAMA
- *Modest, unequal, 1 time* gains

Learning from development experience

- Palliative vs developmental approaches
- No single model; one size does not fit all
- Eschew mainstream orthodoxy; common sense, cautious experimentation
- Growth necessary, but not sufficient
- Distribution + accountability important
- National ownership + ‘policy space’ crucial
- Unfortunately, power + economic governance, national + international, in the way.

Climate change challenge

- 1/3 of carbon in fossil fuels end up increasing concentration of atmospheric carbon
  → climate change
  → threatens humanity, development
- 1/2 world's carbon emissions from 20% in rich countries with 80% of global GNP
- Emissions of all have to be greatly reduced (75-95%), depending on who, assumptions, targets
- Equitable options to phase out fossil fuels needed

Current approach problematic

- Adverse impacts distributed unequally,
- Emissions – historical and current – mainly by rich, but burden borne more by:
  - poorer countries,
  - small island states, and
  - poor and vulnerable populations
  - future generations
- Costs of stabilization + adjustment also distributed unequally

Carbon markets not development-friendly

- Current climate policy options mainly developed by rich countries
- Current emissions starting point favors highly emitting industrial countries
- Emissions targets approach ignores development impact
- ‘Cap and trade’ approach in assignment of rights inequitable
- Emissions and deforestation have continued to rise nevertheless
- FT: Other important criticisms of ‘cap + trade’ approach, both conceptual and practical

Making carbon use more costly

- Existing approaches seek to make carbon use more costly,
- costlier carbon: regressive impact

  regardless of whether due to:

  - increased oil prices
  - emissions markets
  - carbon tax

Alternatives

- per capita emissions rights approach > current way
- with massive financial transfers from developed to developing countries
- consider different costs of mitigation + adaptation

International cooperation

- Different adaptation programs + costs for poor + rich countries
- Instead of targets and obligations, investment programme needed
- International cooperation needed in other areas, e.g. TRIPs agreement limits technological flows needed

Investment needs

- focus on development
- global infrastructure investment program, esp. for mitigation
- Induce appropriate climate-friendly investments
- Easy access to cheap, climate-friendly energy technologies

Financing needs

- Costs of transition to carbon-free economy currently estimated @ 1-3% of global GNP; investment needs of developing countries even higher
- International transfers must greatly exceed current ODA levels (<1/2 of 0.7% target; declining since Cold War)
- Progressive income and carbon taxes?
- Global institutions needed

Thank you

United Nations Development Agenda and NDS Policy Notes available at: http://esa.un.org/

Policy Matters: Economic And Social Policies To Sustain Equitable Development

Report on the World Social Situation, 2005, 2007

World Economic and Social Survey (annual)

DESA Working Papers

Also see: IDEAs website: www.ideaswebsite.org