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

Decile income

richer classes                poorer classes                poorer countries

richer countries
Divergence grows except for Asia
Inter-country Ginis, with and without China

Including China

Excluding China
## Inter-country income inequality

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>All countries</td>
<td>0.585</td>
<td>0.578</td>
<td>0.553</td>
</tr>
<tr>
<td>World – China</td>
<td>0.537</td>
<td>0.558</td>
<td>0.567</td>
</tr>
<tr>
<td>World – India</td>
<td>0.560</td>
<td>0.564</td>
<td>0.547</td>
</tr>
<tr>
<td>World – (China + India)</td>
<td>0.473</td>
<td>0.510</td>
<td>0.541</td>
</tr>
<tr>
<td>World – E. Europe</td>
<td>0.606</td>
<td>0.593</td>
<td>0.563</td>
</tr>
</tbody>
</table>

Source: Berry and Serieux (2007: Table 4.2)
## Contributions of China + India to world inequality

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>China</strong></td>
<td>11.1%</td>
<td>1.0%</td>
<td>-12.6%</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td>3.7%</td>
<td>0.8%</td>
<td>-2.6%</td>
</tr>
<tr>
<td><strong>Combined</strong></td>
<td>26.9%</td>
<td>10.0%</td>
<td>-13.3%</td>
</tr>
</tbody>
</table>

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

The table below shows the percentage of people living on less than $2 per day in 2001 and the change in proportion and number of poor people between 1981 and 2001, by region.

<table>
<thead>
<tr>
<th>Region</th>
<th>% living on &lt; $2/day in 2001</th>
<th>Change in proportion and number of poor people between 1981 and 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>53</td>
<td>-8 millions</td>
</tr>
<tr>
<td>East Europe + Central Asia</td>
<td>20</td>
<td>15 millions</td>
</tr>
<tr>
<td>Middle East + North Africa</td>
<td>23</td>
<td>2 millions</td>
</tr>
<tr>
<td>Latin America + Caribbean</td>
<td>25</td>
<td>-3 millions</td>
</tr>
<tr>
<td>East Asia + Pacific</td>
<td>47</td>
<td>-23 millions</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>77</td>
<td>2 millions</td>
</tr>
<tr>
<td>South Asia</td>
<td>77</td>
<td>-9 millions</td>
</tr>
</tbody>
</table>
Poor Countries More Likely to Suffer Civil Conflicts, Reducing Growth by 40% average

Predicted probability of onset of civil war within 5 years

GDP per capita (in US$)
Historical trends

• Last 2 centuries: Increased growth \(\Rightarrow\) uneven development \(\Rightarrow\) 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 $\rightarrow$ petrodollars recycling $\rightarrow$ low real interest rates + high commodity prices $\rightarrow$ 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)
Commodity Price Index, 20C

Figure 1
AGGREGATE REAL COMMODITY PRICE INDEX, EXCLUDING OIL (GYCPI)

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

Unit value of manufactures exported by developing countries relative to manufactures exported by developed countries
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*

- Krugman Plan B
- Bhagwati: Wall St-US Treasury nexus
- Fischer: Controls on inflows
- IMF 2003: Financial globalization
- Koehler, IMF Article 6
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
- Invst 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) $\rightarrow$ GATT $\rightarrow$ Uruguay Rd, Marrakech $\rightarrow$ 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

Policy Matters: Economic And Social Policies To Sustain Equitable Development
World Economic and Social Survey (annual)
DESA Working Papers

Also see: IDEAs website: www.ideaswebsite.org