Conference Review:

Annual World Bank Conference on Development Economics (ABCDE) - Europe, 26-28 June 2000

The overall theme for this second ABCDE-Europe was "Development thinking at the new Millennium". The list of speakers included the gurus of development economics, a couple of Nobel Laureates (Robert Mundell and Amaryta Sen), prospective future laureates plus notables from the world of finance and politics. Naturally the broad theme of the conference led to a wide range of papers which were presented under three main subject areas: fifty years of development economics, key new development challenges and issues of global governance.

Amartya Sen in the opening keynote address for the conference on the theme "globalisation and its discontent" took us back in history over the past 2000 years showing us that globalisation is neither novel nor new, and neither is it always a force for good nor the villain of the piece. Making globalisation synonymous with Western imperialism is unhelpful. For a start Sen notes that as a force it predates imperialism. In the millennium to the year 1000 the spread of knowledge and technology was from East to West. Had the West resisted innovations such as the clock and new mathematical formulae it would have been a far poorer place. Moving on rapidly to the present Sen emphasises that the real challenges associated with globalisation do not lie in globalisation per se, but relate to inequality, be this due to disparities in affluence or in political, social and economic power, though the two are invariably linked. What then of the connection between economic growth (which Sen points out is not synonymous with market activities as it can be effected greatly by non-market interventions) and poverty reduction? While the poor can directly share in the income generated by growth and also gain where increased national income is used to finance public services from which they benefit, this is neither inevitable nor sufficient. After all deprivation covers non-income factors such as social exclusion and economic insecurity. Moreover, increases in national income may or may not be used to finance equity promoting public services. Sen contrasts the heavy investment in health and education in South Korea with Brazil where such investment has been paltry. Yet even in South Korea's case

such investment was insufficient in preventing the impoverishment caused by the 1997 financial crisis as social security arrangements had been underfunded.

Deriving lessons from this, Sen comes to one of the key points of his paper which developing and developed nations, including the Irish Celtic Tiger, would do well to heed: namely the need to provide resources for a "downturn with security" as well as "growth with equity". Turning to the international financial institutions (IFIs), Sen reminds his audience that the world of the 1944 Bretton Woods conference differs greatly from the one we live in today. Harnessing the potential benefits of globalisation, especially for the deprived, requires a good deal of institutional rethinking (including a bigger role for the UN) as well as policy re-examination. This, he notes, has begun to take place as the IFIs have identified poverty reduction as their principal goal. Yet Sen's conclusion that the key debate is about inequality reminds us that change will not be costless to those who have gained disproportionately in terms of economic affluence and socio-political power. In taking up this challenge Sen argues that we should neither rubbish nor venerate globalisaton.

Peter Sutherland in his keynote address "Globalisation - a threat or a promise", like Sen, cautions against "verbal carelessness" in discussions of globalisation. Sutherland raises important issues regarding the sequencing of liberalisation and the different challenges facing developed and developing nations. He critiques unfair trade policies asking: "Why, for instance, should Germany be one of the world's biggest exporters of processed coffee when it grows none of the raw commodity?" His remarks fit well with those of President Museveni of Uganda, who in his special millennium lecture in Dublin four months later, devoted his whole presentation on future Europe-Africa relations to trade issues. Sutherland also recognises that different transition periods are needed for developing countries to comply with WTO requirements and that significant international financial support will be needed to enable these countries to open up their trade policies (a point which Dani Rodrik . also explores). Sutherland emphasises that "while the market does not solve every problem of human development it certainly does open the way". Noting the dangers of relentless and unmanaged globalisation, he expresses concern that the blame for the less attractive features of

globalisation, such as the widening income gap in many countries, social dislocation caused by capital flows, environmental degradation and poverty, is persistently laid at the door of the World Trade Organisation (WTO), World Bank and International Monetary Fund (IMF). Instead he argues that the threat posed by globalisation reflects different policy failings such as poor education and training, corruption in both public and private sectors, and a lack of transparency in regulatory systems.

Day three's keynote address by Robert Mundell was on the theme "Global money, currency areas and economic development'. His presentation began by identifying five key trends in the world economy: the IT revolution, economic globalisation, the US economic miracle, corporate and banking restructuring and the advent of the euro. Listeners were treated to a journey through global monetary history over the past century. He divided the 20th century into roughly three equal phases: the first covering the zenith and nadir of the gold standard, the second characterised by a restored international monetary system based on the dollar and the last phasc from the early '70s onwards of floating exchange rates.

Responding to the viewpoint that fixed exchange rates cause unstable capital movements Mundell drew on the experience of monetary union in Europe to back up his case that it is uncertain rather than fixed exchange rates which cause destabilising capital movements. Mundell urged policymakers to draw lessons from rather than to misinterpret the past, a key development lesson being the difference between internal and external causes of crises. He argued that "blame for the debt crisis does not not rest with developing countries alone: half the blame rests with unstable international monetary arrangements dominated by the lending countries". This perspective provides support for those arguing for an international debt arbitration system which could determine which debt should or could be paid. Mundell's conclusions look to the future and include a call for a reduction in the volatility of major exchange rates, i.e., the euro, dollar and yen, as well as a move towards new currency areas and alliances. He also bemoans the absence of an international monetary system which has had especially bad effects on countries in transition but for whom the development of an expanding euro-zone offers new hope. His end-call is for the creation

of a universal currency. While some may view its achievement as being as likely as a common global language, Mundell invites us to reconsider monetary history when he reminds us that a single global currency was at one stage proposed by both the British and US delegations to the Bretton Woods conference. And Mundell quotes Paul Volcker's recent statement that a global economy requires a global currency. With such illustrious advocates for a global currency perhaps its time may finally be coming.

Dani Rodrik in a somewhat cheeky paper delivered in a similar fashion posed the question: "Can integration into the world economy substitute for a development strategy?" Introducing this topic he cited IMF Deputy Director Stan Fischer's comment that "integration into the world economy is the best way for countries to grow". But such integration has highly demanding institutional prerequisites which Rodrik argues not only close off alternative development paths but also divert human, administrative and political resources from other tasks, and do so for questionable gains. Rodrik stresses that "there is simply no credible evidence that should lead us to place a very high probability on the likelihood that a sustained, significant growth boost will follow from the lowering of barriers to trade and investment". This leads Rodrik to conclude that openness is not an adequate substitute for a development strategy. Development in the new millennium is not that easy and globalisation must be evaluated in terms of development needs, not vice-versa.

WTO rules, taking up Sutherland's point, impose considerable obligations on the South. Rodrik takes us back in time noting that it is often neglected that the most successful globalisers of an earlier era, the East Asian tigers, had to abide by few international constraints and pay few of the costs of integration during their critical growth formation periods. Their export oriented trade policies were combined with export subsidies, domestic content requirements and restrictions on capital flows. These are either not an option for cash-strapped or heavily indebted developing countries or are precluded by global trade rules.

Rodrik remains sceptical about the existence of an unambiguously positive relationship between trade openness and growth. Instead such a relationship is likely to be conditional on other factors such as industrial policies. He suggests that the most

compelling mechanism linking trade openness with growth in the South is that imported capital goods are likely to be significantly cheaper than those manufactured at home. The choice is not between autarky and unbridled trade liberalisation but one of combining the opportunities provided by world markets with a domestic investment and institution building strategy to stimulate domestic entrepreneurship. Thus the benefits of openness should not be oversold. On capital account liberalisation the benefits are even less clear. Convincing evidence on the benefits of capital account liberalisation is yet to be unveiled. All these lead Rodrik to conclude that "strategic use of international trade and capital flows is part of a development strategy; it does not substitute for it".

The conference also heard from the World Bank's new Chief Economist Nick Stern and his predecessor Joe Stiglitz. In his first major speech since his appointment Stern reiterated the message that the Bank regards economic growth as a necessary but not a sufficient condition for poverty reduction. Stern's address based on the paper co-authored with Paul Collier and David Dollar was entitled "Fifty years of development". Dollar's policy writings have generated lots of controversy and had a major influence on donor practice. Already the paper, "Growth is good for the poor", co-written by Dollar and Aart Kraay of the Bank's Policy Research Department, has drawn a number of critical commentaries. Oxfam identified two critical defects with its analysis: namely that it is anti-poor because it ignored the critical role of income distribution in shaping opportunities for poverty reduction and that it is anti-growth because extreme inequality and the poverty associated with it, wastes productive potential on a vast scale, thus preventing growth. Instead of the approach adopted in the paper Oxfam points out that the key question is: What type of growth is best in terms of reducing poverty?

In analysing the lessons of growth and development over recent decades, Stern took conference participants through a review of regional and country experiences, pointing out that individual country experiences of growth and poverty reduction show enormous variance. However, he emphasised that the data supports the thesis that growth and poverty reduction are highly complementary, though he cautions that this cannot and should not be taken to mean that growth enhancing policies alone are sufficient to

reduce poverty. Stern also takes up the growth debates in this year's controversial *World Development Report - Attacking Poverty*. Indeed the furore created by the resignation of the team leader charged with drafting the *World Development Report*, Ravi Kanbur, was still palpable and much discussed in and out of the conference rooms. Kanbur's reason for this, namely the attempt to dilute the *Report's* message around issues of redistribution, meant that many at the conference were wondering just how much a learning and exchange of ideas forum it would prove to be. Or could it just end up being a stage for various economic stars to put forward their "set pieces"?

Looking back to recent economic history, Stern contrasted the development approaches and outcomes experienced in East Asia, including China, and Eastern Europe and the former Soviet Union over the decade 1988 to 1997. From the 1970s onwards countries in East Asia, notably China, initiated reforms in the organisation of the rural economy centred on the provision of economic incentives for households and individuals. This approach resulted in 200 million people being lifted out of absolute poverty between 1978 and 1995. In China there were certain special features contributing to this achievement. These included strategies for provincial specialisation and the achievement of economies of scale in production. Mao's economic strategy was to build self-sufficiency in each province, to attract back external investment from the large overseas Chinese community in order to provide valuable finance and technological resources, to maintain political stability and to invest resources in building strong education and health conditions for a country of China's income per capita. Political and macro-economic stability together with the large size of the economy allowed the government to experiment with various reforms at provincial level before introducing them countrywide.

Stiglitz, like Stern, ascribes the success of East Asia to both its high level of macro stability and the more active role played by states in national development than would be seen as fitting by those who are part of the Washington consensus. Stiglitz's emphasis on knowledge as a global public good has been reflected in World Bank President, Jim Wolfensohn's reference to the Bank as a "knowledge bank". Stiglitz points out that governments also have a key role in promoting increases in

knowledge generation, acquisition and use. Government investment, as happened in China, in the creation of an educated and technologically literate labour force is vital. Stiglitz again challenges the Washington consensus, stressing that this approach, built around trade and capital market liberalisation, low taxes and deregulation, in a world where as Lester Thurow has stated, "knowledge and skills now stand alone as the only source of comparative advantage" does not amount to a poverty reduction strategy. Indeed, reiterating a concern he expressed at the previous year's ABDCE, Stiglitz argues strongly that, by failing to convey to developing countries a range of policy options available to them and the opportunity costs and risks associated with each, development economists do themselves a disservice and set back democratic processes and the prospects for transformative development strategies.

Stern's presentation also outlined how Russia had much less favourable initial conditions for reform than its Warsaw Pact colleagues. The communist party was much more deeply established. In a bid to change this, economic reformers moved very quickly on issues like privatisation even though the climate was not encouraging for private capital investment. Far from experiencing net inflows, Russia suffered massive capital flight over the decade 1988-97. The breakdown of the rule of law exacerbated this further. Instead of prosperity the early experiences of the market economy for most Russians were of the ravages of hyperinflation and the grabbing of assets by elite groups on an enormous scale. Somewhat, *en passant*, Stern asserts that Russia in a more stable political situation, now has an opportunity for another new start. Taking this opportunity will, he believes, require paying particular attention to the investment climate and institutional reform. This involves "confronting the vested interests that have established themselves all too strongly in the earlier period of reform". What role the Washington consensus played in promoting policies such as badly timed privatisation and how these policies may have fuelled rather than countered corruption was overlooked in Stern's address. For Stiglitz, the need to distinguish between policy prescription and *meaningful* reform is critical. Pointing out that if government leaders are corrupt, then the IFIs should be exceedingly careful in promoting certain policy reforms, such as privatisation, as these leaders may rapidly

endorse privatisation, not as a tool for promoting economic efficiency but as an instrument for enlarging the opportunities for corruption.

Turning to Africa over the decade 1988-97, Stern attributes much of its enduring economic crises to an environment which was hostile to capital and poor public service delivery. By 1990 some 40% of African private wealth was held outside the continent, largely because returns, taking account of risk, were unattractive. While low private investment was in part offset by high levels of public investment (much of it funded by aid), public service delivery indicators for education, health, and infrastructure development compared unfavourably with other regions. Citing a 1991 survey, which revealed that only 2% of the Ugandan Finance Ministry's allocation to primary schools actually reached its target, Stern highlights the importance of effective public sector institutions and civil society organisations in ensuring that the gains from expenditure are realised. Currently the Ugandan Finance Ministry informs local communities each time money is released for schools. This has led to a situation where by 1999 90% of money released was reaching its intended rccipients. Moreover, Stern notes that Uganda's reform record over the 1990s has encouraged significant wealth repatriation, improved public services and helped arrest the spread of AIDS.

Stern's address emphasised that development strategies through the 1990s have been influenced by three key international developments. The most significant economic change being the emergence of significant private capital flows from rich to poor countries. These are an important vehicle for bringing new technology and management skills to the developing world, though Stern acknowledges that the financial crisis in East Asia was an example of their potential downside. The most significant political change has been the end of the cold war. For Stern the third key development has been the IT revolution, international communications and global transportation which provide unprecedented opportunities for integrating developing countries into the global economy. Like Rodrik, Stern notes that taking advantage of such opportunities requires a focus on institution building, particularly of those structures which promote competition and good governance in both the public and private sectors.

Stern also identified four key lessons from the regional experiences and international

developments of the 1990s. These are, first: growth leads to poverty reduetion; second, macroeconomic stability, open trade regimes and a vibrant private sector facilitate growth; third, good governance and good policies have a crucial role in these processes; and fourth combating poverty entails promoting sound market oriented growth, enhancing human capabilities (through investment in education and health), empowering citizens along with providing protection against economic, political, social and natural crises. Stern concludes by noting that the nature of the policy problems facing developing countries has changed over the past decade. Progress on macroeconomic and trade reform is allowing countries to focus on a more complex set of issues. As part of this both Stern and Stiglitz advocate the importance of governments being in the driver's seat, with the development of a consensus on policy and institutional reform coming from within countries rather than being imposed from without. In so doing both recognise the widespread failure of the type of conditionality, which was practised for so long by the Bank and the IMF.

If that lesson alone is taken fully on board by governments, policymakers and technocrats alike, the next fifty years will surely bring more sueeess in aehieving more equitable development than has been the case over the past half century.

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