World Institute for Development Economics Research

WIDER ANGLE

No. 1/2004

WIDER Conference on Making Peace Work

Martti Lintunen

The true challenge is sustainable peace after war

Making peace work is one of the greatest challenges we face today. Ending the violence that afflicts Africa and the Middle East, and rebuilding Afghanistan, Angola, and Iraq are enormous and urgent tasks. Violent conflict has inflicted immense damage, caused untold grief, and impoverished millions of people. No region of the world has been immune from its effects. Post-conflict reconstruction is now underway, but with mixed success, and many societies are still far from peace. The rich world has often ignored wars in poor countries, but this is no longer possible after 9/11 and the threat posed by global terrorism.

To address the issues some 160 conflict experts from across the world, including participants from the UN, the IMF, and the World Bank, as well as researchers and policymakers from many countries met at a conference organized by WIDER in Helsinki, 4-5 June 2004. The conference was opened by Mr Martti Ahtisaari, former President of the Republic of Finland. Sessions on many of the conflict countries took place, including Colombia, Iraq, Nepal, Palestine, Uganda, Rwanda, and Sierra Leone. The conference paid particular attention to the social and economic impact of war, and discussed how to design effective strategies for post-conflict recovery. Conference papers, list of participants and other details are available at: **www.wider.unu.edu**

WIDER perspectives on growth, inequality and poverty: Millennium Goals will only be achieved if the development community pays more attention to inequality

by Giovanni Andrea Cornia, Anthony Shorrocks and Rolph van der Hoeven

The last decade has witnessed a blossoming of research on poverty-related topics as well as a surge in attention towards the issue of poverty reduction by governments, the IFIs, the UN, and social scientists. The persistence of mass poverty is rightly seen not only as a major ethical and political problem but also as a serious threat to macroeconomic stability and a brake on long-term growth. This new awareness has triggered some potentially important changes, including the UN General Assembly's adoption of Millennium Development Goals and the creation of new World Bank and IMF facilities for poverty alleviation.

While this is highly encouraging, a shift in focus and policy stance has yet to take place towards income inequality. Despite the huge strides made by research in this field over the last decade, the policy reforms inspired by domestic liberalization and external globalization – generally referred to as the Washington Consensus – have largely ignored the issues of high and rising inequality, of its impact on poverty and growth, and of the measures required to contain it.

This neglect is all the more surprising because – as the new WIDER studies show – income inequality has risen over the last twenty years in two thirds of the countries that have adequate data. While growth is essential for sustainable poverty reduction, the degree to which poor people share in growth differs widely between countries, and also amongst the poor in a given country. As inequality certainly affects poverty and may also affect growth, the income distribution effects of alternative growth paths need to be considered explicitly when designing policy packages to stimulate the economy and reduce poverty. Thus, *'inequality matters'* is one of the key messages of three new studies on growth, inequality and poverty just released by the World Institute for Development Economics Research (WIDER) of the United Nations University (UNU) and presented at the World Bank in Washington DC on 14 April 2004, at the UN Headquarters in New York on 16 April and at SOAS, University of London on 25 June 2004, by their editors Giovanni Andrea Cornia, Anthony Shorrocks and Rolph van der Hoeven. The studies include contributions of leading thinkers writing from different perspectives in this area, including Anthony Atkinson, David Dollar, Ravi Kanbur, Michael Lipton, Martin Ravallion, Lance Taylor and John Weeks.

The WIDER studies provide a systematic analysis of the changes in income inequality over the last two decades against the background of the changes that took place during 1950-1980. In contrast to most recent literature, the three volumes pay particular attention to the relationship between inequality and public policy changes in the field of domestic and external liberalization, taxation and income transfers, labour market institutions, and safety nets. It is argued that the recent rise in within-country inequality coincided with the emergence of a new policy paradigm that advocates the removal of barriers to international trade, the liberalization of capital flows, and the creation of a strong patent regime regulating technology transfers and intellectual property. While 'structural inequality' depends on well-known phenomena such as high land concentration, the 'urban bias', and unequal access to education and credit, there is growing evidence that the recent rises in inequality was related to the adoption of policies towards liberalization and globalization. Washington Consensus policies may have favorable effects under adequate market conditions, but they can generate adverse distributive outcomes in the presence of weak institutions or when applied prematurely under asymmetric, poorly sequenced and incomplete market conditions. Thus, that *'policy reform matters for inequality'* is a second key point of the WIDER studies.

The WIDER books also advocate the development of a new strategy for growth and equity aimed at removing the 'structural causes' of inequality and poverty and at the same time avoiding the adverse distributive effects of liberalization and globalization. While there remains considerable disagreement on how to achieve the latter objectives, the WIDER studies suggest that the disagreements may often be traced to different perspectives regarding the heterogeneity in experiences, the time horizon being considered, and the extent to which the market structure is competitive. *'A reduction of inequality – as well as an acceleration of growth – would do much to reduce poverty'* is a third key message of the studies presented.

The aim of containing inequality within acceptable levels is based on a growing body of evidence that countries with a relatively egalitarian distribution of assets and incomes tend to grow faster both in the short and long run. Policies directed towards asset redistribution, equitable taxation and transfer programs, public employment schemes, education and health, good governance, and the development of financial markets can help achieve such objectives.

The range of views covered in the studies makes a consensus of opinion unlikely. However, some general inferences can be drawn, the first being the difficulty of drawing general conclusions. Sweeping statements such as 'growth is good for the poor', 'education is good for the poor' or 'redistribution reduces poverty more than growth' tend to blur the debate on growth and poverty rather than illuminate it. Indeed, a key finding is that *'initial structural and institutional conditions, as well as the time horizon, matter'*.

Thus, policy reform packages need to be recast so as to consider their speed, sequencing, and the level and distribution of benefits in the light of the specific conditions of each country. These affect the speed with which growth can reduce poverty. They will also determine whether policies have a pro-poor or an anti-poor outcome – trade liberalization is a case in point. Improved education often contributes to reducing poverty, but its effect on inequality depends on supply and demand factors, which differ significantly across countries. Likewise, in many countries a redistribution of one per cent of income from the rich to the poor would reduce poverty more than a one per cent increase in total national income; but in some countries this is not the case. Thus microeconomic analysis of inequality needs to go hand-in-hand with macroeconomic analysis of inequality.

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Reflections on Launching Three Books about Poverty, Inequality, and Economic Growth

by C. Peter Timmer & Ashley S. Timmer

It is always exciting to be present when new and provocative ideas are launched, especially when they are in the concrete form of books addressed to the scholarly and policy communities. The intersecting themes of poverty, inequality and economic growth are at the top of the policy agenda in Washington, especially under the mantra of 'pro-poor growth', so it was no coincidence that the launch site for these three books from WIDER was the World Bank. But there was also a heady sense of challenging the 'Washington Consensus' in its den, because the three responsible editors of the books, Giovanni Andrea Cornia, Anthony Shorrocks, and Rolph van der Hoeven, each attacked the bias in Washington toward economic growth as the primary vehicle for reducing poverty, at the expense of ambitious approaches to dealing with inequality.

In organizing the policy agenda proposed by these three volumes, it is useful to stress two definitional points. First is the distinction between 'constructive' inequality – which provides the needed incentives to move resources to their most efficient uses – and 'destructive' inequality – which generates envy and socially unproductive redistribution. This distinction complicates analytical and empirical investigations: not only is the relationship between inequality and other variables of interest – such as economic growth and poverty reduction – not linear, it likely changes sign over its full range. In his chapter in the Cornia volume, Michael Carter makes the same distinction. Second is the distinction between inequality in outcomes, which are inevitable and (to some extent) desirable for their incentive effects, and inequality in opportunities or capabilities, which societies should strive to make as equal as possible if they are to reach their fullest potential, a point Nancy Birdsall stresses. Both definitional points help frame the research agenda that seeks to understand the relationship between economic growth and inequality. The three volumes just launched by WIDER should be important voices in shaping this new agenda.

It is already clear that future research must break new ground in several directions. First, much of the research must be at the country, or even sub-national, level. There are diminishing returns to further global studies using cross-section data sets if the goal is to understand how policy choices can impact inequality and poverty. Economic historians understand the country-specific institutional changes needed to sustain economic development, but they see country specificity through a very long-term lens of path dependency. At the same time, policy advisors are impressed by the uniqueness of the day-to-day constraints on policy making; many of these constraints are political. There are underlying commonalities to the development process, and the degrees of freedom on basic macro and trade policies are not large if rapid economic growth is the goal. But one size does not fit all, and the options hinge crucially on the existing (and potential) economic institutions the country has. This institutional variance is much wider than many in Washington want to recognize.

Second, there is important research to be done on the distributive foundations of economic growth, especially with attention to the political economy of income distribution and the behavioral foundations thereof. The three books just launched stress the two-way connection between economic growth and income distribution. But the distributive dimensions of economic growth go deeper than simultaneous causation and, as noted above, are mediated at the country or regional level. Exploring the different institutional contexts that link inequality and growth will be central to a full understanding of the relationship between them.

In particular, a future research agenda must pay new attention to the linkages between inequality and the politics of economic policy. It is entirely plausible that without political-economy feedback loops, growth-maximizing policies may generate the greatest growth at the upper ends of the distribution. But the historical record suggests that-perhaps with the exception of the United States in recent decades-even reasonably wide-spread rapid growth will generate political crises if the very wealthy are allowed to visibly increase their lead too much. The policies resulting from the backlash may end up not only slowing growth, but making the poor worse off in absolute terms. Further, the instability of such episodes may exacerbate the distributive impacts, because the lower ends of the distribution are more vulnerable to economic risks.

An important component of this research will be measuring income inequality in ways that are congruent with the political process. For this, a focus on income gaps rather than income distribution will be crucial (who has ever heard a politician refer to a Gini coefficient, much less the Watts Index?). There has been virtually no serious analysis done of income gaps by development economists, although income gaps are the stock in trade of economic historians interested in long-run trends in income distribution (admittedly in large part because distribution data do not exist, but income gaps can be approximated).

Income gaps correlate with the politics of distribution for behavioral reasons. In the political economy of growth, perceptions of inequality and other regarding behavior are the central mechanisms through which economic trends translate into political issues, as Ravi Kanbur argued in an earlier WIDER Angle. Gaps measure the distance between rich and poor, a distance that is highly visible in the face of conspicuous consumption. The globalization debate itself demonstrates the salience of relative outcomes over absolute ones, not only because of distributional concerns but because relative income seems to be more tangible than absolute income. How individuals perceive well-being, and government beliefs about those perceptions, are central to understanding the importance of distributive questions. In particular, rapid growth that raises everyone's absolute incomes, but also exacerbates inequality, is surprisingly problematic in terms of political stability. Even highly unequal but distributively stable societies seem to fare better, suggesting that both relative position and positional change have to be taken into account. Economists in particular have been slow to investigate how increased structural volatility and economic change generate disutility.

The political economy of growth depends highly on distributive outcomes – such as income – but exploring the distribution of inputs to economic well-being should be even more revealing about the underlying relationships between economic growth and inequality. In particular, the variance of transactions costs and institutional structures that mediate economic outcomes, though usually ignored, may prove central to understanding distributive patterns. The development community now sees transaction costs as a key factor limiting development and growth, but the analysis rarely addresses how these costs are differentially distributed or differentially binding across groups or economic activities. Similarly, although there is renewed attention to economic institutions and their role in development, the way these institutions are shaped across sectors, across groups, and especially across income classes, seems critical to understanding how the inputs of well-being are mapped into the outputs. We argue that the distribution of outputs is partially driven by the differential functioning of these economic institutions. Further, with increasing demand for decentralization of government services and oversight, regional disparities in governance can drive the spatial character of development and of distribution.

A clear example grows out of the consensus in the development profession that credit markets are a central institution for growth. From new Basel standards to the boom in support for micro-credit programs, there has been demand at every level to reduce credit market failures and alleviate credit rationing and risk. But there are distributional dimensions to these failures and risks. For example, where credit markets function poorly, often certain ethnic groups, by accessing credit through transnational ethnic networks, have come to dominate capital-intensive activities. These groups are in effect side-stepping formal institutions in favor of those that reduce their transactions costs, and in doing so reduce the cost of capital and gain economic advantage. The implications for the distribution of income are clear, but there is almost no research to show how these processes drive regional and national distributive outcomes. These processes likely feed into the political economy dynamics discussed above, as wealth becomes concentrated among identifiable groups.

What is needed as a next step is an exploration of these less understood micro and meso level foundations of the relationship between economic growth and inequality. These foundations are invisible in cross-section data that pool highly disparate countries, but even country-level Gini statistics and quantified indices of policy measures probably obscure as much as they reveal. Understanding group and location-specific trends and institutions should help pinpoint the mechanisms and processes that underlie the macro empirical relationships.

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The three inequality studies are:

Inequality, Growth and Poverty in an Era of Liberalization and Globalization Edited by Giovanni Andrea Cornia

Growth, Inequality and Poverty: Prospects for Pro-Poor Economic Development Edited by Anthony Shorrocks and Rolph van der Hoeven

Perspectives on Growth and Poverty Edited by Rolph van der Hoeven and Anthony Shorrocks

More details at: www.wider.unu.edu

Towards a Unified Theory of the Growth Process

by Erik Thorbecke and Henry Y. Wan

Comparing the rate of growth of real per capita income of an economy with the level of real per capita income of the same economy and taking a cross-section of such paired data, Lucas, (in the late 1980s) concluded that 'the mid-income countries grow the fastest, next the high-income countries, with the low-income countries growing the slowest'. While this finding is, of course, correct on average it begs the question of why certain very poor countries were able to escape the poverty trap while others continued to stagnate and why some mature economies continue to grow while others retrogressed.

Most East and South East Asian countries displayed a real per capita income in 1950 around or less than one-tenth that of the US. By the end of the 20th century Japan, Hong Kong, and Singapore had reached per capita real income levels between 70 and 80 per cent of that of the US, while Taiwan and South Korea enjoyed levels of incomes around half of that of the US. Although the growth performances of Thailand and Malaysia were somewhat less spectacular they reached a relative income level between a fourth and a third of that of the US.

In contrast, practically every sub-Saharan nation – starting from a very low initial level comparable to that of Taiwan and South Korea – saw its relative income gap with the US augment *not* fall. Likewise most Latin American and South Asian economies had fallen behind relative to the American standard of living over the second half of the 20th century.

We observe a similar divergent growth pattern in the second half of the 20th century among groups of developed countries. A number of Western European countries managed to improve their relative income position vis-à-vis America, while such economies as Australia, New Zealand and Argentina retrogressed.

The objectives of this paper are two-fold: first, to review the relative growth pattern of a large sample of countries and derive distinct clusters-based on initial conditions and differential growth performances; and second, to provide a possible theoretical explanation of the observed divergent growth patterns.

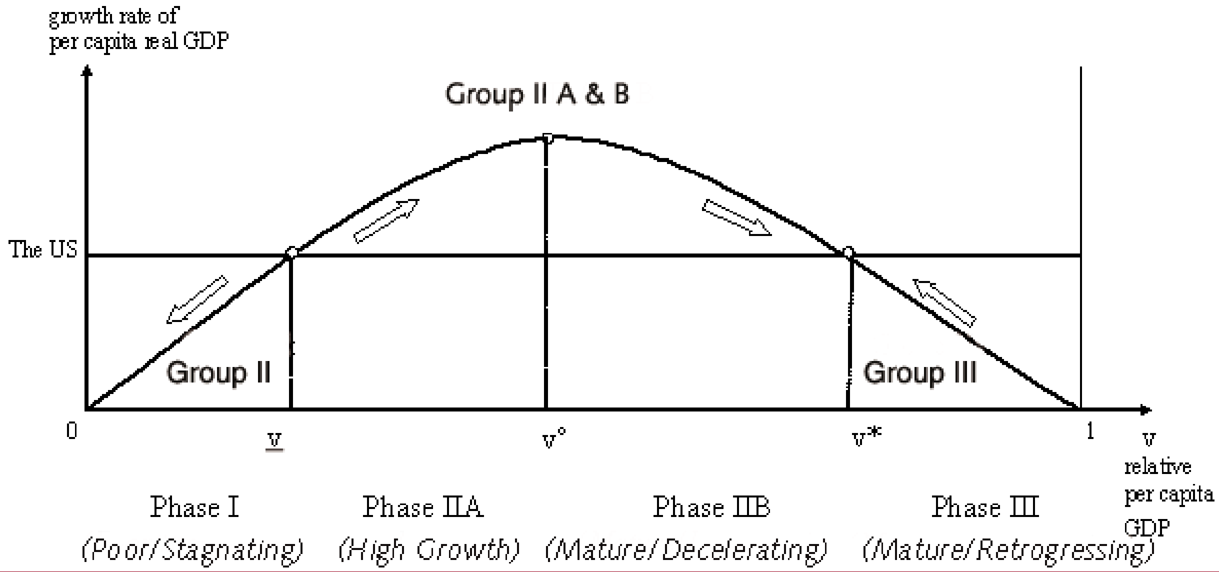
Before turning to the empirical evidence a few concepts need to be defined. Let x be the per capita real income of an economy with y = (dx/dt)/x as the growth rate of x. In turn let z stand for the per capita real income of the US (assumed to be the leading economy and techno-logical leader over the period with which we are concerned). It is further assumed that the American economy is growing at a constant rate, c. A useful concept, v, is that of the ratio of a given country's per capita real income to that of the US, i.e. v =x/z. For example, in 1961 (three-year average) both South Korea and Taiwan had similar v's, the ratio of their per capita real incomes to that of the US was between .11 and .12. By 1997 (three-year average), the corresponding ratios were .54 and .46, respectively.

A key concept that follows directly from the above discussion is that of the income gap, i.e., g = (1–v). Returning to the previous example, Taiwan's income gap (with respect to the US) in 1961 fell from 88% to 46% and South Korea's income gap was reduced from 89% to 54%, by 1997. Note that since the growth rate of the US economy is taken as constant (=c), a country growing at a rate faster than c would see its relative gap vis-à-vis the US shrink, and *vice versa*. Subsequently, we shall assume that the technological gap depends on the relative per capita real income ratio.

Next, we explore the empirical evidence. We used the *relative per capita real income* series of the Penn World Table, version 6.1, in which the per capita real income (expressed in constant purchasing power parity) of all economies is given as a percentage of the concurrent American figure. We computed the relative per capita real income ratio, v, and the gap = (1 – v) for 106 countries for which continuous time series were available over the period 1960 to 1998. Four different groups of countries following distinct growth patterns could be identified based on initial conditions and growth performance. Table 1 gives the relative incomes (v), and relative income gaps (g) for twenty countries (five representative countries in each of the four categories), in both the beginning year and final year. It also shows the ratio of the gap reduction (or increase) to the initial gap (in column 5) and the corresponding rank.

The four growth patterns captured in Table 1 are: 1. *Poor and Stagnating* (Group I): initially poor countries that continued to stagnate (essentially sub-Saharan Africa); 2. *High Growth* (Group II): initially poor countries that grew at a fast rate; 3. *Mature and Decelerating* (Group IIB): relatively rich countries that achieved to reduce their income gaps with the US slightly (mainly Western Europe); 4. *Mature and Retrogressing* (Group III): rich

Figure 1 Growth Patterns

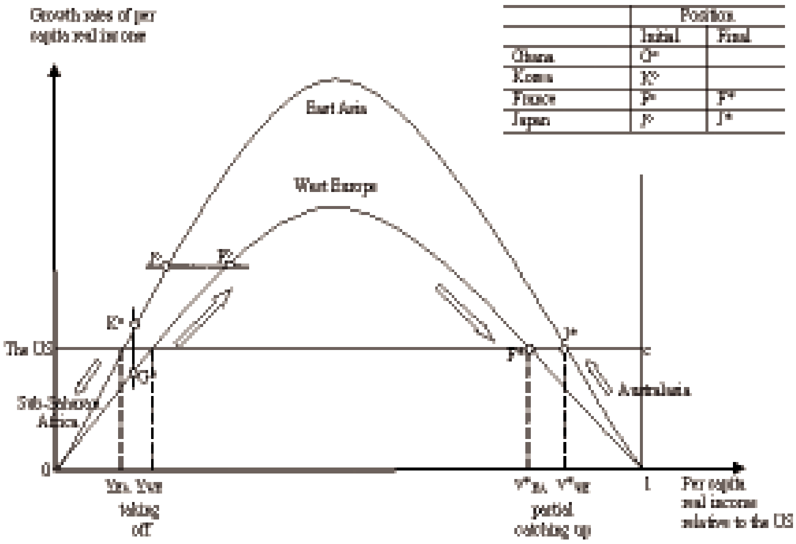


countries with incomes almost comparable to that of the US at the outset that fell relatively behind in terms of per capita real income (Australia, New Zealand, Argentina and a few Western European economies). It can be seen from Table 1 that Group I countries are characterized by very large initial relative gaps and increasing gaps over time. In contrast, Group II, starting from a slightly higher level of relative income managed to shrink their relative gaps drastically. The relative gap reduction ranges from a high of .81 for Hong Kong to a low -6.65 in New Zealand. The first observation that jumps out is how successfully East Asia has performed in terms of relative gap reduction. Five of the first six countries out of the full sample of 106 countries are from East Asia (see column 6 of Table 1). Conversely, the five countries in Group III (Mature/ Retrogressing) underwent major increases in the size of their relative gaps and are ranked at the bottom (102-106).

A phase diagram can be used to explain the very different growth patterns discussed above. Figure 1 captures the distinct patterns exhibited by the four groups of countries. The rate of growth of per capita real income, y, is plotted on the vertical axis and the relative ratio of a given country's per capita real income to that of the economic and technological leader (the US), v , is shown on the horizontal axis. Note that, c, represents the assumed constant growth rate of the leader. There is a stable equilibrium at v* and an unstable equilibrium at v (both equilibria can be thought of as steady states). The direction of the arrows indicates that any v near v* must gravitate toward v* and any v lower than v must move away and down from v.

The intuition behind this diagram is that every country has the *potential* to grow in a quasi-logistical fashion. A very poor economy may typically grow at a very low rate and essentially stagnate. The few economies that achieve to take off will see their growth rates accelerate up to a maximum (the peak of the parabola in Figure 1) before decelerating. The diagram in Figure 1 reflects a number of simplifying hypotheses. For those economies with a relative per capita real income, v, they will tend to lag increasingly behind the leading economies. East Asia and some South Eastern Asian countries were among the few cases that managed to escape the poverty trap. One can conceive of, v, as the take-off point, i.e. the threshold relative income ratio required to start the process of self-sustained growth. Depending on the specific initial conditions of a country, v, might range between 5 and 10 per cent. For those economies with a relative per capita real income ratio between, v, and v*, their growth rates will tend to exceed that of the leader, i.e., c and the catching up process is underway. As the diagram indicates, a phase of growth acceleration is followed by one of deceleration. Finally, it is postulated that, v, may approach some steady state value less than 1 (v = 1, represents the per capita real income of the US) so that the catching up process will never be fully completed (it is interesting to note that throughout the whole period, from 1961 to 1997, only two countries enjoyed temporarily higher per capita real incomes than the US – Luxembourg and Switzerland). Since the initial conditions differ, as do the policies and institutions adopted by a given country over time, so does the shape of the parabola in Figure 1, as will be discussed shortly.

Figure 2 Alternative Growth Paths



Each of the four prototype groups can be thought to operate within a distinct phase of development. Sub-Saharan Africa is clearly within phase I- the pre-take-off phase and is mired in a poverty trap as long as it does not reach the take-off point (v). In the last half century, the 'High Growth' economies of East Asia, after taking off, went through phase IIA (the sub-phase during which their growth rates accelerated up to the peak of the parabola (v^0) and are presently engaged in phase IIB displaying falling growth rates still higher than that of the US. The 'Mature' economies (essentially Continental Western Europe) fall within phase IIB – the phase of decelerating growth rates. Finally, the regions of recent settlement in the south and Great Britain are retrogressing in Phase III.

The growth pattern depends crucially on initial conditions and on the specific nature of the policy and institutional regime in place. Perhaps the most important mechanism influencing the growth pattern is through the acquisition of technology. The rate at which countries can reduce their relative gaps with the leader (the US) can be approximated as the product of two terms, 'the ability to learn' (which can be taken as depending on v) and the 'opportunity to learn' which increases with the income (technological) gap, g.

In order to demonstrate the key role played by policies and institutions in shaping a path of growth and relative equity, we revisit briefly the East Asian development model. The fundamental role of the government in East Asia after the Second World War can be distinguished into the first two phases shown on Figure 1. In the first (pre take-off) phase the government sets up the institutional and policy foundations required for the growth of agriculture and the spread of primary education to allow a take-off from a poor agrarian economy and traditional society into a path of sustainable development and modernization. The transfer of the agricultural surplus and the building up of a pool of educated workers provided the resources needed outside of agriculture to enter the second phase, characterized by a continuous and careful shepherding of the economy to acquire technology, upgrade and modernize the economy and ultimately catch up with the Western World.

In the 'High Growth', phase IIA, East Asia (and a few South East Asian economies) adopted an essentially common core of policies characterized by the following elements (for details see Thorbecke and Wan, 2004); 1. Reliance on Macroeconomic Stability through the maintenance of relatively balanced budgets and equilibrium exchange rates; 2. Openness and Outward Orientation provided the major catalyst in the acquisition of technology with trade and foreign investment acting as conveyor belts in the transfer of state of the art technology; 3. Emulation of the United States as the Technological Leader – entering into a variety of transactions with American firms and penetrating the US market provided invaluable sources of technological information; 4. Intra-East and South East Connections – taking advantage of strategic complementarities with Japanese firms (the neighborhood effect) and within ethnic Chinese majorities and minorities.

Figure 2 illustrates the fundamental importance of policies and institutions. The upper parabola tracks approximately the growth pattern of East Asia while the lower parabola reflects the path followed by Western Europe. It can be seen that at the outset (1961) France enjoyed a significantly higher relative income (see point F^0 in Figure 2) than Japan (J^0). Yet at the end of period (1997), Japan's relative income (J*) was above that of France (F*). Figure 2 also includes a

Table 1 Four Distinct Growth Patterns: Per Capita Real Incomes and Gaps with the US, 1961-1997*

	Three year average over 1960-1962		Three year average over 1996-1998		Relative gap reduction	
Twenty economies in 4 groups	Relative per capita real income v_{61}	Relative gap in per capita real income g_{61}	Relative per capita real income v_{97}	Relative gap in per capita real income g_{97}	Ratio $(g_{61}-g_{97})/g_{61}$	Rank*
Group I ***Poor/Stagnating***						
Uganda	4.3	95.7	2.9	97.1	-0.01	45
Tanzania	3.7	96.3	1.5	98.5	-0.02	51
Ethiopia	4.3	95.7	1.9	98.1	-0.02	54
Ghana	13.4	86.6	4.3	95.7	-0.11	82
Senegal	15.9	84.1	5.0	95.0	-0.13	86
Group II ***High-Growth***						
Hong Kong	23.9	76.1	85.5	14.5	0.81	1
Singapore	21.0	79.0	84.7	15.3	0.81	2
Japan	41.3	58.7	79.7	20.3	0.65	3
Taiwan	11.3	88.7	54.4	45.6	0.49	4
Korea	11.6	88.4	46.4	53.6	0.39	6
Group IIB ***Mature/Decelerating***						
Italy	59.1	40.9	69.0	31.0	0.24	11
Belgium	64.9	35.1	71.8	28.2	0.19	13
Finland	63.9	36.1	67.8	32.2	0.11	20
France	65.8	34.2	68.3	31.7	0.07	22
Norway	74.9	25.1	84.9	15.1	0.38	7
Group III ***Mature/Retrogressing***						
Great Britain	77.8	22.2	69.0	31.0	-0.39	102
Argentina	59.0	41.0	37.0	63.0	-0.54	103
Australia	86.6	13.4	77.9	22.1	-0.65	104
Sweden	86.8	13.2	70.4	29.6	-1.24	105
N. Zealand	94.6	5.4	58.3	41.7	-6.65	106

*Rank in terms of relative reduction in gap out of a total sample of 106 countries from best (Hong Kong, ranked 1) to worst (New Zealand, ranked 106). A positive ratio denotes a relative gap reduction with the US and a negative ratio denotes an increasing gap with the US Out of the total sample of 106 countries, 36 reduced their relative gaps with the US and 70 increased their relative gaps.

comparison of South Korea and Ghana. Both countries had approximately the same per capita real incomes at the outset but followed very divergent paths subsequently. South Korea embarked on a high growth path while Ghana was not able to reach the take-off point and stagnated within phase I. Finally, Figure 2 shows the retrogression of Australasia in phase III.

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The article draws on an earlier work by the authors titled 'Revisiting East (and South East) Asia's Development Model', paper prepared for the conference on 75 Years of Development, Cornell University, May 7-9, 2004, and, Henry Y. Wan (2004) 'Economic Development in a Globalized Environment: East Asian Evidences', Norwell MA: Kluwer Academic Publishers.

Aid and the Millennium Development Goals in Africa

by Mark McGillivray

The Millennium Developments Goals (MDGs) face their biggest challenge in Africa. The principal MDG target – reducing the proportion of people living in extreme poverty to half the 1990 level by 2015 – will certainly not be achieved in sub-Saharan Africa and, as a result, in the African continent as whole. Poverty in sub-Saharan Africa has increased, with the proportion of the population living in less than one dollar per day increasing from 47 to 49 percent between 1990 and 1999. Even seemingly optimistic forecasts suggest the MDG income poverty target will not be achieved in sub-Saharan Africa until 2147, some 132 years late. Prospects for the achievement of other MDG targets by 2015 are just as dismal, based on recent forecasts. According to these forecasts the targets of cutting child mortality by two-thirds and achieving universal primary education will not be achieved until 2165 and 2129, respectively (UNDP, 2003).

Accompanying the MDGs is a recently-found optimism associated with aid based on the findings of a growing body of empirical research. Aid works in the sense that it increases growth, and by implication reduces poverty, according to the findings of this research. There is evidence, albeit disputed, that its impact on growth is contingent on the policies of recipient countries, so that while aid works in all countries it works better in countries with better policy regimes. But there is more evidence to suggest that it works in countries irrespective of the policy regime. This evidence is obtained from econometric studies utilizing samples of countries which include those in sub-Saharan Africa. Some studies provide a range of findings for different country samples, including one consisting

Aid: the key for meeting MDG goals

of sub-Saharan African countries only. It was concluded that while aid had a weaker impact of growth in these countries, this impact was positive and significant.

Given the MDGs and findings on aid effectiveness one might be forgiven for assuming that aid flows to sub-Saharan Africa would be substantially higher now than at any time in recent history. At very least one might assume that the share of aid to these countries would be substantially higher. Both assumptions are wrong, as Figures 1 and 2 make clear. The reality is that after rising for most years during the 1960s, 1970s and 1980s, total official development assistance (ODA) to sub-Saharan Africa trended downward from the early 1990s. It fell substantially in the mid-1990s, falling from $16.9 billion in 1994 to 11.6 billion in 1999. This trend was reversed in 2000, with ODA reaching a post-1960 high of $17.7 billion in 2002. While the rises in ODA from 1999 should obviously not be overlooked as a very positive signal, the reality is that sub-Saharan Africa has received $1.4 billion less of this aid during 1993 to 2002 than during 1983 to 1992. The declines in total ODA are also evident in aid allocated bilaterally and via multilateral agencies: these forms of aid tend to follow trends in total aid, not surprisingly.

Substantial declines in total world aid during the 1990s should not be overlooked. Total ODA emanating from OECD donor countries, provided bilaterally and via multilateral agencies, trended upward during the 1960s, 1970s and 1980s. After reaching a peak of $61 billion in 1992, it fell to $44 billion in 1997. This downward trend ended in 1998, with ODA levels climbing to $59.5 billion in 2002. Shares of world aid to sub-Saharan African trended upward in the 30 years from 1960, as Figure 1 indicates. This applies to total, bilateral and multilateral ODA. Shares in each of these categories of aid to sub-Saharan Africa have, however, sharply fallen in most years between 1990 and 1999. Shares of multilateral ODA to these countries fall in each year during the period 1994 to 2000. There has since been some recovery in these shares, with total and bilateral ODA shares rising since 1999 and multilateral since 2000. The main point, however, is that the decline in aid amounts to

Table 1: Total Net Disbursements of Total Official and Private Flows by Type, 1971-2001 (%)

	1971 - 1980	1981 - 1990	1991 - 2002
All Developing Countires			
Official Development Assistance (ODA)	36.7	50.8	43.6
Bilateral	29.0	38.3	30.9
Multilateral	7.7	12.5	12.7
Other Official Flows (OOF)	8.7	6.6	4.3
Private Flows	50.7	38.2	47.7
Grants from NGOs	3.9	4.4	4.8
Total	100.0	100.0	100.0
Sub-Saharan African Countries			
Official Development Assistance (ODA)	59.5	77.8	88.3
Bilateral	42.0	52.9	54.2
Multilateral	17.5	24.9	34.1
Other Official Flows (OOF)	11.2	14.4	0.2
Private Flows	29.3	7.9	11.5
Grants from NGOs	n.a.	n.a.	n.a.
Total	100.0	100.0	100.0

Data Source: OECD (2004)

sub-Saharan Africa during the 1990s was not entirely due to an overall contraction in world aid; donors actually allocated away from the region.

Developing countries attract, of course, development-oriented foreign financial transfers in addition of ODA. They attract official flows from OECD countries that do not qualify as ODA and private flows. The OECD reports data on both flows. The former is labelled other official financing (OOF) and the latter simply as private flows, which consist mainly of foreign direct investment. A reduction in ODA might be mitigated by increases in these flows, although there is less clarity over the impact of OOF and (to a lesser extent) private flows on growth and poverty reduction. Such mitigation has not occurred. As Figure 3 shows, OOF flows to sub-Saharan Africa have trended downward since the late 1980s, and were negative in each of the years 1996 to 2001. OOF increased sharply in 2001, but its level in that year much less than those that prevailed in the mid- to late-1980s. Private flows have been much more volatile. They fell dramatically in 1984, recovered in 1989 but then trended downward thereafter.

While declines in ODA might potentially be mitigated by increases in other inflows, it should be recognised that this potential is somewhat limited in the case of sub-Saharan Africa. This is made clear by Table 1, which shows percentage breakdowns of foreign inflows reported by the OECD. ODA accounted for almost 90 percent of total flows to sub-Saharan Africa during 1991 to 2002, indicating that many of the countries in this region are unable to attract private capital. Not only is this share more than twice that for all developing countries for the same period, but is has risen substantially higher than for the 1970s and 1980s overall. ODA dependency is a reality in sub-Saharan Africa. Thus even if OOF and private flows were to continue to increase to sub-Saharan Africa, such increases would have to be dramatic and sustained over many years for them to reduce the region's dependence on ODA.

What can we infer from trends in aid and other sub-Saharan African foreign inflows? There would appear to be one inescapable conclusion from the preceding data. Given that the clear majority finding from the literature that aid is effective in promoting growth and by implication reducing poverty, that this result holds on average for all countries, and that reductions in aid have not and cannot realistically be offset by increases in other development-oriented inflows, poverty is clearly higher in sub-Saharan Africa as a result of the declines in aid to this region experienced during the 1990s. This in turn means that the MDGs will be harder to achieve in sub-Saharan than would have otherwise been the case. While recent increases in aid to this region are to be welcomed, there remain many significant challenges for both governments in sub-Saharan and the international donor community.

A comprehensive review of this study and references cited are available in Discussion Paper 2003/71 Mark McGillivray: 'Aid Effectiveness and Selectivity: Integrating Multiple Objectives into Aid Allocations', available at www.wider.unu.edu.

Mark McGillivray is the director of WIDER projects 'Measuring Human Well-being', 'Development Aid: a Fresh Look' and 'Millennium Development Goals: Assessing and Forecasting Progress'.

Figure 1: Aid Flows to sub-Saharan Africa, 1960 to 2002

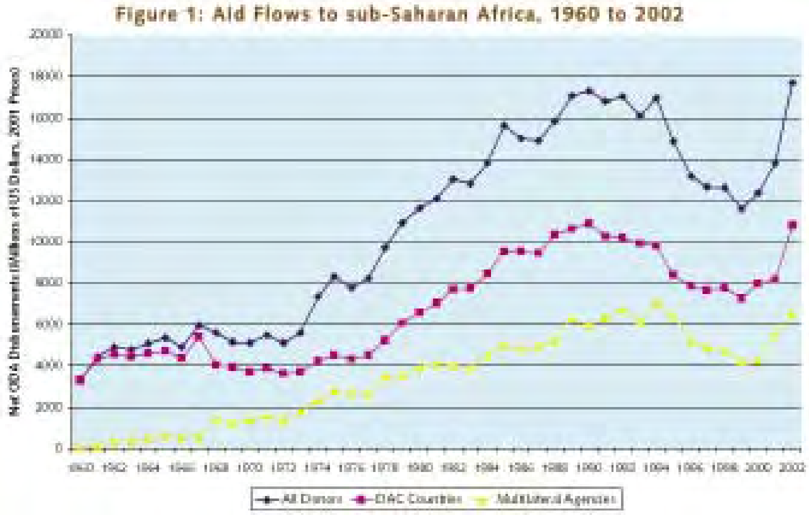
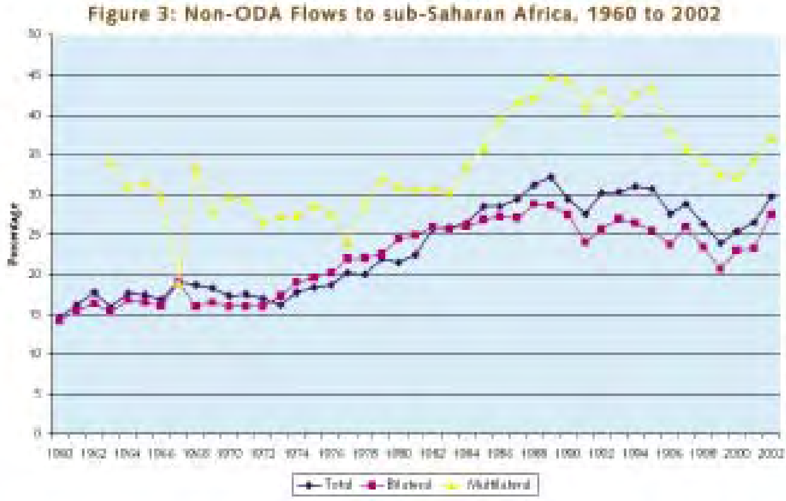


Figure 2: World Aid Shares to sub-Saharan Africa, 1960 to 2002

Figure 3: Non-ODA Flows to sub-Saharan Africa, 1960 to 2002



WIDER publications by Mark McGillivray on aid related topics

DP2003/71 Mark McGillivray: Aid Effectiveness and Selectivity: Integrating Multiple Objectives into Aid Allocations

DP2003/49 Mark McGillivray: Modelling Aid Allocation: Issues, Approaches and Results

DP2003/33 Mark McGillivray and Bazoumana Ouattara: Aid, Debt Burden and Government Fiscal Behaviour: A New Model Applied to Côte d'Ivoire

DP2003/21 Mark McGillivray: Descriptive and Prescriptive Analyses of Aid Allocation: Approaches, Issues and Consequences

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DP2002/40 Simon Feeny and Mark McGillivray: Aid, Public Sector Fiscal Behaviour and Developing Country Debt

DP 2001/61 Mark McGillivray and Oliver Morrissey: Fiscal Effects of Aid

Details on ordering WIDER publications are on page 24.

How can the Development Community help to achieve greater progress towards the Millennium Development Goals?

by Richard Manning

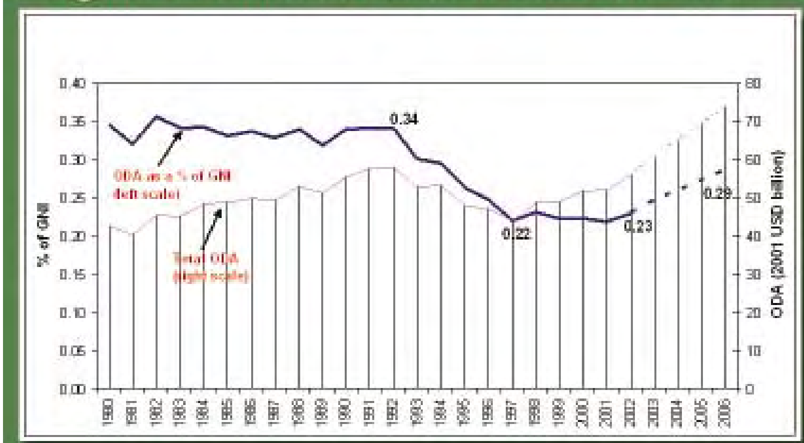
In this lecture, I will discuss the contribution that aid might make to the Millennium Development Goals, and suggest how this might be improved. In doing so, I draw very much on the annual Development Cooperation Report of the OECD-DAC, which has just issued.

Let us start by looking at the progress so far against the MDGs, most of which were to be achieved over the period 1990-2015, a period already past midpoint. While progress on poverty reduction appears to be in line with the relevant goal (though its achievement will still leave some 800 million people in 2015 living on under a dollar a day), progress on the other goals is less encouraging. The health goals look particularly difficult, given the impact of HIV/AIDS. Looked at regionally, East Asia and Latin America seem well placed, and the growth in South Asia, and its emerging 'demographic dividend' gives hope for good progress there. But sub-Saharan Africa stands out as off course on all the goals, though the World Bank points out that considerable progress could be made by 2015 by a combination of better policies and more assistance.

In looking at how more progress can be made, I would stress, like the Bank, that the main contribution must and will come from the developing countries themselves. There is no substitute for home-grown effort. And although I shall talk mainly about aid in this lecture, I should also stress that the enabling environment provided by the policies of OECD countries – for example on trade and agriculture – is also more significant than aid for most recipients. To adapt Schumacher's dictum 'economics as if people mattered', we should argue for 'policies as if development mattered'.

Private flows, and particularly private investment, are also of great importance to development, another reason why the policy environment, both internationally and in developing countries, is so important. But the boom in private investment over much of the past 15 years seems to have slackened in the early years of this century (though UNCTAD suggests some improvement again in 2003).

Figure 1. Evolution of Aid Flows 1980-2006



Source: OECD

By contrast, as Figure 1 shows, aid as measured by the DAC ('official development assistance') appears to be following a very different course. After remaining virtually unchanged as a proportion of DAC GNI from 1980-1992 (perhaps kept up in the last couple of years by the consequences of the Gulf War), aid fell sharply in real terms from 1992-1997, and as a proportion of DAC GNI sank to the unprecedentedly low level of 0.22%. Since then the ratio has stabilised, and aid has once again started to increase in real terms even as private flows have declined. In 2002, aid rose to $58 billion from $52 billion the year before, though rising debt forgiveness (up from $3 billion to $6 billion) accounted for about half the increase [Figure 1].

At the Monterrey Conference in 2002, most donors committed themselves to significant further increases. If delivered, aid would rise to around $75 billion (in 2002 prices and exchange rates) by 2006 – the largest real increase in aid since the DAC was founded in 1960. Decisions to be taken by five major donors are critical for the total increase [Figure 2].

This situation presents a major opportunity for progress. But it is also a major challenge. Let us suppose that these increases are delivered and yet we see little progress to the outcomes set in the MDGs. What sort of story will we in the development community have to tell our publics and parliaments?

Making aid more effective in helping developing countries progress is therefore a critical task – as is better measurement and evaluation of what aid is achieving. What progress can we report?

Figure 2. 2006 outcome depends crucially on five donors

Table 1.1 Anticipated ODA - 2006

US$ billion (at 2002 prices and exchange rates)

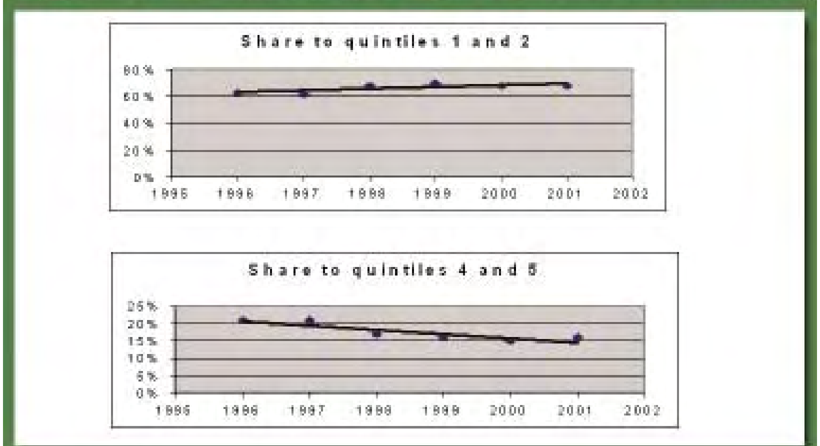
	Net ODA 2002	Anticipated ODA 2006	Increment
United States	13.3	19.5	6.2
United Kingdom	4.9	6.9	2.0
France	5.5	7.4	1.9
Italy	2.3	4.2	1.9
Germany	5.3	7.1	1.8
Sub-total	**31.4**	**45.1**	**13.8**
All other DAC members	26.9	31.7	4.8
Total	**58.3**	**76.8**	**18.6**

Data Source: OECD

DAC figures show that aid has become gradually more performance related over the past 5 years [Figure 3]. This seems right, though we also need intelligent interventions in poor performing countries, where so many of the destitute live. Over the long term, the untied portion of aid has tended to increase, and the share of grants has risen, reducing the contribution of aid to indebtedness. On the other side of the balance sheet, the proportion of aid going to least-developed and other low income countries has stagnated. Some of the sectoral shifts are also noteworthy: more for governance and health, but less for industry and energy (perhaps as a result of the OECD disciplines on tied aid credits), for education and, to a worrying extent, for agriculture.

There are interesting questions about the transactional efficiency of aid, too. Each year, some 35,000 new transactions are reported to the DAC, 85% of them under $1 million in value. This is at least one new activity per developing country per day. It is therefore hardly surprising that there are concerns over the burdens, particularly to developing countries, of the way donors do business. At a High Level Forum in Rome in February 2003, donors agreed to a set of principles which recognised the need to harmonise their procedures and to align their operations more behind partner country strategies and systems. The DAC has established a Working Party on Aid Effectiveness, with strong participation from the Multilateral Development Banks and the UN, which is attempting to put more energy behind this agenda. This involves encouraging and monitoring progress at country level, developing good practice in new areas (such as predictability of aid and procurement) and working to harmonise systems for managing for results. We shall expose the results of all this work to Ministerial-level scrutiny at a further High Level Forum in Paris early 2005.

Figure 3. Aid Allocation: More Performance-linked



Source: OECD

My message is therefore that there is a real prospect that aid can indeed make a stronger contribution to helping developing countries achieve the Millennium Development Goals. But both on volume of aid and on its effectiveness, progress can by no means be taken for granted.

***Richard Manning** is the Chair of the OECD's Development Assistance Committee (DAC). Mr Manning was former Director General for Policy at the UK Department for International Development (DFID). This article is based on a public lecture by Mr Richard Manning delivered at WIDER in Helsinki on Monday, 9 February 2004.*

Do Structural Reforms Always Succeed? Lessons from Brazil

by Jorge Saba Arbache

Over the last twenty years, Brazil has experienced profound economic changes. Following the international economic instability of the late 1970s and the debt crisis of the early 1980s, Brazil launched structural adjustment programs aimed at solving external account imbalances and controlling high inflation rates. In 1990, Brazil undertook a major break with a century-long era of import substitution strategy that left its economy especially closed towards the end of the 1980s, and introduced economic reforms involving trade and capital account liberalization, privatization of state companies, deregulation of markets, and a successful stabilization plan, the Plano Real.

Measuring the success or failure of reforms demands a sensible criterion. Indeed, the ultimate aim of structural reforms is to foster economic growth. However, in view of the very uneven income distribution by international standards, and the substantial portion of population below the poverty line, a broader reform achievement criterion seems more appropriate for Brazil and perhaps for other developing countries as well. Therefore, it seems plausible to assess the success of reforms according to the performance of the per capita GDP growth rate, but also to the performance of the poverty and inequality indices before and after the reforms.

A significant drop in poverty occurred just after the Plano Real in mid-1994, and since then the indigence and poverty lines have remained fairly stable at about 15% and 35%, respectively. Despite the various stop-and-go's, economic crises, hyperinflation, price and wage freezes, and structural reforms, the Gini coefficient have remained quite stable pre- and post-reforms at about 0.60. These social indicators suggest so far that structural reforms hardly benefited the poor.

Figure 1: Ln Per capita output

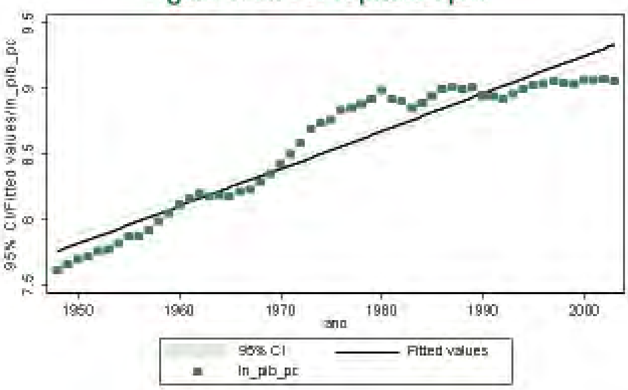


Figure 1 presents the fitted and actual logarithm of the per capita output. The fitted line can be interpreted as the long-term trend of the per capita output. Two points seem to emerge. First, Brazil has experienced long economic cycles over the last decades. Second, after a strong boom, the economy entered in a quite stagnant period since 1980, and the fitted-actual per capita output gap has been increasing since 1990, thus suggesting an economic depression. While the instantaneous rate of growth of the per capita output in 1964-79 was 5.7 percent, it declined sharply to 0.7 percent in 1980-2002, and in 1994-2002 it reached a disappointing 0.64 percent. Therefore, the structural reforms implemented in the 1990s were not able to change the declining output growth trend. The poor economic performance in the post-reform period implies that something went wrong, as market-oriented reforms are, a priori, understood to be pro-growth.

What went wrong?

The disappointing post-reform output growth can be explained by sequencing of policy reform issues, political economy constraints, and the timing the reforms were introduced. A critical sequencing of reforms issue in Brazil was the stabilization-cum-exchange rate nominal anchor introduced after, and not before, trade liberalization, thus opposing a long established consensus of the policy literature. The strong appreciation of the exchange rate prior to stabilization made the anti-export bias created by the nominal anchor larger than it would have been otherwise. It was subsequently reinforced by the long period of appreciation post-Plano Real. A sizeable FDI inflow favored by capital account liberalization and privatization in the aftermath of Plano Real also contributed to keep the real quite appreciated. As increase in productivity takes time and the reallocation of resources is a slow and long process, especially in a country long protected from imports as was Brazil, the trade-off between using the exchange rate to guide inflation down and to guide the reallocation of resources bounced-back against the improvement of exports. The outcome was a rapid worsening of the current accounts, which ended up constraining the output growth potential. Thus, Brazil repeated the policy mistakes committed by other Latin American countries in previous stabilization attempts, as extensively documented by Sebastian Edwards, but with the aggravated implications of undergoing a stagnant economic cycle, and exposing the economy to speculative attacks in a liberalized financial market framework.

Another critical issue of policy reforms in Brazil is related to fiscal accounts. Serious fiscal adjustment was left for after stabilization. Therefore, the fiscal adjustment required during the aftermath of the Plano Real was huge and difficult to be realized. It appears that the government overplayed its capacity to control fiscal accounts and to pass bitter fiscal reforms in the Congress. Rather than surpluses, the post-Plano Real period witnessed explosive operational public deficits. The rise in interest rates to finance balance of payment deficits with portfolio capital affected public accounts, aggravating the fiscal disequilibria. The unwillingness of politicians to approve necessary measures to achieve fiscal discipline delayed the required reforms, thus increasing the costs of adjustment. The 'way out' for fiscal adjustment was not to resort to inflation tax, as in previous decades, but to take advantage of the success of Plano Real to resort to funding from both local and foreign financial markets, at the expense of worsening fiscal and current accounts. The delay of fiscal adjustment and conflicts among policy reforms created a scenario of unsustainable macroeconomic deterioration in the country which, of course, could not last long. Accordingly, the spread of C-Bonds – the risk premium on Brazilian government international bonds – jumped from 400 base points in October 1997 to 1150 base points at the end of 1998.

The rising uncertainties about the sustainability of the Plano Real had stringent effects on the prospects of growth. From the end of 1997 onwards, the investment-to-GDP ratio initiated a period of contraction, being the immediate cause of vulnerability of the real. After the collapse of the real in early 1999, rising costs of investment and input goods, very high interest rates, the implementation of an enormous fiscal adjustment, and an unfinished regulatory system for utilities and infrastructure, compound the main causes of investment stagnation.

It is noteworthy that only after the aggravation of economic crisis, collapse of the real, and depletion of international reserves that fiscal measures were taken. The recurrent postponements of reforms highlight a stringent war of attrition, and suggest that Brazil is perhaps a good illustration of the Danny Rodrik's point on how a combination of high income inequality and weakness of institutions of conflict management can be counterproductive for a society in handling and responding adequately to macroeconomic problems.

The rapid pace in which the structural reforms were introduced in Brazil was perhaps a reaction of policy makers to foreseeing strong pressures against policy changes. Speedy reforms, however, are costly, as the chances of committing mistakes increase; short run unemployment and bankruptcy go up; and the burden tend to be unevenly distributed. The rising informality and unemployment, and the drop in real wages observed over the second half of the 1990s and 2000s are consistent with the abrupt adjustment imposed to the productive sector and with the empirical evidence on rationalization and turnover at the firm sector level.

The timing in which Brazil implemented structural reforms also appears to have contributed to their effectiveness. On the one hand, many potential competitors introduced similar reforms at the same time; on the other hand, institutional constraints to pro-export policies, along with protectionism of developed countries, mitigated the benefits reforms were supposed to bring for output growth. Besides this, Brazil was experiencing an extended period of economic stagnation. Of course, in such an environment the efforts required for growth have to go much beyond the introduction of standard market-oriented reforms, thus shedding light on how challenging it is for developing countries to achieve sustainable economic growth in nowadays.

It appears that the delay of fiscal reforms and mismanagement of policies contributed decisively to offset the potential benefits of reforms to output growth, at least in the short and medium terms. To the extent that political economy issues determine the delay of reforms and policy design, policies aiming at sustainable growth in Brazil have to tackle the sources of political economy constraints. Of course, an obvious starting point is reducing poverty and inequality.

Conclusions

Over the last twenty years, Brazil has experienced several attempts of improving sustainable growth through stabilization programs, and more recently, structural reforms in line with the Washington Consensus Agenda. The results, however, have been disappointing, as per capita output growth has been quite below its historic trend, and poverty and inequality remain at high levels. A concerning implication of successive failures is society's reform fatigue. It is also unclear whether never-ending economic and political crises will provoke disillusionment with the young re-democratization process and with Brazil's future.

The main lesson of Brazil's attempt of economic reform is that policies aiming at promoting growth and tackling poverty have to overcome the domestic economic and institutional constraints. Were standard market-oriented reforms enough to boost growth, Brazil would have grown at higher rates. Therefore, market-reforms are not panacea. They may contribute to growth if accompanied by microeconomic policies tailor-made to the country's needs, and by appropriate macroeconomic, institutional and political environments. To the extent that no autarkic country maintained high growth performance for a long period, it seems proper to consider market-reforms as necessary, but not sufficient conditions, for sustainable growth.

Jorge Saba Arbache is professor of economics at the University of Brasilia. He was a Sabbatical Fellow at WIDER during February-April 2004.

Human Rights and Globalization

by Tony Addison

Economic Development underpins Democracy and Human Rights

Democracies have now replaced authoritarian regimes in many parts of the world. In the last two decades of the 20th century, 81 countries moved into democratic governance: 29 in sub-Saharan Africa, 23 in Europe, 14 in Latin America, 10 in Asia, and 5 in the Arab states (information from UNDP). Although new democracies are often fragile, this is a welcome trend both for human rights – freedom of expression and freedom to choose one's government – and for economic development (authoritarian regimes in developing countries have a poor record in delivering improvements in living standards, especially in Africa). And democracy provides the political space in which to press forward on achieving equal rights for women and minorities.

However, for democracy to be sustained and deepened it is essential for economic development to occur. This is because democracies have a poor survival rate in low-income countries. When per capita incomes are low and falling, people resort to violence as a livelihood, states fracture, democratic principles are undermined, and gross violations of human rights occur. Moreover, lack of progress in development undermines popular support for democracy. A recent UNDP survey finds that only 43 per cent of Latin Americans fully support democracy, and more than 54 per cent of people polled said they would support an authoritarian government if it improved the economy. Given the gross human rights violations committed by past authoritarian governments in Latin America, this is a worrying trend.

UN Photo/152390

Education: a crucial human right

In summary, economic development is crucial for underpinning democratization and thereby plays a vital role in supporting the expansion and consolidation of human rights and their protection.

Globalization, Economic Development and Human Rights

Unfortunately, the global economy is not working well for poor countries or for poor people. Despite the rapid and large increase in flows of trade, finance, and technology across the global economy – the three key elements of the globalization process – most poor countries have very limited access to the finance necessary for economic development. Foreign direct investment is highly concentrated on a narrow range of countries, and official aid flows have been stagnant and declining in recent years. Lack of finance limits the ability of many countries to invest to diversify their trade, access new technologies, and achieve poverty reduction. At the same time, poor countries face rich-country protectionism, particularly in key agricultural markets such as cotton and sugar. Progress on trade liberalization under the WTO's auspices has stalled.

Despite success in the larger countries (notably India and China), the smaller countries remain highly vulnerable to world economic turbulence and many sub-Saharan African countries have per capita incomes below their levels at independence and are experiencing an alarming deterioration in their human development indicators (literacy, health etc.). Violent conflict has worsened their situation, and is itself an outcome of poor economic performance. As already noted, disappointing economic performance in Latin America is not conducive to democratization, and in North Africa and the Middle-East the failure to achieve economic development is encouraging elements in their very young (and disenchanted) populations to turn to terrorism. And economic distress at home is fuelling flows of people desperately seeking better lives in the rich world, and is encouraging human trafficking, particularly of women.

Progress in human rights will therefore stall unless the poorer and more vulnerable countries start to participate in the global economy in a meaningful way. What action must be taken? The rich world must move away from its present narrow perspective on trade and finance, which in many cases is driven by short-term national interests without due consideration to the longer-term, and more powerful, benefits arising from a well-functioning global economy that works for poor countries and poor people. These larger benefits apply to everyone, both rich and poor (for example, the reduction in violent conflict that will occur if economic development is secured, and the associated decrease in terrorism, forced migration, and asylum-seeking). Specifically, this means a greater willingness to foster the interests of poor countries in trade-negotiations, to expand the flow of official development finance (which works well in countries with the rule of law and good economic policy), to encourage flows of private capital to the poorer countries, and to take immediate action on global climate change and other environmental challenges.

In conclusion, the promotion of human rights cannot be seen in isolation from the wider economic situation of the developing world, since this provides the soil in which human rights will either flourish or wither. Today's global economy offers unprecedented opportunities for accelerating the development of poor countries and poor people. But unless the developing world receives more help, darker forces will take control of their destinities, progress in human rights will be set back, and minorities will be amongst the first to suffer.

Tony Addison is Deputy Director, World Institute for Development Economics Research of the United Nations University. This article is based on evidence given to the Foreign Affairs Committee, Finnish Parliament, 27 April 2004.

Lal Jayawardena, prominent Sri Lankan economist, former diplomat, and the inaugural director of UNU-WIDER, passed away on 8 April in Colombo after a brief illness. He was 69.

Photo/Juha Rahkonen

Dr. Jayawardena held several key positions in Sri Lanka and abroad, including that of Economic adviser to the Sri Lankan president, Deputy Chairman of the Sri Lankan National Development Council, Treasury Secretary, Sri Lanka's Ambassador to the Benelux countries (1978-82), Director of UNU-WIDER (1985-93), and Sri Lanka's High Commissioner to the UK and Ireland (1999-2000).

As Treasury Secretary, Dr. Jayawardena was influential in crafting and implementing the reform package which opened up Sri Lanka's economy in the mid 1970s. Between 1985 and 1993, as Director of UNU-WIDER, he founded the WIDER Studies in Development Economics and chaired a study group on Indo-Sri Lanka Economic Co-operation, the final report of which formed the basis of the Indo-Sri Lanka Bilateral Free Trade Agreement signed by the two countries in 1998.

Lal Jayawardena is fondly remembered by his friends and colleagues for his passion for classical music and opera, as well as his generous hospitality. He is survived by his wife, Kumari, and his son, Rohan.

WIDER Book Launches and Presentations of New Studies at International Forums

Edouard de Ereño/UNU-NY

Wider studies on growth, inequality and poverty were presented at the World Bank Infoshop in Washington DC on 14 April and at the UN in New York on 16 April 2004, by Anthony Shorrocks, Rolph van der Hoeven and Giovanni Andrea Cornia. The presentation at the World Bank was chaired by François Bourguignon, Chief Economist and Senior Vice President of the WB, and the discussant was Peter Timmer, Senior Fellow and the Centre from Global Development.

Photo: (from left) Jean-Marc Coicaud, Acting Director of UNU office in NY, Giovanni Andrea Cornia, former Director of WIDER, Rolph van der Hoeven, an author of the study from ILO, José Antonio Ocampo, Under-Secretary-General for UN DESA, Jan Vandemoortele, Principal Adviser and Group Leader, UNDP Poverty Reduction Group in NY, Anthony Shorrocks, the Director of WIDER.

Glenn Ratcliffe/SOAS

The **WIDER inequality studies** were also presented by Giovanni Andrea Cornia and Rolph van der Hoeven at the School of Oriental and African Studies (SOAS), University of London, on 25 June 2004.

Photo: (from left) Giovani Andrea Cornia, Rolph van der Hoeven, John Weeks an author of the study chairpered the session, and John Wade from LSE was the discussant.

Andrew Wright/ICS

The WIDER study on **'WTO and the challenges for trade-led growth'** was presented by Basudeb Guha-Khasnobis, the director of the study and Sam Laird an author of the study, at the Institute of Commonwealth Studies (ICS) in London, 23 June 2004.

Photo: (from left) Vincent Cable, UK MP, discussant, Sam Laird, from UNCTAD, Basudeb Guha-Khasnobis, Director of the WTO study, Richard Crook, Professor of Commonwealth at the ICS, who chaired the session.

2004 WIDER Annual Lecture

Rethinking Growth Strategies

by Dani Rodrik

5 November 2004, 15:15 - 17:00

Stockholm School of Economics, Aula Lecture Hall, Sveavägen 65

This lecture draws lessons for the design of growth strategies from recent experience with economic growth. One key theme is that economic analysis is more flexible than generally recognized by practitioners working in the policy domain. Reformers have substantial room for creatively packaging core economic principles into institutional designs that are sensitive to local circumstances. The second key theme is that igniting economic growth and sustaining it are different things, with the former typically requiring a limited range of reforms that need not strain the institutional capacity of the economy. Ignoring the distinction between the two tasks leaves reformers saddled with impossibly ambitious policy agendas. The lecture illustrates the practical consequences of this distinction and draws operational lessons.

Dani Rodrik is Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University. He has published widely in the areas of international economics, economic development, and political economy. His research focuses on what constitutes good economic policy and why some governments are better than others in adopting it.

The 2004 WIDER Annual Lecture is organized in collaboration with the Stockholm School of Economics and the Swedish International Development Cooperation Agency - Sida.

Admission is free, please register in advance:
annual-lecture@wider.unu.edu or tel. +46 8 7369250

Essay Competition

UNU-WIDER is holding an essay competition as part of its project on **inequality and poverty in China**. It is open to anyone who submits a paper on measurement, causes, consequences, policy options or any other aspect of poverty and inequality in China. Preference will be given to those who are nationals and residents of developing countries. Females and young researchers are particularly welcome. In addition to the prizes, all winners will be invited to attend a conference to be held in China next April or a workshop to be held in Europe next summer. However, financial support for conference/workshop attendance is limited to one author per paper.

Papers should be written in English and should not exceed 15000 words in length. In exceptional cases, papers in Chinese may be considered. The cover page must include the nationality and current affiliation of each author. In cases of joint authorship, the prize will be divided equally among the authors. **First Prize (one only) US$2000, Second Prize (two) US$1000, Third Prize (three) US$500.**

Submission Deadline: 1 December 2004, Announcement Date: 15 January 2005. MS Word/PDF file submission to: wan@wider.unu.edu. More details: www.wider.unu.edu

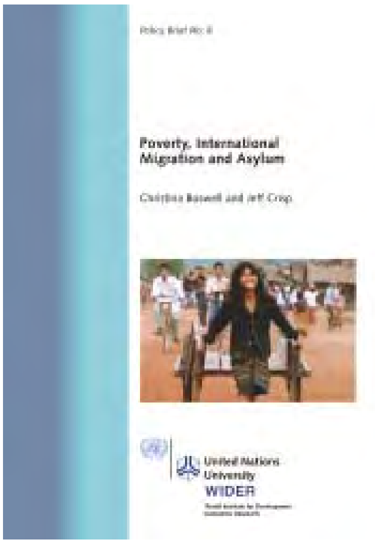
For applications to the WIDER Sabbatical and Internship programmes, please check vacancies at: www.wider.unu.edu

WIDER Publications

New Titles

Policy Briefs

Policy Brief 8 Poverty, International Migration and Asylum
Christina Boswell and Jeff Crisp, March 2004



This publication summarizes the key issues presented at the UNU-WIDER conference on Poverty, International Migration and Asylum in Helsinki during 27-28 September 2002 organized by George Borjas of Harvard University, and Jeff Crisp of UNHCR. An edited volume resulting from the conference and the project on Refugees, International Migration and Poverty will be published later in the year by Palgrave Macmillan (hardback) 1-4039-4365-6.

Policy Brief 9 Sustainability of External Development Financing to Developing Countries
Matthew Odedokun, March 2004

This is a policy-focused summary of the UNU-WIDER project on the 'Sustainability of External Development Finance', directed by Matthew Odedokun and also includes details of the book and journal special issues that have been published from this research.

Research Papers

A new series of Research Papers (ISSN 1810-2611) has been launched on the WIDER web site to stimulate discussion and critical comment. Over thirty papers are now available to download; please contact us if you are unable to access this new collection.

Discussion Papers

DP2004/01 Anthony Shorrocks and Guanghua Wan: Spatial Decomposition of Inequality

DP2004/02 Bart Capéau and André Decoster: The Rise or Fall of World Inequality: A Spurious Controversy?

DP2004/03 Ernest Aryeetey: A Development-focused Allocation of the Special Drawing Rights

DP2004/04 Erik Thorbecke: Conceptual and Measurement Issues in Poverty Analysis

DP2004/05 Stephan Klasen: Gender-Related Indicators of Well-Being

DP2004/06 Des Gasper: Human Well-being: Concepts and Conceptualizations

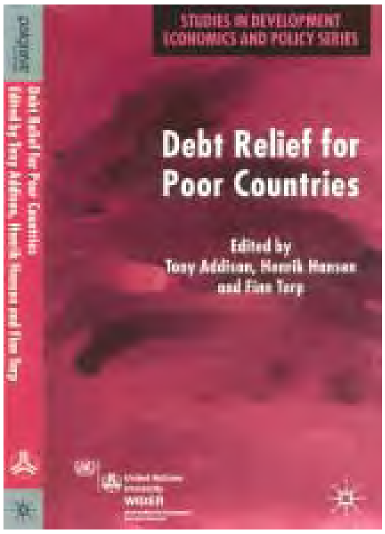
DP2004/07 Ruut Veenhoven: Subjective Measures of Well-being

Books

Debt Relief for Poor Countries

Edited by Tony Addison, Henrik Hansen and Finn Tarp

(hardback) 1-4039-3482-7 (paperback) 1-4039-3495-9, June 2004
Studies in Development Economics and Policy, Palgrave Macmillan



'It seems that with each new book it issues UNU-WIDER further establishes its reputation as the intellectual leader among international organisations. This volume on debt is particularly outstanding. The chapters by the editors and their co-authors are quite impressive. The book should be read both by the novice and specialist.'

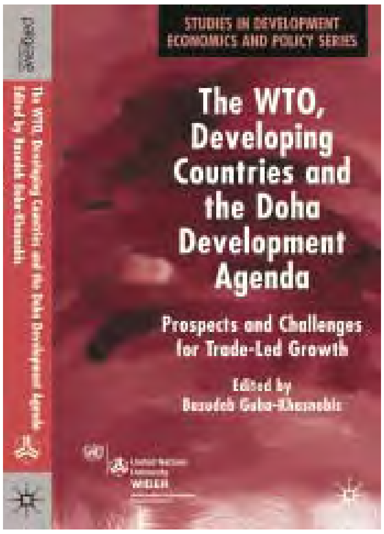
John Weeks, Professor of Development Economics, SOAS, University of London

'The international financial institutions agreed to debt relief for the poorest countries, under pressure from the countries themselves and a vigorous NGO campaign. This extremely useful book provides in-depth analysis of the results of the debt relief contained in HIPC: they are positive, but small. Unfortunately, as the book demonstrates, HIPC debt relief will not provide the solution to the development problems of most poor countries.'

Frances Stewart, Director, Queen Elizabeth House, University of Oxford

The WTO, Developing Countries and the Doha Development Agenda: Prospects and Challenges for Trade-led Growth

Edited by Basudeb Guha-Khasnobis
(hardback) 1-4039-3483-5,
June 2004
Studies in Development Economics and Policy, Palgrave Macmillan



'This volume shows that a lack of good arguments for ambitious trade liberalization is not the problem at the Doha Round talks. A vast array of crucial issues for both the agriculture and the industrial products negotiations are soundly addressed in this useful book.'

Ernesto Zedillo, Director of the Yale Center for the Study of Globalization and former President of Mexico

'As the contributors in this volume demonstrate, advancing the agenda for development within the Doha negotiations is in the commercial and development interests of developing and developed countries alike. The articles address a number of critical issues related to efforts to reform and liberalize agricultural trade and increase market access for industrial products of export interest to developing countries, while at the same time, taking fully into account flexibilities and measures for developing countries and LDCs. Trade negotiators, development economists and national policy-makers will benefit from the comprehensive treatment of the WTO issues provided herein.'

Lakshmi Puri, Director, Division for International Trade in Goods and Services, and Commodities, United Nations Conference on Trade and Development, Geneva

'This book is a valuable source of both information and analysis on the main agenda items facing developing countries in future negotiations on the WTO. The various contributors pragmatically assess what developing countries should try to get and how they should go about getting it.'

Gary McMahon, Principal Economist, Global Development Network, Washington DC

Fiscal Policy for Development: Poverty, Reconstruction and Growth

Edited by Tony Addison and Alan Roe
(hardback) 1-4039-3480-0,
May 2004
Studies in Development Economics and Policy, Palgrave Macmillan

'This book stands out in two ways. First, this is cutting edge research. The list of authors reads as a Who's Who? in the field of fiscal policy analysis in developing countries and the quality of the contributions is very high. Second, the volume moves well beyond the traditional topics. Novel issues include the design of new tax systems when the state is very weak, the fiscal implications of war, assessing the impact of fiscal policy on poverty, and the effect of tax choices on economic growth.'

Jan Willem Gunning, Professor, Free University, Amsterdam

'Researchers and policy analysts will find this book to be an excellent basis for thinking about a number of difficult fiscal, tax, and budgetary issues facing developing economies. The readings are of high quality and relevant to current policy analysis. The papers contained in this book scream out to policy makers as to why better budgetary practices as outlined in this book are not commonly adopted throughout the world.'

Jack Mintz, President and CEO, C.D. Howe Institute, Toronto

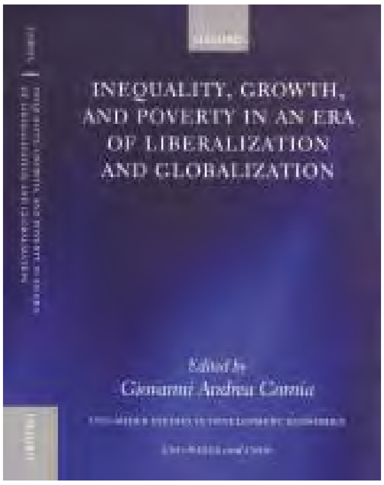
'This volume represents a clear, in-depth analysis of many aspects of fiscal policy and its relationship to the development of poor countries.

The book consists of high-quality contributions by authors who are recognised experts in their fields. The coverage of topics is very comprehensive indeed - ranging from the macroeconomics to the microeconomics of fiscal policy, and from public expenditure management through to taxation policy. The volume also tackles major issues of current concern head-on, such as the impact of fiscal policy on poverty and the fiscal policy implications of conflict and reconstruction. By so clearly synthesising the results of the latest research and identifying the main unresolved questions the book is bound to stimulate a more informed debate. I strongly recommend this exciting book to graduate students, researchers and policymakers alike.'

Jeffery Round
University of Warwick, UK

Inequality, Growth and Poverty in an Era of Liberalization and Globalization

Edited by Giovanni Andrea Cornia
(hardback) 0-19-927141-0,
March 2004
UNU-WIDER Studies in Development Economics
Oxford University Press



'An outstanding set of papers on the central challenge of our age: ambitious, analytically sound, and thoroughly grounded in real evidence. This volume deserves careful reading by all students of inequality and development.'

Nancy Birdsall, President,
Center for Global Development,
Washington DC

'… a timely and valuable contribution to current thinking on development issues, since it underscores both the complexity of the challenges that lie ahead as well as the opportunities created by the process of globalization.'

Enrique V. Iglesias, President,
Inter-American Development Bank,
Washington DC

'WIDER provides in this book hard data and analytical input for a subject that is more commonly dealt with in terms of ideological standings. It shows that the unequilizing forces present today at the national level in most countries must be faced by the authorities and, indeed, that countries which have maintained equity as a major policy objective have been largely able to avoid the adverse trends.'

Jose Antonio Ocampo, Under-Secretary-General, United Nations Department of Economic and Social Affairs

External Finance for Private Sector Development: Appraisals and Issues

Edited by Matthew Odedokun
(hardback) 1-4039-2091-5,
March 2004
Studies in Development Economics and Policy
Palgrave Macmillan

Seen as an antidote for the recipient economies' aid dependency syndrome and a way of accomplishing growth and poverty reduction cum empowerment, foreign finance for private sector development (PSD) has become popular with the donor community and in multilateral development policy fora. This book analyses foreign finance for PSD and examines multilateral and bilateral donors' practices in PSD financing, with attention to microfinance and microenterprises. It also models and explains private capital flows to, and capital flight from, developing countries.

Journals

Journal of Economic Integration
Volume 19, Number 2 (June 2004)

WIDER Special Issue: Developing Countries in the WTO Regime: Selected Issues
Guest Editor: Basudeb Guha-Khasnobis

Center for International Economics/
Sejong University

International Review of Economics & Finance
Volume 13, Number 3 (2004)

WIDER Special Issue: Aid Allocations and Development Financing
Editorial by Matthew Odedokun
Elsevier

The World Economy
Volume 27, Number 2
(February 2004)

UNU-WIDER Special Issue on Development Financing
Edited by Matthew Odedokun
Blackwell Publishing

Journal of African Economies
Volume 12, Number 4
(December 2003)

WIDER Special Issue: Spatial Issues in Africa
Edited by Ravi Kanbur and Anthony J. Venables
Oxford University Press

Forthcoming Books

New in paperback

Resource Abundance and Economic Development
Edited by Richard M. Auty
(paperback) 0-1992-7578-5,
August 2004
UNU-WIDER Studies in Development Economics
Oxford University Press

New Sources of Development Finance
Edited by A. B. Atkinson
(hardback) 0-19-927855-5, (paper-back) 0-19-927856-3, October 2004
UNU-WIDER and UN-DESA
UNU-WIDER Studies in Development Economics
Oxford University Press

Insurance Against Poverty
Edited by Stefan Dercon
(hardback) 0-1992-7683-8,
November 2004
UNU-WIDER Studies in Development Economics
Oxford University Press

Spatial Inequality and Development
Edited by Ravi Kanbur and Anthony J. Venables
(hardback) 0-19-927863-6
January 2005
WIDER Studies in Development Economics, Oxford University Press

Poverty, International Migration and Asylum
Edited by George J. Borjas and Jeff Crisp
(hardback) 1-4039-4365-6,
February 2005
Studies in Development Economics and Policy,
Palgrave Macmillan

Research Papers

RP2004/01 Anthony Shorrocks: Inequality and Welfare Evaluation of Heterogeneous Income Distributions

RP2004/02 David Fielding: How Does Monetary Policy Affect the Poor? Evidence from the West African Economic and Monetary Union

RP2004/03 Michael Bleaney and Akira Nishiyama: Economic Growth, Income Distribution and Poverty: Time-series and Cross-country Evidence from the CFA-zone Countries of sub-Saharan Africa

RP2004/04 David E. Sahn and David C. Stifel: Urban-Rural Inequality in Living Standards in Africa

RP2004/05 Marcel Fafchamps and Christine Moser: Crime, Isolation, and Law Enforcement

RP2004/06 Mattia Romani: Love Thy Neighbour? Evidence from Ethnic Discrimination in Information Sharing within Villages

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RP2004/09 Simeon Coleman: An Aggregate View of Macroeconomic Shocks in Sub-Saharan Africa: A Comparative Study Using Innovation Accounting

RP2004/10 S. Subramanian: A Re-scaled Version of the Foster-Greer-Thorbecke Poverty Indices based on an Association with the Minkowski Distance Function

RP2004/11 S. Subramanian: Some Simple Analytics of Poverty Redress through Direct Income Transfers and Wage Employment Programmes: A Review and Commentary

RP2004/12 S. Subramanian: Poverty Measures and Anti-Poverty Policy with an Egalitarian Constraint

RP2004/13 Petri Rouvinen: Diffusion of Digital Mobile Telephony: Are Developing Countries Different?

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Printed by Forssa Printing House
Finland, 2004
ISSN 1238-9544