a progressive agenda for global action

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1

Progressive governance in the global age

Progressive Governance and globalisation: the agenda revisited

Jean Pisani-Ferry

The Progressive Governance agenda on globalisation and the responses to it were formulated in the late 1990s.[1] It highlighted the opportunities offered by globalisation, and therefore the need to embrace it. But at the same time it perceived that accelerated transformations in the world economy were bound to give rise to adjustments of unprecedented magnitude. In a kind of two-handed strategy, it advocated a combination of bold domestic reforms and a strengthening of global governance to make the most of economic globalisation.

Developments over the last decade have brought confirmations and surprises. Key facts presented in this chapter are:

- The unprecedented integration of the global economy through trade and foreign direct investment.
- A worldwide propagation of macroeconomic stability.
- Uneven and lopsided financial globalisation.
- Stable global inequality and a rise of within-countries inequality.
- An increasing tendency of opinion in rich countries to blame globalisation for economic insecurity.

Against this background, the underlying philosophy of Progressive Governance is in no need for revision. Most of its key choices continue to be valid. However, the speed and magnitude of the transformations affecting the world economy are larger than initially envisaged, while domestic policy reforms and redistribution have often been insufficient to cope with the challenge of adjustment. Some of the features of globalisation are also disturbing, especially with regard to the pattern of capital flows. Furthermore, international institutions are facing both a crisis of legitimacy and a crisis of effectiveness. In other words, the two-handed globalisation strategy has not been invalidated by events, but it has not been fully implemented.

Furthermore, the years ahead risk being less auspicious. The return of scarcity and mounting concerns over economic security; the re-emergence of state capitalism; the rise of sovereign wealth funds; and financial instability represent new challenges to address. The continuing development of an open, multilateral world economy is less able to be taken for granted today than it could a decade ago.

Against this background, the definition of a renewed agenda that builds on the success of the initial one should be a priority for progressive governments.

Progressive Governance and globalisation: the agenda revisited

Progressive Governance emerged in the 1990s from a critical assessment of the policy failures of economic strategies pursued in the 1970s and the 1980s by governments of the centre-left and the left. Drawing lessons from these failures as well as building on a largely common reading of the changes under way in the world economy, a series of quasi-simultaneous policy experiments in advanced and developing economies introduced major innovations to the agenda and the policy toolkit. A key dimension of this reassessment concerned attitudes towards globalisation and economic openness.

A decade has passed since this agenda was first formulated. It has been rich in surprises and lessons for policymakers, and the objective of this chapter is to discuss what has been learnt that could help in reassessing the Progressive Governance approach to globalisation. To this end, section one outlines the initial agenda. Section two introduces selected stylised facts that summarise some important lessons of the last decade.[2] Building on this reading, section three discusses the policy implications for the reformulation of the agenda. Section four puts the discussion in today's context, briefly taking on board recent developments.

1 A recap of the Progressive Governance agenda

Progressive governments in the 1970s and the 1980s had often behaved as if they had to choose between opening up to trade and foreign investment and attaining their domestic objectives. Then, displacing the often halfhearted attitude of the past, came an unequivocal commitment to economic openness. Globalisation was recognised as a major development and emphasis was placed on the opportunities created by it and the need to embrace it rather than attempt to resist it. At the same time, it was claimed that this commitment did not imply in any way renouncing essential values or assigning a lower priority to domestic policy objectives.

Thus a defining common thread was to combine a radical revision of some of the key tenets of the economic policy framework with a rethink of the choice of instruments best suited to attaining traditional objectives.

A clean break with the past was made on two fronts:

- First, the essential role of competition in product and financial markets in allocating capital and fostering innovation and productivity was acknowledged to a much larger extent than had been the case beforehand. Previously held beliefs that restricting competition, controlling capital ownership and directing the allocation of credit could somehow contribute to economic performance and/or equity were shunned; policies favouring entry and competition were favoured instead.
- Second, macroeconomic stability was recognised as a precondition for economic performance and social justice. Whereas tolerance of inflation and lack of fiscal discipline often characterised the policies of the previous decades, it was acknowledged that such behavior had severely adverse consequences, at least in the medium term and increasingly also in the short term in financially open economies. From Europe to the US and the developing world, this led to a drastic revision of the policy framework, often underpinned by institutional reforms.

Turning to instruments, many of the traditional ones were retained, though their modus operandi was reformed. Especially:

- The role of tax-based redistribution in achieving social justice was acknowledged, but emphasis was placed on the need to complement it with empowerment through improving the individuals' access to job opportunities as well as to knowledge, technology and finance.
- The role of active public policies and effective institutions for promoting employment was maintained, but it was increasingly accepted that effectiveness called for the promotion of skill acquisition and access to job opportunities, rather than for the protection of existing jobs.

Social insurance and means-tested assistance were retained as essential but it was recognised that they could have significant disincentive effects. Priority was therefore put on designing incentive-compatible insurance and assistance schemes that encouraged rather than discouraged participation in the labour market and investment in human capital.

The role of public services in ensuring access to education and healthcare was confirmed, but effectiveness and efficiency were given new importance and increasingly, contestability and choice were introduced as instruments to promote quality.

Finally, rising interdependence and the realisation that wellbeing across the world increasingly depended on adequate provision of global public goods led to the definition of a new global agenda of international cooperation and multilateral governance. Development, health and education, climate and financial stability emerged as key priorities whose achievement necessitated stepping up international cooperation and strengthening global institutions to make them effective common instruments.

This short summary seeks to pinpoint what was distinctive in the Progressive Governance response to the challenges of globalisation. The assessment underlying it highlighted the opportunities globalisation offered for growth and development, and therefore the need to embrace it. But at the same time, it was perceived that accelerated transformations in the world economy, as a consequence of the participation in it of billions of workers and consumers previously isolated from international trade and finance, represented a major shock and was bound to give rise to adjustments of unprecedented magnitude. It was often foreseen that while bringing tangible benefits, this adjustment would also have deep consequences for citizens in all countries, destroy as well as create jobs, affect income distribution, and would thereby inevitably create economic, social and political tensions.

The assessment was therefore not complacent and a distinctive feature of the Progressive Governance agenda was to emphasise the twin role of domestic and international responses. In a kind of two-handed strategy, it was considered that a combination of bold domestic reforms and a strengthening of global governance would allow the most to be made of economic globalisation. Domestic reforms were designed to ensure that societies would be equipped to grasp opportunities offered by economic opening and to cushion their adverse effects on workers and local industries.

Global reforms were designed to result in an appropriate multilateral framework for world trade and finance as well as in adequate provision of global public goods and to improve development perspectives.

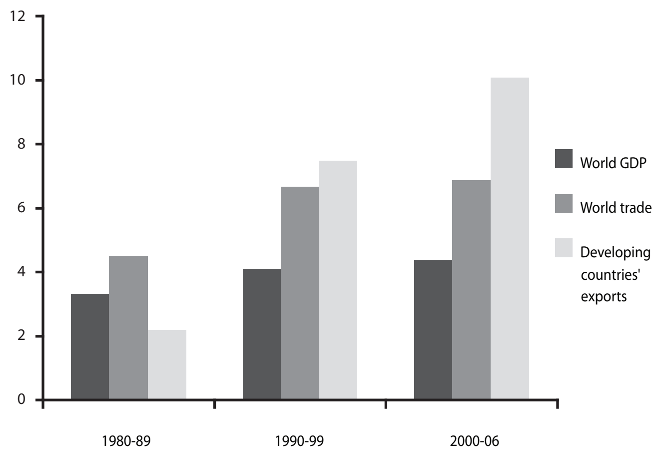
2 Features of globalisation

Having recapitulated the agenda, let us now turn to the evidence. A few selected stylised facts highlight key recent features of economic globalisation and help to assess how the vision and policy priorities of Progressive Governance measure up to major global trends.

Fact 1: Unprecedented integration through trade and foreign investment

Fact one is well-known: globalisation may have been a promise in the 1990s; it is now a reality. The pace of global integration has accelerated markedly in recent years through trade and foreign direct investment (Figure 1). While the current wave of globalisation is often compared to the previous wave of the late 19th/early 20th century period, the current degree of integration, by most measures, exceeds the level attained before the second world war.

Figure 1: Annual growth in real world GDP and trade



Source: Calculations based on IMF data.

Furthermore, while cross-border transactions primarily developed in advanced countries in the first decades of the post-second world war period, recent decades have seen a dramatic increase in the participation of emerging and developing countries in global trade and investment. Multilateral trade negotiations have played an important role in this process, but an even more important factor has been the adoption by an ever-increasing number of countries of deliberately outward-looking policies–with, as a result, an acceleration of growth in several parts of the developing world, especially in China and India.

Qualitative transformations have been no less dramatic. Especially remarkable have been the rapid fragmentation of the value chain, increasingly leading to what economists have dubbed trade in tasks rather than final products, and the rapid rise of emerging countries in exports of technology- and skill-intensive products.

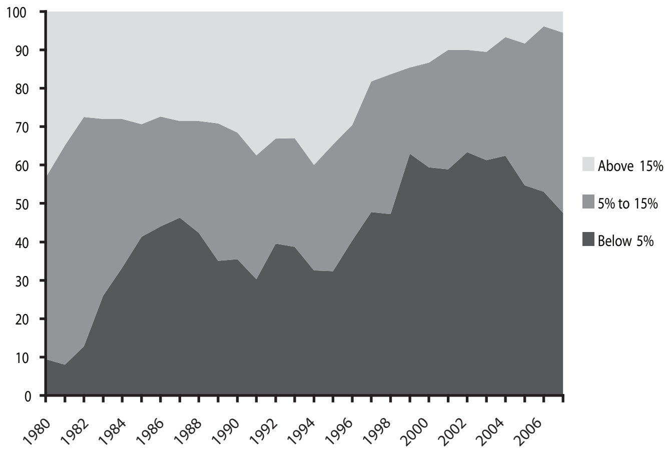
Developments in recent years thus vindicate the stance taken on openness and the essential importance of upholding the multilateral trade framework to accommodate increasing participation of developing economies in international transactions and qualitative transformations of the trading patterns.

Fact 2: Worldwide macroeconomic stability

A second important fact is the worldwide propagation of macroeconomic stability. In 1980, inflation was below 5% per year in less than one out of 10 countries. Since 1999, this has been the case in a majority of countries in the world (Figure 2).

Worldwide convergence on low inflation has admittedly been favoured by the macroeconomic context of the 1990s. Recent shocks to the price of oil and raw materials have pushed prices up, several countries are again struggling with inflation, and the outlook for the coming years is less benign than it was in the early 2000s. Yet this should not conceal the fact that macroeconomic stability is and remains a major achievement of recent decades, underpinned by a near-universal move to central bank independence. Especially noteworthy is the fact that while advanced economies were first to embrace macroeconomic stability, developing and emerging economies have nowadays adopted broadly similar institutional set-ups and policy frameworks. This is a significant asset for navigating the probably less auspicious environment of the years ahead.

Figure 2: World distribution of inflation rates



Note: The figure gives the proportion of countries with an inflation rate within defined brackets.
Source: Calculation with IMF data.

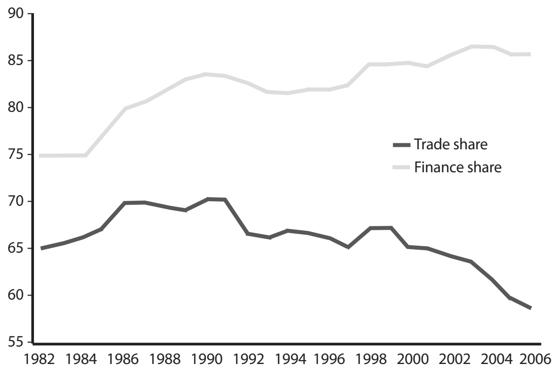
Fact 3: Uneven and lopsided financial globalisation

A third salient feature of the last two decades has been financial globalisation. In industrial countries, cross-border holdings of financial assets represented about a fourth of GDP in 1970 and only 50% in the mid-1980s, but in the mid-2000s they amounted to almost 200% of GDP on average. Financial integration through portfolio diversification has developed dramatically within Europe and between Europe and the US especially.

However, financial globalisation does not mimic integration through trade and foreign investment. To start with, participation in it remains limited in developing and emerging economies. There is a striking contrast between trade, where the previous pattern of north-north integration is being rapidly reversed, and finance, where it has accentuated markedly (Figure 3). This helps in understanding why the financial turmoil originating in the US immediately affected Europe, while emerging and developing countries have largely remained immune from it, at least for the time being.

The limited participation of emerging and developing countries in international financial transactions, however, does not mean that net capital flows between them and the advanced economies are second-order. They have indeed grown, but the direction taken by these flows has been a major

Figure 3: Share of advanced countries in world trade and cross-border financial positions

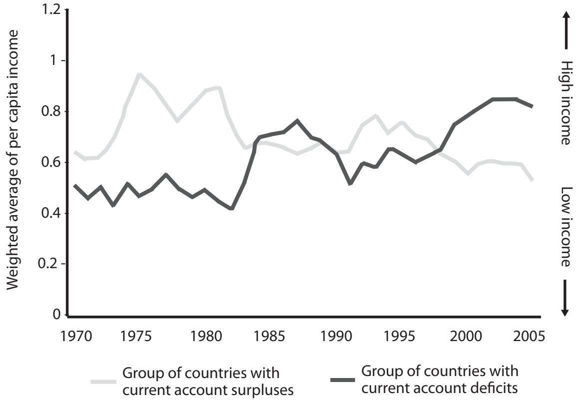


Source: Lane and Milesi-Ferretti 2008.

surprise. The near-universal expectation at the time of the liberalisation of financial accounts was that the rich countries' savings would flow to emerging and developing countries and help foster growth and development, provided certain macroeconomic and institutional conditions were met. In the event, the expected flows have taken place to a limited extent only, notably within Europe where the new EU member states have benefited from massive capital inflows. On a global scale, however, north-south capital flows have been highly erratic. Massive inflows into financially fragile economies have been followed by sudden stops and abrupt reversal. Moreover, north-south flows have on average been dwarfed by flows in the opposite direction. As indicated by Figure 4, the situation since 2000 has been that the average income of capital-exporting countries is lower than the average income of capital-importing countries. China and the US both highlight, and account for, a large part of this unusual pattern.

Several tentative explanations have been offered for this disturbing fact. From a positive standpoint, it is understandable that resource-rich countries refrain from consuming the totality of their current income and that relatively poor countries accumulate foreign exchange reserves to protect themselves against possible abrupt capital withdrawals. It can even

Figure 4: Average income of capital-exporting and capital-importing countries, 1970–2005



Note: country incomes are weighted by the net savings exported (through current account surpluses) or imported (through current account deficits). The composition of, and weights for each group thus vary over time.
Source: Prasad, Rajan and Subramanian 2007.

be understood (while perhaps not being endorsed) why countries keep on accumulating reserves instead of letting their exchange rate float. From a normative standpoint, however, it is hard to find merit in a situation where the United States derives more than $100bn in annual income from selling government bonds to investors and governments – largely from developing countries – and investing the corresponding proceeds in foreign equity.

Despite widespread financial liberalisation, a handful of advanced economies thus account for the bulk of cross-border financial transactions, which suggests that reforming financial market regulation primarily remains the responsibility of the most financially developed countries. At the same time, financial globalisation results in savings flows that are questionable from an allocation point of view and whose political and financial sustainability are increasingly uncertain.

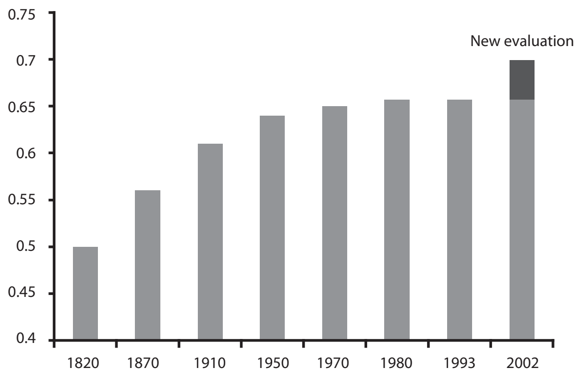
Fact 4: Global inequality is stable at a high level, while within-country inequalities are on the rise

Globalisation is often blamed for the high level of world inequality. However, inequality means different things to different people: some look at inequality across countries, some at the fate of the world poor, some again at inequality within a country. Recent research has aimed at providing a measure of inequality among world citizens, irrespective of the country they live in. This is generally called global inequality and has the advantage of taking into account the distribution of income both across and within countries.

Figure 5, which gives a measure of the level of global inequality since the mid-1980s, indicates that it has remained roughly stable in recent years, after having grown dramatically from the early 19th century until the 1970s. In other words, prima facie evidence suggests that the last wave of globalisation can be held responsible neither for a worsening nor for an improvement in the world distribution of income. As to the level of global inequality, recently revised estimates indicate that it is significantly higher than within any individual country in the world.[3]

One reason why global inequality has not decreased in recent years despite the dramatic increase in the per-capita income of China, India and other developing countries is a widespread increase of within-country inequality. Table 1 presents estimates of the share of the top 1% of the population in total national income. While it has not risen uniformly, the

Figure 5: Global inequality, 1820–2002



Note: Inequality is measured by the Gini coefficient. The new evaluation, from Milanovic (2007), is currently available for 2002 only. It is based on the December 2007 World Bank re-evaluation of purchasing power parity exchange rates.
Source : Bourguignon and Morisson 2002, Milanovic 2007.

Table 1: Share of the top 1% households in national income*, selected countries

Country	Early 1980s	Mid-2000s
United States	10	20.9
United Kingdom	6.7	12.6**
Australia	4.8	9.2
France	7.6	9
Germany	11	11
Sweden	4	7.5
Japan	7.2	9.2
China	2.8***	6
India	6.5	9.5

*Capital Gains included when available
**Early 2000s
***Mid-1980s
Source: France: Piketty 2003 and Landais 2007; Germany: Dell 2009; Sweden: Roine and Waldenström 2006; Japan: Moriguchi and Saez 2007; United States: Piketty and Saez 2004; United Kingdom: Atkinson 2004; China and India: Qian and Piketty 2006; India: Banerjee and Piketty 2003.

evidence is one of significant changes in the income distribution in both developed and developing countries. It is especially pronounced in the US where the share of the top 1% of households in national income has doubled and exceeds 20%, but changes are also significant in the UK, Australia, Sweden, China and India. By contrast, there have been no significant changes in the share of top incomes in major continental European countries such as Germany and France.

The simple fact that countries participating in global trade and investment exhibit very different patterns of internal inequality is an indication that inequality developments cannot primarily be ascribed to globalisation. Rather, they are primarily the consequences of domestic economic developments and policies. That being said, a well known result from theory is that trade among countries of different development levels affects the distribution of income. In a similar vein, financial opening affects the return on capital and therefore incomes also. Globalisation is therefore likely to have added to pressures towards a widening of the income distribution (or towards the pricing-out of low-skilled workers in countries such as France and Germany where wages are more rigid).

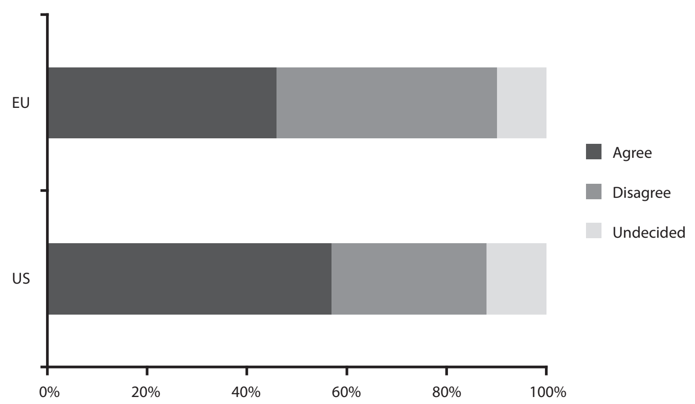
What could have been expected, therefore, was the implementation of redistribution policies designed to transform a gain for society as a whole into gains for its constituent citizens, so that opening did not make anybody worse off. In fact, domestic policies have in several cases compounded rather than offset the distributional effects of globalisation.

Inability to ensure a fair distribution of its benefits contributes to increasing grievances against globalisation and to undermining its social and political sustainability. This is a national responsibility: what national governments do, or don't do, contributes crucially to placing globalisation on solid foundations.

Fact 5: Opinion in rich countries blames trade for economic insecurity

The last stylised fact regards public attitudes towards trade and globalisation. Attitudes vary across countries and over time, but an unmistakable trend is that opinion has turned increasingly sceptical in several industrial countries. In the US a clear majority of public opinion now thinks that trade costs more jobs than it creates (Figure 6), and even in Europe a relative majority of respondents think similarly.

Figure 6: Opinions on whether trade costs more jobs than it creates



Source: German Marshall Fund 2007, Trade and Poverty Survey

Protectionist tones heard in the primary phase of the US presidential election campaign, especially on the Democrat side, are a direct reflection of the public's growing reservations.

What makes the situation especially worrying is that such opinions are expressed in spite of buoyant growth and employment creation in recent years. The US unemployment rate in early 2008 is still below 5% and about two-thirds of the unemployed have been without a job for less than three months, yet Americans blame trade for job destruction. How public attitudes will evolve against the background of deteriorating economic performance, and what will be the policy consequences, are a major cause for concern.

3 The agenda revisited

What do the facts highlighted in the previous section tell us about the appropriateness of the Progressive Governance approach to globalisation? Its underlying philosophy certainly remains adequate. Most of its key choices–especially regarding the emphasis on openness and macroeconomic stability–continue to be valid, as is the two-handed approach combining domestic reforms and a strengthening of global governance. However, important lessons need to be drawn from the experience of the last decade:

1 The speed and magnitude of the transformation affecting the world economy are larger than initially envisaged. Few observers in the late 1990s anticipated the pace of change resulting from the participation of China, India, and other emerging countries in trade and investment flows. Even fewer anticipated that emerging countries would quickly move from being exporters of unskilled labour-intensive products to being exporters of skill–and technology-intensive products. None realised that the fragmentation of production chains would reach the degree we are witnessing. In most respects, this accelerated transformation is excellent news. But it puts considerable adjustment pressure on all societies.

2 Domestic policy reforms have often been insufficient to cope with the magnitude of this adjustment challenge.[4] The Progressive Governance agenda included a balanced appraisal of the priorities, but European countries especially have been slow to modernise their social models

and equip citizens with a greater ability to embrace change;[5] they have been slow also in investing in education and research.[6] Furthermore, at a time when external shocks demanded a strengthening of the ability to redistribute, tax policy has often been deficient. In several countries, it has compounded rather than offset the increase in inequality resulting from technical change and globalisation. In retrospect, it seems fair to observe that this redistribution challenge was initially underestimated in the Progressive Governance agenda.

3 Some of the features of globalisation are disturbing. This chapter has highlighted the current pattern of international capital flows and has pointed out that it is disputable from a normative standpoint. By and large, financial globalisation, though in many ways positive, has been less beneficial than anticipated. Neither the observed volatility of international capital flows nor the build-up of current account surpluses in middle- and low-income economies and the corresponding transfer of savings to high-income economies can be considered satisfactory.

4 Against this background, the reform of international institutions has for long remained stalled and those institutions have as a consequence been facing both a crisis of legitimacy and a crisis of effectiveness. Again, the dispute is not about the initial assessment, but persistent stalemate in the WTO trade negotiations and the openly guarded attitude of several important Asian and Latin-American countries vis-à-vis the Bretton Woods institutions, following the Asian crisis which undermined the credibility and the effectiveness of the global governance system. The recent reform of quotas and votes is a step in the right direction, but a limited one, and it remains to be seen whether it will help to correct the situation.

In other words, the two-handed globalisation strategy outlined in the initial Progressive Governance agenda has not been invalidated by events, but has not been fully implemented. At a national level, as well as at a multinational level, action has often not been commensurate to the magnitude of the challenges. It is no accident that the countries where public opinion is the least sceptical vis-à-vis globalisation are those–in Scandinavia–that combine efficient labour markets, extensive redistribution and an active involvement in world governance, especially through development assistance.

4 Risks ahead

The analysis so far has been based on medium-term trends and has not addressed more immediate concerns. Three of them, which are of particular relevance for the discussion, deserve to be mentioned: the return of scarcity and the rise of concerns over economic security; the re-emergence of state capitalism and the development of sovereign wealth funds; and financial instability. The purpose here is not to discuss each of them in detail, but rather to underline their implications for the discussion on globalisation.

The return of scarcity

Until very recently, a natural assumption was that, in an era of globalisation, access to raw materials and commodities was guaranteed by the depth and resilience of the corresponding markets. Food and energy security especially were said to rely on the depth and liquidity of global markets. The multilateral system was deemed strong enough for the participating countries to consider that it represented a form of insurance they could count on. There were certainly sectoral and national exceptions–oil, for example, was cartelised–but the trend seemed clear.

Recent developments point in the opposite direction. Energy importers have increasingly entered into a series of initiatives to secure access to resources through bilateral arrangements, especially for gas. Even in the EU where member states could build on the single market to develop a system of common energy security, the nation state has been perceived as the ultimate provider of security and governments have taken individual initiatives, at the risk of jeopardising achievements at EU level. Food insecurity is a more recent phenomenon, but here again change is noticeable. The bans on exports recently decided by several producers of rice highlights risks of market fragmentation and will naturally push importers in the direction of bilateral arrangements.

The re-emergence of state capitalism

It is only natural that holders of financial assets from the emerging world have started to diversify away from government bonds and have created vehicles to invest in equity. The assumption that vast foreign asset positions resulting from current account surpluses could remain invested in low-yield securities at a significant macroeconomic cost was simply not tenable. Sovereign wealth funds are in this respect a welcome development consistent with the lasting character of the positions built. There can be mutual benefits in having them invested on the advanced economies' stock markets. By the same token, there is nothing disputable in the fact that major holdings remain state property, especially in countries where surpluses result from the exploitation of natural resources or have accumulated in the form of exchange reserves.

Countries where public policy has broken with the notion that the nationality of the owner of capital matters are more willing to accept changes in the ownership of companies active on their territory, provided investors offer adequate guarantees of transparency and governance. However this is far from being the case everywhere: recent disputes within Europe about the takeover of banks or energy companies indicate that there are limits to what most governments and public opinions are willing to accept. By the same token the US has repeatedly proved sensitive to ownership as soon as a connection with national security could be made. So however welcome the provisions contemplated to ensure transparency and good behaviour on the part of investors' funds as well as receiving countries, politics continues to matter. At the very least, the vision that governments can afford to be nationality-blind has to be explained and publicised.

Financial instability

The last concern is financial instability. The turmoil that started to unfold in the summer of 2007 involves many major policy challenges at national and multilateral level. Three should be emphasised here.

The first is that financial instability may endanger the achievements of macroeconomic stability. The policy framework put in place in many countries in the 1990s involved a financial stability component, but in most countries priority was assigned to price stability in the usual sense. How to revise the policy framework to better prevent financial instability, taking into account the threats to financial stability represented by low-probability but high-risk events, is a major concern in all countries.

The second concerns the regulation and supervision of the financial sector. Significant initiatives have been undertaken in the United States and Europe to prevent major defaults and avoid possible contagion to the entire financial system. Major regulatory initiatives are likely to follow (and have already started to be discussed). The difficult question is that of the regulatory quid pro quo: What are the improvements in transparency that are needed to improve the ability of financial players to assess and price risk? What are the reforms to the regulatory framework that are called for to avoid the rescue operations of 2007–2008 resulting in pervasive moral hazard and to ensure that decision-makers in the financial world respond to adequate incentives?

The third and last dimension concerns the multilateral framework for financial oversight. The network of central banks and international institutions put in place in the aftermath of the Asian crisis has been able to issue assessments and warnings, not to exercise effective prevention. It has neither fulfilled this role vis-à-vis governments (for which it had a mandate) nor vis-à-vis private players (for which it had no mandate). Furthermore, the rapid globalisation of international finance makes national supervision and oversight increasingly inadequate, especially in Europe where the banking sector has started to consolidate on a cross-border basis. How to design an adequate multilateral and regional framework is a major issue that needs to be addressed in order to be able to deal with the next crisis.

The analysis developed in this note leads to a sober assessment of the challenges ahead for Progressive Governance in its strategy vis-à-vis globalisation. Whereas there is no reason to question its main tenets, the combination of major shocks, partial responses and a series of new, unrelated but equally challenging developments present serious difficulties.

One inference from the observations made in this note is that the continuing development of an open, multilateral world economy is less able to be taken for granted today than it could a decade ago when the Progressive Governance agenda was first formulated. Until recently, governments could simply assume that globalisation was here to stay and adopt the posture that best suited their domestic political interests. In other words, they could afford the luxury to free-ride on globalisation. This was not a very advisable policy in the first place, but it was a policy one could adopt without taking too many risks. This time has probably passed and, in the coming years, the maintenance of an open, multilateral world economic system will require from the essential players a much more committed attitude.[7]

Engagement in the multilateral trade negotiations, in the design of a robust regulatory framework for financial markets and in the reform of international institutions will be key ingredients in this respect.

Having embraced globalisation at an early stage, and having actively promoted it in the name of growth and economic development, the supporters of Progressive Governance must now confront the challenges raised by the experience of the last few decades and address the concerns stemming from recent developments. The definition of a renewed agenda should be the immediate priority. Its preparation should fully involve emerging and developing players and make them active participants in the rebuilding of the multilateral architecture. This is a major challenge. It should logically be a priority for progressive governments that have historically been advocates of multilateralism and effective international institutions. They have a particular stake in this venture.

Notes

1 I am grateful to Jérémie Cohen Setton for his assistance in the preparation of this paper.

2 This chapter leaves aside three issues of major importance that are discussed elsewhere in this volume: it ignores climate change and poverty, and it only touches on the reform of international institutions.

3 Currently available data do not allow replication of the same measure for previous years. The upward revaluation of global inequality for 2002 does not give any indication as regards the evolution in comparison to previous years.

4 This chapter does not allow a discussion of which governments have done well and which have been ineffective. This would in itself be important research to conduct.

5 See Sapir (2005) for a bird's eye view of the implications of globalisation for the modernisation of the European social models.

6 See Aghion et al (2007) on the reform of European universities.

7 Frieden (2006) provides an illuminating comparison between the current situation and that of the interwar period.

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Global challenges: accountability and effectiveness

David Held

The paradox of our times can be stated simply: the collective issues we must grapple with are of growing cross-border extensity and intensity and, yet, the means for addressing these are weak and incomplete. Three pressing global issues highlight the urgency of finding a way forward.

First, insufficient progress has been made in creating a sustainable framework for the management of climate change, illustrating the serious problems facing the multilateral order. Second, progress towards achieving the Millennium Development Goals has been slow, and in many places lamentably so. Underlying this fact is, of course, the material vulnerability of over half the world's population. Each year, some 18 million people die prematurely from poverty-related causes. This is one-third of all human deaths – 50,000 every day, including 29,000 children under the age of five. And, yet, the gap between rich and poor countries continues to rise and there is evidence that the bottom 10% of the world's population has become even poorer since the beginning of the 1990s. Third, the threat of nuclear catastrophe may seem to have diminished, as a result of the end of the cold war, but it is only in abeyance. Huge nuclear stockpiles remain, nuclear proliferation among states is continuing, new generations of tactical and nuclear weapons are being built and nuclear terrorism is a serious threat.

These global challenges are indicative of three core sets of problems we face: those concerned with sharing our planet (global warming, biodiversity and ecosystem losses, water deficits), sustaining our life chances (poverty, conflict prevention, global infectious diseases) and managing our rulebooks (nuclear proliferation, toxic waste disposal, intellectual property rights, genetic research rules, trade rules, finance and tax rules) (cf Rischard 2002). In our increasingly interconnected world, these global problems cannot be solved by any one nation-state acting alone. They call for collective and collaborative action – something that the nations of the world have not been good at, and which they need to be better at if these pressing issues are to be adequately tackled.

The limits of current global governance arrangements

While complex global processes, from the financial to the ecological, connect the fate of communities to each other across the world, global governance capacity is under pressure. Problem-solving capacities at the global and regional level are weak because of a number of structural difficulties, which compound the problems of generating and implementing urgent policy with respect to global goods and bads. These difficulties are rooted in the post-war settlement and the subsequent development of the multilateral order itself.

Among the spectrum of international organisations are those whose primary concerns are technical: the Universal Postal Union, the International Civil Aviation Organisation and the World Meteorological Organisation, for example. These agencies have tended to work effectively, often providing extensions to the services offered by individual nation states (Burnheim 1986, p.222). To the extent that their tasks have been sharply focused, they have usually been politically uncontroversial. At the opposite pole lie organisations like the World Bank, the International Monetary Fund (IMF), the UN Education, Scientific and Cultural Organisation (Unesco) and, of course, the UN itself. Preoccupied with central questions of war and peace, and of resource allocation, these bodies have been highly politicised and controversial. Unlike the smaller, technically based agencies, these organisations are at the centre of continual conflict over aspects of their nature and form, and over the policy that they generate or fail to develop.

The difficulties faced by these more contested agencies and organisations stem from many sources, including the tension between universal values and state sovereignty built into them from their beginning. Furthermore, the reach of contemporary regional and international law rarely comes with a commitment to establish institutions with the resources and clout to make declared universal rules, values and objectives effective. The susceptibility of the UN to the agendas of the most powerful states, the partiality of many of its enforcement operations (or lack of them altogether), the underfunding of its organisations, the continued dependency of its programmes on financial support from a few major states and the weaknesses of the policing of many environmental regimes (regional and global) are all indicative of the disjuncture between universal principles (and aspirations) and their partial and one-sided application. Four deep-rooted problems need highlighting (Held 2004, ch. 6).

A first set of problems emerges as a result of the development of globalisation itself, which generates public policy problems that span the “domestic” and the “foreign”, and the interstate order with its clear political boundaries and lines of responsibility. A growing number of issues can be characterised as intermestic–that is, issues which cross the international and domestic (Rosenau 2002). These are often insufficiently understood or acted upon. There is a fundamental lack of ownership of many problems at the global level. It is far from clear which global public issues – such as global warming or the loss of biodiversity – are the responsibilities of which international agencies, and which issues ought to be addressed by which particular agencies. The institutional fragmentation and competition leads not just to the problem of overlapping jurisdictions among agencies, but also to the problem of issues falling between agencies. This latter problem is also manifest between the global level and national governments.

A second set of difficulties relates to the inertia found in the system of international agencies, or the inability of these agencies to mount collective problem-solving solutions faced with uncertainty about lines of responsibility and frequent disagreement over objectives, means and costs. This often leads to the situation where the cost of inaction is greater than the cost of taking action. Bill Gates recently referred to the developed world’s efforts in tackling malaria as “a disgrace”; malaria causes an estimated 500 million bouts of illness a year, kills an African child every 30 seconds, and costs an estimated \$12bn a year in lost income, and, yet, investment in insecticide-treated bed nets and other forms of protective treatment would be a fraction of this (Meikle 2005, p.22). The failure to act decisively in the face of urgent global problems not only compounds the costs of dealing with these problems in the long-run, but it can also reinforce a widespread perception that these agencies are not just ineffective but unaccountable and unjust.

A third set of problems arise because there is no clear division of labour among the myriad of international governmental agencies: functions often overlap, mandates frequently conflict and aims and objectives too often get blurred. There are a number of competing and overlapping organisations and institutions, all of which have some stake in shaping different sectors of global public policy. This is true, for example, in the area of health and social policy where the World Bank, the IMF and the WHO often have different or competing priorities (Deacon 2003); or, more specifically, in the area of Aids/HIV treatment, where the WHO, Global Fund, UNAIDS and many other interests vie to shape reproductive health-care and sexual practices.

A fourth set of difficulties relates to an accountability deficit, itself linked to two interconnected problems: the power imbalances among states as well as those between state and non-state actors in the shaping and making of global public policy (Held 2004). Multilateral bodies need to be fully representative of the states involved in them, and they rarely are. The main problem can be qualitative, "how well various stakeholders are represented" (Karl et al. 2003, p.30). Having a seat at the negotiating table in a major IGO or at a major conference does not ensure effective representation. For even if there is parity of formal representation (a condition often lacking), it is generally the case that developed countries have large delegations equipped with extensive negotiating and technical expertise, while poorer developing countries frequently depend on one person delegations, or have even to rely on the sharing of a delegate. In addition, where there is a clear case for dialogue and consultation between state and non-state actors, conditions to make it happen are often only partially met in multilateral decision-making bodies.

Underlying these institutional difficulties is the breakdown of symmetry and congruence between decision-makers and decision-takers (Held 1995, part I). The point has been well articulated recently by Kaul and her associates in their work on global public goods. They speak about the forgotten "equivalence" principle (Kaul et al. 2003, pp.27–28). At its simplest, the principle suggests that those who are significantly affected by a global good, or bad, should have a say in its provision or regulation, ie the span of a good's benefits and costs should be matched with the span of the jurisdiction in which decisions are taken about that good (Held 2004, pp.97–101). Yet, all too often, there is a breakdown of "equivalence" between decision-makers and decision-takers, between decision-makers and stakeholders, and between the inputs and outputs of the decision-making process. To take some topical examples: a decision to permit the "harvesting" of rain forests may contribute to ecological damage far beyond the borders which formally limit the responsibility of a given set of decision-makers. A decision to build nuclear plants near the frontiers of a neighbouring country is a decision likely to be taken without consulting those in the nearby country (or countries), despite the many risks for them.

A number of significant governance innovations have been made in recent decades to address such issues, yet the global governance system remains too often weak and/or fragmented. Moreover, there has been a complex "unbundling" of sovereignty, territoriality and political forces (Ruggie 1993). This unbundling involves a plurality of actors, a variety of political processes, and diverse levels of coordination and operation, with complex and uneven implications for accountability and effectiveness. Specifically, it includes:

- Different forms of intergovernmental arrangements – eg in the World Bank, IMF and WTO – embodying various levels of legalisation, types of instruments utilised and responsiveness to stakeholders.
- An increasing number of public agencies – eg central bankers – maintaining links with similar agencies in other countries and, thus, forming trans-governmental networks for the management of various global issues.
- Diverse business actors – ie firms, their associations and organisations such as international chambers of commerce – establishing their own transnational regulatory mechanisms to manage issues of common concern.
- Non-governmental organisations and transnational advocacy networks – ie leading actors in global civil society – playing a role in various domains of global governance and at various stages of the global public policy making process.
- Public bodies, business actors and NGOs collaborating, eg on a range of development issues, in order to provide novel approaches to social problems through multi-stakeholder networks.

There is evidence that the politicisation, bureaucratisation and capacity limits of multilateral institutions have been important factors in driving the expansion of new forms of global governance, since powerful governments have sought to avoid either expanding the remit of existing multilateral agencies or creating new ones. Another factor that has been significant is the normative shift towards "self-regulation", as the private sector has sought to pre-empt or prevent international public regulation while governments have sought to share the regulatory burden with non-state actors.

Key political challenges

The post-war multilateral order is threatened by the intersection and combination of political, economic and environmental crises. Moreover, the very nature and form of globalisation creates a delicate and complex system of structural global vulnerability. As is evident, the world we are in is highly interconnected. The interconnectedness of countries – or the process of "globalisation" as it is often called – can be measured by mapping the ways in which trade, finance, communication, pollutants and violence, among many other factors, flow across borders and lock the wellbeing of countries into common patterns (Held et al. 1999). The deep drivers of this process will be operative for the foreseeable future, irrespective of the exact political form globalisation takes. Among these drivers are:

- The changing infrastructure of global communications linked to the information technology revolution.
- The development of global markets in goods and services, connected to the new worldwide distribution of information.
- The pressure of migration and the movement of peoples, linked to shifts in patterns of economic demand, demography and environmental degradation.
- The end of the cold war and the diffusion of democratic and consumer values across many of the world's regions, alongside some marked reactions to this.
- The emergence of a new type and form of global civil society, with the crystallisation of elements of a global public opinion.

Despite the fractures and conflicts of our age, societies are becoming more interconnected and interdependent. As a result, developments at the local level – whether economic, political or social – can acquire almost instantaneous global consequences and vice versa. If we link to this the advances in science across many fields, often now instantly diffused through global communication networks, it is clear that the global arena has become both an extraordinary potential space for human development as well as for disruption and destruction by individuals, groups or states (all of whom can, in principle, learn the lessons of nuclear energy, genetics, bacteriology and computer networking, among other things).

There are many reasons to be concerned about this. From the point of view of accountable and effective global governance, four distinct reasons are worth stressing: solidarity, social justice, democracy and policy effectiveness. It is important to clarify each of these because they provide a map of the dimensions we need to keep in mind for thinking about the nature and adequacy of governance at the global level. By solidarity, I mean not just empathetic recognition of another's plight, but the willingness to stand side by side with others in the creation of solutions to pressing collective problems. Without solidarity between rich and poor, developed and developing countries, the MDGs will not be met and, as the former secretary-general of the United Nations, Kofi Annan, simply put it, "millions of people will die, prematurely and unnecessarily". These deaths are all the more poignant because solutions are within our grasp. As far as challenges like global warming and nuclear proliferation are concerned, we need to add to the definition of solidarity a focus on our own sustainability, never mind that of citizens of the future. Contemporary global challenges require recognition of, and active participation in, the forces that shape our overlapping communities of fate.

A second reason to focus on global challenges is social justice. Standards of social justice are, of course, controversial. To make my argument as accessible as possible, I will, following Thomas Pogge, take social justice to mean the fulfillment of human rights in an institutional order to the extent that it is reasonably possible (Pogge 2006). Of course, most argue that social justice requires more, and so it can be claimed with some confidence that an institutional order which fails to meet these standards cannot be just. Accordingly, it can be reasoned that in so far as our existing socioeconomic arrangements fail to meet the MDGs, and the broader challenges of global warming and the risks of nuclear proliferation, they are unjust, or, simply, beyond justice.

The third reason is democracy. Democracy presupposes a non-coercive political process in and through which people can pursue and negotiate the terms of their interconnectedness, interdependence and difference. In democratic thinking, "consent" constitutes the basis of collective agreement and governance; for people to be free and equal there must be mechanisms in place through which consent can be registered in the determination of the government of public life. Yet, when millions die unnecessarily and billions are threatened unnecessarily, it can clearly be held that serious harm can be inflicted on people without their consent and against their will. The recognition of this reveals fundamental deficits in our governance arrangements which go to the heart of both justice and democracy.

Finally, the failure to act sooner rather than later on pressing global issues generally escalates the costs of dealing with them. For instance, it has been estimated that the costs of inaction in dealing with communicable diseases in Africa are about 10-times greater than the costs of corrective action (Conceição 2003). Similar calculations have also been undertaken in areas of international financial stability, the multilateral trade regime and peace and security, all of which show that the costs of deficient provisions of global public goods are extremely large, and outweigh by significant margins the costs of corrective policies. And yet we too often stand paralysed in the face of urgent collective challenges, or actively engage in the reproduction of political and social arrangements that fail to meet the minimum standards that solidarity, justice and democracy require.

Global economic governance: problems and opportunities

These points are well illustrated by reflecting on key elements of global economic priorities and their impact on governance arrangements. For the last two to three decades, the agenda of economic liberalisation and global market integration – or the Washington consensus as it is sometimes called – has been the mantra of many leading economic powers and international financial institutions. The standard view of economic development has maintained that the path to economic and social wellbeing is economic liberalisation and international market integration. As Martin Wolf put it, "all else is commentary" (2004, p.144). But is this true? There are strong grounds for doubting that the standard liberal economic approach delivers on promised goods and that global market integration is the indispensable condition of development.

Moreover, their forceful implementation by the World Bank, IMF and leading economic powers has often led to counter-productive results, at national and global levels.

Countries that have benefited most from globalisation are those that have not played by the rules of the standard liberal market approach, including China, India and Vietnam (Rodrik 2005). In addition, those that have, for example the Latin American and the Caribbean countries, have done worse judged by the standards of east Asia and their own past. In other words, the link between growth, economic openness and liberalisation is weaker than the standard liberal argument suggests. The widespread shift among developing countries to greater openness has coincided with a slowdown in the rate of world economic growth compared to earlier in the post-war period, from 2.7% in 1960–78 to 1.5% from 1979–2000 (Milanovic 2005).

The link between growth and poverty reduction is also not as close as the liberal argument would predict. Accounts of this type generally assume a catch up or convergence story whereby poorer countries, opening their markets and liberalising, are expected to grow faster and richer so that income differentials narrow over time. However, the evidence to support this is controversial, at best. In the first instance, outside the phenomenal development of China and to some extent (urban) India, the reported number of people living below the World Bank poverty line of $1 a day has actually risen in the two decades since 1981 (Wade 2006). In addition, there is a near perfect correlation between a group's relative standing at the beginning of the 1990s and its real cumulative income gains in the years that followed (Pogge 2006). The evidence shows that the gains at the bottom of the global income hierarchy were minimal or even negative, as the first, that is to say bottom, percentile, lost 7.3%, and the second gained only 1%. Moreover, the World Bank's measure of absolute poverty, based on $1 a day, is to a large extent arbitrary. If you take the figure of $2 a day you can actually show the reverse trend (Held & Kaya 2006).

When examining and evaluating trends in income inequality between countries, it is clear that much depends again on how, in particular, China's economic success and subsequent reduction in poverty is treated. If China is excluded from consideration, inequality between countries can be shown to have increased since 1980. 1980 is an important date because it is often claimed to be the moment when income inequality between countries reached its peak. Of course, there is much to be said for including China in the account but then it has to be borne in mind that China's success has depended significantly on a host of factors, not all of which fit neatly into the liberal argument. For example, China has staggered and regulated its entry into the global market; tariffs have been cut, but after economic take-off, particularly heavily in the last 10 to 12 years; capital movements have remained tightly regulated; and FDI is locked into partnerships often with significant political controls.

None of this is to argue that trade and international capital flows do not provide important potential gains to many countries. The question, rather, is: under what conditions are trade and capital flows (and what kinds of trade and capital flows) introduced to maximise benefit. Thinking of globalisation as either an inextricably positive force or the opposite is likely to miss the core conditions for successful development and political change. The choice is not between globalisation in its liberal free market form and no globalisation. Rather, what is at issue is the proper form globalisation should take, ie how it should be governed.

This critical issue cannot be resolved within the terms of the Washington consensus because its thrust is to enhance economic liberalisation and to adapt public policy and the public domain to market-leading institutions and processes. It thus bears a heavy burden of responsibility for the common political resistance or unwillingness to address significant areas of market failure, including:

- The problem of externalities, such as environmental degradation.
- The inadequate development of non-market social factors, which alone can provide an effective balance between "competition" and "cooperation" and thus ensure an adequate supply of essential public goods such as education, effective transportation and sound health.
- The under-employment of productive resources (eg in the pharmaceutical industry) in the context of the demonstrable existence of urgent and unmet need (eg the provision of anti-virals for the treatment of Aids/HIV).

The Washington consensus has weakened confidence in public authority and in that authority's ability – locally, nationally and globally – to govern and provide urgent public goods. Economic freedom is championed at the expense of social justice and environmental sustainability, with damage to both. It has, moreover, confused economic freedom and economic effectiveness. The question is (and it is, of course, a big question): how can markets, democratic choices about public goods and a concern with basic universal standards such as human rights and environmental protection be pursued systematically and simultaneously? What follows constitutes some first steps in addressing this question.

To begin with, bridges have to be built between international economic law and human rights law; commercial law and environmental law; and state sovereignty and transnational law (Chinkin 1998). It is as if all these things refer to separate domains and do not speak to each other, with the consequence that entrenched interests trump social and environmental considerations, among other urgent matters. What is required is not only the firm enactment of existing human rights and environmental agreements, and the clear linking of these with the ethical codes of particular industries, but also the introduction of new terms of reference into the ground rules or basic laws of the free market system. Precedents exist in the social chapter of the Maastricht Agreement and in the attempt to attach labour and environmental conditions to the Nafta regime, which are helpful in this regard.

At stake, ultimately, are three interrelated transformations. The first would involve engaging companies in the promotion of core universal principles, as the UN's Global Compact does at present. To the extent that this led to the entrenchment of human rights and environmental standards in corporate practices, this would be a significant step forward. But if this is to be something other than voluntary, and therefore vulnerable to being ignored, then it needs to be elaborated in due course into a set of more codified and mandatory rules. Thus the second set of transformations would involve the entrenchment of revised rules and codes on health, child labour, trade union activity, environmental protection, stakeholder consultation and corporate governance in the articles of association of economic organisations and trading agencies. The key groups and associations of the economic domain would have to adopt in their very modus operandi a structure of rules and procedures compatible with universal social requirement, and be held accountable for them. Now, of course, it can be countered that poorly designed regulatory structures can harm employment levels but Scandinavian countries show that it is possible to be both business-friendly and welfare-orientated.

There are several possible objections to the scheme set out. However, most of these are misplaced (Held 2004). The framework of human rights, democratic standards and environmental values is sound because it is preoccupied with the equal liberty and equal development possibilities of all human beings, and is consistent with the universal principles enshrined in the post-1945 multilateral order. But it has to be conceded that without a third set of changes the advocacy of such standards descends into high-mindedness because it fails to pursue the socio-economic changes that are a necessary part of such a commitment.

At a minimum, this means that development policies must be linked to:

- Promoting the development space necessary for national trade and industrial incentives, including infant industry protection (and recognising that "one size" in economic policy does not fit all).
- Building robust public sectors, capable of nurturing political and legal reform.
- Ensuring long-term investment in health care, human capital and physical infrastructure.
- Challenging the asymmetries of access to the global market which are often hypocritical and indefensible
- Ensuring the sequencing of global market integration into a framework of fair rules for trade and finance.
- Taking steps to match the movement of labour to the movement of capital – including creating a system of temporary work permit schemes of three to five years to allow for economic migration within an agreed multilateral framework.
- Increasing developing country participation in the running of the IFIs
- Moving the headquarters of the IMF and the World Bank, on a rotating basis, to developing countries.

In addition, if such measures were combined with a turnover tax on financial markets, and/or a consumption tax on carbon emissions, and/or a shift of the priorities from military expenditure, now running at $1,000bn per annum globally, towards the alleviation of severe need—direct aid amounts only to some $50bn per annum globally – then the development context of the western nations and northern nation states could begin to be accommodated more adequately to those nations struggling for survival and minimum welfare.

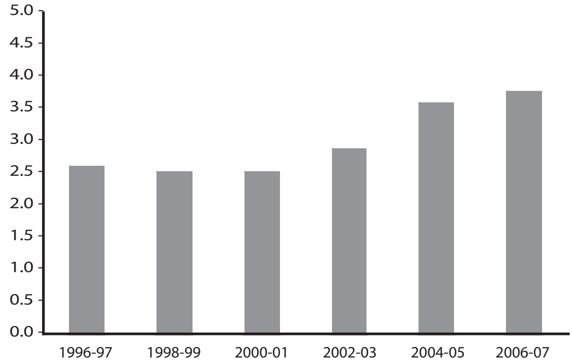
The UN budget is \$3.8bn per annum plus peacekeeping, but the US and Europe each spend vastly more annually on chocolate and bubble gum, alcohol, cars, pet food and so on. The expenditure on each of these items dwarfs the amounts available for direct poverty alleviation and for dealing with urgent diseases. The US and its allies went to war after 9/11; 9/11 was a serious matter, a crime against the United States and a crime against humanity. But every day 10 times as many people die as were lost on 9/11 of poverty, malnutrition and poverty-related diseases and, yet, there is no war or, better still, decisive social change in relation to these life and death issues. The resources are available, but the question is political will and choice. Figures 1 to 5 and Table 1 disclose some interesting detail in this regard.

The politics of global governance change

There are many pressing questions that need addressing further, and the time has come, to say the least, to address them. Surprisingly perhaps, it is an opportune moment to rethink the nature and form of global governance and the dominant policies of the last decade or so. The policy packages that have largely set the global agenda – in economics and security – are failing. The Washington consensus and Washington security doctrines have dug their own graves. The most successful developing countries in the world, as already noted, are successful because they have not followed the Washington consensus agenda, and the conflicts that have most successfully been diffused (the Balkans, Sierra Leone, Liberia, among others) are ones that have benefited from concentrated multilateral support and a human security agenda (Human Security Center 2006). Here are clear clues as to how to proceed in the future. We need to follow these clues and learn from the mistakes of the past if solidarity, democracy, social justice and the multilateral order are to be advanced.

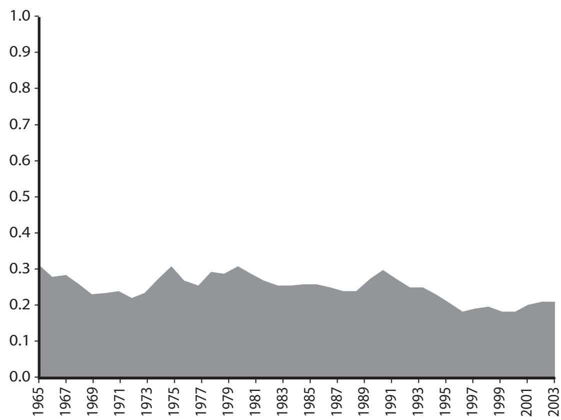
In addition, the political tectonic plates appear to be shifting. With the faltering of unilateralism and US foreign policy, uncertainty over the role of Europe in global affairs, the crisis of global trade talks, the emergence of powerful authoritarian capitalist states (Russia, China), the growing confidence of leading emerging countries in the world economy (China, India and Brazil), and the unsettled relations between elements of Islam and the west, business as usual seems unlikely at the global level in the decades ahead. It is highly dubious that the multilateral order can survive for very much longer in its current form.

Figure 1: UN core budget, 1996–97 to 2006–07



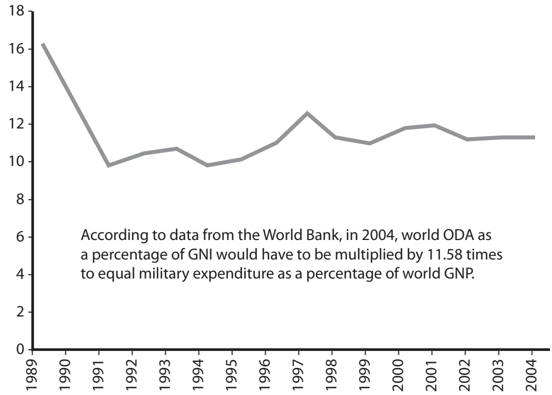
Source: 1996–2005 data drawn from UN press release, 'General assembly adopts 2006-2007 budget of $3.79bn, as main part of sixtieth session concludes', available at: http://www.un.org/News/Press/docs/2005/ga10442.doc.htm. 2006–2007 data drawn from UN factsheet, 'Growing share of UN resources in field operations', available at: http://www.un.org/reform/pdfs/factsheet.pdf.
All figures exclude peacekeeping budgets and extra-budgetary UN expenses.

Figure 2: International aid as a percentage of gross national income (world)



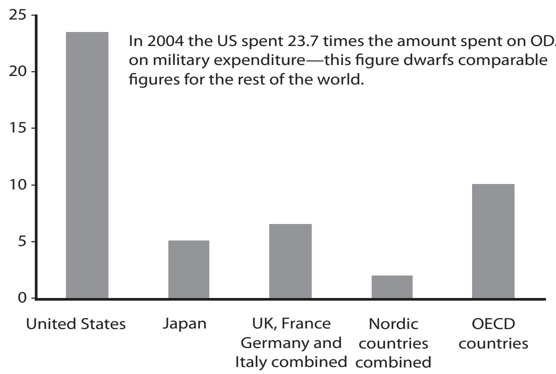
Source: Based on data drawn from World Development Indicators 2006, WDI Database, Washington DC, World Bank.

Figure 3: Amount world ODA as a percentage of GNI would have to be multiplied to equal world military expenditure as a percentage of GDP, 1989–2004



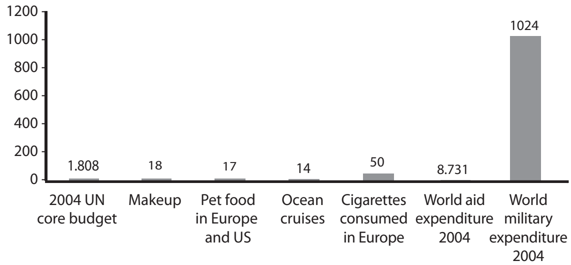
Source: Calculations based on data drawn from World Development Indicators 2006, WDI Database, Washington DC, World Bank.

Figure 4: Ratio of military expenditure to official development assistance, selected countries 2004



Source: Data and chart adapted from Worldwatch 2006, Vital signs 2006–2007, Washington, DC, Worldwatch Institute. Figures are extracted from the Stockholm International Peace Research Institute 2005, SIPRI Yearbook 2005, New York, Oxford University Press, and from OECD, 'Aid rising sharply, according to latest OECD figures', available at www.oecd.org/dac

Figure 5: Global consumption priorities (billions of US dollars)



Sources: 2004 UN core budget, 1.804, based on UN core budget figure for 2004–2005, divided by two. See UN press release, 'General assembly adopts 2006–2007 budget of $3.79bn, as main part of sixtieth session concludes', available at: http://www.un.org/News/Press/docs/2005/ga10442.doc.htm; Makeup, 18, From Table 1-6 in World Watch Institute 2004, State of the world 2004: consumption by the numbers, Worldwatch Institute, January 8. Available at: http://www.worldwatch.org/node/1783; Pet food in Europe and US, 17, From Table 1-6 in Worldwatch Institute 2004, State of the world 2004: consumption by the numbers, Worldwatch Institute, January 8. Available at: http://www.worldwatch.org/node/1783; Ocean cruises, 14, From Table 1-6 in Worldwatch Institute 2004, State of the world 2004: consumption by the numbers, Worldwatch Institute, January 8. Available at: http://www.worldwatch.org/node/1783; Cigarettes consumed in Europe, 50, From Anup Shah, 'Behind consumption and consumerism', available at: http://www.globalissues.org/TradeRelated/Consumption.asp. This report is based on data from the UNDP World Development Report 1998; World aid expenditure 2004, 8.731, Figure of 8,730,715,297, which is based on WDI indicators for World GNI and Aid as a Percentage of World GNI 2004. See World Development Indicators 2006, WDI database, Washington D.C., World Bank; World military expenditure 2004, 1024, Stockholm International Peace Research Institute 2004, SIPRI yearbook, New York, Oxford University Press.

Table 1: Comparisons of annual expenditure on luxury items compared to estimated funding needed to meet selected basic needs

Product	Annual expenditure	Social or economic goal	Additional annual investment needed to achieve goal
Makeup	$18bn	Reproductive health care for all women	$12bn
Pet food in Europe and United States	$17bn	Elimination of hunger and malnutrition	$19bn
Perfumes	$15bn	Universal literacy	$5bn
Ocean cruises	$14bn	Clean drinking water for all	$10bn
Ice cream in Europe	$11bn	Immunising every child	$1.3bn

Source: Table 1-6 in World Watch Institute 2004, *State of the world 2004: consumption by the numbers*, Worldwatch Institute, January 8. Available at: http://www.worldwatch.org/node/1783. The Worldwatch figures are drawn from the UNDP Human Development Report 1998.

The political space for the development of more effective and accountable global governance has to be made, and advances are being achieved, by the activities of all those forces that are engaged in the pursuit of greater coordination and accountability of the leading processes of globalisation; the opening up of IGOs to key stakeholders and participants; the protection of human rights and fundamental freedoms; sustainable development across generations; and peaceful dispute settlement in leading geopolitical conflicts. This is not a political project that starts from nowhere. It is, in fact, deeply rooted in the political world shaped and formed after the Holocaust and the second world war. Moreover, it can be built on many of the achievements of multilateralism (from the founding of the UN system to the development of the EU), international law (from the human rights regime to the establishment of the International Criminal Court) and multilayered governance (from the development of local government in cities and sub-national regions to the dense web of international policymaking forums).

The story of our increasingly global order is not a singular one. Globalisation is not, and has never been, a one-dimensional phenomenon. While there has been a massive expansion of global markets which has altered the political terrain, the story of globalisation is far from simply economic. Since 1945 there has been a significant entrenchment of universal values concerning the equal dignity and worth of all human beings in international rules and regulations; the reconnection of international law and morality, as sovereignty is no longer merely cast as effective power but increasingly as legitimate authority, defined in terms of the maintenance of human rights and democratic values; the establishment of new forms of governance systems, regional and global (however weak and incomplete); and the growing recognition that the public good – whether conceived as financial stability, environmental protection, or global egalitarianism – requires coordinated multilateral action if it is to be achieved in the long term (Held 2004). These developments need to be, and can be, built upon.

A coalition of political groupings could emerge to push these achievements further, comprising European countries with strong liberal and social democratic traditions; liberal groups in the US polity which support multilateralism and the rule of law in international affairs; developing countries struggling for freer and fairer trade rules in the world economic order; non-governmental organisations, from Amnesty International to Oxfam, campaigning for a more just, democratic and equitable world order; transnational social movements contesting the nature and form of contemporary globalisation; and those economic forces that desire a more stable and managed global economic order. To the extent that the 2007 Bali discussions on a comprehensive global deal on climate change were a success, it is attributable to an increasingly effective EU, positive action by key developing countries, and continuing pressures by leading environmental INGOs.

Europe could have a special role in advancing the cause of more effective and accountable global governance (McGrew 2001, 2002). As the home of both social democracy and a historic experiment in governance beyond the state, Europe has direct experience in considering the appropriate designs for more effective and accountable supra-state governance. It offers novel ways of thinking about governance beyond the state which encourage a (relatively) more democratic – as opposed to more neoliberal – vision of global governance. Moreover, Europe is in a strategic position (with strong links west and east, north and south) to build global constituencies for reform of the architecture and functioning of global governance. Through interregional dialogues, it has the potential to mobilise new cross-regional coalitions as a countervailing influence to those constituencies that oppose reform, including unilateralist forces in the US.

Although some of the interests of those groupings which might coalesce around a movement for such change would inevitably diverge on a wide range of issues, there is potentially an important overlapping sphere of concern among them for the strengthening of multilateralism, building new institutions for providing global public goods, regulating global markets, deepening accountability, protecting the environment and ameliorating urgently social injustices that kill thousands of men, women and children daily. Of course, how far they can unite around these concerns – and can overcome fierce opposition from well-entrenched geopolitical and geo-economic interests – remains to be seen. The stakes are very high, but so too are the potential gains for human security and development if the aspirations for global democracy and social justice can be realised.

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From intervention to cooperation: reforming the IMF and World Bank

Ngaire Woods

Cooperation among governments is urgently required to deal with the financial crisis catalysed by the collapse of the US sub-prime mortgage market, immediate threats posed by fragile and collapsing states, and climate change. In principle, the IMF and World Bank are ideally placed to play a key role. They sit at the heart of intergovernmental cooperation: conducting consultations on exchange rate policy; lending to countries in financial crisis; providing assistance after conflict and natural disasters; and setting standards, offering advice and providing development assistance.

In practice, neither institution is adequately equipped to ensure cooperation to deal with current crises. Two reasons stand out. First, neither institution has globalised its governance sufficiently. The IMF and World Bank are ostensibly global institutions but each is run by a small directorate of industrialised countries who cling to their influence over each organisation. Seriously under-represented are emerging economies. But they are not desperately calling for reform. They have alternatives: they are stockpiling their own reserves (and hence have little need of the IMF); in some cases they are setting up their own multilateralised swaps arrangements (the CMI); they have access to multiple sources of development financing (and hence little need for World Bank loans); they are planning new multilateral development initiatives (the Bank of the South); and several now have their own aid programmes. They are not formally disengaging from the IMF or World Bank but in practice the institutions have slipped to the margins of their policy-making since they have little confidence that the agencies will act as multilaterals rather than as agents of the OECD, G7 or G1 economies. Put simply, neither institution has a governance structure which today commands the confidence of emerging economic powers whose cooperation is vital if global collective action is to resolve the crises mentioned above.

A second serious problem is that both institutions have a habit of intervention rather than cooperation. Both the IMF and World Bank have been used to bring about change in developing countries over the past few decades. Neither has developed as a forum for serious multilateral cooperation. In the words of the former IMF chief economist Raghuram Rajan: "some of the largest industrialised countries see themselves as more sovereign than others, and their politicians brook no interference in their own domestic policies, while being fully prepared to use multilateral agencies to intervene in the domestic politics of others".[1]

The habit of intervention rather than cooperation has left unaddressed the economic storms which besiege small economies – the brunt of globalisation. These include sudden destabilising shifts in capital flows, energy and commodity prices and exchange rates. In effect, the IMF and World Bank have been used to exhort governments of small, poor economies to paddle faster in the face of external forces including volatility in capital and investment flows (caused by contagion and crises in other countries), commodity prices (historically the most volatile of all prices),[2] energy prices, exchange rates and aid disbursements.

The failure of the IMF and World Bank to deal with the brunt of globalisation cannot be separated from their governance structures, which have made it easy for industrialised countries to urge other countries to reform without committing themselves to any self-restraining or regulatory actions that would result in a more inclusive globalisation. In sum, the IMF and World Bank should be uniquely placed to promote cooperation among governments to address global collective action problems. In practice, serious reform is required to equip them to do this.

Globalising the institutions: the role for progressive governments

What can be done? Reinvigorating the IMF and World Bank to make globalisation more inclusive will first require rebuilding the multilateral character of each institution. Emerging (and other) economies need to be fully engaged. For this, they will need assurance that the institutions are as much theirs as others'. At present, they see the institutions as instruments of US or G7 economic interests and values.

Capturing confidence is possible. This was achieved when the institutions were first created through their governance structures. The original 1944 structure of the IMF and the World Bank ensured the engagement of the United States (and Wall Street). Since the US was the world's largest creditor at the time, and Wall Street the world's largest potential purchaser of World Bank bonds, this confidence was crucial. It was delivered through a system of formal and informal controls over the organisation.

The assurance-building governance features of the institutions included:

- Control over the headships (and thereby chair of the board) of each organisation and an informal say over the appointments of senior management.
- Weighted voting.
- A small technocratic board on which the US had veto-power over key decisions.
- Location in Washington DC.

Using the governance of each organisation to ensure "buy-in" and engagement, the institutions were equipped in 1944 to capture the confidence of key members. That experience has important lessons for how each agency could be adapted to today's circumstances. Let us examine each institution in turn.

Reforming the governance of the IMF

Much has been written about possible IMF reform but what is now required supersedes most existing proposals for reform. The basic structure of voting power and shares in the organisation is based on an anachronism. The US is no longer the world's largest creditor – it is now the world's largest debtor. Global financial stability no longer depends exclusively upon US decisions or the US ability to work in concert with allies such as in the G7 – it now depends equally on decisions made by other major holders of reserves. The limitations of the current structure as a forum for multilateral negotiations were obvious a decade ago when, during the east Asian financial crisis, it became clear that discussions about the financial architecture could not sensibly be undertaken just in the G7. However, the creation of the G20 seems to have staved off deeper reform rather than spurred it.

The IMF needs to be reconfigured to gain the confidence of members who have long felt that it is not their institution. Small changes in the right direction are already underway, including small quota increases for China, Mexico, Korea and Turkey; together with discussions about how to enhance the voice and capacity of smaller members. However, these small voting and capacity increments do not answer the central question: what would an institution which could command the confidence of all of its members look like? The elements of governance used to "bring in" the US in 1944 are an instructive starting point.

Control over headship

The managing director of the IMF chairs the board and holds all the senior management and staff to account. Until now the managing director has been appointed from among a small group of European countries in consultation with the US – a crucial element of the 1940s "deal" for the IMF and World Bank.[3] These same countries not only appoint but also decide whether to reappoint the managing director after a five-year term. The result is to skew the accountability of the organisation as a whole towards the small group of countries involved in leadership selection.

In every recent appointment of the managing director this process has come under scrutiny and criticism. This led the boards of both the IMF and World Bank to convene a committee to consider the leadership selection process in each organisation, and to recommend some rudimentary improvements. Neither board adopted them. More recently in the IMF, prior to the election of the current managing director, the board adopted a resolution to treat all candidates equally, regardless of nationality, in all future selections.

In the 21st century the appointment of the managing director – and the consequences for who de facto holds the reins of the IMF – will have to change if the institution is to capture the confidence of emerging economies. An obvious way to take the process forward is to build on progress made, bolstering a transparent process with more than one candidate, and applying a decision-making rule which encourages consultation and participation in the decision (see section on the board and decision-making, below).

Weighted voting

A second element of the initial IMF design for assuring a nervous US in 1944 was to create formal stakes in the organisation which reflected the economic preponderance of the US, giving it special rights in respect of financial contributions as well as voting power. The multilateralism of the IMF was underscored by giving all countries an equal allocation of "basic votes". At the same time, special assurance was given to the US by creating a formula that allocated it (and the UK) especially large chunks of voting power, which mirrored responsibilities to lodge reserves with the organisation.

These basic principles are useful. The combination of basic votes and a formula to calculate differential stakes in the global monetary system is a good starting point for thinking about how to engage the current membership of the IMF. Many current proposals for reform note that basic votes have been left to wither on the vine (now accounting for a much smaller proportion of overall votes), and quotas in no way reflect actual economic power.

Missing to date has been a process for reapportioning basic votes and rewriting the formula for voting which includes emerging economies as equal partners. Quota reviews have been undertaken – such as that done at the behest of a managing director (with the consequent accountability problems specified above). The IMF now needs to engage properly with the issue and agree to constitute a representative group authoritatively to rewrite the formula.

The board and decision-making

A third element of the initial US-assurance-giving structure of the IMF was the creation of a small resident board of executive directors based in Washington DC (more on location below), and chaired by the managing director. The US and the other largest stakeholding governments each have their own representative on the board (all other members sit in groups who elect a director, who must then represent first and foremost the interests of the organisation rather than the countries who had voted for them). The board makes decisions on the basis of a consensus underpinned by a majority of voting power. Originally, special categories of important decisions required a special majority (such as a 75% majority) which ensured that the US had a veto over these decisions.[4]

The IMF is well-served by a small board which can make effective decisions. However, the way the IMF board currently works might best be described as semi-representative, semi-technocratic and semi-efficient. It neither makes countries feel represented, nor acts independently of them. As mentioned, some countries are individually represented and can hold their directors directly to account. Other countries are bundled into groups (constituencies) and represented by an official whom they cannot hold directly to account and who owes a primary loyalty to the institution (Woods & Lombardi 2006).

The key to immediate reforms of the IMF board and decision-making is to strengthen buy-in without jeopardising the small and efficient character of the board. A first reform could be to change the convention that the managing director chairs the board. Instead, as an organ which oversees the managing director, the board should be chaired by one of its members.

A second reform concerns decision-making and creating an incentive for countries to consult across the membership and to act more genuinely by consensus. At present, board decisions are reached ("by consensus") when countries wielding a majority of voting power agree. This gives no incentive to powerful vote-holders to consult others, nor does it give an incentive to directors wielding tiny proportions of voting power to prepare positions for, or to use the voice they have on the board. This could be easily rectified.

Already in the IMF a double majority is required to alter the Articles of Agreement as well as to expel a member or deny it benefits. This means that not just the votes of powerful countries matter (for an amendment 85% of voting power), but that they have to gain wider agreement among member countries so as to achieve the consent of a 60% majority of member countries.

Other international organisations also use double-majority voting (eg the EU Council of Ministers, the Global Environment Facility in the World Bank). The effect of this would be to broaden consultation and responsiveness within the organisations. At present the G7 members of the IMF command just over 40% of voting power and need only find one further executive director's vote in order to claim consensus for a decision. A double-majority voting rule would require them also to forge wider alliances of members so as to gain agreement from 50% of the membership. One obvious issue to which an extension of the decision-making rule is relevant is the institutions' leadership selection.

An independent board and the perils of location

More radically, the governor of the Bank of England recently proposed getting rid of the resident IMF board and replacing it with a non-resident group of policymakers meeting periodically. This could well solve some problems. It would put "heavy-weights" on the board who could give strategic direction to the organisation and ensure more effective oversight of the management and staff of the organisation. More direct and high-level representation might also make countries feel more directly represented.

What the idea of a non-resident board misses is the elephant in the room. Privately, policymakers across the developing world concede that to them the IMF is a US institution. It is located in Washington DC very close to the US Treasury. As already mentioned above, this location has until now been coupled with US influence over its senior management appointments, and the fact that the US is the only country that can single-handedly veto significant decisions in the organisation. The thin veneer that separates the US from the IMF has in essence been the resident board of the organisation, which sits in Washington DC, a symbol of multilateralism and accountability to the membership. For the board to become a non-resident one – an idea with many merits for promoting high-level international cooperation – other key elements of governance would need to change. This may even include moving the headquarters out of Washington DC and relocating it to a capital that does not have the power to impose its own imprimatur on the institution, or at least shifting some of the authority of the IMF.

For example, Asian countries have already begun to develop regional monetary arrangements that nevertheless rely on the IMF as external disciplinarian. They retain control over their reserves but delegate an agency of restraint function to the IMF. Such arrangements could be supported where they emerge with a high degree of autonomy but also with links to a central hub where information can be pooled and disseminated and standards set. Those who pay will have control over their funds at the regional level, but also reap the benefits of a set of international standards and restraints. This radically different IMF would capture the changes described above, embedding them in a political structure in which members have confidence. Only when it has gained that confidence can the IMF be an effective machine for global monetary cooperation, or a welcome and trusted adviser on how to deal with shocks from the global economy.

Reforming the governance of the World Bank

The IMF's governance structure was replicated for the World Bank back in 1944 and similarly served the purpose of assuring the US government's engagement through control over the headship, weighted voting, the board and decision-making structure and location. Unlike the IMF, the headship and quotas at the World Bank have not been altered, even modestly. Do these need to change?

The Bank has transformed since its birth. It now sits at the centre of an international development assistance regime that is notoriously fragmented, duplicative and cluttered with a large number of donors tripping over each others' bilateral rather than multilateral efforts. In theory, the World Bank, by pooling information and resources, should vastly reduce transaction costs on both sides of the aid relationship.

In practice, powerful World Bank donors have sustained and expanded their own separate aid agencies and processes, creating a cacophony of donors making different demands on over-stretched governments. The governments of these countries speak daily to developing countries through dozens of megaphones, including their own national agencies and special initiatives alongside several multilateral agencies (the UNDP, World Bank, IMF, WHO, WTO and so forth). The result is that already over-stretched government officials in very poor countries are forced to spend most of their time and staff strengthening and maintaining external relations with donors, and doing their bidding.

More perversely still, even when donors have used the World Bank, they have encumbered it with special demands, special funds and additional procedures. This practice can be seen in the increasing use of "trust funds" in the World Bank. These are funds given to the Bank for a particular use – often supplementary to the institution's core work. As described by a former UK government aid official, "we construct an elaborate mechanism for setting priorities and discipline in the Bank, and then as donors we bypass this mechanism by setting up separate financial incentives to try to get the Bank to do what we want" (Ahmed 2006, p.90).

At the highest level, donors have engaged in a discussion about how they might better coordinate, harmonise and align their aid efforts (OECD 1996, 2005). That said, the rate of progress on the ground has been glacial; crowded out is the thought that for any new modalities to work, recipient countries will need to take a lead in formulating solutions to the non-coordination problem.

The Bank has the potential to be a good multilateral forum on development assistance, as well as harnessing the benefits of pooling the delivery of aid. However, this will require the Bank first to command the confidence of donors who will otherwise cling to their own programmes. It will also require the confidence of aid-recipients, who will otherwise prefer to deal with multiple donors.

The new donors need assurance that the Bank is not simply an instrument of the US or other donor preferences. Precisely to guard against this, the Bank was born with constitutional guarantees against political interference both in its funding and in its governance structure. Those guarantees were rapidly pushed aside when the Bank was headquartered in Washington DC and it became clear that the US executive director's approval would be a sine qua non for any loan (Woods 2006, ch.1). The question now is how to resurrect the sense of a bank which is genuinely multilateral. Intriguingly, the Bank has moved far less than the IMF on this.

Control of the headship

Although the IMF has progressed some way on opening up the headship selection process, the World Bank has not. Indeed, the last two selections of presidents led to the appointment of US administration insiders to the headship, cementing the sense that the Bank is tightly bound into the US political administration. The original rationale for an American presidency of the Bank was impeccable. The Bank needed to command the confidence of both the American political system (for confirmation of the Bank's Articles of Agreement) and of Wall Street (where the Bank would raise funds). Subsequently, however, Bank funding and activities have come to rely far less on US and other guarantors and far more on the Bank's own net income (from fee-paying borrowers), its investment income and the investment grade it has built up from its loan portfolio.

There is no longer a reason to make the World Bank more accountable to the US than to any other government. Indeed, the assurance problem has shifted to emerging economies who need luring to the Bank both as fee-paying clients and as donors in their own right. The Bank recently hired a Chinese national as its chief economist, Joseph Lifu Yin. However, this does not overcome the accountability bias inherent in a US-appointed and reappointed president. Clearly a first step towards preparing the Bank for a more active role in global cooperation is to revise its headship selection process.

Weighted voting

In the World Bank there has as yet been no discussion of shifts in weighted voting or the Bank's formula for calculating quotas and votes. Although the IMF has proceeded with modest reforms, the World Bank has not. The weighting of votes in the World Bank is a historical curiosity. The Bank simply inherited a slightly modified version of the IMF's quota structure. Yet, its mission (or missions) is different. Stakes in the World Bank should reflect the agency's purposes. Where the Bank acts as a coordinator of development assistance, the relevant stakes are related to donorship. The World Bank needs a properly constituted, representative group to assess and propose a weighted voting structure which makes sense of the stakes that are relevant to the Bank's own activities.

The success of the replenishment negotiations for the Bank's concessional lending fund (the International Development Association) bears noting. The negotiations had stalled during President Wolfowitz's tenure at the Bank, and have been carefully pieced back together under the new president. The addition of China and Egypt (among others) as new donors highlights a degree of confidence in the IDA, as does the record pledges to increase its funding.

The board, decision-making and decentralisation

Like the IMF, the World Bank has a resident board as well as a board of governors. However, the resident board works rather differently to that of the IMF. Much of its work is devolved to committees through which the Bank has taken a more active role such as in overseeing quality management and development effectiveness. The quality-oversight role is important, since "success" in the World Bank's work is difficult to assess, as the organisation's mission is a wide-ranging one. Many of its goals are long term and difficult to measure. The Bank should not be crowding out private financing, and an overly high success rate might suggest that the Bank was taking too few risks. For all these reasons, the board's oversight role is important, albeit discharged at present with far too much micro-management of lending.

Missing from the World Bank is a forum for longer-term agenda-setting and genuine multilateral cooperation on development assistance. Neither the resident board nor the board of governors has worked as a strong agenda-setting presence or forum for multilateral cooperation. The evidence of this lies in the fact that most multilateral discussions on development assistance have been undertaken in the OECD Development Assistance Committee, even though many see this group as inadequately representative. More recently, a new forum has been created by the UN – the Development Cooperation Forum.

One area in which the Bank has altered its governance has been in its decentralisation. The Bank has devolved significant authority in some cases to its country offices, bringing the Bank's development lending and advisory work closer to country priorities. In several cases this has proved to be a very successful strategy. Building on this, the Bank's package of governance elements could be configured better to earn the trust of members whose cooperation it requires, as well as to invigorate the Bank as a forum for cooperation on development assistance.

Conclusion

The multilateral institutions are crucial for managing globalisation in the world economy. To do this more effectively the Fund needs to be reorganised so as to command the confidence of emerging economies upon whom global financial stability now depends. Equally, the World Bank is well placed to make a major contribution to cooperation – and the provision of global public goods – in development assistance. To take up this role effectively, the Bank will also need to command the confidence of a wider range of members, gaining their engagement and trust as a hub for development assistance, cooperation and knowledge. The Bank's decentralisation is already a step towards ensuring that the Bank better responds to its members' needs. Progressive governments now need to push its governance in a similar direction.

The argument against reforming the IMF and World Bank is often expressed as a trade-off between effectiveness and legitimacy. Effective institutions get things done. This is the IMF of the 1980s. The debt crisis created a queue of needy countries at the IMF's door and it played jury, judge and jailor on their economic policy, imposing ever-expanding conditionality. This is because it enjoyed "hard power" – the power to lend or not to lend – and could make rules which could be enforced with pressure and even coercion where required. By contrast, participatory, legitimate and inclusive institutions like the UNGA enjoyed legitimacy at the expense of any effectiveness. They spend time and effort ensuring representation and participation, but get little done. On this logic, some commentators have long argued against "opening up" the IMF and the World Bank, for (as they say) it will render them ineffectual.

But this is false reasoning. Neither the IMF nor World Bank can continue to be governed as they have been. Their legitimacy in the eyes of their members is inextricably bound up with their potential to be effective. If key economies politely disengage, they cannot do their business. This is why participation has in fact been opened up a little, not just in the relatively visible organisations such as the IMF and the World Bank, and in the G7 finance ministers' creation of the G20, but also in more technical organisations such as the Financial Stability Forum, and the Bank for International Settlements. In each case, wider participation has been seen as an efficient way to gather information and to improve compliance. In short, it reflects a bid for greater effectiveness.

In the contemporary global economy there is a serious risk that the established powers will cling to their well-crafted but out-of-date institutions. If they do so, they will diminish the possibilities not just for collective action but for a deeper form of global cooperation and the forging of common purposes among governments.

Progressive governments should take steps towards globalising both the agenda and the governance of the IMF and World Bank. In 1944, elements of the governance of each institution were used to build the confidence of the then shy US. Similarly, today they should be used to attract and assure key emerging economies. These elements include control of the headship, weighted voting, and the role of the board and the location of each institution (or its authority). This confidence is a necessary pre-requisite if either institution is to become a genuine part of the machinery for international collaboration and cooperation.

Notes

1 Rajan, R.G. 2008, *The future of the IMF and World Bank.*

2 Commodity prices at times exhibit 50% standard deviations in price changes. See Kroner, K.F., Kneafsey, D.P. & Claessens, S. 1993, 'Forecasting volatility in commodity markets', World Bank Policy Research Working Paper Series, no. 1226.

3 An implicit part of the same deal has been influence over appointments to senior management positions.

4 These special majorities have changed to reflect a gradually decreasing US share of overall votes. A special majority of 75% of votes was required when US voting power was just over 25%; that special majority requirement is now 85%, retaining a US veto power even though US voting power has slipped to 17%.

Shooting the rapids: multilateralism and global risks

Alex Evans and David Steven

Multilateralism has always been born out of crisis. The League of Nations grew from the ashes of the first world war, while in 1945, the new international system was fundamentally concerned with rebuilding stricken economies and the need to prevent another war (literally: the UN Charter still refers to "enemy powers"). Later, the G8 emerged from the 1973 oil shock, and the recession that followed.

Since then, the powerful forces of globalisation have been unleashed upon the world. Trade now accounts for almost a fifth of world GDP.[1] Technological innovation has been frenetic, radically changing the way we live, work and communicate, while the world's population has grown by a billion people every dozen or so years.[2] At a time of such dramatic change, our economic, social and political systems have come under great pressure. On the whole, they've coped – just.

Now, the world looks poised to face another crisis and shoot a new set of rapids. The critical point could be the "perfect storm" of a systemic shock, perhaps, or the culmination of a number of slower-burn issues. Perhaps it will simply be the realisation that, at present, we lack the will or capacity to solve the strategic challenges on the world's to-do list.

Whichever way it comes, political space for change will appear suddenly and only briefly. This short window will present us with the opportunity to tackle globalisation's central paradox – that it has bought both increased prosperity and increased risk. The challenge will be to find a way of decoupling that link, so that tomorrow's globalisation continues to offer growing prosperity (and to more of the world's people), but does so within systems that are more resilient when things go wrong.

To succeed, we will need to:

- Promote a stronger understanding of the changing nature of the risks the world now faces.
- Rally a growing coalition around a renewed vision of what we think the international system is for.
- Drive through a programme of multilateral reform that focuses on delivering results, not on restructuring organisations.

1 The new global risks

The starting point for this challenge is a new understanding of global vulnerability—a problem that can be viewed through four lenses.

First, we are much more susceptible to shocks than we like to think. Disasters have always been catastrophic for their direct victims. But interdependence makes it ever more likely that a localised event will have much wider impact.[3] As we have made our economic systems more efficient, we have also made them less resilient, by taking away buffers and reducing margins of error.[4] In a catastrophe, urban centres can quickly stop functioning, as Hurricane Katrina or the 2003 European heatwave both showed. Meanwhile, the world's poorest people tend to be in the front line of the impacts of global risks – a powerful moral imperative for the international community to do more to protect them.

Second, our consumption levels are beginning to hit the buffers. A global population set to reach 10 billion by mid-century, a burgeoning global middle class, and a media-driven universalising of high material expectations, are now colliding with the blunt reality of limited supply of certain highly strategic resources – including oil, food, water, land and "atmospheric space" for our emissions.[5] This reality will inevitably change the basis of economies that are currently built around abundant access to all these things. You can expect innovation to ease the transition to a less resource-intensive model, but changes of this magnitude are seldom painless, so we should prepare for a rocky ride.[6]

Third, critical systems are now so complex that we can weaken them by accident, stupidity or oversight. Globally, there is massive under-investment in physical infrastructure, which, as a result, is increasingly showing the strain. Even the internet, supposedly invulnerable, has more bottlenecks than we like to think – as recent incidents have shown.[7] And we have become cavalier in our dispersal of risk. The world's financial system is experiencing turbulence on a scale not seen for decades, as investors have found themselves exposed to "parts of the capital markets that most of us had never heard of", in the words of Lehman Brothers' chief US economist.[8] There may be wisdom in crowds, but it seems there is ignorance too.[9]

Finally, there is intentional systems disruption. Al-Qaida understands the power of achieving maximum impact through minimum effort, and is explicit in its intention to "bleed America to the point of bankruptcy". This is a lesson others will learn, as they explore the potential for "attacking the critical networks… that underpin modern life," and discover a kind of mass disruption with even more favourable cost benefit ratios than mass murder. As with all terrorism, we shouldn't get too fixated on the physical destruction: it is the psychological impact that matters most. Rupert Smith captures well the essence of "war among the people", where the aim is to "turn the power of the state against itself… to win the clash of wills rather than the trial of strength."

The multilateralism we have

How does today's multilateralism shape up in the face of these risks and vulnerabilities?

We should start by noting some successes. Armed conflicts around the world have fallen by more than 40% since the early 1990s. More wars have stopped than started since 1988. Conflict between states, and average deaths per war, have been falling for much longer.[10] The UN deserves huge credit for these successes, although terrible blunders like Rwanda and Darfur still happen. The EU, meanwhile, has succeeded in its primary goal of achieving lasting peace in Europe, and has become a model for international integration.

Meanwhile, multilateralism has contributed to progress in development. Hundreds of millions have been lifted out of poverty in emerging economies, thanks to engagement with the international economy. A rules-based trading system for all is an unprecedented achievement, with China now a flourishing member of the WTO. And soon, the world will be able to declare itself polio-free; recently Somalia, one of the most dangerous places on earth, was able to do just that, thanks to the WHO.[11]

Even so, the international system still badly needs reform. Since the UN world summit in 2005, amid the palpable air of mistrust and resentment between opposing blocs post-Iraq and oil for food, much of the momentum for change seems to have been dissipated. Work carried out then, however, means we are not starting from scratch today. The analysis conducted by the High Level Panel on Threats, Challenges and Change remains highly relevant. It recognised:

- Fundamental changes in our "security climate", with "unique opportunities for cooperation… matched by an unprecedented scope for destruction."
- The urgent need for a broader concept of collective security, based on the need to respond to a set of increasingly interconnected risks.
- The imperative of redirecting scarce resources and attention to the most serious risks – those that could wreck large numbers of lives or those that could undermine the integrity of the system we live in.[12]

In turbulent times

A few years on, and the trends identified by the Panel have deepened, while an adequate response continues to be bedevilled by a lack of coherence, capacity and will.

International action is still fragmented by institutional silos, while risk is systemic.[13] The big picture is still only clear at the centre of organisations – in policy planning staffs, national security councils, cabinet offices and so on. But centres have limited time and attention, which makes it hard for them to imagine, or deliver, the long-term cross-cutting policy agendas that are needed. All too often, the urgent crowds out the essential. While increasing numbers of risks demand the attention of heads, the limited "bandwidth" of summits, sherpa networks and telephone diplomacy means that "initiatives" often substitute for comprehensive frameworks.

As a result, it is almost inevitable that the international system will run out of capacity in the face of the unexpected; its effectiveness degraded during turbulent times. While undoubtedly unfortunate, this is also a clue as to where we should focus our efforts. Previous reform initiatives have focused too much on the organisational paraphernalia of multilateralism: summits, bureaucracies, treaties and communiqués.

Instead, we need to focus on the function of multilateralism, rather than its form. What outcomes do we want the international system to deliver? How do we expect it to behave when under threat? And who needs to be part of the system, if it is to have greater capacity to deliver change?

2 A functional multilateralism

Foundations for reform

The foundation for effective multilateral reform lies in combining greater awareness of the nature of the risks we face, with a fresh understanding of how international politics is changing. The new threats are fluid, interlinked and hard to categorise; and so, increasingly, are the international system's constituents. Global risk management is thus like a game with the opposite dynamic to chess: the closer you move towards an endgame, the more pieces flood the board, as groups mobilise to advance their interests.[14]

For this reason, any reform effort must be about more than "redrawing the organogram". International organisations are only one part of our global system – and often the part that is most resistant to change. We need a much more holistic view of the international system to tackle distributed problems, including informal as much as formal institutions; horizontal as much as vertical network organisations; and non-state actors as much as governments.[15]

We need an international system that can:

- Move beyond short-termism, to develop comprehensive systems for managing risk.
- Embed national sovereignty in a deeper context, in which the need for cooperative action between states is recognised and acted upon.
- Overcome fragmentation between silos, without falling into the trap of over-centralisation.
- Cope with the unexpected, so that breakdowns can lead to renewal rather than collapse.
- Distribute, as widely as possible, the burden of creating global public goods, while allowing likeminded actors to forge ahead with new approaches.

The function of this system is to deliver three types of outcome. As a destination, shared operating systems. And en route, the shared awareness and shared platforms that make these operating systems possible.[16]

Shared operating systems

Let's start with the endpoint: a shared operating system. Multilateralism is usually at its best when we don't notice it – when it presides over a stable system that ticks along, providing a public good with minimal fuss.

No airplane flies without shared global standards for air traffic control, safety and security checks; no remittance gets transferred without international banking protocols. The fact that both systems are organised by the private sector isn't the point: the important thing is that the function is delivered, regardless of the form the operating system takes.

What might an operating system for managing a key global risk look like? Take climate change. It is relatively easy to imagine the system's main parameters. There would be an agreed ceiling on greenhouse gas concentrations, and a "global emissions budget" derived from it. Property rights to this budget would be decided according to a formula that provided countries (or indeed citizens) with a fair share of this scarce resource. A global emissions trading system would tick quietly along, moving the world back to climate stability, and our economies towards decarbonisation.

Or think of an operating system for humanitarian relief. Funding would be raised automatically, before disaster strikes – rather than, as now, a frantic passing around of the hat when the crisis is well underway, through the antiquated consolidated appeals process. Agencies would coordinate their work, rather than seeing big agencies like the World Food Programme free to go their own way. Top-down mechanisms would be complemented by bottom-up coordination, for instance using IT systems to allow NGOs to share out tasks. Interoperability would be far higher, duplication of effort, much lower.

The point about successful shared operating systems is their stability and sustainability. That's not to say that they are static – far from it. Brittle systems are systems that fail; systems with resilience and longevity, on the other hand, are flexible, adapting themselves to change over and over again. But the core long-term objective (a stable climate, or the capacity to respond effectively to emergencies) is already in the process of being delivered, rather than being a long-term aspiration.

Shared operating systems, then, are the point we are trying to reach on global risks. In reality, of course, we can't jump directly to them; if we could, there would be no problem. So how to get there? This is where shared awareness and shared platforms are relevant.

Shared awareness

Shared awareness is the precursor to change and involves building a common understanding of an issue around which a coalition can coalesce.

This may sound like a simple, even a trivial, process, but it is not. We're not talking about the circulation of a report or two, or "stakeholder dialogue" for the sake of it, but rather, a systematic attempt to ensure that all actors are working from an agreed evidence base; that they share an analysis of what changes are needed; and that they are using a common language to recruit others to their cause.

The Intergovernmental Panel on Climate Change – one of the most important recent innovations in the international system – is the example par excellence of a shared awareness mechanism. In its 20 years of existence, the IPCC has institutionalised the connection between climate scientists and the international community. It has also functioned as an anchor for engagement, conversation and debate on the issue, and been responsible for helping bring together governments, businesses and civil society. Without its influence, there would have been little prospect for a concerted and comprehensive attempt at climate stabilisation.

As the IPCC shows, the need for shared awareness applies at every level, from top to bottom: not just between political leaders, but at working level too. Shared awareness also needs to extend outside governance systems to encompass relevant publics. Non-state actors are key players in 21st century foreign policy: progress on HIV, or climate change, or radicalisation and terrorism, is about influencing the behaviour and beliefs of millions of people, not merely a few hundred diplomats.

What is needed is a shared awareness just broad enough to include all relevant players, and just deep enough to bring in all relevant expertise. Once that is in place, it becomes possible to start moving towards shared platforms.

Shared platforms

Here, shared awareness is moving towards joint action – but not yet as far as the stable state of a shared operating system. Instead, things are in flux.

The Education for All Fast Track Initiative, for example, is a partnership between donor and developing countries that aims to make faster progress towards the education MDG. The FTI is not a comprehensive solution, but was born from the recognition that "drastic efforts" are now needed if universal primary education is to be achieved.[17] It is an interface for building support for the sector, and bringing greater coordination to donor efforts, while drawing on pressure for change from civil society organisations, which have joined together in the Global Campaign for Education.

As the FTI shows, the construction of a shared platform may have some technocratic elements to it (for example, the distribution of money) and these may be very important. But it is the development of advantageous political conditions that is the critical element of any shared platform. In the case of the FTI, a network of state and non-state actors has developed around a shared goal or vision. The shared platform of the FTI allows them to act together to achieve change.

Unfortunately, this process usually happens to the international system, rather than because of it. Trade talks are often derailed by groups whose interests are under immediate threat, while a "silent majority" misses out on the benefit of greater openness. Similarly on climate change, inaction now would be at the expense of future generations who lack a voice in current debates. Campaigning work on a shared platform helps lend these quieter voices more weight, while encouraging collective action and enabling governments to look to longer-term interests – and in the process, catalysing change in the international system.

Sequencing is everything

The point of a functional approach to multilateralism is that it allows us to assess the current system according to its capacity to deliver. In climate change, for example, we have a vigorous debate on the problem but have only just begun to discuss solutions.

The road to Copenhagen is sure to be rocky, as the political conditions for change are still far from ideal – and there is, as yet, an insufficiently broad platform on which change can be delivered. We therefore run the risk of making the mistake of believing it will be possible to jump towards a global deal – a new operating system – without putting the foundations in place.

Forgetting the sequence is one of the classic pitfalls of international collective action. For instance:

- Shared awareness that's too broad leads to a talking shop with high legitimacy, low effectiveness, and minimal prospect of shared platforms (for example, the UN General Assembly; or ECOSOC).
- Shared awareness that's too narrow won't command the level of buy-in needed to deliver a shared platform (for example, the rejection of the EU constitution by French and Dutch voters in 2005; or the rejection of much of the UN World Summit agenda by the G77 in the same year).

- Shared platforms developed with no shared operating system in mind, usually as a result of limited capacity and/or shared awareness, lead to short-term "initiatives" that don't deliver real solutions (for example, the G8 Renewable Energy Task Force in 2000).
- Jumping straight to shared operating systems without developing shared awareness or shared platforms, leads to badly designed institutions, or treaties that fail to command support or to deliver on their objectives, potentially making matters worse (for example, the UN Commission on Sustainable Development).

So, the sequence is crucial. It focuses our attention on a simple, but often overlooked, fact: success is always a matter of influencing change in the international arena where no one actor has overriding authority. If we develop shared awareness on an issue, we can in turn produce a vision for a shared operating system for managing risk. Only at that point should we work back to establish the coalitions, campaign and evidence we need to get there.

3 A recipe for reform

From theory to practice

So the international scene is characterised by more uncertainty and more actors. In response, we have argued, leaders should focus on the outcomes they seek from the multilateral system: on function rather than form.

Of course, the process will never be neat or predictable. As von Moltke put it, "no plan survives contact with the enemy". That underlines the importance of small groups of like-minded leaders, who are prepared to work together on a common set of priorities by:

- Investing in creating shared resources (like the Stern Review on climate change) and campaigns (such as the ones that led to the Landmines Convention or the Responsibility to Protect).
- Acting in a systematic way to increase interoperability between governments and other like-minded actors in the international system – whether international bodies, other states, or non-state actors.
- Leading debates boldly from the front, by making unilateral commitments, implementing "pathfinder" policies, and using crisis creatively, to push towards shared operating systems.

Asking the difficult questions

The starting point should be to focus hardest on the questions that are most difficult – rather than leaving them to a future generation of leaders.

This is especially important at present, for three reasons. First, the prospect of choppy waters ahead. History suggests that in such periods, it is all too easy to sleepwalk into conflict and unilateralism: look at the abrupt end to the "first phase" of globalisation in 1914, or the disastrous failure to respond to the economic catastrophe of the 1930s. Progressive voices must underscore what could be lost, and what needs to be done.

Second, while we have set ourselves a 2009 deadline for a deal on climate change, the most important global risk, there is so far no sign that we actually know how to do the deal.[18] We are moving towards shared platforms without the shared awareness in place, because we are ducking the hard questions. If stabilising the climate will need a global emissions budget, then how should that be shared out? On an equal per capita basis, or in proportion to national wealth? If a phased transition from the latter to the former, how long?

The same story applies to other scarcity issues, too. Who will pay for the $22,000bn needed to upgrade the world's energy supply infrastructure over the next 30 years?[19] If the effect of a growing global middle class eating more meat and dairy products (not to mention using biofuels in their cars) is to take food out of the purchasing reach of the world's poor, then what – if anything – do we propose to do about that?[20] If oil supplies can't meet demand, how will countries avoid competition for energy resources reaching hazardous levels?

And thirdly, asking the hard questions now matters because new leadership in the United States will offer opportunities for new approaches. America's post-9/11 unilateralism is now largely discredited. This is therefore a good moment to reframe the debate, and to be candid with publics that governments on their own cannot manage global risks – particularly without public support for unpalatable decisions about what needs to be done. The moment is ripe for a more honest debate about the shape – and costs – of potential solutions.

Looking outwards

We have already argued that we need an approach that overcomes the problems of fragmentation while avoiding the trap of over-centralisation. This implies the need for a distributed approach, and a new understanding of the tools we have to work with.

This is a period of marked change for those practicing international relations. Military force is of declining utility, unless it is applied as part of a package of economic, political and diplomatic levers.[21] The nature of diplomacy, too, is being redefined, as governments struggle to develop a new theory of influence in an increasingly chaotic and porous world.[22] Neither can we be sure of our economic levers. Aid donors struggle to achieve progress on governance in fragile states – the bedrock of future development.

A more distributed approach needs to start at the top, with world leaders spending more time together – for ultimately, the real deal-making will be done at their level. UN Secretary-General Ban Ki-Moon underlined that in 2007, when his high level event on climate change helped to set the political conditions for a preliminary climate deal to emerge in Bali.

Shared awareness will only be created, however, if world leaders escape from their scripts into much less choreographed gatherings. This is not a new insight (it was part of Giscard d'Estaing's vision for the G8), but it's still true. As William Lind observes, "good decisions are far more often a product of informal conversation than of any formal meeting, briefing or process."[23]

Today's world leaders should be the ones creating the ideas that coalitions and networks can cluster around. Their role is to set out a narrative that will frame the analysis, and shape the subsequent debate. They need:

- Sherpa systems with much more bandwidth, with full-time sherpas spending their time on intensive and frequent engagement with each other, and across all issues (rather than, as now, focusing on negotiating text while spending most of their time on other, more pressing, tasks).
- A bottom-up approach to organisational reform, encouraging officials to think more creatively about shared risks, while sending out signals that this kind of work is actively encouraged not only within governments and organisations, but – crucially – between them too.[24]
- A commitment to a much more open-textured approach to international diplomacy. This is not just about engagement with the public, but a directed attempt to work with targeted groups who are prepared to form part of a "gradually expanding alliance" on a key global challenge.[25]

Looking forward

In sum, we are arguing for like-minded leaders to adopt an assertive forward stance in the international arena.

First, we believe they should push for the international system to develop capacity for the integrated assessment of risk. One way of doing that would be to task the UN secretariat with preparing a new global risk report, jointly with the international financial institutions, specialised agencies like WHO or FAO, and perhaps even with regional organisations like the EU or ASEAN.[26]

Second, we recommend developing a function for asking awkward questions about interlocking risks – and the unintended consequences of policy interventions. We need more "red teams" that can actively seek out problems, evaluate policies, and help the international system learn from its mistakes.

Third, world leaders should commit to a new system of "wargaming" joined-up responses to global risks. Resilience cannot simply be willed into action. Systems – and their interoperability – need to be tested. The military practice their responses at strategic, operational and tactical levels. We need the international system to do the same too.

Fourth, preparations for another world summit, which is mooted for September 2010, should begin. If it were to be preceded by another high level panel process, what should its remit be? How can it build on the 2005 exercise? Now is a good moment to be thinking about the broad agendas that such a process should encompass. What should they be?

Fifth, the importance of using pre-emptive action, and not just words, to shape the international agenda needs to be recognised. In Bali, the European Union used its unilateral commitment to emissions reduction to try and drive progress towards a deal. But we need more follow through on this issue, and comparable positions on others.

And finally, the world needs to be prepared for a crisis when it comes. As Milton Friedman once put it: "Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the political impossible becomes the politically inevitable."[27]

4 Towards a progressive multilateralism

These are challenging times for multilateralists. We live in a world with a growing population that has mounting aspirations, is equipped with increasingly sophisticated technologies, and is able to communicate amongst itself at high speed. In the coming years, two forces will drive a fundamental change in the context. First, scarcity – the reality of limits to the sustainable consumption of a few highly strategic commodities (energy, land, water, food, and "atmospheric space" for emissions). Second, instability – the tendency for complex systems to experience unpredictable and unsettling shifts.

There is no doubt that these forces will be exploited by those who favour isolation or chaos, potentially leading to a dangerous spiral of disintegration and decay. At its most extreme, this spiral would only be stemmed once a significant depopulation had been achieved. But systemic breakdowns will not necessarily lead to outright collapse; they can also lead to processes of renewal, as when the 1906 San Francisco earthquake led to the creation of the Federal Reserve System.[28]

So political leaders – and especially progressive leaders – need to be in the vanguard of a much deeper engagement with the risks we face.

In part, this means accepting the limits to what governments can achieve, turning our attention to points of weakness, and ensuring that global institutions focus tightly on their core mission, guaranteeing collective security. It also involves investing in resilience in the face of risk.

But above all, it spells out the need for a confident internationalism. The ability of the international system to deliver on its promises – moving to a low carbon economy, responding proportionately to security threats, supporting fragile and failing states and so on – will be decisive.

And this requires a new commitment to cooperative action. Like-minded states have no choice but to work together, inventing a new diplomacy that integrates all aspects of their hard and soft power, to deliver on shared interests rather than national ones.

At the heart of the new agenda will be the needs of individuals, and the contribution that they, and the groups that they form, can make; a real commitment to subsidiarity, so that power is distributed more widely throughout the system and only those issues that truly belong at a global level, reside there; and a deep understanding of the fact that a system is only as strong as its most vulnerable members. Perhaps above all, it involves a real commitment to "fair shares" – an essential prerequisite for bringing together countries and people of radically different income levels.

The new agenda will require a particular type of government – one that is both visionary and disciplined; forceful in the articulation of its beliefs, and clear in the description of its responsibilities; prepared to lead from the front, while actively enabling others to engage with it in joint action.

So finally, it becomes a question of values. The catastrophes of the first half of the 20th century left us with a particular vision of security, and a multilateral order that was riven by two competing ideologies. Now, we have to fight again for the "meaning" of the international system – and reform it to embody the changes we want to see.

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Notes

1 Real historical Gross Domestic Product (GDP) and growth rates of GDP for baseline countries/regions (in billions of 2000 dollars) 1969–2007. Updated: 3/10/08. Source: World Bank World Development Indicators, adjusted to 2000 base and estimated and projected values developed by the Economic Research Service, United States Department of Agriculture. Also reference: WTR 2007.

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23 Lind continues: "History offers a useful illustration. In 1814, the Congress of Vienna … did what aristocrats usually do. It danced, it dined, it stayed up late playing cards for high stakes, it carried on affairs, usually not affairs of state. Through all its aristocratic amusements, it conversed. In the process, it put together a peace that gave Europe almost a century of security, with few wars and those limited. In contrast, the conference of Versailles in 1919 was all business. Its dreary, interminable meetings… reflected the bottomless, plodding earnestness of the bourgeois and the Roundhead. Its product, the Treaty of Versailles, was so flawed that it spawned another great European war in just 20 years. As Kaiser Wilhelm II said from exile in Holland, the war to end war yielded a peace to end peace." See William Lind, 'Conversations', available at http://www.lewrockwell.com/lind/lind123.html.

24 This happened in 2004 in the UN, when a group of reform-minded mid-level staff calling themselves the Low Level Panel decided to prepare a report to tell their superiors how to fix problems in areas like recruitment, IT, personnel management and field/HQ relations.

25 The phrase is from the WEF: "An additional institutional innovation suggested in Global Risks 2007 was the creation of an avant-garde of relevant governments and companies around different global risks. The report argued that the urgency, complexity and multiple trade-offs in global risks require structures which can respond flexibly, assemble quickly and achieve legitimacy through success. A process of gradually expanding alliances, rather than a proposition requiring permanent consensus, may offer a better way forward. But, even under conditions of extreme interdependency, the problem of mobilising collective action to mitigate global risks

remains. One strategy to activate coalitions to mitigate global risks may lie in an improved understanding of national risk exposures and identifying clusters of countries that are exposed to the same risks in similar orders of magnitude."

26 This would provide a mechanism for reaching out to private sector organisations that are active in the area, such as the World Economic Forum, and will prove especially relevant during this period of global economic crisis.

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2

Tackling global risks: climate change, energy security and the food crisis

A progressive global deal on climate change

Nicholas Stern and Laurence Tubiana

The last few years have seen a deepening understanding of climate change, particularly the risks the world faces from business-as-usual paths of economic growth. These risks are environmental in origin, but will take economic, humanitarian and security forms. Changes to agricultural productivity, greater water scarcity, increased incidence of extreme weather events, and the more rapid spread of diseases as temperatures rise will cause significant economic and human costs within the next two decades. Indeed, such costs are already beginning to appear. And as the Solana report for the EU has recently shown, increasing competition for scarce water and energy resources and the likelihood of migration as people seek to escape areas at risk pose potential security threats in a number of regions.

Yet at the same time there is also increasing understanding of the scale of the response required in terms of reductions of greenhouse gas emissions, and the economic and technological instruments that can support and drive these reductions. Businesses as well as governments are becoming clear about what is necessary. And this understanding is increasingly reflected in public demand for responsible action. Already there are some promising movements in world and individual country policy. The UN conference in Bali in December 2007 was a major step forward, with a commitment by all countries to seek a new global deal by the end of 2009, and a broad (though not universal) recognition of the need for global greenhouse gas emission reductions by 50% by 2050 and 25–40% cuts by rich countries by 2020 (although only the phrase "deep cuts" was agreed). There was also progress on international action on deforestation. But it was the launch of negotiations only; it was not an agreement on a shared global framework.

To build that framework, we need to recognise the nature of the problem. Climate change involves a fundamental failure of markets: those who damage others by emitting greenhouse gases generally do not pay. Indeed the scale of its costs across both distance and time make climate change the greatest market failure the world has seen. Tackling it is quintessentially a "collective action problem": only if all countries which emit significant quantities of greenhouse gases reduce their emissions will it be worth it for any individual country to do so. The problem of free riding therefore makes an international agreement essential.

Three basic criteria should be invoked in shaping the specifics of a new global deal:

- Effectiveness: the scale must be commensurate with the challenge – which means setting a long-term stabilisation goal and an associated emissions reduction path towards it which will keep the risks at acceptable levels.
- Efficiency: we must keep down the costs of emissions reduction, using carbon pricing instruments wherever possible.
- Equity: the problem is deeply inequitable, with the rich countries having caused the bulk of current stocks of greenhouse gases and the poor countries being affected earliest and hardest – which means that the rich countries must take the lead.
- To meet these criteria, a global agreement to reduce greenhouse gas emissions must have targets and trading at its heart.

A long-term global goal

We need a long-term global goal which reflects a shared vision of the global actions necessary to limit climate change at an acceptable level. Fixed quantity emission reduction targets are crucial for the management of risk. But we need more than an agreement on absolute numbers: we need a common understanding of which development pathways will lead to that common goal and which will lead by contrast to the dangerous zones of climate change. It will be critical to create such a common vision between the old developed world, the emerging economies and the least developed ones – of the nature and the modalities of a growth path that will be sustainable in the long term. In turn this global goal will be a way to define the credible "horizon" for countries to choose and therefore to implement adequate policies and measures.

According to the latest IPCC Assessment Report, the current rate of global greenhouse gas emissions will need to be at least halved by 2050 to achieve a 50% probability of global mean temperatures increasing by less than 2°C. To reach that goal, global emissions have to peak no later than 2020–25. If global emissions are still rising beyond 2020, the IPCC estimates a probability that global mean temperature will increase by 3°C or more. Impacts associated with this level of warming include hundreds of millions of people suffering food insecurity and water stress, major increases in the number of deaths from heat, floods and droughts, and 30% or more of species threatened by extinction. Ecological "tipping points", where feedback effects lead to irreversible changes, are significantly more likely.

It is this analysis which has formed the basis of the objective of a 50% reduction in global emissions by 2050, which was agreed at the G8 summit in Heiligendamm in June last year. Such a reduction would offer a reasonable chance of keeping temperature increases below 2 or 3°C. While these targets will require strong action with substantial costs – perhaps 1 to 2% of global GDP – such costs will be much less than the costs of the climate change they will avoid. In this sense they are not overambitious relative to the risks of failing to achieve them.

Within these global targets arises the critical question of distribution. For progressive governments such an agreement must be based on a notion of equity.

If we take any particular good it will generally be true that rich people consume more than poor people. That is simply an expression of their being richer. In the case of the atmospheric reservoir for greenhouse gas emissions, it is hard to think of an argument as to why rich people should have more of this shared resource than poor people. They are not exchanging their labour for somebody else's and they are not consuming the proceeds of their own land, or some natural resource which lies beneath it. Any global deal will therefore have to involve some implicit or explicit understanding over the sharing of this "reservoir".

One way of judging this is in terms of the relative level of future flows: equity would demand per capita convergence of emissions rates. Currently global emission flows are around 40–45 Gt CO2e. With a world population of around 6 billion that means average global per capita emissions are around 7 tonnes. Given that the world population in 2050 will be around 9 billion, in order to achieve 50% reductions (ie an aggregate flow of around 20 Gt CO2e) by then, per capita emissions will have to be 22.5 tonnes. And since around 8 billion of these people will be in currently poor countries, those countries will have to be in that range even if emissions in currently rich countries were to fall to zero. It is clear from this basic arithmetic that any effective global deal must have the currently poor countries at its centre. Equity will inevitably be a precondition of their participation.

From the point of view of equity the numbers are stark. The currently rich countries are responsible for around 70% of the existing stock, and are continuing to contribute substantially more to stock increases than developing countries. To get to the required 2 tonnes global average level by 2050, Europe and Japan would need to cut their emissions rates by around 80%. Yet an 80% reduction by the US, Australia and Canada by 2050 would leave them around 4 tonnes, twice the required average level. Thus a 50% overall reduction and an 80% rich country reduction would still leave average rich country flows above the world average in 2050. Who will pay for these excessive emissions?[1]

A number of developed countries and states have now adopted targets for 2050 in this range. California has a target of 80% reductions by 2050. France has its "Facteur Quatre": dividing by four, or 75% reductions, by 2050 (Stern 2007, p. 516). The UK has a longstanding 60% target but the prime minister indicated in November 2007 that this could be raised to 80% (Brown 2007). Australia, under the new government elected at the end of November 2007, has a target of 60% (Rudd 2007); 80% is under consideration after the Garnaut Review is published next summer. In addition three countries, Costa Rica, New Zealand and Norway, have declared targets of 100% reductions by 2050, ie becoming "carbon-neutral". At the UN conference in Bali in December 2007, Kyoto signatories agreed to consider 25–40% cuts for developed countries by 2020. That is indeed in the right range for reductions of 80% by 2050 and provides at least an initial 2020 benchmark.

Cuts of this magnitude will require developed countries to purchase part of their emissions reductions overseas. This is allowed for by the so-called "flexible mechanisms" of the Kyoto Protocol, Joint Implementation (JI) and the Clean Development Mechanism (CDM), by which credits created by emission reduction investments in transition and developing countries can be used to fulfill developed country targets. Because emissions reduction is generally available more cheaply in developing countries than developed, overseas purchase reduces the cost of achieving a given target and thereby enables more stringent targets to be set – beyond offsetting in the case of DCs.

The atmosphere itself is indifferent to the location of emissions: a tonne of carbon dioxide has the same global effect whether it comes from Belgium or Bangladesh. At the same time overseas purchase acts as a transfer of resources to developing countries, enabling investments in emissions reduction – notably energy efficiency and use of lower carbon sources – which would not otherwise occur. This will be vital to accelerate the transition to lower carbon economic development in emerging and developing countries – without it, higher carbon infrastructure will be laid down over the next decade, making subsequent emissions reduction harder and more expensive and delaying global stabilisation. It is important that such investments are properly additional to business as usual, paying for genuinely emission-reducing activities (the current system needs reform – see below); but the double advantage of overseas purchase – to reduce costs and to finance developing country investment – makes it a vital instrument.

To achieve global targets under the principle of equity, the UN principle of "common but differentiated responsibilities and respective capabilities" will need to be applied. This obligates rich countries to start reducing their emissions in absolute terms quickly. But it also requires emerging economies to begin reducing their emissions – over business as usual trajectories – as well. For the arithmetic of the global goal is unambiguous: even if the developed countries cut their emissions to zero by 2050, without significant cuts in the rest of the world we would miss the goal. If the poorest countries are to be given any room to grow at all, emerging countries must begin now seriously to control their emissions intensity. This suggests a three-fold division of responsibilities, with the form and nature of actions to be taken different in each group:

1 Rich countries must take ambitious commitments in terms of absolute reduction numbers with intermediate objectives for 2020 that clearly set them on the right track.
2 Emerging countries are formulating objectives in term of increased energy efficiency or reduction in emission intensity per unit of GDP. The issue is to enhance and accelerate what they are already doing.

Such economy-wide objectives could be achieved by partial objectives for specific industrial sectors through sectoral policies. They would expect to be partially financed by overseas purchase investments by developed countries. The commitments made by this group of countries would be expected to change over time as their economies developed. The most advanced of them, notably China, might in the mid term progressively define national caps on emissions. The uncertainty of China's future growth rates and growth patterns makes a discussion of fixed targets at the present time premature. But as sectoral policies make progress (see below) and more knowledge is accumulated, China might consider taking binding commitments on specific sectors.

3 For the rest of the developing world, a more flexible approach is needed, based on the willingness of countries to participate with their own choice of policies and measures for sustainable development supported by the international community.

As agreed in Bali, the commitments made by all countries in the global deal will have to be "measurable, reportable and verifiable" including finance from developed countries, and binding on them through the terms of an international treaty. However the differentiated nature of the commitments made by countries at different stages of economic development will make the next stage of the deal more like a framework than a tight "WTO-like" agreement founded in legal structures, with compliance driven by sanctions. Different formulae are likely to coexist: "Kyoto-like" commitments to absolute caps, global or near-global sectoral agreements, and sets of national policies and measures producing results. Bilateral and regional agreements may help to link emission trading mechanisms and provide financial assistance in a reformed framework.

Using economic instruments

Reducing greenhouse gas emissions is both a very diffuse and very concentrated economic task. It is diffuse, in that energy is used in every activity of the economy, and increasing the efficiency with which energy is used therefore requires action in every sector. But it is concentrated, in that energy, forestry and land use account for almost all emissions, and therefore the focus of required policy is very tightly defined. In the energy sector, energy efficiency is the first requirement of reducing emissions, since low historic prices have tended to make energy very wastefully used, and more efficient use can bring net positive economic benefit. However, as economies grow, there will be both thermodynamic and economic limits to ever increasing energy efficiency. So ultimately the control of energy emissions must come through the decarbonisation of energy sources – moving from unabated fossil fuels to renewables, nuclear and the capture and storage of fossil carbon.

To achieve agreed international commitments, countries will need to develop their own set of domestic policies based on their own set of preferences. However it is clear that as well as the equity and effectiveness discussion, we need to address the efficiency dimension of the problem: how to change growth pathways in a cost effective manner. And here both energy efficiency and decarbonisation require the same kind of instrument: the pricing of carbon through taxes, cap and trade schemes (emissions trading), and regulations and standards. Carbon pricing will play a central role in keeping the costs of abatement down.

Carbon taxes can offer particular economic benefits. But in practice cap and trade schemes appear to be politically easier to implement. The EU has now embarked on the second phase of its Emissions Trading Scheme (2008–2012) with tighter allocations than in its introductory period. The carbon price is now above €20 per tonne, already approaching the type of range necessary to give a signal clear and strong enough for European industry to embark on serious investment in emissions reducing technology. It has demonstrated already a real influence on the transformation of the power sector and energy intensive industries and induced a learning process for economic actors as well as for decision makers. The EU ETS represents a major policy innovation and has been followed by the development of similar cap and trade schemes in both the north eastern and western states of the US and in Australia and New Zealand. The EU ETS shows at the same time that such policies cannot be implemented in one country alone – for both competitiveness and efficiency reasons – and that international coordination is essential to their success.

But pricing carbon alone will not be sufficient to address the entire problem particularly in the transition period when infrastructure and institutions must change dramatically. A wide menu of economic instruments will be required. First, the systemic nature of energy use will make sectoral policies also essential – for example coherent urban policies for buildings, transport, infrastructure networks and so on. Second, the path dependency of infrastructure and the long-lived time horizons of the capital stock in particular sectors, notably electricity generation, demand specific policies that do not rely only on the carbon price. Relying on a carbon price alone will see long-lived high-carbon capital stock laid down before the price reaches a sufficient level to prevent this, thereby "locking in" emissions and making future emissions reduction harder and more expensive. New energy technologies, in particular, will require public support for research, development and demonstration (RD&D). And as a rising carbon price helps mature technologies disseminate, deployment of "less mature" technologies (such as for example carbon capture and storage and solar energy) will need public support and differentiated tariffs to benefit from a learning curve. Again, many countries have such policies in place. The EU's targets for renewable energy (20% of all energy by 2020) and carbon capture and storage (up to 12 demonstration plants by 2015) are manifestations of this technology support approach.

Seven key elements of a global deal

Domestic policies that will curb efficiently GHG emissions encompass a broad number of instruments. However, no country will develop domestic policies without a framework for international cooperation. The efficiency of these policies will depend on what happens in global markets. Moreover as the need is for a transformational economic change towards low carbon growth even in poor countries, an international agreement will have to include incentives such as funding, technology cooperation and development, it will have to address adaptation, competitiveness and trade issues, and consider the different needs of different countries. Finally this agreement cannot build on the traditional burden-sharing approach. Instead it must support a coordinated transition to the low carbon economy. It has to help the international community understand that climate stabilisation is a global public good; rich countries, for their own sakes, must absorb part of the cost of this accelerated transformation in developing countries.

1 Define a global target

As already discussed, this should be for at least a 50 % reduction in global emissions by 2050, with rich countries reducing by at least 80%. Intermediate goals for 2020–25 need to be set to confirm that rich countries are on the right track and build trust. Medium-term targets give a signal to economic actors and allow them to anticipate technology changes and investments opportunities.

2 Build a global carbon market

A first stage in the development of a global carbon market is to link regional trading schemes. The EU Emissions Trading Scheme already allows for this, and inter-trading is likely to occur with the Australian and New Zealand trading schemes – and hopefully US – when these are established. Such linking increases the liquidity and depth of both schemes. A next step would be for particular traded sectors in developing countries – such as aluminium, iron and steel – to join global emissions trading schemes. This would both enable efficient emissions reduction and mitigate against competitive distortions in international trade through "carbon leakage".

3 Development and reform of the emission credits system

A global carbon market also allows for private sector flows from richer to poorer countries to help finance lower carbon investments, through purchase of emissions credits. However, the current system, the Clean Development Mechanism (CDM), is slow, cumbersome and very "micro" in its focus. We need a broader mechanism focused on countries and sectors where more transformational change can be achieved.

Trading on the scale required to reach the type of targets discussed requires a much simpler "wholesale" system. Wholesale measures can include technological benchmarks such as employing carbon capture and storage (currently excluded from CDM), or sectoral benchmarks such as getting below a certain amount of CO2 per tonne of cement. Programmatic CDM would allow whole programmes of investment – for example in urban transport – to qualify. As "no-lose" or "one-sided" trading measures (where the developing country gains from innovation, but is not penalised for BAU), the benchmarks could be set ambitiously and targeted to sectors where they can help governments to implement their own domestic policies.

After these trading mechanisms have been in place (with associated technology sharing) for a while, developing countries should acquire confidence that a trading system can work on an appropriate scale. Again if the reformed mechanism does not show capacity to generate financial flows that can make a real difference in key sectors, rich countries will have little chance to engage developing countries in discussion on more ambitious commitments. However, if it does bring such flows, then it will be reasonable to ask them to accept targets consistent with overall global goals in the context of a strong set of goals by rich countries. If we look for targets from poor countries now, the only ones that would be accepted would be far too loose and would knock the bottom out of international trading by collapsing the price. And in the future these loose targets would be likely to form a base-line for subsequent discussion. That is why a staged and articulated approach with a broad set of instruments is essential. Use of the CDM now will enable the definition of graduated commitments over time by currently developing countries. Only this is likely to lead to their participation in a global stabilisation goal so that by 2050 their emissions average around 2 tonnes per capita. (Recall that this is a half or a third of China's current level.)

It should not be expected that low carbon growth paths in emerging economies ought to be entirely financed by flows from rich countries. These countries must co-finance their own transition, as most are now beginning to do. China, in particular, has a global responsibility in this regard, as the most advanced and largest emerging economy and is implementing ambitious policies. Like others, it has real incentives to do so, given the co-benefits in terms of economic efficiency and pollution control. Nevertheless, a degree of financing by the developed world, particularly for poorer countries, will be necessary. But it is very unlikely to be possible to find financial flows on the scale required from the public sector. (Witness the difficulty in getting resources for Overseas Development Assistance (ODA), which will be strained still further by the challenge of adaptation.) The trading system has the great advantage of providing for private investment flows.

4 Develop sectoral agreements

As climate negotiations grow in complexity and in scope, sectoral approaches offer a way of finding common ground between developing and developed countries when an economy wide cap does not make sense for developing countries. In order to tackle climate change successfully we need developing countries to take early and substantial mitigation actions in all the priority sectors identified, namely electricity supply, building and infrastructure for transports. But the kinds of actions that need to be undertaken, and hence the international support to these actions, vary substantially between these sectors. We can broadly define two categories of sectors: those for which a cap and trade is the most relevant tool to achieve emission reductions and those for which it is not.

Where the sectors considered are sensitive enough to carbon pricing, when sufficient information on costs is available – as well as the ability to project technological and economical growth pathways – and when the sector is characterised by a sufficient uniformity of process, high concentration of actors and government influence, then a staged approach can be set where a country could consider fixing a cap at a certain horizon at a sector level while ensuring a real internalisation of the carbon price.

According to this hypothesis a trade system could drive the mitigation actions required, with sector crediting envisaged as a transition and incentive to further integration in a cap and trade system at a global level. The optimal design of a sectoral agreement would be through common participation in carbon pricing schemes, either though the harmonisation of domestic taxes or trading, or directly through sectoral participation in a global trading scheme. In this way a sectoral agreement could provide a full economic interface with national economies and domestic policies (Colombier Neuhoff 2007). But some preparatory steps must be taken: at a national level to get objective and accurate data and prepare for national implementation; and at an international level through the establishment of a neutral technical body, setting data and MRV requirements – providing for a baseline negotiation.

In other sectors the issue is support for domestic policies where policy tools (standards, subsidies, taxes etc) other than global carbon trade are necessary to drive change. This is obviously the case for sectors such as building, infrastructure and transport. In this case international cooperation has to operate as an accelerator of domestic policies through a mix of support (programmatic CDM, investment, concessional lending), DCs will ensure that their actions can be verified and produce results (MRV). Sectoral climate policies might offer a coordination mechanism to overcome main market failures such as subsidies of energy consumption in energy intensive industry and enhance energy efficiency.

5 Funding technology

If the 50%/80% long-term global targets are to be achieved there needs to be rapid technological advance: the technologies of near-complete decarbonisation of our energy supply do not yet exist at commercial scale and cost. The development of technologies must be accelerated and methods found to promote their sharing. Problems – and solutions – differ according to the degree of maturity of technology. Mature technologies (including most of those for energy efficiency) can be disseminated by getting incentives right. In some cases, the normative power lies in the major markets of developed countries that can accelerate the diffusion of technology by adopting standards. In others the diffusion depends on domestic policies (efficiency in buildings for example). Here the issue is to understand what evolving mix of private and public funding including ODA can help these policies.

The case for new technology is different. Clear policy signals and incentives are needed to foster the co-development of technologies in markets where the investment rate is high. There is plenty of room for international cooperation between rich and emerging countries building on the dynamic of their markets (infrastructure, building, transports, energy production). Combining carbon markets with financial facilities like the Clean Energy Investment Framework of the Multilateral Development Banks can facilitate deployment of new technology. Intellectual property rights may be an issue here but should not prevent rapid diffusion of new technology. Financial and technical cooperation between rich and developing countries is a powerful engine to engage transformation.

Globally LR&D public and private funding on clean energy and energy efficiency must grow significantly, reversing the negative trend in developed countries which has seen energy R&D receiving much less public funding than 20 years ago. Carbon capture and storage (CCS) for coal is particularly urgent since coal-fired electric power is currently the dominant technology round the world, and emerging nations will be investing heavily in these technologies. For $5bn a year, in the form say of feed-in tariffs (which could be reduced as carbon prices rise), it should be possible to create 30 commercial scale coal-fired CCS stations within seven or eight years. There are no current plants using CCS for coal-fired generation on a commercial scale. From 2015 or 2020 the world will need most of its new coal-fired electricity generation plants to be operating with CCS if it is to have any chance of realising its targets. If CCS cannot work on the necessary scale, then we need to know soon and follow alternative strategies. Unless the rich world demonstrates that CCS works and foster the co-development of this technology with developing countries, DCs cannot be expected to commit to this technology. Contributions should differ if the funding is for climate rationale only (like CCS) or has development benefits. In the case of CCS there is a strong argument for funding by rich countries. Similar arguments apply to the development of solar power and biogas, which have clear transformative possibilities in developing countries.

6 Funding forests

Deforestation contributes 15–20% of greenhouse gas emissions. A coherent, integrated international effort is needed to combat it. For $10-15bn per year, a programme could be constructed that could stop up to half of deforestation. The cost of abatement can be roughly estimated at around $5 per tonne of CO2, taking into account the opportunity costs of land and the institutional, administrative and enforcement measures necessary (Stern 2008). Some have estimated higher costs but there appears to be large amounts of "initial" reductions available at lower costs, particularly if programmes are large-scale and coordinated across countries.

In the medium term there are clear opportunities to release private sector flows by bringing deforestation into the carbon trading process. Sustainable forestry policies will need to be – and are being – designed by each forest nation adapted to its own circumstances. Policies need a long-term framework to enable structural change. International financing mechanisms need to be designed in this context. This will have to be very carefully done, with at least initially a specific and separate mechanism for forests. Given the difference in carbon price, bringing forests into the existing CDM would simply kill investment in clean technology and would achieve no greater overall emissions reduction. Considerable further analysis is required to establish how a forestry carbon market could be established.

7 Funding adaptation

Even with very stringent mitigation policies the world is likely to see an additional 1–2°C of warming in the next three decades over and above the 0.8°C it has already experienced. Adaptation to this climate change will be necessary in all countries, and will be particularly difficult for the poorest and most vulnerable. Recently the UNDP has estimated additional costs for developing countries of around $85bn per annum by 2015 (UNDP 2007, p. 15). And it will rise after that.

Such extra financing will be hard to find. It may be compared with the $150–200bn per annum extra that would arise if the OECD countries moved to 0.7% GDP in ODA by 2015, as many of them have promised. The ODA promises of the 2002 UN Financing for Development conference in Monterrey, and of the UK-chaired G8 Gleneagles summit in 2005, to achieve the Millennium Development Goals were powerfully argued and justified at the time. But they took little account of climate change. If that aspect is added, as it should be given the magnitude of the challenge, and combined with the historical responsibilities for stocks of GHGs and the implied consequences for poor countries, then the argument for 0.7% becomes overwhelming. It is difficult to see how additional financing for adaptation in this way can be achieved if reliance is placed simply on discretionary funding by rich countries. It is therefore worth examining whether a system of global taxation in some form could be established. This could come from levies on emissions trading auctions or taxes; or on global activities such as flying or international investment.

Coherence between development policies will play a major role in allowing countries to choose sound development pathways that are resilient to the changes in climate which will be experienced. Africa will host 1.4 billion people in 2050, most of them living in cities. To overlook such developments can produce unsustainable ways of life conducting to further impoverishment. Developing models of an integrated, climate-resilient and low carbon path of development is therefore an urgent task.

Conclusion

The framework described above meets the criteria we suggested originally of effectiveness, efficiency and equity. It builds on existing commitments and some aspects of the current discussions in international fora. It is also designed to give some realistic opportunity for the major developing countries to become strongly involved, as they must if serious targets are to be agreed and achieved. Furthermore, it is a framework which could allow all countries to move quickly along what they see to be a responsible path.

The discussion of that global framework will move forward strongly over the next few years. Addressing climate change is about sound economic policies. But addressing climate change is also about changing politics. The political dimension of climate change is becoming increasingly visible. For progressive leaders engaged in reforming world politics along the lines of justice and social and economic inclusion, climate change offers powerful leverage.

Climate change politics demonstrate that power relationships are not the most effective way to deal with common threats. For the first time in history every population, every country or culture and every region is living with a common threat that does not have any solution if a broad collective action is not organised and implemented. Rich nations depend on poor countries' willingness to participate; the excluded have leverage on the included. Climate change needs the whole of society's involvement, a broad coalition of civil societies and governments, breaking the boundary between domestic politics and world affairs and a new definition of sovereignty. Climate change needs not adjustment but a profound transformation of our societies. Progressive leaders seek equity and social justice as well as growth. The risks of climate change means that this agenda must now include the protection of the environment. Without that protection neither sustained growth nor global justice can be achieved. Finally climate change is par excellence an inspiring cause for internationalism: it involves not only states but requires the solidarity and perception of a common destiny by all the world's citizens.

Notes

1 We should note too that equalising the per capita flows of emissions by 2050 is in fact a rather weak notion of equity. It takes no account of the stock of greenhouse gases in the atmosphere, which are the result of 200 years of fossil fuel consumption. This has occurred very largely in the now developed countries.

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Climate change negotiations reconsidered

Scott Barrett

By any reasonable measure, the steps taken so far to address climate change have failed.[1] In 1988, at a quasi-political conference held in Toronto, participants concluded that global carbon dioxide emissions should be reduced 20% from the 1988 level by 2005. Through 2004, however, and despite two climate treaties having entered into force and numerous unilateral targets having been declared, global emissions increased 32%.[2] A gap this big (50%), opening up over a period this short, should give negotiators pause. So should the observation that atmospheric concentrations have increased every year since measurements began in the late 1950s. Neither trend will change with the implementation of the Kyoto Protocol.

The ultimate goal must be a technological revolution. Not doing something about climate change will have implications for current and future generations. So will doing something about climate change. Economics tries to weigh both sides of the equation. There is broad agreement among economists that emissions should be reduced today below the "business as usual level". (There is disagreement about the precise cut in emissions that is justified.) There is also broad agreement that concentrations of greenhouse gases should eventually be stabilised. (There is disagreement about what this stabilisation level should be.)[3] Stabilisation requires that the atmosphere and the oceans be in chemical balance. Over time, take up by the oceans will decline as emissions fall. In equilibrium, if concentrations are to be stabilised, emissions will have to fall to zero. There is only one way in which this can be done in a manner acceptable to the majority of any country's electorate. Eventually, there must be a technological revolution.[4] A future treaty arrangement must have its eye on this long run objective as well as the short run objective. The approach taken so far has focused exclusively on the short run objective.

Unilateral action is justified but international cooperation is essential. The emissions of each country are such a small fraction of the total that the incentives for countries to act unilaterally are modest. Making matters worse, as some countries reduce emissions, comparative advantage in the greenhouse-gas-intensive industries will shift to other countries, causing their emissions to increase. To business, this represents a loss in "competitiveness". To environmentalists, it represents emissions "leakage". For both reasons – to deter free riding and prevent leakage – international cooperation is needed. This will need to take the form of a treaty, perhaps even a system of treaties.

To be successful, a treaty must fulfill three conditions. First, it must attract broad participation. At a minimum, a treaty to limit emissions must include the US, the EU, Japan, Russia, China, India and Brazil. Second, it must ensure compliance. Finally, it must do both of these things even as it asks its parties to change their behaviour substantially. It is easy for a treaty to meet one or two of these conditions. It is very hard for a treaty to do all of them. Kyoto fails to do any of them.

Kyoto has failed to attract broad participation. The obvious problem with Kyoto is that the United States is not a party. It is easy to blame the Bush administration for this. However, the US Senate voted on a non-binding resolution in July 1997, before Kyoto was negotiated, saying that the US should not be a signatory to any treaty that "would result in serious harm to the economy of the United States" or that would not mandate "new specific scheduled commitments to limit or reduce greenhouse gas emissions for developing country parties within the same compliance period". This non-binding vote passed 95–0. Hence, it was clear even before Kyoto was negotiated that the US would not ratify it.

Kyoto has failed to ensure compliance. Canada is a party to the Kyoto Protocol. It is obligated to reduce its emissions 6% below the 1990 level through 2008 to 2012. In 2005, however, Canada's emissions were 30% above this target, and Canada's current government has given up on the idea of meeting the Kyoto target. It aims instead to reduce the rate of growth in emissions, hoping that its emissions will peak around Kyoto's mid-point, 2010. Even this limited ambition appears optimistic: a government-funded roundtable has concluded that the government's own policies will not meet even this modest goal.[5] Canada's previous government – the one that ratified the agreement but that did not adopt the policies needed to meet its goals – predicted that Canada's emissions would exceed the Kyoto target by 45% by 2010.[6] This prediction may still be close to the mark.

Kyoto has failed to get its parties to take substantial action. Participation in the Framework Convention on Climate Change is nearly full (the only non-participants are Andorra, the Holy See, Iraq and Somalia). Moreover, compliance with this agreement is perfect. But this agreement does not require that parties reduce their emissions. The framework convention is an example of a treaty that fulfils two of the three conditions needed for success.

Kyoto aimed to achieve more but it has had to succumb to the same pressures that caused the framework convention to be diluted. Brazil, China and India are parties to the Kyoto Protocol, and both countries will comply fully with that agreement, but this is only because Kyoto does not require that they reduce their emissions. Russia and the economies in transition were given a surplus of emissions – environmentalists call it "hot air". For them, the emission constraints do not bite. Getting these countries to participate in Kyoto hardly qualifies for success.

Other countries are required by Kyoto to reduce their emissions, but that does not mean that the treaty will impel them to do so.

The reason Canada will not comply is that Kyoto requires that Canada reduce its emissions substantially. Compliance will also be difficult for New Zealand, which has yet to develop a policy for meeting its obligations, and Japan, which has done a lot to reduce its emissions but is still a long way from meeting its target. Although the government has not conceded as much, there is a good chance that Japan, host to the Kyoto negotiations, will not end up complying.

Compliance by some members of the European Union also appears challenging. Spain has the largest gap of any country (over 40%). Denmark, Italy, Luxembourg and Portugal are well off their individual targets (by over 10%). However, thanks to the European "bubble", and substantial reductions by other EU countries (in part for reasons having nothing to do with their climate change policies), these countries are not bound by their individual limits so long as the original 15 members of the European Union meet their collective limit. Australia recently ratified the Kyoto Protocol, but because of the provision for land use, land-use change, and forestry (known to climate insiders as LULUCF), Australia is within its Kyoto limit; Australia will have to do very little if anything to comply.[7]

A look back at the negotiations that continued after 1997 shows a similar pattern of countries seeking to ease their obligations or their need to fulfil their obligations. After the US announced that it would not ratify Kyoto, Canada and Japan insisted upon a generous accounting of their "sinks" (that is, LULUCF) as a condition for their ratification. (Russia, already given a gift of "hot air", also held out for more. On top of that, Russia insisted on obtaining EU support for its accession to the World Trade Organisation.)

This renegotiation of the treaty succeeded in bringing the agreement into force, but at the cost of reducing the environmental effectiveness of the agreement – an example of one condition for success being sacrificed for another. Today, compliance can still be achieved fairly easily by means of the Kyoto Protocol's "flexible mechanisms", thanks to post-1997 negotiations lifting restrictions on trading (again, following on the decision by the US not to ratify). But if compliance is achieved by the purchase of "hot air", emissions may not fall at all. Under these circumstances, it is hard to see why a country would seek to comply using this option (why pay to comply when the payment will not help meet the aim of the two climate treaties?). This is another reason why compliance by some countries is in jeopardy.

There is a tendency for countries within their Kyoto limits to cast themselves as having been more effective at fulfilling their obligations. But the base year for calculating the Kyoto limits (1990) favoured some countries over others. If attention focused on the actions states have taken rather than on whether they have or have not stayed within their Kyoto limits, the differences among states would not appear as great. More importantly, from the perspective of the climate, the emissions of individual states are irrelevant. Success as regards the climate should be measured in terms of global emissions (even better, atmospheric concentrations).

Lack of US leadership has held back global progress. As already suggested, it is simplistic to view US non-participation in the Kyoto Protocol as exceptional. At the same time, the United States has failed to provide leadership and that has been a setback for the whole world. To be specific, the US has failed: (1) to negotiate a treaty it could get ratified; (2) to adopt meaningful domestic legislation to address climate change; (3) to offer an alternative to Kyoto. The administration of George W Bush has championed the role of R&D and helped create the Asia-Pacific

Partnership on Clean Development and Climate (the other members of which include Australia, Canada, China, India, Japan and South Korea), but all these efforts have so far amounted to very, very little. As just one example, the Bush administration recently cancelled plans for its FutureGen pilot "clean coal" plant, citing cost overruns of $900m. It is obvious that the administration does not take this issue seriously.

The next administration will take this issue seriously. However, US leadership on this issue is only a necessary condition for making progress; it is not sufficient. The most important impediment to progress is the need to enforce a future climate change agreement.

The following example illustrates this point. In 2002, the United States imposed tariffs on steel imports. The European Union, supported by other countries, complained to the World Trade Organisation, which ruled that the US tariffs violated WTO rules. Under those rules, the EU is permitted to "rebalance" the effect of the US tariffs, should the US fail to remove its tariffs. The US refused to comply with the WTO ruling, and so the EU put together a tariff package that would rebalance the US tariff. The EU tariffs targeted politically sensitive products like citrus fruit from Florida – an astute calculation, since the EU tariffs were to be imposed in December 2003, less than a year before the next US presidential election (recall that Florida was a "battleground" state in the contested 2000 election). Shortly before the EU tariffs were to be imposed, President George W Bush lifted the tariffs on steel imports. The EU never imposed their tariffs against the US; the credible threat that it would do so was enough to make the US want to comply with the WTO ruling.

This trade agreement works; it changes how states behave. It made it in the interests of the EU to punish the US, and it made it in the interests of the US, when facing this punishment, to comply.[8] The agreement also created incentives for both countries to remain within the agreement. The Kyoto Protocol provides neither kind of incentive.

Simply negotiating tougher emission caps will not help. In Bali, the EU pushed for rich countries to cut their emissions 25–40%. This proposal is consistent with the view that the problem with Kyoto is that its caps are too generous. Certainly, emissions must be reduced more substantially, but would Kyoto have been more successful if the caps had been harder to meet? Would that have made US participation more likely? Would that have made Canada more inclined to comply? The problem with Kyoto lies in its design, not (only) in its targets. In particular, the problem lies with the difficulty of enforcing emission caps.

The current arrangement for enforcement will not work. Though Kyoto was negotiated in December 1997, important details continued to be negotiated for years after that. A compliance mechanism was agreed in 2001. But according to Article 18 of the Kyoto Protocol, any mechanism for enforcing compliance "entailing binding consequences" must be approved by amendment. An amendment is a like a new agreement. It would only be binding on the parties that ratified it, provided at least three-quarters of the parties to the Kyoto Protocol also ratified it. So far, no such amendment has been adopted. The mechanism agreed in 2001 is thus non-binding.

Even if the mechanism were binding, it would have no effect. The main component of the mechanism is a 30% penalty. A country that emits, say, 100 tons more than the treaty allows in the first "commitment period" (2008 to 2012) must make up for this by reducing its emissions by an additional 130 tons (the extra 30 tons being the penalty) in the next period (2013 to 2017?). This reduction is "additional" relative to this country's next-period cap. This cap, however, is subject to the approval of the country having to pay the penalty. That country can therefore insist on a generous cap as a condition for participating, and so get away with paying a "phantom" penalty. Alternatively, it could ratify the new treaty and then fail to comply again – the current arrangement essentially carries forward the penalty indefinitely. The reason this penalty system cannot deter non-compliance is that its punishments must be self-inflicted. That, of course, is not true of the WTO punishments.

There is one exception to this. Kyoto's non-binding compliance mechanism also allows other countries to suspend a country's trading privileges. Is this punishment credible? Would other countries impose this punishment? There is good reason to believe they would not.[9] If a large seller of permits were in non-compliance, withdrawal of its trading privileges would push up international permit prices, harming net importers; these countries may be unwilling to impose the punishment. If a large buyer of permits were punished in this same way, international permit prices would fall, harming net exporters; these countries may be unwilling to impose the punishment. In short, the threat to punish may not be credible. Of course, in each of the cases I just mentioned, there would also be some countries that would gain by imposing the punishments (net exporters in the first instance, net importers in the second). But with some countries gaining and some losing, activation of the sanction may spark conflict among the countries that had complied.

Note that the situation described here is similar to the challenge members of the eurozone faced in enforcing the Stability and Growth Pact. The enforcement mechanism in this agreement was not credible.[10]

Should trade restrictions be tried? Since, as explained earlier, the WTO rules are enforced using trade restrictions, should trade restrictions be used to enforce Kyoto's successor? The idea is tempting. President Sarkozy of France has suggested that trade restrictions be considered. Nobel-prize-winning economist Joseph Stiglitz has recommended that they be used.[11]

Trade restrictions may serve two purposes – to correct leakage and to promote participation (that is, deter free riding). A "border tax adjustment" would serve the former aim, though it would also help the latter. A blunter instrument would be intended to promote participation, but if it were to succeed in sustaining full participation, it would neutralise leakage in the bargain.

Border tax adjustments would pose practical challenges. They would need to be based on the emissions released in manufacturing traded products.[12] Calculating these values would be difficult. Two identical products, manufactured in the same country, might have very different "carbon footprints" (depending, for example, on how the electricity used as an input was generated). Cruder calculations might be contemplated, but sector-specific taxes would also be very hard to calculate.[13] Moreover, as trade restrictions became cruder, they would be less effective at reducing leakage.[14]

Blunter punishments may not work either. Punishments meant only to enforce participation pose other problems. The restrictions would have to be severe in addition to being credible, and punishments typically become less credible as they become more severe.[15] This is why the Stability and Growth Pact collapsed. Of course, and as mentioned before, the enforcement mechanism underpinning the WTO is effective. However, trade is a bilateral activity and climate change is a global public good. Trade restrictions were also used to enforce the provision of another global public good. The Montreal Protocol on Substances that Deplete the Ozone Layer is enforced by a trade restriction. But the nature of this challenge is different from climate change.[16] Among other differences, Montreal restricts consumption (production plus imports minus exports) and not only production (Kyoto restricts only the emissions released by production). Also, although the Montreal Protocol permitted parties to restrict trade based on whether ozone-depleting substances were released in the manufacture of products, experts determined that this was impractical. Fortunately, it was also unnecessary. For climate change, as mentioned previously, such restrictions would be essential. Also, for reasons explained previously, they would be very difficult to calculate.

The legitimacy of an agreement enforced by trade restrictions may be questioned. Who should decide what a particular country ought to be obligated to do? Who should decide the punishment that is appropriate should a country fail to fulfil this obligation? Trade restrictions lacking legitimacy may only spur retaliation – a trade war. Britain's decision to raise the topic of climate change at the UN security council hints at the possible reaction to adopting trade punishments in a climate change treaty. Three of the other permanent members (China, Russia and the United States) responded coolly to Britain's decision. Other countries, not represented on the security council, reacted angrily; they felt that the issue should have remained with the general assembly, where every country has one vote. The meeting ended without even a statement let alone a resolution. Were one group of countries to seek to impose a climate agreement on others, backed by the threat of trade restrictions, an even stronger response seems possible if not likely.

Trade restrictions would need to enforce compliance in addition to participation. Otherwise, participation would become a route for avoiding having to reduce emissions. Will parties to a future climate treaty agree to this? Would the parties to Kyoto agree to this, when some of them are already at risk of not complying?

If effective means for enforcing a post-Kyoto treaty of the same design cannot be devised, negotiators must be prepared to consider other options.

The Montreal Protocol has been more effective than Kyoto at reducing greenhouse gas concentrations. Stratospheric ozone and the emission of both ozone-depleting substances and their substitutes affect climate change in different ways. A recent study has done the accounting and shown that the overall effect of the Montreal Protocol on greenhouse gases has been helpful.[17] Indeed, the study calculates that the Montreal Protocol has been, and will continue to be, much more helpful in addressing climate change than the Kyoto Protocol, even assuming that Kyoto is implemented perfectly and with full participation. Already, this study estimates, the Montreal Protocol has reduced greenhouse gas emissions four times as much as the Kyoto Protocol intended to achieve.

Montreal works better than the Clean Development Mechanism. Most emission reductions under Kyoto's Clean Development Mechanism have involved HFCs, a potent greenhouse gas regulated by Kyoto. Unfortunately, under the CDM, "buyers" have overpaid very substantially. According to one analysis, phase-out of HFCs under the CDM will cost €4.6bn more than necessary (the cost, according to this analysis, should be less than €100m).[18] The CDM has also created a perverse incentive. HFCs (a greenhouse gas) are produced as a byproduct of manufacturing HCFCs (an ozone depleting substance). Under the CDM, manufacturers earn more by reducing the emission of HFCs than they make producing HCFCs. Manufacturers in developing countries have thus stepped up their production of HCFCs in order to profit by cutting back on the HFCs produced as a byproduct.

Montreal offers valuable lessons. It is significant that a treaty not intending to address climate change has been more effective at doing so than the Kyoto Protocol. This suggests that Kyoto would have been more effective had it been designed differently. Three of the Kyoto gases – HFCs, PFCs and SF6 – are akin to the substances controlled under the Montreal Protocol (they are also used as refrigerants, for expanding foam, and for insulation). This means it is very likely that they could all have been controlled and eventually eliminated using an approach like Montreal. This same approach will not work for the other greenhouse gases covered under Kyoto, but because Kyoto lumps all the gases together, opportunities to reduce the emission of the three industrial gases cost-effectively and globally were missed. The lesson is that more than one treaty and more than one treaty design may be needed to reduce greenhouse gas emissions.

Bringing about a technological revolution will require push and pull incentives for R&D. Kyoto creates very modest pull incentives. Even if these incentives were stronger, however, pull incentives alone will not be able to stimulate a technological revolution. To do that will require basic knowledge – the kind that cannot be patented. Supplying basic knowledge is likely to require government-funded R&D – a push incentive. The returns to investing in basic knowledge will depend on the prospects of technologies embodying this new knowledge being diffused. This is why technology

R&D efforts need to be strategic.[19] They need to be directed at technologies that will be diffused. Some R&D can be undertaken unilaterally (when the technology offers national benefits in addition to those related to climate change mitigation). Some R&D will require international cooperation. An example of the latter kind, with an uncertain and much delayed payoff, is the international thermonuclear experimental reactor being built now in France.

R&D also gets around another problem with the Kyoto approach. Short-term emission targets do not stimulate long-term investment. Nor do they make meeting long-term targets any easier. R&D has a different effect. It lowers the costs of reducing emissions in the future. Undertaking R&D now thus increases the abatement that will be undertaken later. Plainly, a post-Kyoto climate agreement must provide both push and pull incentives for R&D.

The changes brought about by a new treaty need to be permanent. Kyoto's restrictions end in 2012. After that, even Kyoto's parties are not bound to limit their emissions. This approach not only fails to stimulate innovation. It also creates a substantial risk of backsliding. If the long-term objective is to spark a technological revolution, the incentives must be different. A treaty should ratchet up the actions required with no risk of backsliding. This is what the Montreal Protocol did. It may be difficult for a climate treaty to do this if the goals are expressed as emission limits. It may be easier if the goals are expressed in some other way – such as technology standards. It is sometimes claimed that technology standards have the opposite problem: lock in. However, the evidence suggests otherwise. The oceans have been skilfully protected from oil releases by a succession of technology agreements.[20] Climate negotiators would do well to consider the possibilities for this approach in a post-Kyoto treaty.

A new agreement must create incentives for the large, fast-growing countries to take actions to bring down their emissions. The Bali Action Plan mentions the possibility of developing countries undertaking "nationally appropriate mitigation actions… supported and enabled by technology, financing and capacity building". Doing this needs to be a priority.

It needs to be a priority partly for political reasons. Europe has consistently pledged to reduce its emissions by more provided the US and other OECD countries do the same. The US, however, has said that it will only act if the fast-growing developing countries also act. The political challenge is to gather together these contingent promises. So far, they have only been used as excuses for little if any action.

Getting the fast-growing developing countries to reduce their emissions is also needed for environmental reasons. The emissions of these countries are rising more quickly than the emissions of rich countries. China is now the largest emitter of carbon dioxide in the world. It has vast reserves of coal, and is bringing on line one to two coal-fired power plants a week. In a single year, China has added more coal-fired electricity generation capacity than the entire installed capacity of the UK. China's new coal-fired plants have a 40-to-50-year lifetime. To reduce global emissions significantly during the lifetime of these plants, it may become necessary to retrofit these (and other) plants with carbon capture and storage technology. That technology is not yet developed. R&D is needed not only to develop the technology but also to demonstrate how the technology can be used in particular contexts (local geology, possibilities for building CO2 pipelines, etc) and to evaluate its risks (as regards escape but also ecosystem damage for ocean storage). Of course, international finance will also be needed, and providing this is another collective action problem. However, it may be easier to establish technical standards with financing for "incremental costs" as compared with alternative approaches like the CDM. The Montreal Protocol Fund has transferred over $2bn using this same approach.

The Bali roadmap provides an opportunity for fundamental change – or more of the same. Industrialised countries may agree to "quantified emission limitation and reduction objectives", as in Kyoto, or they may agree to undertake "actions". The latter would presumably include policies such as carbon taxes, sectoral approaches or technology standards. Actions are critical. Targets and timetables are only of value if they cause countries to take actions to meet them.[21]

The timing of the current negotiation round is awkward. The Bali roadmap charts a course for negotiations that is supposed to end at the Copenhagen conference of the parties, scheduled for December 2009. However, participation by the United States should be a priority for the reasons already mentioned, and a new US administration will not enter office until January 2009. Delays in negotiating a new agreement (or a multiple of agreements) may put even more pressure on Kyoto (making compliance even less likely), but it is more important to negotiate a regime that includes the US than to act quickly.

United States treaty ratification by the numbers. Treaty ratification requires a two-thirds-majority vote by the Senate. This means 66 votes. The threshold for approving domestic legislation is lower. To avoid a filibuster, 60 votes are needed (if a filibuster is not threatened, only 50 votes are needed). Treaties are rarely voted down (the last treaty to be voted down was the Comprehensive Nuclear Test Ban Treaty, at the end of the Clinton administration). They are more likely never to be referred to the Senate, should the administration fear rejection (this was Kyoto's fate under the Clinton administration, though it should also be acknowledged that the details of this agreement were not negotiated until after George W Bush became president).

The mechanics of the US system suggest that, rather than negotiate a treaty limiting emissions and then expecting the US to ratify, it may be preferable for the US to adopt domestic legislation limiting emissions and for the US then to ratify a treaty incorporating the emission limits (or actions) already approved by domestic legislation.

Note, however, that the Senate may approve a different kind of treaty, and, as I have noted before, other kinds of treaty (such as R&D or technology standards agreements) may be needed to address the fundamental challenge of climate change.

Longer term evolution of the climate regime. My attention in this paper has focused on the need to reduce emissions. Of course other actions are also needed, such as for adaptation. But one reason adaptation has been discussed much more in recent years is that the world has failed to bring global emissions under control. This is a reminder that our success or failure in limiting emissions will not simply lead to "climate disaster" as is often claimed. It will lead to other changes.

Adaptation assistance. Adaptation will be favoured because it yields national benefits. The greatest challenge posed by adaptation is getting the rich countries to help finance adaptation by poor countries.

"Air capture." Another approach that may be favoured is "air capture" – that is, technologies that take CO2 directly out of the atmosphere. These technologies do not yet exist even as pilot projects, and they will be expensive to develop and use, but they have two advantages.[22] The first is that they can be decoupled from energy systems. The second is that they can be undertaken as a single, large project. These technologies, however, raise a new problem for the world. Since air capture can reduce atmospheric concentrations and not only limit their rise, they create a challenge for governance: which countries should be able to decide the level of atmospheric concentrations that is "best"?

"Geo-engineering." One more approach that will appear increasingly tempting is "geo-engineering". This approach can offset the warming associated with rising concentrations by reducing the amount of solar radiation that strikes the Earth. Like industrial "air capture" it can be undertaken as a single project. Unlike "air capture", however, some geo-engineering technologies are cheap. Geo-engineering is therefore more likely to be used. Geo-engineering poses a number of challenges. It would address the symptoms of climate change, not its causes. It would not address the related problem of ocean acidification. It would entail undertaking a new global experiment to offset another one (rising atmospheric concentrations of greenhouse gases). Most importantly of all, because it is inexpensive, countries may have an incentive to use geo-engineering unilaterally. Geo-engineering has the opposite problem of reducing emissions: it is too easy to do.[23] As with air capture, the challenge for geo-engineering is governance: which countries should decide whether and under what circumstances geo-engineering should be attempted?

Notes

1 Scott Barrett can be contacted at sbarrett@jhu.edu.

2 See http://cdiac.ornl.gov/ftp/ndp030/global.1751_2004.ems.

3 For two contrasting views, see Nordhaus (2007) and Stern (2007).

4 See Hoffert et al. 2002.

5 For the relevant section of the roundtable's report, see http://www.nrtee-trnee.ca/eng/publications/c288-response-2007/section4-c288-response-2007-eng.html.

6 Government of Canada 2005.

7 LULUCF is normally treated differently from emissions because of various accounting and incentive problems. For example, carbon accumulated in forestry may later be released.

8 This is not to say that the WTO is flawless. For example, it is a problem that the US found it in its interests to violate the trading rules in the first place. The incentive for the US to do so is probably due to the long lag between tariffs being imposed and rebalancing being threatened.

9 See Kallbekken and Hovi 2007.

10 See the Afterword to Barrett 2005.

11 Stiglitz 2006.

12 Even if the domestic policy were not economy-wide, there would be general equilibrium effects, and these would need to be taken into account at the border.

13 For example, Hoel (1996) shows that there is no simple relationship between fossil fuel intensity and the optimal sector-specific carbon tax.

14 See Oliveira-Martins et al. 1992.

15 See Barrett 2005.

16 For a full comparison, see Barrett (2005, 2007).

17 Velders et al. 2007.

18 Wara 2007, p. 596.

19 Barrett 2006.

20 Barrett 2007.

21 For a range of proposals for a post-Kyoto Treaty architecture, including my own, see Aldy and Stavins (2007).

22 For a fuller discussion of this technology, see Pielke (2007).

23 See Barrett 2007.

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Climate change versus development: trade-offs and synergies

Rob Swart

This chapter addresses the question of whether it is possible to develop a global strategy for controlling climate change that would simultaneously help to alleviate world poverty and get us back on track to achieve the Millennium Development Goals, or if there is a necessary trade-off between these goals. The answer is twofold. There is no a priori conflict between controlling climate change and alleviating world poverty. But it should also be recognised that controlling climate change has very little influence on the achievement of the MDGs by 2015. The actual design of climate change mitigating and adaptation policies will determine if there will be synergies or trade-offs between the dual goals of avoiding climate change impacts and meeting the MDGs beyond 2015.

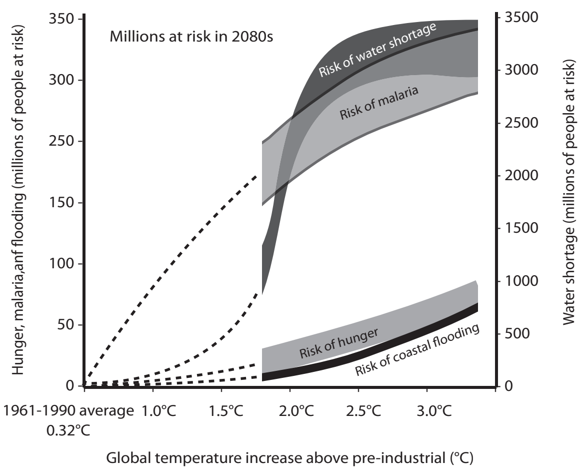
The dual goals of combating climate change and alleviating poverty

Is it possible to develop a global strategy for controlling climate change that would simultaneously help to alleviate world poverty and get us back on track to achieve the MDGs? Or is there a necessary trade-off between these goals? The positive answer to the first part of the first question is yes: there is no a priori conflict between controlling climate change and alleviating poverty. The negative answer to the second part of the question is no: a global strategy for controlling climate change will make hardly any difference to achieving the MDGs by 2015. The second question is the most difficult to answer; whether there are synergies or trade-offs between reaching the dual goals will depend on how and when climate change adaptation and mitigation policies are designed and implemented, and in what ways the living standards of the poor are improved. In the rest of this chapter these answers will be elaborated.

Further climate change is inevitable and the poor are most vulnerable

In 2007, the international debate about climate change made marked progress. The publication of the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC 2007a, b, c, d), and the awarding of the Nobel Peace Prize to the IPCC and Al Gore catalysed the recognition of climate change as a serious threat by practically all countries, including the United States, China and Australia, through an agreement on joint international action in the Bali Action Plan (UNFCCC 2007). At the same time, the mere posing of the questions in this chapter shows that the linkages between the dual goal of alleviating poverty and controlling climate change are increasingly taken seriously (eg UNDP 2003, 2007a). Economic and social development and poverty eradication are mentioned in the first lines of the Bali Action Plan. But is it useful to combine these two important goals, and if so, how? In what ways do they interact? What time scales are we talking about?

Figure 1: Millions at risk



Source: Parry et al. 2001.

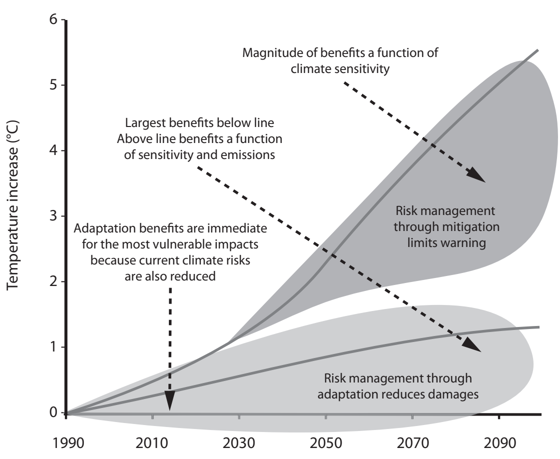
Factors that accelerated the political recognition of climate change as an urgent problem were not only the IPCC findings that "warming of the climate system is unequivocal" and that "the global average net effect of human activities since 1750 has been one of warming" (IPCC 2007b), but also that an increasing amount of impacts on physical and biological systems have now been observed (IPCC 2007c). Because of the warming commitment caused by past, present and unavoidable future human activities, further climate changes are inevitable. The poor, and particularly the poor in developing regions, are the most vulnerable to their effects. Regions with the smallest greenhouse gas emissions will be the hardest hit by the effects of climate change and therefore action to limit the risks is imperative. Future climate change impacts will be a function of the level and rate of climate change, but for most realistic future scenarios, they are expected to affect tens to hundreds of millions of people, particularly the poor in the developing world. Impacts include water scarcity, flooding, risks for food security and public health (Figure 1). The EU has adopted a long-term goal of 2°C average global temperature increase to guide climate change control efforts. Beyond that threshold, impacts are projected to increase rapidly, but even below it, significant risks for people and ecosystems exist. How can those risks be reduced?

Protecting people from climate or climate from people?

Limiting the effects of climate change can basically follow two roads: adaptation (initiatives and measures to reduce the vulnerability of natural and human systems against actual or expected climate change effects: protecting people from climate) and mitigation (implementing policies to reduce greenhouse gas emissions and enhance sinks: protecting climate from people). While in the past, adaptation and mitigation were sometimes portrayed as competing strategies, it is now more widely acknowledged that the two are usually complementary (eg Swart & Raes 2007). The complementarity can be illustrated by considering that the two strategies address different objectives over time. Mitigation can be seen as primarily aiming at avoiding serious large-scale and world-wide impacts over the longer term as well as risks of abrupt climate changes ("avoiding the unmanageable", see also Figure 2). Adaptation can then be seen as addressing the shorter-term remaining impacts caused by climate change and current climate variability ("managing the unavoidable", wording from the Scientific Expert Group on Climate Change 2007). Thus, reducing vulnerability in the long-term requires both mitigation and adaptation. The latter depends on enhancement of the adaptive capacity of the poor. This is illustrated in Figure 3, in which the level of vulnerability is depicted as a function of the level of adaptive capacity (left panels: low, right panels: high) and level of mitigation (top panels: no mitigation, bottom panels: stabilisation at 550 ppm, Yohe et al 2007).

Another reason that adaptation and mitigation can be considered as complementary response strategies is that the principal sectors involved are often different (energy, industry, building and transport sectors for mitigation; and health, land, water and coastal management for adaptation). In some areas adaptation and mitigation can offer synergies, such as in land and water management (soil protection, forest management, urban design; for a more comprehensive list see Swart & Raes 2007). In other cases there can be trade-offs, often caused by the energy requirements of adaptation options or the potential climate vulnerability of renewable energy options.

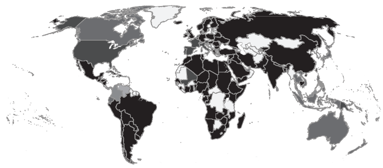
Figure 2: Complementary roles of adaptation and mitigation



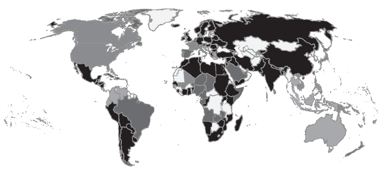
Source: Jones 2004.

Figure 3: Variability as a function of mitigation and adaptive capacity

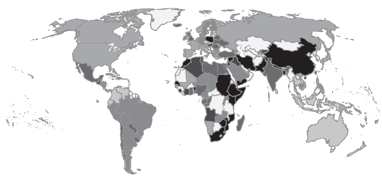
10 Extreme vulnerability
9 Severe
8 Serious
7 Moderate
6 Moderate
5 Modest
no data



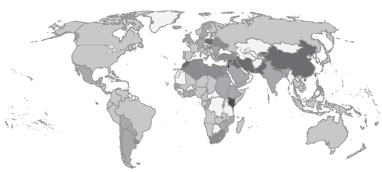
A. Scenario A2 in year 2100 with climate sensitivity equal to 5.5°C
Annual mean temperature with aggregate impacts calibration



B. Scenario A2 in year 2100 with climate sensitivity equal to 5.5°C
Annual mean temperature with aggregate impacts calibration
and enhanced adaptive capability



C. Scenario A2-550 in year 2100 with climate sensitivity equal to 5.5°C
Annual mean temperature with aggregate impacts calibration



D. Scenario A2-550 in year 2100 with climate sensitivity equal to 5.5°C
Annual mean temperature with aggregate impacts calibration
and enhanced adaptive capability

Source: Yohe et al. 2007.

Table 1: Climate change will constrain the ability of developing countries to reach their poverty reduction and sustainable development objectives under the UN Millennium Development Goals

MDG	Climate risks
Goal 1: Eradicate extreme hunger and poverty	Changes in natural systems and infrastructure will: ■ Reduce the livelihood assets of poor people ■ Alter the path and rate of national economic growth ■ Undermine regional food security
Goal 2: Achieve universal primary education	Climate change could lead to a reduction in the ability of children to participate in full-time education by causing: ■ Destruction of infrastructure (such as schools) ■ Loss of livelihood assets (increasing the need for children to engage in income-earning activities) ■ The displacement and migration of families
Goal 3: Promote gender equality	Depletion of natural resources, reduced agricultural productivity and increased climate-related disasters could: ■ Place additional burdens on women's health ■ Limit women's time to participate in decision-making and income-generating activities ■ Reduce the livelihood assets of women
Goals 4, 5, and 6: Reduce child mortality, improve maternal health and combat HIV/AIDS, malaria and other diseases	Increased child mortality, reduced maternal health and the undermining of the nutritional health needed by individuals to combat HIV/Aids are expected to occur as a result of climate change-induced: ■ Extreme weather events ■ Increase in prevalence of certain vector-borne and water-borne diseases ■ Heat-related mortality ■ Declining food security ■ Decreased availability of potable water
Goal 7: Ensure environmental sustainability	Climate change will have a direct impact on environmental sustainability because it: ■ Causes fundamental alterations in ecosystem relationships ■ Changes the quality and quantity of natural resources ■ Reduces ecosystem productivity
Goal 8: Develop a global partnership for development	Climate change threatens to exacerbate current challenges to the achievement of the MDGs. Funding for development and adaptation must be greatly increased to meet the needs of the poor.

Source: UNDP 2007.

Climate change and poverty

Both climate change mitigation and adaptation can be related to poverty and the MDGs. Already at the present time climatic change makes it more difficult to achieve the goals and the associated objectives of poverty eradication and sustainable development. In the longer term, this will be exacerbated. Examples of factors frustrating the achievement of the MDGs include decreased food security through changing precipitation patterns and associated crop yields, slower economic growth through health impacts and climate-related migration, additional stresses on gender equality, and impacts through decreased access to safe drinking water (see also Table 1, and UNDP 2003, 2007). Especially in sub-Saharan countries, which are already experiencing the most serious problems in meeting the MDGs, climate change stresses will constrain MDGs attainment (Boko et al 2007). Can adaptation and mitigation help in alleviating poverty, and more specifically, achieving the MDGs?

Adaptation and the MDGs

Many of the determinants of adaptive capacity and sustainable development, including its economic and social dimensions, are similar. Hence, in general enhancing adaptive capacity and actual adaptation action can be considered to help meet the MDGs in regions that are vulnerable to climate change. Although the UNFCCC defines adaptation in the context of anthropogenic climate change, in practice it is more meaningful to apply a broader definition of adaptation, encompassing climate change in general and even current climate variability. Also in practice, vulnerability to climate change and climate variability is often related to climate extremes such as storms, floods and prolonged droughts, particularly in the developing countries. In this context adaptation is closely tied to disaster preparedness and prevention at the local level (eg IISD et al 2005, Red Cross/Red Crescent 2007). Climate change adaptation should be taken into account in programmes aiming at meeting the MDGs to avoid increased vulnerability (eg taking into account increasingly erratic weather conditions in rural development planning, avoidance of constructing health facilities in vulnerable areas, etc). In some industrialised countries climate change is increasingly seen as an opportunity as well as a threat (eg flood control combined with increased access to fresh water resources, nature protection, and recreation; improvement of health facilities for senior citizens; attractive new urban designs etc). Also, in developing countries adaptation options can possibly be identified that not only reduce risk but also capture opportunities.

Mitigation and the MDGs

Adaptation can ameliorate climate change impacts and help meet MDGs in the short term, but mitigation can mainly reduce risks in the longer term. Only mitigation activities that are developed in synergy with adaptation options or enhance adaptive capacity can help achieve the MDGs in the shorter term. Conversely, mitigation activities that would lead to reduced income for vulnerable groups or sectors could reduce adaptive capacity and make it more difficult to achieve the MDGs. This might be the case in regions that are vulnerable to the potential economic effects of mitigation, eg in countries dependent on the production and export of fossil fuels. Also, if the production of biofuels for climate change mitigation purposes developed in an unsustainable fashion and led to conflicts with food production, there may be trade-offs. In general, if the main policy goal is to alleviate poverty, investing in climate change mitigation is not very effective. Resources should rather be spent on public health, education, governance and other aspects of development.

One institutional link between mitigation, adaptation and poverty is through the UNFCCC's arrangements. With mitigation action becoming increasingly stringent, projects in the context of the Clean Development Mechanism (CDM) will become increasingly important, with a positive spin-off for the Adaptation Fund which is filled through a share of the CDM proceeds.[1] In addition, CDM projects aim at sustainable development in the host country, and can include reducing vulnerability to climate change.

The MDGs, poverty and climate change

Maybe unfortunately, climate change is not explicitly taken into account in the MDGs. It has been suggested that the MDGs should be expanded to reflect the important role that energy access can play in poverty alleviation (CSD 2005, UNDP 2007c). But, for the time being, we have to work with the MDGs as they are. Above, we have mainly looked at the issue of the nexus between climate change and poverty through a climate change lens, as suggested by the key question to be addressed in the paper. One could also wonder what meeting the MDGs and alleviating poverty implies for the climate change challenge. For most developing countries, alleviating poverty is the main goal, and climate change at most a hindrance to achieve it. Also, this coin has two sides. Meeting the MDGs implies a significant improvement in the standards of living for the poor. On the one hand, this will enhance both adaptive and mitigative capacity, but on the other hand the associated use of natural resources such as fossil fuels may lead to increasing GHG emissions.

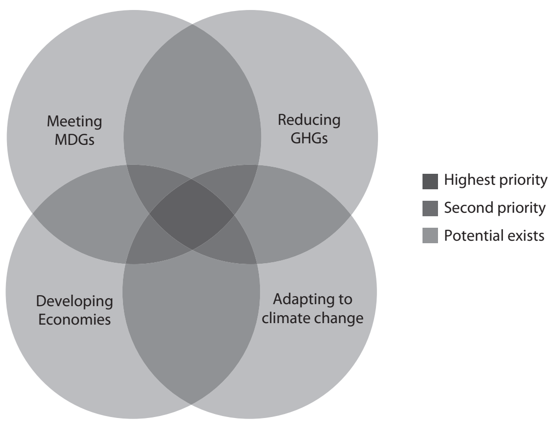
The balance in the long term is not a priori evident, since theoretically energy can be provided in a sustainable fashion with low emissions. But past experiences have suggested that economic growth in developing countries is usually accompanied by increasing emissions and other environmental stresses (eg UNEP 2007). Because the per capita emissions of the poor in developing regions are still very low, from the perspective of global greenhouse gas emissions the increases of emissions resulting from the increased energy access of the rural poor are very modest, especially in the early stages of development.

But also in the longer term emissions do not need to soar to the levels of today's industrialised countries. Various long-term scenario analyses suggest that there are ways to stabilise greenhouse gas concentrations, limit dangerous interference with the climate system, increase per capita incomes in developing regions and narrow the income gap, all at the same time. There may be different ways to achieve this, eg mainly through internationally coordinated policy initiatives or through more bottom-up sustainable development initiatives, or a combination of both (UNEP 2007). The macro-economic costs do not need to be very high (IPCC 2007d). But how can this be achieved at the local or project level? Actions to achieve one of the goals do not necessarily contribute to meeting another. There may be trade-offs that have to be identified and avoided.

A subset of possible actions can contribute to more than one goal, and some actions can contribute to all, if properly designed. Such actions should get priority. In Figure 4, the darker the area, the more synergy between the goals. For example, the development of bio-fuels may reduce greenhouse gases and stimulate local development, but if not produced sustainably it can have trade-offs such as competition with food production or making energy production vulnerable to climate change. Increased irrigation or cooling may be effective adaptation options, but generates more greenhouse gas emissions if fueled by fossil energy. Erosion control, increased water use efficiency, climate-proof urban design and rural development initiatives, afforestation and the promotion of public transport are examples of potentially synergetic options.

Already for some time, at various levels, programmes have started to encourage such synergies. At the global level, the Poverty and Environment Initiative coordinated by UNEP and UNDP works to meet the multiple goals of stimulating economic development and protecting the environment mainly through mainstreaming poverty-environment linkages into national development planning processes (UNDP/UNEP 2007). PEI is supported by a partnership of governmental and non-governmental development agencies. As yet, Clean Development Mechanism (CDM) projects have still a low volume and are not very well distributed over countries, with the largest share in just a few large countries (UNDP 2006). To address this problem, UNDP has initiated an MDG carbon facility to facilitate access to carbon finance for a wider range of developing countries than those involved in current CDM activities, and to promote emission reduction projects which contribute to the MDGs simultaneously (UNDP 2007b).

Figure 4: Aligning climate change response, poverty alleviation and meeting the MDGs.



Source: Kuzma and Dobrovolny 2004.

How CDM projects can best contribute to broader sustainable development objectives such as alleviating poverty will have to be learned as the programme expands (eg see Troni et al 2003). The Climate, Community and Biodiversity Alliance, a partnership between firms, NGOs and research institutes is also promoting the simultaneous pursuance of economic and environmental goals, and has developed voluntary standards to help design and identify land management projects that simultaneously minimise climate change, support sustainable development and conserve biodiversity (CCBA 2005).

Many more initiatives at various levels increasingly try to address the issues jointly, recognising that development programmes and policies are likely to be most successful if climate change is taken into account. Conversely, climate change response strategies are most likely to be successful if they are embedded in the pursuance of broader sustainable development initiatives. This is increasingly recognised. While this is an encouraging development, there will be no easy solutions. Overcoming pertinent barriers, such as inadequate governance and insufficient access to environmentally sound technologies will remain a tough challenge for decades to come.

Notes

1 The Adaptation Fund was established to finance concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol. The Fund is to be financed with a share of proceeds from CDM project activities and receive funds from other sources. The share of proceeds amounts to 2% of certified emission reductions (CERs) issued for a CDM project activity.

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The new food equation: do EU policies add up?

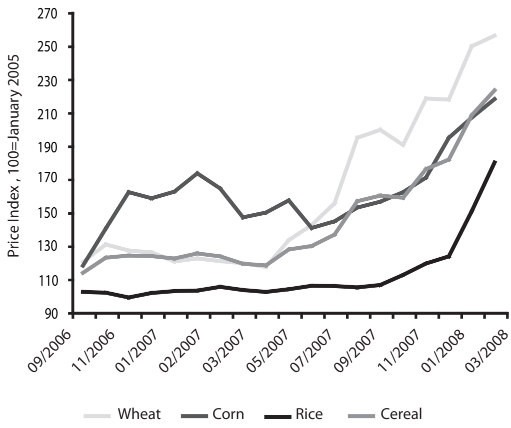
Juan Delgado and Indhira Santos

The era of cheap food is over.[1] Cereal prices have increased by 66% in the last year and are bound to remain well above historical averages in the medium term. A combination of negative supply shocks – particularly high oil prices – and positive demand shocks – increased demand from emerging economies and biofuels – mean that higher food prices are here to stay. A reduction in consumption is not likely, making adjustments in supply necessary if the upward trend in agricultural prices is to come to a halt. Increasing acreage worldwide and raising productivity – especially in developing countries – should be at the top of the agenda. But the new global environment also requires the adaptation of existing EU policies, particularly those related to biofuels, trade and development.

The policy challenge

Soaring food prices call for taking stock of some fundamental EU policies. Innovation in biofuels should be encouraged but biofuels targets should be abandoned as they are expensive and distort agricultural and energy markets. We also need freer trade for both efficiency and food security reasons. But more open markets will increase further the price of food for importing countries. An immediate and sustained increase in international assistance should therefore be agreed, aimed at alleviating the impact of high food prices in poor countries in the short term and at increasing productivity in those regions in the longer term. Current aid commitments are insufficient by a large margin given the magnitude of the shock experienced in poor economies.

Figure 1: Real commodity prices 2006–2008



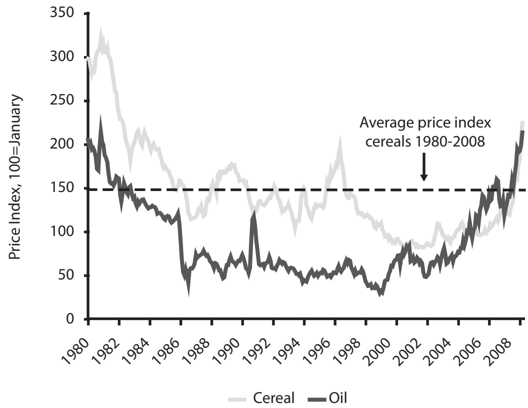
Source: Bruegel calculations based on IMF Commodity Price Index.[2]

After decades of cheap food,[3] agricultural prices increased non-stop in the first months of 2008. This increase has been most notable for cereals, especially corn and wheat (Figure 1). In real terms, while still below the price levels seen in the 1970s, cereals prices have increased by 66% since July 2007 (Figure 2).

Although the outlook remains uncertain, projections indicate that prices – although lower than in previous months – will remain higher than the average in the past two decades. This represents a major change, especially for consumers in developing countries where food consumption remains a very large proportion – between 30% and 60% – of household budgets. While a 50% rise in the price of staples leads to an increase in the share of food in total household income of less than one percentage point in a developed country, it represents a rise of over 10 percentage points in poorer ones (Table 1).

The recent spike in food prices takes place in tandem with a more generalised increase in commodity prices (especially oil), new biofuel policies and exceptional growth in large countries such as China and India. These new long-term forces interact with cyclical factors that exacerbate the food situation, in particular adverse weather shocks, lax monetary policy and possible speculative positions in agricultural products.

Figure 2: Cereal and oil real prices 1980–2008



Source: Bruegel calculations based on IMF Commodity Price Index and US CPI deflator. See footnote 1.

Table 1: Impact of higher prices on household budgets

	Developed country	Developing country
Household income (€)	40,000	1,000
Food expenditure (€)	6,000	500
Food as % of income	15%	50%
Staples as % of food expenditure	20%	70%
Expenditure on staples (€)	1,200	350
Increased expenditure due to 50% price increase (€)	360	105
Increase in expenditures as percentage of income.5	**0.9%**	**10.5%**

Assumption: 50% increase in price of staples and 60% pass-through.
Source: Bruegel calculations and Trostle 2008.

The public debate started by trying to understand the reasons behind the price increase and the emergence of a new food equation, but it is time to shift the focus of discussion towards the role of EU policies and how they should be adjusted to the changes in the food equation. This is the approach followed in this chapter: first, we briefly describe the relevant factors driving up food prices; second, we address why the reaction of supply has been sluggish and, third, we analyse EU biofuels, trade and development policies in light of the recent developments.

1 A new food equation

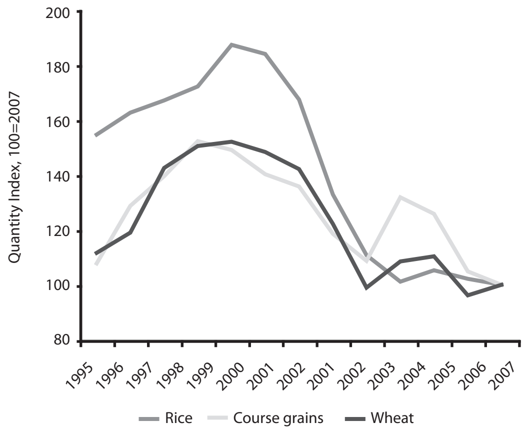
Are high prices here to stay? Some of the factors driving the recent spike in prices are temporary shocks to the food equation while others imply permanent changes (Table 2). On the one hand, droughts, floods and other weather-related shocks rarely occur in all parts of the world at the same time; even in places that are prone to this type of event, their occurrence is cyclical. Other macroeconomic and financial factors, including possible speculative positions in commodities markets, are also temporary.

Table 2: Drivers of recent changes in food prices

	Transitory	**Permanent**
Supply	Weather	Input prices
Demand	Speculation	Growth in emerging economies Biofuels

Drought in large wheat-producing countries such as Australia and Ukraine, floods in Asia and dry weather in the US, the EU and Canada have all negatively affected world agricultural production. However, bad crops in some regions may be counterbalanced by good crops in others. In Australia and Canada, for instance, adverse weather led to a combined fall of over 20% in production per hectare of wheat and other grains between 2005 and 2007.[4] But, in the same period, Brazil's production per hectare went up by 31%. In the longer term, global warming is likely to increase the frequency of extreme weather conditions.

Figure 3: Historically low grain inventories



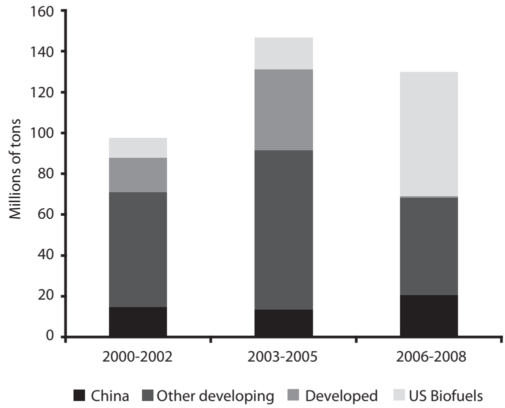
Source: Bruegel calculations based on OECD-FAO Agricultural Outlook 2008–2017 Database.

Evidence of the role of financial investors in the price rise is inconclusive. The relatively lower return on traditional assets might have driven investors to increase the share of food commodities in their portfolio. Yet stocks have decreased to their lowest levels since the early 1980s (Figure 3), suggesting that inventories are being used to meet today's needs. On the other hand, in a market where short-run supply and demand are inelastic, prices will go up rapidly if investors attempt to stockpile commodities. In such a case, financial speculation might be consistent with low inventories.

Other factors entail a structural change in the food equation. Two are of special relevance: 1) increasing food demand arising from unprecedented economic growth in highly populated countries such as China and India, and rising production of biofuels; and 2) increasing input prices – especially energy.

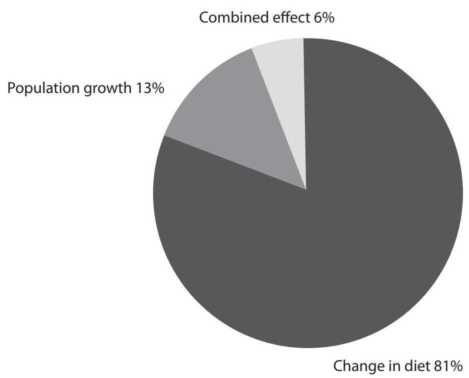
A significant part of the developing world has performed exceptionally strongly over the last decade. The case of China is well known, with annual growth rates above 10% in most of the last 15 years. This rapid economic growth in emerging economies, together with an increase in population, has translated into both a rise in demand for major agricultural crops (Figure 4) and a change in the composition of diet, which has become more meat-based.

Figure 4: Breakdown of the increase in global consumption of major food crops



Note: "Major food crops" here means coarse grains, wheat, rice and oilseeds.
Source: Bruegel calculations based on OECD-FAO Agricultural Outlook 2008–2017 Database and USDA PS&D database.

Figure 5: Origin of increase in food crops demand in China 1997–2007



Note: Food crops refer to coarse grains, wheat, rice and oilseeds.
Source: Bruegel calculations based on OECD-FAO Agricultural Outlook 2008–2017 Database.

As a result of the move towards a more meat-based diet, demand for feed has multiplied in developing countries. Annual meat consumption per capita in China rose from 34kg to 49 kg between 1997 and 2007, implying that around 20% of the worldwide increase in grain and oilseed demand between 1997 and 2007 stems from higher per-capita consumption of meat in China. Crucially, more than 80% of the increase in grain and oilseed demand in China stems from changes in diet (Figure 5). From a policy standpoint this is important, since even if population growth in China stays at today's level, a growing Chinese middle class will continue to shift towards a meat-based diet, thus sustaining the upward pressure on prices.

In the last two decades, grain production for biofuels has increased by a factor of 10. The increase has been especially pronounced since 2005 (Figure 4). Biofuels have started to play a relevant role in agricultural markets. Some countries, notably Brazil, implemented programmes to promote the use of biofuels in the early 1970s. However, it was not until recent years that the US and the EU set ambitious targets for the use of biofuels in the next decade.[5] US ethanol will already account for one third of the country's corn crop in the 2009–10 season (USDA, 2008). These targets effectively guarantee a demand for biofuels and, consequently, for the crops used as inputs (mainly corn in the US, wheat and rapeseed in the EU and sugar in Brazil). Such programmes also involve substantial subsidies, introducing additional distortions in agricultural markets.

Although biofuels today account for a very small fraction of the global liquid fuels supply (1.5%), their share is rapidly increasing. Since the amount of corn necessary to produce biofuels is large, this translates into pressing demand for inputs.[6] US biofuel production alone accounts for almost half of the increase in demand for grains and oilseeds in 2006–2008 (Figure 4).

It is clear that biofuels affect food prices, as they constitute an additional source of demand. Despite the low proportion of biofuels in total current grain consumption, biofuel targets and subsidies nevertheless constitute a strong political commitment that is already feeding into current prices. Current prices are partly incorporating future demand growth expectations.

The upward pressure exerted by biofuels on food prices not only operates directly via higher demand for food crops but also indirectly via competition for land use and other resources. Even in the case of second-generation biofuels which will make use of energy-only crops, this indirect effect would not disappear. The US Department of Agriculture projects a long-term shift of acreage towards corn in response to increasing prices derived from the growth in domestic corn-based ethanol production. Corn acreage will go in the US from 32% of total planted acreage in 2006 to 38% in 2017. This will also have an effect on prices of alternative crops.

Finally, on the supply side, since 2005 oil prices have doubled in real terms (Figure 2). This has translated into higher costs for the agricultural sector via energy use (operation of machinery and transport) and oil-based fertilisers. Oil prices are expected to remain high as demand for oil increases and supply remains rigid.

The relative contribution to higher prices of each of the factors analysed above is hard to disentangle. However, what is clear is that some factors have a permanent impact on the food equation: a negative long-term effect on supply and a positive long-term effect on demand (see Table 3). If higher prices are here to stay, the question is if and when supply will respond. We address this issue in the next section.

Table 3: Effect of selected factors on the food equation

Factor	Short term	Long term
Weather	Positive and negative weather shocks will continue	Climate change could increase frequency of extreme events
Input prices	Oil prices are predicted to stay high, increasing input costs permanently	
Economic and population growth in emerging economies	Likely to be accentuated as a larger proportion of the population gets richer and as urbanisation continues	
Biofuels	Bound to increase as targets get set, technology improves and price of oil stays high	

2 Balancing supply and demand

In a market without distortions, an increase in demand and a consequent increase in prices would trigger an increase in production. However, in agriculture – even if arable land is readily available – a supply response will not materialise at least until the next harvest season. In the meantime, excess demand might be met by running down inventories.

Protective policy measures recently put in place by some countries are an additional factor constraining the supply response to higher prices. On the one hand, exporting countries such as Argentina, China, Russia and Malaysia have reacted by imposing export taxes, and others like Egypt, Vietnam and India have banned exports of certain commodities altogether in order to reduce pressure on domestic prices. This has exacerbated the supply shortage.

Supply can adjust through an increase in productivity or in land under cultivation. In the last two years, total acreage under crops has barely changed while demand for grains and oilseeds has increased by 5% and 9% respectively. As production has increased at a lower rate than demand, stocks have been driven down (Figure 3).

On average, productivity growth – based on yields per hectare – has gone from 1.8% per year in 1970–1980 to 2.8% in 1995–2005 in developed economies, but from 2.2% to 1.8% in developing economies. The progress witnessed in developing countries in the 1970s and early 1980s during the "green revolution" has slowed. These averages mask major differences in productivity across regions that have been widening in the last two decades, with yields in sub-Saharan Africa lagging behind. This low productivity growth is attributable to small farm sizes, land degradation, low investment in irrigation and poor human capital.[7]

This fall in productivity growth in key producing regions has become more pressing with the recent soaring of demand. So far, increases in productivity had largely explained increases in production without any major expansion in acreage (Figure 6). However, an abrupt rise in demand with continued poor productivity growth might lead to prolonged and more frequent supply and demand gaps, as it takes time for more land to be brought into production.

The potential exists to bring new land into cultivation – in Latin America, sub-Saharan Africa and the Commonwealth of Independent States.[8] The EU has just agreed in principle to suspend the requirement that farmers "set aside" 10% of their arable land,[9] which could bring four million hectares of arable land back into production. Further increases in acreage will take time. In addition, urbanisation in rapidly growing countries will reduce the amount of land available for agriculture.

There are some signs that supply is responding to the price incentive: record grain crops are expected next year in the US according to the

Figure 6: Cereal production, yield and area harvested

Source: Bruegel calculations based on USDA data.

USDA. But this may not be enough to offset an increase in demand. If demand for, and production of, cereals continue to grow at the same rate as they did between 2005 and 2007, then by 2015 there will be a production shortfall of 10%.[10] This potential gap, if not matched by higher productivity or more acreage, would be accompanied by even higher prices. The bottom line is that prices are likely to remain high by historical standards, with a fall expected to start in 2010, but price levels still well above those observed at the beginning of this decade. In comparison to today's levels, the World Bank estimates that the price of corn will decrease by 15% and the price of wheat by 30% in real terms by 2015.

As a consequence of the combination of permanent demand and supply shocks, food prices are set to remain high in the medium term. Responses from supply to this new situation should come from a) an increase in productivity in developing countries and b) an increase in acreage worldwide. This new equilibrium of high food prices changes the context in which policies are developed. In the next section we revisit EU biofuels, trade and development policies in the new global scenario.

3 Rethinking policies under the new food equation

Biofuels

The recent proposal of the European Commission to increase the share of biofuels in transport to 10% of total fuel consumption has become controversial on two counts: first, the impact of biofuels on food prices has driven some to advocate the abandonment or postponement of the target; second, recent scientific evidence casts doubt on the effectiveness of biofuels in reducing carbon emissions on account of land-use change.[11]

Biofuels constitute the main measure proposed hitherto by the European Commission to address greenhouse gas (GHG) emissions in the transport sector. The declared objectives of EU biofuels targets are to reduce oil dependence and GHG emissions. Should the EU relax its biofuels targets in order to reduce pressure on food prices? Before answering this question, it should be clarified whether biofuels actually contribute to the objectives set.

First, biofuels do not contribute to energy security. Biofuels might reduce oil dependence but at a cost above that of oil. The cost of biodiesel is expected to be above the cost of fossil diesel for the next decade.[12] Subsidising biofuels risks being an expensive insurance policy to hedge for high and volatile oil prices. The impact assessment carried out by the European Commission concludes that biofuels contribute to diversifying the sources of supply for the high oil-dependent transport sector and, therefore, to supply security. However, the benefits are assessed only in qualitative terms. They must also be assessed quantitatively.

Second, biofuels are a costly way to reduce emissions. It is not possible to generalise about the contribution of biofuels to emissions reduction. As a rough estimate, while sugar cane-based ethanol produced in Brazil reduces emissions by 90% compared to use of petroleum, corn-based ethanol produced in the US saves only 10–30%.[13] Adding the impact of land-use change, transport to the point of consumption and other indirect emissions, the total balance can be negative. In order to guarantee a positive balance, the European Commission introduces the principle of "environmental sustainability", which entails that biofuels comply with certain minimum requirements in order to qualify towards achieving the targets. The requirement that emissions savings from the use of biofuels be at least 35% – and the additional regulatory architecture necessary to implement it – considerably increase the cost of producing biofuels.

However, even if the sustainability criteria were strictly applied, the question is whether it is cost-efficient to reduce emissions by using biofuels. The purpose of the European emissions trading market is to bring about emissions reduction at minimum cost. According to a recent report by the UK Department of the Environment and Rural Affairs (DEFRA),[14] the estimated cost of carbon abatement through biofuels in 2020 will be on average €132.6/tCO2 (with wide variations depending on the crop), which is well above the 2020 shadow price of carbon of €41.9/tCO2 in 2020.[15] Having a specific target for biofuels will substantially increase the cost of reducing emissions and therefore constitutes an obstacle to reaching the EU emissions reduction target.

Leaving aside the unintended impact on agricultural prices, biofuels are thus not the most effective and cost-efficient tool to secure energy supply and reduce emissions. Therefore, setting ambitious targets for biofuels has no purpose and can even be counterproductive in terms of tackling climate change.

Finally, targets should be abandoned. This does not imply that research and innovation in alternative sources of energy, including second-generation biofuels, should be dropped. Furthermore, if oil prices continue rising, biofuels (or any other alternative) will develop naturally without any need for government support. For example, Brazilian bioethanol constitutes a competitive alternative to oil at the current prices. Ending subsidies to biofuels does not necessarily mean the end of biofuels and, consequently, their impact on agricultural markets will be long-lasting.

Trade and development policy

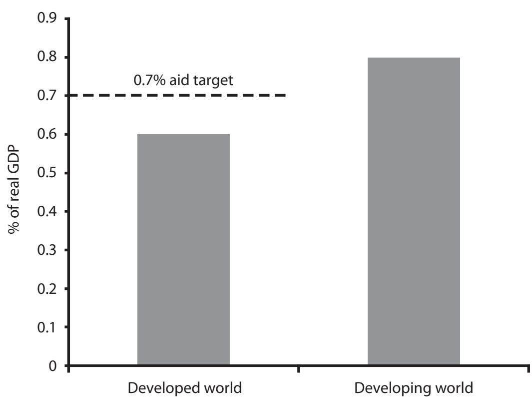
The recent surge in food prices has put agricultural trade at the centre of policy discussions in Europe and the rest of the world. Many have called for more protective measures and maintenance of support for farmers. Notably, France's farm minister, Michel Barnier, has argued for every region in the world to have its own common agricultural policy (CAP) and for the EU to operate a policy of "European preference" in order to secure food supplies.[16]

Food security does not mean self-sufficiency. In a world of global scarcity, we need to make the best use of land and other resources. This implies producing where it is most efficient to do so, and liberalising trade so that accurate price signals can be sent worldwide and products reach markets. Global integration, and not regionalism, is the way to make the most from scarce resources.

Simulations of the effects of free trade indicate how it would help in mobilising resources to improve supply. Free trade would imply a shift of production from rich countries to less developed countries where production is, in global terms, more efficient. In high-income countries, the ratio between production and consumption would decline from 101 to 94 under free trade (Anderson et al, 2006). Free trade would also lead to an overall increase in global welfare as production becomes more efficient (Figure 7). It is estimated that developing countries would collectively gain 0.8% of GDP, while the gain will be 0.6% of GDP for developed countries. This figure might look modest, but it is close to the unfulfilled 0.7% development aid commitment made six years ago.

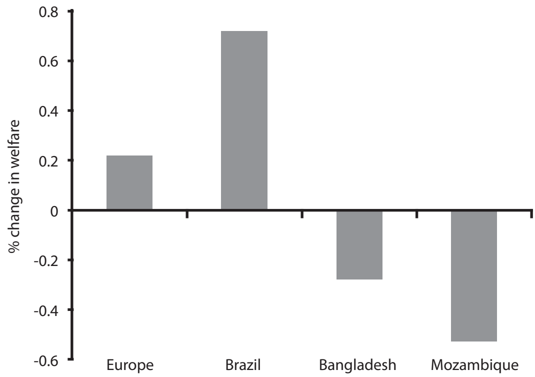
However, while free trade is a benefit for the world as a whole, what about the distribution of the benefits? Poor food-importing countries may be worse off. Some poor countries would lose out significantly. Agricultural trade liberalisation would push prices up on average, owing mainly to the removal of subsidies in developed economies, which artificially depress the price of products traded internationally. This price rise would have efficiency effects since it would provide incentives to producers to produce more. Large net exporters like Brazil would gain via higher

Figure 7: Welfare gains from free trade in agriculture



Note: Gains by 2015 from eliminating tariffs and subsidies existing in 2001 as a percentage of real GDP in 2015.
Source: Anderson et al. 2006.

Figure 8: Distribution of gains from free trade



Source: Hertel et al. 2007.

exports and revenues. Rich countries would gain via lower subsidies to agriculture. But net food importers such as Mozambique and Bangladesh would lose out (Figure 8). This rise in price as a consequence of liberalisation could add to the existing upward pressure on prices, exacerbating the problem for food-importing developing countries.

Let us take the examples of Mozambique and Bangladesh. The ongoing price surge has dramatically increased the cost of food imports for those economies. Bangladeshis and Mozambiqueans today pay USD 1.5bn more for their food imports than in 2005. Trade liberalisation exacerbates this deterioration of their purchasing power and their welfare. Under free trade, welfare would fall in these countries by 0.3% and 0.5%, respectively (Figure 8).

This makes the case for aid stronger. Uneven distribution of the gains from free trade and the recent price hike call for increased international aid for those low-income countries that are adversely affected. Such international aid should target the most vulnerable consumers in poor countries and should assist developing countries in finding ways to increase productivity in the agricultural sector. In the recent FAO high level summit on food prices, governments committed to an additional

USD 1.2bn in aid for all developing countries to cope with the crisis. Merely compensating Bangladesh for the recent rise in food prices would absorb all of this amount. Hence, this additional assistance is not nearly enough.

In short, we need more trade liberalisation to secure food provision and increase welfare. But we also need more aid at the international level to help the poorest countries deal with the current negative price shock and with the potential effects of liberalisation. Also, assistance should be provided to increase substantially the efficiency of the agricultural sector in developing countries. This would not necessarily require additional commitments – several EU countries are still far below their development assistance target of 0.7% of gross national income. Now is thus not a time for promises, it is a time for delivery.

Notes

1 We are grateful to Laurent Eymard at Bruegel for excellent research assistance.

2 Deflated by US CPI as a reference, notwithstanding that this index does not necessarily reflect the impact on prices in developing countries due to differences in consumption patterns and the dollar depreciation.

3 In developing countries food prices are more closely related to agricultural prices than in developed economies, where distribution and retail costs are more relevant. In this chapter, we focus on agricultural prices rather than food prices although we use the terms interchangeably.

4 OECD-FAO 2008, Agricultural Outlook 2008–2017.

5 The 2007 US Energy Independence and Security Act requires American fuel producers to use at least 36bn gallons of biofuel in 2022. In Europe, Directive 2003/30/EC sets indicative targets for biofuels. The recent climate action package under discussion at the European Parliament establishes a binding 10% share for biofuels in petrol and diesel by 2020.

6 The amount of corn necessary to fill a car tank with bioethanol—232 kilos—is equivalent to the annual consumption of corn of a child. In addition, 1.5 litres of ethanol is required to provide the same amount of energy as a litre of petrol.

7 World Development Report 2008.

8 See OECD-FAO 2008, Agricultural Outlook 2008–2017.

9 European Commission 2008, Proposal for a Council regulation establishing common rules for direct support schemes for farmers under the Common Agricultural Policy and establishing certain support schemes for farmers, Brussels, 20 May, COM (2008) 306 final.

10 That is, assuming production continues to grow at 3% per year and consumption at 5% per year.

11 See Searchinger et al. 2008.

12 OECD-FAO Agricultural Outlook 2008-2017.

13 World Development Report 2008, Focus B, Biofuels: the promise and the risks.

14 See Deconti 2008.

15 The shadow price of carbon is an estimate of the costs of the damage caused by one additional tonne of carbon being emitted into the atmosphere.

16 Hall, B. 2008, 'Europe's CAP the answer to food prices', *The Financial Times*, 27 April.

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3

Poverty and development: closing the global inequality gap

Global policies for the bottom billion

Paul Collier

Since the 1960s, some 50 to 60 low-income countries with around one billion people have missed out on an unprecedented phase of global growth, and in consequence have diverged from the rest of mankind.[1] Not only is there a yawning gulf between this "bottom billion" and the fortunate billion living in developed countries, but the gap between them and the average citizen from the middle four billion has widened to one-to-five. Reversing the divergence of the bottom billion is the critical challenge of our time: as the world integrates socially, continued economic divergence will generate unmanageable pressures.

Assisting these countries to catch up will take a prolonged effort by many countries. This is another important respect in which the world has changed: just as the third world has shrunk from five billion to one billion, so the group of countries in a position to help has expanded. When the key development challenge was the recovery of Europe and Japan after the second world war, virtually the only country in a position to help was America. As Europe and Japan recovered, the burden of assistance broadened to include the OECD, and the development challenge came to be seen as how the rich billion could help the other five billion people on the planet. It is time to move on from this way of framing the problem. The burden of assistance should now be recognised to include many middle-income countries, and the rapidly developing giant economies of India and China. These countries have experience, resources and legitimacy which can massively increase the potency of development efforts.

Broadening the range of policies

Development is evidently first and foremost something that societies and their governments must do for themselves. In all the societies of the bottom billion there are struggles for change. The role of the international community is nevertheless important. By assisting development we can reinforce these internal processes and we can enhance the opportunities for prosperity. There is indeed much more that the international community can do than it has done to date. In recent years, “assisting development” has largely shrunk to “development assistance” – the conventional euphemism for aid. While aid is in general useful, it is neither necessary nor sufficient for development. Other policy instruments are often more potent and in any case are complementary to aid.

The full range of policies that are important for assisting development is revealed by the American effort to reconstruct Europe after the second world war: this was the one time when assisting development was treated as a vital priority. As part of its serious response, America, of course, had an aid programme: Marshall Aid. However, this was complemented by three other policies. First, America completely reversed its trade policy: pre-war protectionism was replaced by an opening of markets and institutionalised in the founding of the GATT. Second, America completely reversed its security policy: pre-war isolationism was replaced by a large military commitment to Europe sustained over four decades. Third, America also revised its approach to national sovereignty: pre-war refusal to concern itself with international governance, exemplified by the refusal to join the League of Nations, was replaced by founding the United Nations, the OECD and the IMF, and encouraging the European Community.

Trade, security and governance remain the key policies that are needed to complement aid, although they obviously need to be tailored differently for the task of reversing the divergence of the bottom billion than for the task of rebuilding Europe. In this chapter I set out some specific proposals for each type of policy.

International support for governance of the resource booms

The current global commodity boom is generating an enormous transfer of income to many, but not all, of the societies of the bottom billion. This transfer dwarfs aid and any conceivable changes in aid. However, the previous resource boom of the 1970s was generally not well managed: most of these societies ended with little to show from it.

This casual impression is supported by recent research. Collier and Goderis (2007) analyse the relationship between commodity prices and the subsequent growth of commodity exports on global data for the period 1963 to 2003. We find that in the first few years following an increase in export prices economies grow significantly faster, but after around 20 years most economies are worse off than if the export price had not increased. We find that whereas the early phase of growth is universal, the subsequent phase of decline is conditional upon economic governance.

Above a threshold of governance the long run consequences are benign: Norway and Australia illustrate such experience. The experience of countries below the threshold is illustrated by Nigeria and the Democratic Republic of the Congo. The threshold is around the level of Portugal in the mid-1980s. Hence, a key issue is how governance standards in the resource-exporting low-income countries can be brought above this threshold as rapidly as possible. Were history to repeat itself, this would constitute the most important missed opportunity for transformative development that the bottom billion have ever had.

Key decisions for harnessing resource exports

However, economic governance is a vague term which of itself provides little guidance to the appropriate management of the resource booms. There are three key steps which determine whether commodity exports are harnessed for sustained growth.[2] First, an appropriate share of the export revenues must be captured by the government. Second, an appropriate share of these revenues should be saved rather than consumed. Third, an appropriate share of these savings should be invested by the government in the economy.

More specifically, the capture of revenue depends upon how extraction rights are sold and how corporate revenues are taxed. Both of these have been subject to major errors.

In selling rights to resource extraction governments face three problems. There is considerable scope for corruption; there is an asymmetry of information between the government and corporations; and there is often irreducible uncertainty as to the long-term security of any rights. Probably the best way around these problems is to sell rights through internationally verified auctions, with most of the revenue being captured by future taxation rather than by the initial price of the rights.

To date there have been huge variations in the taxation of corporate revenues. In 2006 the Democratic Republic of Congo received royalty payments from resource extraction of a mere $86,000 on exports of several hundred million dollars. Zambia has received only a negligible share of the current copper boom. Since the essence of resource taxation is that it is a tax on rents rather than profits, a simple principle is that the rate of royalty payments should rise more than proportionately with the world price of the commodity.

The appropriate rate of saving out of resource revenues depends primarily upon the rate of depletion of the asset and the world price of the commodity. Hence, while it should vary according to each situation the variation should broadly reflect these differences. Currently, differences in savings rates are more likely to reflect short-term political considerations. When Ngozi Nkonjo-Iweala became finance minister of Nigeria in 2003, she found that the savings rate out of oil revenues was negative.

Some low-income governments are attracted by the Norwegian model of a sovereign wealth fund held in financial assets. However, in contrast to Norway, these economies are chronically short of public investment, and a part of their savings ought to be invested domestically as long as it is done effectively. Effective investment requires both defences against corruption, and the use of economic information in the approval processes for projects.

Supporting sound decisions

In the booms of the 1970s the above decisions generally went wrong. How can the international community support the struggles for improved governance of the resource booms in the societies of the bottom billion without intruding upon sovereignty? The past approach of "policy conditionality" was in my view misguided. By attempting to coerce governments to adopt specific policies through donor pressure it confused lines of accountability. Manifestly, governments should be accountable to their own citizens and this is incompatible with accountability to donors. Furthermore, policy conditionality would be impotent for the resource-exporting countries: they do not need large aid inflows and so donors do not have leverage.

There is, however, scope for providing voluntary guidance by means of international standards and codes. The British government has already pioneered this through the Extractive Industries Transparency Initiative (EITI) which has rapidly become successful. A voluntary code works by providing a focus and a neutral rallying point for reformers who might otherwise dissipate their efforts in rivalries and in issues that are not critical. It provides helpful information to governments which are typically buffeted by many competing pressures as to what specific decisions are vital. The EITI was promptly adopted by Nigerian reformers and became the Nigerian EITI. While the EITI was the right place to start, however, it is the wrong place to stop: transparency of reporting alone is not sufficient to ensure that decisions are sound.

Harnessing the resource booms for development is by far the most important single issue facing the economies of the bottom billion at present. International voluntary standards and codes on the key decision-points would be a logical extension of the British initiative on EITI. It would be well received. In Africa, five governments and the African Development Bank have already indicated strong interest, as has the World Bank and several international NGOs.

International support for enhanced security

Post-conflict situations

Britain was instrumental in the establishment of the Peace-Building Commission, which provides an important opportunity to improve on the record of post-conflict fragility. Following the recent wave of peace settlements there are many such situations. I have recently analysed 66 post-conflict situations to find what can bring down the risk of reversion to violence (Collier, Hoeffler & Soderbom 2008). I can find no risk-reducing political design: democracy and elections appear to increase rather than reduce dangers. Risks can be reduced substantially through economic recovery, achieved through large aid inflows and active reform of economic policies, but the relevant time horizon is around a decade. In the meantime, many of these societies are at risk and the only effective way of bringing these risks down is peacekeeping, which we find is highly cost-effective.[3]

In contrast, large military spending by the post-conflict government appears to provoke reversion to war. Hence, there is a triple interdependence: prolonged peacekeeping provided by the UN Security Council;

prolonged aid provided by donors; and sustained economic reform and inclusive policies on the part of the post-conflict government. Each needs the other: without peacekeeping economic recovery is more difficult and the government will be tempted to rely upon its own army; without economic recovery there is no genuine exit strategy for peacekeepers; without reform and inclusive governance international efforts are likely to be frustrated. The Peace-Building Commission could usefully frame expectations of all three parties, reflecting these mutual obligations in a non-binding global compact, the approach which was pioneered at a more general level at Monterey.

Strengthening democratic elections through security guarantees

The recent political unrest in Kenya challenges the international community to introduce approaches to strengthening the conduct of elections which are effective yet acceptable. Quite clearly, donor threats and sanctions are unlikely to be effective responses and would also unreasonably discriminate. The government of Kenya has at least held elections whereas several others have not.

In order to be effective, a first step is to establish a solid basis for applying different standards to different countries. The only such basis is if governments voluntarily commit to democratic standards. Thus, a core of established democracies, including India, could propose a voluntary charter setting out minimum standards of elections linked to existing procedures for election monitoring. A possible incentive for governments to commit to such a charter would be if the founder signatories thereby committed themselves to use their best efforts to protect member governments from the threat of a military coup. In Africa, coups have been endemic and constitute by far the greatest threat of loss of power to most governments. Furthermore, democracy has not significantly reduced the risk.[4] Had such a charter existed in 2002 it seems likely that Kenya's president Mwai Kibaki would have signed it even prior to his victory. During the 2002 election campaign he would have found such a commitment a useful strategy.

Such a commitment would have radically changed the incentives facing President Kibaki during the 2007 elections. Naturally, in the event of election monitors declaring that the elections were in serious breach of commitments, the protection against a coup would be promptly withdrawn (the international community would not wish to find itself in the embarrassing position of militarily reinstating a government that had been judged to have stolen an election). But since this would sharply increase the risk of a coup, President Kibaki would have sought to avoid breaching his commitments.[5]

A voluntary charter would not in itself intrude upon sovereignty: governments could simply choose not to sign it and there should be no pressure, financial or otherwise, for governments to make the commitment. The provision of a defence against the threat of a coup for democratic governments is appropriate and indeed simply codifies a desirable use of security guarantees. By making a commitment explicit, as Britain already does in Sierra Leone, unwarranted coups are likely to be sharply reduced. Yet it would considerably increase the incentives on incumbents to conduct elections to satisfactory standards.

Trade policy for the bottom billion

The Doha Round has been badly stalled for a long time, its prospects are dim, and the chimera of a breakthrough should not be allowed to interfere with simple steps that would open up opportunities for the bottom billion.

Africa and some other low-income economies have to date failed to break into global markets for labour-intensive manufactures. Yet, as demonstrated by the growth of China, this is the surest route to the rapid creation of jobs. Africa in particular faces a jobs crisis. Less than a 10th of its labour force is in formal employment, its population is growing rapidly, and its agriculture, which even to date has experienced falling productivity, will become dangerously stressed by climate change.

Potentially, the coastal cities of Africa could become platforms for manufactured exports, well located for European and American markets, with export firms moving into these locations as wages in Asia continue to rise. The difficulty facing Africa, and other economies that missed the boat of early manufacturing globalisation, is that China is already established with large clusters of exporting firms. These clusters drive costs down: for example 60% of the world's buttons are made in one Chinese city. Countries lacking such clusters cannot break into the market even if their policy environment and infrastructure are reasonable; no firm wishes to be the first to relocate. OECD trade policy can provide the pump-priming that would get clusters started. In effect, such countries need temporary privileged access to OECD markets. The pertinent range of goods is limited to light manufactures where OECD tariffs are still significant: by far the most important is garments.

The US is already providing such privileged access through the Africa Growth and Opportunities Act (AGOA). Europe also has a scheme, EBA, but this has been ineffective due to its considerably more restrictive rules of origin and its exclusion of countries such as Kenya and Ghana, which are precisely those best placed to break into international markets. AGOA has been highly successful in stimulating African garments exports, increasing them sevenfold in five years (Collier & Venables 2007). Over the same period the European scheme has had no impact. Canada has a further scheme; as does Japan.

What is needed is a common, OECD-wide scheme, broadly modeled on the successful features of AGOA. A common scheme should be more acceptable to the WTO than the present plethora of different schemes, and like AGOA it could have a sunset clause. It is important to limit the beneficiaries to those countries that do not yet have significant manufactured exports, since if countries that already have export clusters are included they will outcompete new entrants and so reap all the benefits. The criterion of not currently having significant manufactured exports provides a pertinent redefinition of Least Developed Country (LDC) which the WTO could use to determine eligibility; the present definition of LDC is outmoded and not well focused on the countries that need temporary privileged market access.

Such a trade concession would appropriately complement the commodity booms. The countries best placed to benefit are those which are not exporting valuable commodities and so not experiencing Dutch disease. It would be an appropriate initiative for the G8 and would not threaten any internal G8 constituency. The main loser would be China, but its loss would be marginal in view of its current growth.

Conclusion

The four proposals form a natural package, since they address distinct needs, but they can also be adopted piecemeal. Each addresses a major concern facing the societies of the bottom billion. Voluntary international standards on the management of the resource booms address the biggest single opportunity many of these societies have ever had. A post-conflict compact addresses the fragility of the poorest and most desperate situations on Earth. A charter for the conduct of elections addresses the high-profile disaster of the moment. A trade concession would address the aspirations of Africa to industrialise and move away from the acrimony of the Lisbon Summit.

Notes

1 See Collier 2007.

2 See Collier (2008) for a simple elaboration of these decisions. A more advanced paper by Collier, Venables (chief economist, DfID), and Spence (Nobel Laureate in Economics) is under preparation.

3 The evolution of peacekeeping into an over-the-horizon guarantee, as done recently by Britain in Sierra Leone, and over a long period by France, looks to be a cost-effective and non-intrusive means of sustaining security. The informal French guarantee, which covered Francophone Africa for many years, appears to have brought down the risks of large-scale violence by around three-quarters (Collier, Hoeffler & Rohner 2008).

4 Collier and Hoeffler (2007) analyse several hundred coups and find that while economic development makes a country safer, democracy does not reduce the risk.

5 The threat of a coup is reputedly why the president of Senegal accepted electoral defeat in 2000; one of the very rare instances of such an outcome in Africa.

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Addressing poverty in a globalised economy

Jody Heymann and Magda Barrera

Goal one of the Millennium Development Goals is to eradicate extreme poverty and hunger, with the objective of halving, between 1990 and 2015, the proportion of people in the world whose income is less than $1 a day. Progress has been uneven, with some regions, including east Asia and south-east Asia, having already met the target (east Asia went from 33% of its population living in extreme poverty in 1990 to 9.9% in 2004; while south-east Asia went from 20.8% in 1990 to 6.8% in 2004).[1] Other regions, such as sub-Saharan Africa, have been making much slower progress (in 1990 46.8% of sub-Saharan Africa was living in extreme poverty compared to 41.4% in 2004).

While economic growth alone is not enough to ensure poverty reductions, those regions in which poverty has decreased are those that have experienced high economic growth, for example China in east Asia. In contrast, in sub-Saharan Africa, while the proportion of people living on less than $1 a day has fallen slightly, the actual number of people living on less than $1 a day has increased. For the most part, countries in this region experienced small or negative economic growth during the 1980s and 1990s.

While the $1 a day line is the most commonly cited indicator of extreme poverty, there are many more people who live in poverty than is captured by this figure. The World Bank world development indicators give some estimates of the proportion of people living on less than $2 a day: 36.58% of the population in east Asia and the Pacific; 9.79% in Europe and central Asia; 22.17% in Latin America and the Caribbean; 19.7% in the Middle East and north Africa; 77.11% in south Asia; and 71.97% in sub-Saharan Africa.[2]

Addressing child poverty is one of the most important long-term challenges facing policymakers around the world. Acute poverty is a threat to children's lives now, their future opportunities, and those of their countries. A Unicef study looked at seven areas of severe deprivation for children (shelter, safe drinking water, decent sanitation facilities, education, information, health and adequate nutrition) and concluded that over 1 billion children suffer from at least one form of severe deprivation, with about 700 million children suffering two or more forms.[3]

Even in countries with low absolute poverty rates, the relative poverty of children is a pressing concern. The European Union defined poverty in relative terms in 1984 as limited resources that exclude the poor from the minimum acceptable way of life in the member states in which they live. Relative poverty rates are rising in rich countries. According to a 2004 Unicef report on relative child poverty (defined as living in a household with an income less than 50% of the national median), relative poverty rates have increased in 17 out of 24 OECD countries.

Addressing child poverty

Effectively tackling child poverty requires addressing family poverty. There are three main ways to lift families out of poverty. The first mechanism is work: enhancing the quality of parents' jobs so they can better contribute to family income and are better able to care for their children. The second approach is education: improving children's access to and quality of education so that they will have better work opportunities as adults. The third is through income support programmes that increase family income by direct transfers.

While income support mechanisms have been valuable in temporarily providing income to specific sectors of populations, they are rarely effective long-term means of alleviating poverty for large proportions of the working age population and their dependants. Consequently, this section will focus on changes in parental work in education that would affect intergenerational poverty. More specifically, we will address the issue confronting policymakers of how to simultaneously ensure parents have economically viable work opportunities that allow them to care for their children and provide children with strong educational opportunities.

Conditions faced by working poor parents

Our research group has analysed large, nationally representative, closed-ended, publicly available household-level surveys of more than 55, 000 households in the United States, Russia, Brazil, Mexico, South Africa, Botswana and Vietnam. A wide variety of global settings were chosen in order to examine the differences and commonalities among the experiences of working adults and their children across national borders, social class, occupation, gender and ethnicity. Specifically, in addition to representing different regions around the world, the selected countries represent high-, medium-, and low-income nations; have economies driven variously by natural resource extraction, manufacturing and services; and include democratic as well as socialist governments.

At the same time, we have conducted more than 1,000 in-depth, open-ended interviews in the United States, Russia, Mexico, Vietnam, Botswana and Honduras of working families, employers, teachers, childcare providers and health-care providers. In addition, we examined how public policies in over 180 countries around the globe compare in terms of meeting the needs of working families.

Data from our global research clearly document that parents pay a significant financial penalty for care-giving, and must often choose between caring for their children and earning any income. Penalties include direct financial losses in terms of salary deductions and fines as well as indirect income losses in terms of missed job promotions and, in the most extreme cases, loss of a job altogether.

While a significant risk for all parents, the penalties for care-giving are harsher for lower income parents. From interviews conducted in Mexico, 58% of parents with incomes lower than $10 a day Purchasing Power Parity (PPP) adjusted lost income or job promotions or had difficulty retaining a job because of the need to care for sick children, compared to only 25% of parents whose incomes were higher than $10 a day when having to fulfill other care-giving responsibilities. Eighteen per cent of parents in Mexico with incomes lower than $10 a day lost job promotions or had difficulty retaining a job. In Botswana, 41% of parents with incomes lower than $10 a day lost income or job promotions or had difficulty retaining a job because of the need to care for sick children, while 23% lost job promotions or had difficulty retaining a job because of other care-giving responsibilities. In contrast, the numbers for parents with incomes above $10 a day were a relatively lower, 19% and 12%, or about half of those of poorer families. In Vietnam 70% of parents with incomes lower than $10 a day lost income or job promotions or had difficulty retaining a job because of the need to care for sick children, compared to 55% of parents whose incomes was higher than $10 a day.[4] Overall, lower-income working parents are more likely to suffer financially from caring for their children.

Detailed examples give a sense of what lies behind the statistics. Ngo Van Cuong of Vietnam worked in home construction.[5] He and his wife had an infant son, Kinh. One day Kinh developed an allergic reaction to some prawns his mother had bought from the market. The reaction occurred at a time when the infant's mother was working, and because the family needed the money she would earn on those days to get by, Cuong went to his workplace to explain that he needed to take the day off to care for his son. "I asked my boss to take that day off. But he insisted that I couldn't take that day off or else he would fire me, so I had to listen to him."

Cuong stayed at work in the morning, but when he returned home from the midday break, he saw how sick Kinh was. "When I saw my poor child after I came home in the afternoon, I stayed home to take care of my child and didn't return to work." Cuong described how he took the afternoon off and then returned to work on Monday to find that his employer had fired him. Cuong had a simple desire: "My dream job is to be a regular corporate employee so I still get paid when I'm sick or my child is sick." It was obvious why a one-year-old – especially one covered with hives and experiencing a serious allergic reaction – could not be left home alone or in poor-quality care, but Cuong's need for earnings was equally marked. He explained how that month he had needed to borrow "shared money" from people in the neighborhood. The 20% interest rate on this shared money made it hard to repay.

Like so many other aspects of the experiences of working parents and their children, the stories of suffering we heard echoed across borders. Refilwe Keetetswe of Botswana risked losing both her pay and her work in order to care for her child. In the end, she lost any chance at promotion. A mother of two, Refilwe worked at a bank. She explained:

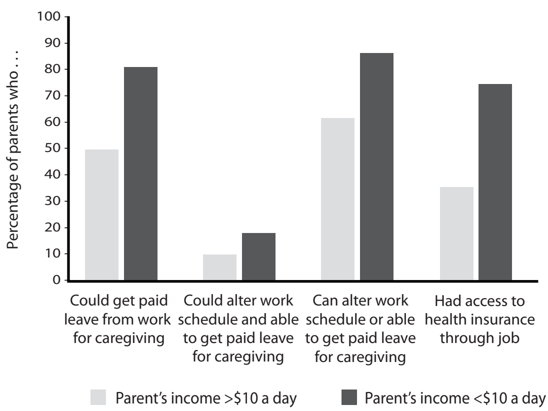
> At times, my child would get sick and I couldn't afford a caretaker, so I had to stay home. If you stay home for three days, it appears on your record. At the end of the year, you don't get an increment for that. At times I had to stay for three to four days, or I'd take my son to Molepolole until I'd find someone to look after my child in Gaborone. At times he was sick, the caretaker had left, and there was no one

> to look after him. They'd ask me if I still needed a job or did I need to go and look after my child. That's what they'd say ... It was so difficult. They would maybe ask how my child was, and then they'd leave me. They needed me at work. They said to me, "We need your services or we will employ someone else while you take care of your child."

Even when parents were not fired from their jobs, the actual risk of being fired weighed heavily on the choices they made. In Moscow, we spoke with 52-year-old Viktoriya Daniilovna Kozlova, who was working as a dispatcher for transportation and raising her two sons. She never felt she could take time off to provide care when they were sick, since she feared losing her job in a setting where companies provided little support for working parents and in an economy where jobs were scarce. "We need money. My child is sick and I would be happy to stay home, but I need money," she explained. "I cannot even take one day a week because I'm afraid I will be fired."

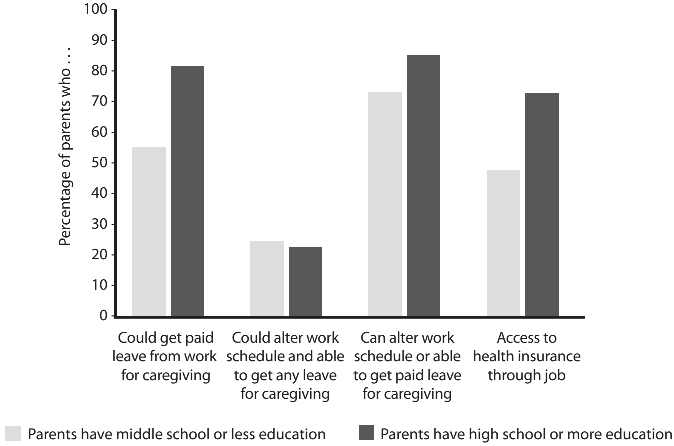
With the burden borne by low-income parents and their children from income loss, they are also more likely to face economic penalties for caregiving because they frequently have worse working conditions in general.

Figure 1: Low income families are more likely to lack decent working conditions



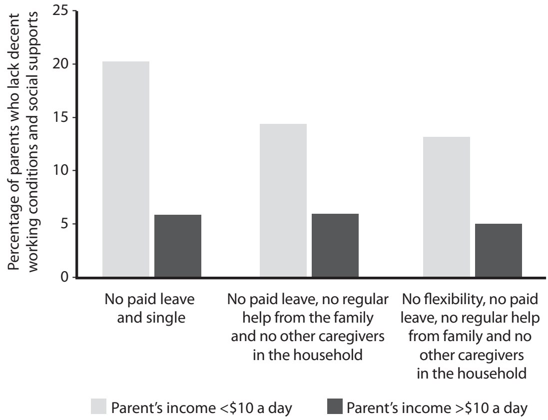
Source: Data from Project on GlobalWorking Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 0-14 year old child. Income data from each survey have been converted to a common currency using the World Bank's purchasing power parity conversion factors.

Figure 2: Parents with limited education more likely to lack decent working conditions



Source: Data from Project on Global Working Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 0-17 year old child.

Figure 3: Low-income families more likely to lack decent working conditions and social supports



Source: Data from Project on Global Working Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 0-17 year old child.

From data collected by the Project on Global Working Families, 83% of respondents with incomes higher than $10 a day (PPP adjusted) in Mexico, Botswana and Vietnam could get paid leave from work for care-giving, compared to only 49% of respondents with incomes lower than $10 a day. Even benefits such as work flexibility are much less available to lower-income workers. While 88% of parents with incomes above $10 a day had access to paid leave and/or flexibility, only 64% of parents with incomes below $10 a day could have the same benefit.

The same differences held true when looking at other social indicators such as education. Eighty-two per cent of parents with high school education or more received paid leave from work for care-giving, while only 56% of parents with middle school or less received the same benefit.

The lack of decent working conditions for parents with less education, just as with low incomes, means that they are more likely to confront penalties at work as a result of care-giving. Moreover, these parents are also less likely to benefit from social supports that might compensate for some of these difficult working conditions. While one often hears the argument that help from extended family can supplement parental care-giving and reduce the consequences of this work-family trade-off, low-income parents are less likely to have social supports in terms of help from extended family.

In the Global Working Families Study, 46% of parents with income above $10 a day could rely on extended family for help and did not need to provide care themselves, while only 32% of parents with income below $10 a day had the same support. On top of this, low-income parents are more likely to have additional care-giving responsibilities. Forty-seven per cent of parents with income below $10 a day need to provide assistance to an adult family member compared to 42% of parents with income above $10 a day. Low-income working parents have a higher care-giving burden while lacking the working conditions and social supports that might make this load manageable. As a result, their children are more likely to suffer from lack of adequate care. Ultimately, the gap in working conditions for lower income parents contributes to reinforcing and perpetuating existing socioeconomic inequalities.

Conditions faced by children

Gabriela Saavedra's home in Tegucigalpa, Honduras, had been crudely built with scrap wood and was now old and falling apart. While in elementary school, Gabriela, along with her three siblings, had inherited the house when her mother died of uterine cancer that had gone undiagnosed and untreated for too long. Now 19 years-old, Gabriela was renting out the eight-foot-wide downstairs of the shack, although "renting out" was more a figure of speech: the woman downstairs was dying of uterine cancer herself and had not been able to pay rent for months, but kicking her out or demanding rent was the last thing Gabriela could do after having witnessed her own mother's painful demise.

To get to Gabriela's own room in the shack, you had to climb an outside wooden ladder, of which the top two rungs were broken – a ladder she had to climb holding her 19-month-old toddler, Ana Daniel.

Sitting in a chair in a weathered Nike sweatshirt, Gabriela described the sweatshop where she was working. She made clothes for export from 7.00am until at least 6.00pm, seven days a week. But many nights, with no advance warning, the Korean owners would require everyone to stay until 9.00 or 11.00pm. There had been several shifts when they had been required to stay until 5.00am the next morning, leaving no time for sleep after getting home before the morning commute back to the factory. Gabriela and the other workers had been told that if they refused to work the mandatory overtime shifts, they would lose their jobs.

The dangers of her job increased with the sleep deprivation. "I was sewing at 3.00am, and I couldn't do it any more because I was so tired. I almost cut off a finger." She told us of others who had worked at the factory longer and suffered serious injuries because of extreme fatigue. Overtime pay was even lower than her normal wages. Gabriela noted, "I've heard that overtime at night should be paid at 200% of normal wages, but they pay only 75% [of normal wages]."

Despite working seven days a week from 11 to 22 hours a day and making 100 shirts an hour, Gabriela earned only 400 lempiras, or US$26 a week. Food was expensive at the factory – $1 to $1.50 a meal – but the 15 minutes allotted for a lunch break left no time for alternatives. Even though she ate the factory food once during an 11- to 22-hour day, Gabriela spent $7–10 of her weekly salary on her own meals. The next $10 paid for formula and diapers for her daughter. That left $6–9 a week for any other necessities. Gabriela could not afford to lose any of the limited wages she earned, so she worked when she was sick. She also worked when Ana Daniel was sick.

On the eve of a children's holiday, Gabriela's husband, Daniel, had been coming home with a gift for their daughter. With a full two weeks' wages in his pocket, Daniel was attacked and murdered. Not long before our interview, Gabriela's 10-year-old stepsister had started caring for the toddler, but she was to return to school within weeks of our departure. Gabriela had no idea what she would do then.

Gabriela's face lit up as she displayed the clothes she had made for her daughter out of thrown away scraps she had taken from the factory. When asked what she would change in her life if she could change one thing, she answered without hesitation. She spoke immediately, not of the condition of her house or of her wages, but of caring for Ana Daniel: "I would like to work fewer hours. I would like to have someone who could take care of my daughter over here. And I would like to leave work earlier to be able to spend more time with her."

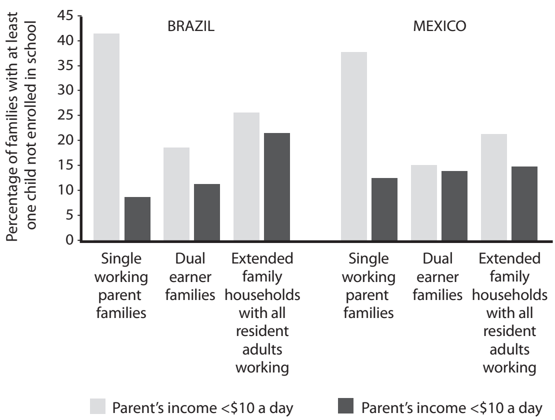
Despite her mother's adoration, Ana Daniel did not have a chance at a healthy childhood if her mother remained in the sweatshop where she worked. The pay was too low for them both to eat adequately. There was no money to repair the burned-out holes in the side of their shack, or to fix the missing rungs on the ladder that one day could trip Ana Daniel and cause her to fall more than a dozen feet to the ground. There was not enough money to pay for water cleaned of the diarrhea-inducing pathogens that are one of the leading causes of malnutrition and death for children younger than five. Moreover, the punishing work schedule necessary for subsistence left Gabriela no time to be a parent, and Ana Daniel was at risk of being locked alone at home, with no one to care for her.

All around the world, the children of working poor parents are being left home alone or in the care of other children. Our Global Working Families Study found that 48% of parents in Botswana, 27% of parents in Mexico and 19% of parents in Vietnam had to leave a young child home alone or in the care of an unpaid child. The damaging effects of children being left home alone are clear. Children who are left home alone are much more likely to suffer accidents or other emergencies. Sixty-six per cent of parents who had to leave children home alone or relied on an unpaid child for care reported accidents or emergencies while they were at work, in contrast to 43% of parents whose children were sent to formal childcare. Even if less urgent than accidents or emergencies, being left home alone had strong negative impacts on children's development. Thirty-five per cent of parents who had to leave children home alone reported that their children had behavioral or developmental problems.

When parents lack other care-giving options, school-age children lose chances at the education they need to exit poverty. They are often kept home from school to care for their younger siblings while their parents are at work. The presence of children under five in the household was associated with a lower possibility of school enrollment for older children in each of the five countries we studied. This was true for both the children of single working parents and the children of dual-earner parents. The school-age children of lower income parents were particularly affected. Forty-two per cent of low-income single working parent families in Brazil and 37% of low-income single working parent families in Mexico who had an infant to five year-old also had at least one school-age child not enrolled in school. The consequences of these scenarios include markedly diminished long-term chances of children growing up out of poverty.

Moreover, when children did attend school, working poor parents in the countries we studied faced considerable restrictions in their ability to care for their children's education, since providing adequate care often meant incurring financial losses. Restrictive working conditions prevented parents from helping with homework and participating in school meetings and events, thereby involving themselves in their children's education. Children whose

Figure 4: When low-income single parents have young children needing care, school-age children's enrollment is at highest risk



Source: Data from national household surveys. Analyses in the above figure are based on households with a 6-14 year old child.

parents reported barriers at work preventing them from participating in their education had higher proportions of academic and behavioral problems than children whose parents did not report such barriers. Sixty-six per cent of parents who reported barriers in helping with homework due to work-family responsibilities had children with academic or behavioral difficulties at school, compared to 31% of parents who did not report barriers. Fifty-eight per cent of parents who reported barriers to participating in school meetings or events had children with academic or behavioral difficulties at school compared to 33% of parents who did not report such barriers. The role of working conditions and affordable educational opportunities are two crucial ones described below.

Helping children and their parents exit poverty

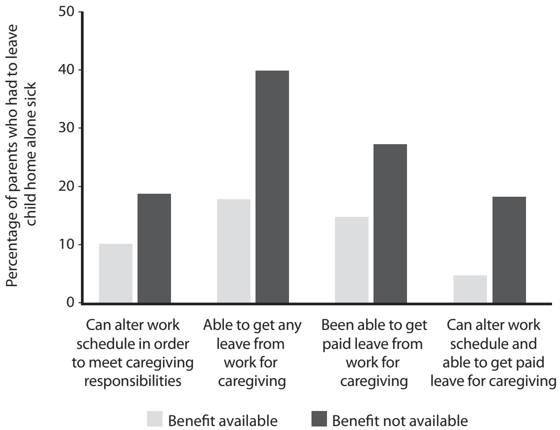
While we often hear the argument that we cannot act to address child and family poverty directly since we do not have enough information on what works, the fact is that we know that some measures do work and could be extremely important in improving the situation of children and their working poor parents.

A floor of decent labour conditions

Parents who had decent working conditions were much less likely to leave children home alone. In looking at pre-school children, 46% of parents who lost pay because of care-giving responsibilities had left their children home alone compared to 21% of parents who did not lose pay.

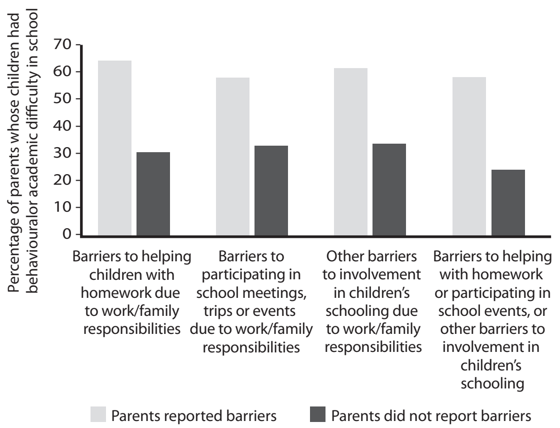
Having decent working conditions makes a great difference in parents' ability to provide good care for their children. Forty per cent of parents who were unable to take any leave from work for care-giving had to leave a child home alone sick; the number was only 18% for parents who were able to benefit from leave for care-giving. Nineteen per cent of parents who could not alter their work schedule or get paid leave for care-giving had to leave a child home alone sick; for those who did have these benefits the number was only 4%. Children of parents who had some measure of flexibility in their work schedules were clearly much more likely to receive parental care when sick. In fact, in each country we studied, at least two out of five parents who experienced difficulties at work had to leave a sick child home alone. Parents' working conditions also made a significant difference in their capacity to contribute to their children's education.

Figure 5: When parents have decent working conditions, they are less likely to have to leave children home alone sick



Source: Data from Project on GlobalWorking Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 0-14 year old child.

Figure 6: When parents report barriers to work, their school-age children's education and development suffer



Source: Data from Project on Global Working Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 6-14 year old child.

The existence of decent working conditions once again made a huge difference to children's outcomes. Eighty-three per cent of low-income parents with no paid leave, no flexibility, were single and with no other care-givers in the household reported that their children had behavioral or academic difficulties in school, compared with 48% of low-income parents who did have adequate working conditions and supports. Seventy-one per cent of parents, regardless of income, with no paid leave, no flexibility, no regular help from family and no other care-givers in the household had children with behavioral or academic difficulties in school, compared to 47% of parents with adequate working conditions and supports. In short, parental working conditions have a tremendous impact on children, and this affect is exacerbated for low-income parents who can ill afford substitute care.

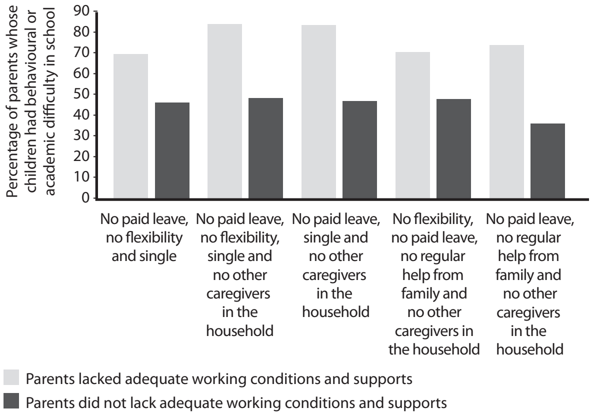
Early education and a realistic chance for school-age children

Providing quality, affordable childcare can make a great difference to the lives of children and their parents. To begin with, when parents have access to early childhood care and education, their children are much less likely to be left home alone. Only 14% of parents who had access to paid informal care or formal childcare had left their children home alone, compared to 82% of parents who did not have either formal care or paid informal care.

Childcare policies are extremely important and can make a significant difference in the lives of children and parents. Looking at the three different countries is illustrative.

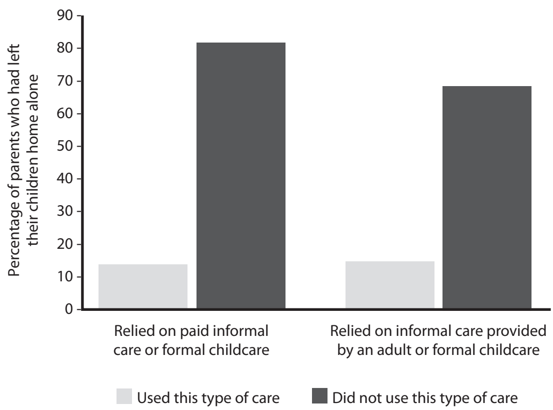
Forty-eight per cent of families in Botswana had left a child home alone or in the care of an unpaid child. Botswana has no childcare policy. Mexico faired better with 27% of families having left a child home alone or in the care of an unpaid child. Mexico provides childcare for workers in the private, formal sector through social security, and the gap was particularly narrowed for those served by the program. Vietnam has a policy of universal formal childcare and only 19% of families had left a child home alone or in the care of an unpaid family. The gap between higher and low-income families was effectively reduced due to the broad public nature of the programme. These striking differences in outcomes reveal that public policies and programmes can make a critical difference for working families.

Figure 7: When parents have access to affordable childcare provided by adults or other paid caregivers, children are less likely to be left home alone



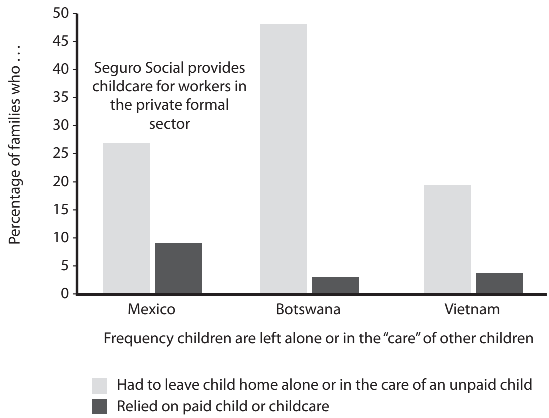
Source: Data from Project on GlobalWorking Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 6-5 year old child.

Figure 8: When parents have access to affordable childcare provided by adults or other paid caregivers, children are less likely to be left home alone



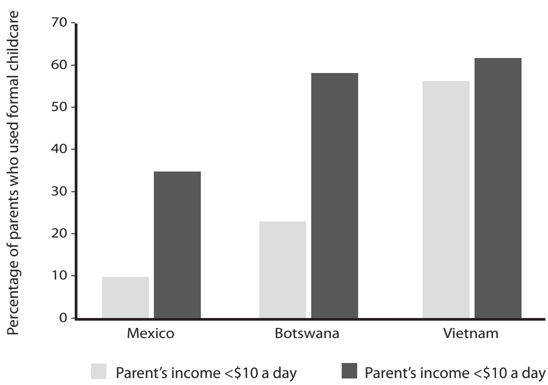
Source: Data from Project on Global Working Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 0-5 year old child.

Figure 9: Childcare policies can make a signifcant difference



Source: Data from Project on Global Working Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 0-5 year old child.

Figure 10: More universally available public childcare in Vietnam narrows income disparities



Source: Data from Project on Global Working Families in-depth interviews with working caregivers. Analyses in the above figures are based on households with a 0-5 year old child. Income data from each survey have been converted to a common currency using theWorld Bank's purchasing power parity (PPP) conversion factors.

Is there enough global consensus to raise the floor?

Much of what is needed has been embodied in global agreements. A few central examples follow. The Universal Declaration of Human Rights was adopted by the UN in 1948. The founding document of the United Nations, the UN Universal Declaration of Human Rights, establishes that "everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection" and that "everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay."

The UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) has been accepted by 177 countries. It requires all signatories to take measures "to prohibit, subject to the imposition of sanctions, dismissal on the grounds of pregnancy or of maternity leave and discrimination in dismissals on the basis of marital status; [and] to introduce maternity leave with pay or with comparable social benefits without loss of former employment, seniority, or social imbalances."

Childcare is another area where UN conventions have made significant strides. The UN Convention on the Rights of the Child has been signed by 192 countries, and states that "for the purpose of guaranteeing and promoting the rights set forth in the present convention, state parties shall render appropriate assistance to parents and legal guardians in the performance of their child-rearing responsibilities and shall ensure the development of institutions, facilities and services for the care of children." CEDAW also emphasises the importance of providing childcare: "The provision of necessary supporting social services to enable parents to combine family obligations with work responsibilities and shall ensure the development of institutions, facilities and services for the care of children."

Moreover, a large degree of consensus on many basic working conditions is reflected in their widespread passage to legislation at a national level. At least 143 countries around the world guarantee paid annual leave. At least 129 countries require employers to provide a mandatory 24-hour period off each week. Paid sick leave is another benefit that has extensive agreement; it is provided to employees in at least 159 countries. Paid sickness benefits for at least one week is provided by 148 countries.

Table 1: Paid leave available in top 14 countries in Global Competitiveness Index

Country	Any paid leave for health reasons?	Amount of paid leave available
Australia	Yes 3 or more days	31 or more days
Canada	Yes 3 or more days	31 or more days
Denmark	Yes 3 or more days	31 or more days
Finland	Yes 3 or more days	31 or more days
Germany	Yes 3 or more days	31 or more days
Iceland	Yes 3 or more days	31 or more days
Japan	Yes 3 or more days	31 or more days
Netherlands, the	Yes 3 or more days	31 or more days
Norway	Yes 3 or more days	31 or more days
Singapore	Yes -30 days	11-30 days
Sweden	Yes 3 or more days	31 or more days
Switzerland	Yes 3 or more days	31 or more days
United Kingdom	Yes 3 or more days	31 or more days
United States of America	No	

Countries that provide a floor of decent working conditions such as paid leave encompass all regions and levels of development. Measures such as paid maternity leave enjoy near universal agreement. One-hundred-and-seventy-two countries out of 176 guarantee paid maternal leave. More than half the countries which provide paid leave for mothers offer at least 14 paid weeks. Sixty-nine countries guarantee paid paternity leave. At least 109 countries protect women's right to breastfeed at work. Furthermore, contrary to the common argument, having good labour policies does not appear to be detrimental to a country's economic competitiveness. Of the 14 countries ranked at the top of the Global Competitiveness Index, only the United States does not provide paid sick leave or paid maternity leave.

While there has been significant progress in reaching global agreement on conventions and enacting legislation that would aid working parents and their children, there are also real limitations. ILO conventions suffer from a lack of enforcement and accountability. While the ILO requires signatories on conventions to report on laws and practices, it has very limited powers to enforce compliance. National laws can be more immediately effective since they would be easier to monitor, but there are no assurances of implementation. A great deal depends on political will and governance capacity in each country.

Moving from lose-lose to win-win

There is a great deal more we need to learn about the conditions in which young children are being reared and the struggles that their working parents are facing worldwide. But the evidence is clear about two essential points:

- The lack of decent working conditions and social supports makes it nearly impossible for millions of parents to balance caring for children well with working and prevents millions of families from exiting poverty.
- Young children are being left home alone, in the care of other young children, and in grossly inadequate care. The healthy development of all of these children is placed at risk, as is the education of the only slightly older children pulled out of school to care for them. As a result, their chances of exiting poverty as adults are placed in jeopardy.

Recommendations: putting democracy and civil society to work

The world of work could truly be transformed, and with it not only the lives of working adults but the lives of the children and elderly family members they care for, if we held countries accountable for what they have already said they would do. Perhaps more striking than any other finding from our examination of laws in 180 countries was how many of them already contained crucial protections to ensure decent work and decent working lives. Not only have the overwhelming majority of countries signed international agreements and conventions that, if implemented, would guarantee children decent care and help them and their parents exit poverty, but the majority have also passed laws in their individual countries that guarantee that those working can take leave when they are sick, that women can take leave when they give birth to a child, that there are maximum work hours and days of rest – the list goes on. Given the potential in protections provided for in these policies, here is what we would recommend:

- All trade agreements should include an enforceable clause that countries will fulfill their own labour laws and abide by the international agreements they have already signed. No one could argue that such trade agreements are either culturally imperialist or protectionist, since they are freely adopted by signatories. Enforcement would only kick-in if the country does not abide by its own laws.

- A global organisation – it could be an existing one like the International Labour Organisation if it is up to the task – will be charged with assessing whether countries are in fact implementing the laws they have passed and agreements they have signed. A group of representatives from other countries would help assess compliance. And a simple and straightforward report card would be issued, which would be sent to the citizens of each nation to help empower them to ensure that their country followed the laws that were passed, as well as being made available to consumers who could decide whether they wanted to pay more to purchase items from countries that had better practices.
- Countries that neither signed basic agreements nor passed any laws guaranteeing decent work would be highlighted. As companies decided what country to produce in and as consumers decided what country to purchase goods from, it would be easy for them to spot where the outliers are. This would dramatically change the power and recourse of both consumers and the ability of companies who seek to purchase from countries with decent working conditions.
- Creating decent conditions for adults and children and assisting families in exiting poverty require two types of change. The first requires little financial assistance from richer countries to poorer ones. All countries can afford to ensure a day of rest or leave when a worker is sick. The cost of this kind of guarantee of humane working conditions is higher in high-income countries, which can better afford the cost, and lower in low-income countries where salaries, and thus the proportionate cost of leave, are lower. The second set of changes requires an increased investment in education – from early childhood care and education on up. In the long run, these investments can be self financing. As countries invest more in education, they would be able to compete for the higher wage and salaried jobs and create a stronger tax base that would be able to fund the educational expenses. The start up costs, however, of investing in education are clearly out of reach for many of the poorest families and may be out of reach for some of the poorest countries. A global fund, similar to the global health fund, will be required if we are to reach these Millennium Development Goals.

Notes

1 The Millennium Development Goals Report 2007. Available at: http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2007/UNSD_MDG_Report_2007e.pdf

2 World Development Indicators database for 2004.

3 Bellamy, C. 2004, *The state of the world's children 2005: childhood under threat,* Unicef.

4 Throughout this paper the $10 per day threshold is adjusted for Purchasing Power Parity for all countries.

5 All names have been changed to protect respondents' confidentiality. While recognising cultural differences in the practice of referring to individuals by name, for consistency each person is introduced by full name and then the first name only is used in subsequent references to that person.

Migration policies and the Millennium Development Goals

Ronald Skeldon

With migration being one of the most obvious consequences of globalisation, it is understandable that international migration has emerged as one of the key areas in the global policy and development debate at the beginning of the 21st century. The Global Commission on International Migration, launched in 2003, the High-level Dialogue on International Migration and Development, convened by the then secretary general of the United Nations in 2006, and the ongoing state-led Global Forum on International Migration and Development, have been just three of many activities giving migration a high profile, nationally and internationally.

Yet, despite all the attention to the topic, the real impact of migration on development – and of development on migration – is still poorly understood. Certain things do appear clear:

- Migration can help to reduce poverty.
- Immobile populations reflect stagnant economies and generally poor populations.
- While the poor do move, the poorest generally move less frequently and over shorter distances than wealthier groups.

However, whether policy intervention can influence migration in a way that can bring about development is not so clear. What can be said with some degree of confidence from the available evidence is that migration and development are positively correlated: that is, as levels of development rise, the volume of migration also rises. Hence, any idea that by promoting development in areas of origin the amount of out-migration will cease is misplaced. Over the longer term, as fertility declines, the volume of migration may slow;

but over the short term, as levels of welfare and prosperity rise, migration also tends to increase. While development is therefore clearly a driver of migration, whether migration can be a driver of development is not so apparent.

Migration as an MDG

Migration is not a MDG and it is right that migration is not a MDG. International agreements on targets for migration would have been unlikely in the way that targets for reducing poverty, infant or maternal mortality, gender inequalities or increasing primary enrolment could be achieved. Nevertheless, it is virtually impossible to envisage progress towards achieving the existing MDGs without some kind of migration. Studies of households in village communities in the developing world show the importance of incorporating additional "resource niches" away from the traditional rural way of life. Among the poorest, minimising risk rather than maximising return will help to achieve better welfare, and such an "off-farm" strategy helps to reduce the vulnerability of poor households. Activities range from seasonal work on commercial agricultural estates to longer-term work in cities.

Policy, the MDGs and the majority of people who move: the internal migrants

Hence, the first policy recommendation would be to allow poor people to move to diversify their household resource base. Such a recommendation immediately introduces a central issue that has been almost entirely missing in the current migration development debate: the importance of internal migration.

The current debate is concerned almost entirely with international migration, in which origin and destination states can bilaterally seek to implement migration policies that can benefit both states as well as the migrants themselves. However, the number of international migrants in the world in 2005, according to the best, if flawed, estimates, was 195 million, or about 3% of the population. Certainly, some countries are more affected than others, and those 195 million are linked back to their home through family ties to many more millions of people. Nevertheless, an examination of origin-destination flows reveals that they are dominated by movements among the developed countries themselves and by a relatively small number of mostly middle-income developing countries. The vast majority of people who move do so within the boundaries of their own country.

Migration policies that are geared towards international migration alone are unlikely to reach the majority of people who move, and it is an improvement of the conditions among the majority and the poorest that will make the greatest impact on achieving the MDGs. However, bringing internal migration into the equation introduces a series of complications. First and foremost, such policies are the responsibility of individual sovereign states. Second, the experience of countries with policies of redirection or restriction on internal flows over all but the short term have generally been shown not to be effective.

None the less, the last United Nations enquiry into world population policies in 2005 showed that almost three-quarters of governments in the developing world thought that they should implement policies to reduce internal migration into urban agglomerations. Over half of governments in the developing world thought that a major change in the distribution of their population was desirable, the implication being that a reversal of migration from cities should be implemented.

Hence, a significant amount of advocacy on internal migration in the developing world remains to be done. The dangers of attempting to disallow the poor from broadening their resource base appear to be accepted as part of policy in many parts of the developing world. Migration need not imply a permanent move from rural to urban, but is more typically made up of complex systems of short-term movements or circulation among villages and towns and between rural and urban areas.

Policy implications

Freedom of movement is enshrined in the 1948 Universal Declaration of Human Rights, which although non-binding does have moral authority, particularly when it is clear that controls on movement are likely to act against the achievement of the MDGs. Two policy recommendations therefore emerge: that no active policy intervention should be introduced to prohibit or redirect these types of movements; and that internal migrants should be accorded the types of protections that most developing countries wish for their citizens abroad. Advocacy on labour law and access to basic services in destinations would be integral parts of any such policy implementation.

Furthermore, the concentration of populations in urban areas, estimated to reach 53% of the world's population in 2015, 48% in the less developed countries of the world and even 31.6% in the least developed countries, places urbanisation in the centre of the population and development debate.

Of particular importance to policymakers is therefore the urbanisation of poverty. Recent evidence suggests that, while the number of urban poor has been reduced by about 100 million through the transfer of some 150 million rural people to the urban sector, this has been counterbalanced by a slower-than-average poverty reduction in urban areas.

In many ways, the urban sector, and migration to that sector, is becoming the fulcrum around which the success of achieving the MDGs will revolve. This concentration of population should make access to basic health and education services easier, as well as improving access to clean water and sanitation (four of the MDGs). However, programmes to reduce poverty need to be increasingly focused on populations in urban areas, even if these programmes might have the result of bringing about a further increase in urban growth.

International migration and the MDGs

Although international migrants make up a very small proportion of the total number of migrants, they can and do play an important role in their countries of origin, although whether they can actually influence progress towards achieving the MDGs remains to be proven. The debate on international migration and development has not focused specifically on the MDGs, but mainly on three areas that are seen to be important for the development of countries of origin:

- Remittances
- Skilled migration and brain drain
- Diasporas

These areas are not mutually exclusive but form a useful division in order to examine the policy debate.

Remittances

Remittances have been the source of greatest attention, and the reason is not hard to fathom: their sheer magnitude. The annual value of global remittances is second only to foreign direct investment as a source of external funding, and remittances are now much larger than the total volume of official aid flows. Recent estimates place the volume of remittances flowing only to developing countries in 2005 at $US167bn, an amount that has doubled since 2000. Certainly, part of the increase can be accounted for by improved reporting and statistical systems, but the total amount reported referred only to remittances flowing through formal banking channels. An equal amount may flow through informal channels.

While the precise amounts of money sent back by migrants as remittances remains unknown, there can be little question about their importance for countries of origin. Hence, policies to liberalise the temporary migration of labour take on significance. Estimates suggest that if developed economies took in an additional number of labour migrants equivalent to just 3% of their labour force – through GATS mode four, for example – annual gains in remittances of US$150bn might result. This would almost double the present official volume.

Leaving aside the political issues of achieving any such programmes through GATS, other issues relate to the impact of remittances on the achievement of the MDGs. The debate on remittances tends to ignore important aspects of the process of migration. Migrants in general, and international migrants in particular, are not randomly selected from the populations of origin countries. They tend to come from very specific places of origin and the remittances are therefore flowing back to a quite limited number of places and social groups in countries of origin. Also, these countries of origin may not be among the poorest. Remittances are likely to contribute to a widening of inequalities between and within developing countries and to reinforce existing inequalities rather than raising the overall improvements implied by the MDGs. Although, over the long term, such an outcome need not necessarily be negative for development, the danger over the short term is that governments respond to the flows of remittances by redirecting their own allocation of aid away from remittance-receiving countries to the detriment of the poorest in those countries.

Nevertheless, remittances can help to reduce poverty in specific populations. It has been estimated that the massive labour migration from the state of Kerala in southern India to the Gulf states has contributed to a 12% reduction in poverty in that state. Convincing evidence of the impact of remittances on poverty alleviation is also available from Latin America. Yet, despite the volume of remittances received by Kerala, the state has not experienced a parallel increase in economic growth, but instead actually declined in rank by gross state domestic product between 1980 and 1998.

Furthermore, remittances may improve human capital but, in doing so, may lock certain populations into dependence upon further migration. A proportion of remittances are used to fund the costs of the migration of others, either direct bureaucratic and transport costs or illegal payments to traffickers to circumvent the legal process. Remittances can enhance human wellbeing, but, in certain areas at least, may simply act as a holding mechanism that ultimately leads to further migration and population redistribution rather than sustaining economic development in areas of origin. Rarely do remittances go to the poorest people or to the poorest areas among developing countries of origin.

Nevertheless, even given all the caveats specified above, policies that work to reduce the transaction costs of sending monies home must be welcomed as they will benefit the families of the migrants. Innovative methods of transfer using modern and simple electronic systems such as mobile telephones appear to have considerable potential in this area. However, whether they can significantly influence the progress towards achieving the MDGs is more questionable.

Skilled migration

The policy focus in this aspect of the debate has been on the impact on developing countries of skilled emigration. This issue has taken on greater significance as most developed economies have implemented immigration policies that are geared towards the recruitment of the highly skilled.

Much of the emphasis has been on the health sector, particularly because the presence of health professionals is seen to be of fundamental importance to the achievement of at least MDGs four, five and six. Perhaps the most overt policy to be introduced in this area is that of codes of practice, in which developed economies were prohibited from actively recruiting health professionals from the developing world, except in cases where government-to-government agreements had been secured. This policy was implemented by the United Kingdom's Department of Health from 2001, and proposals exist to extend the practice through multilateral agencies.

An evaluation of the code in the UK, while noting a reduction in the recruitment of health professionals from developing countries, was ambivalent about any simple causal relationship between the reduction in number and the implementation of the code. Two broader issues emerge. First, it is virtually impossible to attribute any decline in basic health indicators in developing countries to any loss of personnel. Second, the introduction of a barrier to the free migration of trained personnel seems questionable at best. Most of the skilled health professionals who leave will do so irrespective of the existence of barriers to their movement. If they are not allowed to be recruited legally, it is likely that they will turn to irregular channels of migration through which they will not be able to practice their profession on arrival at destinations, leading to brain waste.

Rather than focus on policies to limit the movement of skilled migrants, and health professionals in particular, a shift in emphasis towards developing the most appropriate types of training for the needs of a specific developing country seems more appropriate. Those selected for training in small towns and rural areas and given basic health training appropriate for local needs are likely to have higher retention rates than those selected in cities and trained for global markets. This does not mean that students in developing countries should not be allowed to pursue the best medical training, only that the types of available training need to be diversified and that public funding needs to concentrate more on basic training. A large proportion of those trained to global standards will always leave, irrespective of barriers to movement placed in their way.

Diasporas

It is from the community of migrants from any country abroad, the diaspora, where the remittances come, and it is in the diaspora that the best and brightest of a country of origin's population are likely to be found. Thus, the idea emerges that the diaspora can be mobilised or "leveraged" for the development of the home country; ie that money for development can be sourced in the diaspora and that the educated will return to work for the nation.

Unquestionably, although they were not the cause of development, the return of thousands of students to the tiger economies in east Asia, mainly from the United States, from the 1970s onwards played a major role in the development of these economies. Current programmes to foster the return of skilled migrants such as the Transfer of Knowledge through Expatriate Exchange (TOKTEN) of the United Nations Development Programme, or the Africa-specific Migration and Development in Africa (MIDA) of the International Organisation for Migration, tend to involve a small number of returnees and to be expensive. Critically, something has to exist in the home country for returnees to return to and, if these opportunities do not exist, the chance of success for such programmes seems slim.

Also important is the tendency to see the diaspora as a homogeneous entity. Migrant communities are generally highly factionalised and not all are actively working to support the government in power in the country of origin. Hence, considerable care needs to be taken when viewing the diaspora as a source of development capital to bring about the MDGs.

Other policy areas

Several other important areas exist in the migration and development debate that have implications for policy formulation. These revolve around the areas of gender and irregular migration, both of which impinge upon the issue of migrant protection.

Gender and migration policy

A notable characteristic of the global migration system has been the feminisation of migration flows, both internal and international. As the process of migration has evolved over time and space, increasing numbers of women enter the population flows, initially as followers and then, increasingly, as movers independent of fathers, brothers and husbands.

In the literature, much attention has been given to the issue of trafficking, particularly of women and children, and women are too often seen as victims in the process of migration. Clearly some are, and this issue is elaborated in the following section, but migration also empowers women. Those trafficked do not represent the majority of women who migrate. As migrants themselves, women are often moving out of patriarchal structures in communities of origin into places where they are less circumscribed by custom. Even in exploitative situations such as are found in the sex sector, many women are escaping abusive conditions in home areas with little choice but to enter potentially much higher paying work in more distant towns and cities in order to feed their families. Where women are left behind upon the migration of their husbands, they are thrust into positions of responsibility in the household quite different from the traditional.

Hence, the MDG to reduce gender inequality will be facilitated in those places where there are fewer restrictions on migration, and where bans on the movement of women in particular are lifted. Policies that seek to protect women through the limitation of their movement are counterproductive as far as achieving the MDGs are concerned.

Irregular migration

A proportion of the migration across international borders today does not occur through formal channels but results in what is termed "irregular migration". This can come about in a number of ways, including:

- Clandestine entry, bypassing all formal channels.
- Legal entry to a country, as a tourist perhaps, but subsequent illegal entry into the labour force.
- Legal entry, again perhaps as a tourist or student, and staying on after the expiration of the validity of the visa.
- Entry using fraudulent documentation.

These methods of entry are generally facilitated through brokers, traffickers or smugglers, who may or may not have links to organised crime. Government policy generally aims to reduce the number of irregular migrants, and the standard response is increased control and surveillance. This is despite the fact that, in many parts of the world, irregular migration is prevalent precisely because formal channels of entry are few, restricted and strictly controlled.

Nevertheless, the converse – that a broadening of formal channels will lead to a reduction in the number of irregular migrants – is not necessarily the case. The United States, for example, with the largest formal immigration programme in the world, is still home to over 12 million irregular migrants. The policy solution must be a compromise between opening the number of legal channels, including a number of temporary entry programmes, while maintaining control of the borders; that is, the establishment of a clear, efficient and transparent immigration policy backed up with effective border management.

This difficult and complex issue has several dimensions but, in terms of the MDGs, policies to reduce the number of irregular migrants is a given. Clearly, the aim to reduce vulnerability and increase protection in destination areas must be the priority for the migrants themselves. However, their transition to legality will allow them to maintain much closer ties to home areas in terms of sending remittances, temporary return and transferring knowledge and ideas back to home communities that may help to achieve the MDGs.

A cautious welcome is therefore given to extending programmes of non-permanent entry, or temporary worker policies, which may provide one way forward to promote this circulation between origins and destinations to the benefit of both areas and help to reduce the number of irregular migrants.

The importance of responsive migration policies

Perhaps the greatest pitfall in the area of migration and the development of policy is the danger of the reification of migration into a "thing" that exists separate from the economic, social and political factors that generate it. Direct migration policies are necessary but may not be the most efficient way to bring about either the management of migration or development. Policies designed to affect, or "harness", the volume and direction of movement may not be the most effective options. The experience of policies directed at internal migration urges this degree of caution.

However, policy is important, and particularly those policies that are responsive to existing and projected patterns of migration. It can be argued that "migration impact statements" should be made integral parts of all development policies to sensitise decision makers to the likely outcome of specific policies on population movements. While the likely implications of infrastructure projects, such as road or dam construction, on migration may be fairly obvious, the impact of trade, industrial or specific policies designed to achieve the MDGs might not be so clear.

The accession of China to the WTO, and the termination of the Multi-fibre Agreement, for example, have had impacts on migration not just within China itself but also among the labour forces in other countries in Asia and Africa. Direct impacts of migration can also be seen in the spread of diseases such as HIV/Aids and malaria – it is not so much that labour migrants or most other types of migrants spread infection but that certain high-risk groups of frequent movers operating along specific corridors of mobility spread the disease (MDG goal six). More generally, it is virtually impossible to envisage the implementation of policies designed to increase school enrolment, reduce child or maternal mortality or reduce gender inequalities without some impact on human population movement. Hence, policies need to be designed to meet particular migration situations.

Overall, it is argued that policies such as these that are designed to respond to rather than control, promote, redirect or stop migration are likely to provide the most effective response both nationally and internationally. The critical need, therefore, is for data that can be used to map out present and projected migration so that adequate policy responses can be designed.

Notes

1 Specific attributions to sources are given in the text and readers are directed to the references at the end of the paper. Additionally, the issue of refugees and conflict-induced migration was deemed beyond the remit of this paper, which focuses primarily on "voluntary" and labour migrations.

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Growth, trade, integration and policy space

Duncan Green

Any proponent of the Washington consensus[1] visiting Latin America and China in the mid-1980s would reasonably have concluded that Latin America was bound for prosperity, whereas China was doomed.[2] Latin America at that time was moving into a liberalising overdrive, privatising state firms and opening up to trade. In China, meanwhile, tariffs and non-tariff barriers remained high, and the government showed little appetite for ending its deep involvement in crucial areas of economic management such as the banking system.

Twenty years on, China's take-off is mesmerising policymakers everywhere, while Latin America continues its centuries-old cycle of boom and bust. Sustained growth has reduced the number of Chinese living in absolute poverty from 60% in 1990, to 16% in 2005.[3] Since Latin America embarked on a massive trade drive, increasing its exports from $96bn in 1981 to $752bn in 2007, the number of poor people (defined as those living on less than $2 a day) has actually risen (from 136 million to 209 million between 1980 and 2005).[4] Shock therapy turned out to be all shock and precious little therapy.

Advocates of rapid trade liberalisation rely heavily on the "big numbers" generated by computer models, seeking to quantify the benefits accruing from tariff and subsidy reductions, but such models often assume away the problems that dog markets in most developing countries.[5] An increasing number of analysts are turning for evidence and guidance to a different discipline – history, in particular that of economies that have successfully "taken off" in recent decades.

Harvard economist Dani Rodrik has identified 83 episodes of growth take-off in developing countries since 1950, spread throughout the world.[6] On average, such episodes increased economic output by almost 40% within a few years. Even more significant than the general sense of possibility that such surveys awaken are their radical implications for development policy.

Rodrik found that “the vast majority of growth take-offs are not produced by significant economic reforms, and the vast majority of significant economic reforms do not produce growth take-offs”. Instead, the triggers have often been small reforms aimed at freeing bottlenecks in the economy, defying economic orthodoxy, but going with the grain of existing institutions.

In India, for example, following his landslide election victory in 1984, Rajiv Gandhi relaxed industrial regulations and rationalised the tax system, and the economy surged.[7] China reformed its rigidly planned economy incrementally (rather than abandoning planning altogether), underplayed private property rights (relying instead on a mix of state ownership, collective local enterprises and private ownership), and opened up to the world in a carefully monitored and gradual way (complementing its highly protectionist trade regime with special economic zones). Vietnam, as a fellow socialist country, has followed many of the same principles since the second half of the 1980s.

Success has required a combination of effective states and political leadership. From the historical record, it appears there are no shortcuts: the private sector on its own has never achieved growth with equity. And effective state intervention appears to be crucial for the development of the private sector itself. All take-off countries gave priority to general economic goals such as macroeconomic stability, integration into the world economy, high levels of savings and public and private investment, and rapid diversification, while at the same time striving to maintain social cohesion, solidarity and political stability.[8]

Successful governments have invested in roads, power supplies and people. Agricultural take-off was generally an essential first step on the ladder of economic growth, followed by a move into clothing production, then “up the value chain” into manufacturing and exporting more complex products such as electronics. When trying to achieve this shift, successful economies in South Korea, Taiwan, Vietnam and China developed key sectors behind protective tariff barriers, with a hands-on role for the state in guiding the take-off:

- Governments invested heavily in education and training, ensuring that they had skilled workforces able to produce ever more sophisticated goods.
- Governments led the way in encouraging industry to upgrade from low-tech manufacturing, such as garments, to higher-tech manufactures and high-skilled services.

- Governments forced industries to become competitive, not least by obliging them to compete in export markets. Protection, for example via tariffs, was used frequently but for limited time periods, so that industries knew how long they had to become competitive.
- Successful governments insisted on letting failures go out of business, whereas unsuccessful ones became "captured" by industrial lobbies and accumulated white elephant industries dependent on continued state support for their survival.
- Governments decided relatively early on whether they would pursue industrialisation by setting up national leader companies (eg South Korea), or by encouraging foreign companies to import technology and operate directly (eg Malaysia), but in both cases, successful governments pursued activist policies, rather than laissez faire.
- The state used its regulatory powers over investment, access to capital (eg via subsidised loans to preferred industries), a panoply of tax breaks, and other incentives to manage industrial transformation.
- As economies developed and became more complex, and industries achieved international competitiveness, the costs and benefits of state intervention in both agriculture and industry shifted, and governments started to reduce their role and open up the economy; exactly the sequence that rich countries pursued at an earlier stage of their development.[9] Deregulation and liberalisation are thus better seen as the outcomes of successful development, rather than as initial conditions.

What does this mean for trade rules?

This historical analysis has profound implications for the management of trade and integration at global and regional levels. Trade liberalisation should be asymmetric – rich countries should liberalise more than poor ones, not as a "concession" but in recognition of the fact that optimal trade regimes evolve along with national economies.

There are of course trade-offs involved – policy space comes at the price of increased uncertainty, which can undermine business confidence and investment. In the early stages of development, such uncertainty may be a price worth paying in order for the government to have the flexibility it needs to "learn by doing" in upgrading the economy. In later stages of development, it seems that the benefits of certainty come to outweigh those of flexibility, and so policy space is less essential.

The correct balance between liberalisation and intervention will vary between countries, and evolves as a country develops. Effective states have been able to pursue a judicious combination of the two, a task that is now being complicated by the proliferation of international rules on trade and investment.

Agriculture

The success of exporters such as Chile and Botswana gives some credence to the liberalising agenda. However, in countries such as Korea, Malaysia and Indonesia smallholder development strategies were underpinned by government use of tariffs to stabilise domestic prices (protecting floor prices for farmers as well as ceiling prices for consumers) and thereby encourage investment. Keeping tariff flexibility is particularly important because other instruments, such as quotas, were largely prohibited in the WTO's 1994 Uruguay Round agreements.[10] Unfortunately, the WTO has yet to seriously curb northern subsidies – another source of damage to agricultural-led growth in developing countries.

Manufacturing tariffs

Countries with successful growth records – such as South Korea, Taiwan, Vietnam, China and Mauritius – have developed core industries behind protective barriers. Trade barriers were gradually lowered once these sectors started to become internationally competitive. Rich countries are now demanding that developing countries cut tariffs significantly, even though they themselves once used high tariffs to protect their own fledgling industries. When it was at the same level of development as sub-Saharan Africa is today, the US had an average tariff of 40%, Japan 30% and EU members 20%,[11] far higher than the levels currently being contemplated in today's trade negotiations.

Industrial policy

More broadly, many of the industrial policy tools used by successful take-off countries in the past are now unavailable because of agreements such as the WTO's Trade Related Investment Agreement (TRIMS) and GATS (Services) agreements, which ban things like local content requirements, export requirements or foreign exchange balancing requirements.[12] The constraints on such policy instruments imposed by bilateral and regional agreements often go even further, reflecting the greater imbalance of power in such negotiations.

There is an underlying issue here – one of the WTO's two fundamental principles, "non-discrimination" is anti-developmental. The WTO seeks to outlaw discrimination between national and foreign companies, which would be logical if both had identical developmental impacts, but this is not the case. Each has different merits. Domestic investors are "stickier" – less likely to leave the country they reinvest more of their profits, and are more likely to keep their higher-value activities, such as R&D and design, at home. This means that there may be developmental reasons for preferring domestic investment, even when foreign investors' record on corporate responsibility is excellent.

For their part, foreign companies can contribute cutting-edge technology, jobs and tax revenue to a poor economy. They have better access to international markets and sources of credit, often have a better record on wages,[13] labour rights and the environment, and can introduce new practices that then spread to domestic companies.[14]

These differences may be becoming less significant with time – for example, as domestic businesses move more quickly into liberalised global financial markets, or as trans-national corporations recognise the need to "become indigenous"[15] in order to understand their customers better and succeed with bottom-of-the-pyramid approaches. But governments still have to weigh up the costs and benefits to determine what combination is most likely to lead to overall development. Trade and investment rules make it harder for them to manage those trade-offs.

Intellectual property

One of the most egregious aspects of international investment and trade rules is their interference with the rapid spread of knowledge and technology, which has in the past formed a central aspect of national upgrading exercises. Historically, IP legislation has followed development – as countries have grown richer, and as they evolve from imitation to innovation, they have introduced more stringent IP laws.[16] This pattern was broken over the past 20 years by a combination of new institutions such as the WTO and regional trade agreements, and an extraordinarily aggressive campaign by large corporations and their home country governments in favour of "knowledge protectionism" in the shape of IP laws.

This took off in the 1980s, when a number of pharmaceutical and other companies scored the spectacular coup of persuading the US delegation to include them in the Uruguay Round negotiations that led to the creation of the WTO. Industry lobbyists overwhelmed opposition from the secretariat of the GATT[17] (which hosted the talks that led to the founding of the WTO) to adding IP to the agenda. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) introduced a global IP system, including a minimum patent protection period of 20 years, along with protection for industrial designs, trademarks, copyrights and other IP rights. Unlike several other WTO agreements, the rules applied even to the poorest developing countries, although they were given longer deadlines for implementation.

Global IP legislation also imposes a growing financial burden on poor countries, both through the costs of introducing largely irrelevant or unsuitable IP laws to comply with the WTO, and through the drain of spiraling royalties to the owners of patents – almost always rich world TNCs. In 2005, developing countries paid out a net $17bn in royalty and license fees, largely to companies in the industrialised nations. The US was the big winner from the system, earning a net $33bn, considerably more than its overseas aid budget.[18,19]

Postscript: has China changed the script for would-be take-off countries?

China's unique combination of massive scale, rock-bottom wages, high literacy, highly developed infrastructure and political control over labour makes it able to out-compete most of its industrial rivals. China has driven down the prices of most manufactured goods, to the benefit of consumers the world over, but undercutting other developing country exporters in the process. With 150 million unemployed constituting an effectively infinite reserve army of labour, China can continue to be the world's factory without approaching full employment (at which point wages rise and other competitors can enter the market), leaving few crumbs for other developing countries.

The impact of China may also be refuting the received wisdom that getting out of commodities into industry is the route to development. Booming Chinese demand has reversed the long-term decline in commodity prices and what economists call the "terms of trade" between raw materials and manufactured goods, sometimes presented as the number of bags of coffee (or barrels of oil) needed to buy a truck.[20] For the moment, coffee and oil prices are high, and the price of trucks is falling. Opinions differ as to whether this is the start of an extended period of high prices that defies the normal rules of boom and bust and long-term terms of trade decline. The recovery in tropical commodities such as coffee has lagged well behind temperate crops such as wheat, and history suggests that the boom is unlikely to endure for ever, as high prices encourage new entrants to the market, or technology finds new, cheaper substitutes for existing commodities.

If the long-term decline in the terms of the trade goes into reverse, however (at least for those that are not easily substituted), then developing countries' growth strategies may come to look very different in future to the standard "subsistence agriculture to export agriculture to garments and textiles to electronics" sequence followed in the past. The rewards from commodity production will be higher, and from industrialisation lower; new technologies and globalisation will allow countries to capitalise on new forms of comparative advantage, such as services involving spoken English, or tourism, or culture; countries may have to focus on domestic and regional markets, rather than trying to slug it out with China in global trade.

Recommendations

Below are three suggestions world leaders could take forward to ensure trade and investment promote development:

1. Agree to hold a review of the impact of bilateral, regional and global trade and investment agreements on governments' ability to pursue economic upgrading. A "policy space commission" could combine both analyses of the policy constraints imposed by existing agreements and consultations with developing country governments and economists on which areas of policy flexibility most need to be protected or salvaged.
2. Begin negotiations on a global "access to knowledge" convention that would start from the principle that maximising access to knowledge and technology is both an essential development need, and vital to responding to global challenges such as climate change. The negotiations would clarify the areas in which existing intellectual property rules are a barrier to such access, and suggest amendments.
3. Review the role of migration in development, with a view to countering harmful myths about migration, and making policy and institutional changes in order to maximise the benefits of international migration to both countries of origin and host communities.

Notes

1 Recommended by the World Bank, IMF and others, the Washington consensus called for rapid liberalisation, deregulation and privatisation of the economy.

2 This paper is drawn from Green, D. 2008, *From poverty to power: how active citizens and effective states can change the world*, Oxfam (www.fp2p.org). The author can be contacted at dgreen@oxfam.org.uk.

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12 Chang, H-J. 2007, *Bad Samaritans: rich nations, poor policies and the threat to the developing world*, Random House Business Books.

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16 Chang, H-J. 2001, 'Institutional development in developing countries in historical perspective', paper presented at the annual general meeting of the European Association of Evolutionary Political Economy, Siena, Italy, 8–11 November.

17 The General Agreement on Tariffs and Trade.

18 This figure includes royalties from other developed, as well as developing, countries. US ODA came to \$27.6bn in 2005. See World Development Indicators 2007, World Bank.

19 World Development Indicators 2007, World Bank.

20 For a pre-commodity boom analysis of the commodity trade, see Green, D. 2005, 'Conspiracy of silence: old and new directions on commodities', paper presented to the Strategic Dialogue on Commodities, Trade, Poverty and Sustainable Development, Faculty of Law, University of Barcelona, 13–15 June.

Equity, education and the Millennium Development Goals

Kevin Watkins

Unanimously adopted in 2000 by 147 governments, the eight Millennium Development Goals (MDGs) have gained an international cult following in the development community. They have been embraced by the World Bank, the International Monetary Fund, the World Trade Organisation, international non-government organisations and grass-roots activists. The goals define a bold vision for cutting extreme poverty and advancing human progress in other areas, including the reduction of child and maternal deaths, education and access to water and sanitation. The MDGs are not the first enterprise in setting development targets. The 1990s was a decade of summits that produced bold targets in health, education and other areas. Most were missed by spectacular margins. As we look towards the 2015 deadline for achieving the MDG targets, one question looms large. Will the MDG commitments go down in history as a defining moment in the fight against poverty? Or will they be recalled, in the spirit of Samuel Johnson's unkind observation on second marriages, as a triumph of hope over experience?

This is a critical moment for reflection and action on the MDGs. With around seven years left to the 2015 target date, there has been much stock-taking of where we are, who is off-track, and what needs to be done. There is a growing recognition that business-as-usual will not deliver on the MDG promise for a large section of humanity. The MDG "call to action" by several governments, faith leaders, civil society groups and private sector companies signals a concern to generate a renewed impetus. But time is running out – and serious questions now surround the attainability of several key MDGs.

At a time when international attention is focused on the credit crunch, rising energy costs and food price inflation, it is easy to lose sight of what is at stake. Getting the world on track for the MDGs is not an abstract philosophical exercise: it is an endeavour that has the potential to save the lives of millions of children, enable a large section of humanity to break out of poverty, create opportunities for education and break down gender inequalities. Failure will come with enormous costs attached. Most immediately, those costs will be borne by the world's poorest and most vulnerable people to whom the MDG promise was made. But failure will also call into question the structures of international cooperation, weaken multilateralism, and reinforce the resentment that will inevitably accompany a model of globalisation that tolerates mass poverty in the midst of rising prosperity.

As political leaders grapple with the immediate crises on the political agenda it is important that they do not downplay the importance of the human crisis that the MDGs were established to resolve. It is important also that they face up to the implications of having signed on to time-bound commitments. The window of opportunity for decisive action is closing. Putting in place the policies, mobilising the resources, and building the capacity needed to deliver results takes time and long-term political commitment. Waiting until 2014 to act is not an option. The investments needed to build schools and health clinics, and to recruit and train teachers and health workers, need to be put in place now. Failure to act will have real consequences. It is worth recalling that there are still 10 million child deaths annually – and that the vast majority of countries are off-track for the MDG target. Malnutrition leaves one-quarter of children stunted, threatening their lives, damaging their brains, and impairing their education potential – and the number of malnourished children in south Asia and sub-Saharan Africa is rising. Until recently, it was thought that around 1 billion people were living in extreme poverty. Following a recent revision by the World Bank that figure has been increased to 1.4 billion, and the incidence of extreme poverty is falling at just 1% annually. That rate could slow as rising food prices take their effect. And while public health initiatives have registered real advances, fewer than 10% of HIV/Aids victims have access to retrovirals; and malaria still claims over 1 million lives, most of them African children.

Some critics argue that the MDGs are an irrelevant indulgence sustained by campaigners and governments in the rich world. Viewed from a different perspective, insufficient ambition is the real indulgence. The real question to ask is why a world that could do so much still does so little. Moreover, it is important to recall that, even if the MDGs are achieved, large deficits will remain. Even if the MDGs are achieved, there will still be some 1 billion people living in extreme poverty, over 2 billion lacking access to basic sanitation and almost 1 million lacking access to clean water. Indeed, the fact that some 2 million children still die each year from diarrhoea – or, more accurately, for want of a safe toilet and a glass of clean water – is a real indictment of our standing as a human community.

The importance of the MDGs and their influence in shaping policies in developing countries can be exaggerated. But the targets they embody have provided a moral compass and a set of yardsticks for measuring progress. National governments, multilateral development banks, and bilateral donors have all scaled-up and strengthened the monitoring of progress towards the MDGs. More than that, they have placed poverty reduction at the centre of the international development agenda, helping to stimulate more rapid expansion of access to basic health, education and wider goals.

This chapter does not provide a comprehensive assessment of progress towards the MDGs. We focus instead on two themes that illustrate wider concerns. The first comes under the broad heading of distributive justice. The MDGs are for everyone. Yet the framework is to a large degree distribution neutral. That is, it attaches little or no weight to questions of equity. That is convenient for governments, who prefer reporting on national averages rather than on gaps between rich and poor, men and women, and other social groups – but it weakens the MDGs as a force for political change. The second theme covered is that of education. Here the MDGs suffer from a highly restrictive set of targets, with a focus on getting children into primary school. Broadening the agenda to include pre-school, post-primary and education quality goals would give the MDGs a greater resonance in global efforts to achieve education for all.

Putting social justice and equity at the heart of the MDG agenda

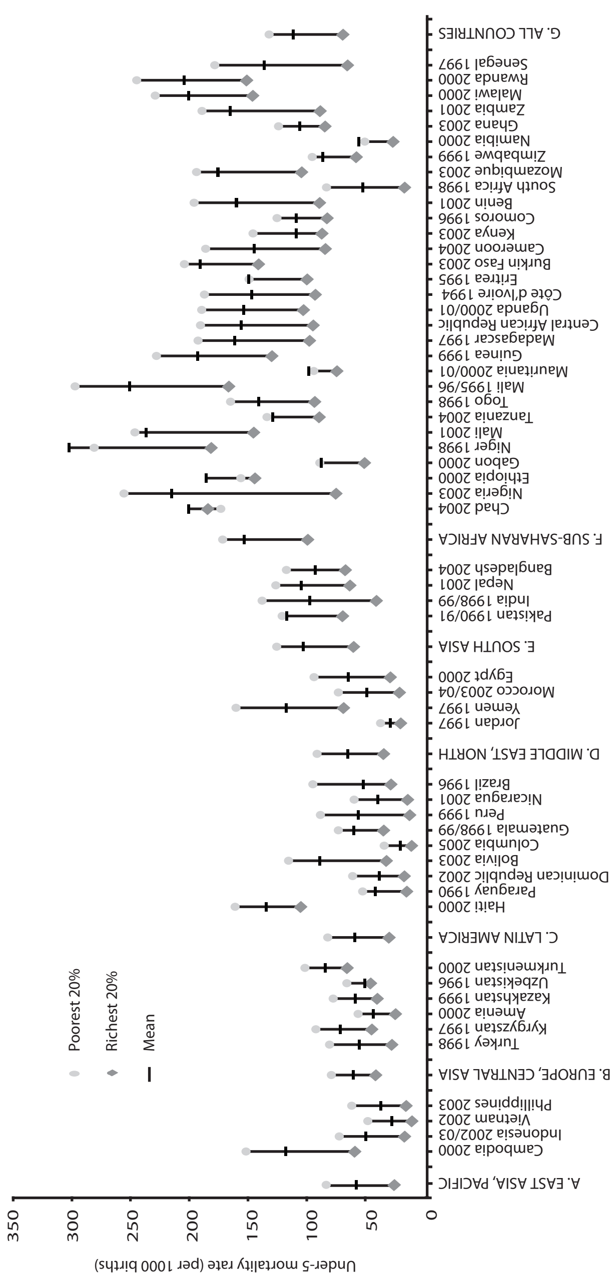
The MDGs represent the international community's time-bound and quantified targets for addressing human deprivation in many dimensions, including income poverty, hunger, child death, education, and environmental sustainability. Implicit in the MDGs is a commitment to social justice and greater equity within an interdependent global society and economy. That commitment needs to be made explicit.

Overcoming extreme life-chance inequality and absolute deprivation should be central to the MDGs. There are at least three reasons for a strengthened focus on equity. First, most people feel that egregious disparities in life-chances based on circumstances over which individuals have no, or limited, control, violate basic precepts of fairness and social justice. Second, most societies have ideas (and legislation) relating to what might be thought of as a social minimum in areas such as nutrition, income, housing and education determined by reference to social norms about inequality. Third, and beyond these intrinsic considerations, extreme inequality is an increasingly important barrier to the attainment of the MDGs themselves. Currently, however, enhanced equity does not figure as a central MDG concern. There are only two MDGs – on basic education and gender parity – that expressly require reduced inequality.

Inequalities in child mortality represent a growing cause for concern. The 10 million child deaths that happen each year as a result of poverty and infectious disease represents a potent reminder of what is at stake with the MDGs. Child survival is surely one of the most basic of all human rights. Yet child survival prospects are powerfully determined by two factors: where you are born and the wealth of your parents. As shown in Figure 1, there is a strong socio-economic gradient for child survival, with death rates for the poor typically three-to-four-times higher than for the rich. While overall death rates are falling, they are falling least rapidly for very poor – the group with the highest child mortality rates. From an equity perspective, these outcomes are hard to justify. From an MDG efficiency perspective they are counterproductive. This is for reasons of simple arithmetic. If the poor are disproportionately represented in child mortality, a reduction in death rates among poor children will have a greater effect in reducing the national child mortality rate than a reduction among the non-poor. [6]

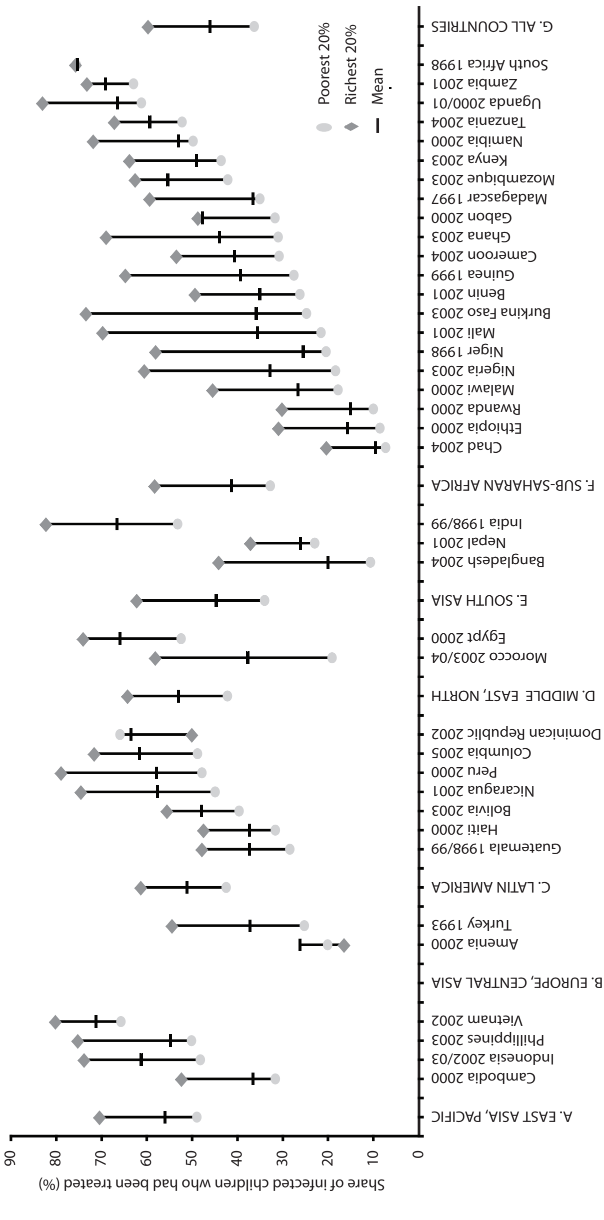
Outcome inequalities in child deaths reflect unequal access to nutrition and basic health services. Across much of the developing world, the poorest households facing the gravest health risks have the most limited access to basic services. There are many dimensions of inequality. In many countries, the rural-urban divide is among the deepest social fault-line, reinforced by disparities based on gender, language and wealth. A near-universal double burden experienced by poor children is that they are more exposed to health risks as a result of poor nutrition, but are less likely to be treated when sick with life-threatening illnesses such as acute respiratory

Figure 1: Child mortality gaps between rich and poor



Source: Gwatkin, D.R. et al. 2007, Socio-economic differences in health, nutrition and population within developing countries, Washington DC, World Bank.

Figure 2: The poor are less likely to receive treatment for ARI



Source: Gwatkin, D.R. et al. 2007, Socio-economic differences in health, nutrition and population within developing countries, Washington DC, World Bank.

tract infection (ARI) (Figure 2). Inability to afford treatment, distance from clinics and the unavailability of trained staff or medicine all contribute. So do inequalities in service provision. In Burkina Faso, there is roughly one midwife for every 8,000 people in richer zones, against one for 430,000 people in the poorest zone. In Malawi, 87% of people live in rural areas, but 96% of doctors are to be found in urban areas. In many countries, gender inequalities act as another powerful constraint on progress towards the MDGs, intersecting with rural-urban differences and wider socio-economic disparities. Intra-household factors are also important in many countries. In India, the death rate for girls aged 1–4 is some 50% higher than for boys, reflecting the institutionalised gender discrimination that starts at birth.

Economic growth alone is an insufficient vehicle for eroding many basic life-chance inequalities. Greater income at the household level enables families to spend more on food, clean water, and healthcare. But income growth will not remove the barriers to progress linked to social inequalities. This point is underlined by recent experience in south Asia. Much of the MDG focus has been on sub-Saharan Africa – and for good reason given the region's slow progress in many areas. However, it is often forgotten that south Asia has higher rates of child malnutrition than sub-Saharan Africa. Child mortality rates are also high. Economic success is not transforming this picture. Rapid economic growth in India has unquestionably been one of the good news stories of globalisation. However, the good news does not extend to nutrition and child mortality. High growth has not put India on track to achieve the MDG for cutting child death rates. In fact, child death rates have been falling far less impressively than in countries with lower average incomes and lower growth rates. For example, over the past decade, Bangladesh has recorded one half of India's per capita income growth rate, but double its rate of decline for child mortality. If India matched Bangladesh's child mortality rate there would have been 200,000 fewer child deaths in 2006. Malnutrition levels have also fallen at unimpressive rates since 1990 (around 1.5% a year). Within this overall picture, the rate of decline was faster for the richest 20% than the poorest 20%, faster for boys than girls, faster for urban than rural areas, and faster for high caste than low caste people. As these outcomes suggest, inequality matters a great deal. The wide gap between India's economic and social indicators raises important questions at many levels. India has among the highest proportion of underweight children in the world – and almost double the level for sub-Saharan Africa.

Indeed, around one-in-three of the world's 150 malnourished children are Indian, implying that India's progress has global ramifications for the MDGs. The south Asian experience confirms that the MDGs require a focus not on economic growth or equity, but on growth with equity. That imperative requires strategies for enabling poor households to produce their way out of poverty, along with social protection programmes that reduce vulnerability and extend opportunity.

Halving extreme poverty – why distribution matters. The world as a whole will probably achieve the goal of halving income poverty. However, this is an aggregate outcome driven by progress in China and other countries in east Asia. Most countries in most regions will miss the target. Greater distributional equity nationally and globally could change this picture. At a national level, the rate of poverty reduction is a function of average growth and the share of growth captured by the poor. Vietnam has been so much more successful in cutting poverty partly because of higher growth, but also because the poorest 20% have an income share some four-times higher than in Peru. On current distribution patterns, economic growth in Kenya will halve poverty by 2015. Doubling the share of the poorest 20% in increments to future growth would bring that date forward to 2015.

Distribution also matters at a global level. Currently, the poorest 40% of the world's population, broadly corresponding to households surviving on less than $2 a day, account for around 3% of global GDP. The bottom 20% account for just 1.5% of global income. With such high levels of inequality, even small distributional shifts have the potential to deliver big reductions in poverty. Calculations by the UN's Human Development Report suggest that it would take around $300bn to lift the poorest fifth of the world's population out of extreme poverty (the figures are for 2000). To put that figure in context, it represents around 0.2% of world GDP, or just 1% of the income of the richest 10%. Achieving such distributional shifts is more difficult than the arithmetic of poverty reduction. At a national level governments would need to attach far greater weight to policies aimed at overcoming entrenched inequalities. At an international level, greater distributional equity would require a renewed commitment by rich countries to deliver on aid commitments and reform international trade rules. Unfortunately, this is the area in which the world is furthest off track for the MDG goals. At the Gleneagles Summit of the G8 and other meetings in 2005, rich countries pledged to raise aid by $50bn by 2010.

Since then, aid flows have stagnated – and commitments in the pipeline are $30bn down on the pledges made in 2005. The Doha Round of trade talks was supposed to be a "development round" that would strengthen the links between trade and poverty reduction. This was an opportunity for rich countries to open their markets and cut the farm subsidies that are inflicting so much damage on the livelihoods of poor farmers in developing countries. In the event the Doha Round collapsed having delivered nothing, except grave damage to the credibility of the rules-based multilateral trading system.

The idea that there is a trade-off between growth and equity is misplaced. Rising inequality within countries has been one of the features of the current phase of globalisation. However, some countries have combined strategies for accelerated growth with enhanced equity, with attendant gains for MDG progress. Brazil is one of the most striking examples. Since 1998, extreme poverty in Brazil has been falling at three times the rate required to achieve the MDG target. Over the same period, the Gini coefficient has fallen by around three points, with the income of the poorest 20% increasing at more than double the average and six times the rate for the richest 20%. Decomposition analysis suggests that redistribution accounts for around 80% of total poverty reduction since 2000. Impressive advances have also been recorded on a wide range of social indicators. Since 1990, the child mortality rate has declined from 57 deaths for every 10,000 live births to 20. Similarly rapid progress has been registered in cutting malnutrition, increasing school participation, and advancing literacy. Underpinning all of these achievements has been political leadership and a strategy for social progress that has put equity at the heart of the agenda, with a strong commitment to narrow life-chance gaps between rich and poor, between states, and between racial groups.

There is a strong case for putting equity goals at the heart of a revised MDG agenda. First, a commitment to the MDGs is incompatible with the current level of tolerance for extreme life-chance disparities. Second, equity related targets would encourage governments, donors and multilateral agencies to attach more weight and provide greater visibility to the most disadvantaged and vulnerable groups that are being left behind. Third, a strengthened focus on the progress of these groups could serve as a catalyst for the development of public policies aimed explicitly at narrowing disparities in life chances. None of this is to understate the complexity of constructing equity related targets, or the political sensitivity

Goal	Illustrative equity goals for 2015	Indicative Strategies
Halve the share of people living in extreme poverty **Halve the share of people living with malnutrition** Current Indicators: Progress in cutting $1 a day poverty Nutrition targets	■ Establish a Gini ceiling of X ■ Ensure that the poorest 20% capture at least Y of increments to national income ■ Narrow the gap between the mean income and the poorest X% bt Y ■ Halve the nutration gap between rural and urban areas ■ Eliminate gender gaps in nutrition	■ Strong macro-economic management and broad-based growth strategy ■ Social protection programmes aimed at reducing risk and extending opportunity (Mexico, Brazil and South Africa examples) ■ The adoption of 'zero hunger' strategies for eliminating malnutrition and micro-nutrient deficiency
Reduce child mortality by two-thirds Current indicators: Under-five mortality Infant mortality Proportion of children immunised against measles	■ Cut by one-half the gap in infant and child mortality between the richest and the poorest 20% ■ Eliminate gender gaps in mortality ■ Halve the mortality gap between urban and rural areas ■ Halve the gap between the highest and lowest child/infant mortality rate by province is no more than X ■ Progressively reduce gaps in mortality based on ethnicity, location, language and other markers for disadvantage	■ Eliminate the gap in immunisation coverage between the richest 20%, and between urban and rural areas ■ Equalise the ratio of trained workers, doctors and teachers to people between urban and real areas ■ Provide universal access to basic health care that is free at the point of delivery ■ Expand poverty-focused maternal care and child nutrition programmes ■ Monitor and report annually on progress among low-income disadvantaged groups and regions
Halve the proportion of people without access to safe water and sanitation Current indicators: Proportion of people using safe water source and basic sanitation	■ Halve the gap between the richest and the poorest 20% in access to safe water and sanitation ■ Halve the gap in access to safe water and sanitation between urban and rural areas ■ Ensure that water accounts for no more than X% of household expenditure for the poor ■ Every household has an entitlement to at least 20 litres of water as a basic entitlement	■ Sustainable and equitable financing strategies, with cross subsidisation for connection subsidies for poor households ■ National strategies stipulating strategies for increasing access for poor households, slum dwellers and remote rural areas ■ Strengthened integration of water and sanitation into Proverty Reduction Strategy Papers (PRSP)

of turning the spotlight on disparities that are persistent, stubborn and difficult to change. That said there are examples to draw upon. For example, the United Kingdom has a programme for action in health that targets a 10% reduction in health outcome inequalities as measured by the gap between "routine and manual" families and the average. The annual reporting process has helped policymakers revise policies in the light of progress towards the targets. The matrix above provides some tentative and initial illustrative ideas for discussion on what equity enhancing MDG targets might look like.

Strengthening and renewing the goals in education – beyond primary school

Having access to a good quality education is a basic human right and an enabling condition for human development. However, the MDGs provide a highly restrictive (and flawed) indicator for progress in education. Under Goal 2, the education target is defined in terms of universal primary education (UPE) – an indicator that is usually understood in terms of completion of a full primary cycle. Equity is addressed in Goal 3, which envisaged equal enrolment in primary school for girls and boys by 2005 and in secondary school by 2015. These targets, arithmetically implausible on adoption, will not be achieved. While universal enrolment and gender parity are necessary preconditions for progress, they provide an insufficient barometer of progress in education. Many important dimensions are missing. For example, early childhood development, secondary education, and adult literacy and lifelong learning are conspicuous by their absence from the MDG framework, even though they are critical indicators for progress. The same is true of education quality and learning outcomes. And while gender inequalities are pervasive, insufficient concern has been directed towards wider disparities. One of the problems with MDG 2 is that it has encouraged donors and governments to focus on quantitative indicators at the primary level, leading to a compartmentalised approach that diverts attention from qualitative issues. The six indicators in the Education for All framework adopted by governments in 2000 provides a far more balanced, relevant and meaningful perspective.

Measured against the MDG goals, there has been a great deal of progress. The number of out-of-school children is declining. Since 1999 alone, the number of children out of school has dropped from 96 million to 72 million, with a marked acceleration since 2002. The decline has been most dramatic in south and west Asia and sub-Saharan Africa. Gender disparities have been reduced, even though the gender parity target has been missed. Globally, the weighted average gross intake rate for girls rose from 91% to 94% of that for boys between 1999 and 2005. However, gender gaps remain very large across sub-Saharan Africa and south Asia in particular – and they are deeper in secondary and post-secondary education.

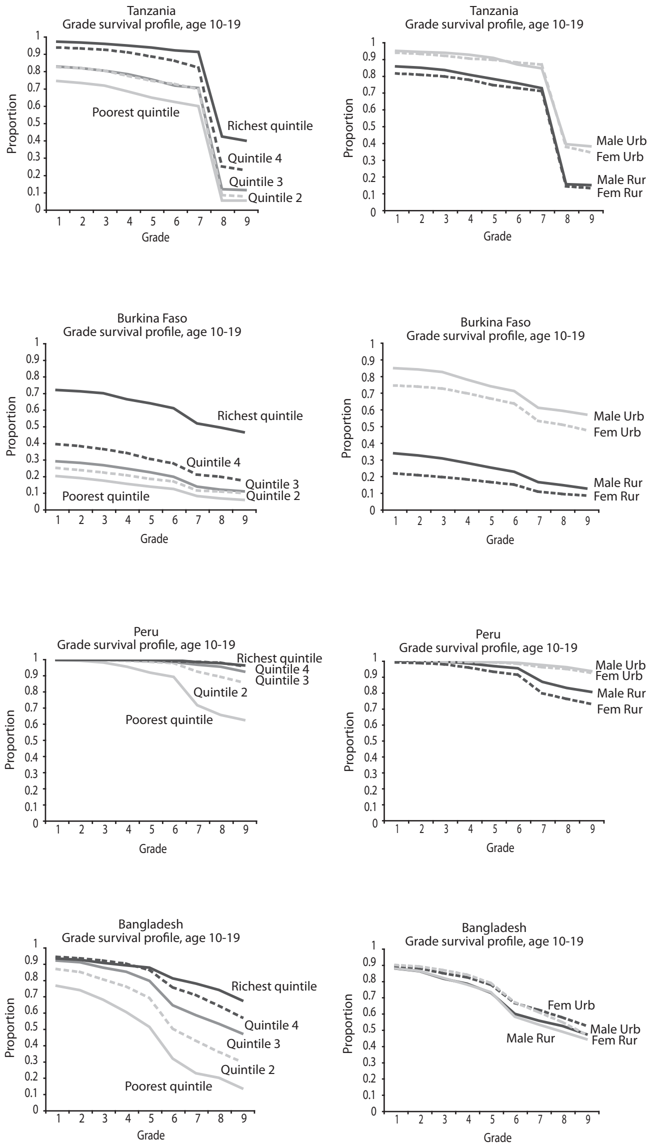
Even when measured against the minimalist requirements of the goals themselves, there is a very large unfinished agenda. There are still 17 countries in sub-Saharan Africa with net enrolment rates below 80% – and demographics will increase the primary school age population in the region by about one-fifth over the next decade. While many countries are progressing in enrolment, high levels of repetition and low levels of completion remain a concern. The survival rate to the last grade of primary education is very low for a large group of countries, including many – such as Uganda, Mozambique, Rwanda and Burkina Faso – that have achieved progress in enrolment. Once again, there is a steep socioeconomic gradient in progression through school, with children who are poor, female and rural dominating the drop-out lists. Achieving universal primary education in countries characterised by high levels of poverty, grave financing constraints, demographic pressure, HIV/Aids and wider problems poses political challenges of a high order. While gender gaps may be shrinking, they remain very large across sub-Saharan Africa and south Asia in particular, becoming progressively deeper in secondary and post-secondary education. Roughly one-in-three out-of-school children live in fragile states and that share is rising over time. These are states marked by weak institutional capacity, chronic financing constraints and vulnerability to conflict.

Enhanced equity is an imperative for accelerated progress. At the start of the run-in to 2015, many countries face immense challenges even in terms of the narrow MDG targets. Achieving UPE will require a strengthened focus on the disadvantaged groups who are the last into school, the most likely to repeat grades, and the least likely to complete primary school. Reaching the last 10–20% of children out of school is difficult because of the extreme marginalisation and chronic poverty of their households. Retaining children in school, ensuring that they complete a full primary cycle and acquire a decent education will require governments to address head-on deeply entrenched, and mutually reinforcing, inequalities based on gender, wealth and location. Being poor is one significant marker for educational disadvantage. Being poor and rural multiplies the effect. Being poor, rural and female creates a triple burden – a burden illustrated by attainment profiles for many countries (Figure 3). As pointed out in a recent study, three-quarter of the girls out of school are also from disadvantaged ethnic and caste groups – and most are poor. Progress towards greater equity is seldom uniform. For example, Bangladesh has made rapid strides in increasing enrolment – to around 67% – and the country has already attained gender parity in primary and secondary school. However, the enrolment rate for children in the poorest quintile has increased modestly from 53% to 57%. The country is unlikely to achieve universal primary education and completion by 2015 without greater equity. While most countries have education plans with broad statements of intent to reach the poorest, many lack the bridge to the practical strategies and financing for overcoming disparities. This is unfortunate because many of the policies needed would also accelerate progress towards education for all.

Early childhood care and education

What happens before children enter school has a critical bearing on later cognitive development and learning outcomes. International experience shows that the disadvantage that children bring with them into school reinforces inequalities in educational attainment and achievement. Early childhood care and education can make a difference. Any strategy aimed at overcoming poverty and nutritional disadvantage in the school has to start when children are in the womb. As highlighted in a recent Lancet series, the period from birth to two years of age is a vital window of opportunity for creating learning potential. Yet this is an area in which governments and donors are failing, as witnessed by the slow progress towards the MDG target of halving malnutrition. Inadequate financing, weak targeting of vulnerable groups and poor health service delivery all play a part. Pre-school can play an important role in breaking cycles of disadvantage. Well-timed and targeted intervention has the potential to create virtuous cycles of improved health and enhanced educational outcomes. Recent evidence from Cambodia illustrates the point. In this case children who have attended pre-school have a 61% probability of survival to grade six, compared to 51% for children without pre-school (falling to 49% for children in the poorest 40% of the population without pre-school).

Figure 3: Wealth, gender and location influence education survival



Source: Filmer, D. & Pritchett, L. 2007, Educational attainment and enrolment around the world, Washington DC, World Bank.

International experience suggests that the children most in need of early childhood support are least likely to get it. Enrolment rates for early childhood education are rising slowly from a low base. Gross enrolment rates range from 14% in sub-Saharan Africa to over 60% in Latin America. Expansion has been constrained by under-investment and acute shortages of trained teachers. An additional problem is the large disparity in enrolment between urban and rural areas and rich and poor. In Bolivia, for example, children from non-poor households are 50% more likely to be in pre-school than children from poor households. The large disparities in attendance at pre-school draw attention to the importance of distance, cost and wider pressures on poor households as barriers to good quality primary education.

The quality deficit

Progress in education quality is lagging behind quantitative progress to universal primary education. There are problems in cross-country comparisons of education attainment levels. Even so, such evidence as we have provides an insight into the scale of the deficit and some of the hidden dimensions of global education inequalities. Reading comprehension tests organised for 43 countries under the Programme for International Student Assessment (PISA) show about 15% of students in the OECD registering below level one (out of five). The comparable figure for the Asian countries participating is 45%, rising to 54% for Latin America. In many countries, there may have been a trade-off between quantity and quality, with rapid increases in enrolment overwhelming the capacity of teachers, schools and education infrastructure to provide an acceptable level of education.

Deficits in quality have important implications. The very low level of learning evident in many countries suggests that investments in education are yielding sub-optimal returns. For the children involved, poor education quality can have life-long consequences. One study looking at cross-country research for 40 countries demonstrated a strong link between earnings and cognitive skills. The same study found a close fit between the dispersion in adult literacy score and dispersion of income; in other words, higher levels of inequality in income were associated with higher levels of inequality in literacy. At a global level, qualitative gaps are harder to gauge than quantitative gaps measured in years of school, but they are almost certainly more important in shaping capacity to innovate and compete in an increasingly knowledge-based global economy.

Quality problems highlight challenges facing the education infrastructure. Within the school, physical infrastructure, class size, and the presence (or absence) of pedagogical inputs have a major bearing on learning outcomes. The SACMEQ research found that almost one half of schools needed major repairs and documented a "normal" environment of overcrowded classrooms in which children often lacked textbooks, pens and paper. Fully one half of grade six pupils in countries such as Malawi, Tanzania and Zambia reported not having a single book. The availability, quality and distribution of teachers are another part of the quality equation. As one recent review of teachers in 14 low-income countries puts it, "Very sizeable proportions of primary school teachers, particularly in sub-Saharan Africa, have low levels of job satisfaction and are poorly motivated. Many tens of millions of children are, therefore, not being taught properly and are not receiving even a minimally acceptable level of education." As pointed out in Unesco's 2008 Global Monitoring Report, high levels of teacher absenteeism – one product of low morale, weak motivation, and poor accountability – reduces instructional time well below the benchmark for good practice (850–1000 hours per annum).

The poor quality of education has a direct bearing on the MDGs. Enrolment into schools that deliver bad quality education is not conducive to the MDG targets. But poor quality education also has the potential to slow or derail progress towards UPE. One reason for this is that poor quality schooling reduces the demand for education on the part of parents. Another is that it leads to high levels of repetition and drop-out, trapping education systems in a vicious circle of inefficiency and inequity. The inefficiency derives from the budget costs of repetition. On one estimate, repetition costs Latin America around $12bn annually – a huge inefficiency tax on education. The inequity derives from the fact that it is overwhelmingly the sons and daughters of the poor that drop out of school or repeat grades.

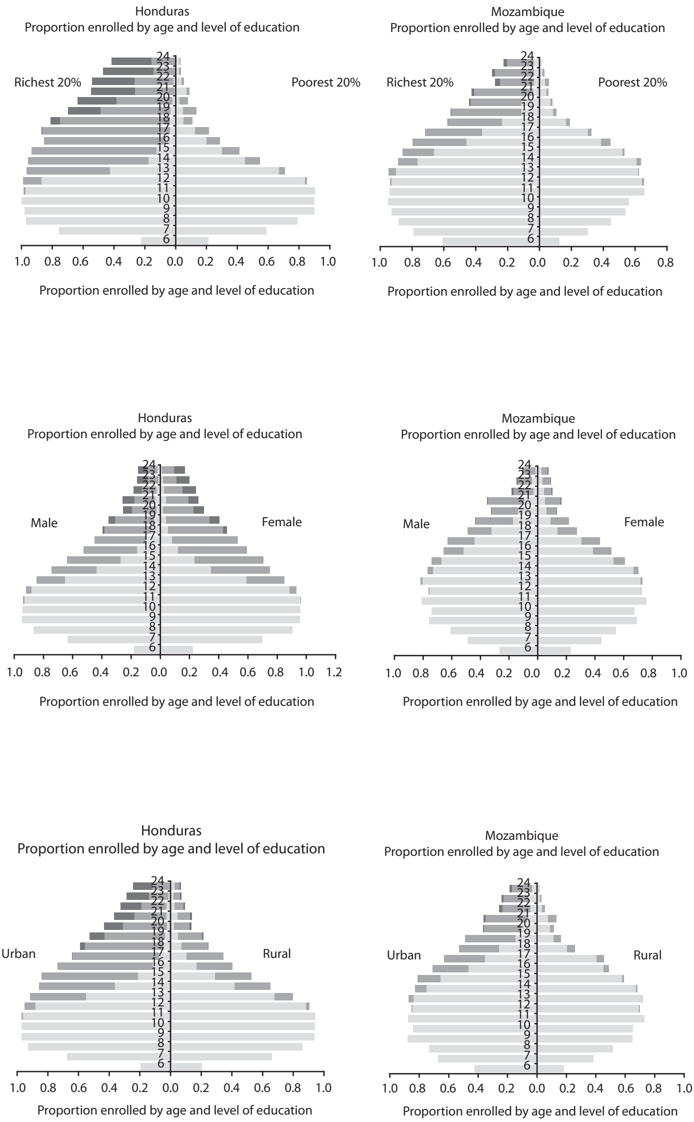
The transition to secondary school

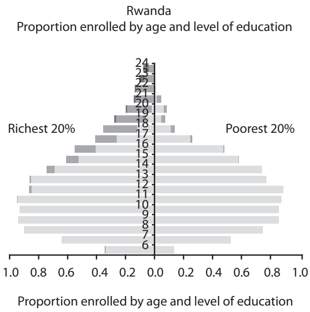
Progress towards UPE has brought into sharp relief the importance of secondary school. Clearly, no country can expect to prosper, to lay the foundations for sustained human development, or to build an inclusive society in the absence of universal primary education. By the same token, primary education has to be viewed not as the destination but as a station en route to higher levels of learning and skills acquisition. There are at least four reasons to supplement the current MDGs with a commitment on secondary education. First, as countries progress towards universal primary education, demand for secondary education will grow. Failure to respond to that demand is likely to encourage drop-out from primary school. Second, progress towards the MDGs will require a flow of graduates from primary into secondary school, and a reverse flow back from secondary into primary school via teacher training. Third, under the right conditions secondary schooling is associated with wide-ranging human development dividends, including the empowerment of women, child health and productivity. Fourth, competiveness in increasingly knowledge-intensive national and global economies depends on the education and skills associated with higher levels of learning, including post-secondary and tertiary education. To summarise, a focus on primary education to the near exclusion of other levels is likely to prove ill-advised and self defeating.

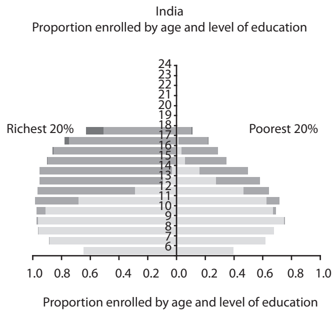
There is a growing danger that secondary education will become the locus for deepening inequalities in life-chances. As more and more countries succeed in moving towards achievement of universal basic education, the transition to secondary school is becoming the locus for new disparities. On one estimate, there are 70 million children of secondary school age in sub-Saharan Africa who have no access to secondary school. Low rates of transition from primary to secondary education are reinforced by low rates of transition from lower secondary to upper secondary, with the gross enrolment rate (GER) for 2005 falling from 38% to 24%. The children who do not make it to secondary school are overwhelmingly poor, rural and, in many countries, female. That injunction applies beyond sub-Saharan Africa (Figure 4).

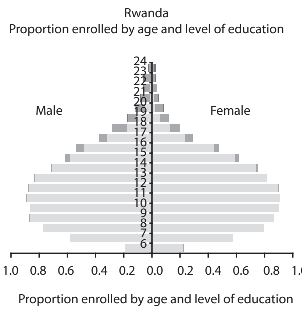
Across much of the developing world, the chances of making the transition from primary to secondary education are positively correlated with socio-economic status. In Latin America, inequalities in the secondary school system are reinforcing wider socio-economic disparities. For example, while 88% of children from the richest decile move steadily through the secondary system without repetition, for the poorest decile that share drops to 44%. Strengthening the transition from primary to secondary is a step towards mitigating wider global inequalities in education, including those at the tertiary level. In 2005, the GER for tertiary education ranged from 66% for developed countries, to 5% for sub-Saharan Africa and 10% for south Asia. To put the statistical comparison in context, children in developed countries currently have a better chance of enrolling in tertiary education than children in much of sub-Saharan Africa have of completing primary education.

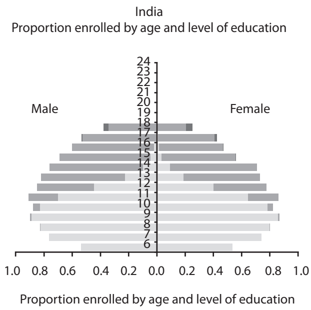
Figure 4: Disadvantages increase at post-primary levels

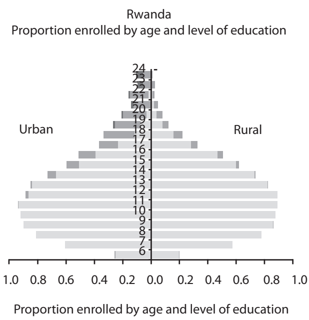


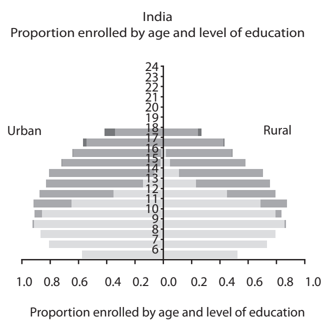












Source: Filmer, D. & Pritchett, L. 2007, Educational attainment and enrolment around the world, Washington DC, World Bank.

Literacy and lifelong learning

Literacy is a basic tool for making informed decisions and participating in society. While illiteracy rates are falling, there are still some 764 million people in developing countries living without basic literacy skills. There is a sense in which illiteracy today is the product of past failures in education. The backlog is being cleared at a slow pace. While there are serious problems with measurement and data, the adult literacy rate in developing countries rose from 68% to 77% between the periods 1985–1994 and 1995–2004. Far more could be done. Many countries – Yemen, Nepal, Malawi and Burundi among them – have increased adult literacy rates by more than 15 percentage points. Progress at a global level will depend critically on developments in the 15 countries that account for three-quarters of adult illiteracy around the world. Notwithstanding the immense importance of literacy to the empowerment of people and the opening-up of opportunities for lifelong learning, the current MDG framework does not include a literacy goal.

Redesigning the MDGs on education

The MDGs are not detailed policy prescriptions or strategies. Their value is in signaling priorities and in focusing attention on shared concerns. It would be unrealistic to recast the MDGs into multiple micro-level sector targets and goals. By the same token, goals that provide a highly restrictive or distorted vision will inevitably become less relevant as a catalyst for action. Perhaps more than in any other area, the education MDGs are out-of-touch with the aspirations of children and parents, and are in urgent need of renovation.

There are important lessons to be derived from the Education for All agenda, which is discussed below. This enshrines six broad thematic goals, some of which – on EUP and gender equity – overlap with the MDGs. The goals themselves are viewed as indivisible—and for good reason. Sustained progress in any one area is contingent on progress in other areas. For example, Early Childhood Care and Education (ECCE) matters in its own right because it addresses child health and nutrition concerns, as well as pre-school cognitive development. But ECCE also matters because it is one of the foundations for UPE. To state the obvious, achieving universal enrolment when a large section of the child population is hungry, sick, disadvantaged by poverty and lacking the social and cognitive skills needed to realise their potential is not a good benchmark for progress. Similarly, adult literacy – another key EFA goal – matters for both intrinsic and instrumental reasons. It matters for intrinsic reasons because it empowers women, expands choice, and supports democracy. And it matters for instrumental reasons because literate mothers are more likely to send their children – especially female children – to school. The EFA framework also places a premium on the quality of the learning experience. It is this dynamic synergy between different parts of the education and learning spectrum that the MDG framework misses. Implicit in the framework is the view of primary school as a bubble that is somehow separated from other parts of the education system, and loosely connected to gender equity.

The starting point should be the wider range of goals agreed in the Education for All (EFA) conference in Dakar, Senegal in 2000. The six EFA goals are far broader than the MDGs, extending to education quality, adult literacy and post-primary education. They are based on the "Dakar Framework for Action", which declared that by 2015 all children of primary school age would participate in free schooling of acceptable quality, that adult illiteracy would be halved, that progress would be made in providing early childhood care and education, and that learning opportunities for youth and adults and all aspects of education quality would be improved. One of these Dakar goals also committed the nations of the world to achieving gender equality in education by 2015, with a focus on ensuring girls' full and equal access to a good quality education. This goes beyond the narrower goal of gender parity to take into account teacher attitudes, violence against girls and wider indicators.

The MDG framework would be strengthened and made more relevant through creative alignment with the EFA goals. One obvious danger is that of overload and dilution: the MDGs have force partly because they are limited. However, it is possible to envisage the incorporation of a small number of quantified goals and targets into the MDGs. Five areas suggest themselves:

- **Monitor performance for enhanced equity.** In both the MDG and the EFA reporting processes, governments report on average outcomes. Reporting on disparities and the rate of progress in the achievements of disadvantage groups would play the dual role of informing policy design and drawing attention to the inequalities in opportunity that are holding back progress. As indicated in the previous section, global targets could be agreed for reducing disparities based on socio-economic status, location, race and ethnicity, as well as gender.

- **Focus on early childhood and pre-school.** The MDGs should enshrine clear targets for enhancing the opportunities and cognitive development of children aged 0–8 years. The ambition: to work towards a situation where no child enters school carrying the burden of avoidable health and nutrition problems, and where all children have an opportunity to develop their cognitive and wider learning skills in preschool. One possible target for 2015 is a threshold of at least 50% enrolment in preschool, with countries above this threshold aiming to halve the share of children not enrolled.
- **The transition to secondary school.** The sequencing of targets is important. Progress in secondary education is contingent on the rate of enrolment, retention and completion at a primary level, and on the recruitment and training of teachers. An MDG in this area could take the form of a commitment to increase lower secondary enrolment to at least 50% by 2015, with a target of universal secondary education by 2020. Once again, for countries above the threshold the target could be calibrated in terms of halving secondary enrolment deficits by 2015.
- **Introducing a quality indicator.** Unesco's EFA Global Monitoring Report has set out in some detail the type of policies that can raise education quality. Experience from several countries also demonstrates that it is possible simultaneously to raise quality and expand access. However, there are serious difficulties in assessing international progress in this area. One reason for this is that many international comparison exercises have been developed for rich countries. If education quality is an important aspect of progress, then we need an internationally normed tool against which we can benchmark progress. Creating a valid measure that can be used to track progress over time should be seen as a priority, supplementing and building on the wide-ranging national and regional programmes now in operation. More immediately, the MDGs could incorporate a proxy indicator for quality, such as instructional time of 850-1,000 hours a year.
- **Targeting an adult literacy goal.** The MDGs could incorporate the EFA goal of achieving a 50% improvement in adult literacy by 2015, with a focus on accelerated progress to gender equity, and equitable access to basic and continuing education for all adults.

The crucial role of aid donors

We already know from the experience of the MDGs that setting bold goals is not a substitute for practical action. Developing countries have primary responsibility for translating promises of education for all into tangible outcomes. Yet developed countries are also part of the compact. The Framework for Action on Education for All adopted in 2000 includes one striking pledge by rich countries. It is that no poor country committed to education for all will be allowed to fail in its efforts for want of finance. Put bluntly, the rich world has reneged on the deal.

No amount of aid can substitute for good policies in developing countries. However, aid can make a difference. In Tanzania, development assistance played an important role in financing the withdrawal of user fees and supporting wider programmes that have reduced the number of out-of-school children by 3 million since 2000. Other countries in sub-Saharan Africa that have moved strongly towards universal primary education in recent years – Mozambique, Ethiopia, Zambia and Senegal among them – have also been supported by aid. In Bangladesh, the only country in south Asia to have achieved gender parity in education at a primary and secondary level, aid has financed large-scale scholarship programmes creating incentives for parents to keep girls in school. These examples of successful aid call into question the failure of donors in several key areas.

Consider first the commitment to ensure that "no country will be allowed to fail for want of finance". On a highly conservative estimate, the aid financing gap for achieving universal primary education is around $7bn – and aid levels to basic education have been stagnating since 2000. Chronic under-financing now threatens the future of an important multilateral aid mechanism – the so-called Fast Track Initiative – aimed at accelerating progress towards education for all. Equity is another problem. Donors often criticise developing countries for investing too much on higher levels of education and not enough on basic education. Yet France and Germany – two of the biggest aid donors to education – spend more of their aid budgets on bringing developing country students to their universities than they do on basic education.

Conclusion

The MDGs have played an important role in international development debates. They have served as a focal point for (some) governments, civil society and other groups. While their role at a national level can be overstated, the MDGs have also brought poverty reduction to the centre of the dialogue between aid recipients and donors. However, at the mid-way point to 2015, the MDGs are urgently in need of renewal. Restoring momentum to global poverty reduction efforts in the face of multiple crises – energy costs, food price inflation, the credit crunch and fears of global recession to mention a few – will require a high order of political leadership. At the same time, it is important that the MDGs acquire a sharper edge. Too often, the goals are recited by governments, financial institutions, aid donors, and the business community as though they are attainable without a fundamental attack on the deep-rooted inequalities in power and opportunity that sustain mass poverty. It is time to recognise that inequality is part of the MDG problem – and if inequality is part of the problem, redistribution is part of the answer.

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