REFLECTIONS ON GLOBAL TRENDS AND SUSTAINABLE DEVELOPMENT

by
Piya Mahtaney

FORUM
of Free Enterprise

"Free Enterprise was born with man and shall survive as long as man survives".

-A.D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

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Chaotic, contradictory, perplexing and disappointing: these are words that come to mind as we survey current global trends. The problem that we have on hand has not waned, it has multiplied and this despite the mastery that the club of global privileged seems to have acquired in generating wealth. If the points of emphasis in current strategies are out of alignment with developmental goals the reasons for this could range from myopic shortsightedness to the profound influence exerted by vested interests on shaping an agenda where the perils of plenty and the tragic downside of deprivation unabatedly coexist. The most important question of contemporary economics (which the pursuit of present policies certainly does not answer) is whether the avowed objective of sustainable development will be achieved within a limited timeframe of, say, a decade or two.

I intend to elucidate that time notwithstanding this objective has to be attained because without it we might all be headed for an economic catastrophe of alarming proportions. In the present milieu of

*Ms. Piya Mahtaney is Economist and author of *"Globalisation : Con-game or Reality"* (published by Alchemy - An imprint of Mehra in 2004). The text is extracted from the book for a wider readership with author's kind permission unrealised visions and unanticipated instability one of the most promising features is that the microfoundations on which economics has stood for over half a century is gradually changing.

Empirical evidence for the correlation between economic growth and poverty reduction is mixed, and even where it exists the causation does not run merely from growth to poverty reduction but also from the latter to the former. Not only was this vital point overlooked until very recently but also the possibility that there might be an inverse relationship between income inequalities and growth rates. On the contrary, policymakers were beguiled with the notion that higher inequalities of income is conducive to an increase in growth rates for a considerable period of time. This slanted approach prevailed on the assumption that if the higher-income groups account for a sizeable share of GDP it would mean higher savings and thereby investment. Unfortunately, this was a rather simplistic belief which glossed over the likelihood that re-distributive tools such as taxation can have disincentive effects that will curb investment. Moreover, the prospects of sustaining a process of economic progress that thrives on an increased incidence of polarisation is dramatically unrealistic.

Regardless of how robust the correlation between inequalities of income and growth simple logic tells that if a greater number of people have access to productive investment opportunities which includes at the very minimum the opportunity to acquire basic education or training and a means of sustenance then it would certainly expand a country's economic potential. In any case weighing the importance of poverty reduction merely in numerical terms is hardly humane.

The non-economic dimensions of having significant disparities in income is even more serious because it means that the choice of policies and projects will be guided almost exclusively by the vested interests of the minority elite. The existence of high inequalities of income initially will perpetuate this feature which in turn will reinforce the *status quo* that prevailed earlier.

Thus irrespective of how sizeable high growth rates its gains will be eroded by extremely skewed income distributions, thus it is not enough to have distribution neutral growth but to increase growth rates through mechanisms that will improve the distribution of income. (It should be noted that an increase in distribution neutral growth would result in higher gains for the affluent sections than for the poor).

Undoubtedly one of the main instruments for ensuring greater equity is institutional reform and there is no questioning that this is among the most obvious facts of current economics. The realisation is heartening, but the practical response not so encouraging because the interpretation of this has narrowed down to the widespread advocacy of deregulation and privatisation as the predominant mediums of institutional change. So here we are saddled with the recurrent confusion between reform and change and just as in the case of liberalisation which as we have seen does not necessarily lead to reform so also privatising or deregulating will usher in changes but whether these will finally be conducive to equity or not depends on whether these measures are constituents of a larger package or are the main rudiments of a country's institutional reform agenda. In other words, even for a moment if we accept and do so rather simplistically that privatisation will enhance efficiency and competitiveness and in doing so increase growth rates this does not mean that it will contribute towards surmounting poverty reduction, or reducing the inequalities of income.

Veering from the excesses of state control to the other extreme where the centrality of private ownership is presumed to be the corrective for all the ails of unduly interventionist regimes was proved incorrect when the consequences of this misplaced presumption unfurled before us with the transition of formerly socialist countries to market-led economies. The unifying feature of most of the former centrally planned economies was that progress in practically every country was deterred because of weak institutional arrangements coupled with the lack of concerted efforts at institution building. An exception to this was Poland, Hungary that had initiated measures towards the transition a few years before it happened in the beginning of the 1990s. Interestingly the reorientation of the countries of the Eastern bloc and former Soviet Union towards what may be broadly termed as capitalism does not strengthen the basis for singularly relying on the market as the panacea for all problems.

On the contrary, it defied the expectation that the reinstatement of market forces would set the ball rolling towards a sustained increase in growth rates. Nothing of the sort happened and this momentous event was followed by a trail of disappointing performance (to put it mildly) such that for the period of 1990-99 the index of GDP for the 25 countries and the former Soviet Union (FSU) undergoing the transition was 65 per cent and 54 per cent of pre-transition output respectively. The contraction of output that followed the implementation of stabilisation cum adjustment and privatisation policies were the outcome of a host of distortions such as non-performing foreign debt, rampant inefficiencies in the industrial sector that prevailed prior to the inception of these policies. The depth of the recession varied in each country according to the distortive elements.

The most pervasive institutional problems that have obstructed the attainment of sustainable growth in the region are as follows :

- the existence of weak states which have become ineffective in the enforcement of laws, tax collection and are unable to make independent decision amidst pressure from interest groups and lobbies

- a lack of well-defined central-local government relations
- an underdeveloped civil society and the lack of legal transparency

Eastern Europe countries have made considerable progress in institutional changes connected to trade and the foreign-exchange regime and privatisation. However, the substantive reforms have yet to be made. In comparison, the FSU countries stand out as a case where the incapability of the government in veritably every area of administration ranging from tax collection to financial sector reform coupled with the conspicuous lack of accountability mechanisms and a generally effete system of governance culminated in institutional failure which has been an obstructive force in the economic transition of FSU.

Thus if the transition from socialism to capitalism is not accompanied by compatible systems of governance the initial strides made towards liberalisation will be impeded and a country will find itself in a rather vacuous state where either anarchy or stagnancy will prevail until the required institutional adjustments are made. In extolling the supremacy of capitalism over socialism because of the higher levels of productivity and technical advancement that the former enables, one fact that cannot be overlooked is that a capitalist orientation would not have appeared as attractive as it did if institutional structures and policies in the latter were more effective. (It is questionable then whether the disintegration of socialism would have taken the course that it did).

The turning point for most socialist countries which came in 1989-90 was the precipitation of increasing differentials in the GDP growth rates of these countries and their capitalist counterparts. For instance, as shown in Table 9.1, if a comparison is made between Austria and the formerly Eastern bloc countries of Hungary, Czechoslovakia and Poland that began at broadly similar levels of development in 1950 the output lags between Austria and the set of countries mentioned continued to increase. (It must be noted that the disparities between other countries undergoing the transition and Austria are even more glaring than those cited in the table).

Table 9.1 : Increase in the lag behind Austria (percentages : Austria = 100)

Country	1937	1960	1970	1980
Czechoslovakia	90	91	78	70
Hungary	63	56	51	52
Poland	53	54	47	45

Source : The Journal of Economic Perspectives, Winter 2000

Extending our horizons beyond the pronouncedly systemic transformation that is required if socialist underpinnings are to be replaced by a market economy, it must be noted that the ascent from underdevelopment to development requires a transition the catchall phrase for which is structural adjustment.

Increasing levels of unemployment, poverty and cut-backs in social expenditure have invariably been some of the consequences of structural adjustment programmes. In this context it is important to state that an economic adjustment *per se* may be either supportive of development or not. Adjustments can be artfully manipulated by the vested interest groups in any country so that these reap the maximum benefits or minimise the losses conferred by the process of adjustments.

If we were to distill all the differences between the developed and underdeveloped worlds to a single point it basically is the power of the lower-income and marginalised sections to acquire a slice of the prosperity pie or conversely the scope of the affluent privileged sections to supplant the weaker sections from any endeavour of doing so. Visions of a completely equitable society make for utopian idealism, in reality it would appear that development is a matter of having tolerable levels of inequity and eradicating dehumanising deprivation.

Thus whether or not increasing growth rates of GDP will lead to development impinges crucially on whether economic progress leads to a process of equalisation in the access that the poor stratas have to basic amenities and productive opportunities required for sustenance.

However, cold-blooded realism tells us that the current combination of rising poverty and brittle foundations of governance renders it almost impossible for any country to nurture any aspiration of having a completely optimal and perfectly functioning society. A sound beginning would be to minimise the magnitude of sub-optimally or reduce the loss of welfare that undirected globalisation will inevitably bring in its wake. One of the most vital steps towards this end involves the serious reappraisal of what has undoubtedly been among the most potent perpetrators of dehumanised economic gain has been the cost-benefit analysis (CBA). In essence, CBA is the neoclassical tool for the evaluation of complex decisions such as project appraisal and it involves the magnetisation of both monetary and non-monetary impacts of alternative decisions or projects.

Thus the quantification of an entire gamut of multidimensional facets conveniently reduces the social, cultural and anthropological impacts that the implementation of a particular project of policy might have on individuals to a single monetary equivalent. So here we are with one of the cornerstones of neoclassical economies that continues to be used as a basis to decide upon some of the most vital projects such as the building of dams, highways, roads, construction and other such infrastructural projects are among some of the spheres in which CBA finds frequent application. The inherent methodology of this tool (atleast so far) leaves ample scope to exclude the interests of the majority of those who will be affected by the commissioning of a particular project.

For instance, the building of the Sardar Sarovar Dam in the Indian state of Gujarat has highlighted the oversights of the CBA approach which trivialised the displacement of thousands of people and the submergence of huge tracts of land, flora and fauna that building of the dam would cause. This dam has been at the centre of a resistance movement (headed by a prominent social worker, Medha Patkar) and the intense controversy that the issue elicited brought to the fore the lopsided guidelines that have been used in the construction of a number of hydro-electric dams, urban transportation and highways so much so that according to estimates about ten million people are displaced every year as a result of infrastructure projects. In all this what stands out is the asymmetry between the bargaining positions between those who pay the costs and those who reap the benefits. In the instance of the Sardar Sarovar Dam most of those affected would be extremely poor villagers and tribals. (The Supreme Court of India ruled in favour of the dam). However, Medha Patkar's struggle continues. Whether or not those affected will receive the compensations promised remains to be seen but the very principle of monetising the trauma that individuals suffer as a consequence of being displaced from their natural habitat is nothing short of blasphemy.

Furthermore, given that under different methods CBA for the same project can yield very different results it is probable that at the outset of decision-making itself those studies that reveal unsavoury details about the project concerned will be swept under the carpet. There have been umpteen instances of setting aside reports that indicate low cost-benefit ratios.

The solution does not lie in discarding CBA as an appraisal technique but in making it more comprehensive and inclusive and even more importantly using it as one guideline and not the only basis for decision.

GLOBAL POVERTY TRENDS : IN A NUTSHELL

Share of people living on less than $1 (PPP US) a day (%)

Region	1981	1984	1987	1990	1993	1996	1999	2001
East Asia & Pacific	56.7	38.8	28.0	29.5	24.9	15.9	15.3	14.3
Europe & Central Asia	0.8	0.6	0.4	0.5	3.7	4.4	6.3	3.5
Latin America & Caribbean	10.1	12.2	11.3	11.6	11.8	9.4	10.5	9.9
Middle East & North Africa	5.1	3.8	3.2	2.3	1.6	2.0	2.7	2.4
South Asia	51.5	46.8	45.0	41.3	40.1	36.7	32.8	31.9
Sub Saharan Africa	41.6	46.3	46.9	44.5	44.1	46.1	45.7	46.4
World	40.4	33.0	28.5	27.9	26.3	22.3	21.5	20.7

Source : Human Development Report, 2005

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

-Eugene Black

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