



Millennium Review Meeting Bulletin

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A summary report of the Development Forum on “Integrating economic and social policies to achieve the United Nations development agenda”

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SUMMARY OF THE DESA DEVELOPMENT FORUM: INTEGRATING ECONOMIC AND SOCIAL POLICIES TO ACHIEVE THE UN DEVELOPMENT AGENDA: 14-15 MARCH 2005

The United Nations Department of Economic and Social Affairs (DESA) Development Forum on “Integrating economic and social policies to achieve the UN Development Agenda” took place on Monday and Tuesday, 14-15 March 2005, at UN headquarters in New York. The Forum, which was attended by over 200 high-level policymakers, governments, representatives of UN agencies and organizations, international financial institutions, intergovernmental organizations, academia and non-governmental organizations, addressed major issues facing the world economy, as well the economic policy debates that have an important bearing on development prospects and the realization of the Millennium Development Goals (MDGs). During the two-day event, seven panel discussions were held on: structural reforms and equity; economic and social effects of financial liberalization; trade liberalization and employment; monetary and exchange rate policies and employment; complementary development and social policies; the relationship between human and economic development; and targeted versus universal social policies.

REPORT OF THE DESA DEVELOPMENT FORUM

The opening session of the Forum was chaired by ECOSOC Vice-President Amb. Ali Hachani (Tunisia). In his opening remarks, Chair Hachani said the Forum is the first of a series of meetings to prepare for the ECOSOC High-level Segment and also forms part of ECOSOC’s contribution to the General Assembly’s High-level Plenary Meeting on the review of the implementation of the Millennium Declaration in September 2005. Speaking on behalf of ECOSOC President Munir Akram, he said that inequalities in and among countries remain a key characteristic of the current era of globalization, and called for the transformation of economic growth to support social policies and improved living conditions.

José Antonio Ocampo, UN Under-Secretary-General for Economic and Social Affairs, underscored the central role of social, gender and environmental dimensions in the UN Development Agenda. He highlighted the: ability of economic systems to offer opportunities for adequate income generation;

management of risks generated by economic systems; ability of social systems to facilitate the accumulation of capabilities; and capacity for economic systems to provide adequate resources. He stressed that employment generation and income distribution should be at the center of economic policy, and noted that safety nets for macroeconomic crises should evolve into a component of a well-designed and universal social protection system. Noting the importance of guaranteeing access to social services for the poor, he urged a major effort to “break out of the poverty trap” in low income countries as a key component of international cooperation.

PANEL DISCUSSIONS

STRUCTURAL REFORM AND EQUITY: This panel was chaired by ECOSOC Vice-President Amb. Francis Butagira (Uganda). In his opening remarks, Butagira drew attention to the need for pro-poor policies, market access for the poor, and improving and shaping existing policies to support the needs of developing countries.

Noting that over the last twenty years domestic income inequality has increased in many countries, Giovanni Andrea Cornia, University of Florence, said that while there has been a growing awareness of the need to integrate social and economic policies, inequality reduction is not yet featured as a target of economic policies. He stressed that the international liberalization of portfolio flows and current tax reforms tend to generate negative effects. He said that regulated migration, global macroeconomic coordination and international safety nets need to be more vigorously pursued and urged creating greater policy flexibility and space to correct existing problems.

Francisco Ferreira, World Bank Development Research Group, presented the preliminary findings of a World Bank study on the relationship between equity and development, focusing on equal opportunities and prevention of extreme deprivation as pillars for long-term prosperity. He presented evidence that, *inter alia*: different kinds of inequalities may be mutually reinforcing; unequal opportunities can lead to

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Ali Hachani, ECOSOC Vice-President and Tunisia's Ambassador to the UN

inefficient use of capital and human resources; countries with higher inequality require more resources to reduce poverty; and higher inequality leads to weaker political and economic institutions. He concluded that the promotion of equality is a good development policy.

Sanjay Reddy, Columbia University, commented on the importance of

going beyond the MDGs, not only to prevent severe deprivation, but to foster equality. He highlighted the importance of allowing countries to choose their own domestic policies and noted that the report of the UN Millennium Project is unlikely to offer room for such policy choices.

Discussion: Participants commented on: the difference between countries that combine economic and inequality growth (India and China) and those that have economic stagnation with inequality growth (Latin America); the relationship between Washington Consensus policies and inequality over the last 25 years; the relationship between growth in opportunities and inequality in economies in transition; and whether social policies alone could achieve the MDGs within the current international economic framework.

ECONOMIC AND SOCIAL EFFECTS OF FINANCIAL LIBERALIZATION: This panel was chaired by ECOSOC Vice-President Amb. Crispin Grey-Johnson (the Gambia). In his opening remarks, Grey-Johnson stressed the importance of discussing measures to ensure that financial liberalization supports the pro-poor policies of governments and the development process in general. Noting that liberalization is a continuous process, he said it was important to help countries to effectively manage such processes.

Graciela Kaminsky, George Washington University, underscored that financial liberalization may reinforce institutional reforms, noting that as firms access mature capital markets, corporate governance also improves. She noted that the pressure applied by globalization has improved legal systems, enabling countries to participate in global markets. She said that as financial globalization increases, the ability of governments to use capital controls to cope with large flows of capital clearly diminishes, but that the free entry of foreign financial institutions tends to strengthen financial systems in emerging markets.

Jayati Ghosh, Jawaharlal Nehru University, highlighted two types of financial liberalization: internal liberalization, which

includes removing restrictions on interest rates, reducing the direct credit of banking systems, and allowing a range of financial innovations; and external liberalization, which includes measures that allow foreign residents to hold domestic financial assets and domestic residents to hold foreign assets and trade foreign currency at the domestic level. She underscored the need for a more cautious and regulated approach to external financial liberalization while retaining the possibility for flexible controls, and for the revival of development banking, in particular through directed credit.

Ian Kinniburgh, DESA, underscored the domestic and international dimensions of financial liberalization, and urged assessing lessons learned. He urged the Forum to address both the economic and social consequences of financial liberalization, particularly on employment, poverty, wages, women and vulnerable social groups.

Discussion: Participants questioned empirical evidence on the linkages between financial liberalization and long-term growth, and highlighted the need for counter cyclical regulation in developing countries. They also commented on the link between liberalization and poverty reduction and its impact on different economic sectors. Some participants noted that even short-term instability can lead to long-term costs, for example, to compensate effects of malnutrition or HIV/AIDS. Pointing out that countries with partial openness like Chile have been less impacted by economic crises, several participants questioned the sources of vulnerability in developing countries, stressing that liberalization restricts policy options by governments who fear the outflow of capital. Many participants agreed that “financial deepening” is beneficial for long-term growth, but stated that degrees of optimal liberalization may vary among countries. Participants also discussed whether or not financial liberalization leads to stronger financial institutions.

TRADE LIBERALIZATION AND EMPLOYMENT: This panel was chaired by ECOSOC Vice-President Amb. Christopher Fitzherbert Hackett (Barbados). Fitzherbert Hackett requested panelists to respond to a number of questions focused on achieving the MDGs and designing measures for their improvement.

Eddy Lee, International Labor Organization (ILO), contested the standard proposition that trade liberalization is always a good policy option, noting that in some cases it resulted in a contraction in output and rising



Crispin Grey-Johnson, Gambia's Ambassador to the UN, and ECOSOC Vice-President



unemployment. Noting the mixed effects that trade liberalization has had on employment in different countries, he highlighted the difficulty in measuring trade openness and separating its effects from those of other policy reforms. He stressed that the impact of trade liberalization varies among sectors, and highlighted the lack of sufficient research on its impacts on rural and self-employed sectors. He also cautioned that there is no basis for a blanket prescription of trade liberalization.

Alan Winters, World Bank, highlighted the difficulty in differentiating trade reform effects from technological improvement effects. Noting the universal increase in relative rewards for skilled labor and that most studies suggest it is unlikely that employment levels will show dramatic changes even as a result of major policy reforms, he concluded that there is no evidence that trade liberalization either increases or reduces employment in the long term. He suggested that technological change might have more effects on employment than trade policy reform.

Manuel Montes, UNDP, underscored the labor and employment implications of trade liberalization and questioned liberalization models that take employment increases as a given benefit from trade reforms. He stressed that in most cases trade liberalization has had limited benefits for creating employment opportunities. He noted a “silence” in the literature on the interaction between sectors in the economy and among firms under conditions of trade liberalization.

Discussion: Participants stressed the need to address: the environment in which reforms are implemented; the virtues of liberalization in developed countries; reforms in small economies; the scope for corrective action; policy actions that are not locked in; liberalization in the technology and labor sectors; improving the aggregate productivity of labor; strong labor and social policies; the differences between bilateral and multilateral approaches to trade liberalization; the ILO Decent Work Agenda; different patterns of trade liberalization; social dialogue between workers, governments and corporations; compensating losers from trade liberalization; and migration and the brain drain.

MONETARY AND EXCHANGE RATE POLICIES AND EMPLOYMENT: This panel was chaired by ECOSOC Vice-President Amb. Agim Nesho (Albania). In his opening remarks,



Francis Butagira, Uganda's Ambassador to the UN, and ECOSOC Vice-President

Nesho stressed the role of monetary and exchange rate policies on the achievement of the MDGs and other development goals.

Lance Taylor, New School University, and Roberto Frenkel, University of Buenos Aires, presented a study on the benefits of a weak exchange rate to support economic development. They analyzed the use of the exchange rate as a development tool to achieve better resource allocation. They highlighted that even though a weak exchange rate does not guarantee long-term development, an appreciated exchange rate has never led to long-term growth. They also noted the regulatory role of central banks and their ability to slow down or avoid economic crashes, control inflation, offset shifts in aggregate demand, control capital flows and compensate unstable monetary demands. They concluded that discretion can, and should be used to combine monetary policy with social and industrial policies in order to achieve long-term development.

Alessandro Prati, International Monetary Fund, explained that aid influences exchange rates and that monetary and exchange rate policies may be used to respond to foreign aid inflows, including their negative effects on the exchange rate. He proposed using monetary policies to: smooth the effects of aid on consumption and investment; prevent or offset aid volatility; and prevent the “Dutch disease” whereby the real exchange rate is appreciated as a result of aid inflows causing the loss of competitiveness, growth and productivity of the tradable sector. He made the case for the accumulation of aid reserves to offset “Dutch disease” and analyzed the possibility of setting country specific aid funds, noting the merits of studying this issue further.

Stephanie Griffith-Jones, DESA, commented on the presentations comparing the approaches of Asia and Latin America to exchange rate appreciation, and said that although capital flow regulation can have negative effects it makes the system more sustainable in the long term. She highlighted that relative calm and a stable real exchange rate is very desirable, but some flexibility should be retained to face financial distress.

Discussion: Participants addressed: different approaches to exchange rate appreciation; accelerating market inputs to



Agim Nesho, Albania's Ambassador to the UN, and ECOSOC Vice-President

influence exchange rates; realistic policy options for developing countries; policy options to offset fluctuations in exchange rates of trading partners; targeting exchange rates and not weakening them; the real effects of monetary and exchange rate policies; limitations in the increase of absorptive capacity



due to macroeconomic conditions; responsibilities and roles of the donor community; establishment of reserve funds to deal with external shocks; dealing with temporary “Dutch disease”; backloading aid; and addressing aid differently from other flows.

COMPLEMENTARY DEVELOPMENT AND SOCIAL POLICIES: This panel was chaired by ECOSOC Vice-President Amb. Iftekar Ahmed Chowdhury (Bangladesh). In his opening remarks, Chowdhury stressed the importance of ensuring coherence between social and development policies, and creating an enabling environment for the achievement of UN Development Agenda and the MDGs.

Erik Reinert, University of Oslo and Tallinn University of Technology, said aid should be balanced between development and social goals in order to prevent “welfare colonialism,” where overdoses of aid lead to underdoses of development. He stated that all industrialization strategies (those leading to moderate protection of infant industry and those leading to protectionism) have led to higher standards of living. He noted that historically, countries with inefficient industries have achieved more welfare than those with no industry at all, and cautioned against using aid to compensate for the damage done to industry in developing countries as a result of liberalization and globalization. He emphasized that unlike the successful Marshall Plan implemented after World War II to reindustrialize Europe, the MDGs have too much of a “palliative focus.” Rather, he proposed working on countries productive structures to guarantee that globalization not only maximizes international trade but also maximizes world welfare.

Judith Tendler, Massachusetts Institute of Technology, said the disconnect between social and economic development policy is undermining the UN Development Agenda and the MDGs. She suggested: looking at lessons learned on major advances in social goals achieved by collective actors, such as professional associations; ensuring that the informal sector and micro-enterprises are included in economic development plans; and strengthening investments in basic education.

Bruce Jenks, UNDP, questioned the view that the MDGs represent bad social policy and the abandonment of development

altogether. He said the MDGs came out of a decade of lost opportunities and failures, and noted that they are a set of goals to place development cooperation within an accountable framework. He said the recent initiative of the UK to revisit the conditionality of its aid policies, could not have taken place outside of the kind of framework

created by the MDGs. Noting that the debate between growth and poverty has become “somewhat sterile,” he said the key challenge is not the pursuit of truth, but the capacity to experiment and the possibility of making choices.

Discussion: Participants focused on the link between export growth and increases in migration, and the different interpretations of

small and medium enterprises and informal economies. On the MDGs, several participants identified the importance of framing the MDG agenda, addressing the interrelatedness of the MDGs, and ensuring a focus on the productive and infrastructure sectors. One participant underscored that the MDGs are a concrete expression of the UN Development Agenda, and noted that the MDGs did not arise from development failures, but from the successful outcomes of the UN Conferences and Summits of the 1990s. Participants also identified the need to address both the symptoms and sources of poverty, and to find the equilibrium between social and economic agendas.

THE RELATIONSHIP BETWEEN HUMAN AND ECONOMIC DEVELOPMENT: This panel was chaired by ECOSOC Vice-President Amb. Johan Verbeke (Belgium). In his opening remarks, Verbeke underscored that economic and development policies should be people-centered.

Frances Stewart, University of Oxford, presented a joint paper with Gustav Ranis, Yale University, on the links between human development and economic growth. Supporting the view that economic growth generally increases human development through better education, nutrition and health, she said the degree of mutual reinforcement varies among countries. Noting that in most cases economic growth and human development run parallel, generating virtuous or vicious cycles, she explained that most countries are within the vicious cycle model (below average human development and economic growth) and few in the other realms (lopsided realities where economic growth and human development are not coherent or virtuous circles). In the case of countries with lopsided realities, she said the study showed that over time they tended to fall into either a vicious or virtuous circle showing the strong links between human development and economic growth. Moreover, she noted that the study showed that no country ever moved from a lopsided situation of economic growth without human development into a virtuous circle of growth in both. In all of these cases countries eventually fell into



Johan Verbeke, Belgium's Ambassador to the UN, and ECOSOC Vice-President



Iftekar Ahmed Chowdhury, Bangladesh's Ambassador to the UN, and ECOSOC Vice-President



vicious circles, thus contradicting one of the main ideas of the Washington Consensus, which encouraged economic growth as a prerequisite for investment in human development. She said the study also shows that contrary to the precepts of structural adjustment policies, a virtuous cycle between human



José Antonio Ocampo, UN Under-Secretary-General for Economic and Social Affairs

development and economic growth can only be achieved through a consistent strategy promoting both objectives simultaneously, and supporting key issues such as social expenditure, female school enrollment, equality in income distribution and investment.

Albert Berry, University of Toronto, analyzed the relationship between economic growth and human welfare, highlighting different types of failures to achieve a positive interaction between the two. He emphasized the failure for economic growth in the last century to provide proportional poverty reduction and the failure of per capita income growth to provide higher satisfaction or “happiness rates” within societies. He suggested that relative income and employment stability might have more to do with welfare than GDP growth. He also highlighted the worsening distribution of income in Latin American countries and mentioned agriculture as one key area where output growth has not led to welfare improvement and where trade liberalization has been, in some cases, counter productive for poverty reduction. On the MDGs, he cautioned that their focus is palliative and seems to be an effort to counteract powerful economic forces, and suggested that it may be more efficient to look for alternative structures for development.

Oscar Ugarteche, Pontifical Catholic University of Peru, expressed caution in adopting a rigid conceptual view of fiscal revenue, which sees foreign savings as a complement to domestic savings. He stressed the need to address the fiscal relationship between export growth and the lack of economic growth. He said that in many cases land reform has been insufficient, particularly when it has not led to increases in agricultural productivity. He also expressed concern with migration and brain drain, which he referred to as the “exportation of knowledge.”

Discussion: Several participants noted that while female school enrollment is important for poverty eradication, many countries with high enrollment rates also have high levels of inequality and poverty. Other participants addressed the need to:

raise awareness on the link between economic and social policies; make a distinction between human investment and economic investment; increase productivity and production; identify the elements of alternative development strategies; and address the relationship between advertising and capitalism.

TARGETED VERSUS UNIVERSAL SOCIAL POLICIES:

This panel was chaired by José Antonio Ocampo. Kwame Sundaram Jomo, Assistant Secretary-General for Economic Development, DESA, presented a paper on behalf of the Thandika Mkandawire, UN Research Institute for Social Development, on targeted versus universal social policies in developing countries. He said that economic development policy is the best social development policy and argued for a universal approach rather than targeting and providing safety nets for the poor. He said the paper argues that aid is currently understood not so much in terms of helping developing countries, but in terms of helping the poor. He said the paper notes that the most advanced argument for targeting is in the context of serious fiscal constraints, where it is necessary to allocate scarce resources to the most needy, however, it stresses that where poverty is widespread, targeting is unnecessary and costly, and thus a universal approach to service delivery is required. He said that societies with universal social policies have less inequality than those that prefer targeting, and stressed that targeting the poor is less likely to reduce poverty and inequality.

Applying the Pro-Poor Policy Index, Nanak Kakwani, UNDP Poverty Center, provided an international comparison of the pro-poor policies of government programmes in Thailand, Russia, Vietnam and 17 African countries. He proposed that pro-poor policies be defined as government policies that provide greater benefits to the poor compared to the non-poor, and identified several different types of pro-poor programmes, including: cash programmes that provide safety nets; conditional cash transfers; in-kind transfers, such as food subsidies, food vouchers and public works programmes; and government services, such as schools, hospitals, sanitation and clean water.

Sergei Zelenev, DESA, commented on the presentations highlighting the need to analyze society’s values and the social aspects of macroeconomic policy. He mentioned the relevance of the results of the Copenhagen World Summit on Social Development as a guide for policy making. On universal versus targeted policies he said the context and values must be analyzed to see what is more beneficial for a society.

Discussion: Participants raised questions on: the definition of universalism; the costs of targeting; the fiscal limits to social policies; incentive systems; the priorities of social policy versus fiscal policy; and the usefulness of universal policies to promote access to public goods, and reduce discrimination.

CLOSURE OF THE FORUM

José Antonio Ocampo said the Forum was part of the informal preparatory activities leading into the upcoming ECOSOC session and thanked participants for their productive inputs and informative discussions. He closed the meeting at 4:45 pm on Tuesday, 15 March 2005.