

## Informal Summary

### 2011 Economic and Social Council High-Level Segment

#### Special panel discussion on *“Promoting sustained, inclusive and equitable growth for accelerating poverty eradication and achievement of the Millennium Development Goals”*

Wednesday, 6 July 2011

11:00 a.m. – 1:00 p.m.

**Chair:** H.E. Ambassador Lazarous Kapambwe, President of ECOSOC, Permanent Representative of Zambia to the United Nations

#### **Panellists:**

**Mr. Zhu Min**, Special Advisor to the Managing Director, IMF

**Ms. Noeleen Heyzer**, Executive Secretary, UNESCAP

**Ambassador Cho Tae-yul**, Ambassador for Development Cooperation, Republic of Korea

**Ms. Frances Stewart**, Director of the Centre for Research on Inequality, Human Security and Ethnicity, Department for International Development, University of Oxford

**Ms. Esther Duflo**, Abdul Latif Jameel Professor of Poverty Alleviation and Development, Massachusetts Institute of Technology

**Mr. Juan Somavia**, Director-General, ILO (Moderator)

**H.E. Mr. Lazarous Kapambwe**, President of ECOSOC, opened the special panel discussion by observing the important link between economic growth and poverty reduction. He noted that the role of policy makers is to promote an enabling environment conducive to growth and to ensure that the benefits of growth are widely shared. He emphasized the importance of education and human capital accumulation to economic growth and development. By expanding opportunity for children from different socio-economic backgrounds, education can play a vital role in making growth sustained, inclusive and equitable.

**Mr. Juan Somavía**, Director-General of the International Labour Organization and moderator of the panel, observed that economic growth must be balanced and politically sustainable, while expressing doubts that the current global growth patterns could continue to be legitimate in the eyes of the public. As evidence, he pointed to rising income inequality, worsening environmental conditions, poor job creation and weakening social stability in various countries. Mr. Somavia encouraged panellists to address how to respond to these global structural deficiencies and posed a number of lead questions to the panellists.

**Mr. Zhu Min**, Special Advisor, International Monetary Fund, offered several statistics on global economic development over the past 20 years. Mr. Min noted a rise in the Gini coefficient (a measure of income inequality), as well as higher levels of unemployment,

particularly among youth. And yet in other areas, he noted that global macroeconomic indicators, such as inflation, deficits and strong growth rates, looked far healthier than before. To assist countries to improve upon the negative employment trends resulting from increased globalization, and make growth more equitable and inclusive, the international community must now focus on “smart policies”, he argued, engaging in building human capital and human capacity through education, health and job training. For many low income countries, it would be more feasible to emphasize raising revenue instead of promoting higher growth, as well as to channel financial flows into the productive sectors. With the trade sector of economies having become large, more attention now needs to be given to the non-tradable sector, especially with regard to employment and labour skills. He also stated two challenges of the financial sector, namely, making it more stable and making sure it works for the real economy. In particular, he noted that the IMF has proposed a tax on financial transactions, but that this proposal has not been popular.

**Ms. Noeleen Heyzer**, Executive Secretary, Economic and Social Commission for Asia and the Pacific, stated that during the past years, Asia has been the growth pole of the world economy. Referring to the Asian financial crisis of 1997 and the recent financial and economic crisis of 2007, she stated that Asia was able to widen its policy space so as to trade itself out of the 1997 crisis, and then was largely able to finance itself out of the recent financial crisis. Still, negative effects will linger and Asia will need to retain its dynamism and generate alternative sources of demand in coming years. Ms. Heyzer pointed to high economic growth and rising income inequality throughout the region, calling on policymakers to focus on job-led growth and creating both decent jobs and adequate social protection. Surging food prices pose a high risk to Asia’s poor, she added due in part to years of general neglect for agriculture and rural development. She highlighted that connectivity is crucial, especially in terms of linking LDCs and small landlocked countries with more prosperous areas and regions. She concluded that Asian governments will need to close the infrastructure gap, set up adequate regional structures for development financing, and attempt a more open form of regionalism by directing stimulus to ICT, rail, port and other communications links.

**Ambassador Cho Tae-yul**, Ambassador for Development Cooperation, Republic of Korea, stated that Asia’s 1997 financial crisis had helped make the region more resilient to the recent economic shocks. He also informed of the Korean experience, beginning with the period from the 1960s to the 1980s, when he stated that, given their circumstances at the time, including a small domestic economy and limited resource endowment, the only option was to promote export-led growth and to grow first and address distribution issues later. Nevertheless, Korea is still dealing with the effects of structural problems. Given the current circumstances, Ambassador Cho advocated a two pronged approach of trade liberalization and integration into the global economy, and actively pursuing a social safety net system as a response to the question of how to create a virtuous circle between high growth and quality growth that is inclusive and equitable.

**Ms. Frances Stewart**, Director of the Centre for Research on Inequality, Human Security and Ethnicity, Department for International Development, University of Oxford, observed that the phrase inclusive growth is widely used, but often not explicitly defined.

She proposed a definition whereby the bottom 40 per cent of national income distribution was to receive the same proportionate gains as the top 20 per cent. She also lamented the sweeping tide of globalization which leaves marginalized groups on the outside looking in, noting that it must be ensured that these groups receive a proportionate share of growth, not only as consumers but also as producers. Ms. Stewart expressed concerns that rising income inequality will lead to a rise in crime and conflict, and added that the Millennium Development Goals need to include an explicit objective addressing inequality. In order to address inequality, she asserted that the international community must promote a high tax, high expenditure economic model, with generous anti-poverty cash transfers, high minimum wages, anti-discrimination legislation and extensive affirmative action.

**Ms. Esther Duflo**, Abdul Latif Jameel Professor of Poverty Alleviation and Development Economics, Massachusetts Institute of Technology, remarked that the world has enjoyed major reductions in poverty in recent decades. In 1980, for example, 1.5 billion people were living below \$1 per day; by 2005, the number had been cut to 850 million. Advances in real income, moreover, may be underestimated in consumption surveys, as access to many items, such as electronic goods, has increased much more quickly among the poor than poverty statistics suggest. Ms. Duflo also argued that while education can do much to lift the poor out of poverty, the international community has tended to equate enrollment with learning, which frequently is not the case. She cited statistics from India, where enrollment has risen dramatically but without similar gains in what students learn or know. Part of the problem, she concluded, is that the traditional mission of schools being viewed as preparing the best students for higher education needs to be reformed to teach a larger number of students basic skills that will enhance their capacity and employability. Also, where schools have altered incentives to promote better teaching and learning, such as in the Indian state of Punjab, the results have been promising.

### **Questions and Answers**

The delegation of **India** discussed the advantages of a financial withholding tax to generate revenue and curb excessive financial speculation. The delegation also discussed India's pro-poor policies, such as guaranteed rural employment for parts of the year.

The delegation of **Greece**, pointing to disaffected youth in various countries, wondered whether mainstream politics and economic theory is in need of an overhaul.

The delegation of **Indonesia**, speaking on behalf of 13 countries that make up the **Asia Group**, acknowledged the role of economic growth in alleviating poverty, stating that growth and equality are not mutually exclusive. In addition, the benefits of foreign trade and investment can be considerable, but must also be cushioned by adequate social programmes. It is therefore important to pursue policies that are pro-growth, pro-jobs and pro-poor.

The delegation of **Guatemala** countered that freer markets have not led to sustained, inclusive and equitable growth and that the state should better assert its presence and role in order to achieve this type of growth. The representative asked how to make policies, such as more state intervention and higher taxes, politically acceptable given the current market-based ideology.

The **Food and Agriculture Organization** discussed the relationship between poverty and food insecurity, noting the tremendous progress in recent decades in alleviating both up until the financial and economic crisis of 2007. Two of the biggest challenges of the Millennium are how to feed the more than 9 billion people projected to be in the world after 2020 and how to prepare for the looming threat of climate change.

The delegation of the **United States of America** posed several questions to panellists on the informal economy and the reliability of economic data in this regard, on youth unemployment, the possible link between expanded school enrolment and weakened education quality and the issue of tax enforcement and collection.

The delegation of **Zambia** observed that the challenge of transitioning from export-led to domestic-led growth is commonplace in many developing countries and that there should be a mixture of both, while also requesting an explanation to the paradox of jobless growth and why high growth rates have not necessarily led to poverty reduction. .

The delegation of **Senegal** noted that, in their recent national experience, relatively high growth rates of six per cent or more did not translate into much poverty reduction, mainly because the growth was export-led and driven by the mining and extractive industry.

In the panellists' responses to the several questions and comments, **Mr. Zhu** addressed youth unemployment, focusing on the mismatch between graduates and employers, as well as the structural problem related to globalization, where job demand is becoming globalized but the job supply is still localized. With respect to the issues raised by Zambia and Senegal, he stated that, in addition to a strong export sector, it is necessary to also look at the supply-side, namely in the creation and support of a vibrant non-tradable sector.

**Ms. Heyzer** argued that for the full benefits of free capital flows to be realized, they must be matched by free flow of labour, to allow supply and demand to re-adjust as needed. She lamented the unacceptable lack of corporate social responsibility among some companies and related how in Asia citizens' movements have developed to hold both markets and state accountable.

**Ambassador Cho** made the case that income inequality is best dealt with not by stifling growth, but by promoting social mobility. To do this, the right balance needs to be struck between markets and government, private and public sectors. He also emphasized that to achieve sustained, inclusive and equitable growth strong leadership is necessary, accompanied by the technical capacity to identify and implement the desired policies.

**Ms. Stewart** recommended that governments limit the growth of outrageous compensation in the financial sector and other industries and redistribute wealth to those who need it most. She reasoned that the political will to raise taxes in order to decrease poverty and inequality may come from a public reaction against the excesses brought about by the poor results that have accompanied policies that have put too much emphasis on the market.

**Ms. Duflo** stated that, with respect to tax collection, in countries that are growing she would recommend that they leave the tax bracket unchanged but focus more on collecting the taxes better and more comprehensively. She reminded the audience that GDP is an important, if imperfect measure of well-being and that other tools, such as the UNDP's Human Development Index, and data on such indicators as electricity consumption should also be utilized in combination with GDP, to give a more complete picture.

In conclusion, **Mr. Somavía** asserted that income inequality is a major global challenge, one demanding more attention from policymakers. Concentration is needed on the quality of growth, and helping the world's poor will require more pragmatism, less ideology to succeed. The current system has led to several financial and economic crises, in Latin America in the 1980s, in Asia in the 1990s, the world financial and economic crisis of 2007 and now the financial and debt crisis in Europe. As a result of the crises in developing countries, there has been an emergence of independent intellectual capacity in developing countries. This, combined with the recent crises in developed countries, has produced a major shift that has discredited the notion that the North knows best. He stated that this result could be very positive, allowing all to sit together as equals to contribute solutions to global problems that require collective thinking.