Sixtieth General Assembly
Second and Third Committees

Joint informal event of the Second and Third Committees
on the World Bank 2006 World Development Report:
"Equity and Development"

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Panelists: **Francisco Farreira**, co-author, World Development Report 2006.
Duncan Campbell, Director, International Policy Group.
Jomo Kwame Sundaram, Assistant Secretary-General, DESA.

Ambassador Aminu Bashir Wali, of Nigeria opened the joint informal event organized by the bureax of the 2nd and 3rd Committees of the General Assembly. The report provides an in-depth analysis of the crucial role of equity in development and its various ramifications. In the words of a World Bank's Chief economist, "Greater equity is doubly good for poverty reduction. It tends to favour sustained overall development, and it delivers increased opportunities to the poorest groups in a society". In Ambassador Wali's view, development without equity is unsustainable in the long term. Inequities within countries themselves have led to pockets of development, with high incomes, while a large number of people lag behind. Inequities exist in access to basic health care, education, jobs, food and shelter, among others. Global inequities require a level playing field to halt its spread.

Mr. Fransisco Ferreira, a co-lead author of the World Development Report (2006) and Senior Economist at the World Bank Research Group, presented the report. It is organized in three parts: namely, inequity within and across countries; why does equity matter; and leveling the economic and political playing fields. Mr. Ferreira started by asking what equity is. Equity is different from inequality, for while inequality is descriptive, equity is normative and relates to fairness in distribution. The two principles that equity is based on are (i) equality of opportunity; and (ii) avoidance of outcome deprivation. The emphasis on equality of opportunity means equity is never almost the same as against equality of any particular outcome.

An insight into the concept of inequality traps is simple. It is based on the idea that equity is achieved on how inequality reproduces itself through the interaction of different kinds of inequality, such that we have political inequalities reinforcing economic inequalities and those two also reinforcing sociocultural inequalities. A clear example of the inequality traps is the situation of inequality between genders, as well as between men and women in some countries. If incomes are difficult to measure, then opportunities are harder to measure because opportunities are not actuals but rather potentials.

With regard to inequity across countries, the nationality of a person is a pre-determined circumstance that affects his/her opportunities in the world. Social inequity influences performance. This could be seen from the distribution of life expectancy across the various countries in the world. Mr. Ferreira then asked why equity matters. Inequalities in wealth and power combined with imperfect markets, such as credit insurance, land, and human capital create large inefficiencies. In more detail, firstly, poorer entrepreneurs may have limited access to credit, implying that capital is not allocated efficiently; secondly, credit constraints add to family decisions to interrupt the schooling of children, leading to inefficient investment in human capital and; thirdly, missing insurance markets implies that poorer farmers may choose crops with lower expected return because they are less risky. It should be noted that social inequity influences performance. Unequal power and influence can lead to the capture of institutions. This could be depicted as unequal control over resources affecting or leading to bad political institutions, which leads to bad economic institutions and then finally impaired development. Good economic institutions are good for prosperity. More importantly, inequality weakens the power of growth to reduce poverty.

To reduce poverty, steps should be taken to create level economic and political playing fields. A development policy should ensure that (i) it has good policies for poverty reduction, which may involve redistribution of influence and government expenditures away from dominant groups; (ii) that equity-efficiency trade-offs in such redistributions are to be assessed in light of the full long-term benefits of equity and; (iii) that the perception of a dichotomy between growth policies and policies for equities are misguided. Furthermore, there should be investment in the capacities of the opportunity-poor: which means the policy should start early and make a difference. On ensuring an adequate investment climate for all, there should also be a focus on the justice systems, land, and infrastructure. There should also be promotion of fairness in markets and the macro-economy such that, firstly, the financial markets enjoy broader access through more competition and less capture; secondly, the labour markets enjoy protection with flexibility while also focusing on the least engaged; thirdly, the product markets prevent monopolies while also taking into consideration trade reforms and; finally, the macro-policy should be prudent and countercyclical, to prevent the problems of inflation and financial crisis. With regard to reducing the global inequities, the international playing field could be leveled by firstly, ensuring less trade distortion by rich countries; secondly, ensuring a greater scope for labour mobility; devising innovative solutions to intellectual property rights; and finally, ensuring greater volume of aid with fewer ties.

The report's main messages are: firstly, opportunities are distributed very unequally within most countries as well as across them. In the long run, this is bad because equity and efficiency are complementary in the long run. Societies with widespread opportunities enjoy more prosperity than the opposite case. Public action should, therefore, enter the level field by expanding access to opportunity both politically and economically to the poorest people in those societies. Public policy makers should also consider these three things as they engage in public action. Firstly, human freedom should be given paramount importance, as it is the paramount objective of development. Secondly, individual incentives matter greatly. Equity should be pursued within the framework of functioning markets. A market that is open and competitive to all is fairer than a restrictive and uncompetitive one. Finally, there should be investment in children and indigenous people to bring them into the main stream of economies and societies.

Mr. Duncan Campbell, Director of the International Policy Group, International Labour Office also starts his presentation on The Economics of Social Justice: An ILO “Take” on *World Development Report 2006*. This report tells how inequity is among the root causes of market failure. The report outlines that since rules shapes behaviours, the powerless often lose out if the powerful make the rules. The report usefully goes beyond the narrow behavioural assumption on which much economic thinking is based. The assumption is faulty on two grounds such that most importantly, the notion that the individual selfishness is the isolated unit of analysis from which to observe economic behaviour. Context determines behaviour and thus the perception of one’s own aspirations, abilities, or best interests.

The problem of equity is evident in the US according to the report such that inequality traps impeding social mobility through generations are very much in evidence in the country. Mr. Campbell then asks how we break it when the cycle of intergenerational transmission of unequal opportunities is so strong. A lot of ILOs work has tried to intervene at some stage in the cycle of inequality traps. The ILO also seeks to promote equity in labour markets. Inequity again is a multi-faceted endeavor requiring the coherence of different policy spheres in areas such as education and labour market policies. The four spheres of equity and economics are (i) for one to earn enough from labour for him/her and family; (ii) for one to have at least some security, some protection to shelter him/her from risk; (iii) for one to have his/her basic human rights respected and; (iv) for one to have a voice or a say in the economic, social, and political choices that govern his/her life. In conclusion, Mr. Campbell believes the best way of thinking that equity and development are closely related is to acknowledge that poverty and inequity are strongly correlated. Access to a decent work is the surest way out of poverty. The ILO therefore would love to see the rich of policies in the World Investment Report applied to Poverty Reduction Strategies around the world.

Mr. Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development of DESA congratulated the authors of the report. He also expressed concern with some of the concepts, measures and methodologies, which he believed have significant implications on the broader debate. The focus on inequality comes at a time when there is a growing attention to this question. Recently, DESA came out with a publication on the subject of inequality. There is very little disagreement that there has been a significant increase in income inequality in most countries in recent decades. Only a few countries have experienced unchanged income inequality. The relationship between wealth and income inequality has received attention. Much of the world has experienced low growth with the exception of East Asia, India, Botswana and Mauritius. Sub-Saharan Africa has seen some increase in the incidence of poverty.

Overall, global inequality trends depend on how we measure them. While some measures portray an increase in inequity, others show otherwise. The role of government has also been reduced especially on redistribution. As far as government taxes are concerned, there has been a shift from direct to indirect tax. The tax system has, thus, become less progressive and increasingly regressive. There has been a significant decline in public spending and the proportion devoted to public expenditure has declined in much of the developing world. The UN is very concerned with these issues. Socio-economic rights should also be addressed. Three recent international trends, which involve the question of growing inequalities and which also, underscore the need for advancing the UN's development agenda needed to be addressed. In recent years, there has been an exacerbation of earlier trends in trade. The terms of trade have deteriorated for developing countries. There has also been a decline in the prices of primary commodities in relation to manufactured goods. In the last Third of the Twentieth century, there has been a significant decline in the prices of generic manufactures compared to those where there are intellectual property rights. Moreover, African agricultural producers are unlikely to benefit much from agricultural liberalization, as compared to existing agricultural exporters. The UN is committed to a developmental outcome of the Doha round. There seems to be a great deal of confusion about the relationship between export promotion and trade liberalization.

On international finance, contrary to the promises of the proponents of international financial liberalization, the latter has not resulted in a net flow of funds from the capital rich to the capital poor. Instead, the opposite has occurred. There has been an increase in volatility and the consequent disruptions in the financial system have been harmful to the developing world. Also, a consequence of financial liberalization is the reduction in the scope of developmental finance which has been extremely important in the history of development since the Nineteenth century. On international economic governance, the original Bretton Woods system has no longer existed. However, the Bretton Woods institutions have governance system which is different from those of the UN and even the WTO. Since the 1980s, policy conditionalities has been increasingly important. This has been known as the Washington Consensus, which people have blamed for exacerbating the inequalities, which has been increasing in recent decades. Labour market flexibility has resulted in worsening wage disparities.

The WTO, established in 1995, has been accompanied by an extension of the scope of work and the jurisdiction of the WTO. While GATT was concerned about trade and manufactures, the WTO is concerned agric, services and a whole range of new issues which may be trade related. Intellectual property rights have been strengthened. The new disciplinary settlement mechanisms, relatively rich countries are in a far stronger position to pursue measures through the disciplinary settlement mechanisms than relatively poor countries. There is, therefore, the need to examine the WTO governance in dispute settlements can be reformed in a far more democratic, far more equitable and a far more developmental outcome. The World Development Report for 2006 on the question of equity provides us with an opportunity to debate on a whole lot of issues with profound development implications. With the UNs developmental agenda, there is the need for policy space so the national governments to develop elaborate programe and ensure national ownership of development strategies to ensure not only more rapid economic growth but also much more equitable developmental outcomes.

Questions

Jamaica's commented that owing to a lack of adequate voice at the global level for developing countries, global governance rules can be costly to these countries. Therefore, how can the voice of developing countries be heard at institutions such as the World Bank. **The United Kingdom** thought the report has done three important things; firstly, it considers the evidence on inequality of opportunity within and between across countries; secondly it asks why inequality matters; and thirdly how public action can level the political and economic playing fields. Also equity and growth are complementary in the long term. The **USA** asked (i) how do we put the difficult analysis into practical changes in policy in the long term and (ii) how can we expect the World Bank and the United Nations to work together on the topics discussed. **Belgium** asked Mr. Ferreira why in his analysis, there seem to be a very close and easy relationship between decreasing inequity and development, especially considering the international community's emphasis on good governance and its relationship with development.

Mr. Ferreira responded to Jamaica that it would be inappropriate and dangerous to lump all policies together as there is a lot diversity and variety. An example is privatization, which has had mixed results and has even in some instances increased inequities. A typical trade off from privatization of utilities in developing countries is between increasing access and rising prices, which affect all the consumers including the poor. More access to telephone and electricity is often observed. Water privatization in Argentina led to a reduction of water borne diseases. So there have been instances of successful privatization and unsuccessful ones. The charging of user fees in some poor countries is inappropriate and some specific policies should be reconsidered. Governments should address the issues in the WDR. The World Bank is hopeful but not very confident: there is a lot of work to be done in developed countries where there is a perception of issues like subsidies being given to farmers and as such there is the need for some reforms of their policies. On the United Kingdoms question, the WB president is currently at a meeting in Sweden and among the agenda was the operationalization of the WDR 2006 and what should be done to make equity attainment a reality. Replying to Belgium, he said the goal of reducing inequalities in power and in wealth is daunting, but should be pursued forcefully even though the results come slowly. The only way to sustainably reduce inequality in wealth and economic status is by also reducing unequal access to power and governance.

Mr. Campbell addressed the UK delegate's question noting that the complementarity of the multilateral system is increasing. There is a growing convergence of views, especially between the WB and ILO. On job market flexibility, OECD's job study ten years ago focused on flexibility. Together with security, it is an essential element for global market governance in the context of an open economy. There is the need for multilateral agencies (UNCTAD, WB, IMF, UNIDO, and FAO) to meet and come out with a policy coherence initiative in areas where there a disagreements, such as on labour market regulation. We can identify some dysfunctions in the way labour market institutions are constructed in some developing countries. The main area of disagreement between the WB and the IMF is how they weigh such problems in developing countries. The idea of coming to the table, however, is to identify information and knowledge gaps for the purpose of working together.

On the question regarding the operations of the WB, Mr. Jomo pointed to a disconnect between the operation and research side. This document and other documents from the 1990s seem to suggest that some operational activities of the WB would contradict what their research concludes now. All organizations should address policy incoherence. The UK prime minister's call for an end to policy conditionality is a good step as it recognizes policy space for the meaningful realization of national ownership**.** The level of inequality as well poverty and hunger is so dire in so many parts of the world that there is need for humanitarian intervention. However, such humanitarian interventions are no substitute for development. There is the need to ensure that while such humanitarian intervention continues when desirable great efforts are necessary for economic development. ILO's policy of generating employment and decent work can't come about if we don't have meaningful and effective development strategies.