Inclusive growth and a post-2015 framework

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Introduction

One of the recurring themes in the debate about the post-2015 agenda is the role that growth and employment issues should have within it. Many commentators are arguing that growth should be more prominent in the next generation of development goals: a UN survey of 112 stakeholders (representatives from government, civil society organisations, research institutions and academia) from 32 African countries found that the majority felt inclusive growth and jobs had been given inadequate attention in the MDGs.¹ There are three main reasons for this:

- A perception that the existing MDGs do not give sufficient attention to growth issues, and that this has had an impact on aid patterns. Since 2000, there has been a widening gap between aid for the social sectors and for production and infrastructure (table 1).

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<th>Table 1: Sectoral aid allocations</th>
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<tr>
<td>2000</td>
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<tr>
<td>Aid volume (bn US$)</td>
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<tr>
<td>Social sectors</td>
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<td>Economic /infrastructure</td>
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<td>Production sectors</td>
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<td>Other</td>
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<td>Total aid</td>
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Source: OECD StatExtracts²

- An argument that without the inclusion of growth the MDGs embody a flawed understanding of how development happens. In particular, that the absence of economic growth means that a central aspect of development, the transformation of productive capacity, has been neglected. According to Ha-Joon Chang: "without any vision of transformation in productive structure and the upgrading of the productive capabilities that make it possible, the vision of development behind the MDGs can only be described as 'development without development.'"³

- Growing evidence of the extent to which poor people see the lack of jobs as one of the defining characteristics of poverty, and getting a job as a key route out of poverty. Jobs have featured as within the top priorities of the poor in recent global surveys,⁴ and in a range of participatory research studies such as Voices of the Poor.⁵ If new goals are to embody the aspirations of poor people, they will have to have more to say about growth and employment.

Growth and development: the emerging debate

None of this implies a return to the days of ‘growth’ being the sole objective of development policy. To some extent, the original MDGs were a reaction to the growth-first policies of the Washington Consensus, and there is no desire to go back to those days. Rather, the focus on growth in the post-2015 debate is part of two separate but linked global policy conversations on growth and its place in development.

Firstly, traditional donor countries are becoming more focused on economic growth in their aid programmes and policies. Politicians in low and middle income countries, as in any country, have long been aware that their political fortunes depend on promoting growth and employment. There has, as described above, been some frustration with traditional donor countries and with the MDGs because of the extent that they have focused on social outcomes, giving insufficient attention to economic transformation. However, new donors such as China have made spending on infrastructure and production a priority, and traditional donors have
become increasingly interested in promoting economic growth in recent years, moving slowly away from the very social-sector focused period immediately after the MDGs were agreed in 2001. In its Agenda for Change the European Commission states that “Inclusive and sustainable economic growth is crucial to long-term poverty reduction and growth patterns are as important as growth rates. To this end, the EU should encourage more inclusive growth, characterised by people's ability to participate in, and benefit from, wealth and job creation.”

In addition, USAID, the Canadian International Development Agency (CIDA), and the UK Department for International Development (DFID) (among others) have recently issued statements describing how they view economic growth as a priority for their development programming, making reference to the importance of ‘sustainable’, ‘broad-based’, and employment-generating growth.

For donors, an increased emphasis on growth is in part a response to their own domestic constituencies and budget demands. The financial crisis has called into question the sustainability of aid over the long term, as all areas of government spending are under pressure and governments find it increasingly hard to justify aid expenditure in the face of cuts to domestic services. The UK government is almost alone in maintaining aid levels – others, like Spain with a 32.7% cut in aid last year, have contributed to the first fall in aid levels from OECD donors as a whole since 1997. In this context, using aid to become 'catalytic,' to help mobilise domestic resources, or to leverage private funds, are being considered as potentially more viable future options. So, securing a sustainable economic growth trajectory in developing countries that helps to mobilise domestic resources and reduce reliance on volatile aid flows, is increasingly seen as a cornerstone of future global development and aid policy.

Secondly, governments in rich and poor countries alike can no longer take for granted an automatic link between growth and poverty reduction. Instead, current debates are informed by recent evidence on the variable impacts of growth on poverty. Between 2002 and 2010 China’s GDP grew by an average of 10.7%, India by 8% and Brazil and South Africa by close to 4%. And yet rates of poverty reduction in these countries were extremely variable, with Brazil demonstrating a much stronger link between economic growth and poverty reduction despite experiencing weaker growth overall. India had faster GDP growth than Brazil between 1993 and 2005, but its poverty reduction rate was the lowest of the three countries, at 1.4% per annum (for the $1.25 a day line). In contrast, China saw poverty fall by 9.5 per cent a year and Brazil by 4.2% a year in the same period. And in South Africa, despite strong and sustained growth, one in three people could not find work in 2010, and half of 15-24 year olds were unemployed.

In tandem with the uncertainty about linkages between growth and poverty reduction, there is a growing concern with the environmental impacts of economic activity, and how growth can be reconciled with the need to reduce pressure on natural resources like water, land and energy. Making growth ‘green’ as well as inclusive is increasingly a challenge policy makers are setting themselves. The subject is much-discussed at global forums such as the G20, but as yet turning this into a specific global agenda for action has proved difficult.

There is every reason to think that the political focus on growth and employment will only increase during the lifetime of any post-2015 agreement on development. A primary concern of people around the world, in developed and developing countries alike, is to have a job. However, as the global economic recovery remains fragile, both developed and developing countries grapple with the challenges of unemployment and poor working conditions, and with the political instability that may well follow.

- An estimated 440 million jobs will be necessary in the coming decade to satisfy the employment demands generated by population growth and demographic change. The employment challenge goes further than the quantity of jobs; almost half of workers worldwide continue to live below the $2 per day poverty line.
The International Labour Organization (ILO), World Economic Forum (WEF) and Organisation for Economic Cooperation and Development (OECD) are among those warning that the inequalities created by current patterns of growth and employment pose serious risks to socio-political stability, as approximately 1.2 bn adults in developing countries cannot earn enough to support their families above the USD 2-per person per day poverty line. Yet 61 million people have as much combined income as the world’s bottom 3.5 billion people, and the top 1% of the population owns nearly half of global assets while the poorest half owns only 1%.20

Getting growth into a post-2015 agreement

Despite the apparent convergence among key actors about the increasing relevance of growth and employment as urgent development objectives, there is far less clarity and agreement on what specific actions should be prioritised to achieve these. Including economic growth in a post-2015 framework would, it should be noted, involve a shift away from the MDG framework based on outcomes to one which also addresses means. The architects of the current MDGs saw growth very much as a means to an end, and for that reason it was excluded from the original goals.21

A post-2015 agreement that has a growth component will also have to add value to existing national level efforts in growth and employment creation, so it is important to consider what a global agreement can usefully contribute. Growth is first and foremost a function of national circumstances and policies. But the international community can play a role in supporting national governments and private sectors to drive the investment and entrepreneurialism needed for enhanced growth and employment, for instance, by “ensuring that they face a buoyant world economy and have access to knowledge, finance and trade on fair terms.”22

While there is a great deal of discussion about how to include growth in a new global development framework after 2015, specific proposals remain relatively thin. Current debates point to three, not mutually exclusive, approaches, tackling different parts of the policy agenda on inclusive growth.

One is to use a post-2015 agreement to establish global norms on inclusive growth. This could be a way of confirming a new consensus on the role of growth in development and poverty reduction – addressing both the centrality of economic transformation for long-term development, but also the need to consider distributional issues when analysing the impact of growth. Charles Gore argues that such a consensus could then set the stage for new development partnerships, geared towards developing “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop.”23 Also along these lines, Japan has proposed a post-2015 ‘Pact for Global Wellbeing’, prioritising growth that is green, inclusive, shared and knowledge-based.24 These visions of a future in which economic growth is more stable, inclusive, sustainable and equitable, contrast with what some perceive as the ‘quick wins’ approach of the MDG era.

However, an agreement focused solely on setting new global norms for inclusive and sustainable growth might involve sacrificing the clarity and specificity that was part of the success of the MDGs. Norms and standards without ‘teeth’ can be difficult to tie to specific, measurable outcomes and impacts on the ground.25 While establishing global norms on the role for growth in development may well be an essential starting point, it seems crucial that any post-2015 agreement should incorporate more specific, concrete proposals for how inclusive growth can actually be achieved, to bring about policy change at both national and global level.

A second approach focuses on using a post-2015 agreement to incentivise the creation of new development partnerships, to address existing barriers to inclusive growth at global level. The hope is that a post-2015 framework could be used to drive progress on
key areas for growth where agreement between countries has so far proved difficult. This could include global policy reforms in the areas of finance, trade, commodities, technology, and climate change adaptation and mitigation. These are probably the most crucial factors driving success or failure in development, and change here could have a huge impact. However, there are good reasons why agreement on many of these issues has so far proved elusive, and the challenge of building consensus in these areas is not to be underestimated.

The so-called ‘Doha Development Round’ of negotiations in the World Trade Organisation started more than a decade ago, has made little progress, and is widely assumed to be all but moribund. Reaching agreement on other suggested policy areas - finance, migration, commodities, and technology transfer – could be just as contentious and politically difficult as trade. There is the slight possibility that a post-2015 agreement would galvanise sufficient support for movement in these areas, building on the political momentum behind the MDGs. But stalemate is an equally plausible outcome.

One possible way to deal with these issues would be to build on the existing MDG8 – to establish ‘a global partnership for development’ – and use new goals to drive new global relationships in specific areas. It may be possible to design goals aimed at incentivising progress on a few limited aspects of the wider agendas (market access for low income countries, for example, or agreements in specific areas of new technologies), if consensus can be found, so that a post-2015 agreement might achieve some progress while avoiding core sticking points. Alternatively, a post-2015 agenda could set itself the task of agreeing broad aims in these areas rather than specific goals, which could then be applied at national and regional level, and which might reduce the difficulty of getting agreement by reducing the specificity (though possibly at the cost of effectiveness).

• The third option would involve designing new goals to incentivise increased national level policy attention and resource flows for growth and employment. This approach would involve creating targets on individual outcomes in relation to employment and possibly also growth, analogous to the existing MDGs1-6. The aim would be to gain policy traction at a national level within developing countries, and to allow people to hold governments to account. Yet the problem lies in identifying targets which are both useful and measurable.

The existing MDGs have a target for ‘full and productive employment for all’, added in 2005, which has proved ineffective in galvanising action in this area. The development of future goals is likely to prove equally problematic. The Canadian think tank, the Centre for International Governance Innovation, has been working on a number of potential targets and indicators for post-2015. One proposal is for a goal on “adequate livelihoods and income levels for dignified human existence.” Targets and indicators would intend to address both the quantity and quality of jobs, based on a range of related existing indicators. This is currently problematic, as data on employment is notoriously poor and issues such as the ‘quality’ of jobs remain highly subjective. However, the existing MDGs succeeded in driving improvements in data collection in many countries, and this could be possible through a successor agreement as well.
Conclusion

Despite broad consensus that it is desirable to include economic growth and employment in some way in a post-2015 agreement, it’s clear that there will be both practical and political challenges to doing this. Any post-2015 agreement will need to do three things:

1. **Be useful**, at a national level or global level, in either driving changes which would otherwise not happen, or in enabling better accountability between governments and people.

2. **Incentivise better policy**, by taking on board the learning to date in relevant areas, particularly those in which negotiations and agreement have proved fruitless in the past.

3. **Be technically viable**, by starting with a good understanding of the measurement difficulties in this area and having a strategy to overcome them.

Achieving all three will not be easy. But the prize, in the form of a new global consensus which brings together both the economic and the social aspects of development change, is considerable. And the task at hand is to chart a course to get there.
References


2 Available at: http://stats.oecd.org/


9 ‘We welcome and encourage the creativity that the private sector can offer, and will work with business to open new markets, extend access to financial services, stimulate new technology and create new jobs.’ UK Department for International Development (2011) Business Plan, London: DFID, available at http://www.dfid.gov.uk/Documents/DFID-business-plan.pdf; UK Department for International Development (2011) UK aid: Changing lives, delivering results, London: DFID. Arguably, this emphasis on growth by traditional donors is also related to domestic fiscal and political pressures, which make self-sustained growth an alternative to aid finance at a time of economic crisis in the developed world.

10 Ibid

11 Donors of the OECD Development Assistance Committee (DAC)

12 OECD, "Development: Aid to developing countries falls because of global recession,” 4 April 2012. Available at: http://www.oecd.org/document/3/0,3746,en_21571361_44315115_50058883_1_1_1_1,00.html

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15 World Development Indicators


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19 ILO-IMF, 2010 in Melamed, C. et. al. (2011) Jobs, growth and poverty: what do we know, what don’t we know, what should we know? London: Overseas Development Institute


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In 2001

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the ILO’s ‘Measuring Decent Work’ indicators; OECD ‘How’s Life’ Indicators on Jobs and Earnings; Income and Wealth; among others (OPHI Multidimensional Poverty Index; World Bank’s World Development Report, the IMF’s World Economic Outlook, and the UNDP’s Human Development Report