Middle Income Countries and All That: Some Generalities and Two Proposals for CGD

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Outline

• Global Bergson-Samuelson
• Nation States: Moral and Instrumental Salience
• CGD Working Group on Country Classification(s)?
• CGD Working Group on MDB Country Instruments for Cross-Border Public Goods?
Some Writings


Global Bergson-Samuelson

- Consider the standard Bergson-Samuelson Social Welfare Function (SWF), whose arguments (and whose only arguments) are individual levels of welfare.
- To start with, think of this objective function as being global in scope, and assume a global government,
- Then our standard public policy analysis framework, starting from the fundamental theorems of welfare economics and then extended, can be brought to bear: distributional considerations, market failures, externalities, etc.
Global Bergson-Samuelson

• Put another way, the Bergson Samuelson SWF gives us the objective function to maximize; the actual structure of the economy and the instruments available give us the constraints; and we set about maximizing the SWF subject to the constraints.

• Indeed, I think for most of us this is our entry point to policy analysis in a global framework--for example policy towards inter-temporal externalities such as emissions and climate change.
Nation States: Moral and Instrumental Salience

• But of course in reality we have nation states; we have a global regime which is “Westphalian.”

• So each individual in the Bergson-Samuelson SWF is now tagged with information about his or her nation state.
Nation States: Moral and Instrumental Salience

- These nation states have characteristics qua nation states—language, ethnic composition, governance structures, and of course total population, per capita income and total economic size.
- One of these characteristics, national per capita income, has played and still plays a central role in the international development discourse, serving to define categories such as Low Income Countries (LICs), Middle Income Countries (MICs) and High Income Countries (HICs).
Nation States: Moral and Instrumental Salience

• In the global optimization exercise with a global Bergson-Samuelson SWF, nation states can have two types of salience: moral and instrumental.

• Moral salience is whether the characteristics of an individual’s nation state are relevant to policy through their impact on the weight given to that individual’s well being in the global Bergson-Samuelson SWF.

• For example, should the weight of an individual in the global SWF decline as the per capita income of his or her nation increases, no matter what the level of the well being of that individual? Or should the weight depend only on the individual’s wellbeing?
Nation States: Moral and Instrumental Salience

• An important example of NOT letting the nation state identity of an individual have moral salience is that of Global Rawlsianism.

• This proceeds in a Rawlsian framework but in a global setting, with a global “veil of ignorance”, leading to a global maximin as the objective of global policy. In other words, a focus on the welfare of the poorest of the poor independently of their nation state’s characteristics.
Nation States: Moral and Instrumental Salience

• But a major critic of Global Rawlsianism was—Rawls himself.

• His argument (in very loose summary form!) is that contractarian theories of justice, like the Rawlsian theory, are predicated on a contract between sovereign and subjects, it being the task of the contractarian theory to explore the content of such a contract. Such a predicate exists, however imperfectly, for nation states. It does not so exist for the world as a whole.
Nation States: Moral and Instrumental Salience

• This debate between Rawls and the Global Rawlsians is part of, perhaps a major part of, a broader debate in political philosophy between “cosmopolitan” and “statist or political” approaches to global justice questions.

• My own instincts are cosmopolitan, as I suspect are the instincts of most analysts in think tanks like CGD (or International Agencies like the World Bank).
Nation States: Moral and Instrumental Salience

• However, every now and then my instinctive cosmopolitanism is thrown into confusion.
  – Cosmopolitanism seems to be prevalent in the cosmopolitan elite--people like us. “Ordinary people” seem to have a more statist perspective.
  – Is it alright for the Global MDG1 (halving incidence of absolute poverty) to be achieved solely through poverty reduction in India and China? What about Africa?
  – Inside nation states, sub-entities often have equal weight in key constitutional issues independent of other characteristics such as population or income. To a lesser extent, UN General Assembly for nations.
Nation States: Moral and Instrumental Salience

• Instrumental salience arises separately from moral salience. For any given global objective function (let us say the cosmopolitan one), how does the structure of the nation states regime, in particular the characteristics the nation states, affect the design of policy to maximize global welfare?

• For example, if a country’s per capital income is well above the poverty line but it still has large numbers of poor, what does this tell us about how well that government uses its own resources to address poverty? And what does this in turn tell us about the likely efficacy in use of external resources to address poverty?
Nation States: Moral and Instrumental Salience

• A crucial point about instrumental salience is that different national characteristics matter in different ways. For example:
  – High per capita income on its own could signal higher capacity to formulate and implement policy.
  – High per capita income plus high poverty could signal lack of commitment to poverty reduction (as noted).
  – For global green house gas emissions, total emissions from each entity matter, and these are more likely related to total size of the economy.
  – For riparian rights across countries, the specifics of water tables and watersheds matter.
CGD Working Group on Country Classification(s)?

• With this background, consider the current classification system of countries by per capita income into LICs, MICs (MICs and UMICs), and HICs.

• The classification is put to multiple uses.
  – Pedagogical/Shorthand for poor versus middle versus rich
  – An anchor for, if not literally the basis for, “graduation” from different categories of development assistance (IDA’s “operational cutoff” is not the same as the LIC/MIC threshold, but plays a similar role).
But the whole thing is a big mess.

- The precise reasoning behind classification is not clear. Original logic is lost in the mists of time. Now the cutoffs are simply updated for inflation.

- Analytically, are these the cutoffs that “cluster” countries best in terms of other characteristics?

- For development assistance, not clear whether the thresholds reflect change in moral salience or instrumental salience, and if both then in what proportions and why.

Further, the importance of countries for global (or even regional) externalities does not necessarily depend solely on per capita income. Total emissions matter for climate change, with perhaps per capita income mattering as an indicator of capacity or resources.
CGD Working Group on Country Classification(s)?

- So, consider setting up a CGD Working Group to assess the current methods of country classification and propose alternative classification methods (if at all), perhaps anchored on per capita income but going beyond.

- Such a WG would first have to sort out WHY the classification(s) is (are) being done, and then propose practical solutions based on data availability.
CGD Working Group on Country Classification(s)?

• Arguments for setting up such a WG:
  – Important topic, since such classification is central to a lot of the operational development discourse.
  – Current state of affairs is a mess.
  – CGD can convene analytical and practitioner firepower to make proposals that are sound and feasible.
CGD Working Group on Country Classification(s)?

• Arguments against:
  – Other agencies-World Bank, UN- also have ongoing reviews (but none of them would have the credibility of CGD independence).
  – It is indeed a morass from which there maybe no simple way out, so the WG and CGD could be sucked in without leading to a clear outcome.
CGD Working Group on MDB Country Instruments for Cross-Border Public Goods?

• Standard Public Good argument is of course that each player has insufficient incentive to contribute, so there will be underinvestment in public goods such as disease control or flood prevention or emissions mitigation.

• The argument applies equally to cross-country public goods, ranging from cross-border issues across a small number of adjacent countries to fully globalized externalities.
There will be collective underinvestment across countries in cross-border public goods.

Coordination will be more difficult the greater the heterogeneity in distribution of net gains from coordination. Transfers will be needed to induce cooperation.
CGD Working Group on MDB Country Instruments for Cross-Border Public Goods?

• Some components of some cross-border public goods can be supplied entirely outside the countries in question.
  – Vaccines can be developed by CDC in Atlanta, or by pharmaceutical company laboratories in rich countries, perhaps incentivized by an Advanced Market Commitment.
  – This is also true of some other technologies (for example for emissions control).
However, implementation on scale can only be done by definition in the countries themselves, and here the costs incurred by a country may not match the benefits in the short run, or even in the long run (although the countries as a group will gain).

Thus we need instruments to incentivize the collective implementation of actions which together constitute the cross border public good.
CGD Working Group on MDB Country Instruments for Cross-Border Public Goods?

• The MDB core instrument is the sovereign loan. The instrument itself, and the assessment methodologies around it, are focused on and induce a focus on country specific costs and benefits.

• This does not sit well with what is needed for cross-border public goods.
CGD Working Group on MDB Country Instruments for Cross-Border Public Goods?

• The issue of support for Regional Public Goods flares up every few years and then subsides.

• There are and have been some multi country projects already, some with apex lending type arrangements. Multi-country power transmission projects; Mekong.

• But overall, very small, and not clear what it adds up to and where it is all going.
CGD Working Group on MDB Country Instruments for Cross-Border Public Goods?

• Hence my proposal: CGD should set up a Working Group to explore possible new loan instruments, or new versions of old instruments, which could support cross-border public goods.
Possible agenda of the Working Group

- Set out conceptual framework.
- Review and stock take of experience to date in MDBs with multi country projects.
- Exploration of innovative financial arrangements built around or going beyond sovereign loans to support country specific actions which are coordinated across countries to address cross-border externalities.
- Differentiated access to instruments across country categories, which takes us back to the Working Group on country classifications.
Thank You!