The Crisis, Economic Development Thinking, and Protecting the Poor

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Overview

• The Crisis and Development Thinking

• Crises and Protecting the Poor
The Arc of Development Thinking (1)

• How will The Crisis change thinking on, (i) balance between state and market, (ii) integration into global economy, (iii) fiscal and monetary prudence?
• But a prior question: What has been the past pattern of changes in development thinking in these areas?
The Arc of Development Thinking (2)

• In my paper I argue that over the past 60 years, ideas/perspective/frameworks have *Co-Evolved* with Outcomes and Facts on the Ground, with influences running in both directions.

• The statist paradigm of the 1950s and 1960s, which itself grew out of the circumstances of an earlier period, was replaced by more market friendly approaches, culminating in the consensus of the 1980s and 1990s.

• But no sooner had this “Washington Consensus” crystallized, and indeed even as it was being formulated, challenges were appearing in terms of ideas and experiences.
The Arc of Development Thinking (3)

• Here are five challenges from the 1980s and 1990s (among many):
  – Disappointing results of liberalization in Africa and Latin America
  – Shocking results of shock therapy in Eastern Europe.
  – Fast growth of India and China without liberalization a l’outrance, especially on the capital account
  – East Asia crisis, affecting those who had liberalized the capital account
  – Sharp rises in inequality in fast growing countries, despite falls in poverty
The Arc of Development Thinking (4)

• As a result of these challenges, development thinking has been shifting from the extreme form of “End of History” triumphalism to a more balanced account of state versus market, global integration, and fiscal and monetary strategies.

• I believe this “new consensus”, if we can call it such, is well represented by the Growth Commission report.
The Arc of Development Thinking (5)

• So, what of the impact of The Crisis?
• Viewed in light of my broad 60 year perspective, it is another experience, an important one of course, in a long chain of events that interacts with and alters the ruling consensus. It will serve to push us further into a “Growth Commission” style balance.
• So, The Crisis is dramatic to be sure, and it will have an impact on development thinking, but it will re-enforce tendencies already under way.
The Arc of Development Thinking (6)

• BUT, history also teaches us that no sooner has a consensus formed, indeed even as it is forming, challenges appear.

• The central challenge post The Crisis, once we overcome it through purposive state action, is that it will leave the state much, much larger than before.

• Hard decisions will have to be made in restoring fiscal balance, and this will lead to fresh debate on which parts of the newly expanded state should be cut. Development thinking will have to traverse these debates over the next decade, and emerge from it to face the challenges of the decade after.
Crises and Protecting the Poor (1)

• Much is being written about The Crisis and Poverty. This is important. However, The Crisis will pass.

• But Crises will not. For developing countries, periodic crises are likely to be the “new normal”, with multiple origins: climatic, infectious diseases, unrest in neighboring countries, global collapse of a particular industry, global or regional financial crises, etc etc.
Crises and Protecting the Poor (2)

• So, we need to think about what happens when our “normal” development discourse, about the “normal” development path, has superimposed upon it the prospect of major country level shocks over which the country has no control.

• These Crises will reduce average income sharply (otherwise it wouldn’t be a crisis). So poverty will rise at the same time as resources to fight it decline.
Crisis and Protecting the Poor (3)

• But this is where the commonality of Crises ends. Crises can have a multitude of origins, and each type of crisis will affect different countries differently, impoverishing different parts of the population.

• Moreover, the timing of Crises—the onset and the receding—cannot be predicted easily.

• These two features of Crises—uncertainty about who exactly they will impoverish, and uncertainty about when they will strike (and recede)—are key in conceptualizing a social protection response.
Crisis and Protecting the Poor (4)

• The first feature requires that we think of social protection as a *system* rather than assessing it component by component, as we tend to do.

• Addressing the problem crisis by crisis is inefficient and ineffective (the crisis will probably have passed by the time we set up a response).

• NOTE: what is being suggested is not a single uniform program, but to view the collectivity of programs as a system.
Crisis and Protecting the Poor (5)

- The second feature of Crises, their unpredictability, requires that the social protection system be *flexible*, that it be capable of being scaled up rapidly when a crisis strikes, and then scaled down when the crisis passes. This flexibility has both technical and political economy elements.
- Example, fuel subsidies. Easy to scale up technically and politically. Easy to scale down technically, but difficult to scale down politically.
- Example, public works. Easy to scale down technically and politically. But difficult to scale up technically and politically.
Crisis and Protecting the Poor (6)

• Three Proposals for World Bank Action
• First, support the assessment of social protection programs in a country as a system of protection for the poor against systemic crises. “Stress testing” of the system as a whole against a range of crises, analogously to stress testing the financial system in FSAP. This would be SPAP.
Crisis and Protecting the Poor (7)

- Second, based on recommendations of SPAP, *finance improvements in coverage and flexibility*. This comes closest to “normal” Bank activities, BUT some issues (eg shelf of projects for public works schemes).
- Third, also based on SPAP, develop a *pre-qualified line of assistance or social protection which kicks in automatically when certain crisis triggers are breached*. This is analogous to the Fund’s FCL—an SPFCL. There are some Bank instruments and current initiatives that are attempting to address these concerns. The point is to take a more systematic and sustained approach.
Conclusion (1)

• The Crisis is BIG on all sorts of indicators.

• It will indeed affect development thinking, but along lines that are already being followed as the result of the experiences of the last two decades.

• Moreover, if history is any guide, the massive expansion of the state in response to The Crisis will generate its own counter in debate and thinking and action in the decade to come.
Conclusion (2)

• Although The Crisis will pass, Crises will not.
• We need to use the opening created by The Crisis to put in place mechanisms for protecting the poor during Crises, which will have a multitude of origins and will strike unpredictably.
• Perhaps the biggest service that The Crisis can render is to orient development thinking and development policy to protecting the poor in the face of unpredictable Crises, which are set to be the new normal in development.
Thank You!