

INCLUSIVE DEVELOPMENT: AN AGENDA

**CONFERENCE ON
DEVELOPMENT POLICY
OPTIONS IN MYANMAR**

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MOMENT OF OPPORTUNITY

- **Changing global landscape—new openings**
 - **Opportune moment, with robust Asian growth**
 - **Even if slightly slower than in 2011**
- **Valuable natural resources**
- **New inflows of aid**
- **Myanmar has the advantage of learning from the successes and failures of others**
 - **Unburdened by some of the “legacies” that encumber other countries**

BUT SPECIAL CHALLENGES

- **Human capital**
 - High “literacy” but failure to invest adequately, renewing human capital
 - Miniscule fraction of budget going to education
- **High levels of poverty**
- **Lack of depth, competitiveness of market**
- **Need for new institutional structures**
 - For formulating and implementing economic policies
 - Need for new legal systems
 - A rule of law that works for most citizens

- **Challenge is to confront the limitations of the past but using the new opportunities afforded**
 - Building on Myanmar's existing strengths (rich land, good weather, hard working people, strong social capital)
 - To transform Myanmar's economy
 - In ways that promote sustainable development
 - Which benefit all of its citizens
 - Consistent with basic values

GIVEN THE LIMITATIONS, IT WILL BE IMPORTANT TO SET **PRIORITIES**

- But successful development programs have to be comprehensive
- With a clear view of objectives
 - Not just an increase in GDP
 - GDP is not a good measure of economic performance and social progress
 - International Commission on the Measurement of Economic Performance and Social Progress
 - Growth must be equitable and inclusive
 - Poverty reduction
 - Increases in median income
 - Including minority regions
 - Will be especially important for national reconciliation
 - GDP can go up, even when poverty increases and median income decreases

■ **Growth must be sustainable**

- **Environmentally sustainable**

- **Socially sustainable**

- **Economically sustainable**

PRIORITIES

- Foreign exchange
- Agriculture
- Natural resource management
- Competitive business sector
- Finance
- Education and health
- Legal structures
- Infrastructure
- Development in all of the parts of the country
- Policy formation and implementation

OUTLINE OF TALK

- I. **Broad overview of lessons from successes and failures of development during past forty years**
 1. Policies, institutions (role of state), governance
 2. Poverty

- II. **Analysis of a few of the priority issues**
 1. Natural Resources
 2. Agriculture

I. SOME BROAD PERSPECTIVES

- Last 40 years has shown that development is possible—beyond what anybody thought
 - With poverty reduction
 - And most participating in the gains, not only in income, but in education, health, and other aspects of quality of life
- But development is not inevitable
- And growth is not necessarily inclusive
- Policies and institutions matter
 - But there are ongoing debates about what are good policies and institutions
- No magic formula, but a number of common characteristics

SOME CHARACTERISTICS OF **SUCCESSFUL** ECONOMIES

- **High savings and investment**
 - Including in infrastructure
 - Especially important to connect farmers/fishermen to markets
- **Heavy investments in education and technology**
- **Shared benefits of growth**
 - Land reforms and, in early stages of development, increasing agricultural productivity
 - Educational opportunities

SOME CHARACTERISTICS OF **SUCCESSFUL** ECONOMIES (CONT.)

- **Balanced role between market and state**
 - Market-oriented economies
 - With governments playing a central role in promoting development
- **Pragmatic**
 - Gradualism rather than shock therapy
 - But gradualism doesn't mean paralysis
 - And change (like China's rural reforms) happened *very* rapidly
- **Comprehensive approaches to development**

MANY DIMENSIONS OF POVERTY

- **Income**
- **Insecurity**
- **Voice**

...and many manifestations

- **Malnutrition, stunting**
- **Lack of access to health**
- **Lack of access to education**

SOME BIG LESSONS

- **Growth is necessary but not sufficient for long-term poverty reduction**
 - Trickle down economics doesn't work
 - If growth is accompanied by an increase in inequality, poverty can even increase
- **Policies matter**
 - Some policies that were argued for (e.g. by Washington Consensus) did not promote sustained growth and may have increased inequality
 - Inadequately regulated capital and financial market liberalization

GOVERNANCE MATTERS

- **Successful development requires an important role for the state**
 - **Markets alone don't work**
 - **And government has to go beyond setting rules of game**
 - **Not only a restraining role (e.g. in financial sector regulation)**
 - **Not only a market enhancing role (e.g. through competition policy and providing credit to SMEs)**
 - **But also a catalytic and constructive role**
 - **Successful development states**
 - **But even in setting rules of game, “governance” matters**
 - **Wrong rules can lead to more inequality, higher instability, lower growth**

MARKET FAILURES AND PUBLIC FAILURES

- **There are both market failures and public failures**
 - **Simplistic solutions of “privatization” failed**
 - **Particularly serious problems in the privatization process itself**
 - Can give rise to cronyism
 - New source of inequality
 - May not even lead to increased efficiency
 - **And when it succeeded, it was often because of easing capital constraints imposed by poor budgeting/accounting frameworks (often imposed by IMF)**
 - **Important agenda of improving the performance of government (“reinventing government”)**
 - **Including reforms in political processes**

THE ENDOGENEITY OF GOVERNANCE

- **To a large extent, good governance is an endogenous variable**
 - **Some states are rent-seeking/predatory, others are wealth-creating**
 - **Affected by wealth, inequality**
 - **In societies marked by a high degree of inequality, state may serve to preserve inequality, more likely to be engaged in rent-seeking**
 - **With less confidence in state, state is likely to be smaller**
 - **Absence of “public goods”**
 - **Growth will be slower and less inclusive**
 - **Successful cases: Scandinavia**

SOCIAL CAPITAL MATTERS, TOO

- **Societal performance depends on more than just government and the private sector**
- **We may not know precisely how to build social capital, but there are policies that can undermine it, and other policies that can enhance it**
 - **Well designed micro-credit schemes can enhance social capital**
 - **Poorly managed globalization/urbanization strategies can undermine it**
- **Myanmar begins with a good base of social capital**
 - **Important to strengthen civil society, by enhancing its role**

DEVELOPMENTAL INNOVATIONS

- Conditional cash transfers
 - Micro-credit
 - Improved cooking stoves—impact on health, climate change, environment, burdens on women in gathering women
 - Oral rehydration therapy
 - Social forestry
 - Micro-nutrients
 - Rural Guaranteed Employment Scheme
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- These innovations have very high benefit cost ratios
 - Myanmar needs to explore which of these are relevant for the country, and how they can be adapted to Myanmar's circumstances

II. SELECTED DEVELOPMENT ISSUES

- 1. Natural Resource Management**
- 2. Agriculture**
- 3. Human infrastructure: Education and health**
- 4. Institutional infrastructure**
- 5. International Economic Engagement**
- 6. National Reconciliation**

1. NATURAL RESOURCE MANAGEMENT

- Myanmar's good fortune—rich endowment of natural wealth (oil & gas, fertile land, forest, access to sea)
- Many countries, however, have not done a good job of managing their natural resource wealth
 - So much so that it has come to be called the “Natural Resource Curse”
 - Problems posed by price volatility, exchange rate appreciation, misspending of money
 - The result is that on average, countries with large resource endowments often grow more slowly
 - And are marked by high levels of inequality
 - But all of these can be managed—a few successful countries have succeeded in high growth and low inequality and poverty

MANAGING THE EXCHANGE RATE

- **Key is to avoid “Dutch Disease”**
 - Upward pressures on exchange stifles development
 - Exchange rates have to be managed—part of the key to the success of China and other East Asian countries
 - Can best be done through a unified exchange rate system
 - Lack of a unified exchange rate impairs transparency and effective budgeting
 - Lack of effective budgetary controls can contribute to inflation
 - But even black market rates can be managed—don’t have to wait until exchange rate unification

- **If a country doesn't reinvest wealth below ground above ground, country is poorer, growth is not sustainable**
- **If country doesn't invest revenues in its people, the country can become a rich country with poor people**

- **Myanmar has especially good opportunities for using some of these resources to promote a comprehensive development agenda**
 - **But if this is to be done, revenue has to be used for development**
 - **More likely if budgetary processes are transparent**
 - Myanmar should sign on to the EITI (extractive industries transparency initiative)
 - **And government must make sure that it gets from the natural resources the maximum revenue**
 - Many contracts “cheat” developing countries
 - **Substantial increases in budgetary allocations to health and education would show Myanmar’s commitment to inclusive development, which in turn might elicit more foreign assistance**

- **But country shouldn't rely *only* on natural resource revenues—needs to enhance tax revenues**
 - Signs of significant progress
 - Critical issue: design of a fair and efficient tax system
 - Cannot in 21st century rely on labor levies

2. AGRICULTURE

- **With so much of the economy dependent on agriculture, with so many of the poor in the rural sector, agriculture has to play a key role**
- **A successful agenda needs to be comprehensive**
 - Marketing
 - Issues of land
 - Credit
 - Technology
 - Infrastructure
 - Health and Education
 - Non-agricultural employment

- **Substantial portions of revenues from natural resources should be reinvested in agriculture**
 - Finance for rural credit
 - For health and education
 - For extension services
 - For infrastructure
 - Ensuring that all those working in private and public sector get a living wage in return for their services

- **Combined with foreign exchange, land reform, and other reforms**

INCREASING PRICES THAT FARMERS RECEIVE

- **Key to improving standards of living**
- **Physical infrastructure, particularly connecting rural areas to cities/townships**
 - Roads, irrigation, electricity
 - Lower port costs
- **Reduce margins—more efficient intermediation**
 - Requires a more competitive business sector—or direct government intervention
 - Licensing restrictions counterproductive

SMALL SCALE FARMING

- **If there is access to credit and technology, small scale farming is generally more productive than large scale farming**
 - Better incentives
 - Avoids “agency” costs—need to supervise and monitor
- **Small scale farming also likely to be more successful in promoting better livelihoods, sense of well-being, of most of those in rural sector**

LAND REFORM AND LAND MANAGEMENT

- **Land reform is basis of most successful development**
 - Korea, Taiwan
- **Lack of access to land major problem and increasingly so**
 - Likely to lead to increase in inequality, poverty
 - Variety of social and economic pressures
 - Contributes to lower productivity
- **Successful land reform (land to the tiller) needs to be accompanied by other reforms (access to credit, technology)**
- **Can be done in a variety of ways**
 - If done right, can increase productivity, reduce poverty and vulnerability
 - This might be a good time for such a reform
 - Have to prevent reversal of land reforms (which have occurred in other countries)

■ Need to create clearer land rights

- Abuses of the “rule of law” weaken willingness of responsible firms to invest in country
 - Insecurity of land tenure leads to underinvestment in maintaining land’s productivity
 - Perceived inequities can be a major source of social unrest
 - Abuses can be a major source of inequality
 - Clear and transparent procedures for exercising right of eminent domain (throwing farmers off their land)
 - Only for public use/purpose, carefully defined
 - With full compensation
 - With attention to others who might be adversely affected
 - With a clear distributive analysis of who would benefit
 - And procedures for recapturing “excess” benefits for public purpose
- **Land is key national resource, and mismanagement of land and the resources on and in it is an example of the natural resource curse**
- Evident in some other countries in region

CREDIT: WHY IS IT SO IMPORTANT?

- **Deficiencies in credit markets**
 - May hamper access to “working capital”—seed and fertilizer
 - Fertilizer use already low
 - Lack of credit may contribute to Myanmar’s productivity being less than it should be *given its natural advantages*
 - Loss in position as one of the world’s greatest rice exporters
 - May create more casual laborers and lower their incomes
 - Lack of capital will mean that those with land will be less willing and able to hire casual laborers
 - Leading to less employment and lower wages
 - Increasing adverse consequences of landlessness

IMPROVING CREDIT MARKETS

- **Reforming government provision and expanding private provision**
 - Important to reduce reliance on exploitive money lenders
 - Key reform: access to greater quantities
 - Efficiency: slightly positive interest rates
 - Opening door for a regulated, diversified competitive financial sector
 - Both private, state and cooperative
 - Cooperatives have played a central role in many economies
 - Building on Myanmar's strong social capital
 - Would lower cost of funds and improve supply of funds compared to the reality of today's market
 - Regulations need to prevent abuses, ensure soundness of financial institutions, etc.

MICRO-CREDIT

- **When successful, more than just finance, a transfer of cash**
 - **Consumer loans could lead individuals to be more indebted, poorer**
 - **Most successful programs have had a broader developmental agenda (including promoting social capital)**
 - **Alternative (and more successful) approach to providing credit and promoting development than “legal entitlement” (DeSoto) approach**

BEYOND MICRO-FINANCE

- **Micro-finance is important, but financial development needs to go further**
- **Need for safe savings vehicles (consumption smoothing, risk amelioration)**
- **Other insurance products**
- **Loans large enough to begin business development**

3. HUMAN INFRASTRUCTURE: EDUCATION AND HEALTH

- A country's people are its most important resource
- Human development—the object and means to development
- By some accounts, very large fractions of those in the rural sector are malnourished
- The country has not been reinvesting in its people adequately
 - While increases in health and education budgets welcome, amounts are still too low
- Social safety nets
 - Protecting the vulnerable
 - Especially important in countries with large numbers living at or near poverty and/or already suffering from food insecurity and malnutrition
- Ensuring that natural resource rents are used for public purpose and eliminating distortions associated with foreign exchange rate system would provide necessary revenues

4. INSTITUTIONAL INFRASTRUCTURE

- **Needed to make markets work like markets**
 - **More than property rights**
 - **Competition laws, effectively enforced**
 - **Financial sector regulations, to prevent instability and abuses**
 - **Key will be eliminating distortions in foreign exchange markets and import and export licensing arrangements, remove and liberalize the restrictions that now exist in the current account transactions of the country's balance of payments, other government restrictions**

5. INTERNATIONAL ECONOMIC ENGAGEMENT

- **Prospect of significantly enhancing country's development**
 - **Technical assistance can help temporarily with some capacity constraints**
 - **A variety of forms of assistance could also be helpful**
 - **Education, health, aid for trade**
 - **Carbon credits—to help maintain forests, biodiversity, ensure that growth is environmentally sound**
 - **Improved understanding of how to make aid more effective**
 - **Attention to “Dutch Disease” effects of aid**

- **While removal of sanctions would be helpful, sanctions are not major impediment to growth, or even to FDI and trade**
 - Internal distortions and impediments discussed elsewhere in this lecture are more important
- **Myanmar needs to set standards for foreign firms (and domestic firms)**
 - Labor standards, environmental standards
 - Otherwise, FDI may not enhance growth, but simply take out resources, leaving the country poorer
 - High standards will enhance country's standing

6. NATIONAL RECONCILIATION

- Peace settlements could lead to large peace dividend—more money to pursue inclusive development agenda—and enhance stability and security
- National reconciliation/effective demobilization will require development in former conflict zones
- Fair sharing of natural resource revenues
 - Standard issue in the economics/politics of natural resource management
- Should, in any case, be part of inclusive development strategy

POLICY DEVELOPMENT AND IMPLEMENTATION

- **Priorities and sequencing**
- **Taking into account capacity limitations**
- **And resource availability**
- **Attention to *learning and transformation*:**
 - *What policies and investments are most likely to facilitate the country's long-term development trajectory?*
- **Attention to *distributive consequences***
 - *What are the distributive consequences of each policy and investment?*
 - *Is it pro-poor?*

■ Attention to rent-seeking

- *What is the scope for rent-seeking in the policies and investments, and are there ways of designing policies and investments to curb rent-seeking activities?*

- Rent seeking undermines development
- Creates inefficiencies
- Enhances inequality
- And undermines credibility
- Current licensing restrictions, exchange rate system is a major source of rents

- A strong media and civil society can be an important component of a successful process

CONCLUDING REMARKS:

ENORMOUS POTENTIAL FOR GROWTH

- Reducing distortions in economy, ending isolation, restoring investment to more normal levels, improved spending of government money, ending conflicts and national reconciliation
- Augmented by increased revenues from natural resources and increased assistance
- Could bring a new era of prosperity to Myanmar

WHAT IS NEEDED TO ACHIEVE THIS SUCCESS

- **Better data to assess what is happening in the economy and society**
 - Establishing a non-politicized statistical agency
 - Going beyond GDP
- **A national dialogue on priorities and possibilities**
 - In which civil society and think tanks should play a central role
- **A comprehensive agenda focused on inclusive and sustainable development**
 - I hope this lecture has provided some insights into some of the elements of such an agenda