Until recently, the trend in development policy circles has been to focus on the question of poverty, and to suggest that inequality is interesting, but that perhaps it really does not matter. In the 2007 Wertheim Lecture, Jomo K.S. re-examined the role inequality plays in development and human welfare.

Making Poverty History? Unequal Development Today *

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In 2005, a couple of things happened which changed the debate on the relationship of poverty to inequality. Very prominently, the World Bank published the *World Development Report* on the question of equity. Before that, the United Nations had published its biennial *Report on the World Social Situation* entitled *The Inequality Predicament*. Both these volumes focused on the question of inequality and advocated equity, despite very important differences between the two: the World Bank report advocates what it calls 'equal opportunity', whereas the UN report puts a great deal of emphasis on the structural determinants of inequality in the global system. Nonetheless, the impact of these two volumes was to re-legitimise attention to the question of inequality. There has also been some very important work completed recently at the World Institute for Development Economic Research in Helsinki on the question of wealth inequality. This research, a preliminary estimate on wealth inequality, shows that the levels of concentration of wealth throughout the world are much higher, and have been growing perhaps even faster, than the concentration of income.

Does inequality matter?

Despite these important studies and important findings, we find that there are very influential people who continue to insist that inequality doesn't matter. For example, Professor Xavier Sala-i-Martin from Columbia University, who has written a bit on the question of inequality, has made this kind of argument. Moises Naim, the former foreign minister of Venezuela, a self-proclaimed social democrat and editor of the influential journal *Foreign Policy*, makes a similar argument. Let me emphasise that income inequalities have undoubtedly grown very considerably over the last couple of centuries. It is true, of course, that there have been significant inequalities over the millennia. Economic historian Angus Maddison has made important arguments about the growth of inequality over the last two thousand years and suggests that the ratio of inequality between the richest economies and the poorest economies of the world was barely more than two to one until about five centuries ago. It only began to accelerate about two hundred years ago at the time of the industrial revolution - initially in the United Kingdom. In this regard, it's important to refer to the work of the Indian economic historian Utsa Patnaik who has shown the significance of capital transfers from places such as the Indian subcontinent and the British West Indies to Britain, and how important such capital transfers were for the initial capital accumulation which contributed to the industrial revolution. Others emphasise what might be called the imperialism of free trade, from the middle of the 19th century, after the industrial revolution had consolidated British manufacturing hegemony.

Unfortunately, there is no straightforward way of talking about economic and social inequality. Like poverty, it is multidimensional and not confined to one value or one region. Many inequalities exist in society and at all levels – from income, wealth and resources, to gender, ethnicity, access and opportunity. I think it is useful for us to remind ourselves of what people mean when they say they are talking about global inequality. For some, they are simply talking about average per capita incomes, usually national averages. Another approach weights national averages by population. So, for example, a country like China, with more than one billion people, would be weighted differently to a country like Suriname with its very different population size. This is the most common method being used. A third method - pioneered by Branko Milanovic at the World Bank - is to compare individual or household incomes globally. Because of his access to household surveys for many countries in the world, he has been able to estimate what these household incomes would look like.

Palliative or developmental aid?

There is a strong tendency to talk about aid and development in terms of mitigating the worst elements of poverty and human welfare. I would like to suggest that while this is certainly important from a humanitarian point of view, this kind of approach tends to be palliative. It doesn't necessarily enhance the economic capacities and capabilities of the economies and people concerned. One must distinguish between these palliative approaches on the one hand, and a much more developmental approach on the other. There is now a broad consensus that no 'one size fits all', that there is no single unique model of development, and that what we really need to do is to look at the context in which development is to take place before addressing appropriate policies. A couple of years ago at the UN, the heads of government came together in September 2005 and committed themselves to formulating and implementing national development strategies. One might think this typical international rhetoric, and to some extent, it might well be, but its significance is twofold: firstly, national ownership of public policies, affecting development, is not something which one should presume or take for granted, especially in many poorer and smaller countries. Most public policies adopted by many developing country governments are policies imposed upon them by the international financial institutions, such as the World Bank and the International Monetary Fund (IMF). Secondly, the scope for all public policy initiatives has been very severely constrained by the many developments which have taken place in international economic governance, e.g. through the World Trade Organisation (WTO) which is significantly different from its predecessor, the General Agreement on Tariffs and Trade (GATT). So, the ability to elaborate and implement truly national development strategies is not something which is without significance.

Let me now turn to recent trends in inequality. It is quite possible, with the many different definitions available, for inequality to be reduced by one measure, but not another – e.g. by using inter-country in contrast to inter-household comparisons. There has been much higher growth in some countries (especially in Asia) with relatively large populations, most notably, China, India and Indonesia before the last decade. Even though you may have increasing inequality in each of these three countries, you can have overall global inequality going down by various measures. And this is precisely what has actually happened. Overall inter-country inequalities have gone down because we are looking at national averages, rather than looking at the inequalities within each country. This might seem counterintuitive for a moment, but if you think carefully about it, it wouldn't surprise you. Hence, for people like Branko Milanovic, Bob Sutcliffe and

others, what one can conclude about global trends in inequality depends crucially on one's definition of inequality.

Income inequality has undoubtedly increased in most countries in recent decades, and for the 1990s, it has increased in all major groups except a few Northern European economies characterised by relatively lower inequality, and a few economies in the Middle East and North Africa with much higher inequality. For the rest of the world, wherever evidence is available, it is quite clear that intra-country inequality has grown. What has this meant for human welfare? Growth during the last two decades of the 20th century (for which we have data) has been much slower compared to the previous two decades: the 1960s and 1970s - the period associated with the Keynesian 'golden age'. Welfare improvements have generally been much more modest since the 1980s. Poverty reduction has therefore been slower, with reduced growth and with worse distribution. It is true however, that the last five years have seen increased growth, including in many developing countries. This has been an exceptional period, and much of it is due to two factors: 1) increased prices of primary commodities, and 2) the lower cost of finance because of the US Federal Reserve's efforts to reduce interest rates in the US since 2001, affecting the entire international financial system. As a consequence, there has been higher growth in many developing countries, but inequalities have increased and poverty persists. There has been little significant reduction in overall rates of poverty. Another contributing factor is the new phenomenon often called 'jobless growth'. In other words, there has been relatively little employment growth despite overall economic growth. And without employment growth, it is very difficult to conceive of poverty being reduced on a sustained basis.

Now, we come back to the significance of Asia. If you look at global trends in inter-country inequality, there is no clear trend when you include China. But once you take China out of the picture, the picture changes radically and you have a huge increase in inequality at the global level. So the apparent lack of a clear trend in global inequality is largely due to China. The role of India is much less significant.

Defining poverty

Earlier, I suggested the significance of the definition of inequality; it is also important how we define poverty, and poverty is defined variously by different important protagonists. For example, Martin Ravallion of the World Bank defines poverty using the 'dollar a day' benchmark. Surjit S. Bhalla, a conservative economist in India, points out that the national income accounts are not compatible with income surveys. He claims that this incompatibility is a very recent phenomenon, and then argues that the World Bank is exaggerating the extent of poverty in the world to keep itself in business. In contrast, Amartya Sen suggests that it is not useful to use any kind of money-metric measure of poverty. Instead, he suggests that needs-fulfilment is the more useful measure.

Following from this, we then have very different understandings of what constitutes pro-poor growth. Martin Ravallion from the World Bank suggests that any growth (it does not matter how much) which increases the welfare of anyone considered poor, should be considered 'pro-poor'. Nanak Kakwani, until recently at the International Poverty Centre in Brasilia set up by the UNDP, suggests that for growth to be considered 'pro-poor', the share of growth accruing to the poor should be at least equal to the poor's share of income. So, if, for example, the poor get 10 percent of total income, for growth to be considered 'pro-poor', over 10 percent of growth or additional output should accrue to the poor. Woodward and Simms from the New Economics Foundation (nef) in London have a different definition which most mainstream economists would have great difficulty with. They suggest that for growth to be considered 'pro-poor', the share of growth should be at least equal to the poor's share of the population. So, if the poor in a country constitute half the population, at least half of the additional output should accrue to the poor for it to be considered 'pro-poor'. That, of course, is very unlikely to happen.

Making poverty history?

There is a tendency for poverty to contribute to a vicious cycle. When conditions are desperate, the likelihood of civil conflict taking place increases, and there seems to be a very strong relationship between poverty and the likelihood of civil conflict occurring. In 2005, the UN summit made a strong commitment to what are called the internationally agreed development goals, including - but not only - the Millennium Development Goals. The member states of the UN felt that there was a need to re-commit to the broad range of commitments made during the 1990s and the first half of this decade. A strong commitment was made to encourage national development strategies which should involve far more national ownership and policy space, and not to simply rely on the so-called poverty reduction strategies associated with the World Bank and the IMF. This was as a result of a general recognition that the Bretton Woods institutions' macro-economic framework is really wanting - in terms of economic development and growth as well as in terms of human welfare. More than 75 percent of Poverty Reduction Strategy Papers do not even have an employment component. It is inconceivable how one seriously expects to reduce poverty without increasing employment. Unfortunately, however, we find that the global economic agenda continues to be dominated by the powerful countries in the world and the international institutions they control. Moreover, the agenda items often emphasised in world trade negotiations include questions such as trade liberalisation, foreign investment protection, capital account liberalisation, financial liberalisation more generally, and strengthened intellectual property rights - - all of which contribute to slowing down development and exacerbating inequality and poverty. Meanwhile, the issues considered important to developing countries rarely make it to the international agenda for negotiations. The Doha round is now recognised as not being, in any serious sense of the word, developmental; the Washington consensus is certainly not considered to be developmental or equitable. International economic stability is generally acknowledged as having actually

worsened in the last quarter century. There has been some progress in debt relief, but it is not very meaningful. Capital flight continues to be a huge problem, and the idea that international financial liberalisation can reverse capital flight is recognised as being far from reality. It is like opening a bird cage and expecting more birds to fly in, than to fly out. Finally, we find that the agenda for international economic governance continues to be dominated by the rich. So, if we are serious about making poverty history, we really need to study the history of development. There is a need to recognise what is developmental, as opposed to what is palliative and welfare oriented (as important as that might be from a humanitarian point of view). There is a need to recognise that one size does not fit all. There is a need to eschew the mainstream orthodoxy and to favour common sense, and to proceed with what might be termed cautious experimentation. For this, national ownership and policy space are crucial. Growth is necessary, but certainly not sufficient, and the questions of distribution and accountability are generally recognised as important. National and international activism, I would like to suggest, are crucial. Coalitions involving civil society, especially from both the North and the South, can make a huge difference in shaping things - we have seen how discussions of international economic governance have changed, especially since Seattle. I think we owe Professor Wertheim a great deal in this regard. He stood for original and independent scholarship, but also a sustained partisan engagement and advocacy to which we are all indebted; and very importantly, an element which I personally most appreciate – especially because it is so rare in academic circles - a humility and modesty, despite his greatness.

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