



Moral Capitalism at Work

**Business and Public Policy Round Table
September 12, 2013
University Club of St. Paul**

**“Global Economic Development: What Has Been Achieved?
What Has Yet to be Done?”**

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Special Guest Speaker: Brian Atwood, former Chairman, Development Assistance Committee, OECD

Key Comments:

In the development arena, it is necessary to consider not only events and flows in the contexts where assistance is received, but also major occurrences and unfolding trends in donor contexts. In recent history, major donors were hit by September 11th, the collapse of Lehman Brothers, the aftermath of the 2008 Global Financial Crisis, increases in debt and unemployment, etc. At the last G20, for the first time, summit leaders started considering development cooperation as piece of global economic recovery. Middle and low-income countries with development needs are perhaps playing a role in our recovery.

While this outlook is hopeful, inequalities can be dramatic in developing markets such as China, India and Brazil and poverty rates can be extreme, with 42% of the population living under \$1/day. African countries have been doing particularly well due to minerals, oil and governance. To be successful, countries need to raise money domestically through taxes. But, if a country is going to own its own development programs, there must be a base relationship of trust.

Inequality can be extreme in developing countries, but dramatic inequalities exist in Western countries, as well. The wealth of the top 1% of the U.S. economy is growing at a rate of 20%, while that of the bottom 99% is growing at a rate of only 1%. While inequalities exist in the West, one significant difference is that the West has strong institutions. When looking at developing economies, weak institutions are commonly seen. The 2012 book *Why Nations Fail* goes into more detail regarding the complexities involved, but it usefully talks about two types of institutions: extractive, designed to extract as much from the population as possible to serve a powerful elite, and inclusive, designed to encourage pluralism and broad-based, sustainable growth. Aside from far-reaching government and economic systems, an important factor is whether systems are in-place that serve the private sector: rule of law, customs systems that enable trade, a fair tax system, regulations (but not over-regulation), a government that watches over the economy, but does not intervene unless necessary, etc.

Some of the biggest issues faced by Atwood in his years of experience regarding assistance effectiveness involved getting non-Development Assistance Committee (“DAC”) members involved, ownership (if a country isn’t committed to truly strengthening its own institutions, it is unlikely that investments from outsiders will work), and extractive systems characterized by intrusive governments and parasitical companies tied to a deeply engaged government military. Additionally, persistent problems that keep other problematic factors in-place are poor education and poor health care systems. Corruption exists in every country, but even in a very corrupt society, some level of support needs to be filtered to the people. When you take on power elites in the interest of public service, there are a range of risks and potential ramifications.

How, then, do you put in place effective programs? Key factors involve mutual accountability, measurable and measured results and working with a partner who truly wants progress. In development, everything is connected to everything else – good education, health care, environmental management or degradation and the unequal distribution of wealth. Conditions that break down the stability of society impair development; social cohesion is needed for sustained results.

Spending too much money on mitigating and finding ways to accommodate climate change are impacting developing countries more than the U.S. Out of \$130 billion, about \$20 billion is being spent on climate change, which is not enough. One challenge, then, is how to find more resources to work on climate change. For example, a market-based solution, where carbon has a price, would be advised.

Foreign assistance now represents only 13% of all the flows that go into developing countries, a percentage that has gone down in recent years. Aid hit a high water mark in 2010, with Western countries trying to compensate for the impact of the global financial crisis. Aid is impacted by the private sector in terms of whether or not the private sector sees value in investing. If individuals or companies are going to invest, they want to know that there will be a fair tax rate, a minimum amount of corruption, a decent work force, etc. While foreign assistance is only 13% of flows, it is important in assuring that trade is open, countries have markets for their goods, financial arrangements are fair, individuals and businesses have access to credit, facilities are in-place that enable feasibility studies for infrastructure investment, etc. This is all part of the agenda for donor countries and the G20.

In the West, population numbers are going down. Developing countries are important future markets. Developed countries are only investing at about half of the suggested rate. In terms of future workers and markets, aid becomes a strategic issue for the U.S., China, Brazil and India. There is also interest in developing a foundation-styled system with applications. In particular, China is taking an interest in measuring results as they strive to work on development within their own country and in other countries, as well.

Questions and Discussion:

Corruption

Transparency International does assessments to see if systems are transparent, efficient, etc. When we think of corruption, we often think of law enforcement, but an important related issue is efficient, transparent systems. The question is not merely, “does corruption exist?” But, “does the opportunity for corruption exist?” Accountability is key. If civil society is strong in a country, it will keep the government accountable. Freedom of speech, therefore, becomes a necessary component.

One difficulty is that recipient countries, even if they were giving foreign aid, could not be part of the DAC. This rule was changed, so recipient countries can now participate. Now we need to encourage countries to join the OECD. Given the association of the OECD with wealth, poorer countries are hesitant to join. Now that the Secretary General of the OECD is from Mexico, the organization perhaps has more credibility in trying to convince other developing countries to join.

Losing Hearts and Minds

In-country soft power does a lot of good. The image of the U.S. is negatively impacted by a lot of things. In reaction to September 11th, we’ve gone a bit overboard and that has cost us. Soft power has done a lot of good. Our aid program is now up to 30 billion dollars annually and people on both sides of the aisle realize that the things we’re doing help our image. Aid is not just a matter of humanitarian impulses – if we are going to stabilize communities and build markets without having to commit troops, aid helps. Humanitarian relief is also more popular among the American people. When we see images of people suffering, our impulse is to help.

Self-Sustainability for Africa

This will be a challenge, due to Africa’s population growth rates. Africa is growing faster than any other region of the world. In terms of future planning, taxes are important, as is the region’s tremendous mineral wealth. Norway is helping some of the new oil-rich countries in Africa learn how to manage resources and invest in other productive aspects of the economy. The need for infrastructure remains high.

Population growth in Africa is averaging about 3.5% and Africa has become a net importer of food, despite having 60% of the world’s uncultivated farmland. In the last 40 years, there has been almost no increase in yield in Africa, whereas in India, China and elsewhere, yield has improved. How do we address improving yield? Much focus has been placed on pre-harvest processes, such as improving seeds, etc., but we need to focus also on post-harvest processes, such as storage, transport, etc. We need to get large organizations interested in the loss of the potential yield of food in Africa.

For example, Nigeria used to have an agriculture-based economy, which has shifted to an oil-based economy. There are great local markets for agricultural products that aren't being exploited. As a result of the 2008 financial crisis, food costs soared in developing countries, exacerbating these problems.

There has been a recent push in developed countries for organic farming and yet, there is perhaps a tension between this desire and the desire to maximize yield to feed those in need. Here, the debate is somewhat related to climate change. If one is buying a food product in the developed world, one can ask how far it traveled, etc. In other countries, they don't have the luxury of considering these issues. But, as these countries develop their agricultural sector, their appetites also change. In China, many now have a protein-based diet. They are now importing a lot of food. Free trade and better understanding are advantageous to our own agricultural sector Green Revolution. The issue becomes both about the quantity of food in the world and the distribution system.

Economic Development Success Rate

Has economic development increased wealth for the majority of populations? There has been growth, but not equal growth, while the poor continue to suffer. While half of extreme poverty has been eliminated, there remains a lot of work to do. Economic disparities are also present in donor countries, with the U.S. having one of the most polarized economic situations.

If failed institutions are a key factor to whether or not an economy is going to succeed, is there any agreement regarding what constitutes success or failure? Institution-building is one of the main issues of development donor agencies. Yet, the success or failure of development work does not hinge on the success or failure of a single institution. A combination of healthy institutions is needed to create a society and oftentimes, corruption is systemic. Healthy institutions support and reinforce each other and an array of foundational practices. Corrupt institutions drag down one another and enable destructive practices.

If you are assessing economic development, it is important to look at the lowest quadrant of society. What impact are you having on the poor? Labor unions play an important part in this. Another concern is "Brain Drain." Remittances from family members working abroad are an important flow back into an economy, but what costs are related to achieving this flow? If resources are poured into one child who goes abroad at a detriment to others who do not receive quality education or opportunities, there is potentially an overall loss within the larger society. Another component is that if students educated abroad do not see opportunities in their country of origin, they may choose not to go back. This means that the home society loses out on individuals who would potentially make significant contributions.

A lot of funds and resources are by necessity filtered into disaster relief. This is an important investment that is saving lives. However, it could have a greater impact if it were coupled with longer-term support to guide communities on a path of post-disaster development. This type of support can be difficult to obtain because elected officials need to make a case for funding projects that do not produce immediate results and therefore, are not as useful during regular election cycles.

International family planning assistance is another important area that suffers from the political dynamics in the U.S. The Helms Amendment prohibits U.S. support of abortion services as part of foreign aid, yet these services are needed in conflict areas. Twenty six thousand rape victims die annually in conflict zones as a result of botched abortions. Even domestic laws and policies allow the use of funds in instances of rape, incest or to save the life of the mother. Those exceptions don't apply in conflict zones and aid workers feel that they can't be of any assistance to these women.

Measuring Results

We are investing more money on measurement today than ever before and we need to continue. An important aspect of assessing impact and results is to broaden our work from simply tracking quantitative measures to assessing qualitative results, a move to measure not just inputs, but outputs, as well.