EARTH ECONOMICS BRIEF ON GENUINE DEVELOPMENT

Development ultimately must mean the qualitative improvement of the living conditions of this and future generations. A starting point must be the goal and strategies for eradicating poverty and sustaining the ecological systems that support economies. Imagine the implications. Consider the impact on nearly every social ill conceivable. Eradicating poverty would reduce disease vectors, slow migration pressures, cut crime rates, strengthen social cohesion, and protect local environments, all with local, national, and global implications. Poverty eradication would simultaneously promote and emerge from a society of ecological sustainability, social justice, economic resiliency, and participatory governance. Reducing poverty does not just benefit the poor, but could promote the kind of society and opportunities conducive to a high quality of life for all.

The eradication of poverty, or at least its reduction, has been an implicit or explicit goal of the post-World War II international and domestic development agencies of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank) in 1945. These Bretton Woods institutions combine with global trade agreements stretching from the General Agreement on Trade and Tariffs (GATT) to today's World Trade Organization (WTO), multilateral trade pacts such as the North America Free Trade Agreement (NAFTA) and the recent Central America Free Trade Agreement (CAFTA), and regional development institutions such as the Inter-American Development Bank (IADB), to form a pro-development conglomerate that has been either directly or indirectly addressing poverty for now over 60 years.

Nearly all of these efforts can be boiled down to a legacy of top-down, industrial, export-led policy nearly universally pursued in the name of targeted economic growth, but not necessarily qualitative development for all. Strategies creating the conditions for private investment at the higher income echelons of society for the wealthy were thought to benefit the poor by stimulating national economies, creating industries and jobs to meet demand from high income consumers, and re-investing profits in growing economies with high returns relative to the rest of the world. The macroeconomic conditions to support this trickle-down ideology have come to be known as the Washington Consensus, and include the broad prescriptions of fiscal austerity, privatization, and market liberalization – so-called structural adjustment.

In practice, fiscal austerity meant dramatic cuts in social programs in the name of controlling inflation and protecting the value of global investment. Privatization converted public enterprise with broad public benefits into individual ownership with narrow private benefits in the name of global competitiveness. Market liberalization cut support to agriculture, health, and education, and removed restrictions on capital mobility in the name of global comparative advantage. The lower and middle classes of societies were meant to benefit, but only indirectly as a wealthy class developed and national economies were globally integrated through free trade.

For the poor, these macroeconomic prescriptions translated into what development economist Fantu Cheru (1989) called the "progressive modernization of poverty". Low income families have become more dependent on a volatile global marketplace, more likely to migrate to urban areas in search of jobs stemming from a comparative advantage of low wages and few labor and environmental laws, and less able to access clean water, stable food supply, safe shelter, health care, and education. For the middle class, these macroeconomic prescriptions very often have translated into declining real incomes, greater macroeconomic volatility, and the loss of social safety nets. For the wealthy, national economic volatility has created an uncertain investment climate that has slowed national production and created greater dependence on commodity exports – such as shrimp aquaculture, oil, and other natural resources – that have been marked by sharp boom and bust cycles.

The Washington Consensus assumed income inequality would be a driving force behind income growth, and a "rising tide will lift all boats" even if some are life rafts and others yachts. Growth *between* rich and poor nations was theorized to converge, and *within* nations was theorized to eventually lead to greater equity (Fisher and Erickson, 2007). However, in the wake of developing nation debt created in part by following the Washington Consensus, there is no empirical evidence that borrowers adopting these prescriptions have been made better-off relative to the donors promoting the one-size-fits-all solutions.

In the past 15 years several cross-country studies have shown inequality to slow national growth rates. For example, Persson and Tabellini (1994) found income inequality to be an impediment to growth. Aghion et al. (1999) demonstrate a redistribution towards equity would increase economy wide investment possibilities and thus stimulate growth. Benabou (1996) finds that the general trend across countries is that inequality stunts national growth rates. Furthermore, international data on economic growth simply do not demonstrate lower income countries catching up (Skott and Auerbach, 1995; Temple, 1999). For example, the number of people living below $1 per day has soared in South Asia and Africa in the past 20 years. Between 1987 and 1998 this statistic rose 10% and 34% respectively. In an in-depth study on global inequality between 1820 and 1992, Bourgninon and Morrison (2002) conclude that the income *divergence* across nations "at best … decelerated" over the past 50 years. They found that over the past two centuries the global Gini coefficient (a measure that increases with greater income inequality) has increased 30%, driven mainly by disparities across rather than within nations. As Barro (2000) states, the idea that poor countries have greater growth rates is inconsistent with the evidence, and the rare exception is due to human capital endowment. Easterly and Levine (1997) find that low income countries have associated characteristics such as low levels of schooling, political instability, and insufficient infrastructure, all of which have a negative effect on growth.

What growth has occurred has not always led to genuine development. Growth as measured by traditional national income and consumption statistics captures only the value of goods and services produced by the formal economic system. There is no accounting for the distribution of income, the depletion of natural capital assets, and the contribution of non-marketed activities. Nor are there distinctions drawn between purchases that enhance our well-being – e.g. expenditures on food security, health, or leisure – and those that detract from our well-being – e.g. expenditures on crime prevention, family break-up, or environmental clean-ups. Research on alternative measures of economic and broader social well-being such as the Index of Sustainable Economic Welfare (Daly and Cobb, 1989), the Genuine Progress Indicator (Cobb et al., 1995; Costanza, Erickson et al., 2004), and Green National Accounting (Costanza et al.,

2001) have catalogued a decline in true wealth production in both the developed and developing world, and have outlined a current era that has been more aptly described by ecological economist Herman Daly as "illth" production (Daly, 2007).

The creation of illth simply means that the costs of growth are outpacing the benefits. As both aggregate and average incomes have expanded, people's subjective view of their well-being simply hasn't kept pace. In a review of the rapidly evolving study of subjective well-being and so-called happiness surveys, Easterlin (2003, p. 11176) finds that "neither the prevailing psychological nor economic theories are consistent with accumulating survey evidence on happiness." Psychology has argued that each individual has a happiness "set point" determined by genetics and personality to which one returns after relatively brief deviations caused by life events or circumstances, while economic theory has simply rested on a premise of more is better. He argues that because of hedonic adaptation (people's aspirations adapt to their changing circumstances) and social comparison (people judge their happiness relative to social peers rather than on an absolute scale) that both theories fail. Rather, evidence points to social well-being correlating well with health, level of education, and marital status, and not very well with income (Mulder, Costanza, and Erickson, 2006).

In light of growing income gaps, mis-measurement of wealth, and declining life satisfaction, how might we define a pathway toward genuine development that eliminates poverty and actually benefits society more than it costs? In light of the failure of the Washington Consensus, what would a new development agenda look like that combated poverty directly, with the benefits of poverty reduction or eventual eradication radiating outward to the rest of society? In light of growing discontent with the status quo, how might fiscal, monetary, and trade policy be revamped to create the systemic change required to meet the basic needs of citizens and from which to build an economically, socially, and environmentally sound future?

These questions point toward no less than a new era of macroeconomic and trade policy. Goals guided by genuine development necessarily call on:

- *Fiscal Policies* that invest broadly in natural, social, human, and built capital;
- *Monetary Policies* that expand the role of local currency and payments for ecosystem services, increase the internal velocity of money and plug the leaks of regional economies, and seek banking and institutional reform that creates domestic investment opportunities that build long-term economic capacity; and
- *Trading Policies* that balance self-sufficiency and sectoral diversity with comparative advantage and export opportunities, and that sufficiently restrict capital mobility so that comparative advantages can be had.

These macroeconomic policy levers then provide the climate for microeconomic strategies and programs. Emerging community development strategies can be targeted to both retaining current business and recruiting compatible new enterprises. Programs such as vendor matching, community supported agriculture, micro-enterprise credit, waste-to-work initiatives, energy efficiency programs, community-owned corporations, small business incubators, complementary local currencies, transportation planning, community land trusts, and hundreds of other grassroots public-private ideas that seek to build local economic and planning capacity, support the local labor force, and retain wage income in local economies (see Earth Economics Brief on "Economic Leak Plugging"). Business compatibility can be judged by a broader suite of indicators than just jobs or taxes, including stewardship of environmental, community, and workforce relations. These micro-level solutions are emerging between the cracks of the traditional either-or dogma of big government or free enterprise.

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