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The Barcelona Development Agenda

Governance of Globalization

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We, a group of economists from developing and developed countries, met in Barcelona on September 24 and 25 2004 to consider the prospects for growth and development around the world. We discussed the effects of economic reforms applied by many developing nations over the last two decades, the lessons for economic policymaking that emerge from this experience, and the performance of the international economic system into which poor and middle-income countries are increasingly integrated.

We noted three encouraging trends:

- The gains made by human rights, democracy and the rule of law in many -- but regrettably not all -- developing nations.
- The growth takeoff in several countries -- including India and China -- which has the potential to pull tens of millions more of people out of poverty.
- The increasing recognition of the importance of macroeconomic stability, which for instance has led to a dramatic reduction in inflation in historically inflation-prone Latin America.

But we also noted at least three reasons for concern:

- The recurrence and severity of systemic financial crises affecting developing nations, including some that have undertaken adjustment and stabilization policies following international guidance.
- The mediocre record of reforms in igniting sustained economic growth in many regions of the world.
- The persistence -- and often the worsening -- of highly unequal distributions of wealth and income in many developing countries.

Our discussion was primarily focused on policy lessons and the need for changes in both rich and poor nations. There was broad agreement on seven sets of lessons, which in turn serve as priorities for reform.

First, both basic economic reasoning and international experience suggest that institutional quality, such as respect for the rule of law and property rights, plus a market orientation with an appropriate balance between market and state, and attention to the distribution of income, are at the root of successful development strategies. Moreover, the institutions that put these abstract principles into reality matter, and developing countries should work hard to improve their institutional environments. But effective institutional innovations are highly dependent on a country's history, culture and other specific circumstances. Encouraging developing nations to copy mechanically the institutions of rich countries -- as international financial institutions tend to do -- is not guaranteed to yield results, and can do more harm than good.

Second, experience has shown again and again that large debts, both public and private, poorly regulated banks and loose monetary policies are serious hindrances to development. Not only do these practices fail to stimulate growth in the medium term, but they can also expose nations to financial and debt crises that carry tremendous costs, especially for the poor. Developing nations that hope to prosper should therefore pursue prudent financial, monetary, fiscal and debt policies. But a prudent fiscal stance, for instance, is not the same as a balanced budget every year, regardless of circumstances. Macroeconomic policies that are countercyclical are both more efficient and also ultimately more sustainable politically. Developing countries ought to build the institutions to make countercyclical policies feasible. International financial institutions should encourage such policies whenever possible. The macroeconomic accounting frameworks used by these institutions should also have the necessary built-in flexibility -- for assistance by treating productive infrastructures and R&D investment as asset purchases and not as current expenditures, for a given fiscal target.

Third, there is no single set of policies that can be guaranteed to ignite sustained growth. Nations that have succeeded at this tremendously important task have faced different sets of obstacles and have adopted varying policies regarding regulation, export and industrial promotion, and technological innovation and knowledge acquisition. Countries should be free to experiment with policies suited to their specific circumstances, and international lending organizations and aid agencies should encourage such experimentation. But freedom to experiment is not the same as an ‘anything goes’ approach to development. Nor should this freedom be used to disguise policies that merely transfer income to politically powerful groups. The priority is to identify the most binding constraints to growth and to address them through microeconomic and macroeconomic policies. Micro interventions should be aimed at redressing specific market failures, and incentives should be contingent on improved performance by recipients.

Fourth, multilateral trade negotiations should proceed in a manner that promotes development. Agricultural and textile protectionism in developed countries represent an important obstacle to the participation of developing countries in the global economy. But some of the developing countries may limit their potential growth through inappropriate trade policies. We encourage a successful conclusion of the Doha Round that will provide more opportunities for world growth, thereby creating more room for developing countries to pursue their own growth strategies.

Fifth, international financial arrangements are not working well. Poor countries remain largely cut off from private financial flows and official aid levels are insufficient. Private capital flows to middle-income countries are highly volatile, and this volatility is largely unrelated to economic fundamentals in the recipient countries. Systemic capital account shocks continue to be common, and contagion increasingly hit countries widely regarded as having sound policies. At the core of the problem is the absence of markets and instruments that would permit a more efficient risk-sharing among countries. Multilateral lending institutions do not do enough to overcome these failings of private financial markets. A focus on ‘moral hazard’ as the driving force behind crises has diverted attention from other causes of financial instability. Talk of reforming the international financial architecture has produced few tangible results. One reason may be that developing nations’ views are under-represented in the decision-making of the multilateral lenders. The allocation of votes in the boards of these institutions still reflects power relations of the past, and has little to do with the present-day weight of countries in the world economy. In short: reforming international financial arrangements should be a priority for rich and poor countries.

Sixth, current international arrangements deal with movements of capital and labor asymmetrically. International financial institutions and G7 governments generally treat capital mobility as something to be encouraged. The same is not true of international labor mobility. But reasons of both equity and efficiency argue for allowing for greater international migration. We need a set of international rules and institutions to guide cross-border movements of people, including guest workers and service providers, and to promote the use of remittances from migrants as an additional source of financing. Improving the rights of migrants will facilitate their integration into the job market and limit exploitation. .

Seventh, the worsening of the environment, including problems of global warming, need to be tackled with sustainable development policies at both national and global levels. This is an area in which both rich and poor countries have work to do.

There is much not to like about the state of the world today. The fact that over a billion human beings live in abject poverty should be a cause for unrelenting concern. AIDS and other epidemic diseases represent a tragedy for the least developed countries, mainly in Africa. In the Millennium Development Goals donor nations committed to increase aid to address these and other problems, but that commitment remains largely unfulfilled. It also is easy to be discouraged by the failure of all kinds of magical recipes for development. But concern is not the same as despair. Nor should concern for the poor serve to justify unthoughtful anti-growth attitudes. Over the last half-century a number of countries have pulled themselves out of poverty, and others are doing the same today. There are hopeful lessons to be learned from these experiences, some of which we have tried to summarize in this agenda. Equitable and progressive development paths are conceivable. No set of policies can guarantee success, but we know more today about where to look for the keys to that success.

Citizens of developing countries know full well that development is a long and arduous path. If their leaders embark upon it, and if rich countries help reform international arrangements that hinder rather than ease this path, there is still reason for hope.

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