Canada, Hippocrates and the Developing World
Or, "It's Policy Coherence, Stupid!"

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"Development is…largely determined by poor countries themselves, and outsiders can play only a limited role. Developing countries themselves emphasize this point, but in the rich world it is often forgotten."

--Birdsall, Rodrik and Subramaniam in *Foreign Affairs*, July-August 2005.

If this argument is correct—and I believe it is—it prompts two questions: what exactly is the "limited role" that outsiders can play? Second, how can poor countries best determine their own development?

I will return to the question of how poor countries may best determine their own development shortly. As to the first question of the appropriate role of developed countries such as Canada, I would make the following points. First, rich countries can and do influence development in a number of important (if ultimately limited) ways, a point Birdsall et al also make. However, they argue that while more and better aid and greater trade access are important, they are greatly overrated in terms of their contribution to poverty reduction or development impact more generally.

Instead, they emphasize other relatively neglected channels linking rich and poor countries, such as more liberalized migration, and technological transfer that actually serves the interests of the developing country recipient. These channels tend to be neglected or ignored: for example, the development of medicines aimed at preventing or curing tropical diseases is not high on the priority list of Northern pharmaceutical companies.

The really difficult challenge is bringing about coherence among these various channels linking developed and developing countries. (Thus the second point is, "It's policy coherence, stupid!"). The Center for Global Development in Washington has developed a "Commitment to Development Index" that "ranks the rich" by conflating rich countries' policies in seven distinct areas:

- quantity and quality of foreign aid
- openness to developing country exports
- policies that influence investment
- migration policies
- environment policies
- security policies
- and support for creation and dissemination of new technologies

In 2005 "the usual suspects" among aid donors also do well on the CDI: the top three are Denmark, Sweden, Netherlands; Norway is fifth; Finland seventh. Canada is eleventh, in the middle of the pack, tied with the UK but just ahead of the US. Canada has a low score on its aid component; high scores on trade and investment; and average scores in migration, environment, security and technology.

CDI's component indexes are quite subjective—i.e. they are scored according to the judgment of CGD analysts—thus contentious. One can certainly quarrel with the specific numbers and hence the country rankings assigned by CGD. The main point however is that there are many "vectors of development" connecting rich and poor countries besides aid. And the whole is much less than the sum of the parts since there is typically a lack of policy coherence.

But policy coherence is much easier said than done. Why? Fundamentally because policy must be coherent around a set of agreed objectives or priorities. And this is difficult in democratic and pluralist societies, since reasonable people with different interests and perspectives will disagree about priorities (Health: accessibility vs. wait times as an example).

In the realm of development, what objectives or priorities should policies be coherent around? In the last government's International Policy Review, we argued that in Canada, a compelling case can be made that the Millennium Declaration and the Millennium Development Goals should constitute the objectives around which to build coherence—that is, Canada's aid, trade, investment, (etc.) policies should all be consistent with the MD and MDGs.

These objectives are not perfect—indeed we and many others criticized them as grossly inadequate, for example, with respect to gender issues. However we felt the MD/MDGs should be regarded as a minimalist platform for development. Moreover such a framework has the additional advantage of international endorsement—thus providing the basis for coherence internationally as well as domestically—i.e. among rich countries and with developing countries. Unfortunately, the International Policy Statement stopped short of providing coherence on the basis of the MD/MDGs (or on any other basis for that matter) although to its credit the development chapter spoke of a "whole-of-government" approach. (The whole IPR process was ultimately flawed in that it did not provide a unifying policy framework for coherence—illustrated by the very fact there were separate chapters for development, diplomacy, defence and commerce, and none for finance.)

At the risk of contradicting my own argument, it is important to acknowledge another critique of the MD/MDGs, however, emanating from developing countries—namely, even though the goals and principles of the MD/MDGs may be commendable (if imperfect), imposing them on developing countries vitiates the more fundamental principle of ownership of their own development strategies and priorities.

This—the third and final point—goes to the heart of the current development debate and the central point I would like to make. The most important thing developed country outsiders can do is to allow developing countries the policy space to design and implement a strategy that fits their unique economic, social and political circumstances.

Instead, rich countries (usually fronted by the Bretton Woods Institutions) have gone to great lengths in the past to impose a policy framework on developing countries—in the 1980s, it was structural adjustment; in the 1990s, it was the Washington Consensus. In the current decade, it is Poverty Reduction Strategies and the MDGs. They have been more able to do this in the case of smaller, poorer, or debt-distressed countries with weak bargaining power. They did not even try in countries such as China and India. In other East Asian countries such as South Korea, they were only able to get away with it during the Asian financial crisis of 1997-98.

Critics of these mainstream development policies such as Joe Stiglitz and Dani Rodrik argue that each country faces a unique set of challenges and opportunities, and should be allowed the latitude to design and implement economic policies that fit. These may diverge somewhat from the orthodoxy favoured by the Bretton Woods institutions and their major shareholders. Rodrik goes further in arguing that the most successful developing countries (for example China, Korea, Vietnam, and more recently India) have generally followed heterodox development strategies that involved different degrees of state intervention and ownership and a cautious approach to economic liberalization. Nonetheless, the international institutions and the rich countries should be prepared to respect and support them.

Of course, in the real world the chances are that some developed countries might take exception to the pursuit of more heterodox strategies by aid recipients. And when it comes to the poorest, aid-dependent countries, donors are typically in a strong bargaining position to dictate policies to recipient countries. In turn, government leaders and officials from such countries tend to recognize who is calling the tune in terms of policy priorities and directions, and fashion their policies accordingly.

Nonetheless, a strong case can be made that rich countries (particularly aid donors) should follow a Hippocratic rule: first, do no harm. This will require some rethinking about policies and conditionality as practiced in the past. Among the policies most in need of rethinking relate to distributional equity—in other words the distributional implications of alternative development policies need much more care and consideration than they have had in the past. Remarkably, this is the key message of both the World Bank in its recent *World Development Report* and the UNDP in its *Human Development Report*.

Concern about distributional equity stems from a number of sources. First, income is becoming more unequally distributed within most countries in the world. Second, there is much evidence to suggest that widening disparities are due to the nature and speed of economic liberalization (or, if you prefer, globalization). No matter how much we talk about the benefits of globalization and the need to spread them more equitably by being more inclusive, educating children more, etc., it simply is not happening. Third, there is a growing body of literature that suggests that lower income (and other) inequalities impair economic growth. Moreover, with any given aggregate rate of growth, the poor benefit more if inequalities are low than if they are high; put differently, it takes a much higher (and possibly unachievable) rate of growth to reduce poverty where disparities are wide than where they are narrow. (Technically, the growth elasticity of poverty reduction falls with greater income inequality.)

The revisionist thinking about the relationship between growth and income distribution overturns the older, trickle-down orthodoxy that there is a "tradeoff" between equity and efficiency. If too much emphasis is put on distribution, it was felt, this would only slow down economic growth, and the poor (who should simply be patient) will only suffer more in the long run. Today, the World Bank (in WDR 2006, on *Equity and Development*) argues that equity is complementary to long-term prosperity, and that some forms of redistribution can increase economic efficiency.

What this implies in my view is that strongly market-oriented policies of liberalization and privatization should be treated with considerably more caution than in the last two decades, and that more attention be given to the distributional impact of any policy or set of policies. (Free markets have a habit of rewarding the rich and discriminating against the poor.) The objective is not to achieve distributional equality, which is both impossible and undesirable, but at a minimum to prevent widening disparities and preferably to narrow them.

Let me come back to the question of how developing countries may best determine their own development. If we accept the centrality of ownership and recognize the need for diversity in developing countries' strategies according to their needs and circumstances, the next issue is how domestic ownership and diversity can be upheld when resources are externally provided. It is no accident that the large Asian economies, drawing primarily on their own resources, have forged their own development strategies. The same goes for most other East Asian economies, which have featured astonishingly high and sustained savings rates. (A short-lived exception occurred during the Asian financial crisis.) High domestic savings and investment rates have led to high growth rates and rapid poverty reduction. But they have also enabled East Asian countries to purse their own, heterodox development strategies.

The opposite can be said about the aid dependent countries of sub-Saharan Africa, in which domestic resource mobilization has been low and falling over time. Not only has growth been low and poverty incidence rising; aid dependence has also militated against domestic ownership and has strictly limited the policy space for heterodox strategies. South Africa, in any case one of the most advanced countries in the continent, has managed to retain a greater measure of independence by eschewing a borrowing relationship with the World Bank and IMF.

Ironically, "mobilizing domestic financial resources for development" was among the six leading actions called for, and the first to be listed, in the March 2002 Monterrey Consensus. The declaration said that "a critical challenge is to ensure the necessary internal conditions for mobilizing domestic savings, both public and private, sustaining adequate levels of public investment and increasing human capacity." The report went on to say that "An effective, efficient, transparent and accountable system for mobilizing public resources and managing their use by Government is essential. We recognize the need to secure fiscal sustainability, along with equitable and efficient tax systems and administration, as well as improvements in public spending that do not crowd out productive private investment."

Notwithstanding the prominent place given to domestic resource mobilization at the Monterrey Conference, it has not particularly been an issue for priority action either by donors or developing countries. Ironically, other issues that have been given greater priority, such as enhancing governance, building capacity, strengthening democracy, reducing indebtedness and ensuring that future debt remains within sustainable limits, are all intrinsically related to, and can be facilitated by, greater domestic resource mobilization. On the other hand, certain economic reforms urged upon developing countries, such as trade liberalization, can have the unintended consequence of undermining domestic resource mobilization, and by implication, enhancing governance, strengthening democracy, etc.

To sum up, in the next decade, Canada's will not be engaged with the developing world through the aid program alone, but through its trade and investment policies, through environment, immigration, international security and technology policies. (Of course I advocate our aid program reaching 0.7 percent by 2015, but my point is that we cannot put all our development eggs in the aid basket.) The last government tried but failed to craft a coherent international policy. There is little evidence of any real interest in development outside CIDA. I would implore this government to do so and to consider building coherence on the Millennium Declaration and Development Goals. True, policy coherent is both boring and difficult. But at a minimum Canada and other donors should take the Hippocratic oath and try to do no harm through their various policy channels.

Second, Canada should be working with other donors and developing country partners to secure policy space to permit domestically owned and differentiated strategies. Finally, to this end, Canada should also be working to try to enhance domestic resource mobilization, thereby underpinning domestic ownership and reducing aid dependence.