8 March 2005 Volume 1, Issue 1

OXONIA Newsletter

In This Issue:

David Hendry welcomes you to the OXONIA Newsletter

David Hendry, Chairman of the OXONIA Academic and Policy Board

On behalf of OXONIA, The Oxford Institute for Economic Policy, I am delighted to warmly welcome you to this first issue of the OXONIA *Newsletter*.

Our Institute provides a global forum for engaging those in the public policy community with the analysis and discussion of policy issues, sharing the aim of introducing and disseminating innovative academic research in a broad public policy framework.

Established just over a year ago, the Institute has already promoted a number of timely workshops and seminars on policy issues, ranging from mainstream economic matters, through international financial governance, to the need for a new aid architecture for low-income countries. To achieve its aims, the Institute has provided a collegial, nonpartisan and interdisciplinary setting in which scholars and policymakers of diverse perspectives and expertise can cooperatively probe the most pressing policy problems of our time to identify realistic and constructive solutions.

A distinctive feature of the Institute is its commitment to bridging gaps between academics, policymakers, and the public at large. This is no easy task, but in a world that is drawing closer together, and in which the lines are blurring between the domestic and the global, the contribution of every one of us can be invaluable. We trust that our work and the dedicated commitment of OXONIA will be useful steps towards to that end.

David Hendry
Chairman
Academic and Policy Board

Jeffrey Sachs talks about "The End of Poverty" at the OXONIA Inaugural Lecture

OXONIA was delighted to host Jeffrey Sachs from Columbia University who delivered the 2004 Inaugural Lecture. Professor Sachs argued that, with political will and a relatively modest amount of resources, extreme poverty could be eradicated from the world within a generation. He set out why the macroeconomic models which explain the economic growth of the richest countries

"With political will and a relatively modest amount of resources, extreme poverty could be eradicated from the world within a generation."

and the prospering developing countries are not appropriate in explaining economic growth in the poorest countries.

Rather than weak institutions and poor "governance", he argued that these countries are principally hampered by the impacts of physical geography; endemic disease; vulnerability to climatic changes; barriers to transportation. He went on to show how these causes of poverty and misery could be tackled through concerted and straightforward investments by the richest countries. He made a strong plea for the leaders of the rich countries to realise that global political instability and insecurity could only be addressed if they responded urgently and effectively to the desperate vulnerability and poverty of one sixth of the world's population. Sachs took 'extreme poverty' to mean living on less than 1 USD per day. Broadly speaking, he divided the population of the world into three categories: the richest, constituting around one sixth of the world's population and enjoying average per capita income of over 9,000 USD per annum; the middle income, made up of the 2.6 billion of people who live on between 750 and 9,000 USD per annum; the poorest, around 2.4 billion who live on less than 2 USD per day (which includes the 1 billion living in extreme poverty at incomes below 1 USD per day).

Macroeconomists, Sachs argued, have found that models of endogenous growth do a fair job of explaining the growth pattern in the world's richest nations. The middle income countries have varying performances, displaying some common characteristics which fit well with an earlier generation of growth models based around capital accumulation. These countries are doing much to reduce world poverty. The amazingly rapid growth of China, Southeast Asia and most recently India, was, Sachs said, the truly wonderful thing about the world in the last 25 years. Yet these theories do little to explain the situation facing the world's poorest countries. Sachs was highly critical of the poor level of knowledge economists have about these countries. The 49 Least Developed Countries (LDCs) are particularly badly off and many of them have faced almost unremitting crises over the last 25 years. The poor explanations put forth by economists about why countries are poor reinforce the poverty trap the poorest countries are in.

Jeaffry Sachs (Columbia University)

The typical reasoning, exemplified by the current US administration, is that poverty is the fault of poor countries, either because of outright corruption or poor "governance." This reasoning is not adequate or defensible.

Sachs set out the view that he has come to after many years of investigation and research: that the limits of physical geography are very real inhibitors of development in the poorest countries. Working simultaneously on economic development in Vietnam and Bolivia helped him realise that Bolivia's slower growth rate was due not to its poorer institutions or policy choices, but to the enormous problems of geography faced by a mountainous, landlocked country. Similarly, when he came to look at the inhibitors to growth in sub- Saharan Africa, he was struck by the prevalence of disease and the high mortality rates. He found that a significant share of the slower growth rate in sub-Saharan Africa can be explained if one introduces a variable for the propensity of malarial transmission into a growth model.

Sachs was at pains to reject the argument which many economists had used in retort to his articles: that malarial prevalence was endogenous to economic growth. Drawing on research in epidemiology, Sachs compared the basic reproductive number for malaria in the USA and southern Europe and in Africa. When this figure is less than 1, the disease naturally burns itself out.

When it is greater than 1, epidemic behaviour results. The figure for the USA and southern Europe was close to 1. The figures for much of Africa are on the order of 50, or 100, or more. The reason for this is, again, physical geography: higher temperatures, precipitation, and the presence of mosquito species more likely to bite humans make the continent the natural epicenter of the disease.

Sachs stressed the link between the vulnerability of the poorest populations and the wider instability in the global system. Too readily, the developed world looked on conflict in the poorest states through a military optic.

Taking the example of Sudan, he argued that this was not, principally, an ethnic conflict. As in much of Africa, Sudan has a fragile climate in which agriculture is precarious because it is rain-fed and not irrigated by rivers. The rains have been increasingly failing in Sahelian Africa, probably due to the warming of sea temperatures in the Indian Ocean. Whereas previously there had been a symbiotic relationship between camel herders and farmers, these two groups were now in conflict over scarce territory for farming and grazing. The focus of their conflict was in the Darfur region. Sachs argued, therefore, that the problems in Darfur would not be resolved by the US offering to train local armies but that it might be resolved by investing in water pumps and alternative solutions for agriculture. The bottom line, Sachs argued, was that appropriate investments to tackle the problems of physical geography faced by the poorest countries are crucial if we are to end extreme poverty. Providing bed-nets would cost 5-6 USD per household and can break over 90% of the transmission of malaria. Yet at present, only around 2% of households in areas of Africa where malaria is endemic use bed-nets. An investment in effective drugs would go further.

Improving infrastructure and building roads would allow for the delivery of fertiliser to stimulate a Green Revolution in Africa. Other, simple investments could be made at relatively little cost to the rich world.

Sachs concluded that the next 12 months could be an historic turning point in the world's efforts to reduce poverty. All the investments Sachs had described could be made for around an additional 80 billion USD per year. The US's share of of this increase would be around 40 billion

OXONIA NEWS

OXONIA is delighted to announce the arrival of two new members. Brief profiles, including areas of expertise and interest, are outlined below.

Calum Miller

Calum Miller is Seminar Coordinator of the Programme "Strengthening Economic Cooperation". Mr. Miller studied Economics at Oxford University and is currently a Research Associate with Oxford University's Global Economic Governance Programme and a member of Nuffield College. His research interests lie in the political economy of financial crises, and particularly the IMF's relations with developing countries.
E-mail: cmiller@oxonia.org.

Joe Perkins

Joe Perkins is Seminar Coordinator of the Programme "Improving Macroeconomic Performance". Mr. Perkins is a Prize Fellow at All Souls College in Oxford. His main research interests are in public economics and issues related to European monetary policy and the euro. Mr. Perkins studied Economics at St. John's College, Cambridge, and at Balliol College, Oxford.
E-mail: jperkins@oxonia.org.

Jeaffry Sachs delivers the 2004 OXONIA Inaugural Lecture "The End of Poverty"

USD. To put this in context, Sachs pointed out that this was the value of the tax cut the Bush Administration had given to US households earning more than 500 thousand USD per year.

Sachs lamented that the richest households could save the poorest in the world but choose not to and then wonder why they live in an insecure world.

He emphasised that we have the potential to invest our way out of instability and insecurity if we make the right choices.

Calum Miller
Seminar Coordinator

World Economics to be published in association with OXONIA

OXONIA is delighted to announce that World Economics, the Journal of Current Economic Analysis and Policy, will be published by NTC Economic & Financial Publishing in association with OXONIA, starting from the beginning of this year.
World Economics is a quarterly journal that brings you unprecedented access to the best current thinking in economics and international policymaking.
The Journal is essential reading for academics with a sound interest in policy, government and corporate economists, politicians and their research staff, civil servants, labour leaders and senior business people.
It supplies vital analysis for central banks, investment banks and other financial institutions, and for major corporations and regulatory institutions. It provides crucial briefing for members of think-tanks, government ministries and intergovernmental agencies.
Most issues include a collection of articles on a particular theme. Themes in recent issues have included Money, Pension Reform, Measuring Prosperity, 'Green' Economics, Work and the Workless, and International Financial Institutions.
Articles on finance and investment matters are featured regularly and are of particular interest to the business and financial institution readership of the journal. Interviews with leading economists are also published.
A distinguished Editorial Board, comprising some of the world's leading economists, ensures a continued high quality of published material.
The journal is independent and has a global perspective.
For more information about World Economics, browse http://www.world-economics-journal.com

WORLD ECONOMICS

The Journal of Current Economic Analysis and Policy

Volume 5, Number 4 (October-December 2004)

Content

Masood Ahmed Keynote Speaker at the OXONIA Roundtable on "Toward a New Aid Architecture"

Masood Ahmed, DFID Director General, delivered a keynote speech at the OXONIA Roundtable on "Toward a New Aid Architecture". In his remarks, he noted that there is significant scope for improving the current architecture for the delivery of aid to low income countries (LICs). In particular, donors should find ways to reduce the burden on the administrations of recipient countries by harmonising their practices, procedures and delivery mechanisms. Providing more development assistance (DA) in the form of budgetary support and/or debt relief would help and would also reduce the scope for donor micromanagement. Ahmed stressed that this was a good time to improve the existing aid architecture and pointed out five measures that could be taken to improve the delivery of DA. Ahmed noted that, although there had been some adaptation, the architecture for the provision of DA had not changed fundamentally in the last fifty years. He nevertheless observed five reasons that reform of this architecture was now particularly timely. Firstly, the volume of aid is projected to increase by at least 30% in the next ten years. Secondly, there have been progressive changes in the purposes to which aid is put with donors increasingly willing to fund recurrent expenditures. This raises questions of predictability and the duration of donor commitments. Thirdly, and partly in response to the MDGs, donors are increasingly moving to a results-focus and away from an inputs-focus. Fourthly, there is an increasingly large mismatch between the requirement of multiple donors for dialogue and the capacity of the recipient to engage in such dialogue. Finally, the distribution of current aid is not systematic or organised in a rational way, leading to vast differences in the volumes of aid flowing to objectively similar countries.

Masood Ahmed, DFID Director General, at the OXONIA Roundtable on "Toward a New Aid Architecture"

Ahmed went on to point to five tangible, achievable changes that would have a real and tangible effect on improving DA. Firstly, reforming governments in poor countries should be given more space to drive their own policy agenda and set their own terms for their relationship with donors. This would require limited conditionality, strengthened budget systems in these countries and an end to micro-management by donors. Secondly, new ways must be devised of working with those governments who are not leading performers. The model whereby international donors support reforming governments and therefore create incentives for other to improve their performance was not delivering. In many states, it took a long time to adapt to such incentives and 40% of the world's poor live in poorly governed states. The new security imperative was making foreign policy makers increasingly concerned about global inequality, but when they asked development practitioners what to do about poverty in poorly governed states, they did not have an answer. Thirdly, there was a major challenge and opportunity in managing the entry of the new EU member states into the international donor community. From a position of giving very little, if any, ODA, they would be required by EU regulation to give 0.3% of GNP. The challenge was to ensure this was given in effective ways and channelled through existing mechanisms and not through further, new agencies (although the current EU members stood to be accused of hypocrisy if they pushed this line too hard). Fourthly, there was a pressing need for the reform of humanitarian aid. It had major problems of inconsistency, delays and coordination between multiple agencies. The current political momentum to overcome these difficulties needed to be harnessed to improve coordination under UN control. Finally, Ahmed pointed to an area where, he admitted, he was less confident of progress being made in the next five years: the reform of the Bretton Woods Institutions (BWIs). The BWIs were critical actors as they set much of the framework within which other agencies operated. Moreover, they were largely effective: analysis on relative effectiveness showed that IDA is more effective than most other kinds of ODA. But their effectiveness was being eroded by challenges to their legitimacy that compromise their ability to do business. Steps therefore needed to be taken to improve their governance and legitimacy. In the case of the IMF, it was unclear what the institution, its shareholders, or its recipients thought its role in LICs should be. The critical question was: can the IMF continue to run two business (one to resolve crises in middle income countries), the other to support long-term development in LICs) within the same institutional framework and from the same building? Ahmed felt that it was quite legitimate to ask whether the IMF should be engaged in dedicated lending to LICs. It was possible to envisage the IMF still providing surveillance of these countries, without lending. The two functions could be distinct. If, however, it was concluded that the Fund should be lending, this had major implications for how the Fund operated, including on whether it should have more permanent representation in borrowing countries. The question thus represented a large strategic choice for the Fund.

Calum Miller
Seminar Coordinator

OXONIA, The Oxford Institute for Economic Policy

OXONIA, The Oxford Institute for Economic Policy, provides a global forum for engaging a broad consortium of those in the public policy community into the analysis, discussion, and dissemination of policy issues, with the aim of encompassing innovative academic research into the broad public policy framework.

Recognising that global interdependences influence nearly all of today's policy debates, OXONIA's membership reflects an internationally-renowned group of academics and policy experts with diverse background and expertise. Such a diversity constitutes the unique feature that distinguishes OXONIA from other international think-tanks.

Indeed, by building on such a diversity, OXONIA aims to be a catalyst in the policy debate globally.

To this end, OXONIA coordinates its own research programs supported by the Institute's members, promotes a series of publications, and hosts a variety of seminars, workshops and conferences. Based in Oxford, OXONIA enjoys the support of an internationally distinguished academic community that provides constant input into all the Institute's activities.

OXONIA is an independent and non-profit organisation. Subscription to the Institute is free and open to everyone, and entitles subscribers to get regular updates on activities and publications.

OXONIA,
The Oxford Institute For Economic Policy

Economics Department Building
Manor Road
Oxford, OX1 3UQ
United Kingdom

E-mail: oxonia@oxonia.org
http://www.oxonia.org