

*TOP FIVE RISKS:  
CRITICAL PERSPECTIVES ON THE GLOBAL ECONOMY  
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Midday Remarks  
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The LSE is proud to be part of this interesting and important conference on the global economy, not least for our long-standing positions on the matters addressed today. The LSE is a global university, certainly. But if you look at our student and faculty composition we could just as easily be an Asian university... or an American, European, or finally British university, that just happens to be located in London down the street from here. We have students enrolled at the LSE from more countries than are members of the United Nations. We teach and research all the social sciences, not just economics.

I like to think we take the best students from everywhere in the world, train them, graduate them, and then send them here to Goldman Sachs, to improve even further. These students grow to become intelligent, globally aware, and socially responsible citizens of the world, passionately engaged in the kinds of issues we are discussing at the conference today.

## 1 INTRODUCTION

We heard this morning about competition for water, food, and energy. Agricultural and fuel prices have quadrupled in the last two years. We had incorrectly reckoned that the last 150 years of 50-fold explosion in economic well-being and 8-fold increase in overall productivity had extracted us from this age-old battle with nature on the scarcities it inflicts on humanity. In what I take to be the current consensus view the tide will now turn even more against an “Age-of-Enlightenment” notion that economic growth and increased productivity alone have rescued us from such a fight with nature.

We also learnt this morning about income inequality in societies. We saw how in the unfolding of recent history as nations grow then within them inequality—leading in turn

to social exclusion and the development of a persistent underclass—might rise to threaten that very process of growth.

Later this afternoon, we will learn also about financial integration, labour markets and demographic transition, and the protectionism that the perceived unequal effects of trade might engender.

This last discussion on trade will remind us of that class of interventions collectively known by the vivid name of “beggar-thy-neighbour” policies. We have already seen reference to this at different points in all the other discussions this morning. Talking about the world situation for food, Do Kennedy referred to “policies that indirectly damage others while helping one’s own people.” In international trade such policies are ones that seek to alleviate the problems of one nation but inadvertently worsen welfare in another.

(In popular culture more generally the term “beggar-thy-neighbour” likely derives from a card game invented in Britain in the early 19<sup>th</sup> century and that made its first published appearance in Charles Dickens’s 1861 novel *Great Expectations*.)

I bring this out now because that trade analysis contains a critical ingredient the lessons from which, in my view, usefully extend to all the discussions we are holding today.

Beggar-thy-neighbour thinking makes explicit the us-versus-them nature to many analyses and policy interventions we contemplate. In contrast, too often we look at problems in a manner such that the “them” part of the us-and-them is invisible or hidden. Then when we assess policies and risks, we rack up costs and benefits so that that comparison then misses large important pieces.

Take just one “for instance”. Not always immediately a problem central to international trade, interventions that lower inequality in one country might exacerbate inequality and increase poverty elsewhere in the world. Even if we accept that inequality by itself has meaning in terms of risk and policy response how do we balance the significance of inequality reduction in one country against its increase worldwide? Further complicating the situation is that world inequality might have risen or fallen as inequality falls in one country and rises in another.

Some argue that since there is no such thing as a global polity, why should it matter what happens to global inequality? I think that argument is flawed. Global inequality matters for at least two reasons: First, a global polity does not have to exist explicitly and officially before its repercussions and tensions can be felt. International economic relations, for one, provides exactly such a canvas of contention: the term international relations itself would be vacuous if the international community required an explicit global polity before it could voice concerns about inequality across countries. Indeed, trade negotiations would be similarly meaningless. Second, Alan Krueger reminded us this morning,

inequality is a moral issue: Therefore, global inequality no less than that within a country is too a moral issue, independent of polity and political economy.

Monetary policy, trade policy, countering risks from activism and political opposition—all these have such global tradeoffs to them. Let me take forwards the example of national and global inequality and poverty reduction.

## 2 SOME NUMBERS

Why does such a global perspective matter, what new insights does it afford?

When Angelina Jolie or Bono visit Sub-Saharan Africa the entire world's attention focuses on the massive concentration of \$1/day-poor on that continent.

To retain perspective, remember that average income in the world today is about \$20 a day. You live in a rich country if on average people around you earn at least \$30 a day. By contrast you live in a poor country if your neighbours on average earn no more than \$10 a day. Income of \$1 a day is extreme but five-sixths of humanity lives in countries where appreciable fractions of the population earn no more than that.

	1981	1990	1999	2004
<b>World GDP 10<sup>12</sup> PPP\$</b>	24	33	43	52
<b>GDP per capita PPP\$</b>	5408	6292	7231	8198
<b>World's poor 10<sup>6</sup></b>	1470	1247	1109	969
<b>China's poor 10<sup>6</sup></b>	634	374	223	128
<b>Remainder 10<sup>6</sup></b>	836	873	886	841

The good news is that the world's \$1/day population has fallen from 1.47 billion in 1981, with a world total population of 4.7bn then, to 969 million in 2004, with a world population of 6.3bn. This is a reduction of almost exactly half a billion.

When we look around the world for better local information on this kind of success, we see that China over this same period has reduced its \$1/day population from 634 million in 1981 to 128 million in 2004. But wait, stop right there. The difference between 634 million and 128 million is just a little over... half a billion again.

“Everyone lifted out of \$1/day poverty in the last quarter century has been ... Chinese.”

Now of course that is both disingenuous and physically impossible.

The lesson from this however is important. While we were all rightly fretting over Sub-Saharan Africa, one country doing mostly the right things—but also pretty much unnoticed and unaided by the global aid, risk, and policy intervention community—single-handedly did more for improving world welfare than anything else that has happened in the last 25 years.

For most of the last half century *nothing* in Africa has grown, while inequality has continued to rise, driving ever more Africans into the most wretched of grinding poverty.

Then the question for us as concerned citizens is how we assess policies and interventions to aid, say, the US worker or African agricultural and mineral interests if those policies end up slowing the process of head-long economic growth in China.

Who is keeping track of world welfare these days?

### 3 THE CENTRAL PROBLEM FOR CIVIL SOCIETY

What do we take away from this?

For some, developing perspective on the global economy means understanding how the developments in the global economy affect my country, my livelihood, my portfolio. For others, that phrasing “developments in the global economy” means exactly what it says on the tin, “developing perspective on the *global* economy”.

In that latter case then assessing global risk means “assessing *global* risk”; fighting the world's problems means fighting the *world's* economic problems—not just looking at risk and problems in the US or the UK, or indeed merely in China, India, or Africa. Except in forums like this one today, perhaps many of us have little opportunity to look at truly global questions, to step outside the individual roles we play as we safeguard the domains for which we have been given guardianship.

It seems to me that the large problem before many of us—indeed perhaps *the* central problem for civil society (or perhaps just an enlightened social democrat in Western Europe)—is how we reconcile analyses on and remedies for the ills of society that we see immediately around us, our own Near Abroad, without inflicting pain on other societies, no less deserving of global membership. As we've seen in the comparison of China's poverty alleviation in the last quarter century against that everywhere else in the world, taking our eye off the ball might mean losing sight of everything that should count.