

The Global Development Cycle, MDGs and the Future of Poverty Reduction

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The Impact of the MDG Paradigm on Poverty Reduction

The MDGs as a “Faustian Bargain”

The Millennium Declaration adopted by the General Assembly of the United Nations in September 2000 states that “in addition to our separate responsibilities to our individual societies, we have a collective responsibility to uphold the principles of human dignity, equality and equity at the global level” (United Nations 2000: para 2). This commitment has been translated into practice through the adoption of the Millennium Development Goals (MDGs), a set of 8 goals, 18 quantitative targets and 48 specific indicators, as a focus for international and national development policy. The first seven of these Goals are concerned with outcomes, identifying the progress towards certain standards of human well-being and decent living which should be achieved globally and nationally by 2015. The eighth Goal is concerned with relationships, identifying various aspects of a “global partnership for development” which must be forged to support the realization of these poverty reduction, human development and environmental sustainability standards.

The MDGs are immensely significant. At the simplest level, they are part of the emergence of a global consciousness in which persons all over the world are seen as living in a single social space and the nature of their well-being is compared. But beyond this, the MDGs have provided the basis for a new international development consensus during the present decade. International development cooperation in the 1960s and 1970s was founded on a Keynesian development consensus in which economic development in the South increased the import capacity in developing countries, which in turn supported the achievement of full employment in the North. At the beginning of the 1980s low inflation replaced full employment as the central objective in the North, and this old international development consensus, which was based on mutual economic interests, broke down. The MDGs, stiffened by commentaries which link global poverty to global insecurity, terrorism and public health scares, have provided a common ground on which a new international development consensus has been forged.

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But for developing countries this new international development consensus was based on a “Faustian bargain”. That is to say, the benefits of the new consensus were achieved at the cost of a major sacrifice.

The “Faustian bargain” arises because the introduction of global goals inevitably requires a purposive rather than procedural conception of international society. With their joint commitment to achieve the MDGs, members of the international community exist as an association of States joined together in a cooperative venture to promote common ends. This is far different from a procedural conception of international society which consists of an association of States joined together through their common respect for a set of rules, norms and standard practices which govern the relationships between them. In the purposive conception of international society, outcomes matter and international relationships are instrumentally valuable for achieving these outcomes. In the procedural conception, rules and standard practices of international conduct set certain restrictions and restraints on how States may pursue their own distinct and different purposes. These rules and practices are intrinsically important, no matter what the outcomes (see Nardin 1982: chapter 1).

But the problem facing any attempt to implement a purposive conception of international society is to find common ground on common purposes. Those wedded to the procedural view of international society, who argue, for example, that creating a “level playing-field” between players with radically different resources and capabilities is a sufficient condition for global social justice, are reluctant to constrain States in the purposes which they pursue. The “Faustian bargain” underlying the MDGs involves, on the one hand, a recognition that outcomes matter, but on the other hand, very strict limits on the types of outcome that mattered. Indeed there were two major shifts away from the types of outcome which mattered in the earlier international development consensus of the 1960s and 1970s.

Firstly, there was a shift away from the development of national economies to a focus on the nature of individuals’ lives. The accelerated economic growth targets of the First and Second United Nations Development Decades (the 1960s and 1970s), which were partly intended to close the inequality gap between industrial countries and developing countries and were based on comparisons between countries, were thus replaced by poverty and human development targets.

Secondly, there was a shift from a maximal future horizon in which development meant catching up with the living standards of the richest countries to future targets in which certain minimum standards of decent living should be achieved by a certain point in time. This minimalist approach is apparent, for example, in the MDG target of reducing the proportion of people living on less than a dollar a day by half by 2015. This identifies the typical standard of minimally adequate consumption in the poorest countries in the world as the global standard of poverty eradication. But it would be equally valid, and also more ethically defensible, to adopt the typical standard of minimally adequate consumption in the richest countries as the global standard. With globalization, individual expectations are rising all over the world to the standards of

living in the rich countries. Logically, therefore, one appropriate standard for poverty would be the poverty line in OECD countries, which has been estimated as \$15/day (Pritchett 2003), not \$1/day, which was estimated on the basis of the average level of the national poverty lines of the poorest countries.

To put it bluntly, the new international development consensus has been achieved through the elimination of the old idea of promoting national economic development. The MDGs are universally called Millennium *Development* Goals. But in practice, there is nothing developmental about the MDGs apart from the fact that the poverty and human development outcomes should be achieved in “developing” countries. The concern for processes of evolution and transformation has been replaced with standards of evaluation and performance.

Elements of the Current MDG Paradigm

As a set of indicators, the MDGs in themselves do not constitute a policy paradigm. These indicators could be embedded within a variety of national development strategies (see Gore 2005) and also within different forms of international development cooperation. However, it is possible to speak of the current MDG paradigm because the MDGs have become the cornerstone of a particular approach to development and poverty reduction during the current decade. This includes a particular approach to international development cooperation as well as an analytical and policy narrative about how to promote development and poverty reduction at the national level. These two elements are in fact the institutional realization of the new international development consensus.

The approach to international development cooperation within which the MDGs are embedded is the partnership approach which was first introduced by the donor community at the end of the 1990s. This was originally advocated in the OECD/DAC 1996 Report *Shaping the 21st Century: the Contribution of Development Cooperation*. This important report, which was designed to respond to growing aid fatigue, argued for a new approach to development cooperation whose principal elements were: (i) focusing international development cooperation on poverty and human development goals, (ii) a partnership approach to aid in which donors (now “development partners”) harmonized and aligned their support behind the national strategies of recipient countries (now also “partner countries”), and (iii) a broader conception of development cooperation instruments which went beyond financial and technical assistance to include measures affecting other economic relationships, notably trade cooperation, debt relief, the encouragement of private capital flows and foreign direct investment (FDI), and support for technology development in limited areas such as health. The Report included a list of seven International Development Targets, devised in consultation with the UNDP Human Development Report Office, which were recommended as the appropriate focus of the new approach to development cooperation. These were the source of the MDGs. The MDGs built on the OECD list, but multiplied the targets, by drawing selectively on the outcomes of major international conferences in the 1990s, and also added an eighth, rather weakly specified goal, namely “Developing a Global Partnership for Development”.

One critical element of the new partnership approach was put in place in the late 1990s when the concept of the Poverty Reduction Strategy Paper (PRSP) was introduced as a way of ensuring that debt relief was channeled into poverty reduction expenditures in Highly Indebted Poor Countries (HIPC). This provided a national governance mechanism for achieving global development goals. But this was quickly generalized. As OECD (2000: 21) insightfully and succinctly put it, “The decision to place the implementation of the enhanced HIPC into the large context of the new development partnership paradigm in effect leveraged political support for debt relief into a reform of the whole concessional financing system”. The partnership approach was further endorsed by both developed and developing countries in the Monterrey Consensus in 2002 (UN 2003). Moreover the on-going process associated with the Paris Declaration on Aid Effectiveness has further enhanced the role of the nationally-produced poverty reduction strategy as the key governance mechanism through which global poverty reduction objectives will be achieved, as well as reinforcing the key principles of the partnership approach – national ownership of development strategies, harmonization and alignment of aid behind those strategies, result-orientation measured through target achievement, particularly progress towards MDGs, and mutual accountability on the achievement of results (OECD 2005).

The MDGs are not only at the heart of an approach to international development cooperation but they are also embedded within an analytical and policy narrative about how development and poverty reduction should be promoted. The thrust of this narrative is to advocate that the best national strategy for achieving poverty reduction is to promote close integration with the global economy through deep liberalization, both at and behind national borders, and through the harmonization of global standards.

This narrative was first propagated as the best policy for developing countries in the early 1980s. In the thirty years before then, the dominant policy approach was national developmentalism. This former approach was adapted to a post-colonial moment. Economic development was understood as an essential aspect of the liberation of peoples and building of new nations, and this process was supported through foreign aid. With the introduction of structural adjustment loans as a policy mechanism, the dominant narrative shifted from national developmentalism to global integration. This shift was prompted by a global economic crisis and the ideological revolution driven forward by Reagan and Thatcher in USA and UK. In order to manage the global fiscal and debt crisis, developing countries were persuaded to adopt structural adjustment programmes of liberalization, privatization and stabilization, a set of policies which later came to be known as the “Washington Consensus” (see Gore 2000). The focus of national policy then switched decisively from the liberation of peoples to the liberalization of economies. Later, as globalization was identified as a key driver of change in the 1990s and the present decade, the Washington Consensus package was increasingly advocated as the best way for countries to maximize the benefits of globalization (for example, by attracting FDI, private capital inflows and dynamic external sources of demand through exporting) as well as to minimize the risks of being left out.

Going back to the period of national developmentalism, it is apparent that in the 1970s there was an important inflection in development thinking and practice which occurred after the “Golden Age” of economic growth in the 1950s and 1960s. At this point there was increasing questioning of the meaning of development and attempts were made to operationalize the idea of redistribution with growth, the world employment programme was launched and there was support for development strategies which met basic needs. Poverty and income inequality emerged as key concerns in these years. These ideas completely disappeared in the early 1980s with the switch from national developmentalism to global integration. However, following the publication of UNICEF’s *Adjustment with a Human Face* in 1987 and with the increasing moral pressure from the information on human development deficits disseminated through UNDP’s Human Development Report throughout the 1990s, there have been increasing efforts to add a social dimension to the process of global integration. Just as in the period of national developmentalism, this led to a major inflection in development thinking and practice with the new emphasis on poverty reduction at the start of the new millennium. There was thus a shift towards so-called second-generation policy reforms, which retained the major thrust of the old structural adjustment programmes but emphasized social outcomes as well. These reforms also sought to get the institutions right, as well as the prices right, through good governance.

The MDGs represent the full flowering of this inflection towards global integration with a human face. They are thus not a stand-alone product. Within the current paradigm they work as the human face of the narrative of global integration. In one interpretation, the social standards which MDGs embody should both result from, and facilitate, the process of integration. However, more realistically, the MDGs can be understood as a minimum social floor which policy-makers should strive to achieve whilst they are implementing policies which promote global integration.

The Current MDG Paradigm and Poverty Reduction: The Case of the Least Developed Countries

The effectiveness of the current MDG paradigm on poverty reduction depends on the effectiveness of the new partnership approach to development cooperation and of the national strategy of “global integration with a human face”. Drawing on UNCTAD (2008), this section reviews some evidence from least developed countries (LDCs) on how effective the current MDG paradigm has been in reducing poverty and how the partnership approach has worked.

The LDCs are 49 countries which are identified by the UN as least developed on the basis of their low GNP per capita, weak human resources and economic vulnerability. There are important gaps in the data which limit the monitoring of progress within this group of countries. However the available evidence indicates that:

- (a) Some LDCs are making significant progress towards achieving some specific MDGs, but there are very few LDCs that are making progress on a broad front;

(b) More progress is being made on targets which depend primarily on the level of public service provision, and Governments and donors are committed to increasing public expenditure and implementing well-targeted programmes. In this regard, progress towards universal primary school enrolment shows what can be done in quantitative terms;

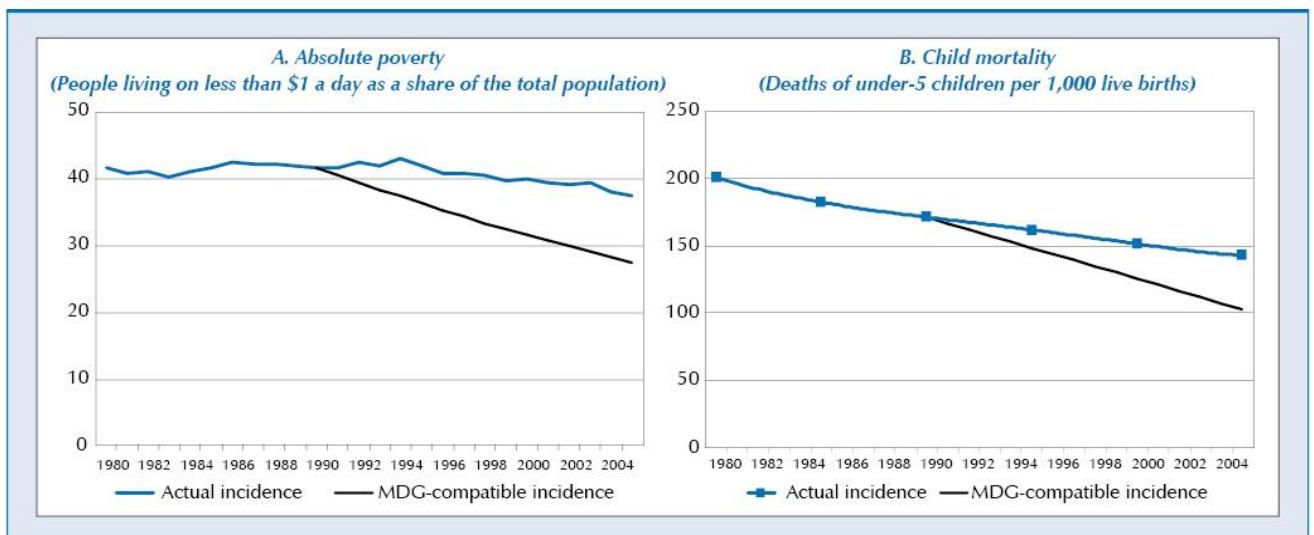
(c) There is a distinct hierarchy of achievement which reflects two factors: the priorities of Governments and donors who are funding the scale-up, and the magnitude and time-scale of investments required to meet the targets. The conjunction of these two factors largely explains why achievements in increasing primary education enrolment outstrip progress in improving access to water, which in turn outstrips achievements in improving sanitation; and

(d) Progress towards targets that depend more on household incomes rather than mainly on public service provision has been slowest. In this regard, progress has been slow in reducing the incidence of extreme poverty and hunger. It has also proved difficult to maintain progress in reducing child mortality, where trends reflect the effects of both private incomes and public services.

The overall implication of these trends is that broad-based success in achieving progress towards the MDGs is as yet elusive in the LDCs.

Chart 1 provides evidence that the current MDG paradigm has not made a significant difference to long-term poverty reduction trends in the LDCs as a group.

Chart 1: Poverty and child mortality in LDCs: Actual and MDG-compatible incidence, 1980-2005



Source: UNCTAD 2008, chart 17.

Note: The MDG-compatible incidence is the hypothetical path that poverty and child mortality incidence would need to follow if the LDCs were to achieve the respective MDG targets by 2015.

The chart shows trends in the incidence of \$1-a-day poverty and child mortality for the LDCs as a group from the early 1980s until 2005. If the current MDG paradigm were making a difference to poverty reduction, one would expect to observe a significant break in the trend after 2000. From the chart it is apparent that the rate of poverty reduction is very slow and the LDCs as a group are off-target to meet the goal of halving the incidence of poverty by 2015. The incidence of extreme poverty has decreased from a peak of 44 per cent in 1994 to 36 per cent in 2005. There is actually a break in the trend line when there is an improvement in poverty reduction performance. But this shift occurred in 1994, not in 2000. For child mortality, the rate of decline is similarly very slow and the LDCs as a group are off-target to meet the goal of reducing child mortality by two-thirds by 2015. No real change in the trend is discernable, but from looking at the chart it appears that the rate of decline in the incidence of child mortality in LDCs has actually slowed down since 2000.

These trends, which will certainly be adversely affected by the impact of the global financial crisis, reflect the weaknesses of the current approach to promoting development and poverty reduction and deficiencies of the new partnership approach to international development cooperation.

As a national strategy, global integration with a human face simply does not address the major structural weaknesses of LDCs. Most of them face an intensifying employment problem in which they cannot generate sufficient productive jobs and livelihoods for the rapidly expanding population of working age. The scale of the employment challenge, as well as its extension into the future, is worth underlining. In Mali, for example, the new entrants to the labour force were 171,800 in 2005 and they will increase to a peak of 447,800 per annum in 2045, when the annual additional labour force will start to decline. In Madagascar, the new entrants to the labour force in 2005 are estimated as 286,200 and their number will increase to 473,400 per annum by 2035, when the additional labour force will begin to decline (Losch, Freguin-Gresh and Giordano, 2008).

The employment problem is also exacerbated because at the same time as the numbers of new entrants to the labour force are growing, more and more people are seeking work outside agriculture. This is partly due to “pull factors”. But there are also strong “push factors”. The capacity of agriculture to absorb new entrants to labour markets on the continent is diminishing as land availability, land quality and average farm size decline, and this will be aggravated by climate change. There is now accelerating urbanization without industrialization. Yet the booming services sector mainly consists of low-productivity informal activities such as petty trade.

This permanent employment crisis is the root cause of the LDC’s persistent poverty problem. It is difficult to envisage how the MDGs can be achieved on a sustainable basis when countries face risks of a blocked structural transformation. Rapid and deep trade liberalization has been undertaken in two-thirds of the LDCs, particularly in Africa, and is further complicating this task. Food imports have been rising significantly and LDC governments must now somehow increase agricultural

productivity and at a time when the growing demand in their urban centres is increasingly supplied from abroad. At the same time, they must generate productive off-farm employment in industry and services whilst facing global competition. Current national policies are not right to address these challenges.

The partnership approach to development cooperation has also been flawed. Implicit within it is the idea that aid works best when based on a genuine and balanced partnership of equals. But it is reasonable to ask: what are the *terms of development partnership* between donor and recipient countries when there are major inequalities between them in terms of resources, capabilities and power? How does partnership work when one party is highly indebted and dependent on debt relief from the other party or when it depends on aid from the other party for over fifty percent of the government budget?

The evidence from the LDCs shows that the terms of development partnership remain very unequal, and despite efforts to the contrary, country ownership continues to be undermined by the nature of relationship between donors and highly-aid dependent recipients. Ownership is being undermined not simply by the non-alignment of aid with national strategies, though this still matters. It is also undermined through: (i) weak technical capacities coupled with strong incentives for recipients to anticipate and internalize donor priorities in policy formulation; and (ii) the prioritization of donor agendas in policy implementation through the working of policy conditionality, administrative guidance via monitoring indicators and selectivity in donor financing choices. At worst, LDC governments are placed in a double-bind in which they are committed to achieve global development goals through the adoption of national development measures which make their achievement impossible (Gore 2004). National policies are inevitably schizophrenic. In practice, most second-generation PRSPs in the LDCs are so broadly defined and so weakly embedded in a strategic choice that there is an ownership frontier within the PRSP. Part of the policy agenda is strongly owned by national Governments; part by strongly donors by donors; and in between there is a shifting zone of consensus policies (see UNCTAD 2008). Aid which is aligned with the national strategy tends to be aligned with the donor-driven part of the policy agenda.

Another problem is that donors are taking a sectoral approach to MDGs, focusing on say basic health, or primary education, or water, or even a favourite disease. With this approach, it is possible selectively to achieve targets but this does not add up to comprehensive progress. Instead there are dysfunctional outcomes, for example, when more and more children go through school but public expenditure cannot increase sufficiently to hire extra teachers and so quality falls. Or they go through school but then cannot find jobs or productive livelihoods. In the end, achieving the MDGs will require a combination of rising private incomes (based on productive employment) as well as improved access to public services (for education, health, water, sanitation). However, aid to LDCs is concentrated more and more on social sectors and less on production. Indeed the share of aid commitments to production sectors (including agriculture) and economic infrastructure fell from 48 per cent in the period 1992-1994 to 25 per cent in 2006 (UNCTAD 2008).

Finally, turning to other aspects of the international development cooperation which are complementary to financial and technical assistance, it is clear that there are major gaps in the partnership approach (see Gore 2003). In this regard, it is notable that the nature of an international commodity policy has been right off the policy agenda, although there is a close link between differences in the incidence of extreme poverty amongst countries and their degree of commodity dependence (see UNCTAD 2002). There has also been very slow progress to provide aid for trade through the mechanism of the Integrated Framework for Trade-related Technical Assistance. Comprehensive debt relief finally came to a number of LDCs through the Enhanced HIPC Initiative and Multilateral Debt Relief Initiative of 2006. But some LDCs still face a debt overhang. Finally, there are no major initiatives to support LDCs in relation to technological transfer and learning, although this is critical for the process of structural transformation and diversification which is the key to substantial poverty reduction and even though the TRIPs agreement expressly urges the adoption of special measures for LDCs to this effect.

Key Game-changers and Processes of Change

The Financial Crisis and the Global Development Cycle

The main game changer which is going to shape development up to 2015 is going to be the unfolding impact of the global financial crisis on developing countries. There is a strong likelihood that, in the next few years, the crisis will actually reinforce the importance of the MDGs. Progress towards their achievement will be used as a litmus test of social protection measures which are put in place to mitigate the impact of the crisis on poor people. But this paper argues that the global financial crisis has a deeper significance. It marks the beginning of the end of a 60-year development era; it is a turning-point in what Ocampo and Parra (2006) have called the global development cycle.

The nature of the global development cycle can best be understood as a Kondratieff long-wave. Kondratieff argued that capitalist economies go through long waves of boom and bust which last 50-60 years in duration (see Kondratieff 1935; Garvey 1943). These cycles, which have been traced back to the eighteenth century, include four distinct phases (see Berry 1991). The first phase – spring – is an inflationary growth phase which is kicked off as a cluster of new technological innovations and associated institutional innovations diffuse widely and there is new round of investment in new types of energy and transport infrastructure. In the next phase – summer – some limits to growth are reached and growth rates slow down until there is a stagflation crisis. These two phases last about thirty years and constitute the A-period of the Kondratieff cycle, an inflationary growth cycle. In the third phase – autumn – economic growth picks up again but this is the beginning of a deflationary growth cycle. The profit rate of production is lower in this phase. Making money through finance and speculation rather than production assumes increasing importance and there are significant shifts from high-wage areas to low-wage areas in order to cope with the new conditions. However, new technologies and innovation also emerge during this period. Finally in the last phase –

winter – the economy enters a period of sharp retrenchment and economic adjustment. This is a crisis of deflationary depression. The Kondratieff winter is a moment of major creative destruction and this provides the foundation for the start of a new cycle which is in turn based on a new cluster of innovations. The autumn and winter phases of the Kondratieff cycle together last about 30 years constituting the B-phase of the cycle.

Dating any Kondratieff cycle is a hazardous task. However, we may suggest that the early 1980s was a pivotal moment in which there was a shift from the A-phase to the B-phase of the current Kondratieff cycle. From this perspective, the first 30 years of the cycle, the A-phase, were from the early 1950s until the peak moment of 1980-1982. At that point in time, there was a major economic crisis, which was a stagflation crisis. We have been living through the B-phase of the cycle since then. The global financial crisis can be seen as marking the definitive onset of a Kondratieff winter. In contrast to the crisis of the early 1980s, this is a crisis of deflationary depression. It marks the beginning of a global recession which is the worst since the Great Depression, an era which coincides with last Kondratieff winter. How long the current recession will last depends critically on policy responses.

These periods are somewhat rough and ready. However, if one looks back at changes in development thinking and practice discussed earlier, there is a remarkable synchronicity between timing of shifts in the dominant orthodoxy and the shift from the A-phase to the B-phase of the Kondratieff cycle, as well as shifts between the four phases of the cycle. Table 1 summarizes these shifts.

Table 1		
The Kondratieff Long-wave and The Dominant Development Policy Narrative		
Kondratieff Spring 1950s and 1960s	National Developmentalism	Economic Growth
Kondratieff Summer 1970s	National Developmentalism	Economic Growth + Redistribution
Kondratieff Autumn 1980s and 1990s	Global Integration	Washington Consensus
Kondratieff Winter 2007-2012/2015?	Global Integration	Washington Consensus + Poverty Reduction and MDGs
Possible Kondratieff Spring? 2012/2015-2030?	Global Sustainable Development	Develop Productive Capacities

The change from national developmentalism to global integration at the start of the 1980s occurred synchronically with the shift from the A-phase to the B-phase of the Kondratieff cycle. The inflection towards poverty reduction and inequality in the 1970s was associated with the shift from spring to summer in the cycle. The introduction of the MDGs can similarly be associated with the onset of Kondratieff winter. They were, in this reading, “ahead of the curve”. But some pundits who seek to link the Kondratieff cycle to stock market trends suggest that the economic fundamentals may have dictated that economic winter should have started at the turn of the new millennium and what policy has been doing since has been seeking to delay, or even “beat”, the Kondratieff winter. Such a reading would imply that the MDGs came just on time.

It should be stressed that in locating the global financial crisis within the long-wave rhythm of socio-economic change in the global economy, I do not want to deny that the causes of the crisis are not found in the working of the financial system. It is clear that the noxious cocktail of lax financial regulation, misunderstood financial innovations and outrageous financial incentives are the immediate cause of the crisis. However, speculation, excess and what Pigou (1927) called “errors of optimism and pessimism”, are an integral part of every business cycle and tend to lead to overshooting and wild swings in the cycle. Moreover – and this is the key point – whilst the immediate causes of the global financial crisis lie in the financial system, the crisis is more deeply rooted in the contradictions of the global development trajectory and the weaknesses of the current development paradigm.

Contradictions in the Global Development Trajectory

The key drivers of change up to 2015 and beyond are processes which amplify, or resolve, the contradictions of the current global development trajectory. These contradictions need to be urgently addressed as part of a strategic response to the crisis which can enable an early breakthrough towards another long-wave of rising economic prosperity. Four major contradictions are particularly important. These are macro-economic, geographical, technological and environmental.

The macro-economic contradiction arises because the global development trajectory since the early 1980s has been very unequal and income inequalities have increased both within and between countries. Milanovic (2005) shows that we live in a world in which the richest 1 per cent of people in the world receive as much as the bottom 57 per cent – in other words, the 50 million richest people receive as much as the 2.7 billion poorest. This is a world with deep socio-economic marginalization. The poorest 40 per cent of world population receive just 5 per cent of world income. It is also a world without a middle class. Only 17 per cent of the world’s population falls within 75 per cent and 125 per cent of the world median income, and the average per capita income of the middle class is just 37 per cent of the world mean income (Milanovic 2005). The magnitude of inequality is a fundamental source of the global financial crisis. Within USA, the credit bubble of the present decade can be traced back to the problem of stimulating consumption in a situation where real wages of the majority of the population are stagnant (Turner 2008). But more broadly the sheer scale of global inequality also

matters. In short it has led to a situation in which there is a deficiency of global aggregate demand.

The second contradiction is geographical. The key process here is the increasing and increasingly asymmetric globalization. Globalization may be understood as the increasing flow of goods, ideas, people and finance across national borders and the elaboration of a complementary set of organizational structures and institutions to manage this expanding network of international economic activity and interactions (UNCTAD 1997). As globalization increases, what is happening in particular localities in particular countries increasingly depends on what is happening in other localities in other countries. However, a major asymmetry has arisen as both the conceptual frameworks to understand this new world and the institutional frameworks to manage it are underdeveloped.

With the regard to conceptual frameworks, a key feature of the current moment is that there is deep conceptual confusion as we tackle global issues within national frames of reference. This is partly a matter of forms of explanation. “Methodological nationalism”, that is, a form of explanation in which local and national trends are explained by national factors or national policies, predominates (see Gore 1996). But norms of social justice are also still rooted in national frames of reference.

The institutions of global governance are also underdeveloped in relation to the degree of global interdependence. The deficit is partly a question of *gaps* in the global institutional architecture, which are particularly severe in relation to the international financial architecture and also the international architecture for dealing with environmental issues, and *incoherence* between different international regimes, for example between the international trade regime and finance regime. But the global institutional deficit also is a question of lack of voice and power within international fora. An important process which has been occurring and will intensify over the next 30 year cycle is the increasing weight in the global economy of the BRICs (Brazil, Russian, India and China) as we move to a more multi-polar system. But the importance of these increasingly influential countries is very poorly articulated in current global institutions. Moreover, in general terms, the democratic consequences of globalization remain to be addressed.

The third major contradiction is technological. This contradiction arises because each Kondratieff long-wave is associated with a rhythm of accumulation of physical infrastructure as well as technology and energy transitions (Berry 1991). Perez (2007), extending insights of Schumpeter on business cycles, has suggested that each long-wave has a particular “technological style” or “techno-economic paradigm”. In each wave it has been observed that new technologies emerge during the B-phase of the cycle, and that during this period there is an increasing mismatch between the technological style and socio-institutional matrix within which it is embedded. The deflationary depression at the end of the B-phase is a moment of creative destruction in which the deployment of new technologies starts to exceed the old technologies. But the full upswing of the next Kondratieff wave depends on socio-institutional innovations. That is to say, the full

flowering of the new technologies requires new forms of best practice of organizing production, new skill profiles, new product mixes, new forms of innovation, new infrastructures and a new geography of production (Tylecote 1991). As a new socio-institutional matrix emerges and mismatch is decreased, the new technological potential can be realized.

Looking backwards in time, some observers identify four Kondratieff waves since the 1770s, namely: (i) early mechanization linked to water transport, (ii) the age of steam power and railways, (iii) the era of steel and electricity, (iv) the era of “Fordist” mass production based on oil (Tylecote 1991). The emerging technological style has been described as “the micro-electronics and biotechnology style” (Tylecote 1991), whilst Silbergliitt et al. (2006) argue that the world is in the midst of a “multi-disciplinary technological revolution” which includes bio-, nano-, materials- and information technologies. Freeman (1989, quoted in Berry 1991) has called the emerging technological era an “Information and Communications Kondratieff” and identified the leading sectors and infrastructures of the coming long-wave wave as computers, electronic capital goods, software, telecommunications equipment, optical fibres, robotics, flexible manufacturing systems, ceramics, data banks, information services, digital communication networks and satellites. These new technologies mean that the ability to access, use and generate knowledge is becoming more and more central to production and competitiveness. This is what some call the emergence of the knowledge economy and knowledge society, a process which will have complex implications for employment creation as well as the future of smallholder agriculture.

Finally, it is important to bring the environment and the ecological crisis into the picture. The analysis thus far has focused on internal contradictions of capitalist development which require resolution. But the most fundamental contradiction which we face at the present moment – the mother of all contradictions – is the environmental limits to economic growth. This is partly an issue of increasing resource scarcities which are associated with rising world population – which is another key underlying driver of change – but also the threat of runaway climate change. Recent evidence, for example on sea level rise and the extent of summer ice in the Arctic Ocean, suggests that climate change is occurring even faster than the models of the International Panel on Climate Change predicted. Moreover biophysical feedback mechanisms, whose omission from the models is likely to be a key factor in the underestimation, are likely to make climate change irreversible once critical atmospheric temperatures are passed. How fast we act is critical for both the magnitude and reversibility of climate change. Some say 2015 will be too late; but even if they are wrong, climate change is already impacting all our lives and will increasingly do so.

Energy innovations are going to be critical during the coming period. This is particularly related to the fact that some are predicting that we shall reach the point of “peak oil”, that is the moment when global oil supply starts to decline, during the decade 2010-2020. One major downside risk here is that there has been in the recent past too little focus on finding new, and particularly renewable, sources of energy, and also security and democratic considerations have constrained the diffusion of nuclear energy.

Some scenarios suggest that the absence of foresight and practical action in relation to energy sustainability is the major Achilles heel of the whole system which, if it is unresolved, will lead to collapse (Atkinson 2007a, 2007b, 2008). In that case, there will be no fifth Kondratieff wave.

Elements of a New Development Paradigm

The foregoing analysis suggests that we are living through a moment in which there will be a paradigm shift in development thinking and practice. The contours of the new paradigm, and where the MDGs might fit into it, are still open. What *will* emerge will be the outcome of contending intellectual currents. But what *should* emerge is a new development paradigm that addresses the contradictions of the global development trajectory. This is necessary in order to tackle the deep roots of the financial crisis and also to ensure a transition into a new long-wave of widespread innovation and rising prosperity. It is not simply a matter of finding a more effective approach to poverty reduction. Rather what is required is a new international development consensus; a new analytical and policy narrative about how development can be promoted; and a new approach to international development cooperation.

The Nature of a New International Development Consensus

It is necessary now to elaborate, and build political support for, a new international development consensus. This should build on the key achievement of the current MDG consensus which is to initiate a purposive conception of international society which recognizes that global developmental outcomes matter. However, it is necessary to go much further in terms of what outcomes matter, and also to elaborate a positive agenda of potential and opportunity alongside the negative agenda of reducing threats to security which is currently animating public debate and action.

In terms of the outcomes which matter, the analysis above suggests that the most critical challenge will be to find effective and fair ways of mitigating and adapting to climate change whilst at the same time reducing global income inequalities and facilitating the realization of the development aspirations of billions of people in developing countries. Action to address climate change must be at the top of the agenda up to 2015 and beyond. However, it is equally vital that such action does not amplify and ossify global inequalities. One possible impact of the global financial crisis is another “lost decade” for developing countries. If this were to occur, there would be increasing global inequalities, a process which would increase the probability of new crises and instability. But a more dynamic and stable global development trajectory could be secured if global public action were focused on promoting economic development to create a global middle class, to foster a multi-polar system of states including dynamic regional growth poles, and to ensure that the poorest countries had a sufficient share of global income that they are not left too poor to undertake modern governance without external financial support.

Putting climate change and global inequality together, a new international development consensus should be forged around the notion of *global sustainable development* (see table 1). This central organizing principle should replace both national developmentalism and global integration, with or without a human face. It would provide the vision for a new long-wave of innovation and economic prosperity which brings rising living standards and sustainability.

This consensus must be grounded in arguments that go beyond the moral ones which underpin the current MDG paradigm. There is an urgent need now to articulate the various ways in which rich countries and developing countries have a mutual interest in the economic development of the latter. This mutual interest partly resides in avoiding negative global spillover effects associated with widespread, grinding poverty – international public health scares, terrorist enclaves, emergence of narco-states, costly piracy launched from failed states and complex humanitarian emergencies spilling over into refugees and asylum seekers. But there is also a positive agenda which needs to be elaborated in full now to facilitate a transition from a discourse of fear to a discourse of hope.

The first, and most basic reason, why economic prosperity in developing countries matters to rich countries is the unrealized human and creative potential which exists in developing countries. Unlocking this potential through development will be good for all, and not simply for developing countries, and also vital for an era in which knowledge and creativity are central to global prosperity. Secondly, economic development is the basis for expansion of global markets and ensuring the buoyant global aggregate demand which is necessary to animate investment and innovation. Thirdly, the way in which economic development occurs will be vital for managing the process of climate change. All three of these rationales need to be woven into the case for the new international development consensus oriented towards global sustainable development.

Developing Productive Capacities as a New Analytical and Policy Narrative

The new development paradigm requires not only a new international development consensus but also a new analytical and policy narrative about how development can be promoted. In this regard, the idea that national and international policy should focus on developing productive capacities and the associated expansion of productive employment is particularly promising. It is actually the only possible approach to poverty reduction without massive international migration in the context of future population growth trends and the inevitable growth of the numbers of people seeking work which can be expected over the next twenty years.

This approach has been elaborated and advocated in recent years within the context of UNCTAD's Least Developed Countries Reports (see UNCTAD 2004, 2006, 2007). In this context, productive capacities are defined as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD 2006: 61). The core processes through which productive capacities develop

are capital accumulation, technological progress and structural change. These are all closely linked so that technological progress cannot be understood in isolation from capital investment processes and both these processes have two-way links with structural change. Moreover, the development of productive capacities is closely related to the growth of demand.

The productive capacities approach is founded on heterodox growth theories. These do not adopt a production function approach which views “the growing economy as an inflating balloon in which added factors of production and steady flows of technological change smoothly increase aggregate GDP” (Ocampo 2005:8). Rather the growth process depends on the technological capabilities of economic agents and the institutional matrices in which they are embedded, the dynamics of production structures and the role of demand – what I have called elsewhere a “structure-and-agency” approach to economic growth (Gore 2007).

This “structure-and-agency” approach not only provides a better understanding of how economic growth occurs but also a better explanation of why different growth trajectories are more or less poverty-reducing. It also enables the adoption of poverty reduction policies which are not a separate add-on to existing policies but rather an integral aspect of the way in which economic growth is promoted (see Gore 2007). In order to do this, it is necessary to link these heterodox growth theories to what Graham Pyatt (2003) calls a structuralist approach to poverty analysis. This approach is based on the recognition that households are not simply consumers but also producers, and that their living standard of household members depends on how they make a living. This is related to their abilities and skills, their assets and their access to markets for goods and services which household wishes to buy and sell, to public services and to environmental resources. The structuralist approach to poverty analysis focuses on the generation and sustainability of livelihoods of different socio-economic groups, locates these within the changing structure of the economy and examines how changes in the structure of the economy are linked to relationships with the rest of the world. Through these latter connections the approach avoids the pitfalls of poverty analysis based on methodological nationalism.

The productive capacities approach recognizes the centrality of economic growth for poverty reduction. But it is not trickledown economics. Rather both growth and poverty trends are *emergent properties* of the way in which productive capacities are expanded. UNCTAD (2006) identifies some of the critical channels through which this occurs in the case of LDCs. Although it has not yet been done, this argument could be extended to the issue of environmental sustainability as this is also a matter of the way in which productive capacities are developed. That is to say, economic growth, poverty reduction and environmental sustainability can all be understood as emergent properties of the process of developing productive capacities. With this analytical framework, developing countries can be encouraged not to leave aside the issues of environmental sustainability until later and simply focus on economic growth now but rather be empowered to promote the development of productive capacities in a way which achieves economic growth, poverty reduction and sustainability objectives.

Implementing the productive capacities approach would require a new developmental state. This would be geared to facilitating access to, use of and the generation of knowledge and would seek to tap the energies of stakeholders and citizens through a genuinely participatory rather than authoritarian style of governance. The development state model also would provide the basis for promoting the technological diffusion and acquisition which is necessary for the structural change to a low-carbon development trajectory.

A New Approach to International Development Cooperation

The final element of the new development paradigm must be a new approach to international development cooperation. In this regard, the partnership approach, based on country ownership of national development strategies, is certainly the right way to go. It recognizes that development aid - and development cooperation more broadly - is a relationship whose effectiveness depends on the practices of both parties. But the new paradigm must more seriously address the terms of development partnership, seeking to make them more balanced and equal. The Paris Declaration process has not adequately been able to address this issue thus far. It has got bogged down in the technical details of monitoring and evaluation, with the constant auditing of indicators having a counter-productive effect on outcomes. A new departure is thus required.

If one looks at the international aid regime in a long-term perspective, it is possible to see the current approach to achieving the MDGs as a kind of half-way house in a process of a global frame shift. In the 1950s and 1960s, “national development means” were used to achieve “national development goals”. These “national development means” include national aid budgets in rich countries, government to government financial resource transfers and national plans, and the “national development goals” were national economic development, employment expansion, rising living standards and national sovereignty. Within the current MDG paradigm, "national development means" are used to achieve "global development goals". In the future, it is possible to envisage a shift towards an era in which “global development means” are used to achieve “global development goals”. In this vision, the MDGs could become social and economic rights which are guaranteed at a global level and not financed through national budgets but through innovative global sources of finance, such as taxes on global transactions.

There is still a need for country-to-country financial resource transfers. But these would be oriented towards discovering and releasing creative potential through sustainable development of productive capacities. This could best be achieved not through government-to-government transfers, within the current new public management auditing approach. But rather there should be a new approach to aid which is concerned to leverage development finance through catalyzing private sector initiatives (see, for example, Cohen, Jacquet and Reisen 2005). This would necessarily be more experimental and risk-taking than current approaches to accounting aid effectiveness allow.

An important insight of the current partnership approach is the realization that development and poverty reduction are not simply a matter of aid but also influenced by the nature of international regimes for trade, technology, finance and investment. A critical challenge for the coming era will be to inject a development dimension into the design of these international architectures. Experience with the Doha Development Agenda indicates how difficult this can be. Ensuring policy coherence amongst the different regimes, including aid regime, will also be critical.

As noted earlier, some key international regimes are quite underdeveloped and will require specific attention. The climate change regime is an obvious priority. But given the increasing importance of knowledge in the new era, the nature of the intellectual property rights regime is increasingly important. Moreover the international migration regime has been seriously neglected up to now. The migration regime is a particular missing link in the current global architecture because a globalization of expectations is an inevitable feature of the instant communication age we are now living in. However, at present what is occurring, owing to the highly unequal global development trajectory, is that there is a globalization of expectations without the globalization of opportunity. This is a recipe for political instability and it is also intensifying pressures for international migration. Thus how the international migration regime fits with other international economic regimes will be a critical issue. The position of both developed countries and rapidly growing developing countries will be vital in this new architecture.

The Future of Poverty Reduction

Looking back to the last major paradigmatic transition in the late 1970s and early 1980s, the new paradigm may take up to five years to emerge and it will draw together from existing theoretical and practical experience which up to now has been outside the mainstream and regarded as heterodox. Ideological innovation often occurs through transformations of the available normative vocabulary and thus there is no reason to suppose that the idea of poverty reduction in general and the MDGs in particular do not have a future. However, it will be very counter-productive if responses to the global financial crisis focus solely on poverty, vulnerability and social protection in developing countries and so do not see the need to promote accelerated economic development in order to reduce the global income inequalities that are a root cause of the crisis.

In the long-term, as suggested above, the MDGs may become the basis for global social and economic rights. However, in the mean time, there is still a need for a set of indicators which measures differences in well-being within global social space and the content of the MDGs as a set of targets should be re-visited as such. All the work which has gone into building statistical networks to compare people around the world on the basis of the MDGs should also be re-oriented within this well-being perspective. More effort should also be devoted towards specifying the eighth MDG goal, “Developing a Global Partnership for Development” and how it is related to well-being. This goal was certainly the most significant addition from the OECD’s original International Development Targets. But the targets in Goal 8 are very weakly conceptualized and

weakly specified. For example, Target 12 under that Goal transforms the Millennium Declaration commitment “to develop further an open, equitable, rule-based, predictable, non-discriminatory trading and financial system” by dropping the word “equitable”. Relating elements of a genuine global partnership for development to well-being within developing countries will also require analytical innovation in forms of explanation. In particular, the methodological nationalism which currently pervades poverty analysis should be replaced by what Townsend (1993) presciently called “the international analysis of poverty”.

Although the MDGs can, in modified form, usefully live on, the argument of this paper is that the current MDG paradigm is no longer helpful. It is necessary now to build a new international development consensus around global sustainable development. Policies to promote poverty reduction and the achievement of a modified list of MDGs should in future be embedded within a different policy approach which is based on more equal terms of development partnership and which recognizes that the best way to achieve desirable social objectives is through the sustainable development of productive capacities in a way which creates jobs and livelihoods and mitigates climate change. In the end this will be the most effective path for fulfilling “the collective responsibility to uphold the principles of dignity, equality and equity at a global level” recognized in the Millennium Declaration.

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