

## Foreword

By Joseph Stiglitz

The objective of development is to improve and sustain the well-being of those living in developing countries. It is not just to increase GDP. Sustainable increases in living standards require that resources—including all aspects of the environment—be managed well. Resource depletion and environmental degradation are potential threats to sustainable development. Too often, those entrusted with shaping economic policy have put too little attention on the consequences of the policies for natural resources and the environment, and devoted even less attention to shaping policies that might actually improve the quality of the environment and resource management.

At the Millennium Summit of the United Nations, the attention of the world was directed towards the reduction of poverty, setting goals to be attained by 2015—some concrete, others more general. It was noteworthy that among the targets was ‘ensuring environmental sustainability, including integrating the principles of sustainable development into country policies and programs; reversing the loss of environmental resources; and reducing by half the proportion of people without sustainable access to safe drinking water.’ Yet, it has become increasingly clear that bad environmental policies have particularly adverse effects on the poor. It is essential, if we are to have sustainable, equitable development, that we have a better understanding of how to improve resource management and the environment in developing countries, and how various policies affect the environment. That is one of the central objectives of the essays collected in this volume. But the essays address an even deeper question, which policies must be attacked if we are to have sustainable reforms: why is it that so many countries have not managed their resources well? What are the political forces at play?

Nothing illustrates the complexity of the issues at hand more than the resource paradox: the fact that countries with large endowments of natural resources seem, on average, to perform more poorly than those without resources. Examples of poorly performing resource-rich countries, like Congo and Sierra Leone, leap to mind; as do examples of successful countries without resources, like Korea and Singapore. There are, of course, examples of successful resource-rich countries—Malaysia and Botswana, among the most rapidly growing countries of the last three decades—and these show that the resource curse is not inevitable. But the fact that so many resource rich countries have not done well (and have corrupt and dictatorial political regimes) suggest that there may be some causal links.

This illustrates the importance of political economy concerns, as does another paradox: in principle, because there are no distortions associated with taxing rents, at least purportedly democratic resource-rich countries should have more equalitarian distributions of income than those where national incomes are dependent on individual efforts, where progressive taxation might have adverse incentives. Yet, on the contrary, resource-rich countries are marked by high degrees of inequality. They are rich countries with poor people.

The essays in this volume repeatedly emphasize the political dimension of the environmental problem. The misuse of the environment reflects broader problems of governance in developing countries. But the problems of governance are, in many ways, endogenous. Those seeking access

to resources at the lowest possible prices—maximizing profits for their shareholders—often find they can do so best by bribing government officials, rather than paying full market prices. Even advanced industrial countries have found the pressures from natural resource lobbyists, with their bounteous campaign contributions, irresistible. The United States even gives away its mineral resources to anyone who stakes out a claim: attempts by President Clinton to garner for American citizens the value of these resources through competitive auctions were beaten back by the mining companies.

There are complex interlinkages between economic policies, the environment, and governance: high interest rates (often associated with the structural adjustment programs of the IMF), for instance, encourage more rapid resource depletion; but they also encourage asset stripping as opposed to wealth creation, and with more firms and individuals having a stake in asset stripping rather than wealth creation, there is less support for the creation of a rule of law supportive of wealth creation and sustainable development.

Globalization by itself need not be bad for the environment and the protection of natural resources; but as practiced it often has been. Globalization has been associated with high levels of volatility—and with IMF programs which have raised interest rates to very high levels; these crises and the way they have been managed have not been good either for the conservation of natural resources or the protection of the environment. When poor people can't afford kerosene, they turn to forests to obtain the fuel they need. When countries face hard times, they are more likely to have a fire sale—use up their resources—to keep themselves going. Very high interest rates mean that it is rational not to pay much attention to the future consequences.

While today, most multinational mining companies have websites which portray themselves as keepers of the environment—and they may be more sensitive to public relations than privately held companies—the track record is worrisome: their profit maximizing incentives to keep costs down naturally lead to attempts not only to get the resources at as low a price as they can, but also to neglect the environment—and to exert what political pressure they can to limit environmental regulations. Nowhere was this more evident than in Chapter [11](#) of the North American Free Trade Agreement, where foreign investors succeeded in getting an agreement to being compensated for adverse effects on profitability by environmental regulations, no matter how well conceived and no matter how well designed—a ‘regulatory takings’ provision that had been repeatedly rejected by the U.S. Administration, courts, and Congress for domestic investors.

At one time, there was a worry that limitations on resources meant that there simply could not be sustainable, long-term growth. The ability of technology to stretch our resources further, to allow us to do with less, has reduced these concerns—though not completely alleviated them, since there remain concerns over the consequences of greenhouse gas emissions. As resources become depleted, countries can substitute other forms of capital, so their total ‘natural plus physical plus knowledge’ capital stock grows.

One difficulty in implementing sustainable growth policies is the accounting frameworks that are conventionally used. Accounting provides information that can be helpful in guiding decisions; but poorly designed accounting frameworks can provide poor guidance. The accounting frameworks used, for instance, for measuring national output do not take into account the depletion of natural resources or the degradation of the environment. Governments are given

high marks if GDP goes up, even if the country is actually poorer, as a result of its depletion of its resources, and even if, as a result, the growth is not sustainable. When I was chairman of the Council of Economic Advisers under President Clinton, I pushed for introducing Green GDP accounting frameworks that reflected this. The potential importance of the new accounting framework was highlighted by the political pressure that was exerted, for instance, by representatives from coal mining states, to stop this initiative by withholding all funding for it.

For developing countries, the ‘good news’ is that their environmental and natural resource policies are often so bad that there are reforms which would be both good for the economy and good for the environment. The elimination of open and hidden subsidies, for instance, which have the effect of encouraging excessive use of energy and water would simultaneously provide the government with more money to spend on alternative, more productive development projects and lead to a better environment.

These are only a sampling of the important topics touched upon by the papers in this volume. There is a simple message. Environmental sustainability requires an integrated set of policies, not just environmental policy. Perhaps it requires most of all a reform in political processes in both the North and the South, which have provided particular interests an opportunity to advance their own interests at the expense of the environment and of the long term well being of those in the developing world.