

High Quality Development: Shifting the Focus From Quantity to Quality

J. E. Stiglitz
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First forty years of reform saw enormous increases in GDP and GDP per capita

- Necessary to break out of the low income trap in which the country had long been mired
 - Though there had been intermittent successes in quarter century after Revolution
- But these successes have left in their wake a number of critical problems
 - Environmental degradation
 - High levels of inequality
 - Unequal and in many cases inadequate access to education and health
 - Cities, in which an increasing fraction of population lived, that left much to be desired
 - An unsustainable growth model, based on debt

GDP is not a good measure of economic performance

- Large number of technical problems
- Doesn't take into account distribution
- Doesn't take into account sustainability
- Doesn't take into account overall well-being

Important because what we measure affects what we do and strive for and how we evaluate success

There are among insights of International Commission on the Mismeasurement of Economic Performance and Social Progress in its 2009 report, *Mismeasuring Our Lives: Why GDP Doesn't Add Up*," and of the forthcoming report of the High Level Expert Panel on the Measurement of Economic Performance and Social Progress at the OECD

Quantity vs. Quality

When we say “quantity” of growth rather than quality, part of issue is a mismeasurement problem

- Because we mismeasure growth, we think we are doing better (in “quantity”) than we really are

At this stage of its development and reform process, it is important for China to focus on aspects of growth and development that didn't receive the emphasis that they perhaps should have had in earlier stages of reform

All of these qualitative aspects are important, some easier and more important than others

Environment

- Consequences for both growth (as conventionally measured) and standards of living
- Environmental taxes particularly effective instrument
 - And would raise revenues necessary for other aspects of the new Reform program
- Taxes won't suffice: need strong regulations, appropriate investment in infrastructure, well-designed cities
 - Including ways of addressing different perception of quality/quantity trade-offs at local level
 - More effective carrots and sticks

Cities

- An increasing fraction of Chinese citizens will be living in cities
- They have to be made more livable
 - Improvement in environment
 - Addressing issues of congestion
 - Provision of good public transportation
 - Congestion charges
 - Better city planning/zoning
 - Construction of parks

Health

- Of great concern to all, especially elderly
 - and elderly an increasing fraction of population
- In some countries (like US) inequalities of health are even greater than those in income
 - These inequalities should be an anathema to any society
 - Right to access to health care for all should be recognized
 - Some other middle income countries have done so
 - Also important to recognize importance of other aspects of health
 - Diet and lifestyle (exercise, smoking, etc.)
 - There needs to be heavier taxes on cigarettes and restrictions on unhealthy foods
- There are many models of good, high quality cost effective delivery of health care
 - America should be seen as a failed model: high costs, poor results, lots of rent seeking
 - UK model has to be used with care—key issue is level of basic provision for all
 - In UK quite high, public system is also better for complex procedures

Education

- There have been great strides in education
- But now there needs to be more emphasis on the quality of education for all
 - Best comparable to the best in the world
- And increasing educational opportunities for all
 - Importance of pre-K
 - Addressing issues of education in rural areas and for migrants

Inequality

- In four decades of reform, inequality has grown to the level that it is comparable to that of the US, the country in the advanced world which has the highest level of inequality
 - Though natural to have higher inequality at lower stages of development
- New view: inequality is bad for economic performance (both growth and stability)
 - So poor “quality” will interfere with quantity in long run
- Addressing inequality requires comprehensive program, based on understanding sources of inequality
 - Corruption, rent-seeking part of the story, but only part
 - Equalitarian expenditure policies: health, education
- More equalitarian tax policies: capital gains, property taxes, inheritance taxes, more progressive income taxes
 - Special problems posed by tax evasion
 - Why has China played so prominently in tax paradises?
- Have to also address special problems of disadvantaged and their children, including those living in disadvantaged places and migrants
- Also have to address problems of inequality at the top
 - Dangers of unbridled financial sector, real estate

Success in many elements of this agenda will require addressing some long standing economic issues

- Relations between the central and local governments
- Introducing new taxes and reforming existing tax structures

Movement towards quality rather than quantity can help solve some of China's other economic challenges

- Move from export led growth to domestic demand driven growth
- Move away from debt financed economic growth to tax financed and equity financed growth.

A move from quantity to quality of growth

- Is necessary if China is to improve standards of living
- Is necessary if China's growth is going to be sustainable
- Is necessary if China's growth is going to be inclusive

Such a move is clearly feasible.

- I have tried to describe some of the key elements

Such a move would actually increase overall economic performance *correctly measured*