





**Twenty years ago I established the Environment Unit at the IEA to present a free market alternative to the general doom and gloom and socialist militancy of many greens.**

We pursued projects on the importance of property rights to conservation and exposing junk science in environmental policy. The Unit published a dozen monographs and held many events. It also helped spawn the International Policy Network, founded by myself and Julian Morris, who had become a fellow at the IEA soon after I arrived. Today he is Vice President for research at the Reason Foundation.

Julian Morris and I wrote the Unit's first publication, *Global Warming: Apocalypse or Hot Air?* Twenty years on, in May of this year, CO<sub>2</sub> levels broke the symbolic milestone of 400ppm for the first time: levels were around 360ppm when we drafted the monograph. Yet, while greenhouse gases continue to accelerate (largely because of rapid development in China and other emerging nations), evidence of climate impact is still hard to prove, and harm even more difficult to establish. As was the case 20 years ago, without better evidence of harm, no political action to significantly lower emissions is going to occur, because of the crippling cost.

It is ironic that the United States is one of the few countries to have lowered its emissions in recent years, since it largely rejected the emission strictures agreed in Europe. The US did not mandate limiting the use of fossil fuels, but its systems switched from dirty coal to cleaner gas. This was done by the expansion of technologies opposed by most environmentalists – fracking.

So greens have failed to get wholesale political change on climate issues, but lots of small scale policies such as energy conservation building codes have been enacted over the

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years that more reasoned environmentalists can claim credit for.

Greens can also claim credit for some rather dubious policies based on weak science. Food bans based on genetic modification are probably the most egregious, but insecticide bans have probably had the largest impacts. The success of the greens began with prohibition of the insecticide DDT in all rich nations, even though the scientific evidence of harm was scant. DDT did accumulate in the environment and, where overused, did harm some species, but it was safer for use by agricultural workers than alternatives, and its demise also harmed malaria control and prevention of other mosquito-borne diseases.

In 1999 it looked as though greens would succeed in having DDT banned for all uses worldwide by 2007. Today it is still used in many places, notably southern Africa, saving thousands of

children every year.

I played a small part in preventing the DDT ban, primarily working in the United States and with a group, Africa Fighting Malaria, based in South Africa. We explained the science and economics of DDT. We dwelt on the hypocrisy of westerners pushing for a ban when DDT had eradicated malaria from Europe and America in the 1950s. Independent journalists and academics wrote about the issue fairly, and Southern African governments defended its use. As a result of this success, green groups and some journalists stepped up their maligning of those who defended DDT.

They have employed an interesting tactic as well as a far more familiar one. From climate change to DDT they have claimed that we are doing the bidding of big business, wilfully ignoring that business interests were on the other side: modern insecticide manufacturers do not make DDT and want to sell alternatives and large energy firms like the barriers to entry they can carve out in climate politics. But perhaps more surprising is that green activists have claimed we have been wildly successful in our efforts. One green web magazine article called me a “free market magician” for almost single-handedly rehabilitating DDT's reputation.

Their tactics seem to be designed to provide cover for their policy failure, re-energise their funding base to renew their efforts and to demonise their opponents. Such tactics will probably not work on legitimate journalists and policymakers but they may well succeed with their base, so I suspect such efforts are likely to increase.

In light of this, 20 years on, efforts to combat green alarmism are still very much required.

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**Will Asian emerging markets follow Latin America and the Middle East into the middle-income trap? Having enjoyed fast catch-up growth, will they now get stuck, unable to graduate to higher income levels?**

Much of East and South Asia is abundant in labour. The East Asian tigers started their catch-up growth by putting armies of initially unskilled labour to work. They shifted rapidly from agriculture to export-oriented manufacturing. Then they moved up the value chain in “flying-geese” pattern. From the 1980s and 1990s, they inserted themselves in global supply chains.

Until the 1980s, South Asia, unlike East Asia, had Latin American-style import-substitution policies that restricted growth. But then the sub-continent opened up and integrated with the global economy. Growth rates shot up accordingly.

Thus labour abundance has helped “globalising Asia”, especially East Asia, to achieve faster and more sustainable catch-up growth, with more widely shared benefits, than land- and resource-abundant Latin America and the Middle East. That puts the region in a better starting position to avoid the middle-income trap.

Now, let’s differentiate middle-income Asia. Following the IMF’s definition of middle-income status (countries with per-capita income of \$2,000-\$15,000), there are eight countries that stand out in East and South Asia: Malaysia, Thailand, Indonesia, Philippines, Vietnam, China, India and Sri Lanka. But they are at very different levels of development. So let’s first divide them into “high middle-income” and “low middle-income” brackets. Malaysia is at the top of the high

middle-income bracket. Indonesia, Philippines, Vietnam, India and Sri Lanka are in the low middle-income bracket. China and Thailand are roughly in the middle with per-capita incomes of about \$8,000.

Now let’s make a further subdivision, this time within China and India. Both have sub-regions that differ widely in terms of economic development. The ten coastal provinces of China are clearly in the high middle-income bracket, close to Malaysia. But the interior provinces are low middle-income. The more advanced Indian states, mainly in the south and

## **HORIZONTAL ECONOMY-WIDE POLICIES ARE FAR MORE IMPORTANT THAN VERTICAL INDUSTRIAL POLICIES TO PROMOTE FAVOURED SECTORS AND NATIONAL CHAMPIONS**

the west, are low middle-income, but the rest of India is low-income. Much of India, like Pakistan, Bangladesh, Nepal, Cambodia, Laos and Myanmar – not to mention East Timor, Papua New Guinea and North Korea – has yet to escape the “low-income trap”.

The World Bank’s landmark East Asian Miracle report’s foremost conclusion is that it is vital to “get the basics right”: macro-economic stability, relatively low distortions to domestic competition, openness to external trade, flexible labour markets, and investment in hard infrastructure as well as education. Pace the “revisionist” school of thought, these “horizontal”, economy-wide policies are far more important than “vertical” industrial policies to promote favoured sectors

and national champions.

Getting the basics right must still be the top priority for low-income Asia – including the less developed states in India. These countries and regions should be in the business of catch-up growth.

At the other extreme, high-income Asia has to rely on productivity- and innovation-based growth. Getting the basics right is still important, but it has to be complemented with more sophisticated structural and institutional reforms. These “second-generation” reforms have to go beyond liberalisation of product markets to encompass deregulation of factor markets (for land, labour and capital). They must also include opening up of services sectors, upgrading “soft infrastructure” (such as higher education and skills), and improving the quality of public administration, regulatory agencies and judicial systems.

So far, only five Asian countries have escaped the middle-income trap: Japan, South Korea, Taiwan, Hong Kong and Singapore. What do the rest need to do to follow them? What do the current middle-income countries need to do? They need a mix of getting the basics right and second-generation reforms. But the balance should differ.

High middle-income countries need to crack on with structural and institutional reforms for productivity-based growth. This applies to Malaysia, Thailand and China (especially its coastal provinces). Low middle-income countries still have to go farther with getting the basics right, just as they have more room for catch-up growth. But they must also embark on the simpler, less institutionally demanding second-generation reforms. That applies to India (especially to its more advanced states), Sri Lanka, Indonesia, Philippines and Vietnam •

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# THE SPIRIT LEVEL

## – how does it measure up where it matters?

**Earlier this year, the Work Foundation published a study of inequality in Britain that threw up some uncomfortable findings for those who believe that income differentials are the root of all evil.**

The hypothesis put forward in *The Spirit Level* is that greater income equality fosters health and happiness while inequality is a direct cause of misery and unrest. 'If you want to live the American dream,' says Spirit Level co-author Richard Wilkinson, 'you should move to Finland or Denmark'.

But why travel so far? Inequality varies greatly within countries and so, since wealth disparities are most visible at the local level, moving to a more equal city should yield benefits.

The Work Foundation shows us exactly where these pockets of egalitarianism are. The most equal city in Britain turns out to be Sunderland, followed by such places as Bradford, Peterborough and Burnley. The least equal city is London, followed by the likes of Reading, Guildford and Milton Keynes.

For the most part, inequality is concentrated in the wealthy south east of England and, as the study notes, 'cities with high median wages almost always tend to have high inequality.' The more equal cities, on the other hand, 'tend not to be very affluent'.

This trade-off between wealth and equality will come as no surprise to economists, but it is reassuring to know that the wealth in the less equal places trickles down. As the study notes, 'more affluent cities are more

unequal, but affluence - on average - leads to wage gains for those with low skill levels'.

Furthermore, whilst unemployment is higher in more equal cities, people with low skills find it easier to find work in less equal cities. In short, inequality is associated with people across the income spectrum being better off, while equality is associated with people being equally poor.

## MORE AFFLUENT CITIES ARE MORE UNEQUAL, BUT AFFLUENCE – ON AVERAGE – LEADS TO WAGE GAINS FOR THOSE WITH LOW SKILL LEVELS

The economic fundamentals suggest that the less equal cities are better places to live, but if the Spirit Level hypothesis is correct, people should be fleeing London and Aylesbury to move to Barnsley and Stoke. With a Gini coefficient of 0.24, Sunderland is a more equal place than Denmark. Perhaps people who want to live the American dream should really be moving to Wearside.

I mean no disrespect to these fine cities when I point out that migration in Britain mostly works in the opposite direction. People tend to move from the rest of the country to the unequal south east.

Are they making a mistake? Will

they be less happy? The relative income hypothesis suggests that they would be happier being poor in a poor area than living on a somewhat better income amongst the rich, but a study published in *Science* last year suggests that migrants really do know what is best for them.

In the mid-1990s, the US government gave thousands of people living on welfare the opportunity to move from poor neighbourhoods to more affluent areas. Their names were picked by lottery, thereby creating a randomised experiment. The *Science* study measured the subjective well-being of those who moved and those who stayed after a period of 10 to 15 years. Those who moved were significantly happier. Other studies of the same people have found that those who moved were also significantly healthier, had better mental health and were less likely to be obese.

It is important to note that those who moved did not become wealthier than those who stayed. Still living in social housing, they went from having an income that was average by the standards of their community to having an income that was low in absolute and relative terms. They found themselves at the sharp end of inequality and yet they were healthier and happier than those they left behind.

Only a certain sort of social scientist could find it remotely surprising that people prefer living in a nice neighbourhood. It is true that people compare their living standards with those of their friends and neighbours, but there is little evidence that such comparisons dictate their well-being. People who leave the 'more equal' towns and cities of Britain to seek a better life are unlikely to regret it.

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