**MOOC | Jeffrey Sachs - The Age of Sustainable Development | Lecture 4, Chapter 4**

We are making a differential diagnosis. A country is sick. Its stuck in poverty. Its economy is unstable. It's failing to achieve sustainable development. What ails that country, what kind of prescription should be applied? And we've seen that there is no one answer to such a complicated challenge and indeed several major categories of potential ills need to be examined. We need a kind checklist. Is the problem a poverty trap where government and society knows just what to do but can't afford to do it so it needs financing. Is the problem physical geography? Being landlocked, being in a tropical environment burdened by disease, lacking energy resources needed for development. Is the problem cultural- perhaps discrimination against girls and women, lack of attention to education, lack of attention to reducing high fertility rates?

Well, on that list we definitely need a politics checklist. We know that the role of government in economic development is crucial. Government is vital for building infrastructure, for the roads, power transmission, the port services that are vital for any economy to develop. Government is essential for human capital development meaning the health, the education, the nutrition of the population. If the government isn't performing, the schools will be miserable, health conditions will be poor, diseases will run out of control. What happens to a poor person in society, poor family that can't make ends meet, the children in such a family unless supported through government programs will lack access to vital things, proper health, proper nutrition, access to education, the ability to develop skills, so that that poor child will be able to escape from poverty. Government is vital for the rule of law. Of course without government there can be anarchy, violence. And when government itself is massively corrupt, other institutions-the banking sector for example, is doomed to fail to operate in a lawless environment if contracts can't be enforced, courts aren’t working. Then who can do business in a modern period.

So when we see a country in crisis, in addition to the checklist of culture, poverty, geography, we want to look at the political situation and we want to look at politics across several dimensions. We want to look at whether the government is managing properly the investment, the infrastructure. Infrastructure cannot really be provided adequately by the private sector alone. A highway system, a rail system, the bridges, the ports require either Public Regulation or public financing or public ownership or some combination of all of those.

China which we know to be one of the fastest growing economies of the world has exceled in the capacity of government at all levels. The national government, provincial governments, and local governments to undertake large-scale infrastructure investments. Rapid rail intercity that now provides a tremendous transport system for the country, urban metro systems in the major cities of China, mass electrification that has enabled China to support rapid industrialization. And so this is an example where the government has played its role. But there are many poor countries where the government has not been of the capacity, focus, or interest to undertake this kind of infrastructure spending adequately.

Government has to regulate key sectors of the economy, finance is one of them. Unregulated banking systems tend to get into crisis. Regulations that are allowed to lapse or that are not really pursued can end up in disaster. This, the whole world experienced in 2008, when the deregulation on Wall Street at the very epicenter of the world's financial system, caused a massive financial crisis that also spread throughout all of the arteries and veins of international finance. Government dropped the ball because of the powerful financial lobbies in Washington who urged the deregulation of Wall Street. Wall Street got itself and all of the rest of us in a lot of trouble. And when government fails or when governments allow illegality or fraud in their banking systems, one ends up also with financial panics.

Corruption is a pervasive problem of government. There's lots of money in business. Those businesses often want deregulation, dangerous for society but good in the short term for these businesses. Of course we don't measure corruption all that well a lot of it is under the table. There are only corruption perceptions. We don't even define corruption all that well in the United States. Its legal for businesses to give massive, indeed unlimited campaign contributions to politicians and so what I would call corruption is sometimes perfectly legal but it's not classified as corruption.

So when we look at a map, for example, of corruption perceptions as measured by surveys in this case by Transparency International, we learned something but we don't learn everything that we need to know about this problem of political failure. One thing we see is that many poor countries, again look at tropical Africa, some of the landlocked countries, corruption perceptions are quite high. But I'd also like you to look at the fact that in many African countries still very poor, where corruption is comparable to what you see in South America or China or India in perception, you have a lot of poverty but not evidently corruption out of control. This underscores another point. Politics matters but it doesn't explain everything. Geography, culture, poverty traps are also extremely important. Let’s not fall into the trap of single explanations. We don't give aspirin for all fevers or shouldn't and for the same reason we shouldn't say that corruption is the cause of all economic crises. We need differential diagnosis.

Now another major job of government is to resist poverty. Not only to help poor people meet their basic needs as a matter as a basic social justice but also to ensure that poverty doesn't simply replicate itself generation after generation. A poor child growing up in a poor family faces many obstacles. Of course, baby health and nutrition are worse and neighborhood conditions the environmental safety is likely to be worse. The schools in a poor neighborhood or poor region are likely to be much worse, dilapidated, perhaps lacking teachers, perhaps very large class sizes, perhaps no books and materials or computer rooms. Some very poor places don't even have a roof over their schools. The schools are conducted under a tree or in the open air.

So children growing up in poverty are likely, unless in some way given a boost, to be poor themselves as adults and so poverty replicates itself from one generation to the next. Government has a major role here to ensure equality of opportunity, to ensure that even children from poor families have the chance to social and economic mobility, to rise to the middle class of their society. But that requires help, it requires public education, requires access to early childhood development investments, safe day care for children, good nutrition programs, preschool all demonstrated time and again to be tremendously powerful in enabling children and especially children from poor households to get that added step up so that they have a good shot at prosperity and adjoining the middle-class of their societies.

But governments differ a lot in their readiness and the quality of their response to this challenge of poverty. If you look within the high-income world, the so-called group of the Organization for Economic Cooperation and Development, OECD, the thirty roughly countries in that group, there's tremendous variation between governments that invest heavily in social areas, in protection against poverty, in provision of social services and governments that invest relatively little. If you look at this graph of public social expenditures as a share of national income, you see at the high end, countries like Sweden and Denmark, the social democracies in Scandinavia, with very large investments. You see at the opposite end up the scale United States, Japan, Ireland with much lower levels of investment. The consequences are that children in countries with lower levels of social expenditure have a much higher risk of growing up in poverty and a much greater chance of themselves ending up as leading poor households as adults. You see here, the poverty rates across the OECD countries; where the poverty rates are the lowest. These are poverty rates both shown for children in the bars and for the total population with the diamonds shown in this figure. What you can see is that the lowest poverty rate for children are in Finland, Norway, Iceland, Sweden, those social democracies in the Nordic region. Where are the very highest rates of children's poverty? United States, Chile, Turkey, countries that invest much less in social outlays. And just to demonstrate this relationship, if we plot in a scatter diagram on the horizontal axis, the social expenditures as a share of gross national product and on the vertical axis the child poverty rate, we see a downward sloping line. We see countries that invest relatively little in social areas as a share of GNP having high child poverty rates, whereas countries like Finland Denmark and Sweden that invest high levels of national income in social areas having very low child poverty rates. In another words, politics matters even among high-income market economies. There is a huge variation of those that hand to their poor and also thereby create conditions for social and economic mobility and does that more or less leave their poor to their fate and also have the result that poverty replicates itself across generations.

But I do we have to be clear; in order to reduce child poverty, in order to be able to fund those higher levels of social expenditure as a share of national income those governments that do so have to collect higher taxation. They save their citizens, we can address problems of poverty, we can carry out our government functions, but that requires taxation to cover the bills of government so that it can carry out have role. So if one looks at the share of taxes in GNP once again it's the Scandinavian countries at the very high end, paying the bills in order to reduce child poverty, to make investments in education and infrastructure and the environment and its countries at the other end of the scale like the United States which has a low packs to national income ratio, thereby invests much lower shares of national income in the social areas and as a result has much higher inequalities of income, much higher rates of child poverty, and much lower rates of social and income mobility across generations. That's a kind of scourge for societies when they become so divided. Remember that in a sustainable development one of our pillars, one of our goals is social inclusion. That everybody should have a chance and in our differential diagnosis we need to focus on the role of government. Is it doing its job to make sure that a poor child has her chance or his chance to get ahead? If the governments is doing that, provides a major boost in sustainable development.