

# Explaining the Copenhagen Consensus

March 2009

**Moderator:** *Welcome to Research Insights, an occasional podcast from the Federal Reserve Bank of Atlanta. We're talking today with Finn Kydland, winner of the 2004 Nobel Prize in economics. Our topic is the Copenhagen Consensus, which is a framework for responding to the world's biggest problems.*

*Dr. Kydland is a panelist of the 2008 Copenhagen Consensus, and he's also a professor of economics at the University of California in Santa Barbara. He's visiting the Atlanta Fed to discuss a working paper and speak at the Bank's Public Affairs Forum. Dr. Kydland, thank you for joining us for this podcast; it's an honor to have you here.*



**Finn Kydland:** I'm very happy to be here.

**Moderator:** *My first question is, please tell us briefly, what is the Copenhagen Consensus?*

**Kydland:** It's a framework for trying to answer a very important question, and that is, if you had \$50 billion per year to spend, let's say, over the next five years for the welfare of nations, how would you do it? The criterion is, which projects or which solutions would give the highest benefit-cost ratio? I was a member of the panel in 2008. This was a repeat panel; it was done first in 2004, and I was brought on board as a replacement for someone who just couldn't make it. I had actually participated in 2007 as well, in a similar event covering Latin America only. The one for 2008 was meant to cover the whole world.

**Moderator:** *Very good. Can you tell me briefly, what were the findings, and were there any particular conclusions that surprised you?*

**Kydland:** I don't think any of them surprised me, at least not in a major way. The findings turn out to be somewhat different for the Latin American event compared to the whole world. The Latin American event was somewhat colored by the fact that most Latin American countries are more developed than many countries in, say, sub-Saharan Africa or in South Asia, and so they would deal with, among the solutions, would be things like fiscal framework or organizations to promote consistent policies in addition to maybe the predictable ones, like providing support for, because many people are very poor and in very poor health, and so on.

In the case of the 2008 event for the whole world, the solutions were much more colored by the poverty of many nations. I suppose I could just mention the one that ended up highest in that event—the highest priority—was micronutrient supplements for children, especially vitamin A and zinc. It turns out to be such an incredibly cheap solution, and the potential benefits are tremendous, and so that ended up at the very top. There was also a similar one called micronutrient fortification of iron and salt iodization, presumably to be done in schools, and that's another one that's very cheap, very effective if it can be carried out on a grand scale.

Now, you asked about surprises, so I suppose you could say that these are solutions that it's not clear that the long-run benefits are so great. Suppose we come back in five years; suppose these nations have implemented such solutions. Chances are that many of them will have a new cohort of children in the same dire situation, and then it would be repeated, and so some solutions focus more on the long run, and one of them was removal of trade barriers, the idea being that—well, the experts to whom we listened as a panel presented numbers, very convincing numbers. By such removal of trade barriers, the nations would grow and presumably then become in a position to take care of many of these problems themselves.

**Moderator:** *So, you have short-term and long-term benefits to the various solutions that you're proposing here?*

**Kydland:** Yes, and that's taking into account we are supposed to look ahead and look at the benefits, actually, we with the help of the experts. The way this worked was, before we met in grueling events of three days in a row, or in the case of Latin America, or four days in a row in the case of the whole world event, experts had been assigned to write solution papers where they provided their assessment of the benefit-cost ratios and so on, and then, another expert was assigned to challenge the solution paper and they were present to speak with us and present their findings. And their charge was to take into account long-run effects; in other words, you look today, but the idea is to look at the effects, not just next year, but years into the future and to discount the benefits. It's a little difficult to know exactly what discount factor to use, but they were told to try two different implicit interest rates, and then we had 3 percent and 6 percent to get a sense of both the short-run and the long-run effects.

**Moderator:** *Was there a particular solution that interested you that you felt very strongly about?*

**Kydland:** Well, I was a little surprised that—I suppose I should preface this by saying that we as a panel were free to throw out solutions if we thought they were inappropriate, and they could be inappropriate simply because we didn't think there were enough numbers to back them up, or

because it was so obvious that the benefits were smaller than costs that there was no reason to consider them. In some cases, we had discussions about throwing solutions out. The criterion is benefit-cost ratio, so that's benefits divided by cost. There were cases where at least some of the panel members had a hard time thinking of a cost component, so you would divide benefit by zero, effectively, and that would give you a very large number. But we decided not to be too hard-nosed about that. But the solution of removing trade barriers actually created a little controversy because some of the panel members claimed that the costs were not so well identified, and I was among those who pushed heavily for keeping that solution in there.

**Moderator:** *Good. Do you have any thoughts on what can be done to advance the agenda of the Copenhagen Consensus, how we can find money to pay for the costs?*

**Kydland:** Well, this is, this is mainly meant as advice to governments. The Danish government was very much involved in paying for this whole process. It's not an inexpensive process just to come up with the rankings. It's time-consuming, and you had to fly everyone over to Copenhagen and so on. Now, the Danish government is an example of someone who is very much interested in the outcome and, I would presume, also the other Nordic countries because they tend to give aid. They're at the top in the world in terms of the percentage of GDP they give as aid. And I presume they are very much interested in knowing where should we put this funding, but I would say that other countries should be interested as well.

Nordic countries give a high proportion of their GDP to aid, but GDP is not very large in those countries, so clearly, the United States, for example—with a much smaller proportion to government aid—the dollar a month is much larger, and I would say that all Western economies, all developed economies, should think hard about looking at these rankings and try to get ideas for how they can use aid more efficiently.

**Moderator:** *Do you have any other thoughts you'd care to add about the Copenhagen Consensus?*

**Kydland:** No, I just find it a very important and interesting process, and I imagine it will continue from time to time in the future, maybe with different areas to look at. In fact, I know that there will be another event on a much smaller scale in probably August and September on the event of the next Kyoto round on climate change. And my understanding is that there'll be a Copenhagen Consensus event with probably a slightly smaller panel, but one that will be run in the same way and try to come up with a ranking for what is reasonable to do about the global climate.

**Moderator:** *And you'll be involved in that effort?*

**Kydland:** It looks like it. I'm not an expert in that field, but that's not a prerequisite for being a member. We listen to the experts, we assess the credibility of their findings, and then we do as best we can to rank the solutions.

**Moderator:** *Good. Well, I know that you're here at the Atlanta Fed to discuss some of your research. Is there any point that you'd like to make about research your working on or any other projects that are on your list?*

**Kydland:** You're talking about research projects?

**Moderator:** *Yes.*

**Kydland:** What I'm working on now I suppose may surprise some because it's mostly monetary economics. I'm probably best known for my work in real business cycles and maybe on the timing consistency of policy, not so much. So that aspect of monetary policy fits with my past research, but to look at the role of money for questions having do with business cycles, or even for long-run inflation, that's something that until maybe six or seven years ago was a little bit out of what I normally would do. But I find it very intriguing to see the importance many people assign to money, and I'm always a little puzzled by that because it's so difficult to find a credible propagation mechanism, a way for money to have a role for the real economy. That's really the two most recent projects are projects along those lines in monetary economics.

**Moderator:** *Very good. Well, thank you so much for talking about your work and the Copenhagen Consensus. Again, we've been speaking with University of California at Santa Barbara economist and Nobel laureate Finn Kydland. This concludes our Research Insights podcast on the Copenhagen Consensus. For more information on this project, please visit [copenhagenconsensus.com](http://copenhagenconsensus.com). Thank you for listening, and please return for more podcasts. Thank you.*