Keynote Address

A New Global Consensus on Helping the Poorest of the Poor

Jeffrey Sachs

There is an urgent need for a new consensus on economic development. The World Bank and the International Monetary Fund (IMF) should take notice when many of their natural supporters have become their ardent opponents—though much of the criticism is misplaced. The Bretton Woods institutions are bearing the brunt of the fact that rich countries, especially the United States, have largely turned their backs on the world's poorest people. But the Bretton Woods institutions have been willing accomplices in the dismantling of an effective agenda for global poverty alleviation. Because these institutions are owned and operated by their shareholders—with a clear majority held by the United States and Western Europe—the IMF and World Bank have defended the ever-shrinking and unrealistic development agenda. To do otherwise would insult the leading shareholders, who pay the bills and choose the management.

Rich Countries, Poor Aid—and Disastrous Results

The U.S. position is clear enough: "We already paid during the cold war, so leave us alone and let us enjoy our wealth and new economy." Is this an unfair characterization? No. Beneath the high-minded rhetoric of a high-minded administration lies a grim reality. In 1998 U.S. foreign aid totaled $8.8 billion, or 0.11 percent of gross national product (GNP). And of this derisory sum, only a sixth went to the world's least developed countries. One-sixth of eleven-hundredths of one percent of GNP amounted to a grand total of about $5 per American for the least developed countries. This is $5 a year in a country where the average income is more than $30,000, and where investors have enjoyed more than $7 trillion in capital gains since the beginning of 1996.

Consider it from the recipient side. In 1998 there were about 600 million people in the least developed countries, so U.S. aid amounted to $2.20 a person. Looking

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not just at the least developed countries but at all low-income countries (defined as those with GNP per capita below $765 in 1995), 3.36 billion people received $3.7 billion in U.S. aid, or $1.13 a person.

I said that the U.S. administration is high-minded. I have no doubt that President Clinton and Secretary of Treasury Lawrence Summers have great concern for the world's poor. But they apparently feel that they cannot act much on that concern. The $5 per American is not the result of Congress cutting a large portion of the president's aid request—it basically is the president's aid request. Yet the administration came up with $8 billion to fight the 79-day war in Kosovo, and $1.6 billion for 30 Blackhawk helicopters to fight the drug war in Colombia, and it routinely comes up with billions for the Middle East. But how much has the administration requested from Congress for Ethiopian famine relief or for long-term improvements in Ethiopian agriculture? And how much has the administration requested for Nigeria, the most populous and economically important country in tropical Africa, now with an unprecedented but uncertain opportunity to make democracy work?

Senior U.S. officials have told me repeatedly that the administration feels unable to ask Congress for even the $150 million that it would cost to forgive the more than $1 billion that Nigeria owes to the United States. Yet Nigeria is so bankrupt that its arrears on foreign debt are nearly 40 percent of GDP, and it spends five times more servicing debt than it spends on public health.

The Clinton administration seems to feel that it cannot do more. I strongly disagree. As I will explain, the administration could mobilize much greater sums as part of a revised global strategy to fight global poverty. But it has never presented such a strategy to the American people to put that proposition to the test.

What are the results of the world's minimalist approach to helping the poor? International efforts to alleviate poverty are profoundly underfunded and consequently half-baked. A case in point is the program to relieve the debt of heavily indebted poor countries—the so-called HIPC initiative. The program has been so badly mangled by the international community that millions of people have protested the debt relief policies that the IMF and World Bank consider their finest hour.

Indeed, everywhere one turns in global poverty reduction efforts, high-minded rhetoric provides a tattered veneer over deficient funding. The AIDS epidemic has flared in the world's poorest countries, especially in Sub-Saharan Africa, for more than 10 years. Yet rich countries and the Bretton Woods institutions have put almost no money toward battling it. World Bank President James Wolfensohn has done as much as anyone in recent years to bring AIDS to the attention of the global community. But how much has the International Development Association (IDA) lent for AIDS over the past 20 years, from the time the epidemic was getting under way to the more than 33 million people infected today, and more than 16 million deaths? According to a 1999 World Bank report, IDA devoted $340 million to AIDS in 1986–98, or about $26 million a year. That comes out to around 4 cents an African each year. In short, the Bank, and the donor community more broadly, have stayed on the sidelines in the face of the worst epidemic in modern history.

The situation is no better for malaria, another killer that claims at least 1 million lives a year and causes up to half a billion clinical cases a year. The World Bank recently confirmed earlier findings by Harvard's Center for International Development that malaria not only takes lives but also cripples economic growth—lowering growth by at least 1 percentage point a year in the hardest-hit countries. So where are the Bank's malaria projects in Africa? There are almost no standalone projects. Malaria control has collapsed in Africa, and it will require at least $1 billion a year to get malaria back under control. I will stress this point at next week's African Summit on Malaria, convened by Nigerian President Olesegun Obasanjo in conjunction with the World Health Organization. Will the Bank and other donors hear the message?

Similar tragedies are played out every day in IMF lending programs in the poorest countries. The IMF starts with the truth that budget deficits should stay small to preserve macroeconomic stability. Then it demands budget austerity of impoverished countries to the point where those countries cannot even keep their people alive, so depleted are the budgets for public health, food transfers to the poor, and the like. In addition, the IMF has repeatedly insisted on debt servicing that exceeds the combined spending of health and education ministries.

Yet when the world complains about the disasters of IMF loan conditions, the IMF's response is that the protestors are obviously macroeconomic illiterates. I am not a macroeconomic illiterate, and I can tell you that the budget conditions in the world's poorest countries are unconscionable. These countries need a lot more help. Yes they should balance their budgets, but in a context of much greater aid with cancellation of their debts. The IMF should trumpet this truth, not hide it.

The Escape from Poverty—Relying on More than Economic Policies

At least since the early 1980s, both Democratic and Republican administrations in the United States have offered an ideological fig leaf for the tragic underfunding of poverty reduction programs. This has since become the mantra of the IMF and World Bank, and it goes something like this:

> Poverty reduction is mainly the result of economic growth, which in turn is mainly the result of good economic policies. Nothing that blocks economic development in Burkina Faso or Ethiopia or Nepal cannot be fixed through effective economic policies centered on macroeconomic stability, open trade and finance, government support for social programs, and privatization. If poverty is not falling, it is the result of poor governance, in the sense that one or more of those reform items remains unfulfilled. The IMF and World Bank, together with partial debt relief, can play a modest role in filling the financing needs of countries while they make needed policy adjustments, but Washington cannot substitute for good governance or overcome corruption.

This simple-minded reasoning is based vastly more on convenience than on evidence or analysis. It is a fancy way of telling poor countries not to come to us with their problems, and certainly not to ask for more financial help. Economic reforms are certainly important, and I have spent the past 15 years helping dozens of countries implement such reforms. But these reforms are only part of the story, and for many of the poorest countries they are not the most important explanation for their continuing desperation and impoverishment.

The escape from poverty rests on four pillars, not just economic reform. A second pillar is having a population that is healthy and educated enough to participate in the global economy. Many of the world's poorest places are too sick and too lacking in education to succeed. Life expectancy is often 50 years or less, and is plummeting in much of Africa because of AIDS. About 40 percent of the children in heavily indebted poor countries are malnourished. Adverse climatic and agronomic conditions often impose barriers that earlier reformers such as the Republic of Korea and Taiwan (China), or the United States for that matter, did not face—such as holoendemic falciparum malaria, degraded tropical soils, or extremely scarce clean water in deserts, steppes, and tropical savannahs.

The poorest countries lack the resources to overcome these hurdles on their own. At an income of $300 per capita, even a budget outlay of 5 percent of GDP for public health—much more than in almost any developing country—is just $15 per person per year, a sum clearly insufficient to meet basic health needs.

The third pillar of development is technology. The fuel of U.S. prosperity, as President Clinton would be the first to note, is technological growth. And despite the free-market rhetoric of the United States, technological change is the product of a complex system of private, public, and academic institutions, and the financing comes from markets, government, and foundations. It is no coincidence that each year the "free market" United States spends $85 billion in public funds on basic science and applied research and development. But what of technological development in the poorest countries, to meet their specific needs—for a malaria or HIV/AIDS vaccine, or for enhanced crops that can withstand salinization of irrigated land or heat and drought stress, or for new forms of energy that can slow tropical deforestation? Add up all the World Bank grants and loans for science and technology for all poor countries last year, and I bet that it is less than a fifth of the research and development budget of a single major U.S. pharmaceutical company. I would be grateful if someone at the Bank would check this bet.

The fourth pillar of poverty reduction is structural adjustment, especially export diversification. Here too rich country convenience, sheltered by ideology, intrudes on the needs of the poorest countries. Over the past 20 years structural adjustment has become a detested phrase among antipoverty activists. But that is because World Bank structural adjustment programs have often been the opposite of structural adjustment. Sub-Saharan African countries are as dependent on a narrow range of primary commodities today as they were 20 years ago, but now real world prices for those commodities are even lower. In fact, the Bank has usually acted as if there is no need to foster manufactured exports from Africa, content to encourage greater reliance on primary commodities. True structural adjustment requires a strategy to foster new kinds of industry, and it requires open markets in the United States and

Europe for manufactured exports from the poorest countries, especially in textiles and garments.

One of my great frustrations is that the World Bank has been one of the leading opponents of export zones, tax holidays, and other basic industrial policies that have been key to success elsewhere, such as in the East Asian miracle countries or in Boston for that matter. It is no accident that U.S. ecommerce has been nurtured by a tax holiday. The United States even gives extensive tax breaks to exporters. When it comes to industrial policies, trade policies, and technology policies, the rich country and Bretton Woods position is "Do as I say, not as I do."

These four pillars may seems like truisms: that economic reform must be combined with enough resources to meet basic human needs; that priority should be given to developing new health, agriculture, and energy technologies that are ecologically specific and where rich country technologies will not suffice; and that countries should pursue industrial policies geared toward diversifying away from dependence on bananas, coffee, tea, minerals, and other primary commodities, and that such policies should be supported by market access in rich countries.

So if it is obvious, why does this more complete agenda not get heard, much less implemented? A small part of the answer has to do with ideology. Extreme free marketeers might object to the idea that market reforms are insufficient or that governments should have technology and industrial policies of any kind. But most of the participants in this discussion in the U.S. government, the IMF, and the World Bank are not extremists. There are two simpler reasons for the unfulfilled agenda.

First, for a large and growing part of the world, the four pillars are coming into place on their own. I do not think that we really have to worry about Poland's capacity to grow if the European Union carries through on its pledges to expand. The same is basically true of the Baltics, Croatia, the Czech Republic, Hungary, Slovakia, and Slovenia. Mexico will grow quickly under the North American Free Trade Agreement if political liberalization stays on course. So will Egypt, Morocco, and Tunisia under the Mediterranean Agreements with the European Union, though Egypt's problems are complicated by demographic and environmental stress.

The main problems I am emphasizing are concentrated in the poorest parts of the world—Sub-Saharan Africa, much of the Andean region, the Gangetic valley of India, Central Asia, parts of western China (if growth in coastal China is not strong enough)—where geographic isolation, difficult climate, disease, and mass illiteracy are too overwhelming to be solved by adjusting economic policies. Do not think that because globalization is working powerfully for some regions that it is working powerfully for all regions.

But even this point would be better understood were it not for the second, more important, reason for the unfulfilled poverty reduction agenda. Such an agenda would cost money, a lot more than is now being offered by rich countries. It would also require facing up to U.S. and European protectionist lobbies, which fight imports of garments and other assembled goods from Africa and Asia, and to the imbalances of a global trading system increasingly subdivided by regional trade agreements that discriminate against poor countries on the geographic margins of the world. And of course, it would require us to think harder, to move beyond the easy platitudes claiming good governance in the poorest countries as the solution to all problems.

Moving beyond Inaction

I have watched with fascination in recent months as the insufficiencies of the global poverty agenda have been debated. The United States, Europe, and the Bretton Woods institutions seem trapped in inaction even as the inadequacies of the current situation bring thousands of demonstrators to the streets, albeit often in a confused and unsatisfying manner. But the bottom line of many demonstrators is completely right: the current situation condemns hundreds of millions of people to unnecessary suffering and millions to premature death, and the Bretton Woods institutions are parties to the disaster. Ultimate responsibility falls squarely on the leading shareholders of the institutions, especially the United States, but the IMF and World Bank have been willing accomplices by lending their names to grossly underfunded and insufficient strategies.

Let me put one issue to rest. I do not agree with my brave and brilliant friend Joseph Stiglitz, who recently characterized IMF staff as third rank. I know the staff to be first rate in dedication and, I might say, education, since many have been my most prized students. I hope they feel the same way about their former teacher. In addition, Bank President James Wolfensohn and IMF Acting Managing Director Stanley Fischer are men of world-class intelligence, energy, and integrity, and so is the incoming head of the IMF, Horst Kohler. But all these people are operating in a system that is thoroughly unsatisfactory for the world's poorest countries, those caught in the vice of disease, geographic isolation, illiteracy, and impoverishment. With all due respect, I believe that the managers and staffs of the IMF and World Bank have too often defended that system without showing the world how tragically unnecessary the extreme suffering really is.

The system persists in an interlocking series of excuses. U.S. Treasury Secretary Lawrence Summers has said that he would like the United States to do more but that Congress would block such efforts. That may be true, but as noted the Clinton administration has never offered an ambitious new approach to international aid, based on increased funding and fundamental reforms of aid delivery, to see whether Americans would support it. The IMF and World Bank have occasionally argued for additional debt relief and assistance, but claimed that there are not sufficient funds available. But the IMF and Bank could take the lead on debt cancellation by writing off their Enhanced Structural Adjustment Facility and IDA credits without damaging IMF quotas or Bank capital. The U.S. Congress has understandably opposed additional funds for international institutions because they have failed to deliver the benefits they have repeatedly promised, but Congress has never said that more funding would ensue in the event of reform.

The street protestors see the mess and condemn the system. In response, the U.S. government, IMF, and Bank dig in their heels against what they consider a benighted mob, and make unjustified claims about all the good they are doing. Rather than admitting that their hands are tied by the lack of resources from rich countries, the IMF and Bank defend their shareholders. The bad will and misunderstanding simply cascade.

The Meltzer Commission, on which I served, assessed the role of international institutions and gave more than a hint of how to break the deadlock. Broad bipartisan consensus within the commission indicates that it would be possible to mobilize much greater U.S. assistance for the poorest countries as part of a revived and revised strategy for global poverty alleviation. A bipartisan approach could work in Congress and the country at large.

In my opinion, and that of the commission, this strategy should have five elements. First, admit the obvious: the world's poorest countries need much more help than is being offered. To address the health crisis alone would require several billion dollars more each year. I am delighted that the World Bank and IMF are working closely with the World Health Organization as part of its Commission on Macroeconomics and Health, which I chair, to realistically assess global needs in public health. We will be reporting on those needs next year.

Second, recognize that this help should come in new ways. Technological development—such as a malaria vaccine—will require major grants to science-based institutions, as well as new partnerships between business and academia spurred by innovative institutional arrangements. The Clinton administration has endorsed the idea of a tax credit or guaranteed purchase fund to spur research and development for new vaccines. The Bank should commit IDA funds to this proposal as well. Traditional Bank loans to countries are almost certainly the wrong way to encourage needed technologies, but country programs can improve the public health systems that will be needed to deliver those technologies.

Third, get institutions back to their relevant roles. The IMF finds itself deep in African development for artificial reasons or reasons that are now passé. The Bank often takes the lead on an underfunded global health agenda because the World Health Organization, like other United Nations agencies, is even more squeezed for cash. The IMF should simply get out of poverty lending, a view endorsed 11–0 by the Meltzer Commission, with the IMF's concessional money being transferred through other agencies—especially the World Health Organization, United Nations Children's Fund, and World Bank. Stanley Fischer suggests that every poor IMF member has the right to IMF concessional lending. But the issue is not rights, but the effectiveness of global assistance. Both the IMF as an institution and the world's poverty relief efforts have been damaged by the IMF's improper role in development lending.

Fourth, release heavily indebted poor countries from their misery once and for all by fully canceling their debts, not going halfway as in the current initiative. This was another unanimous recommendation of the Meltzer Commission. Current debt reduction targets are based on a phony debt sustainability analysis that could not pass muster in a first-year economics class. Indeed, the phrase "debt sustainability analysis" is Orwellian in its scale of distortion. IMF and World Bank procedures for measuring debt sustainability have nothing to do with a country's ability to pay, and everything to do with the arbitrary limits on debt relief laid down by the Group of Seven (G-7) rich countries. IMF and World Bank documents should be relabeled as "debt relief allowed by the G-7" rather than "debt sustainability analysis." At least the world would complain less about the roles of the IMF and Bank in this sham, and turn the spotlight on creditor countries instead.

Fifth, as the counterpart to greatly increased funding for and focus on the poorest countries, there should be a recognition inside the Bank that countries like Argentina, Brazil, Chile, Republic of Korea, and Mexico are not the proper focus of Bank lending. These countries absorb a large portion of Bank time and attention—not to mention loans—and they distract from the much harder work of solving the problems of the world's poorest countries, as well as global problems such as human-induced climate change.

A strategy like this—focusing on the poorest countries, taking new approaches to technological development, getting the IMF back to its core business, canceling unpayable debts, and getting the Bank to scale back its activities in richer countries while scaling up its support for the poorest countries and for global public goods—would win broad bipartisan approval. Even conservative members of Congress would sign an effective assistance strategy that delivers real benefits to the world's poorest people, especially for programs (such as vaccine development) that create knowledge to alleviate poverty. In my experience, opposition to foreign aid has intensified in recent years because it is viewed as a failure, not out of cold-heartedness to the plight of the world's neediest people.

With an expanded aid budget, the global community could do wonderful things for poor countries. Rather than pursue limited flows of Bretton Woods country lending with harsh conditions attached, the world could support breakthroughs in health and agricultural research that would make a difference in the long run. Rather than have extremely limited health programs, the World Health Organization could once again take the lead in identifying and targeting the interventions needed to cure malaria, tuberculosis, diarrheal disease, and AIDS, as it has with smallpox and now nearly with polio. Rather than pursuing specific disease research programs whenever the World Health Organization and World Bank get the funds for them, a network of health research institutions could be created around the developing world to pursue this research in earnest. This Consultative Group for International Health Research could complement the Consultative Group for International Agriculture Research. Combining information technology with breakthroughs in biotechnology and other areas creates immense possibilities for progress in health, agriculture, and environmental management.

For much of the 20th century the Rockefeller Foundation showed the world what grants focused on knowledge could do. Rockefeller funds supported the eradication of hookworm in the U.S. South, the discovery of the Yellow Fever vaccine, the accelerated development of penicillin, the control of malaria in Brazil, the establishment of leading public health schools and medical facilities all over the world, the establishment of research centers that drove the green revolution in Asia and that became the Consultative Group for International Agricultural Research, and the establishment and funding of great research centers such as the University of Chicago, Brookings Institution, Rockefeller University, and National Bureau of Economic Research.

None of these earth-shaking accomplishments was the result of a high-conditionality country loan. All required large-scale grants ready to back the pursuit of knowledge. Indeed, the donor wanted to build strong and independent institutions, so the Rockefeller Foundation consciously and explicitly eschewed conditionality.

In our own time, the Bill and Melinda Gates Foundation has taken a similarly bold tack, with major new support for public health initiatives and institution building—most notably for delivering vaccines to poor countries through the creation and financing of a new Global Alliance for Vaccines and Immunization.

My colleagues on the Meltzer Commission and I believe that the global community should consider these remarkable examples as guides in reforming the Bretton Woods process. The kind of help that poor countries need is so different from the World Bank's traditional lending that the Bank should highlight its retreat from banking and its refocus on knowledge creation by changing its name from the World Bank to the World Development Agency. The world has thousands of banks, but it desperately needs an institution charged with creating and mobilizing knowledge for development.

I have fought hard to reform the IMF and World Bank not because I am a foe of these institutions, but because I am a strong supporter. I believe in the quaint concept of a global community, and I believe in shared global governance. But I do not believe in global governance by rich countries, or international voting weighted by money as in the IMF and Bank, or permanent government by entrenched bureaucracies unencumbered by external review as has been true of the IMF, or governance through conditionality set by rich countries and imposed on the desperately poor.

It is time for the World Bank and the IMF to assert their intellectual leadership and independence and to show the world the greatly increased and urgent efforts that must be made on behalf of the world's poorest people. I know that you can do it, and I would be proud to work with you on that valuable task.