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A New Global Consensus on Helping the Poorest of the Poor

There is an urgent need for a new consensus on economic development. The World Bank and the International Monetary Fund should take notice when many of their natural supporters have become their ardent opponents. The truth is that much of the criticism is misplaced. The Bretton Woods institutions are bearing the brunt of the fact that the 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 against global poverty alleviation. Since these institutions are owned and operated by their shareholders, with a clear majority held by the United States and Europe, both the IMF and the World Bank have defended the ever-shrinking and unrealistic development agenda, since to do otherwise would be to insult the leading shareholders, the ones that pay the bills and choose the management.

The United States position is clear enough. "We've already paid at the office, during the Cold War, so now leave us alone and let us enjoy our wealth and New Economy." Is this an unfair characterization? Cut beneath the high-minded rhetoric of a high-minded Administration, and see the grim reality. In 1998, the United States foreign assistance totaled around \$8.8 billion, or 0.12 of one percent of the Gross National Product. And of this derisory sum, only around one-sixth went to the least developed countries. A sixth of twelve-hundredths of one-percent of GDP amounted to the grand total of around \$4.95 per American in 1998 for the world's least developed countries. This is \$4.95 per 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 start of 1996.

Let's look at it from the recipient side. There were approximately 600 million people in the least developed countries in 1998. U.S. aid amounted to approximately \$2.20 per person. If we look not just at the least developed countries, but at all low income countries, defined by the Development Assistance Committee of the OECD as those with a GNP per capita in 1995 below \$795, there were approximately 3.36 billion people who received total U.S. aid of around \$3.7 billion, or \$1.13 per person.

I said that the U.S. Administration is high-minded. I have no doubts that President Clinton and Secretary of Treasury Lawrence Summers have great concern for the world's poor. But they apparently feel that they can't act much on that concern. The \$6 per American is not the result of Congress cutting a large proportion of the President's

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aid request. It basically IS the President's aid request. Nonetheless, the Administration came up with around \$8 billion to fight the 79-day war in Kosovo, and now another \$1.6 billion for 30 Blackhawk helicopters to fight in Colombia, and it routinely comes up with billions for the Middle East. But how much has the Administration asked for Ethiopian famine relief, or long-term improvements in Ethiopian agriculture? How much has the Administration asked Congress for Nigeria, the most populous and economically important country in tropical Africa, now with an unprecedented but extremely vulnerable chance at making democracy work? Senior U.S. officials have explained to me repeatedly that the Administration feels unable even to ask Congress for the \$150 million or so that it would cost for the U.S. to forgive more than \$1 billion that Nigeria owes to the U.S., even though Nigeria is a country so financially bankrupt that the accumulated arrears on the foreign debt are close to 40 percent of GDP, and debt servicing is around five times the expenditure on public health.

The Clinton Administration seems to feel that it can't do more. I strongly disagree. In my view, as I'll explain later, the Clinton Administration could mobilize vastly greater sums, as part of a reformed global strategy to fight global poverty. But it has never presented such a strategy to the American people to put that proposition to a test.

What is the result of the world's minimalist approach to helping the poor? International efforts at poverty alleviation are profoundly under-funded and consequently half-baked. A prime case in point is the program for debt relief of the heavily indebted poor countries – the so-called HIPC initiative -- a program so badly mangled by the international community that millions of people around the world have protested the debt relief policies that the IMF and World Bank call their finest moment.

Indeed, everywhere we turn in global poverty efforts, high-minded rhetoric provides a tattered veneer over deficient funding. The world's AIDS epidemic has flared in the world's poorest countries, especially in Sub-Saharan Africa, for more than a decade, with the rich countries and the Bretton Woods institutions putting almost no money into the battle. World Bank President Jim Wolfensohn has done as much as any person in the world in recent years to bring AIDS to the attention of the world community, but how much has the International Development Association really lent for AIDS during the past twenty years, from the time that the epidemic was getting underway, to the current tragedy of more than 33 million people infected today, and more than 16 million deaths? According to a World Bank report of June 1999, IDA put in around \$340 million *total* during the period 1986-98, or around \$26 million per year. That comes out to around 4 cents per African per year. In short, the Bank, and the donor community more broadly, have stood immobilized in the face of the worst epidemic in modern history.

The situation is no better regarding malaria, another killer that claims 1 million or more deaths per year, and up to one-half billion clinical cases per year. The World Bank's own staff has recently confirmed earlier findings of the Center for International Development at Harvard that malaria not only takes lives but cripples economic growth,

by as much as a percentage point or more per year in hard-hit countries. But where are the World Bank's malaria projects in Africa? They are almost nowhere to be found as stand-alone projects. Malaria control has collapsed in Africa, and needs billions of dollars in the coming years. By my estimate, the needs are at least \$1 billion per year to get malaria back under control. I will stress this point at next week's African Summit on Malaria called by Nigerian President Olesegun Obasanjo in conjunction with the World Health Organization. Will the World Bank and the donor community hear the message?

Such tragedies are played out every day in IMF lending programs in the poorest countries. The IMF starts with the truth that budget deficits should remain small in order to preserve macroeconomic stability. Then it demands budget austerity of impoverished countries to the point where those countries can't even keep their people alive – so depleted are the budget resources 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 the health and education ministries. And yet, when the world complains about the disasters of IMF conditionality, the IMF's response is that the protestors are obviously macroeconomic illiterates. I am not a macroeconomic illiterate, and I tell you that the budget conditions in the world's poorest countries are unconscionable. *These countries need vastly more help.* Yes, they should balance their budgets, but in a context of greatly increased aid and a cancellation of their debts. The IMF should trumpet this truth, not hide it.

Both Democratic and Republican Administrations in the U.S., at least since the early 1980s, have put forward an ideological fig leaf for this tragic under-funding, which in turn has become the mantra of the IMF and World Bank. The mantra goes something like this:

“Poverty reduction is mainly the result of economic growth, which in turn is mainly the result of good economic policies. There is nothing that blocks economic development in Ethiopia or Burkina Faso or Nepal that can't be fixed through effective economic policies centered on macroeconomic stability, open trade and finance, domestic 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 the needed policy adjustments, but Washington can not substitute for good governance or overcome corruption.”

In my opinion, this reasoning is simple minded, and based vastly more on convenience than evidence or analysis. It is a fancy way to tell the poor countries not to come to us with their problems, and certainly not to ask for more financial help. Yes, economic reforms are important to be sure. I've spent the past fifteen years helping dozens of countries to implement such economic reforms. But these reforms are only a part of the story, and for many of the poorest countries in the world, they are not the most important explanation of their continuing desperation and impoverishment.

The escape from poverty rests on *four* pillars, not just the one of economic reform. A second pillar is having a population that is sufficiently healthy and educated that it can participate in the world economy. Many of the poorest places in the world are too sick and too lacking in education to make it. Life expectancy is often 50 years or less, and is now plummeting in much of Africa because of the AIDS epidemic. Approximately forty percent of children in the HIPC's are malnourished. In many circumstances, adverse climatic and agronomic conditions impose barriers that earlier reformers such as Korea and Taiwan, or the United States for that matter, did not face – such as holoendemic falciparum malaria, degraded tropical soils, or extreme scarcity of clean water in regions of desert, steppe, and tropical savannah.

The poorest countries undoubtedly lack the resources to get over the hurdles on their own. At an income of \$300 per capita, even budget outlays of five percent of GDP for public health -- much more than we find in almost any developing country in the world -- is all of \$15 per person per year, a sum that is clearly insufficient to meet basic health needs.

The third pillar of development is technology. The fuel of U.S. prosperity, 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 the “free-market” United States spends on the order of \$85 billion per year of public funds in support of basic science, and applied research and development. But what of technological development in the poorest countries, to meet the specific needs of those countries – 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 reduce the rate of tropical deforestation? Add up all of the World Bank grants and loans for science and technology for all of the poor countries of the world last year, and I’ll bet that that it is less than a fifth of the R&D budget of a single U.S. major pharmaceutical company. I’d be grateful if the World Bank would do the sums to check this bet.

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

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

These four pillars may seem like truisms: that economic reform must be combined with enough resources to meet basic human needs; that priority should be accorded to the development of new technologies in critical areas of health, agriculture and energy which are ecologically specific and where rich-country technologies will not suffice; and that countries should pursue industrial policies explicitly geared towards diversification away from complete dependence on bananas, coffee, and tea, minerals and other primary commodities, and that such industrial policies should be supported by market access in the rich countries.

So if it's so obvious, why does this more complete agenda not get heard, much less implemented? A small part has to do with ideology. Extreme free-marketeters might object to the idea that market reforms alone 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 World Bank, are not extremists. There are two simpler reasons for the unfulfilled agenda.

First, for much of the world, and indeed an increasing part, the four pillars are coming into place on their own. In my view, we really don't have to worry about Poland's capacity to grow – if the European Union will carry forward on pledges of enlargement, and the same is basically true of the Baltics, Hungary, Czech Republic, Slovakia, Slovenia, Croatia. Mexico will achieve rapid economic growth under NAFTA, assuming that Mexico's political liberalization remains on course. So too will Morocco, Tunisia, and Egypt, under the Mediterranean Agreements with the EU, though Egypt's problems are greatly complicated by demographic and environmental stress. The main problems I am emphasizing are concentrated in the poorest parts of the world today – Sub-Saharan Africa, much of the Andean region, the Gangetic valley of India, Central Asia, perhaps parts of Western China (if the engine of growth in coastal China is not strong enough) – where geographical isolation, climate, disease, mass illiteracy are too overwhelming to be solved by the adjustments in national economic policy alone. Don't be fooled by the fact that since globalization is working powerfully for some regions that it is working powerfully for all regions.

But even this point would be better understood if it weren't for the second, and more important reason. A true poverty reduction agenda will cost money, a lot more of it than is now on offer from the rich countries. It would also require facing up to the U.S. and European protectionist lobbies, which fight the inflow of garments and other assembled goods from Africa and Asia, as well as to the imbalances of a world trading

system increasingly subdivided by regional trade agreements which increasingly discriminate against poor countries on the geographical margins of the world.

And of course, it would require us to think harder, to move beyond the easy platitudes of good governance in the poorest countries as the solution to all problems.

The Eternal Triangle of Inaction

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

Let me put one issue to rest. I can not agree with my brave and brilliant friend Joe Stiglitz who recently characterized the IMF staff as third rank. I know the staff to be first rate in dedication and, I might say, education, since many are my most prized students. I hope they feel the same way about their former teacher. Let me quickly add that Jim Wolfensohn and IMF Acting Managing Director Stanley Fischer are men of world-class intelligence, energy, and integrity, and so too is the incoming head of the IMF, Horst Kohler. But all of you are operating within a system that is thoroughly unsatisfactory – not for all of the world it's true, but for the world's poorest countries, those caught in the vice of disease, geographical isolation, illiteracy, and impoverishment. With all due respect, I believe that the management and staffs of the IMF and World Bank have too often lent their names to the defense of that system, without teaching the world how tragically unnecessary the extreme suffering really is.

The system persists in an interlocking series of excuses. Treasury Secretary Larry Summers has said that he would like the U.S. to do more, but that the Congress would block it. This may be true, but the Clinton Administration has never put forward an ambitious international assistance based on increased funding and fundamental reforms of how the aid is delivered, to see whether the American people would support it. The IMF and the World Bank have occasionally said that we should go further in debt relief and assistance, but that there are not sufficient funds available. But the truth is that the World Bank and the IMF could take the lead on debt cancellation by writing off their own ESAF and IDA credits without damage to World Bank capital or IMF quotas. The Congressional opposition has resisted more funds for the international institutions on the understandable grounds that these institutions have failed to deliver the benefits they have

repeatedly promised, but the Congress has never clearly stated that more funding would indeed ensue in the event of reform.

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

The Meltzer Commission, on which I served, gives more than a hint of how to break the deadlock. A broad bipartisan consensus within the Commission, indeed a unanimous view on two crucial points, signals that it would be possible to mobilize much greater U.S. assistance for the poorest countries as part of a revived and revised strategy of global poverty alleviation. The bipartisan conclusions of the Commission give a hint of the bipartisan approach that could work in the Congress and the country at large.

In my opinion, and that of the Commission, a bipartisan strategy should have the following elements.

First, admit the obvious: the world's poorest countries need much greater help than is now on offer. To face the health crisis alone will require several billion dollars more per year. I am delighted that the World Bank and IMF are now working closely with the World Health Organization as part of the WHO's Commission on Macroeconomics and Health, which I chair, to come up with realistic assessments of global needs in public health. We will be reporting on these 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 idea of a tax credit or guaranteed purchase fund to spur R&D for new vaccines has now been endorsed by the Clinton Administration, and it is important for the World Bank to put IDA funds behind the proposal as well. Traditional World Bank loans to countries are almost surely the wrong way to spur the needed technologies, but country programs can indeed contribute to improving the public health systems that will be needed to deliver those technologies.

Third, get the institutions back to their relevant roles. The IMF finds itself deep in African development for totally artificial reasons, or reasons that are now passe. The World Bank often claims the lead on a tragically under-funded world health agenda because the World Health Organization, like other U.N. agencies, is even more desperately 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, UNICEF, and the World Bank. Stanley Fischer suggests that every poor IMF member has the "right" to IMF concessional lending. But the issue is not about "rights" but about

effectiveness of the global assistance effort. 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, let the highly indebted poor countries out of their debt misery once and for all, by fully canceling the debts, not going halfway as in the current initiative. This, again, was a unanimous recommendation of the Meltzer Commission. The current targets of debt reduction are based on an utterly phony "Debt Sustainability Analysis" that couldn't pass muster in a first-year economics class. Indeed, the phrase "debt sustainability analysis" is truly Orwellian in scale of distortion. The IMF and World Bank procedures for measuring sustainability have absolutely nothing to do with ability to pay, and 100 percent to do with the arbitrary limits on debt relief laid down by the G-7 at the Cologne Summit. The IMF and World Bank documents should be re-labeled 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 World Bank in this sham, and turn the spotlight on the creditor countries instead.

Fifth, as the counterpart to greatly increased funding and focus on the poorest countries, there should be a truthful recognition inside the World Bank that countries such as Mexico, Brazil, Argentina, Chile, and Korea, are not the proper focus of World Bank lending. These countries absorb a large proportion of World Bank time and attention, not to mention loans, and they distract from the much harder work of helping to solve the problems of the world's poorest countries, as well as global problems such as anthropogenic climate change.

In my view, a strategy like this – focusing honestly on the poorest countries, canceling unpayable debts, getting the IMF back to its core business, and getting the Bank to scale back its activities in the richer countries, while scaling up its support of the poorest countries and of global public goods – would win broad bipartisan approval. Even conservative Congressmen will sign up to an effective assistance strategy that delivers real benefits for the world's poorest people. This is especially true for programs such as vaccine development that harness new knowledge creation to the service of poverty alleviation. It is my experience that the 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 assistance budget, the world community could do wonderful things together with the poor countries. Rather than limited flows of high-conditionality Bretton Woods country lending, the world could support the breakthroughs in health and agricultural research that will really make a difference in the long run. Rather than extremely limited programs on health, the World Health Organization could once again take the lead in identifying and targeting the crucial interventions needed to solve malaria, tuberculosis, diarrheal disease, and AIDS, as they have smallpox and now nearly polio. Rather than pursuing specific disease research programs whenever the WHO and World Bank get the funds to do them, the world could create a new network of health research institutions around the developing world to pursue this research in earnest, in

essence a Consultative Group for International Health Research, or CGIHR, to complement the Consultative Group for International Agriculture Research, or CGIAR. By harnessing information technologies with scientific breakthroughs in biotechnologies and other areas, the possibilities for progress in health, agriculture, and environmental management are immense.

For much of the 20th century the Rockefeller Foundation showed the world what grant aid targeted on knowledge could really accomplish. Rockefeller funds supported the successful eradication of hookworm in the U.S. South, the discovery of the Yellow Fever vaccine, the accelerated development of penicillin, the establishment of public health schools all over the world – the ones that are today’s undisputed leaders in the field; the establishment of medical faculties in all parts of the world; the establishment and funding of great research centers such as the University of Chicago, the Brookings Institution, Rockefeller University, and the National Bureau of Economic Research; the control of malaria in Brazil; and the support of scientific research and the establishment of research centers that accomplished the Green Revolution in Asia, and that became the Consultative Group for International Agricultural Research.

Not one of these earth-shaking accomplishments was a high-conditionality country loan. All required access to large-scale grants ready to back the pursuit of knowledge. And the donor, incidentally, wanted to build *strong* and *independent* institutions, so the Rockefeller Foundation consciously and explicitly eschewed conditionality.

Indeed, my colleagues and I on the Meltzer Commission went even further. The kind of help that the poor countries need is so different from the World Bank’s traditional lending practices that the Bank itself should highlight its retreat from banking and its refocus on knowledge creation, by changing the name of the institution itself, from the World Bank to the World Development Agency. The World has literally thousands of banks, but it desperately needs an institution charged with long-term knowledge creation and mobilization for development.

I have fought hard for the reform of the IMF and the 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 the World Community, and I believe in shared global governance. But I do not believe in global governance by the rich countries, or international voting weighted by money as in the IMF and World Bank today, or permanent government by entrenched bureaucracies unencumbered by external review as has been true of the IMF, or governance by 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 help 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 in that valuable task.

Thank you.