The War that Must be fought and Won - Poverty

by
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PROCEEDINGS

Sir Charles Masefield (European Co-Chair of TABD): In the interest of
time, I'll introduce our guest speaker while we are finishing off our
meal.

We have a great pleasure and we're indebted to our guest speaker this
afternoon, because he is, as you know, an extremely distinguished
gentleman-the President of the World Bank Group, James Wolfensohn. He
is, in fact, interestingly, only the ninth President of the World Bank in
its 56-year history, and recently, in 1999, he became only the third
President of the World Bank to be reappointed for a second term
unanimously by the Board of the Bank.

In the seven years that he has been running the Bank, not only has he
introduced an amazing cultural change amongst the employees of the Bank,
but he has traveled to over 120 countries, and I'm sure he's off again
almost immediately once he's spoken to us.

He's done many things, introduced many initiatives, but I think one of
the foremost of those was his personal initiative to establish the Highly
Indebted Poor Country (HIPC) program, which, of course, was the first
really comprehensive debt reduction program for the poorest countries in
the world.

Before becoming President of the World Bank, James Wolfensohn had an
extremely varied and distinguished career. He was born in Australia. He
served as an officer in the Royal Australian Air Force. He was educated
at the University of Sydney. He practiced law in Sydney. He is actually
an Olympic athlete, was a member of the Australian Olympic Team in 1956.
He has an MBA from Harvard. He had an extremely distinguished banking
career in London and rose to be Deputy Chairman and Managing Director of
Schroeder Bank in London. And he then went on to become President of
Schroeder's Bank in New York.

So quite apart from that extremely varied and distinguished career, he
also has a huge number of other strings to his bow. He is Chairman
Emeritus of Carnegie Hall. He's also Chairman Emeritus of the John F.
Kennedy Center for the Performing Arts in Washington. He has been
President of the International Federation for Multiple Sclerosis. He has
served as a Director of the Rockefeller Foundation. He was, in fact, the very first ever recipient of the David Rockefeller Prize of the Museum of Modern Art in New York. And, in addition to being the current President of the World Bank, he's also Chairman of the Institute of Advanced Studies at Princeton.

With that amazing C.V., Jim, we can hardly wait to hear what you have to say to us.

[Applause.]

MR. WOLFENSOHN: Thank you so much, Charles. My parents would have been thrilled to hear that.

I am obviously very delighted to have the opportunity to speak to this group, and you might wonder why I've been asked since I have very little contribution to make on the remarkable subjects that you have covered in your briefing papers, which I read on the plane on the way out here, and on the dialogue that exists between European and American companies and the focus of your efforts, which is to develop and present united programs to the governments in Europe and in the United States.

Let me say on that that I have immense respect for what I've read in these papers, and I must say to you that I wish you well in terms of making an effective presentation of the case of business to the governments of these two important areas; but beyond that, to make a contribution to leadership of the planet on which we all live.

But I think I've been asked because one of the issues which faces both American and European businesses is the issue of development and the other parts of the planet that are not included in this dialogue, or at least not directly represented in this dialogue.

I speak of the five-plus billion people, out of six billion people on the planet, who live in the developing countries, and that is, of course, the focus of the World Bank's activities.

And it's five billion out of six billion on the planet with roughly 20 percent of the global GDP, a small number in comparison with the ten-plus trillion dollars in the United States and the nine to ten trillion dollars in an expanded Europe, but, nonetheless, a GDP which is brought about by five billion people.

So we come to the job that we have -- to look at the question of the difference between the life of the five billion people and the life of the one billion people and look at the issues of poverty and the issues of wealth between those two countries.

When I grew up in Australia, it was very clear that—or at least my parents thought and I thought—that there were, in fact, two distinct worlds, the developed and the developing world; and that if you were a good young man like me, you could go out and you could do some work in developing countries; and then when you got that out of your system, you'd come back and you'd become an investment banker.
MR. WOLFENSOHN: That's more or less what I did, except that I retained an interest in the developing countries from my first exposure in 1961 in Nigeria. And I came increasingly to recognize that these two worlds, while perhaps emotionally distant, were, in fact, becoming closer and closer together-something that you in this room recognize, as I understand from the briefing papers on trade and on business, and something which is an axiom now in this group—an axiom in the sense that the two worlds are now fused by trade, by finance, by environment, by health, by migration, by crime, by drugs, and certainly by terror. If anyone doubted that these two worlds were connected and that what happens one place is an effect on others, certainly September the 11th paid that off and people started to understand, if they didn't before, that with the collapse of the World Trade Center, a wall came visibly down between these two parts of our planet.

But the issue for us in the Bank is not just the inequity that exists, the three billion people on the planet that live under $2 a day and the billion two hundred million that live under $1 a day, nor the divisions between rich and poor that exist within countries and between countries—this would be a tough enough problem to address, and the UN has sought to address it in terms of saying we must bridge this question of poverty, we must bridge the issue of education and health, we must bridge the question of the rights of women, we must deal with the questions of the environment, we must deal with the questions of AIDS—all of which were put down in the Millennium Development Goals. It's important to recognize that this static situation of five out of six billion and 80/20 split in terms of global GDP is not static; and that in the next 25 years in which your companies and your children will live, the world becomes eight billion, and the new two billion people go to developing countries, all but 50 million. So that in the year 2025, we'll have seven billion out of eight living in developing countries. And in the year 2050, we'll have eight billion out of nine living in developing countries.

And so the issue is tough enough today. But as all of you are looking at the future, one cannot think of it as static. One has to think of it as a world which is totally different than the world that we're in today. Our estimates, since you're predominantly business and government people, would indicate that by the year 2050, if you take a 3.5 percent growth rate, the global GDP will grow from $30-plus trillion today to $140 trillion in today's dollar terms; and that at that time, not 20 percent but 40 percent of the global GDP will be in the developing countries.

So of the order of $56 trillion will be GDP in developing countries, up from $6 trillion today, nearly a 10-times increase in the next 50 years.

So you have two things going on simultaneously. You have this issue of a coming together of the world in terms of whatever you call it, globalization or interdependence, and you have a change in both the rate of growth and importance, in geopolitical terms, in economic terms, of this developing world.
And that is the challenge which we face as an institution focusing on poverty and which you face as business and government colleagues in terms of looking both at the business possibilities, about the nature of the economy that's going to be there, but also very significantly—and it comes out in your papers—the issues of social responsibility and the issues of stability and, ultimately, the issue of peace.

I say in groups that are friendly towards me that the issue of poverty is really the issue of peace, and that unless we deal with the question of poverty, there's not going to be peace. I could develop that argument, and I think effectively. But certainly it is intuitively right that if you have people in the world that have no hope, that have no expectations, but understand what is happening in those situations and with those groups in the community that are more privileged, they get pretty fractious.

And this has been translated in UN meetings at a level a little distant from this meeting, but it has been translated into a sense that this problem exists and we need to do something about it. And so at the political level, we've had now a series of meetings—ranging from the millennial meeting of the UN heads of government that came together in New York, and since then the meetings in Monterrey (Financing for Development Conference, March 2002), in Johannesburg (Rio + 10 Summit, September 2002) and in Kananaskis for the G-7, and most recently at the meetings of the Bank and Fund in Washington (September 2002)—where the global community has come together and said we really have to deal with this. Not as a matter of charity, not as a matter of a fringe thing to do, but if we want a stable planet, if we want a planet that is adjusting to this cosmic change in the way we look and what we are and what the world is, a change that reflects an understanding that the balance of power in many senses has changed, and that the North Atlantic may not be the center of the world 50 years from now, with China today having a billion three hundred million people and India having a billion, 2.3 billion out of the five. And you look then sequentially at Central Asia and Latin America and Africa, and you look at the Middle East. If you look around the world, what was said at these more political meetings is we have to take a different approach, wherever we are and whatever we're interested in, in terms of this issue of global equity and global justice.

And so, interestingly, the leaders of our countries came together and came up with millennial goals, premised on growth because it is impossible to bring about changes unless you have economic growth, but setting targets in terms of reducing poverty by 50 percent, increasing the life expectancy in terms of infant mortality and maternal mortality, dealing with the questions of environment, dealing with the questions of AIDS, and setting goals in terms of universal education which will give opportunities to the countries that we're speaking of.

You may say, well, all that's interesting, but what's it got to do with us? Well, the thing that it has to do with us in a business context is that it has been recognized in these meetings that this is not a 'delegatable' function. It's not something that the Bank can do alone. It's not something that the demonstrators can do alone. It's not
something that churches can do alone. It's not something that governments can do alone.

The new dynamic is one in which it is critical that there be a partnership forged between business, civil society, the multilateral and bilateral organizations, and governments, because it is impossible to conceive of that issue being dealt with by any independent or any individual organization—not by the Bank, not by the Fund, not by the UN. But it is clear both to the leadership of the world and to enlightened business leaders, of whom there are many in this room, that there is a need on the part of business not just to think in terms of its own individual responsibility, but to carry a burden of social responsibility that reflects itself in many ways and, of course, is touched on in your own briefing papers.

And so when I was asked to come here, it was not to be light entertainment at lunch. It was to say to you that you're in this as much as we are. And I was happy to read in the briefing papers that this is well understood and well recognized in a number of the admirable examples that are referred to in the papers where your businesses have already taken a role in social responsibility.

There are two key issues which need to be addressed—one of them that my friend Pascal Lamy (European Commissioner for Trade) will be talking about tomorrow, which is the issue of trade. And let me put this in the context of another speaker whom you're going to have, Jim Kolbe (US Congressman, and Chairman of the House Appropriations Foreign Operations Subcommittee), who I would have quoted from much more liberally had he not been in the room and not mentioned that it came from his speech in October. But Jim made a wonderful speech, which I hope he'll repeat to you, in which he points out that the issue of development is not the issue of overseas development assistance or gifts or charity. It is part of a much more integrated approach in which business plays an important role and in which trade is pivotal.

The impact of trade and the addressing of the questions of subsidies is far more important than the issue of development assistance. I'm not saying by that "forget development assistance" or "forget capacity building" or forget the many things that are done in terms of interfacing with developing countries. But the issue of trade is fundamental, and it's an issue which Pascal Lamy and colleagues will be discussing, I'm sure, today and tomorrow.

Just a simple example: Mali, which is a country I know well, got $39 million in aid from the United States last year, lost $43 million on its exports in cotton because of the impact of cotton subsidies. Not hundreds of millions, but billions of dollars are involved. And the issue of having assistance without addressing the question of Doha and trade is an impossibility. You know the numbers: $50 billion in overseas development assistance, $350 billion in terms of agricultural subsidies.

It's not exactly a seven-to-one rationale because the $350 billion, as Pascal will probably tell you, is not all related completely to that, but
it makes very good numbers, you have to admit. And there are many other examples that I could give.

So it's the issue of trade and the opening of markets and the fact that poor countries generally pay twice the tariffs that others do--coming into this country, French exports are 12 times Bangladesh; but Bangladesh actually pays more in tariffs than France does. There are many of these wonderful Hollywood examples that I could give you, but even so, the fundamental fact remains that, whether it be in Europe or in the United States, the issue of trade in terms of giving the opportunity for developing countries to develop themselves becomes fundamental.

The second issue that I wanted to address is the issue of social responsibility. It doesn't require a rocket scientist to tell you that in many countries there is an antagonism to multinationals and foreign investment. And yet it can be so easily bridged if there is a sense of social responsibility on behalf of the countries that go--the companies that go in.

And I speak here not just of the major multinationals. The role of the small- and medium-size enterprise is absolutely crucial-crucial because the big job providers in any country are small- and medium-size enterprises. And so as I know there are members here from that sector, I can only say that the role in small- and medium-size enterprise is absolutely crucial in terms of the whole development paradigm and something which we in our institution are very anxious to work on and are working on and are available to you should those issues emerge as being of interest to you.

But this question of social responsibility, again, is not a question of charity. It's a question of enlightened self-interest. It's an issue of how we're going to keep our planet stable so that your businesses will survive, how we can do it in a world that will be a world of peace.

In 1990, overseas development-overseas investment was running at around $30 billion a year into developing countries. At that time development assistance was $60 billion a year, in 1990. So investment by private corporations and banks and portfolio investment was half the size of ODA. By 1997, it reached $300 billion and overseas development assistance was 50. So it went from half the size to six times the size in a space of less than ten years.

In the last three years, it's dropped back. In the last year, direct investment was still running at $150 billion a year, although bank investment and portfolio investment was significantly--not only reduced but was significantly negative. But it's not just the money. It's also the technology, it's also the skills that go with it.

Which brings me to my last point, which is that the agreements that were reached in Monterrey and in Johannesburg spoke of a totally new understanding between developed and developing countries. It was that the developed countries said, often very vigorously and certainly with much effect in Kananaskis and other places, that the wealthy countries recognize their global responsibility, they recognize the interdependence
of the planet, and that there were a number of things that the rich
countries had to do. First was to build capacity in developing
countries, to be available to assist at all levels in developing capacity
in government and in corporations. And I know, sitting between your two
Co-Chairmen, that their companies are already doing work in that field,
as many others of you are. But capacity building is something, again,
which does not just rest with governments. It is integral to the
activities in business.

It was also said at those same meetings that we will deal with the
question of increasing overseas development assistance, and, in fact,
steps were taken by the United States, by President Bush, to increase the
contributions by $5 billion in the Millennial Development Account over a
period of four years and in Europe to increase the level of ODA by an
amount that's $7 or $8 billion in the coming three- to four-year period.

So we have a significant amount to work with, still far short of the 0.7
percent that was agreed on many, many years ago as a target, but still an
improvement.

And then it was also said at both those meetings, as Mr. Lamy will no
doubt tell you, that we should also deal with subsidies and we should
deal with the question of trade. This is the deal that was offered by
the developed countries.

The developing countries said we also recognize we don't want a handout,
and this is where it becomes very important to business, because they
said we know we must build capacity in our governments and in our
countries. We know that we must deal with the question of legal and
judicial reform so that we can protect rights, so that we can create an
environment for investment. We know that we must deal with the question
of financial sector reform, to provide clean and efficient services,
corporate services to micro credit. And we know that we must take head-
on the question of corruption.

The issue of corruption has entered the debate publicly only in the last
five years, and we have, I think, been an important factor in bringing
that about. But corruption is now out there on the table, and it will
take time, obviously, and it will take responsibility from both sides—the
corrupter and the 'corruptee'. And the corrupters too often are
business. Some of the things that I have learned as we've gotten into
this are not very attractive in terms of the role of business. So the
issue of ethics, morality, and indeed self-interest in the long term is
an issue that needs to be addressed.

And beyond that, it was agreed that these countries should have a
balanced approach to development and a long-term approach in terms of the
comprehensive way that they approach development in economics first and
then in education, health, and so on.

The point that I'm making is that the philosophy is now over. The debate
on the philosophical framework is behind us. I gave away 300 T-shirts in
Monterrey which has on them the single word "Implement," and the idea was
to say forget the debate, just get on with it. And I've been giving many of those away since.

But the point is that we are now down to the question of implementation, and what I like very much in what you're doing is that it's very practically oriented, and I commend you.

There are only two things I have to say and then I'll close: None of this takes place in a vacuum. We have two overriding issues which color all the things I've said. One is the pace of economic growth in those engines of growth in the United States, Europe, and Japan. And I'm hoping that you will all be able to organize it so that we can add three or four percentage points to growth in transatlantic countries. That'll make my job a lot easier. And the second issue, of course, is the geopolitics, the issue of concern about geopolitical stress in places in the world that you know well.

So I don't want you to think that what I've described to you is just some design that is not based in practicality. I recognize the difficulties. I recognize the macroeconomic issues and the geopolitical issues which are upon us today. But hopefully they won't be with us forever, and what I look forward to is a continuing association with this group and with others like you to try and make this world a better place and to allow our children to live in peace.

Thank you very much.

[Applause.]

MR. Phil Condit (CEO of Boeing Corporation and Co-Chair of TABD, along with Sir Charles Masefield, of the TABD this year): President Wolfensohn may have had questions as to why he was invited. I doubt if there are any of those in this room. I think it's very clear why he was invited.

I think those were excellent remarks to lead us into our afternoon discussions, thoughtful comments about social responsibility, the roles that we have, we as industry, we as government, in building capacity and capability in developing countries, roles that we have in sharing knowledge, bringing digital capability to those countries.

We have some tremendous opportunities. One of the deliverables of this conference is a matrix of private sector initiatives to build capacity in the developing world. And they range over a wide spectrum of opportunities. Whether it's computerizing local schools or building telemedicine capability, the list is extensive.

So we, working together, have a tremendous opportunity to play an important and effective role in building that capability.

So, Jim, once more, thank you very much.