

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

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2-1-1

(Background Conversation)

W: So nearly 75 percent of the audience believes it's one of the top three risks. Well good job, Bob and the panel. Just briefly, I want to let you know that we have two very special speakers in our next panel, which will begin promptly at 10:45. So we'll give everyone a ten-minute break. Former president of Mexico, Ernesto Zedillo and Jeffrey Sachs(?) will discuss wealth disparities in emerging economies. So we'll see you in ten minutes sharp, please.

(Background Conversation)

(CUT)

W: Okay, I think we're going to get started with our next panel. If you could all take your seats. We are very pleased to introduce our next panel. Before I do so, however, there are a couple of housekeeping items I'd like to talk about. One is at the back of your conference books there is a questionnaire. If you could please just go ahead and fill it out after each session, whether or not you thought it was worthwhile. We'd love to have your feedback. And then secondly, please again, remember to use your microphones when you ask a question, and also identify yourself. And lastly, you will notice there are cards, three by five cards, placed on your seats now.

And these cards are actually, we thought we'd give you some time to actually think about questions you might want to ask of our dinner speakers tonight. We have quite a distinguished panel for our dinner conversation, which is at the Ritz Carlton, Battery Park. And we wanted to give you some time to actually write your questions down throughout the day. So thank you for that. And after this panel, we will immediately proceed to lunch.

Let me take a moment to introduce our moderator, Dr. Lael Brainard. And Dr. Brainard was, currently is the vice president of economic and foreign policy studies, and director of Poverty and Global Economy Initiative at the Brookings Institution in Washington. She was previously the deputy

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-2

national economic advisor under President Clinton, where she was responsible for the coordination of international trade and financial policy. She was special assistant to the President for International economic policy, where she served as a White House staff coordinator for the Asia-Pacific Economic Cooperation Leaders' Meeting in Vancouver and Manila, previously coming from Washington, she served as an associate professor of applied economics at M.I.T. And was with the McKinsey Consulting Group. So thank you very much, and we'll allow you to introduce your panelists.

LB: Well thank you, Joan. It's a delight to be here. And it's an interesting switch of focus here. Even as great strides have been made, as we all know, in lifting hundreds of millions out of poverty over the last few years, the trend is very strongly in favor of increase in equality, both among nations, within nations, and between nations. And so this panel is focusing squarely on that question, on the growing inequality of opportunity and of outcomes, and is asking, how serious are those risks to the global economy? It's interesting that so far, when we've seen some of this audience polled, that they put the risks of wealth and inequality above the risks to the global system of derivative and hedge funds, which is interesting. But only marginally. About four percent, I think, cite it as a major risk.

And the other thing that was interesting from Suzanne's presentation this morning is that there's a big discrepancy between U.S. experts on this issue who see it as a much less important risk than do foreign experts, especially Asians. So to speak to this question of the risks of growing apart rather than growing together, we have two people who need no introduction, I'm a little bit ashamed to be introducing them, because I think you all know probably their resumes. But just briefly, President Ernesto Zedillo assumed leadership of Mexico at a time of crisis, and really transformed it, putting it on a path of sound finances that have lasted longer than any previous moment in Mexico's history, even at the same time as he consolidated a very

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-3

fragile, democratic transition. And since that time, he's directing a center on globalization at Yale. And is the chairman of choice for all important international commissions.

Jeff Sachs is hailed by most as the single most influential economist of his generation. We all know his work first on the transition economies. And most recently his work on global poverty, in particular as head of the influential U.N. Millennium Project. So with that, President Zedillo.

EZ: Thank you very much for your nice introduction. I know Jeffrey's highly disappointed today because instead of Angelina Jolie or Bono, he has me (Inaudible) ... but never mind, my friend. (Laughter)

(Background Conversation)

EZ: Anyway, I'm very pleased to be here. And I would start by saying that putting wealth despite this, in emerging nations, in this list of the top ten risk to the global economy is interesting. But I would say up to a point; only up to a point. I suspect that the organizers of this gathering, their concern is that conceivably, if acute concentration of income and wealth in the key emerging nations continues to behave as it does happen in recent years, these at some point could become an impediment for their own farther growth, and therefore an impediment for their own contribution to the global economy's growth.

Well, however, if we are speaking about truly emerging economies, I believe that we should be then referring to those economies that are now developing countries, but are growing, and are growing at the pace that would allow them to catch up eventually with developed countries. If those are emerging economies, the emerging economies you are talking about here, then I don't think we should be overly concerned about what's happening with their income distribution. And I don't think that would pose eventually significant risk to the global economy.

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-4

After all, the so-called (Inaudible) ... curve, whereby inequality first grows, and later falls with the development, has proven to be a rather robust proposition. However, having said this, I think that there are still some important risks that should be discussed in relation with the problem of disparities and inequality in the world. I think that we're going to consider that group of countries, and they are too many, in which economic growth is proceeding at a too slow pace. For, in fact, they are stagnant economies, and in some cases, contracting economies. Then I think we should be worried about disparities between that large group of countries, and the rest of the world. And by the rest of the world, I mean the developed world, and other developing countries, which are catching up.

And I do believe that we do have to shift our attention from what's called here emerging nations, disparities in emerging nations, to disparities in those other countries that are not being able to catch up or converge with the rest of the world. In this regard, I think there are three pertinent questions that we can raise. Number one is of course whether this is happening. Number two, if that is happening, will that really pose a threat eventually to global prosperity and security. And three, I think it's important also, particularly these days, to ask ourselves whether there is a role for international cooperation in order to address these disparities.

Well, on the first question, whether disparities are there and are growing, I think the answer is a firm yes. As shown in the Millennium Project that was chaired by (Inaudible) ... and which I was a part of, and more recently by the Human Development Report that was published, I think, last week. And even more recently by the World Development Report produced by the World Bank only on Tuesday this week, I think you can see clearly that there is evidence that if you put apart(?) the case of importance, certainly important emerging countries like China and India, then the picture for practically all of the rest of the developing world is rather worrisome, to stay the least.

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-5

In that universe, which doesn't include the dynamic emerging economies, despite this wealth, income, and practically all the social indicators, despite this (Inaudible) ... countries, and with respect to the rest of the world, are huge and for the most part, those disparities are growing, are widening.

I could give you, you know, a number of figures about that. I will not bore you with all the data that has been produced in those three reports, just a few examples. The richest and the poorest countries is wide, and getting wider every day. Absolute income inequalities between rich and poor countries are increasing. If we exclude, I repeat, China and India, global inequality which by the way has been worsening since the 19th century, and at some point it was thought that it had been stopped widening. Now, recently calculations confirm that it continues to widen. And in fact, in 2003, 18 countries with a combined population of more than 450 million people, registered lower scores on their human development index, than in 1990. Which is really an impressive reversal, at least for many years. We could also mention that life expectancy and child mortality gaps between the poor and the rich countries are widening. And let me stress, as Jeff has not tired to repeat, that sub-Saharan Africa, and this is one of Jeff's phrases, has been the epicenter of this development crisis with deepening extreme poverty, continuing food insecurity, incredibly high child and maternal mortality, and increasing numbers of people living in terrible condition in slums.

It's not as dramatic, the situation in other countries, in Rios (Inaudible) ... Latin America, the Middle East, and North Africa, in the transition economies, also present a picture of widening gaps with the developed world in most economic and social indicators. The World Bank's report, the UNDP report, Jeff's report speak about traps(?). The World Bank has I think been vindicated your poverty trap concept is weak(?). Now they are calling

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-6

about inequality traps. That's the term they're use in the report they released three days ago.

Well, call them as you wish. But consider what the three reports have in common, and that is the idea that these development gap is not going to stop widening any time soon, if we look at present trends, and could get dangerously worse, unless some of those equity or development traps are more directly addressed. In other words, it is plain, business as usual, as a strategy will not do the trick. And this proposition, which I am in agreement really refers to the second issue I mentioned at the beginning. I truly believe that lack of more effective action to stop and reverse these development gaps will cause over time a mounting problem which will translate into a serious threat to global prosperity and security.

And I do not mean original on this, of course. And I'm not repeating any of the speeches that were given at the United Nations last week. Some highly respected colleagues like Korshiev(?), but also (Inaudible) is a member of the (Inaudible) ... generation. I have heard Larry say in these, in a very persuasive way, I heard him saying one day, you know, if I think 100 years from now what would be the biggest problem we will be confronting. If these trends do not change, well you know, the problem we will be confronting is a highly polarized world, both from the economic and the social perspective. And I think this is something that has to be addressed.

Now, the question is whether there is a universal one size fits all formula, for doing this job? Of course not. Problems, constraints, resources, by culture, by across countries. For good reason, it is now almost a commonplace to say, and I won't starve(?) by saying that, that the primary responsibility for development lies within developing countries themselves. I said that in the financing for development report that the Secretary General commissioned to a group back in 2001, that thing went into the Monterey Consensus, and it is again, in the declaration that was approvable, approved at

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-7

the United Nations last week. And I think that's a very important shift in the mind set for speaking about development. Developing countries have to do their own job.

And in fact, it is obvious that among those countries that are falling behind, including many in Latin America, that's precisely the point. We don't really need to talk about international cooperation, other than opening markets, but we rather need to see a more serious effort in those countries to overcome the political constraints that have clock(?), that have obstructed the continuation of the process of economic reform. So I can see in those cases, the international cooperation is not really the crucial issue. But there is another set of countries, unfortunately a big set of countries, in which more effective, more substantial international cooperation is needed to overcome those development, or inequality traps.

And notice their highest peak of international cooperation in a (Inaudible) ... sense, not only of aid for development, aid is important, and of course I endorse the commitments established in the Monterey Consensus, and I also stand behind the calculations and the proposals that were offered in the Millennium Project, but I also believe that other aspects of international cooperation are crucially important. I personally attach enormous importance to more open market in both rich countries and also more open market in poor countries. I think they are of paramount importance. But I also believe that we need to see more and better international cooperation ...

(SIDE B)

EZ: ... rest of the world, I mean the developed world, and other developing countries which are catching up. And I do believe that we do have to shift our attention from what's called here emerging nations, disparities in emerging nations, to disparities in those other countries that are not being able to catch up or to converge with the rest of the world. In this regard, I think there are three pertinent questions that we can raise. Number one is of course whether

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-8

this is happening. Number two is that it's happening. Will that really pose a threat at least eventually to global prosperity and security? And three, I think it's important also, particularly these days, to ask ourselves whether there is a role for international cooperation in order to address these disparities.

Well, on the first question on whether disparities are there and are growing, I think the answer is a full (?) yes, as shown in the Millennium Project ... that was chaired by Jeff and which I was part of ... and more recently by the Human Development Report that was published I think last week, and even more recently by the World Development Report produced by the World Bank only on Tuesday this week, I think you can see clearly that there is evidence that if you put apart the case of importance, certainly important American countries like China and India, then the picture for practically all of the rest of the developing world is rather worrisome, to say the least.

In that universe, which doesn't include the dynamic emerging economies, disparities in wealth, income, and practically all the social indicators, despite these weeping (?) countries, and with respect to the rest of the world, are huge and for the most part those disparities are growing, are widening. I could give you, you know, a number of figures about that. I will not bore you with all the data that has been introduced in those three reports, just a few examples.

For example, that gap between the average citizen's income in the richest and in the poorest countries is wide and getting wider every day. Absolute income inequalities between rich and poor countries are increasing. If we exclude ... I repeat ... China and India, global income inequality, which by the way has been worsening since the 19th century and at some point it was thought that it has stopped widening, now recent calculations confirm that it continues to widen. And in fact, in 2003, 18 countries with a combined population of more than 450 million people registered lower scores on their

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-9

Human Development Index than in 1990, which is really an unprecedented reversal, at least for many years.

We could also mention that life expectancy and child mortality gaps between the poor and the rich countries are widening. And let me stress, as Jeff has not tired to repeat, that subsaharan Africa ... and this is one of Jeff's phrases ... has been the epicenter of this development crisis with a deepening between poverty, continuing food insecurity, incredibly high child and maternal mortality, and increasing numbers of people living in terrible conditions in affluence (?).

It's not as dramatic, the situation in other countries, in (Inaudible) Latin America, the Middle East and North Africa, and different (Inaudible) economies also presents a picture of widening gaps with the developed world in most economic and social indicators. The World Bank Report, the UNDP report, Jeff's report, speak about tracks. The World Bank has I think (Inaudible) indicated your poverty trap concept this week, now they are calling about inequality trap. That's the term they use in the report they released three days ago.

Well, call them as you wish, but consider what the three reports do have in common, and that is the idea that this development gap is not going to stop widening any time soon if we look at present trends, and could get dangerously worse unless some of those equity or development traps are more directly addressed. In other words, it is plain business as usual as a strategy will not do the trick. And this proposition, with which I am in agreement, really refers to the second issue I mentioned at the beginning. I truly believe that lack of more effective action to stop and reverse this development gap will cause over time a mounting problem which will translate into a serious threat to global prosperity and security.

And I'm not being original on this, of course, and I'm not repeating any of the speeches that were given at the United Nations last

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-10

week. Some highly respected colleagues of mine, like of course Jeff, but also Larry Summers(?), a tremendous (Inaudible) generation, I have heard Larry saying this in a very persuasive way. I heard him saying one day, you know, if I think 100 years from now what will be the biggest problem we will be confronting, if these things do not change, well, you know, the problem we will be confronting is a highly polarized world, both from the economic and the social perspective. And I think this is something that has to be addressed.

Now the question is where there is a universal, one-size-fits-all formula for doing this job. Of course not. Programs, constraints, resources by (?) cultures, across countries for good reason. It is now almost a commonplace to say ... and I want to start by saying that ... that the primary responsibility for development lies within the developing countries themselves.

I said that in the Financing for Development Report that the Secretary-General commissioned to a group back in 2001. That thing went into the Monterey Consensus, and it is again in the declaration that was approved (Inaudible) approved at the United Nations last week, and I think that's a very important shift in the mindset for speaking about development. Developing countries have to do their own job, and in fact, it is obvious that among those countries that are falling behind, including many in Latin America, that's precisely the point. We don't really need to talk about international cooperation, other than opening markets, but we rather need to see a more serious effort in those countries to overcome the political constraints that have caught, that have obstructed the continuation of the process of economic reform. So I insist in those cases the international cooperation is not really the crucial issue.

But there is another set of countries, unfortunately, a big set of countries in which more effective, more substantial international cooperation is needed to overcome those developments or inequality traps. And notice that I speak of international cooperation in a broad sense, not only of aid

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-11

for development, aid is important ... and of course I endorse the commitment to establish in the Monterey Consensus, and I also stand behind the calculations and the proposals that were offered in the Millennium Project.

But I also believe that other aspects of international cooperation are crucially important. I personally attach enormous importance to more open markets in both rich countries and also more open markets in poor countries. I think they are of paramount importance. But I also believe that we need to see more and better international cooperation to create more effective multilateral mechanisms to address the contemporary issues of peace and security.

Of course there is nothing new in saying that we need aid, we need trade, and we need the multilateral system for peace and security. I think for too long this broader concept has been there. This was really the big proposal put forward by the United Nations Secretary-General, and in fact, 2005 was intended to be the year of great strides in this endeavor.

What is the score card so far? And maybe during the questions we will go into that. Well, I think we are seeing a mixed record. I think there is some progress on the aid front, and I am sure Jeff will make some comments on that. I think the reforms that were approved last week in the United Nations are incremental steps. I think the Secretary General should be proud of what was achieved within the very difficult and adverse circumstances, but I also say with great sincerity that that is not enough. Much more will be needed to really create a system that addresses the contemporary security challenges.

And if you ask me on trade. Well, I think world trade is doing fine. It's growing, has been growing for half a century, except two years in half a century, but I would report to you that on the Doharown (?), which was conceived to be like a (Inaudible) step towards a truly multilateral system that will also offer significant opportunities to poor and developing countries, we are

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-12

doing terribly bad. The Doharown Talks have been a story of missed deadlines, of frustration, of commitments not honored. And let me tell you, and I will close with that, that as things stand now, in Hong Kong we will either have a total breakdown of the Doharown, or we will have a rather silly declaration saying that negotiations will continue next year. And that I think is a very bad news for both rich and poor countries. Thank you.

LB: Thank you. That's a perfect handoff to Jeff.

JS: Thanks a lot. Clearly, one solution for the world is more Ernesto Zedillo because if we had more people that could usher in democracies, really transform their countries and their autonomies and play such a remarkable role in building international consensus, we would of course be exactly on the track that we want to be but are not right now. I think what Ernesto was doing is really the key point in any discussion of this issue of poverty and inequality, and that is to make distinctions and nuances because there is no world story. And the most important thing is to really take apart the issue in finer detail to understand what this is about.

I wouldn't, for example, just to make a nuance with the ... not that we disagree in substance, but to make a nuance, I wouldn't put aside China and India and say "I'm going to talk about the rest," because that's the most fundamental thing happening in the world with respect to poverty. Hundreds of millions of people are coming out of poverty, and that's a trend that's likely to continue. And that's a reflection of a more general phenomenon in Asia.

I do believe that East and South Asia have a robust opportunity for sustained economic growth and it's not going to have so much to do with us as we think it does because there is the increasingly strong integrative forces within Asia, as well as endogenous innovative forces within Asia, so a lot of what's happening in Asia in my view is a restructuring of the world economy at a quite fundamental level to the point where the center of gravity of the world

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-13

economy will not be the North Atlantic by the second half of the 21st century, but will be the Asia Pacific, and the United States won't loom so large in all of these discussions: We'll be trying to get China to do something on climate change and absolutely incredibly annoyed and furious that they're not taking our hurricanes in the Gulf seriously. So everything is going to shift over time in an important way because of changes that are pretty deep in the world system. Those are inequality-reducing changes. Development is working over a broad swath of the world, and it's changing a lot of how the world's going to be, and it's reducing the centrality of the United States in a significant way that's almost completely unrecognized in our social and political discussions in this country.

Now, other parts of the world are in very different circumstances. There is another part of the world which Ernesto talked about, the poorest of the poor, who are falling right off the map. That tends to be places of not only poverty, but geographical stress of very difficult climate or remoteness where you don't get an easy time to participate in the world economy. So there are pockets of this in Asia ... mainly in central Asia, where you have land-locked, bereft states, whose main activity now is brain drain rather than actual development.

When I was in Pakistan(?) this summer and went to the villages, there were no men around because they were all working in Russia or some other place because there's nothing to do at home. And this is a terrible social phenomenon, but it's also a reflection of how globalization does not favor those that are 1500 miles in the interior of the Eurasian land mass. And similarly in the Andes, we have that kind of situation, as well.

But sub-Saharan Africa, to coin a phrase, is the epicenter of this because there's hundreds of millions of people battling disease, lack of infrastructure, generally living in the interior of the continent, and right now suffering a profound crisis of hunger, as well as a profound crisis of poverty. So I toured villages in about a dozen countries in Africa and saw nothing but

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-14

hunger and death. I did not see economic development even in places where the headline number is five percent real GNP growth. This is just silly, I can tell you. Most of these numbers are just so poorly measured and conceived in terms of what they really reflect that we're not getting the true sense of life for large parts of the population in very low income countries.

Then there's a third part, another place or part of the world which has been a bit more of a mystery, actually, intellectually, I think, and that's Ernesto's own region, which is not the poorest of the poor by any means. It's a solid middle income region ... Mexico, Central America, and South America ... but it has simply not enjoyed the kind of dynamism of development that it has every right to expect by virtue of its literacy rates, its urbanization rates, its social participation, and many other phenomena. I think there is a bit of an intellectual mystery that remains about large parts of Latin America.

I tend to believe that in South America ... well, not I tend to believe, it's obvious, I would say ... in South American, Brazil is the bellwether and determinant of the future, and I am pretty optimistic about Brazil. Even this political meltdown is probably a good thing, not a bad thing, in the sense of laying open the very weak underlying realities of a corrupted democratic system that I think will come out stronger in the end. And I think Brazil is likely to boom on the basis of Asian trade for many years to come. And if Brazil does that, it's going to have a big effect on the rest of Latin America.

I tend to see Brazil also catching up with Asia on technology focus and Brazil's exports also becoming more sophisticated over time. I will defer to Ernesto on Mexico, but I would tend to believe the same can be true of Mexico, but it hasn't been as robustly true as I think we all expected under NAFTA and we're still hoping for and I am still optimistic about.

What this means for me is ... if you want to grotesquely over-simplify, which we are wont to do when we have eight minutes ... I think that at least make three distinctions in the world, not just the developing world.

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-15

Understand the significance of Asia; understand the significance of the poorest of the poor that are not part of the global development story, but are in a very deep human, political, and social crisis; and then understand another stratum, which I in my note here called the forlorn, which are not the poorest of the poor, but are not very hopeful right now because there's been a long period of stagnation or unemployment. And that's the Middle East, it's parts of Latin America, it's the places where there are lots of unemployed young people, young men who are none too happy and can do a great deal to destabilize the international system through violence, and they're showing that.

I think we have a lot to pay attention to in all three categories in terms of risks and response of this country. For the poorest of the poor, it is just such a tragedy that you have mass suffering, death, instability, violence, and conflict, basically because we're just completely bereft of any attention of these countries, and not because there aren't solutions, but because nobody cares. And the whole point of our work and what I've seen repeatedly is how easy it would be to address these issues, but if you think New Orleans was off the radar screen, let me tell you about Africa.

It's not even known that it would have a place on the radar screen in this Administration and in this country, and it's shocking how even when the evidence is laid out at the White House with care about how many millions of people are dying, how much instability it's causing and so forth, how the answer is "Well, it's just not our business. We'll announce something symbolic." This is a big mistake for our country. It's really ... it's ridiculous, actually, that we behave this way, but we do.

I believe the consequences of this are serious, not only for the amount of suffering, but things like AIDS come out of places like this. You get disease pandemics that you don't even recognize for 20 or 30 years, until they have an international spread. AIDS probably emerged in the human population around 1930, and it wasn't until a half a century later that it was

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-16

picked up in San Francisco. That's because no one cares what people die of in Africa, and so when there was an earlier opportunity to get attention and control of this epidemic, no one was watching.

There's going to be a lot of that stuff, believe me. There's going to be massive destruction of ecosystems that we care about. Do we really want to leave the world without great apes? I actually don't think so. That's just one of many conservation issues, but it's actually an important one, I think, for the human species, and we could care less. We don't pay a nanosecond of attention to this in our public policy, and I think it's a tragedy. We're going to lose large swaths of the physical environment in these impoverished places.

We are going to see lots of violence, lots of Darfours(?), because Darfour is ... it's not a political issue. It's fundamentally an ecological issue of hungry people and low rainfall, and it's happening all over Africa. We just pick up Niger at this moment or Darfour at this moment, and you can generate some attention. But it's pervasive. This is not special. This is pervasive to extreme poverty.

And basically we do nothing in this country. I just want you to know that what we're doing is not small. It's zero. It's a rounding error. In terms of actual delivery of investments in Africa, we're spending a few hours of the Pentagon- ... one day's Pentagon budget. Because we don't care. And it's a big mistake. So that's number one.

I think on the forlorn parts of the population in the world, and there are lots of them, of course we make a huge mistake to think that the terrorism and all the rest is basically about Islam, which it is not. It's basically about lots of unemployed people, stagnant economies, political illegitimacy of governments that we help to put in place. And we don't want to confront these basic realities.

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-17

The Middle East is what it is to a very large extent because we've run it as a gas station, and we get what we pay for. And let's face it: That is viewed in national security grounds for basically one issue, which is keep the oil flowing. And we've done whatever it takes, by our standards, to do that. And the result is pretty dismal in terms of longer term economic development, and we get a lot of instability as a result of that.

So I think we're not ... you know, we have a very profound lack of empathy when it comes to thinking about that gas station because basically it's central command that is the key issue, and securing the sea lanes and not thinking about what's really happening in a satisfactory way, and then it's put through our own prism of ... the prism of our own religious proclivities and so forth, and we come out with a huge confusion about this region and about many other frustrated regions in the world.

Now, the cost for us on that I think is huge, and it goes to fundamental legitimacy of the international order, which we live and thrive on, and we'd like to see continue. And now we're spending hundreds of billions of dollars because we don't have system legitimacy, and we're not going to get it by being in your face, nonsensical ideas about the sole superpower. Believe me, we're nobody's superpower. We have a powerful army which can defend our country, but that is not ... it doesn't give us much ability to do much else. Everything else we have to do is going to depend on cooperation, and it's going to depend on some empathy about understanding what are the barriers to real development elsewhere. And we're not thinking very hard on that.

The army is good for defense. Obviously it's not very good for offense, and we haven't yet been able to secure the road from downtown Bagdad to the airport. That should tell us something about what we're getting for our \$500 billion a year: Not very much, except security of international sea lanes, which we do achieve; control of the world's air space,

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-18

which we more or less achieve; and defense of the country against conventional attack.

But all the rest is going to depend on political cooperation. So the idea that the U.S. just calls the shots in the world in these forlorn places is absolutely ludicrous. We're disappearing as a force of legitimacy, actually, and I believe we're diminishing as a real force anyway because our role in the world economy is going to shrink over time. And that's for the third reason: Asia really is going to achieve economic development. That's good for the world, especially good for Asia. But it's going to mean massive changes for us, as well.

And this is not exactly the topic for us, but I just want to say that we have international challenges of failure, and we have international challenges of successful development. And the main ones of successful development really are the ones we don't pay any attention to right now in official policy, and that's the true global scale environmental stress that's going to come from a dynamic, robust, rising Asia, combined with the strong development in ... I mean, the continuing high economic throughput of the United States and Europe.

We haven't faced up to the realities of massive economic growth, which is on the way in the world, all to the good; what it means for ecosystems which are already quaking under the weight of environmental neglect. We've got another category five hurricane barreling towards Texas or maybe Louisiana again today. We're going to see a lot of those.

This is not accident. This is what we're building up for ourselves through failure to address some pretty fundamental environmental issues. And the point I want to make is that right now we don't want the world to tell us how we use our energy, but in 25 years it's not going to be us that is going to be determining this: it's going to be China and India and others that are going to be the dominant emitters. And we're really going to be annoyed ... I'm telling

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-19

you ... when it's one damn category five hurricane after another that's making our Gulf Coast unlivable. And we should think a little bit ahead.

And that's my final message. We're not thinking right now. We pretended for a while, we're all by ourselves. We're the lone cowboy. We're the sole superpower. It's all wrong thinking. We're thinking you can leave 750 million people with disease and hunger and not have to care about it, can't bother us. And we're thinking that we can actually face a global economy which is going to have maybe a six-fold increase in absolute size in the next half century ... because I'm an optimist on this ... that's going to create huge, huge problems in environmental ... Well, we won't get there probably on any side if we don't address some of these things, but that's the force that's barreling down on us right now is half the world in Asia having a lot of success and likely to have a lot of success continuing, and putting tremendous unprecedented stresses on a global ecosystem that's already under tremendous stress.

LB: All right. Let me turn it over to the audience and ask if there are some questions. And please identify yourself. Over here.

JF: Justin Freedman(?), the Bond Market Association (?) and the University of Maryland. Professor Sachs, I have a question for you. In terms of Africa, especially, is debt relief a joke? I mean, is it merely a token, or do you see any real impact from, you know, what came out of the G-8 Summit this July?

JS: Quantitatively, Africa needs 25- to \$50 billion a year at a minimum to be able to face the key challenges of paving some roads, getting some electricity in place, getting some clinics, fighting malaria, fighting AIDS, and so on. There's no resources to do that right now, that's why aid is so important: Not because money's important, but because bed nets are important, and kilowatt hours of electricity are important for lots of things, and soil nutrient replenishment is important. So the idea of aid is for very targeted things. The debt relief probably adds up to about \$3 billion a year if you take the 18 that were

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-20

approved and add in another dozen or so. And so it's not negligible, but it's not a big part of the story.

The big part of the story should be direct financial help from the rich countries to the poorest countries, and when I said we're doing nothing, let me define carefully what we're doing. We're giving \$3 billion a year from the United States right now. That's three cents of every \$100 of our GNP for Africa. Of that \$3 billion, 1 billion is emergency food aid for famine, and another 1 1/2 billion is American consultant salaries. So what's left over is \$500 million. There are 750 million Africans. That comes out to 66 cents per year per African. And then I'm asked, "Well, aid doesn't work obviously. Why should we do more?" Sure. It doesn't work if you don't do it, and that's our specialty.

DH: Yes, David Henderson. I have just a statement about what Ernesto ... is this on? Hello? Yeah. I have a statement in response to something Ernesto Zedillo said, and then a question for Jeff. I think, Ernesto, you didn't distinguish between increasing inequality and increasing poverty. I mean, increasing inequality can happen even if poverty is diminishing. Moreover, you could even have economic growth be much higher in parts of the world, as Jeff pointed out is true in India and China, and inequality increasing between us and them. Start with a base of \$1,000 per capita GDP in China, and it goes up 10 percent, it goes up by 100 bucks. Start with a base of 20,000 in Western Europe, it goes up two percent; it goes up by 400 bucks. So the inequality can be increasing, everything's getting better. Jeff, there's a lot in what you said I liked, some things I didn't agree with.

JS: Cool (?).

DH: (Laughs) You know, one of the concerns I've had, I was at a conference a couple years ago, there was a woman from Africa, from Kenya, who got up and talked about her experience with malaria. And this was an audience mainly of Americans in San Diego, and she pleaded with the

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-21

audience to do what they could to get DDT allowed again. And I'm wondering, have you don't anything on that? Have you spoken out on that?

JS: Yeah.

EZ: But let me comment.

JS: I'm sorry. Sure, sure.

EZ: No, I do distinguish the two things. That's why I said let's take China and India a little bit apart from the statistics, not because I neglect the importance that the success of China and India are having in the global fight against poverty. I think that's the best news that humanity has had in a long time. And of course inequality is getting worse in China, but I said, I don't care because they are being successful in fighting poverty. My universe of concern is that in which both inequality and poverty is getting worse because they don't have economic growth, because they don't have economic and social development.

JS: Basically on malaria, there are three instruments that you use: insecticide-treated bed nets; indoor residual spraying with DDT; and case management, which means you treat people before they die. And all three should be applied, definitely. How much and in which places depends on the local ecologies, basically, so there's a lot of particularities. But the whole thing with DDT got completely confused by the environmental movement because a thin film of DDT on the inside of a hut is highly protective against malaria in many places, and it has no environmental harm.

KA: Thank you. Jeff, probably the most surprising statistic you gave me today ... Thank you. I'm Kisha Abovani(?), Dean of the Konya(?) School for Public Policy. Jeff, probably the most surprising statistic you gave today when you said that out of \$3 billion of aid to Africa, \$1 billion goes to consultants salaries.

JS: Yes.

KA: I mean has anyone ...

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-22

JS: About 1 1/2.

KA: 1 1/2 billion.

JS: Yes. Basically we advise. You know, we don't give to do, we advise.

KA: Now, if that's the case ... I mean, because as you know, the rest of the world has the impression that there are massive amounts of money ostensibly going from the rich countries to the poor countries. If a large percentage of it is actually recycled back to the rich countries and goes to the consultants, has anyone actually done a study, a comprehensive study to say out of every dollar that leaves the treasury of a western developed country, how many cents actually arrive at the destination and actually have a concrete impact on the ground? And I was also going to ask Ernesto Zedillo whether the Yale Center for Globalization has looked into this also.

JS: Recycling is too kind a word, because it never goes out. It just stays in Washington. Maybe it goes on an airplane, then, to give a workshop or a speech or something. But it's well-known that a tremendous amount of what's called development assistance comes under a category that the OECD calls "technical cooperation" and that's mainly consultants' salaries. The United States does very little of actual provision to support service delivery or physical capital investment, very very little. Now, one of the better programs is helping people to get on antiretroviral medicine. That's an actual service delivery, but that's a small piece. And it's now getting up to a few hundred million, of which part of it is the actual commodity supply. But an amazingly little amount of aid is about actually doing things or supporting the actual provision of investment goods, machinery, bed nets, things like that. A lot of advice, a lot of meetings. Lots of workshops, lots of studies.

EZ: No, we are not doing that study, but I agree. I don't know the exact source that Jeff has for that figure, but I know examples in which a high proportion of the so-called aid is really expended in the donor countries.

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-23

In some cases, that may not be a bad thing. I mean, it could make sense. But in other cases, it can be a real disaster. I remember ... you were also speaking about anecdotal evidence ... one article in the Washington Post about four or five years ago speaking about an amount of \$25 million that at some point was given I guess to Poland, to support the democratization process in Poland 10 years ago or so. And they had come to a figure of \$22 million that had been spent in Washington, but the 25 million were counted effective aid in Poland. Now, this is not a phenomenon only here in the States. I think it's very much the case in Europe. People in recipient countries sometimes complain a lot about the way in which the donor countries or the NGOs that are financed by donor countries spend their money in the recipient countries, and the sharp contrast in conditions for working.

So this is the question of the quality of aid, and this has been an outcry for too long. And there have been some proposals, and there have been some agreements to improve the situation, but I would say that to this date there is a very serious problem in the quality of aid that goes back to the question that was raised by Jeff: You know, people say, "Oh, aid has been a failure. These countries have abused aid," and so on and so forth. Well, the truth is that aid for too long was given strictly for Cold War considerations, had nothing to do with development really. For too long, too many other criteria were determinants of the amount and the direction of trade, and there was not really a development concern. But the Cold War was over too many years ago. Things should have changed by now.

LB: Martin Rowe(?).

MR: Thank you. Jeff, I'd like to give you some nice softballs.

Two.

(Background Conversation)

MR: Because there are critics and you've got to reply. So I'll give you two criticisms that you should reply to. The first is that a very

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-24

significant number of the countries you wish to help in Africa are failed or failing, riddled with corruption, and the money's going to end up in Switzerland, anyway. And the second one is about terrorism. There are lots of poor people all over the world, in many parts of the world. But the terrorists seem to come from a rather limited subset of the world so it can hardly be explained by poverty and unemployment.

JS: First, the main trick of ...  
(END OF TAPE)

M: First, the main trick of doing something good in these countries is to do something practical. So I'm not even interested in money per se, but I would be quite interested in getting insecticide treated bed nets, for example, to these countries. I have on good authority that they do not end up in Swiss bank accounts, those bed nets. They don't fit. And they actually do very important, practical things, in the same way that Rotary International is doing very practical work of getting polio down to just within a sliver of full eradication now. And they've reduced the polio cases from 360,000 per year, down to a few thousand right now. And they're on the verge of eradication. We eradicated ... not we, the world eradicated smallpox. And not just in the well behaved, well governed countries. And that means to eradicate it in every single place in the planet. The ones in civil war, the ones not in civil war. Because these are practical deliverables. And you can actually trace them. You can do things. And it turns out, lots of public health is like that. And there's a huge number of success stories for those who travel in this world of onchocerciasis(?), and trachoma, and leprosy, and measles. There's huge amounts of success stories. Very practical things. Malaria could be the same, if we ever paid a little bit of attention to it.

Same thing about growing more food. It's totally understandable what's happening in these African famines

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-25

right now. The soil nutrients are utterly depleted. You can't get a decent crop. So you do something practical. Actually help farmers grow more food. And by many techniques, both organic and chemical, for soil nutrient replenishment, we could get these famines under control at about a tenth the cost, and much more timely, and with long term development, rather than sending food aid in the end.

But we saw what happened yesterday in Congress here. They don't want to think about solutions. They only aid those, because you have farm state senators. If we had fertilizer state senators, we'd send fertilizer. But we have farm state senators. And so we're actually, since we don't care to begin with, but we're happy to buy up some of the surplus grain, we do it that way.

So the thing that I found about the aid business, as it were, it's so incredibly impractical, and so incredibly driven by local politics, and by lack of thinking in the long term, it's not hard to have big successes, if you try. And the last thing in the world I've been recommending and not recommending is blank checks to anybody. I don't trust the well governed countries. Let's start with my own. I don't trust any governments. I want to see deliverables. Measureables. Monitorables.

And so it's not a matter of trust, it's a matter, actually, of an agenda of practical things to do. And those are the things that could make a huge difference. I think the point about terrorism is, your point is both right and wrong. First I would say, in terms of Middle East terrorism, which is a lot of what we're seeing, I'm just saying that it's political and economic. It's not, in my opinion, it's not mainly religious. It's drawing on a whole host of factors of illegitimacy. And it's targeted at political ends. We just don't want to talk about those here. Actually, Osama bin Laden has a political

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-26

agenda. He wants us to take bases out of the Middle East. That's a political agenda. A pretty plausible one. Because having those bases there isn't doing a great deal. But we don't want to talk about the politics. We only want to make it an Islamic fundamentalist challenge. I think it's a mistake, actually. How we're thinking about this issue. Now what's also true is I believe there's a huge demographic component to this. Unemployed young men. It's really a volatile mix, anywhere in the world. It wasn't New York City, ten or 15 years ago. We went through a demographic transition in this city. It is in the Middle East right now.

And it would be good if those people had hope, direction, employment, jobs. It would be good if the children weren't in madrasses, but were in schools learning math and science. It would actually be good if our children were learning math and science. (Laughter) That would also be good. We're not doing that either. We're in our own madrasses now. We're learning intelligent design, not math and science, at the instruction of the president of the United States. (Applause) So, I believe that that's a very important part.

I also think there's another dimension to this, which is that ... and President Bush says it all the time ... but he never acts on it. Even if it's not the poor who are the terrorists, it is collapsed places, which are seed beds for action, for terrorist action. Afghanistan was a base, because it was the completely, most failed of failed states, with the exception of Somalia, which was another base for terror.

So letting these places just go to hell is actually not a good strategy, from the point of view of real control. Even if the ones that are doing it are rich Saudis, rather than impoverished

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-27

Somalis. They're still using these places as bases of operation. And the fact of the matter is, all over Africa now, I meet US military attaches, because we're militarizing, we're trying to militarize the Sahill right now, literally. We have a trans Sahillian counter insurgency program.

It's the most ridiculous thing in the world. Because all of those people are hungry. And what are our military advisors going to do in the midst of a hungry population, when we're not sending any help for that, we're trying to train armies. Well we have a lot of experience about training armies in unhappy places in Latin America. You end up with coups in five or ten years. Because that's what trained army officials. Do. They launch coups against failed governments. And so what are we doing? We're not thinking, is the point. At all. And the reason we're not thinking is, you read the Wall Street Journal every day, the most desperate thing for American public policy of this administration is no taxes. That's the only thing that absolutely is the true standard bearer for everything. That's the one thing that can never change in this country. You can have hurricanes, you can have wars. You can have everything. But you can't have taxes. And if that's the standard, we can't do anything that I'm talking about. Because to do that, you have to think that we will use our resources, actually, to invest in our future. And that we don't want to do.

W: I think we have to wrap up on this question. I wanted to just ask President Cedille(?). We haven't talked about political systems at all, and how they affect these dynamics, these distributive dynamics within countries, and the sustainability of reform. And of course there's the difficult reality that some of the autocratic regimes in the world have delivered most for their citizens. And in

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-28

your region of the world in particular, the experience of democracy has been very varied. So can you speak a little bit to this issue of political transition and democratization, where that fits in this agenda?

PC: Very good. I think I would like to pick for marking, and Jeff left the discussions, because it's a nice introduction. And I will start by telling Jeff that in order to deliver the deliverables, you need institutions. And I think that's a very serious problem. And Jeff and I had discussed this before. And when I say this, of course I am thinking about Africa. But I'm not saying this in order to suggest that giving money to Africa is hopeless.

I say it in order to state that perhaps a program is much more complex than we think. And that perhaps, not less, but more aid is needed for Africa. In order, not only to have these deliverables, but also to support those countries, to build states. To build institutions. And if you ask me what is the most important program in Africa, we say, they don't have states. And probably they will need international cooperation, to build their own states.

But that is not going to be done (Inaudible)  
That's why I spoke about one facet of international cooperation that is needed to provide some sort of global governance by which, on certain issues, the international community can act with legitimacy. And I think that was the reason why the Secretary General was trying to push for some of the reforms that were proposed last March, and that only marginally were effective last week. Now, you ask me about Latin America. You were (Inaudible) surprised at my answer. Is the same. I think the problem in Latin America is that for too long, we Latin Americans thought that we had strong states. And now we have discovered that that is not true.

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-29

And we thought that we had strong states for two reasons. Because our governments were omnipresent in the economy. And also, because political leaders, (Inaudible) an enormous concentration of power. And we thought that the power of the leader, overwhelming power of the leader, reflected the power of the state. Now that we have become democracies, we have discovered that we have weak states, that are not capable of doing what it takes to get our countries to take off. I think that's a very serious problem. I hope, I believe, I trust, that these new democracies will solve the problem. Little by little, we will strengthen our states in a way that they are capable of adopting, conceiving and executing, in a democratic way, the policies that are needed.

W: Thank you very much. Can you please join me in thanking our panelists for a very thought provoking session. (Applause) I'm going to hand back to Joan.

J: Thank you very much. It was extremely interesting, and clearly a very serious topic, and we're pleased that it was discussed today. Again, I'm going to ask you to pick up your hand held device, and vote with me on what the probability is that this issue, the issue just discussed, will have an adverse impact on the global economy. Again. You'll have seven seconds. Please vote from one to five for us. We'd appreciate it.

(Background Conversation)

J: Actually it's very interesting. And we'll get you all the results of our polls.

PC: You have learned something from Bono. (Laughter)

## TOP TEN FINANCIAL RISKS TO GLOBAL ECONOMY

"TruTranscripts, The Transcription Experts" (212-686-0088)

2-1-30

J: Now the question of severity. How severe could this risk be to the global economy over the next coming years. And again, one to five. You have seven seconds.

(Background Conversation)

J: And this is the question of severity. So clearly, very interesting results. And the last question, relative to the other nine risks being debated over the course of the next two days, where does this risk rank in your mind, on the scale of one through ten. One being the largest risk. And again, if you want to vote absolutely no risk, or smallest risk, please vote zero. We don't have a ten on our touch tone pads.

(Background Conversation)

J: Quite interesting.

(Background Conversation)

J: We could go on all day with this voting system. I love having you all here. We'll have to do this much more often. Let me just make a comment about lunch. We have a very special, we're honored to have our keynote luncheon speaker in Mario Monti, who is, all of you know, a former member of the European Commission, and the leader on the issue of competition in Europe. We have two locations for you to pick up your lunch. Kind of right when you walk out the door. And then also right when you got your breakfast. Please can I ask that we promptly return 12:10. We have a full schedule this afternoon, talking about China and other little things, so. Thank you.