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THE FORMATION OF A GLOBAL DEVELOPMENTAL AGENDA

BY

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1. – Introduction

It is a privilege to contribute this paper to the festschrift in honor of Dr. Boutros Boutros-Ghali. Scholar, diplomat, visionary and determined man of principle, I have known him and admired him for a very long time. The years have not dimmed his intellect nor have they detracted from his wry sense of humor. It is a privilege to be counted among his friends.

Dr. Boutros-Ghali began his term as Secretary General of the United Nations with a visionary document, that he crafted himself: *The Agenda for Peace*. He saw that as the necessary basis for the UN's new role in peace-keeping in the instability that was bound to replace the cold war stasis. It was not to be. Despite polite murmurings, the big powers would not commit to the minor reforms that he advocated ; having an agreed mechanism that would come into play immediately upon a security council vote and preventive deployment as a means of reducing human losses and suffering. Despite the success of preventative deployment in Macedonia, it was not adopted as a major way of doing business.

But in parallel, Boutros-Ghali, was responsible for crafting a new international developmental agenda, with enormous public support globally. This was the result of an amazing series of events : a series of summits that collectively redefined

(1) The views expressed here are those of the author and should not be attributed to the World Bank or any of affiliated organizations.

the agenda for the new millennium. Of course, specific individuals were very instrumental in the specific summits: From Maurice Strong in the Rio Earth summit in 1992 to Jacques Diouf for the Rome Food summit in 1996. Yet it was on his watch and with his blessing that these amazing events took place, very much in keeping with his vision that the 50th anniversary of the UN, which also occurred during his tenure, should see the global agenda move from war and peace to the issues of development and well-being.

So, let me here explore the collective message of these amazing series of UN summits, and the pertinence of this message for all of us as we enter the third millennium.

The UN summits: The UN summits were much more than a series of meetings and events where diplomats, decision-makers, technicians and concerned citizens met. They were a process by which we, the citizens of this planet, interconnected to articulate a common vision. A vision to carry us into the new millennium, a vision born of a new collective consciousness.

This consciousness starts with the self. Knowing who I am, and transcends it to the consciousness of the self and of the « other ». For far too long have we distanced ourselves from the other, with tragic consequences for all, from hatred and prejudice to turning our back on the poor and acting irresponsibly towards the new generations yet to come. The UN summits were a celebration of our common humanity.

Yet, these UN summits went further. They also showed that we could even transcend our view of the human species and extend our concerns to a new consciousness of the whole, the interconnectedness of all forms of life on earth.

And, even more, that through these summits, we could articulate a common, holistic program that reflects the best in us, and about us. A celebration of our common humanity, which requires equity, fairness, and a sense of justice. A sense of justice which is insulted by the indefensible vision of the poor and the destitute denied the very basics of human existence while the privileged few deal with the challenges of obesity and recycling of the waste they produce.

It is a vision of our common humanity that finds it difficult to accept the current status quo with inequities rising between countries and within countries. And yet, so many of the rich want to turn their backs on the poor. Official Development Assistance (ODA) levels in the OECD are dropping, and today stand at less than 0.3% of GNP. Selfish concerns seem to displace enlightened self interest, for we are all our brother's keeper and we are all downwind or downstream of each other. This is more than ever a time for an united front of the caring.

That is what the UN summits were all about, creating this coalition of the caring on a planetary scale.

It is not so much that we have precise definitive answers as it is to recognize that we must engage these issues, that we cannot turn our backs on these problems. And that is what these UN conferences have done. They have not prescribed simplistic answers or formulae, but they have forced the world to engage these problems. They have indeed done a lot.

So, let us give credit where credit is due. UN Secretary General Boutros Boutros-Ghali presided over one of the most remarkable series of events in history. He gave them his unqualified support and defended them against those who would cast doubt on their usefulness.

This series of events were a global coming together, in a unique series of meetings. These were not just « talk shops » as their detractors would have us believe. They have defined a consensus and shaped a collective agenda around the idea of *sustainable development*. For that is the common thread that runs through them all. They have sketched out the *themes for the third millennium*.

These themes are the inter-connectedness of all things, responsibility to others and to future generations, celebrating our common humanity, recognizing the indivisibility of all human rights, including the rights of women and children, a commitment to justice and fairness, and the adoption of a holistic view of the global problems of today.

These themes have opened the door to *a new paradigm*. One that invites us to rethink all that we know about the nation state and the institutions that we have come to take for granted.

Allow me therefore, on the occasion of this festschrift in honor of Boutros-Ghali to articulate some conceptual constructs that can enable us to move in the direction of connecting the different parts of this new and multi-faceted paradigm.

2. – Toward a conceptual framework for the global development Agenda

2.1 – Defining Sustainability (2)

There have been many definitions of sustainable development (3) but the generally accepted definition of sustainability is that given by the Brundtland Commission, which is :

> Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (4).

This definition is philosophically attractive but raises difficult operational questions. The meaning of « needs » is fairly clear for the poor and the starving, but what does it mean for a family that already has two cars, three televisions, and two VCRs ? And yet it is precisely this latter type of family that is consuming more than 80 percent of the world's income.

A more promising approach, still being developed at this time, is the one presented in this essay. I would refer to it as « *sustainability as opportunity* » or in the more conventional language of the economic profession, as « expanding the capital stock » (5). It has also been sketched out elsewhere (6). It

(2) This section draws on the authors' *Sustainability and the Wealth of nations : first steps in an ongoing journey*, The World Bank, Washington, DC, 1996 ; « Sustainability as opportunity and the prcblem of social capital », *The international Journal of Brown Univesity*, Summer 1996.

(3) See John Pezzey, « Sustainable Development Concepts and economic Analysis », *Environment Paper No. 2*, Environment Department, World Bank, Washington, DC, 1992.

(4) Brundtland Commission (World Commission on Environment and Development), *Our Common Future* (New York : Oxford University Press, 1987), 43.

(5) This was the title under which it was prefigured in the « Epilogue », in Ismail Serageldin and Andrew Steer (eds.), *Making Development Sustainable : From Concepts to Action* (Washington, D.C. : World Bank, 1994), 30-32.

(6) Ismail Serageldin, Robert Goodland and Herman Daly, « The Concept of Sustainability », In Wouter van Dieren (ed.), *Taking Nature in Account A Report to the Club of Rome* (New York, Springer-Verlag, Inc., 1995), 99-123.

is just starting to take shape. It would define sustainability as :

> *Sustainability is to leave future generations as many opportunities as, if not more than, we have had ourselves.*

How does one measure opportunity ? In economic terms, one could use the concept of capital. In economics and finance, one does not deplete one's capital and consider it an income stream. In fact it goes to the heart of the definition of « income » given by Nobel laureate Sir John Hicks (1946) when he defined income as : « the maximum value a person can consume during a week, and still expect to be as well off at the end of the week as at the beginning ». Income based on depletion of capital is not sustainable and should not be accepted as income. But capital, and the growth of capital, is the means to provide future generations with as many if not more opportunities as we have had, provided that we define it as per capita capital. This takes into account the need to meet the neods of a growing population that is likely to add some 3 to 5 billion more people on the planet before the global population stabilizes.

In finance, the concept of inviolability of capital has been recognized by the use of capital and current accounts and by special provisions for computing and factoring in « depreciation » in the operations of a firm. Methods vary, but well established conventions exist for dealing with these issues, and sound accounting practices require that we recognize and identify the methods used for calculating depreciation in presenting the financial statements of an enterprise.

2.2 – Four Kinds of Capital

To get to the heart of the concept of sustainability, we must expand our understanding of capital to include more than man-made capital as conventionally defined and accepted in the economic literature, to include other forms of capital that are every bit as important to our individual and collective well-being as man-made capital. There are at least four kinds of capital: Man-made capital (7) (the one usually considered in financial and economic accounts), Natural capital (as discussed in many works of environmental economics) (8), Human capital (investments in education, health and nutrition of individuals) and Social capital (the institutional and cultural basis for a society to function).

Sustainability as opportunity therefore translates into providing future generations as much if not more total capital *per capita* than we have had ourselves. But here we are speaking of four kinds of capital that are partially substitutes and partially complements (see *Figure 1*). We accept that the composition of the capital we leave the next generation will be different (in terms of its four constituent parts) than the capital we have used in our generation. Yet we must recognize the limits of substitution, because it is impossible to conceive any type of activity if any of the four kinds of capital is driven to zero.

2.3 – Defining Levels of Sustainability

Going back to the original premise of this paper, it becomes possible to define sustainability in terms of the combination of these four kinds of capital per capita that we leave to future generations. We are able to set aside a foolish yet still prevalent view among some groups, that sustainability requires leaving to the next generation exactly the same amount and composition of natural capital as we found ourselves, by substituting a more promising concept of giving them the same, if not more, opportunities than we found ourselves. This means that the stock of capital that we leave them, defined to include all four forms of capital, should be the same if not larger than what we found ourselves. This immediately opens the door for substituting one form of capi-

(7) In the more generally accepted terminology, to recognize the gender dimension, one refers to this category of produced assets as « human-made capital ». However, because I will be referring frequently to humam capital, as distinct from produced assets, I will use the terms « man-made capital » and « human capital » so that the reader more easily can distinguish the two.

(8) For background reading see David W. Pearce and G. Atkinson, « Capital Theory and the Measurement of Sustainable Development : An Indicator of Weak Sustainability », *Ecological Economics*, 8 (1993), 103-08.

tal for another (9). Arguably, it is indeed most worthwhile to reduce some natural capital (e.g. reducing the amount or oil in the ground) to invest in increasing human capital (for example, educating girls).

Such a definition may be ultimately comprehensive and rigorous but it will require an enormous amount of work to achieve. A good way to think about proceeding is by some short steps. We have already made great strides in incorporating human capital into conventional economic analysis, and we are starting to incorporate various aspects of natural capital. That is where we should invest our efforts now, significantly improving our understanding of the interlinkages between these three kinds of capital. Social capital will take longer to elaborate, and in the meantime can be left to the political processes, formal and informal, in each country and globally between countries.

This then brings us to the definition of sustainability in terms of the maintenance or increase of these four different types of capital, separately and collectively, and to relate them to the expanding world population, to produce an income and service stream *per individual* that is at least the same, if not growing.

2.4 – Levels of Sustainability

Sustainability has several levels - weak, sensible, and strong - depending on how strictly one elects to hew to the concept of maintenance or non-declining capital (10).

Weak sustainability is maintaining total capital intact without regard to the composition of that capital between the different kinds of capital (natural, man-made, social or human). This would imply that the different kinds of capital

(9) Accepting that they remain largely complementary, and that critical limits, or thresholds, must be observed for each kind of capital.

(10) See Ismail SERAGELDIN, Robert GOODLAND, and Hermam DALY, « The concept of Sustainability », in Wouter VAN DIEREN (ed.), *Taking Nature into Account – A Report to the Club of Rome* (New York : Springer-Verlag, Inc., 1995), 99-123.

are perfect substitutes, at least within the boundaries of current levels of economic activity and resource endowment.

Sensible sustainability would require that in addition to maintaining the total level of capital intact, some concern should be given to the composition of that capital between natural, man-made, human and social. Thus oil may be depleted as long as the receipts are invested in other capital (e.g. : human capital development) elsewhere, but that, in addition, efforts should be made to define critical levels of each type of capital, beyond which concerns about substitutability could arise. Such critical levels should be monitored to ensure that the patterns of development do not promote a total decimation of one kind of capital no matter what is being accumulated in the other forms of capital. This still assumes that man-made and natural capital are to a large extent substitutable, but recognizes that they are complementary too. The full functioning of the system requires at least a mix of the different kinds of capital. Since we do not know exactly where the boundaries of these critical limits for each type of capital lie, it behooves the sensible person to err on the side of caution in depleting resources (especially natural capital) at too fast a rate.

Strong sustainability requires maintaining different kinds of capital intact separately. Thus for natural capital, receipts from depleting oil should be invested in sustainable energy production, rather than in any asset. This assumes that natural and man-made capital are not really substitutes but complements in most production functions. A saw-mill (man-made capital) is worthless without the complementary natural capital of a forest. The same logic would argue that if there are to be reductions in one kind of educational investments they should be offset by other kinds of education, not by investments in roads.

Those who would demand that strong sustainability would never deplete anything are pushing the ideas to an absurd level. Non-renewable resources - absurdly - could not be used at all ; for renewables, only net annual growth rates could be harvested, in the form of the overmature portion of the stock.

2.5 – Issues in the application of the Conoept

Measurement and Valuation Issues: To apply these concepts, we faced formidable issues of measurement of the physical reality and of valuation of that physical reality as well as the valuation of the human and social capital. Pragmatism and a determination to make better use of what is already available, despite obvious imperfections and caveats, was able to take us a long way. Much of the ongoing work done by the Bank, and its related methodological issues (of which there are many) has been published (11), in an effort to promote dialogue and discussion about these evolving ideas.

Interaction Issues : Our knowledge about the relationship between human activity and ecological process is still fragmentary. In addition, such relationships may be « discontinuous » ; that is, when under stress, an ecosystem may « crash » irreversibly in a manner and at a time that could not be predicted. This seriously complicates decision-making and makes conventional approaches to risk management (assigning probabilities to possible outcomes and adding an insurance premium to project costs) difficult to implement. However, the high degree of uncertainty is no reason for inaction. The dynamics of poverty, demography, and economics ofter make the costs of inaction even higher than those resulting from action. But uncertainty does demand rigorous environmental assessments, drawing on the best scientific knowledge available and including careful sensitivity analysis. A key challenge will be to narrow the range of uncertainty and make the « precautionary principle » operationally useful.

2.6 – Adjusting the National Accounts

Valuation techniques usually have been employed to inform decisions at the project and sectoral levels, but they also need to influence decisions and how we measure progress at the national level. Conventional national accounts may serve

(11) See The World Bank, *Monitoring Environmental Progress : Report on Work in Progress*, The World Bank, Washington, DC, 1995, and the background material, data and amalyses which are available on the internet at ...

macro-economists and central bankers well, but they do a poor job of measuring sustainable income or changes in a nation's productive capacity. That includes estimates of depreciation of man-made capital, but not that of natural capital, which in some countries is more important. For example, when a tropical forest is logged, no estimate is made for the loss of an irreplaceable asset. When land cultivation increases the loss of topsoil, which subsequently accumulates in a reservoir, no allowance is made for the harmful effects on soil and water storage.

To address some of these deficiencies, the Bank has been collaborating with the United Nations Statistical Office and with others to develop a new system of environmentally adjusted national accounts (12). There are difficult technical issues yet to be resolved, but good progress has been made in developing a system of Integrated Environmental and Economic Account. (13)

2.7 – Shortcut Methods

The feasibility of the concept of measuring wealth, and approach sustainability through analysis of capital, has been tested by the World Bank.

There are many technical issues involved that will not be repeated here, but the Bank's 1995 effort (14) was the first ever to quantify the four kinds of capital for 192 nations, and thus establish a first cut at the measurememt of wealth rather than income. The data were weak, the methods rough, but the first approximations still yielded valuable and powerful insights.

The methodological issues have been recognized and the limitations of the short cut methods have been under-

(12) For example, see Anne Harrison, « Natural Assets and National Accounting », in Ernst Lutz (ed.), *Toward Improved Accounting for the Environment. An UNSTAT-World Bank Symposium* (Washington, D.C. : World Bank, 1993), 22-44.

(13) Fulai Sheng, *Real value for Nature : an Overview of Global Efforts to Achieve true Measures of economic Progress*, World Wildlife Fund For Nature, Gland, 1995.

(14) World Bank, *Monitoring Environmental Progress : A report on work in Progress*, Washington DC, 1995.

lined (15). In fact, the Bank has put all this data on line to allow researchers to do their own analyses and improve the short cut methods used by the bank in this first set of approximations. This kind of open participatory research effort has contributed to many an enriching dialogue between interested parties world wide. Again, these are developments in the spirit of the open dialogues of he UN summits.

Without repeating many of the technical caveats raised by the researchers in presenting their work, subsequent efforts have contributed to the improvement of the methodologies and further refinements to the estimates of wealth, and the latest efforts were released by the World Bank were released in time for the celebration of the fifth anniversary of the Rio Earth Summit at the UN General Assembly Special Session (UNGASS) in New York, in June of 1997 (16).

2.8 – First Results : Sustainability and the Wealth of Nations

This work is still ongoing. Nevertheless, it is taking us in small steps towards elaborating a conceptual and analytical structure that would link together many, though certainly not all, of the themes of the UN summits in a single coherent analytical framework. Already some interesting conclusions can be advanced :

(1) *Sustainability as opportunity.* Defining sustainability in these terms points to the importance of capital, and of looking at wealth, not just income. But it is important to recognize the different kinds of capital (produced assets, natural, human and social capital) that are partially complements and partially substitutes.

(2) *Analysis of stocks is needed in addition to flows*, which is what income measures have focused on. No corporation would run its affairs only on cash flow and income statements without looking at the balance sheets and net worth. Countries need to do the same.

(3) *The role of human and social capital* : It is stunning to observe that with the exception of some raw material exporters, human capital (as used here) is equal to or exceeds both natural capital and produced assets

(15) See Ismail Serrageldin, *Sustainability and the wealth of Nations : First steps in an ongoing Journey*, The World bank, Washington DC, 1996.

(16) See World Bank, *Expanding the measure of wealth*, Washington DC, 1997.

combined. It gives credence to the view that development is best achieved by investing in people.

(4) *The importance of genuine saving* : The results show that adjusting the national accounts makes little difference for the trends in traditional income measures (*figure 2*) but that similar adjustments to gross investment data provide important signals on saving and investment (*figure 3*). What is important is to note that if one remained content with the gross investment as a percent of GNP, it could mask major variations in genuine saving, as shown in *figure 4*, where a level of 18 percent of GNP for Latin America would translate into a positive saving of 7 percent in 1969 and in a negative saving of 2-3 percent in 1982. This clearly underlines the importance of going beyond the traditional aggregate level to look into the composition of investment financing and the level of genuine saving.

Just how important is the level of genuine saving as an indicator of sustainability ? And just how reliable are these rough calculations ? While I am attracted to the idea of genuine saving as an indicator that the overall pattern of development of a country is sustainable for that country, I recognize that it may not be adequate due to supra-national considerations and global issues. As to whether one can have confidence in the broad patterns emerging from this preliminary work, one observation is encouraging. Aggregating our results on a regional basis (see *figure 5*), we find that Sub –Saharan Africa has been dissaving since the late 1970s, while East Asia has taken off in terms of genuine saving since the early eighties. These findings, which conform tc general observations, add credibility to the importance of genuine saving as an additional indicator for addressing sustainability issues.

2.9 – On Social Capital

While the first three forms of capital (man-made, natural and human) are well recognized, controversy continues to surround the concept of Social capital. Granted, it is still ill-defined and certainly does not offer the possibility of rigorous measurement. Yet, everybody recognizes that it is essential to have that glue that holds societies together that we have called social capital. Without a degree of common identification with the forms of governance and of cultural expression and social behavior that make a society more then the sum of a collection of individuals it is impossible to imagine a functioning social order. The myriad institutions that we take for granted as the essential premise of a fuctioning society must be grounded in a common sense of belonging by the members of a society. The institutions must reflect a sense of legitimacy in their mediation of conflicts and competing claims. In short, if that social capital is not there the resulting failurss make it impossible to talk of economic growth, environmental sustainability, or human well-being. Examples are all too painfully present from Somalia to Yugoslavia to Rwanda.

Social capital is tha key to integrate the agendas of the Copenhagen Summit on social issues, the Vienna summit on Human Rights, and the Beijing summit on gender and development issues with the agendas of the Rio earth summit, the Istanbul Habitat summit and the Rome food security summit.

But what constitutes this social capital ? It is a difficult question and a very different one from investment in individual human capital. It is based on inclusion (17), participation and the promotion of an enabling environment. Yet it is more. The most ambitious work to date on this subject has been the efforts to deal empirically with the link between good governance and development.

This requires efforts at definition and measurement which face quite formidable methodological obstacles. But, happily, some headway is being made (18).

Over time, these efforts should begin to bring rigor and method to the still fuzzy concept of social capital, which is still troubling to many thoughtful persons (19). Many consider

(17) See James D. WOLFENSOHN, *The Challenge of inclusion*, Speech to the board of Governors at Hong Kong, Septemoer, 1997.

(18) See inter alia, Ismail SERAGELDIN, « Sustainability as opportunity and the problem of social capital », in *the International Journal of Brown University*, summer 1996, and Ismail SERAGELDIN and Christian GROOTAERT, « Defining social capital : an integrating view », in Robert PICCIOTTO and Eduardo WIESNER (eds.), *Evalutation and Development - The Institutional Dimension*, Transaction Publishers, 1998, pp. 203-217, and Partha DASGUPTA and Ismail SERAGELDIN (eds.), *Explorations in Social Capital*, (Forthcoming 1998).

(19) The very term « social capital » troubles some distinguished authorities such as Nobel Laureate, Professor Robert Solow, who rightly points out that to term it « capital », we must clearly demonstrate understandable processes of accumulation and depletion. This valid concern must, in our judgment, be addressed in future research.

that these questions raise important conceptual, methodological, and measurement issues and appear to imply incursions into the realm of value judgments.

To these concerns I would point out that « human capital » is now in the mainstream, based on a generation of intellectual investment. We still do not know the exchange rate of human and man-made capital, but we do not find it an impossible obstacle to argue that governments should increase their investments in education, for example, as opposed to adding man-made infrastructure. Likewise, the imperfections of measurement should not prevent us from making a series of partial steps that improve our approximation of reality in our analyses. For example, in trying to assess the contribution of public administration to the national income, we have set it, by convention, as equal to the cost of its inputs (such as the wage bill). This accounting agreement would lead us, if we did not recognize its limitations, to the absurd conclusions that we could double product and double the productivity of workers without investing in training or equipment, simply by doubling their wages. Nobody makes such arguments, and the limitations do not prevent us from using the approximation in our national income accounts.

3. – From concepts to actions

These analytical constructs are essential for the long term, but they do not capture the essence of the actions that are needed and needed now. Actions where we must deploy all the resources of the international community, the national governments, the public and the private sectors, the civil society and the community based organizations. we must build on the spirit of the UN summits to create a better world, as we approach the third millennium. We must dare to be bold.

These conferences have accurately flagged the enormity of the challenges ahead. Consider these facts :

> The world's population is increasing at an alarming three persons per second, two hundred every minute. 95% of that population increase is in the developing countries, and among the poorest countries of the world.

We are still losing our forests at the rate of some 25 million hectares a year.

The capital markets of the world, today totally integrated into a single market that functions non-stop, 24 hours a day, seven days a week, transact some 1.3 trillion dollars a day, enough to buy and sell the entire GNP of the USA in 'a week' !

And yet, despite the benefits of trade and economic growth, this new globalizing world is also a world of increasing inequalities. Inequities are increasing between societies and within societies :

. The top 20% of the world population consumes 83% of the world's income, while the reuaininq 80% live on 17%, and the bottom 20% live on 1.4%. These gaps have been growing. A generation ago, that top 20% was 30 times as rich as the bottom 20%. Today they are 60 times as rich.

. Within countries inequalities are also increasing. Thus, in the US, between 1970 and 1994, the top 5% of the population went from earning 12 times as much income as the botton 20% to earning 17 times as much. Over the same period, the average remuneration of the CEO of a fortune 500 company went from being 35 times the average manufacturing wage to 150 times.

But it is the extreme poverty, predominantly in the poorest countries of the world, that calls into question our declared view that we all share a common humanity. For accompanying extreme poverty is hunger. Over 800 million persons, some 70% of which are women and girls, go hungry. Hunger related causes claim some 40.000 lives every day !

It is inconceivable that there should be some 800 million persons going hungry in a world that can provide for that most basic of all human needs. In the last century some people looked at the condition of slavery and said that it was monstrous and unconscionable. That it must be abolished. They were known as the abolitionists. They did not argue from economic self interest, but from moral outrage. Today the condition of hunger in a world of plenty is equally monstrous and unconscionable and must be abolished. We must become the « new abolitionists » (20). We must, with the same zeal and moral outrage, attack the complacency that would turn a blind eye to this silent holocaust which claims some 40.000 hunger-related deaths every day.

(20) See Ismail SERAGELDIN, « The New Abolitionists », in *The Earth Times*, July 1996.

4. – Lessons from the past

> « ...exploitation of the world market [has] given a cosmopolitan character to production and consumption in every country. To the great chagrin of reactionaries, it has drawn from under the feet of industry the national ground on which it stood. All old-fashioned industries have been destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations....In place of old wants, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. »

Contemporary as they sound, these words do not come from the present. They are from Karl Marx's The Communist Manifesto of 1848. The pangs we are feeling today are remarkably similar to those felt in the industrial revolution two centuries ago. The question before us is whether we have learned from that experience to design a more humane way of dealing with the inevitable wrenching that accompanies such processes. Even more, whether we have learned that nature and the eco-systems on which we depend are to be nurtured and sustainably used, not rapaciously exploited.

5. – Solutions

To avoid repeating the problems of the industrial revolution, we must harness the emerging universal values of our common humanity, and create a coalition of the caring.

We must recognize that the private sector will not take care of public goods, and that the public must remain engaged to deal with market failures and public goods.

We must change the calculus of our economics and finance, to internalize the full social and environmental cost of our decisions. Some headway is being made on this at the local level, but we have certainly not even begun to introduce the global costs of local actions at the level of national policy. We must rectify our national accounts that count a forest standing as zero and give it a positive value only if it is chopped down.

We should measure the growth in our capital stock not just the growth in the volume of our activities. We should be concerned with nurturing natural capital and building human and social capital as much as we are about economic growth.

Above all : To respond to shocks and make effective use of new opportunities, we must have five broad areas of effective action :

First, credible macro-management of the economy. The preeminent role of government in setting and maintaining the proper macro-economic fundamentals is essential for any effective growth, as well for a well-functioning competitive economy. The costs of inflation and over regulation tend to be felt above all by the poor.

Second, flexible institutions. The one common denominator of the global knowledge driven economy of the new millennium is the pace of change itself. The successful, competitive economies of the future, those that will be creating the jobs and the prosperity for their people will be the flexibility of their institutions. Institutions capable to recognize and interact with the emerging market opportunities halfway around the globe, or the new technologies, such as the Internet, or satellite mapping and telecommunications, that make the obsolescence of what we invested in an ongoing fact of life.

Third, competitive markets. I would like to ban the word « free markets » from our lexicon, because it has been misinterpreted in so many quarters. What we really mean is « competitive markets ». If Wall Street represents the quintessential « free market » let me remind you that it is one of the most severely regulated. You have to file certain types of audited financial data, if a person acquires more than 5% of the equity of a company it has to be publicly acknowledged, and insider trading is criminalized and prosecuted. All competitive markets require an effective state apparatus behind them : property rights, binding contracts and effective judiciary to name but a few. A totally « free market » is an invitation to predators, as we saw in the pyramid scheme that almost caused a civil war in Albania no too long ago.

Fourth, facilitate the flow of knowledge and information. The world is awash in more information than ever before, and governments that try to regulate that flow will be putting their enterprises at a distinct competitive disadvantage. The future will require more access to open communications and information at a speed that will defy our current thinking and that will exceed most of what we can today imagine.

Fifth, investment in human and social capital. With so much emphasis being paid to the concerns of promoting economic growth and protecting the environment, we must reaffirm the essential role of human and social capital. The future is going to be a knowledge based society, and that will require enormous and continuously upgraded skills. This means that education and health and nutrition of persons are a primary competitive asset as well as being the best investment that societies can make. From concerns both of equity and economy, it is essential. But equally important is to strive to build up the shared values, the legitimacy of the institutions of mediation in a society, for that is the essential glue that holds societies together and allows them to function.

Clearly, we can name many more things that need to be done. But these five areas of concerted action are going to be very difficult, because they will require leadership for change. Profound change, without which, the poor the weak and the uneducated will be left further and further behind in an increasingly iniquitous world, where the fruits of science and technology and economic entrepreneurship will go to provide ever more to ever fewer members of the human family. We must bring about these changes, or the future global system will impose its harsh discipline upon us.

6. – The Future

The future is not to be feared. It is to be embraced. It will be what we want it to be, all that we can imagine it to be. After all, everything that we have produced, all that exists today was once imagined.

Even now, at this very moment, by our thoughts, we are inventing the future in the crucible of our minds.

All these actions I have described are possible. They would help create humane markets, where the measures are not misdirected by distorted prices and the decisions are not biased by asymmetrical information and power. Thus the power of the markets would be effectively harnessed to promote environmentally friendly and socially responsible investments. But we must also not forget the weak the marginalized and the vulnerable in this increasingly competitive world. The ruthless allocative efficiency of the markets should be tempered with the actions of a caring and nurturing society.

But these actions will not come about by themselves. We must fight for them against the prevailing apathy and lack of caring.

In the 47 « least developed » countries of the world, 10 percent of the world's population subsists on less than 0.5 percent of the world's income. Some 40.000 people die from hunger related causes every day. Many of the poor who survive lack access to the fundamental needs of a decent existence. Over a billion people are compelled to live on less than a dollar a day. A sixth or more of the human family lives a marginalized existence.

The marine fisheries of the world are grossly over exploited. The soils are rapidly eroding in many parts of the world. Water is becoming scarcer as underground aquifers are drawn down faster than their natural recharge rate. Deforestation is still very much a problem. The global challenges of desertification and climate change and potential loss of biodiversity demand redoubled efforts. Agriculture must be transformed to promote sustainable food security for the billions of food insecure in the world. The urban poverty and environmental challenge in the developing world is unprecedented, as the urban populations of the developing countries treble over the coming generation.

Therein, lies the challenge before us. Will we accept such human degradation as inevitable ? Or will we strive to help the less fortunate among the human family ? Will we accept that we are no longer responsible for future generations, or will we try to act as true stewards of the earth ? The path to deal with all these issues has been traced in the collective programs of the UN summits. The time has come to implement them. The time is for actions, not words.

FIGURE 1

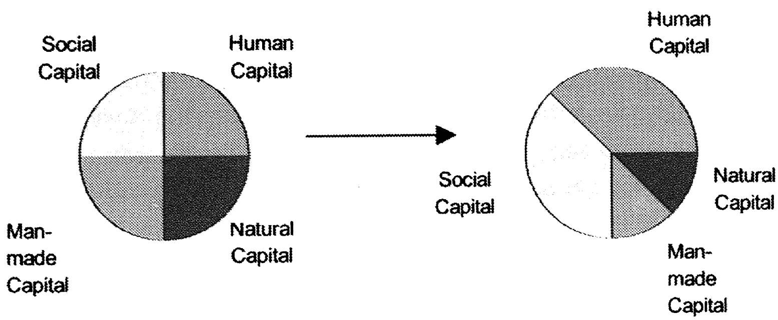
Social
Capital
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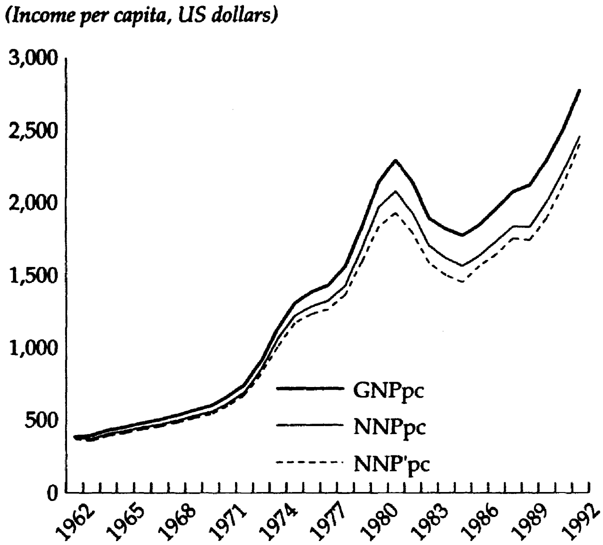
FIGURE 2

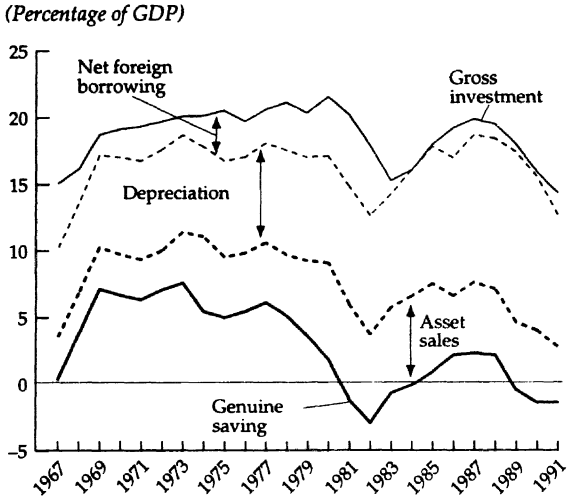
Greening national accounts show little variation on per capita income variants, Latin America and the Caribbean, 1962-92



Note: GNPpc is gross national product per capita; NNPpc and NNP'pc are net national product per capita.
Source: Adapted by Arundhati Kunte and Jan Bakkes from World Bank, *Monitoring Environmental Progress*, 53–56.

FIGURE 3

Similar adjustments on saving and investment, Latin America and the Caribbean, 1967-91

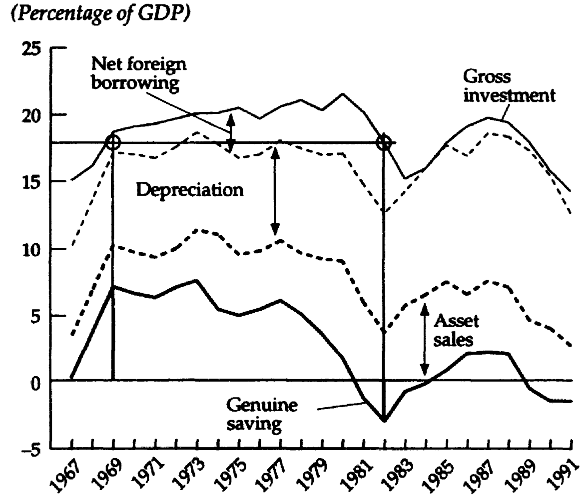


Note: Gross domestic saving = (gross domestic investment) – (net foreign borrowing). Net domestic saving = (gross domestic saving) – (depreciation of produced assets). Genuine saving = (net domestic saving) – (value of asset sales + damage from carbon dioxide emissions).

Source: World Bank, *Monitoring Environmental Progress*, 55.

FIGURE 4

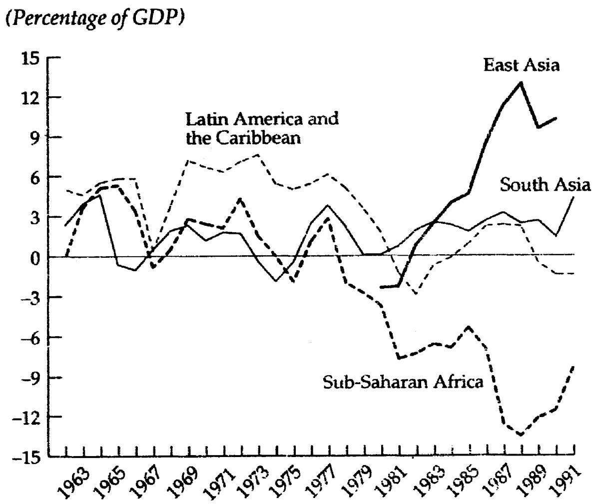
Masked variations in genuine saving,
Latin America and the Caribbean, 1967-91



Note: Identical figures of gross investment as a percentage of GDP could mask real differences in genuine saving. Gross domestic saving = (gross domestic investment) – (net foreign borrowing). Net domestic saving = (gross domestic saving) – (depreciation of produced assets). Genuine saving = (net domestic saving) – (value of asset sales + damage from carbon dioxide emissions).
Source: World Bank, *Monitoring Environmental Progress*, 55.

FIGURE 5

Regional patterns of genuine saving, 1962-91



Source: World Bank, *Monitoring Environmental Progress*, 54.