

**Remarks by Augusto Lopez-Claros at the House of Commons event
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I would like to divide my remarks in three parts:

- First, I would like to comment on the challenges that have emerged for multilateral organizations such as the World Bank and the United Nations as a result of recent changes in technology and, more generally, the process of globalization.
- Second, I would like to refer specifically to one such challenge, which addresses the issue of the need to develop better measures of human welfare and the high price that we pay for deficiencies in this area.
- Finally, I would like to share with you some thoughts on what the G7 and G20 can do to spur global governance reforms to the system that emerged in 1945 with the founding of the United Nations.

Development successes?

Development as a global objective for improving human welfare is a relatively recent concept. It was first embodied in the UN Charter, which stated: “the United Nations shall promote higher standards of living, full employment, and conditions of economic and social progress and development.” In time, at least among practicing economists, “development” came to be seen as improved economic opportunity through the accumulation of capital and rising productivity. The implicit assumption was that economic growth would lead to rising living standards, increases in life expectancy, reduced mortality, a reduction in the incidence of poverty, and so on—all worthy social goals. And this is exactly what happened.

In the half-century between 1960 and 2015, infant mortality fell from 122 to 32 per 1000 live births; average life expectancy at birth rose from 52 to 71 years, a 36 percent increase which has no known historical precedent; and adult illiteracy fell from 53 to 15 percent. Equally impressive was the sharp drop in the incidence of poverty: data from the World Bank show that between 1990 and 2013 the number of poor people living on less than \$1.90 per day (the poverty line used for the definition of *extreme poverty*) fell from about 2 billion to slightly less than 800 million and is expected to have fallen further by 2017. The reduction in extreme poverty, however, was largely accounted for by the very high economic growth rates in China and, to a lesser extent, in India. Using a less austere poverty line of \$3.20 per day, the number of poor is closer to 2 billion people, which is still an unacceptably high number.

These processes have coincided with rapid population growth, a significant acceleration in the pace of scientific and technological development, and by our enhanced abilities to tap into the planet’s natural resources. An additional factor which, during the past three decades, has had a particularly powerful influence has been the information and communications revolution which has boosted productivity and catalyzed a remarkable process of global economic and social integration. Of course, reflecting the absence of adequate mechanisms for international cooperation—to say nothing of an infrastructure for global governance—these processes have been disorderly, and have coexisted with a number of trends which have brought humanity to its present predicament: the emergence of environmental limits to the very economic growth that has contributed to the alleviation of human suffering, to pulling

hundreds of millions of people out of extreme poverty, and to creating greater opportunity for vast segments of the world's population. Thus, as a World Bank economist, I firmly believe that the fundamental development question which we face today is how to reconcile the legitimate aspirations of citizens in the developing world for the high economic growth rates that in the post-war period led to such remarkable improvements in global standards of living, with the challenges of a planet and an economic system under severe stress as a result of the pressures put on it by that very economic growth.

Whether we focus our attention on climate change and the broad range of associated environmental calamities coming our way, nuclear proliferation, the workings of the world's financial system, or growing income disparities, the fact is that major planetary problems are being neglected because we do not have effective problem-solving mechanisms and institutions strong enough to deal with them. The reality is that existing institutions are incapable of rising to the challenges of a rapidly changing world because they were designed for another era. Indeed, the United Nations itself and the associated infrastructure of specialized agencies which were created to attend to a variety of global problems find themselves increasingly unable to respond to crises, sometimes because these agencies lack the appropriate jurisdiction or mandate to act, sometimes because they are inadequately endowed with resources, and often because, within the limits of existing conceptual frameworks, they simply do not know what to do.

The nation state is in deep crisis. At its core, the nation state is defined by a geographical border, with governments elected—at least in the context of democracy—to safeguard the interests of citizens, to improve the quality of available services, to manage scarce resources, and to promote gradually rising living standards and improved equity. However, as made abundantly clear during the 2008 global financial crisis, the economic system is now no longer confined to national borders but straddles them in a way that is gradually forcing governments to relinquish or share control in a growing number of areas. Indeed, one of the main lessons to emerge from the financial crisis is that “a global economy needs global economic governance.”¹ The same can be said for the environment and a range of other global challenges.

Alongside the stresses put on institutions by the accelerating pace of global change, publics everywhere are showing growing dissatisfaction with the inability of national politics and politicians to find solutions to a whole range of global problems. This trend is likely to intensify in coming years and has already given rise to a “crisis of governance,” the sense that nobody is in charge, that while we live in a fully integrated world, we do not have an institutional infrastructure that can respond to the multiple challenges that we face.

Measurement flaws

The question of what constitutes “economic success” (and how to measure it) is central to the debate about the role of economics in the emerging global community. During much of the post-war period economic policy has been geared to encouraging the growth of the gross national product (GNP) and the efficacy of any given policy has tended to be judged by the extent to which it contributed to boosting this aggregate measure of the monetary value of goods and services produced by the economy. GNP figures are used by the international

¹ Mandelson, Peter, “In Defence of Globalization,” *The Guardian*, 3 October 2008.

financial institutions to assess the relative merits of particular approaches to development and their policies are shaped by close monitoring of the evolution over time of this indicator. It is not unfair to say that, as perceived by the professional economic establishment, “successful” economic development essentially is taken to mean an adequate growth of GNP per capita.

Indeed, the drive to expand the scale of the global economy is so strong that, from the point of view of political leaders, their economic advisors and the voting public, no economic policy which failed to deliver continued growth would ever be considered a “success.” The adequacy of this approach, however, is increasingly coming into question, partly stemming from concerns about the burdens on the environment associated with growth beyond the present scale and, more fundamentally, from new insights from behavioral economics about the relationship between growth in the economy and communities’ well-being. There are at least two aspects to this issue. The first pertains to certain serious shortcomings in the indicator itself and the implications that disregard for these, in the development debate, has had for human welfare during the last several decades. The second, more general one, concerns the role of economics in the development process and in enhancing well-being.

It is beyond the scope of this presentation to go into a detailed discussion of the many deficiencies of our GNP metric as a measure of human welfare. Suffice it to say that any income accounting system which treats the depletion of natural resources as current income and thus as a *positive* contribution to the growth of GNP is obviously one which provides perverse incentives. It is well known that GNP can grow rapidly and income distribution worsen simultaneously, as has happened in many countries during the last quarter century. High GNP growth is also not inconsistent with scant regard for and lack of respect for basic human and civil rights, as the experience of a number of “high performing” countries (in GNP terms) during the last forty years clearly demonstrates. It can also co-exist with laws that actively discriminate against women as is made clear by data collected in the World Bank’s Global Indicators Group which shows that a full 90% of 190 countries in the world have embedded in their laws at least (and often many, many more) discriminations against women. While these weaknesses are well known and even acknowledged by policy makers, they find little echo in the debate over what constitutes successful economic development and very little has been done, in fact, to shift the focus of debate to the development of alternative measures of economic success.

I would like to argue that the above observations suggest the need to broaden the definition of what constitutes “well-being” and investigate more closely the relationship between increasing market activity and the welfare of the people participating in the economic system. One starting point is to establish a clearer mental demarcation between the concepts of “growth” and “development.” The first is essentially a quantitative concept which captures the expansion in the scale of the economic system, while the latter refers to qualitative changes in this system and in its relationships with the environment and other aspects of life in the community. Properly understood, economics should concern itself less with how to add to the physical dimension of the economic system and more with the long-term welfare of the community whose interests the “system” is ultimately intended to serve. This distinction is quite fundamental, given what we have learned in the past couple of decades, for instance, about the likely impact of climate change and associated environmental disasters.

The role of the G7 and G20 in promoting UN reforms

The United Nations came into being against the background of over 60 million casualties, the destruction of significant portions of countries' physical infrastructure, and the associated economic collapse. It is not surprising therefore that the Charter refers in high-minded language to the determination of the international community to "save succeeding generations from the scourge of war" and lays out various principles for the peaceful coexistence of its members and calls for the strengthening of existing mechanisms of cooperation "to maintain international peace and security."

Foreign policy experts and various wise men and women who have looked at the future of the United Nations and have tried to imagine where it is headed in the 21st century have inevitably come up against the issue of whether the UN will continue to be an organization founded on the principle of "sovereign equality of its members", which was the expressed desire of the 4 major powers that created it in 1945. Can the UN evolve in some fashion, reflecting the changing role of the state in the context of a fully integrated global economy and a world facing a range of critical global problems, the solutions for which seem out of reach without a significant strengthening of our mechanisms of international cooperation?

It is important to understand why developments over the past seven decades have led to so little progress. Even today, few people would say that there is any realistic possibility in the near term to accept the ambitious vision of the United Nations advocated by the likes of Grenville Clark, Albert Einstein and Bertrand Russell in the 1940s and 50s, turning the organization into a seedling of a world federation operating under the rule of world law, with a legislature passing laws imposing binding obligations on its members, at least in the area of peace and security. With the end of the Cold War in the early 1990s, the fear of nuclear annihilation receded into the background and led to a false sense of security, that the existing mechanisms of international cooperation embedded in the UN Charter, while flawed, would still allow us to muddle through the next century. The maintenance of international peace and security anticipated in Article 1.1 of the Charter has largely remained a responsibility of the major powers in the cases of countries or situations in which their strategic interests were affected, while being nobody's responsibility where no such interests were involved. Other problems with systemic implications for global welfare—climate change, management of the world's financial system, human rights violations, to name a few—have either been nobody's responsibility or have been managed on an *ad hoc* basis by some of the UN agencies, with all the associated inefficiencies and social costs, such as the near collapse of the world's financial system in 2008.

Few would argue that the present world order is fit for purpose, or that it is a solid basis to ensure security and prosperity for the future, whether in the developing or developed world. The idea that in a globalized world we need a higher level of government to deal with problems that straddle national boundaries has gained considerable traction in recent decades, and the European Union—with all its flaws—bears ample testimony to that. In any case, this line of thinking has been buttressed by the growing inability of national governments to solve global problems of concern to citizens everywhere. We do not yet have politicians running for office making the case for stronger multilateral organizations, but the current system has few credible defenders willing to make the case that we can simply proceed on our present

path, managing the world one crisis at a time, with the faith that a world order based on the sacred principle of national sovereignty provides, to use economic jargon, a stable equilibrium.

It is difficult to disagree with those who have argued that we missed a great chance in the early 1940s, when, against the background of a world war, we could have opted for bringing into being an organization that would actually be able to deliver on the laudable promises contained in its first Article. Those noble sentiments seemed highly timely and appropriate, bearing in mind the untold suffering and calamity, the tens of millions of dead, the mindless killing of innocents in concentration camps, the destruction of entire cities, the collapse of the economy and social order. But, in the end, more pedestrian concerns prevailed. Would the US Senate ratify anything other than the creation of a largely harmless organization, with no teeth and no ability to interfere in the slightest degree with the prerogatives of American power?

This is not to suggest that others were not at fault as well. Stalin was equally fierce in his determination not to allow a body of international laws and principles to interfere with his own repression and killing, his overwhelming determination to defeat Nazi Germany, and the pursuit of his own nuclear ambitions.

So, in thinking about the future, it is evident that the political context matters a great deal; there has to be a coming together of minds about the ends and the means of a reformed system of global governance, at least among the major powers. It is worth noting the role played by enlightened leadership at various critical moments during the past century, from president Wilson's strenuous efforts to bring into being the League of Nations, to president Roosevelt's vital role in pushing for the founding of the United Nations, to Jean Monnet's vision for a united Europe pledged to peace and prosperity in the Treaties of Rome. The creation of the United States of America itself would not have happened in the 18th century without the resolute leadership of the founding fathers.

Unfortunately for us, the UN design flaws, which were evident at the San Francisco conference in 1945 for the world we had then, were greatly magnified in the decades that followed by growing interdependence, by the forces of globalization and the emergence of a multitude of new global problems for which our UN-based system was wholly unprepared. Hence the opening of what some experts call a "governance gap" to which I have alluded before.

Given the compelling circumstances with which humanity is currently confronted, a substantial and carefully-thought-through reform effort is needed to enhance dramatically the basic architecture of our global governance system. Such a reform should be grounded in key ideas that have motivated those of past generations who have risen to the difficult challenge of providing practical leadership and vision in the international sphere.

Moreover, the steps forward to enhance global governance should be consciously "incremental" in the sense that they should be grounded on fundamental points of law already agreed by states worldwide, and upon foundational principles "baked into" the DNA of the current international order. An organic process of growth has occurred within the current

United Nations and international governance institutions, which has included the building of levels of trust and an understanding of the practical importance of international cooperation which would have been unimaginable in past decades; an enhanced architecture is now required to implement this learning and awareness and the G7 and G20 can step into this field and provide the leadership that was provided by the Big Four in the early 1940s but this time against the background of a large number of critical challenges which, if unresolved, will cast a dark cloud over our immediate future.