

An Interview with the Bank's New Chief Economist

Francois Bourguignon seeks pragmatic approach to reduce poverty and inequality

Francois Bourguignon took over last month as World Bank Chief Economist, and Vice President of Development Economics. He has moved quickly to assume his responsibilities, addressing conferences in Mexico and Brazil, the Second Committee of the UN General Assembly and a conference in Paris of the European Development Network, organized by the Agence Française de Développement.

In this interview, Bourguignon outlines what he calls a pragmatic approach to poverty reduction, that recognizes the specific characteristics of countries and emphasizes the importance of social inclusion.

A professor at the Ecole des Hautes Etudes en Sciences Sociales in Paris since 1985 and the founder and director of the DELTA research center, Bourguignon has a long association with the Bank. His appointment as Senior Vice President for Development Economics and Chief Economist came three months after he'd been named Director of the Development Research Group in the same department.

Bourguignon started his training as a mathematician, obtaining degrees in statistics and applied mathematics, respectively at the Ecole Nationale de la Statistique et de l'Administration Economique and the University of Paris. After two years as an expert 'cooperant' at the University of Chile, he obtained a Ph.D in economics at the University of Western Ontario, and later, another doctorate at the Université d'Orléans. Much of his career has been in academia: he is the author of several books and over a hundred published papers, while also serving as editor of academic journals. He has been a leader of professional associations, and advisor to many governments, including as a member of the Council of Economic Advisors to the Prime Minister of France. His primary areas of intellectual focus have been poverty, economic growth and development, income distribution and inequality. Bourguignon, 58, is married with two grown daughters, and speaks English and Spanish, as well as his native French.

How will your approach to the job of World Bank chief economist differ from that of your predecessors, namely Nick Stern and Joseph Stiglitz?

I expect to provide continuity with my distinguished predecessors. Joe Stiglitz's contribution was to demonstrate that markets don't always work satisfactorily, that state intervention is sometimes required, and that institutions matter. He also cautioned against applying a 'one-size-fits-all' model in making recommendations to countries, as each country has specific conditions that must be taken into account. Nick Stern was perhaps more classic in his approach, but his contribution was equally important. He essentially formalized the key idea that there are two pillars in development. The first of these is the investment climate, which includes a broad range of growth determinants — institutions, infrastructure, transparency of information, and so on. The second pillar is social inclusion and investment in human beings. He launched a reflection on these two pillars, concentrating first on investment climate. Many World Bank studies have been

undertaken on this; indeed, the upcoming *World Development Report* for 2005 is focused on this pillar. It will seek to address the factors involved in why it is easier to invest and achieve higher productivity in some countries than in others.

I plan to focus more on the second pillar, that is, social inclusion, which I place within the general category of 'equity'. My purpose is to analyze the importance of equity in the development process, the way it interacts with growth. At the end, the goal of development is poverty reduction, and equity is an integral part of this goal.

Equity has not been an area of particular emphasis for the World Bank. Is this a new direction?

It's true that the Bank has focused on poverty and did not insist so much and as explicitly on inequality. I believe we must give more space to the problem of inequality and income distribution in general. Of course, growth is critical to poverty reduction, but we need to analyze more closely who actually benefits from growth, and from the policies, programs and projects undertaken to reduce poverty. Will one or another group, or class, benefit more than others? Are our strategies reducing or increasing inequality? Are they pro-poor, benefiting everybody in the same proportion or benefiting relatively more those who are already better off? Although pro-poor growth has entered our vocabulary, such questions have occupied little space in the debate up to now. In part this is due to a problem of the techniques at our disposal to analyze policies or development strategies. It is one thing to evaluate a program in terms of its aggregate result; it is another thing to measure its effect on different classes of society. In recent years, we have developed analytical tools that may give us a much more accurate picture of the impact of different programs on income distribution or redistribution. Income and consumption in diverse households can be analyzed from the point of view of the impact that macroeconomic policies and programs have on them; we can then assess the distributive effect of those policies and programs. I expect that this crucial link between research and operations will be strengthened. The Bank has an exceptional research team, probably the world's best-resourced development research center. But more importantly, our research is linked to operations around the world, and our action should take place in a way that takes advantage of these links, in the field of equity as in others.

The World Bank has argued that those countries that have pursued integration with the global economy have grown more quickly, thereby increasing their capacity to reduce poverty. But isn't it also true that globalization has also increased inequality?

Globalization has prompted an opening of many countries to the rest of the world, and this has often led to accelerated growth which, in turn, has reduced poverty. The most spectacular example of this is China, where an opening to international trade that began in the late 1970s has transformed its economy into one of the world's most open, with exports now accounting for 25 percent of GDP and at the same time most dynamic. Growth has been so vigorous, that poverty was reduced dramatically. Unfortunately, this needed growth isn't found everywhere, and globalization is often found to have had disappointing effects. Africa's experience, in particular, is vastly different from that of

East Asia. There, the problem is probably to understand why Africa remains at the margins of globalization. Is it in the nature of the globalization process that some regions of the world are excluded? Or is it that the conditions in some countries are such that they cannot integrate effectively into the globalization process?

On the question of inequality, it is true that increased inequality has coincided with globalization and growth in many countries, notably in China, for example. Even though there may not be a direct causal link behind this, this is a cause for concern. Recent studies and experience in Latin America, to take another example, suggest that too much inequality, at a certain point, can be a brake on growth and development. For example, some economists attribute Latin America's generally moderate growth rates, historically, to inequalities. These inequalities, in turn, result in institutions that are unfavorable to development, and to a large proportion of the population being excluded, denied access to credit and quality education. One might also ask whether too-great inequalities create damaging social tensions that eventually work against economic effectiveness. In China, one could ask whether the growing inequality will eventually lead to problems that we see today in some parts of Latin America. Will enclaves of poverty appear in China? Will the northwest remain systematically behind the rest of the country? If so, the seeds of social problems are perhaps being sowed now that could act as a brake on growth and economic progress as a whole in the future. It is urgent that we explore this area more deeply so as to develop approaches that spread the gains from growth to the whole population, and ensure that it has the maximum possible effect on poverty reduction.

What do you see as a major obstacle to the struggle to end poverty?

The major obstacle to poverty reduction is that most people are neither altruistic nor farsighted. When you tell them that it is possible to reduce poverty with nobody losing in the process, but that this requires some time and adjustment so that the short-run losses of some are fully compensated, you find out that they are not interested. You have this difficulty at the national and global level. The failure at Cancún is essentially about this. One part of the world is not willing to reduce its well-being today in order to reduce poverty in other parts of the world today, and to increase the welfare of all tomorrow.

In fact, good policy reforms will benefit everyone in the long run, even though some may lose in the short-run, provided the right compensation or redistribution mechanisms are found. With that in mind, there should be ample room for bargaining. I fully support Nick Stern's view that the lack of access to developed countries' agricultural markets, including agricultural subsidies are major obstacles for developing countries. We know that in the long run, everyone would gain by ending these barriers. But, because of short-term losses or adjustment costs that may be compensated over time, we are not doing it. It is something of a paradox, moreover, because the adjustment costs are lower in Europe and the U.S., where redistribution instruments make it relatively easy to compensate those who incur short-term losses because of trade reform. It doesn't make sense that trade talks get stuck because of this.

Looking back on how development thinking has evolved over time, how would describe the current challenges?

In the last fifty years, we have experienced major changes in dominant economic doctrine or ‘paradigm’, starting in the post-Second World War period when the view was that development could be fostered through government planning and control of economic activity. Then, there was the neo-liberal period after the global economic crisis, in the early 1980s, and a prevailing belief in the virtues of the market. Now we are witnessing a third phase in economic thinking about development, which seems to me more reasonable because it is essentially more pragmatic. This is the result of some disappointing results of the structural reforms that took place during the 1990s in Latin America and elsewhere, the initial difficulties of the transition process in the former socialist countries, and the Asian crisis of 1997-98, among others. I believe that this pragmatism is a good thing. It would be foolish not to take advantage of the dynamism of individual initiative that markets can mobilize, but we must recognize that markets, by themselves, do not always deliver the conditions needed for development. Some state intervention is needed. To take a specific example, the World Bank and other institutions have been in favor of privatization in many cases, for instance in infrastructure. We’ve learned that, in some cases, these privatizations failed to address the social needs, often because the regulation of private monopolies was flawed, or as absent, or as biased as it was in the previous era of publicly-owned monopolies. In saying this, I am not favoring one current of thought over another. I believe the current challenge is precisely to go beyond the unique model, often very much tainted by ideology, and adopt what seems the most effective solution. I am pleased to observe that we are now at a stage in which pragmatism seems to become the dominant approach to development thinking.

What do you think of the contribution to the development debate of civil society organizations, including those in the so-called anti-globalization movement?

In development, at national and global levels, all voices need to be heard. Whether these voices transmit public anxieties, or whether they present arguments on specific issues, there is something to be learned from all of them. I think that the voices raised in recent years, starting in Seattle and continuing elsewhere, as well as the reports of some established NGOs, have helped advance the development agenda. They have helped raise awareness and achieved progress by influencing the way the international community—including the international financial institutions—addresses issues. On developing-country debt, for example, Oxfam and Jubilee 2000, among others, played a key role in moving governments, together with the World Bank and the IMF, to take more effective action on debt relief. We should keep listening.