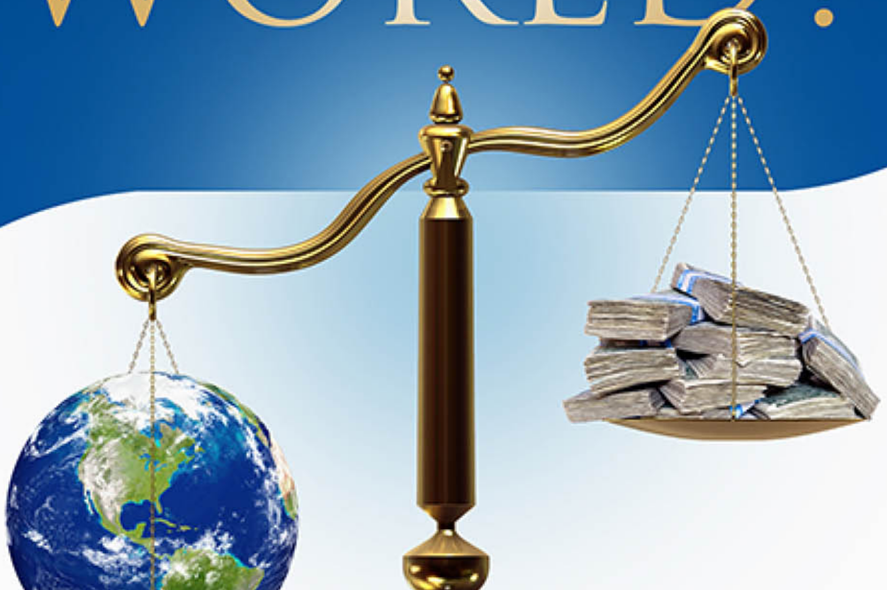
BERTRAND BADRÉ
Former Managing Director of the World Bank

# CAN FINANCE SAVE THE WORLD?



REGAINING POWER OVER MONEY TO SERVE THE COMMON GOOD

*Forewords by* EMMANUEL MACRON President of the French Republic
*and* GORDON BROWN Former Prime Minister of the United Kingdom

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## Praise for *Can Finance Save the World?*

"Agree or disagree, Bertrand Badré has written a hugely important book on the future of finance. He provides a compelling vision for ethical global finance that makes current political debates seem petty and thoughtless."

**—Lawrence H. Summers, Charles W. Eliot University Professor, Harvard University**

"Bertrand Badré knows as well as anyone what gave rise to the disenchantment with the world of finance. His aim in this important and provocative book is to point to a new world in which finance is no longer a threat but becomes a handmaiden to order, stability, confidence, growth, and greater equality."

**—Ezra Suleiman, Professor of Politics and IBM Professor of International Studies, Princeton University**

"Bertrand has definitely witnessed the financial crisis from the inside and has drawn important lessons. More importantly, this book shows that things can actually be done, walking the talk rather than just talking the talk."

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"A wake-up call. An expert's valuable overview of the need to support the nascent revolution in finance to improve lives."

**—Sir Ronald Cohen, Chair, Global Social Impact Investment Steering Group, and cofounder of Apax Partners**

"This book is a must-read for anyone interested in understanding why finance has become such a powerful force for our times. Can finance save the world? Maybe, but it could also cripple it. Badré's insights reflect the rare combination of a keen intellect and a wealth of hands-on experience in the world of international finance."

**—Masood Ahmed, President, Center for Global Development**

"This book is a powerful call to action for global leaders to reinvent the way that the public, private, and social sectors collaborate and describes the important and unexpected role that finance can play in uniting stakeholders across political and socioeconomic boundaries."

**—Dominic Barton, Global Managing Partner, McKinsey & Company**

"Everyone says we need more public investment. Everyone says the public and private sectors must work together. Nobody has told us how—until Badré spelled it out practically and providentially in this book."

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"Colorful, confronting, and compelling! Bertrand Badré presents the case for reshaping the international financial architecture and mobilizing global financial flows as drivers of inclusive growth. This book is a call to action for all of us—as we continue to grapple with the legacies of the global financial crisis."

**—Angel Gurría, Secretary-General, Organisation for Economic Co-operation and Development**

"Bertrand Badré makes a convincing argument for how financial institutions—and particularly multilateral development banks—can help humanity conquer some of its greatest challenges, from climate change to the quest for building more equitable societies. His book is a valuable contribution to the debate about development finance."

**—Luis Alberto Moreno, President, Inter-American Development Bank**

"Bertrand Badré's creative and insightful book on international finance paints a holistic picture of the practical and ethical dimensions of this very important social tool."

**—John D. Negroponte, former US Permanent Representative to the United Nations and former Deputy Secretary of State**

"Building on the seminal idea that finance, like any human activity, is here to serve the common good, Bertrand Badré outlines in this easy-to-read book a number of avenues that humankind can and should explore and embrace to address the challenges it faces today, using finance as a tool, not an end. An inspiring and practical invitation to choose the right path at the crossroad the world finds itself at."

**—Hubert Joly, Chairman and CEO, Best Buy**

"It has been a long-held belief of mine that leveraging the private sector much more efficiently as well as being innovative in how we use capital are two of the essential keys to unlocking development. Bertrand Badré carries these as central themes throughout his well-argued book. What is even more impressive is Bertrand's bold move to implement what has long been discussed in theory into real life and concrete action. This is why I am really proud to support him and Blue like an Orange."

**—Olivier Goudet, CEO, JAB Group, and Chairman, Anheuser-Busch InBev**

"Bertrand Badré offers a holistic view of finance. Like technology, it is neither good nor bad in itself. But an intelligent partnership between private financial institutions, international organizations, governments, and the philanthropic sector can produce fabulous results. To help us understand how these partnerships can be crafted and the crucial role 'domesticated' financial institutions can play, he draws on his deep experience in both the public and the private sectors. A must-read for the development finance community."

**—Kemal Dervis, Director of Global Economy and Development, Brookings Institution, and former head of the United Nations Development Programme**

"In these times of uncertainty and increasing nationalism, Badré makes a powerful case for the inherently global nature of finance and its capacity to be used as a tool for good."

**—Agustín Guillermo Carstens Carstens, Governor, Banco de México**

"Drawing on deep expertise, wide-ranging practical experience, and the vantage point of a thoughtful insider, Bertrand Badré provides important insights on how society can—and should—regain control of a bipolar finance system to deliver better and more sustainable outcomes for more people around the world."

**—Mohamed El-Erian, Chief Economic Advisor, Allianz; former CEO, PIMCO; and author of *The Only Game in Town***

"Bertrand Badré and I worked on promoting the G20 infrastructure agenda during the Australian presidency. The ideas we pushed are the ones that are at the heart of *Can Finance Save the World?* Ideas are essential, but this book is about trying and doing. A true call for action."

**—Honorable Joe Hockey, Australian Ambassador to the United States, former Treasurer of Australia, and former Chair, G20**

"A blueprint for forceful, collective action. Against a rising tide of economic nationalism, Badré lays the course to address an unprecedented range of global threats—climate change, pandemics, inadequate access to infrastructure and water, and refugee crises. With his new venture, Blue like an Orange, Badré is also practicing what he preaches, reimagining finance as an equalizing force for the vulnerable among us."

**—Antonio Weiss, Senior Fellow, Harvard Kennedy School**

"This book is refreshingly different. Written by someone with a deep understanding of both the flaws and the possibilities of the financial system, it presents a level-headed analysis of what went wrong. However, it goes much further and offers a constructive view of what can be achieved if we move beyond the postmortem and remember what tremendous potential finance can bring to economic and social development. Indeed, it argues for the right kind of innovation in our financial system as an indispensable ingredient to solve many of today's global problems and create a more equitable world."

**—Klaus Schwab, Executive Chairman, World Economic Forum**

"Postcrisis financial reform efforts have focused on how to make the global system safer so that 'it can't happen again.' Bertrand Badré instead addresses the forward-looking challenge of making finance effectively serve broader interests of social and environmental progress, in addition to promoting growth."

**—John Lipsky, Senior Fellow, Johns Hopkins School of Advanced International Studies, and former First Deputy Managing Director, International Monetary Fund**

"Bertrand Badré played a key role in providing the analysis of the role of finance in achieving the sustainable development goals. We all agreed that the way forward was not going to be 'business as usual.' This is why this book is so helpful, important, and timely as it serves as a how-to guide to inspire action among a multistakeholder society."

**—Charlotte Petri Gornitzka, Chair, Development Assistance Committee, Organisation for Economic Co-operation and Development**

"Bertrand lays out an ambitious, but I believe completely doable, path for the public and private financial markets to take to achieve our common human objectives. And he makes a forceful argument for why it is in the best and self-interest of the financial sector to feel responsible for helping achieve the goals the world has set and to help eliminate the growing cancer of increasing inequality."

**—Ray Chambers, UN Secretary-General's Special Envoy for Health in Agenda 2030 and for Malaria and former Chairman, Wesray Capital Corporation**

"To build an inclusive world, Bertrand lays out ideas on how finance can be used as a force for good and inclusion. Such inclusion will significantly help reduce the societal unease that is leading to political crisis in many countries by allowing humanity to address some of its most pressing problems, including global warming, pandemics, and inequality."

**—Paul Desmarais III, Senior Vice President, Power Financial Corporation, and Executive Chairman, Portag3 Ventures and Sagard Holdings**

"This book is a passionate call for leadership and joint action. As Badré reminds us, finance is not a blind and uncontrollable force. It is not good or bad in itself but as good as we use it—and, going forward, we will indeed have to use this tool a lot and as wisely as we can to master the global challenges that we all face together."

**—Dr. Werner Hoyer, President, European Investment Bank**

"Bertrand's critical expertise, acquired through his work at the heart of the financial system over three decades, is brought to the fore in this outstanding work. We all have a stake in ensuring that the international finance system succeeds and serves society, not the other way around."

**—Mark Carney, Governor, Bank of England, and Chairman, G20 Financial Stability Board**

# CAN FINANCE SAVE THE WORLD?

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BERTRAND BADRÉ

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## REGAINING CONTROL OVER MONEY TO SERVE THE COMMON GOOD

*Forewords by*

*Emmanuel Macron*

PRESIDENT OF THE FRENCH REPUBLIC

*&*

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FORMER PRIME MINISTER OF THE UNITED KINGDOM

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*Finance at the Heart of Renewed International Cooperation*



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*Finance Serving the Common Good and the Sustainable Development of the World*

# FOREWORD

*Emmanuel Macron*

Hasty and definitive judgments about finance are frequently heard. For some, finance is the enemy of the people, dispossessing them of their sovereignty. For others, finance is a tangible expression of human greed; it is merely an instrument of domination, making it possible to create value without effort and to accumulate wealth without producing. For still others, finance has become a religion before which our societies should prostrate themselves. These caricatures miss the mark. They do not recognize that finance encompasses diverse realities. They do not make it possible to understand that finance is only a means to serve human ends. We must use finance—not serve it.

At its core, finance does not constrain us: it obliges us. It is this reality that Bertrand Badré, with whom I have considered these questions regularly for years, highlights in this beautiful work. Throughout his professional career, Badré has been a privileged witness to world-changing events, such as the acceleration of trade, the progressive integration of our economies, the emergence of new challenges, notably environmental ones, and the advent of new risks, especially threats to security.

The reflections he shares here are a call for determined action.

Indeed, recent history shows that we have made the collective choice of inaction. The decades of prosperity after the Second World

War, based on the Bretton Woods Agreement, the Marshall Plan, and the beginnings of the European construction, forged a stable and organized financial system. This cycle broke with the suspension of the gold convertibility of the dollar, and then the first energy crisis. After this shock and the ensuing stagflation, the conservative and neoliberal revolution of the 1980s ushered in a new period of our economic history. Growth and considerable progress were achieved. But by unleashing the movement of capital, by drastically reducing regulation, and by expanding public and private debt, governments finally relinquished their power to make finance serve their greater goals, or to use finance as a tool for action. In 2007 the financial crisis suddenly lifted the veil on this pernicious system. The political and social disorders that it engendered and the fractures that it accentuated were the violent outcome. However, it would be a grave error to conclude that this crisis discredited finance itself. I believe this is a misconception. The crucial lesson of this crisis is the urgent need to regain control of the global financial system. In particular, we must address three global challenges.

The first challenge is the environment. I am convinced that the necessary ecological transition will first be an economic transition. At a time when the president of the United States seems to have abandoned this battle, France and the European Union must understand that their responsibility is all the greater. To succeed we have to accelerate the mobilization of private and public actors, politicians, and civil society. Success will also require massive use of global savings in order to transform our productive model and create the conditions for environmental innovation. Finally, it is important to reorganize our financial system so that it can better integrate the ecological imperative. Finance is the arena in which progress can be made, such as accounting for the long term, valuing externalities (in particular, the price of carbon), and holding economic actors accountable. In this matter, France recognizes its role and is on the front line. The financial center of Paris is in the process of adopting a strategy and rules of the game to turn it into an international leader in green finance. I will encourage this movement in favor of a useful finance.

The second challenge is innovation. We are no longer in an economy of catch-up priorities and big projects, as was the case some 30 years ago. Our course is no longer toward the imitation of products imagined abroad; it is found in innovation in the developed countries and in all the countries of the world. The strength and power of the emerging model resides in the alliance that companies are able to seal with millions of users. The result is a formidably decentralized, more horizontal economy, in which it is a question of constant investment to create employment and encourage our businesses to grow. The digital revolution is revealing itself to be at the heart of financial cycles. The released energy thus appears to be without limits; the effects are colossal and can cause alarm. They must, however, benefit all. In this battle, we must put finance to the task. Investment needs to exceed the capacity of governments. Cooperation between the public and private sectors requires new approaches and new tools. It is not enough merely to better regulate! We must also innovate in the financial field, in order to allow all the territories and all the actors to benefit from the waves of progress. And such crucial innovation is now unfolding in a renewed framework. Bertrand Badré recalls an exchange with Sir Ronald Cohen: "The 19th century was the age of rewards; the 20th century was that of risk/reward; the 21st century looks like the age of risk/reward/impact." Investment is at the heart of the economic policy I lead in France. It is more broadly a major challenge for Europe as a whole, which must invest more and better to accelerate the digital revolution and boldly enter the new economy.

The third challenge is development. The needs are immense, but they have never been more urgent. Climate change, the rise of migration, and the unprecedented risks associated with pandemics require us to act quickly and to mobilize the necessary resources. Again, public institutions alone will not be able to cope with this global challenge. The money exists, but it is poorly allocated. It is important to reinvent forms of international cooperation, to renew our multilateral tools by adapting them to the new demands, and to encourage private institutions to take risks for the general interest—to invest most heavily where needs are greatest.

Environment, innovation, and development—these three global challenges are at the heart of a new paradigm that we must imagine and build after 10 years of crisis. Together, they demonstrate that we cannot do so without finance, albeit useful and responsible finance. To refuse to put the financial system at our service would be to give up action and prepare the conditions for our collective failure. Of course, this book provides neither all the answers nor all the solutions. But it allows us to confront the fatalists, the adherents of decline, and all those who imagine or imply that we are disarmed. Yes, finance can help save the world. It is up to us to claim it for ourselves.

# FOREWORD

*Gordon Brown*

Few have done more to expose the challenges globalization throws at us than Bertrand Badré. And few have come up with more positive proposals for how to manage globalization in the interests of those who need our help most than he has done—first in his capacity as Chief Financial Officer of the World Bank and then as the inspirational architect of the "From Billions to Trillions" proposals, which were agreed at the Addis Ababa Conference as a means of financing the Sustainable Development Goals. He now challenges us with his plan for managing international finance and as the author of this new book, which introduces us to new thinking about globalization, he suggests how it can be made to work for the poorest of the world.

Dean Acheson spoke about his role as a US diplomat and later Secretary of State in evolving the new institutions of the post-1945 world and said it felt like being "present at the creation." Then the task was to create multilateral institutions for what was still a world of detached nation states. Now in a new generation—the post-millennium interdependent world where we need global solutions to global problems—Badré and other leading economists are present at the creation, or at least at attempts at the creation, of a new more relevant global architecture for this still young century.

New thinking at the turn of the century influenced the introduction of the path-breaking Millennium Development Goals, which were kicked off in 1999 when the then UN Secretary General, Kofi Annan, called for a "global compact of shared values." In a visionary speech, Annan argued that "the spread of markets [was outpacing] the ability of societies and political systems to adjust to them." His warning, that globalization was fragile and "vulnerable to backlash from . . . protectionism, populism, nationalism, ethnic chauvinism, fanaticism and terrorism" as extremists exploited discontent, led him to propose new ways of dealing with poverty, malnutrition, disease, illiteracy, and inequality.[1]

And the process he initiated that was formally launched with the commitment to the MDGs in 2000 had to be rethought, adapted, and streamlined in the wake of the global financial crisis of 2008, and as we came to understand the urgency of co-ordinating global efforts to deal with climate change. This evolution in the world's thinking is charted by Badré in his book.

Finance is, as he says, a good servant but a poor master and the global financial recession exposed the reality that while we had global banks and financial institutions, they were inadequately supervised by purely national regulatory systems. But the crisis asked even more profound questions: it challenged the very idea of self-adjusting financial markets and was so all encompassing that it forced world leaders to agree to the biggest rescue operation ever attempted.

To underpin the recovery of the world economy, one trillion dollars in grants, loans, and trade support guarantees was made available, but as Badré suggests a lot more has to be done to turn a rescue operation into an exercise in repairing the world's financial system. Even after the welcome strengthening of the global Financial Stability Board no one can be sure that we have done enough to protect ourselves against the next financial crisis.

And in our journey from Copenhagen's failed climate change summit of December 2009 to the success recorded at Paris in December 2015, new thinking has had to be developed to reduce global carbon emissions. Some of the results of these efforts are contained in the Sustainable Development Goals agreed on unanimously by the United Nations in September 2015 after the Addis Ababa Conference in which Bertrand Badré played such a large part. The new SDGs now see economic growth, social justice, and environmental sustainability not as antithetical to each other but as complimentary objectives. But the question remains as to how we can realize them in difficult financial times and to what extent we can enhance the multilateral coordination necessary to do so.

For although we all agree that the world is more interconnected and interdependent, our collective ability to tackle urgent issues has been weakened as a result of trade protectionism and cuts in international economic support and aid. As Georg Kell, the former head of the UN Global Compact, has recently argued, the case has again to be made for multilateralism. Perhaps in every generation we have to make anew the arguments for coordinated multilateral action. At no time is this more true than now and reinventing multilateralism is what Badré seeks to achieve in his set of essays: they set out to develop better ways of mobilizing finance for public good, so that instead of finance being a threat to the stability of the global economy, it can become the key that unlocks economic and social problems.

The new thinking which stresses the urgency of enhanced global co-operation is underpinned by Badré's analysis of what globalization means and how it can be better managed. Globalization can be described in many ways: some see it as an economic phenomenon only; some as a cultural phenomenon—that we eat the same global foods, we watch the same global TV programs, and so on; and others see it simply as a new phase in the evolution of capitalist economies and the development of markets.

If, however, we start by identifying the seismic shifts we have recently witnessed in the international economy, we can come closer to understanding the discontents that arise from it and the challenges that those of us who believe in enhanced global co-operation have to surmount.

Of course, we have seen a revolution in communications since the 1980s empowering us to connect instantaneously across borders, but two other big changes have swept the world since the 1980s—the move from what were primarily national flows of capital to global flows, and from the national sourcing of goods and services to their global sourcing. These shifts have had a dramatic effect on the industrial and occupational structure of modern economies. Industrial change has reduced the share of mining and manufacturing in modern economies from the peak of 40 percent of all jobs reached at the height of the British industrial revolution. According to Professor Tyler Cowan: "In the United States the proportion of the work force engaged in manufacturing peaked at about 25–27 percent in the 1970s. In Sweden manufacturing employment peaked at about 33 percent of the work force in the mid-1960s, and for Germany manufacturing employment rose as high as 40 percent in the 1970s. South Korea managed a manufacturing share of employment of 28 percent in 1989."

But in emerging markets like Brazil and India, manufacturing has barely exceeded 15 percent of employment, and writers like Dani Rodrik talk of "premature deindustrialization."[2] The figures suggest that the old model of modernization through export-led manufacturing growth is becoming a less crucial path out of poverty for developing economies; fading questions about what kind of economic future lies ahead for today's low-income countries.

Occupational change has been if anything more dramatic creating a polarized labor force, as many traditional skilled jobs from typists, secretaries, clerks, administrators, to draughtsman and boilermakers have declined in importance and the labor force has become divided between an elite of highly educated professionals who can command high salaries (at least for now) and a mass of unskilled and semi-skilled whose bargaining position is weak, whose job security is limited, and for whose children opportunities appear to be poor.

This is not just the kind of problem that is unique to the advanced economies. In country after country, the gap between the promise of globalization and people's day-to-day experiences of insecurity, joblessness, and stalled living standards is so stark that we are almost certainly likely to see more Arab Springs, more Occupy movements, and more "take back control" protests.

What is the fall out? Globalization creates the need for co-operation but also awakens in people the need to belong. For while the logic is economic integration, the emotional response is to demand that we "bring control back home"—a slogan that has become commonplace in protectionist movements in many continents. Such discontent demands a political response. In recognition of both the importance of identity and the imperative of co-operation nation states must strike the right balance between the national autonomy people desire and the border sharing we need. It is indeed a balancing act: too much integration and people feel their culture and identity are at risk. Too little integration and their prosperity is at risk.

So the policy imperatives are two-fold: as a world economy to show we can manage globalization well by co-ordinating polices where appropriate; and as individual nation states to get the balance right between autonomy and integration. To quote a recent article by the NYU academic Jonathan Haidt: "The great question for Western nations after 2016 may be this: How do we reap the gains of global cooperation in trade, culture, education, human rights, and environmental protection while respecting—rather than diluting or crushing—the world's many local, national, and other 'parochial' identities, each with its own traditions and moral order? In what kind of world can globalists and nationalists live together in peace?"[3]

Across Europe and beyond countries are now having to respond to nationalist and protectionist pressures and show they have struck the right balance. Much has been written of how national government should help those who feel they have lost out from global change with training, employment, and income support policies. Much less has however been written about how we can finesse the international architecture. Here Badré's work can help as he shows us in his essays where and how global co-operation can be enhanced to best effect. It is not a choice between whether we have open and closed societies: the real choice is between those like Badré who want to lead, manage, and tame what should always be an open global economy; and those who oppose intervention—either because they favor a neo-liberal global free-for-all or are globalists who wish to shelter, insulate, and protect themselves against change.

Badré's focus on how we can strengthen global cooperation through the repair and reform of the global financial system and how we can raise the funds necessary to finance the SDGs leads him to make innovative proposals. His work that started in the 1990s with innovative initiatives in global health has now been extended to proposals for financing other public goods including infrastructure and global education. A further set of proposals revolve around a new role in infrastructure and other areas for public–private partnerships.

When Kofi Annan spoke of a global compact in 1999, he called on businesses, both on their own and together, to "embrace, support and enact a set of core values in the areas of human rights, labour standards, and environmental practices" and to "use these universal values as the cement binding together your global corporations, since they are values people all over the world will recognize as their own." He added: "unless those values are really seen to be taking hold, I fear we may find it increasingly difficult to make a persuasive case for the open global market." He might have referred not only to human rights, labor standards and environmental practices but also to how business approaches issues of democracy and the rule of law. Since then the UN global compact led by Secretary General Ban Ki-moon and stewarded by Georg Kell has expanded our ideas of what is possible. As Kell has put it: "A growing number of companies across all continents have started the journey of reconciling societal priorities with corporate missions, strategies and operations based on universal principals… [In] an era of transparency, the societal and environmental implications of investor behaviour can no longer be externalized. They must be accounted for and priced. Doing well and doing good can happen together."[4]

How the public sector can aid private–public cooperation is explored in Badré's essays below, as it is by the work of Klaus Schwab at the World Economic Forum and in the new thinking that has arisen from Larry Summers's contention that the world has to break free from what he calls "secular stagnation." We have to take into account the new institutions now in the process of being born—like the BRICS Bank (Brazil, Russia, India, China, and South Africa), the Asian Infrastructure Investment Bank, and the Silk Road Fund. The challenge now is bringing our thinking on these new initiatives together in a more concerted and co-ordinated way and, in encouraging wider debate about the future of the Bretton Woods institutions, investigate whether we can find a consensus on the new international architecture needed to cope with wave after crushing wave of global change. Right across the world in the immediate aftermath of 1945 there was a ferment of new ideas and initiatives: we need the same explosion of new thinking now.

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# CAN FINANCE SAVE THE WORLD?

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# INTRODUCTION
## *Finance at the Crossroads*

Left, right, backward, forward.... The crossroads facing us and the decision we make collectively has never been so important. It's about finance and how we make use of it, and the direction we take will either save our world or lead us on the road to ruin.

Everyone has a view on what *finance* means. In my experience, this is usually taken as a reference to Wall Street or the City of London or sometimes to Bank X or the chief executive officer (CEO) of Hedge Fund Y when they happen to make the headlines. Actually, I am referring to a much broader perspective. By *finance* I mean the financial tools used by the players in the international finance ecosystem (such as banks, investors, pension funds, institutions, and lenders). And, yes, I mean *tools* and not companies or specific institutions. Far from the magic and mirrors it has come to seem in recent years, finance has never been anything but a tool, an instrument manufactured by humans to be of use, to aid survival, and to act within the environment. In this case, the tool of finance is first and foremost a mechanism for the mobilization and allocation of resources to benefit the economy.

### *Do we save the world or ruin it?*

Over the past several decades, we have, perhaps subconsciously, been creating a new, extremely powerful force, potentially one of the strongest humanmade forces on earth. It has been quietly humming in the background of people's lives, and we have been oblivious to what was building up. The 1920s and 1930s are rapidly vanishing from living memory, leaving only bumps in the road (some quite serious) of "localized" financial crises acting as sirens but seemingly falling on deaf ears. The financial crises of 2007–2009 were the price we all paid for not keeping up with regular health checks on a system that had quietly continued to grow to a scale few understood. This lack of understanding contrasted starkly with the strength of finance and the extent to which it governs all of our lives. Almost everything we do is underpinned by the structure that hitherto most had ignored, either by choice or ignorance.

The decisions we make now, the actions we take now and implement with full vigor and accountability, will directly influence our future. It is about regaining control and not just being the witness to a chain of events imposed on us. If we let finance continue on the path that led us to the financial crisis—serving the elite and feeding the speculators profiting from harnessing the power of finance in narrow and self-serving ways—then we are certain to drive up the level of discord. People will continue to feel increasingly disenfranchised. The recent resurgence in nationalism and protectionism will accelerate, and political disharmony will be inevitable. This story does not end well. Pulling down our respective shutters has not served us well in the past; there is no basis, beyond short-termism, to believe it would be any different now. A return to the depression of the 1930s would be only too real. Those were dark times in our history. We cannot underestimate the power of this new incredible force we have created.

*We are facing a crossroads.*

We barely survived a massive crisis. What comes next is not yet written. We are facing a crossroads. We have to be the ones who choose. "We" comprises each and every one of us. If it is just the so-called elites, then it will not succeed and will lead to resentment and a greater risk of more of the same issues recurring. This is not easy, as it requires hearing the voices of those who have been ignored in the past. How can this be achieved? It requires an ongoing, sustained commitment from every element. This means accountable government, civil society organizations, multilateral efforts, nongovernmental organizations (NGOs). The list goes on, but it is critical to have everyone's voices heard.

When I participated in G20 (Group of 20) meetings, I did so representing the World Bank Group. This meant that a group that is, by definition, narrow in its participants had someone who sought to represent the views of our clients, emerging market countries, including small island states, that would not have otherwise necessarily had a direct voice at the table. When I participated in the Financial Stability Board discussions (as a representative of the World Bank group including its private sector arm, the International Finance Corporation (IFC) and its investments in hundreds of financial institutions), I could bring to the table an informed voice reflecting this wide exposure. These are just two examples, but this is how we have to build forums where all our voices can be heard.

We can and we must choose a direction. We must be proactive and committed in the decision making, and that responsibility lies with each of us. Finance can save the world. It is a strong force that belongs to us and serves us. Finance is not the master and should not be allowed to be manipulated by the elites. Finance exists for the common good.

By using finance as our servant, we have the ability to hit reset. We can reposition its use. Finance is for everyone, and we need to use it accordingly. We need to set the agenda for financial inclusion and give access to everyone. Empowering people in the right way will reenergize the level of trust in the tool and enable all of us to assert our rightful authority over it.

We have to strengthen our multilateral approach. This is, however, not obvious for all, as we are reminded by an Op-Ed in the *Wall Street Journal* on May 30, 2017: "The world is not a 'global community' but an arena where nations, non-governmental actors, and business engage and compete for advantage. We bring to this forum unmatched military, political, economic, cultural, and moral strength. Rather than deny this elemental nature of international affairs, we embrace it."[1] I do not subscribe to this vision, as will become clear in the following pages. I believe that, despite territorial tensions, countries have to work together in a revamped manner. It is not easy or quick, but by walking down the path together in a cohesive, collaborative, and respectful way, we will have stronger outcomes. In times of difficulty, it is, of course, much easier to narrow our focus, adopt a nationalistic approach, seek higher levels of protectionism, all under the banner of helping ourselves first. This does not work anymore. Globalization and the deep level of interconnectedness we have are real and irreversible. Taking a narrow approach is destined to fail because complete sovereign control, in financial terms, is a myth. By contrast, moving ahead with multilateralism, albeit revamped, will be to the benefit of all of us. This is even more the case with finance, a fungible commodity that is blind to international boundaries.

*Now is the time to regain control over*
*money to serve the common good.*

Using finance will help us build a truly sustainable framework for development. It is inconceivable that development should be only short term in its outlook and unequal in its distribution. The immense power that we can unleash with finance is much more far-reaching that most people believe. We can drive growth through sustainable development. The goals outlined by the United Nations (UN) and endorsed by all nations are broad, but they set the compass in the right direction. This can be achieved only if the necessary financial resources are mobilized in a revised manner. We will not achieve sustainable development without a new sustainable approach to finance. Each of us needs to take ownership and change the way we think about and use finance. Whether we manage or invest money or are stakeholders in other ways (don't forget, ultimately it is almost always our money), we have a duty to make our voices heard. Invest responsibly in a clear and credible way, not just by paying lip service or seeking out the most benign hurdles to step over.

The decision before us as to which direction to choose is serious and must be accorded the appropriate level of respect and consideration. We should not make the mistake of thinking that our role is to be one of a passive actor or, even worse, a willing victim. Finance can be a force for good. It is a force that will not go away. We ignore our responsibilities at our peril. Taking back the power over finance means we can then undertake the changes that are needed to serve the common good. Regaining trust in the system after everything we have been through recently, and living with some of the undesirable consequences of that, is part and parcel of the new approach we have to adopt. Finance can save the world, but only if it gets the guidance it desperately deserves.

## *It all started in 2000 as a dream.*

Was the year 2000 just a dream? Perhaps. From May 1968, when I was born, until the dawn of the new millennium, imagination still held sway. Like many, I had hoped that there was a bit of magic at work, a mix of technology and a new and improved human race, with just a soupçon of the "end of history," per the famous phrase of Francis Fukuyama after the fall of the Berlin Wall. Then, as 2000 approached, we felt the anticipation of the Y2K (year 2000) bug, Europe's adoption of a single currency, and the ambition to remove the boundaries between nations to create a unified, limitless human race.

When that fateful hour arrived, we counted down the seconds separating us from the new age. We kissed our loved ones and shouted out our hopes for the New Year amid champagne and fireworks. We expected it to be magical. The hopeful feelings lasted throughout the year, culminating in September in New York at the UN headquarters with the largest gathering of heads of state and government the world had ever seen: the Millennium Summit, where humankind enthusiastically set goals for itself to accelerate the pace of development.

*All did not go as planned.*

More than 15 years later, and the world has changed so much. Yet the film doesn't quite match what that September 2000 trailer in New York promised.

Who would have thought in 2000 that a financial system thought to be synonymous with peace, prosperity, and progress would lead the world so close to the brink of disaster? The many crises of the 1990s seemed behind us. After years of turbulence, we hoped that the "Great Moderation" was bearing serious fruit. Who would have thought that Europe would be so close to crumbling, to failing, at the conclusion of a major humanitarian drama? Who would have thought that Kodak could go bankrupt, that the World Trade Center could fall? Who would have thought that China could in a generation overtake the United States as the top world economic power? Who would have thought that these same powers, and others, could one day sign the Paris climate accord together? Who would ever have thought that, as bright as the euro's future looks on the European continent, 52 percent of the British population would choose to withdraw from the construction of Europe?

*Unleashing finance led us to a disaster.*

All of this is to say that the years since 2000 have turned out to be tumultuous. We have all felt the splintering and fracturing that is still playing out, and we have yet to learn what these ruptures will make of us in the end. Our financial, economic, political, geopolitical, environmental, social, and cultural worlds are all changing.

The 2007–2008 financial crisis and the deep worldwide economic recession that followed have made finance the enemy in the eyes of many global citizens. Many current tensions throughout the world, starting with the hints of populism and nationalism, are an echo of the great disillusionment that has overtaken those who believed, since 1944 and the Bretton Woods Agreement, that the financial system would bring us economic development and guarantee international cooperation.

In the United States as in Europe and around the world, we can sense a deep-seated fear among populations who feel they may have been passed up by a movement they no longer understand, or perhaps they never did. The directions in which globalization and a united Europe are headed have never been so uncertain, never so weakly embodied by its leaders, and all the while, geopolitical tensions are rising around the world. Think of the thunderclap that was Brexit, the crises in Ukraine, the Sahel, the Sea of China, oil-rich countries, and the Middle East, the upswing in terrorist attacks around the globe, from San Bernardino to Lahore, Orlando, Copenhagen, Brussels, Paris, Nice, Istanbul, Ankara, Beirut, Tunis, Sousse, Bamako, Ouagadougou, Bagdad, Sana, London, and on and on. Advanced economies and emerging economies are regularly tempted to use strong-arm tactics to shape monetary policy, and some people are coming to realize that global economic growth might be entering a lasting era of stagnation, embodied in the unprecedented number of bonds with prices at low if not negative interest rates in a number of developed nations.

*A lack of confidence now dominates.*

Yet the world has never been so well equipped to deal with these threats! Humanity has never been so wealthy, so productive, so avid, so invested. But this amazing abundance is far from being equally split. Bit by bit, balance is actually getting harder to achieve, given the risks inherent in the management of big data and the Uberization of the economy—not to mention the climate threat and the acceleration of the rate of pandemics—in a world that is so well connected. The path globalization has taken is sometimes terrifying. To countries like the United States or France that have had so much influence over the shape of previous stages of globalization, this threat is even more dizzying. Our communities tremble at the idea of being passed by.

Faced with numerous uncertainties, humankind is also faced with an unprecedented crisis of confidence.

Confidence—in our future, in our colleagues, in ourselves—is exactly what we need at a time like this to meet the crucial challenges we can no longer avoid: the elimination of poverty, the preservation of peace and our climate, the reorganization of a digital civilization, the fight against pandemics. All these require, more than ever, our cooperation, our willingness, and our courage to get the work done.

*Nonetheless, humanity has committed to sustainable development and shared prosperity.*

As recently as 2015, we saw that humankind can still experience bursts of confidence and audacity: three successive international conferences, in Addis Ababa, New York, and Paris, gave us a year-long opportunity to come to an agreement on the decisive roadmap for the coming years with respect to development funding, the sustainable development of our planet, and the fight against climate change. All nation states have chosen and agreed on a roadmap for our planet. We do not have to invent anew. The roadmap is there for us to implement.

*We are at the crossroads. The choice is ours.*

We have to take these declarations of principle seriously. They are not just pieces of paper. They demonstrate our utmost desire, as a human race, for unity to overcome division. If only hope will continue to keep us above the cynicism and fatalism we have come to expect! And if we take these declarations seriously, we have to commit the necessary resources and financial tools.

We should not be naïve and underestimate these commitments or treat hope like a toy. These immense but necessary ambitions can become reality only if we manage to mobilize all our centripetal strength against the innumerable and often brutal centrifugal forces tearing us apart. By joining forces at all levels, we can defeat the forces of dispersion. Our lovely promises will come true only through united efforts between and within nations, and cooperation between public and private actors and the community at large. We must walk the same road together if we are to open up dialogue between multilateral international institutions and the various advanced, emerging, and developing economies, if we are to rebuild the connections in Europe, and in the 50 United States, and across the Pacific and Atlantic Oceans. And we must come together to make the G20, the group of the 20 largest economies of the world, more than just a yearly gathering of heads of state with little to say and even less to do.

Such mobilization is possible, I am convinced, having had the chance to participate in numerous summits, projects, meetings, and working groups during this period. But I also know that following that road of the declarations is not going to be easy.

## *Where do I come from?*

I have found myself in the position of a privileged witness and an actor, in the United States and in Europe, in some of these major changes that have happened in the world since 2000, in times both exciting and dramatic.

## *I have seen finance firsthand as a problem.*

I was an investment banker for Lazard in New York when the dot-com bubble burst. I saw the September 11 attacks from my window.

I worked in Paris alongside Michel Camdessus, managing director of the International Monetary Fund (IMF) from 1987 through 2000, and Jacques Chirac, then president of France, who led with Gordon Brown two of the major financial innovations for development in recent decades.[2] During the 2007–2008 financial crisis, I watched the collapse of a whole system from the inside, as a senior executive first for Crédit Agricole and then for Société Générale. Finally, at the World Bank, I was involved, to varying degrees, from Washington, DC in the three international summits in 2015 that may make it a historic year for decisions made in the name of humankind.

It was not destiny but rather chance encounters and assignments that led me to these experiences—which I joke makes me more like Forrest Gump than anyone else. I always thought that after finishing my degree, I would spend my whole career with the same government agency (the Ministry of Finance) or the same company. Life thought otherwise.

My meeting with Michel Camdessus, when I was the treasurer for the Semaines sociales de France,[3] turned out to be decisive, allowing me to work in multiple roles on the problems related to development. As a banker, and therefore thought to be an expert in international "liquidity," coincidence led me to work on the question of water with Michel Camdessus from 2000 until 2003 as part of President Chirac's team for the preparations of the G8 summit in Évian, France. Initially knowing little about the subject, I found myself reflecting on funding for water infrastructure and cowriting a book on the topic.[4] In turn, I also was the reporter for a working group on international funding innovations to relieve poverty, and I collaborated on the drafting of a report about ideas for new growth in the French economy.[5]

As chief financial officer of two of the largest global banks, occupied by the day-to-day management of the financial crisis, I never thought I could find the time again to reflect on these matters when, in 2012, I was asked to join the World Bank as managing director, with a broad financial mandate. I immediately accepted this opportunity to put the convictions I had gained from my experience into action: to make use of one of the best financial laboratories in the world to attempt to innovate for the public good, to demonstrate how finance might also contribute positively to the global market, rather than being reduced to the destructive force so cruelly unleashed in 2007.

In hindsight I appreciate how much these apparently unrelated, seemingly disconnected experiences actually make sense. They offered me a relatively complete view of the international financial system. Through various public and private sectors, at both the national and international levels, I was able to take stock from successive and diverse perspectives: as a civil servant with the Ministry of Finance, as an investment banker on Wall Street and in the City of London, as a commercial banker who was regulated, and later as a regulator and leader of a multilateral development bank. These viewpoints have given me an understanding of the limits of the system, as well as the potential for reinvention it harbors.

*I want to promote finance as a solution. And I have started.*

Working through the World Bank was, in this sense, a synthesis of all my past positions. In addition to seeing the potential for financial innovation, I was able to observe the system of international governance from up close, the many frustrations it created, as well as its profound utility. It is imperfect, and yet indispensable! My experiences revealed an exceptionally diverse world in which the elites are so alike and yet so different, with a common language overlaying so many singular life experiences. This commonality can help. It also sends a serious signal outside, which can raise widespread and legitimate questions about an aloof and disconnected global elite.

*Finance is an amazing renewable energy that needs to be controlled.*

The numerous professional trips I took also fed this vision. From the Salomon Islands to each of the BRICS nations (Brazil, Russia, India, China, and South Africa), I visited nearly one hundred countries, rich and poor. I was able to engage with people of all kinds and from all places, some ordinary, some extraordinary.

From these precious experiences and the many ideas they led me to consider, I learned a number of lessons that may be helpful to share today, at this crucial moment, with globalization and humanity at a crossroads. If I have but one conviction to share, it is that the mobilization of every source of energy is vital to combat the disruptive forces that threaten our world today. Such mobilization is, indeed, possible, as I have been able to prove several times over. I also know from experience that we are far from our goal—it is so much easier to play devil's advocate, to rest firmly on our preexisting interests and positions! The way we will be able to get all humanity working together is to share a clear vision of our future, to get a compass, and to have legitimate leadership to guide us and concrete means of cooperation.

*Finance is a tool to serve the common good.*

The financial catastrophe that occurred in 2007–2008 must not cause us to make mistakes: finance is not the enemy, for the simple reason that, in and of itself, it has no quality of being good or bad. It is only a blind mechanical force that, poorly used or unsupervised, could take a turn for the worse (as we saw with the subprime crisis), or, used well and properly maintained, can offer us something better: prosperity shared by all without harm to our planet (as seen with the development of the green bonds). Let us not forget that old saying "Money is a poor master, but a good servant." The same tool, used well or poorly according to the will of the actors, can lead to the creation or destruction of value. The same finance that took us to the brink of ruin can also lead us to the enrichment of billions of people. It remains a marvelous tool that allows us to work on projections and imagine and prepare for the future, managing risks, space, and time, and to unite humankind to build together, for everyone.

Our love for money has faltered, but perhaps all we need is a second honeymoon, a chance to find the feelings that led to its creation once more. To be proactive on purpose, isn't it time we rekindled our love for finance?

### *It is the hand that must control the tool and not the tool the hand.*

We won't accomplish anything by repeating our past mistakes. Although the temptation is real, we must find a better, more enduring foundation for reinventing finance by thinking harder about concrete and effective responses to the problems of the real world, beginning with those in development. By reconstructing the financial system, increasing the number of real innovations that lead to this extraordinarily inventive tool, we have the capacity to redesign in depth an inclusive globalization that benefits most people.

I offer this book not as yet another attempt by a "converted banker" to distract you from the difficult truths by pulling the same old tired tricks out of the magician's hat. Not at all! Having spent three years at the heart of one of the greatest financial laboratories in the world, having had the chance to participate in large-scale financial projects that were both generous and ingenious, I have acquired a clear conviction that financial innovation *can* accomplish great things in the service of the common good, and that multilateral institutions have a key role to play, thanks to their credit, the quality of their human resources, and their mission. But they certainly won't do it alone, and they won't do it simply "as is"! Change is needed, and at scale. If change does not occur, temptation will remain to allow finance to play its own game. Remember the (in)famous words of Chuck Prince, former chairman and CEO of Citigroup, as reported in the *Financial Times* in July 2007: "As long as the music is playing, you've got to get up and dance." I don't think we can afford to let the same thing happen again.

*Regaining control over money requires a collective effort.*

Obviously, regulators, more than anyone else, have a crucial role to play in finding an appropriate, holistic setup for a system that has little by little been limiting itself solely to the banking system. Financial players, starting with institutional investors, also have to play a critical role in directing their resources toward sustainable projects. Multinational companies are beginning to participate in the movement themselves, to respond to the growing concerns of their current clients and their future stakeholders. In this new financial coalition, for which I have high hopes, international organizations, forums, and development groups will play a key role as catalysts. Civil society will also have the responsibility to weigh in on this interplay, to support it, and to push it forward. Through these united efforts, leveraged by and through the tool of finance, we can change the game; we can carry out this revolution that will have us looking back on 2015 as the year we made history together.

Throughout this book, I take the reader through a brief history of some key steps and discussions that have taken place at different places around the world. Part 1 touches upon critical moments and gives context to the main thesis of the book: finance, when controlled, can be the best servant to each of us, not just for an elite few but for everyone.

The recent financial crisis triggered perhaps the greatest and most sustained criticism of how finance has been manipulated to create a complete distortion of wealth and power. The evaporation of trust has resulted in debates about the very nature of money and the role it plays in society. These are the aspects I cover in Part 2, where I call for a return to basics and discuss how changes have begun.

Part 3 addresses the renewed international cooperation and how we all need to take seriously the commitments made in 2015, not just treat them as good words to be lost to history. Along with this, we need to take stock of the ongoing changes in the financial world. The business model of the banks is changing; their role is also being modified, particularly against the backdrop of a more prominent position being taken by institutional investors. In the public sector, various elements are also increasing the pressure on the multilateral banks, forcing them to adapt to a different world of greater public finance constraints and driving them to redefine their role.

The separate pressures on the private and public sectors are precisely what are causing both sides to rethink how they must work with one another. This discussion is compounded by the low or negative interest rate environment and the ever-present search for yield, expectations of a new generation (the so-called millennials), massive disruptions brought about by technological revolution, and the lack of trust in the system following the financial crisis. All of these elements are helping to foster a new framework within which to discuss the role of finance. How do we make best use of all the available resources in order to mobilize finance to lead to greater, sustainable development?

Part 4 discusses how this cooperation can be achieved through a new way of joining forces, at scale, because of the environment we have found ourselves in and our new set of expectations. What is discussed is not revolutionary, but it is far-reaching in its potential impact. Working together by its very nature will require a resetting of incentives and drivers of actions at every level, not just in how our financial institutions are regulated or through the reform of international organizations.

As is often the case, it is obviously easier said than done since there is no single point of decision. That is why the following pages might sometimes come across as being naïve or vague. On the one hand, this is true, but there is no easy prescription. Rather, it is a call for action based on what I and others have been able to do over the past few years. It is not and cannot be the so-called elites speaking to the elites, but it must include everyone, each of us making a difference. It is about what we want our banks, pension funds, the people who manage our assets, our governments, the international organizations that act on our behalf, and the NGOs to do with the resources we have granted them, whether through the taxes we pay or through entrusting them with our savings or gifts.

Finance can make a difference if pressure is applied throughout the system, not to different silos but across the board as a unified force. We have an opportunity to shape a genuinely new framework that would replace the one that began in the 1970s but that finally collapsed with the financial crisis.

Tangibly, this means reinforcing core values that should affect products, markets, and behaviors. These must be taught and monitored as well as regulated and supervised. The core values must include ethics, accountability, intelligibility, and they must be ingrained into how people operate every single day. I also try to make sense of the various innovations at play everywhere, such as green finance, which are still not central but are gaining momentum.

In discussing how to renew international cooperation, I remind the reader of the universal nature of finance and money and why this requires, more than anything else, a concerted approach. However, international cooperation should not just be a place for regulation. It should also be a place where we collectively decide to work better together and use finance in a useful manner for all. We have created institutions and forums of all kinds since 1944, such as the UN, the Bretton Woods institutions (the IMF and the World Bank), and the various *G*s (Groups, including the G7, G8, G20, G24, and G77). They are not always as effective as one would expect; reform is needed as well as continual evolution. Nonetheless, they are what we have today, and we can make good use of them; it is time to shake the tree and demonstrate that we can do something like mobilizing the various resources to address the infrastructure gap.

A critical question before us is how to finance the sustainable development of our planet. We have agreed on a set of objectives. However, to achieve them we need to shift the financial paradigm and mobilize the different kinds of finance and actors that are required. This is what I have called "the billions to trillions" roadmap: the needs are in the trillions, but public aid is in the billions. How we bridge this gap is key. I review what in particular the multilateral organizations should be doing and how to better leverage these platforms. I talk about the importance of a renewed way for the public and private sectors to work together, going beyond the traditional public–private partnership (PPP) approach. I discuss how this can work, notwithstanding the differences and suspicions between the public and private sectors. I conclude by highlighting specific areas—such as education, pandemics, or road safety, to name but a few—where this approach can continue to be implemented.

*Finance can become the great servant.*

Although finance was certainly part of the problem, today it can be part of the solution, too. We are poised to make good on our great ambitions for development and climate change that we set in 2015. Our top priority, for all of us in the public, private, and civil sectors, is first to accept our challenge (it would be too easy to call it impossible and give up), then to roll up our sleeves, all together now, and to put back the pieces before us in the best possible configuration.

Hope could well become a credible option for us to achieve this undertaking. It can move us off this trajectory toward fragmentation and reorient us more positively toward unification and progress. With a reset finance, we have a chance to truly achieve our goals for sustainable development. What comes next has not yet been written:

we are standing at the brink of the best of times, or the worst. This informed and practical account can help global decision makers lead us in a positive direction, and can help all of us push them, and the system, in an appropriate direction.

As Saint-Exupéry says, "Your task is not to foresee the future, but to enable it."[6]

It would be to our advantage to acknowledge that the euphoric predictions that preceded the crisis have not come true. As the queen of England famously asked economists in 2008, "Why did nobody notice it?" Now is the time to enable that future to come true. There is still time to change course and be serious about the eradication of poverty or to address the issue of climate change—but we need to move now, decisively.

# PART ONE

## *Despite Being Led Nearly to Ruin, How We Can Still React*

Part 1 addresses how, notwithstanding the best of intentions, we were almost led to ruin and how, despite this truly precarious journey, we were still somehow unable to react. It looks at the period since 2000 and forms the foundation for understanding why we are where we are today, whether or not we have real choices, and what those choices might be. Part 1 examines the alternatives we are facing and assesses the crossroads at which we find ourselves.

I discuss how the financial crisis not only interrupted the plans we made for the new millennium but also undermined them, potentially causing massive disruption. This experience drives our need to ensure that we regain control over the most powerful tool, finance. By asserting our rightful ownership over it, we can reorient our direction back to achieving and delivering on the millennium undertakings. The undertakings that were made as we crossed into the new millennium set out a path of sorts, with guardrails for us to move within. I look at how after we were shunted sharply off course by the financial crisis, we were then buffeted by understandable reactions, leading to a rise in populism and to the arrival at a point of inflection, a key decision point.

In Chapter 1, I recall the hopes we had at the turn of the millennium, and what actually unfolded. I look at the developments of emerging markets, the digital revolution, increasing levels of urbanization, the growing role of the private sector, and evolution in our governance. Chapter 2 focuses on the financial crisis and how we let the financial genie out of the bottle and how it led us toward catastrophe. Chapter 3 looks at the loss of trust in the system (the most valuable form of capital we have) and the very real challenges and difficulties we have in restoring that trust. Chapter 4 assesses the efforts of the 2015 initiatives that sought to find a shared purpose for the nations of the world. Chapter 5 discusses the headwinds we have faced and the ensuing geopolitical issues, all of which make our efforts more important. Chapter 6 continues the discussion with a look at the political unrest that has swept across many countries. Chapter 7, the final chapter of Part 1, focuses on the challenge before us. It is a transition to Parts 2, 3, and 4 and questions whether we can rise to meet the expectations and regain our rightful control over finance in order to better serve the common good. I talk about what the right path could be and the benefits that could be realized from making the right decisions, the brave decisions.

# CHAPTER 1

## *High Hopes from the Millennium Summit*

The queen raised the right question: why did nobody notice it? Many thought that we had found the recipe for everlasting and shared prosperity. We believed that with the progress of finance we had found the way to propel the world if not to save it. To understand what happened, we need to think back a few years and remind ourselves what it was like to be at the dawn of the third millennium. And then we must try to answer the question: what went wrong? This is the objective of the first five chapters. Chapter 1 focuses on the years before the financial crisis and questions why it did not turn out according to the plan set up in New York in September 2000. It describes the environment that allowed the crisis to happen and against which finance needs to be rethought. Finance and its reform cannot be condensed in isolation.

The dawn of the third millennium filled us with great hope. The last decade of the 20th century had left everyone feeling a bit lost, vacillating between the highs of the fall of the Berlin Wall and the Soviet Empire, and the lows of the Gulf War and the debate in many nations about globalization that seemed "delightful" to some and "horrific" to others. Development, public aid, and the mobilization of nations were faltering at the starting line. The symbolic arrival of a new millennium created a historic opportunity to reset the counter to zero.

### *Soaring Hope in 2000 with the Adoption of the Millennium Development Goals*

The 189 member states of the UN seized upon this positive mood to reaffirm their faith that lasting peace and international security can be possible only by guaranteeing the economic and social well-being of all people. The leaders of the member states hoped to define and implement a new strategy of cooperation, adjusted to the realities and changing needs of the 21st century.

The leaders met on September 5, 2000, in New York, in what was the largest meeting of heads of state and government the world had ever seen, the Millennium Summit. Guided by the idea that every program should focus on humanity to construct a global community that leaves no one behind, this Millennium Summit concluded with the unanimous adoption of a solemn declaration, the Millennium Declaration: eight objectives for fair and lasting development, created and promoted in large part by Kofi Annan, the secretary-general of the UN at the time, to be achieved within the next 15 years.

The Millennium Declaration was a turning point. For the first time in history, humankind gave itself unified and measurable goals in a form different in substance from the usual declarations or the previous "consensuses." The resolution brought together in a single text all the objectives that had been set at various international conferences in the previous decade. "It is a vastly useful initiative," noted our working group in 2004, focused on water. "The odds are most [heads of state] have forgotten these goals. It covers the whole of the tasks set out for the nations of the world—North and South combined—for the human community. They should be taught in every school and posted at every town hall."[1]

The Millennium Development Goals (MDGs) set eight grand principles and concrete objectives that constituted a global plan of action broken down into 20 quantifiable tasks, each measured by 60 statistical indicators. The plan offered precise, quantifiable measures in the fight against extreme poverty in all its dimensions. In theory each country's budget would reflect these priorities, because they flowed from a "respect for the fundamental goals of the entire human family" (see the box on the next page).

The Millennium Development Goals were still focused on public action, public influence, and public methods. That would change at the UN conference in Monterrey, Mexico, in 2002, but cooperation wasn't yet thought of as truly multidimensional, spanning businesses, financial institutions, and civil society. It remained confined to the relationships among individual nations—but the idea of partnership was gradually gaining traction. Development funding focused on financial transfers from northern countries to southern countries, according to the principle of solidarity reaffirmed by the UN, in which there are bilateral transfers of public funds balanced out by the cancellation of a share of the debt of the countries receiving aid.

This public mobilization to serve the common good appeared to be unquestioned, at least while the global economy remained strong. We were still in the era of "Great Moderation," as later economists called it, and global growth was supported by an international financial system that seemed incredibly efficient in terms of the wealth it was able to create and redistribute. The challenge of achieving the MDGs was foremost a challenge to increase state and international institutions' contributions to official development assistance (ODA).[2] Could humanity get there? It was up to the public sector to answer that question.

## *Fifteen Years Later—Did We Do It?*

Although we clearly could have done better, the extraordinary momentum with which the world united in 2000 pushed us to achieve an unprecedented number of goals in the 15 years. In less than one generation, developed nations increased their ODA by two-thirds, from $81 billion to over $130 billion.[3] Debt–service ratios dropped to

### THE MILLENNIUM DEVELOPMENT GOALS

1. **Eradicate Extreme Hunger and Poverty**
    a. Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day.
    b. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
2. **Achieve Universal Primary Education**
    a. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
3. **Promote Gender Equality and Empower Women**
    a. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.
4. **Reduce Child Mortality**
    a. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
5. **Improve Maternal Health**
    a. Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.
6. **Combat HIV/AIDS, Malaria, and Other Diseases**
    a. Have halted by 2015 and begun to reverse the spread of HIV/AIDS.
    b. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

continued

one-fourth of their 2000 levels, thus reducing the financial burden on developing nations, even if not always to a sustainable point.[4]

This historic progress can be attributed to a long list of factors, led by economic growth, most spectacularly that in China. Because of this, many development problems are now on track for resolution. For

7. **Ensure Environmental Sustainability**
    a. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.
    b. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.
    c. Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers.
8. **Develop a Global Partnership for Development**
    a. Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system.
    b. Address the special needs of the Least Developed Countries (LDCs).
    c. Address the special needs of landlocked developing countries and small island developing states.
    d. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.
    e. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.
    f. In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
    g. In cooperation with the private sector, make the benefits of new technologies, especially information and communications technology, available to all.

instance, by 2013 the number of individuals living below the international poverty line had fallen by 500 million.[5] By 2008 real advances had occurred in the wider availability of AIDS treatments, increased agricultural productivity, higher education rates, and greater access to clean water and sanitation.[6] By 2010 the rate of people without access to improved drinking water had been reduced by half. In 2012 the UN confirmed that it would be able to reach its goal of reducing poverty worldwide by 2015. Some 200 million people living in slums had already seen an improvement in their living conditions—exceeding the goal. In 2012 equality in primary education between boys and girls was also achieved.[7] This is the glass half full.

Of course, major challenges remain, beginning with the great disparities we still see between countries and among the various populations within individual countries. China achieved rapid economic growth, but progress was uneven in Africa, less developed countries, landlocked countries, and small isolated developing states. Some MDGs have not yet been achieved: those in maternal, neonatal, and infant health, and in the eradication of hunger. In 2013 one out of eight people still went to bed hungry.[8] Despite concerted efforts, ODA has not yet reached the target level, 0.7 percent of the gross national product (GNP) of every developed nation, identified more than 40 years ago. This is the glass half empty.

### *Humans Planning and Realities Intervening*

The first 15 years of the new millennium did not unfold according to plan. The world become much more complex, and events took some dramatic turns. We are still not sure where those transformations will take us. The changes that touched us are multiple and profound, and their effects are still being felt.

### *A New Economic Cartography: The Rise of the Emerging World*

The first major change completely redrew the global economic map. While packing for my move from Paris to Washington in early 2013, I came across a box of papers that contained notes from classes I had taken in preparation to attend business school. In 1985 and 1986, we were still talking about Soviet planning and the reforms of Stalin and Brezhnev. These subjects seem outlandish today! At that time, only the four Asian Tigers (South Korea, Hong Kong, Singapore, and Taiwan) and Japan were thought of as economic powers by the West: China was in the background, India was considered a lost cause, and the running joke about Brazil was that it was a country "with potential" but no energy. The G7 (Group of Seven) nations dominated the world, and the European Union was ascendant. For the years leading up to 2000, we walked a well-trodden path—at the time, we didn't even have the acronym BRIC (Brazil, Russia, India, and China; coined in 2001, it became BRICS in 2011 with the addition of South Africa). Today we take for granted the emergence of powerful economic competitors to the traditional economic powers—but who would have believed, even in 2000, that China could in the foreseeable future surpass the United States as the top world economy?[9] Who would have believed that France would have to bitterly settle for a ninth-place ranking behind the two economic giants, followed by India, Japan, Russia, Germany, Brazil, and even Indonesia?[10] And who would have believed that in 2012 India would attain a GNP so large that, added to China's, the two would be expected to quickly surpass the total for the combined G7 economies?[11] This transformation of the world economic map, created by the growing power of emerging economies, could have large and severe repercussions on development funding.

## *Demography Prevailing*

The second major structural change, closely linked to the first despite how often we underestimate the connection, was the toppling of the balance of world demographics. Today, there are 1 billion more of us than in 2000, a total of 7 billion inhabitants on earth; another 1 billion inhabitants are forecast for 2030. This demographic explosion, however, has not been evenly distributed: some countries are aging while others are getting younger; some populations are dwindling while others are exploding. These changes in demographics are redefining the relationships between the global economic powers. Aging populations mean lower average incomes with higher health expenses, which put a strain on GNP, reducing innovation and resulting in slower growth for the nation—not to mention a smaller army, which weakens the sphere of influence militarily.

Older industrial nations like Japan and nations in Europe, and perhaps soon the United States should it choose to build barriers to immigration, are seeing demographic decline and risk being overtaken by countries with younger populations, such as Indonesia, Brazil, Mexico, or Turkey; thinking more long term, they could also be overtaken by countries in sub-Saharan Africa, which are in the middle of a population boom (by 2100, the continent will make up over one-fourth of the world's population). The intermediate case, China, is interesting: this emerging power could age out before it becomes wealthy, given the reduction of its active population in the past two years resulting from 35 years of having a single-child policy (now officially ended).[12] Immigration restrictions are also having an impact in China, as they have to a lesser extent in the United States and Europe. Will emerging markets be able to reverse this trend? The outcome is less than certain. The Chinese will have to transform their demographic "weight" into demographic "dividends"—meaning they will have to succeed in attracting more working-age adults than children under the care of adults—in order to support their economic growth. One thing is certain: in the space of a single generation, these demographic trends have already begun to reshape the global hierarchy.

## *Galloping Urbanization*

Another consequence of the demographic explosion, in itself a fundamental change from the past 15 years, is the rampant urbanization and emergence of metropolises that is redefining the sovereignty of space in the United States and beyond. "Who knows of this city?" asked the three directors of McKinsey Global Institute,[13] evoking the case of Kumasi, a city in Ghana most people had never heard of, with a population in the millions. Like Kumasi, cities with more than 1 million inhabitants are cropping up like mushrooms in the emerging areas of the world with such speed that we no longer have the time to even learn their names. China alone has more than 40 cities, such as Luoyang, with more than 2 million inhabitants.[14] Africa now boasts more than 50 large cities. And while more than half of humankind has lived in cities for a long time, a growing proportion is concentrating in these unknown metropolises, which are starting to compete for power with national governments. The McKinsey authors postulate that by 2025, a single regional city in China, Tianjin, will have a GNP equal to that of Sweden, and that in the decades that follow, half of the world's economic growth will come from 440 cities, like Kumasi or Santa Catarina, Brazil. This boom of "subsovereigns," to use the international jargon, has a major significance with respect to the architecture of regional and global power, in economic, political, and even cultural terms. My wife discovered this after driving two hours from Shanghai to deliver a speech at a brand new, gigantic university that partners with Duke University (Duke Kunshan University); the world no longer revolves around just the Sorbonne, Oxford, and Harvard.

Another major issue in urbanization is the sustainable development of cities and their ability to accommodate population booms with adequate infrastructure and measures to combat inequality. The concentration of humanity requires modernization and rationalization, in other words, which require considerable investments that not all cities are able to make, even if they know where to begin. For example, I had an interesting and emotional conversation on this topic with M. Y. Nawandish, the mayor of Kabul, whose population today numbers a shocking 7 million and 1 million cars (compared to 600,000 inhabitants and a few dozen cars in 2002, when America entered Afghanistan). How can a city absorb such an influx when it has practically no paved roads and unstable access to water and electricity, and people are not safe on its streets? Which fix should be the first priority?

I was equally touched by a trip I took to Jakarta that offered a window into an Indonesia with mind-boggling economic growth but still massive inequality: the contrast between the worst slums, which I visited in the morning, and the huge Maserati retailer displaying his goods in the city center a few hours later next to a Bell & Ross boutique was striking. It shook up my take on the MDGs: although we had technically achieved goal 7.c ("Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers"), urbanization has progressed so fast that we have not improved conditions for many other people.[15]

### *A First Hint of the Global Financial Crisis*

Another change that has made the situation more complex in recent years is the 2007–2008 financial and economic crisis, the magnitude of which no one in 2000 could have imagined. We will get into this in greater detail in Chapter 2. For now, let's just remember that the crisis has been shown to be possibly more significant than the one in 1929, which led us into one of our darkest times. Truly, in 2007–2008 we feared we were just a step away from the collapse of the global financial system. Once we saw that the system would hold, the cards were reshuffled: from a debt-based system dominated by banks, the world has turned to a system more and more dominated by institutional investors and asset owners like pension funds. This is a major change in terms of its implications for the funding of economies and development, monetary policy, investment techniques, and more. The crisis also created a system that appears to defy reason, where up to one-third of global public debt has at one time been contracted at negative interest rates, and "central banks" have lived up to their names better than ever. In short, the financial phase of the crisis set in motion a long cycle of global recession and threatened many of the development goals set in 2000. For example, the jobs deficit, affecting youth in particular, grew by 67 million around the world between 2007–2008 and 2013.[16] ODA growth slowed over the long term, a reduction that primarily threatens those countries that are already the most fragile.

## *Private Initiatives Everywhere*

The developments in the first decade of the 21st century brought about another decisive change, this one much more positive in my eyes: recognition not of the "end of history" but of the role of the private sector and the market economy in development. This is likely one of the most significant and least visible changes since 2000. Although the MDG strategy leaned heavily on ODA growth, in 15 years, this has actually declined relative to other sources of funding, such as foreign direct investment, funds transfers (remittances), and, more broadly, the influx of private North–South and South–South investment. We are seeing a real seesaw movement: compare the $135 billion that ODA had reached, year in and year out, by 2015 to the $435 billion of funds transfers initiated in 2014 by migrants. This impressive total, which grows every year, is fragile in nature: migrants from Georgia, Kazakhstan, and Central Asia who worked in the petroleum industry in Russia lost their jobs with the drop in oil prices, and many find themselves unable to send money back to their home countries. We should watch this issue closely, since some countries have become dependent upon this source of funding: funds transfers by migrants represent 42 percent of GNP for Tajikistan, 32 percent of GNP for Kyrgyzstan, 29 percent for Nepal, and 25 percent for Moldova.[17] This kind of reversal requires that the situation be reconsidered: What role could ODA play here? How can these precious dollars best be used? How can we transform these public transfers into catalysts?

Finding answers to these questions is even more important because we now understand that the private sector (large companies and small- and medium-size businesses alike), far from being the devil, is actually the engine for growth. The World Bank estimates that 600 million jobs must be created in the next 15 years, or more than 3 million each month, to keep up with population growth. Civil service jobs certainly won't fill all this need! My trips to Africa support this statement: The primary problem for heads of sub-Saharan states, whose employment markets grow more abundant each year by the hundreds of thousands, and even by millions of youths, is how to create enough jobs for them. The question is even more crucial in countries like Côte d'Ivoire, which is coming out of a decade of civil war and needs to rehabilitate and reintroduce thousands of child soldiers into society. When the World Bank sets up training programs for masonry, carpentry, hairdressing, and similar occupations, the graduates must be able to use their training to find a job and to integrate into a real economy, or else we condemn these youths to picking up arms again. Interestingly enough, one of the keys to promoting this environment is an emphasis on a favorable climate for investment, good governance, and business.[18]

### *The Digital Revolution: On Its Way*

Finally, let us not forget the pervasiveness of the digital revolution, among the great global transformations that have occurred since 2000, with all the opportunities and pitfalls it brings. When we entered the third millennium, obsessed as we were by the fear of a worldwide year 2000 (Y2K) bug, we still wondered what the Internet might become besides just another shiny gadget. Fifteen years later, many companies bear witness to its effects: like Kodak, many went under, unable to adapt to the new world in which any smartphone has a hundred times the horsepower of the 1969 NASA supercomputer that got us to the moon. So many things have changed in the

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