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## Event Report

# “Global Challenges and ‘Private Equity for Villages’—‘There is nothing hopeless in this agenda’”:

## A Presentation by Jeffrey D. Sachs

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*Jeffrey D. Sachs, director of the Earth Institute, Quetelet Professor of Sustainable Development and Professor of Health Policy and Management at Columbia University, visited Columbia Business School on November 6, 2008. Professor Sachs, who is also special advisor to UN Secretary-General Ban Ki-moon, former director of the UN Millennium Project and special advisor to United Nations Secretary-General Kofi Annan on the Millennium Development Goals, and president and cofounder of Millennium Promise Alliance, shared his thoughts about the world’s biggest challenges. He also presented an alternative to microfinance and a means to creating the groundwork for global solutions.*

Uris Hall’s Room 301 was bursting at the seams as Jeffrey Sachs presented his theories on the causes of some of the planet’s most pressing problems and proclaimed “open season” for business school students’ involvement in solving them. As crowded as Columbia Business School’s largest lecture hall was, Professor Sachs made it clear that the world outside was not in danger of being any less densely populated. Population density, in fact, is at the root of the five branches of thinking he presented in describing his view on the world and its imminent challenges.

Professor Sachs began with what he termed the “eco-tectonics of the world economy.” Massive shifts in various areas of world activity are causing proportionate and long-term changes in the way the world economy functions. The rise of Asia in recent years reminds Professor Sachs that through much of history populations had proportionate shares of GDP.

Accordingly, Asia ruled the world economy for nearly two millennia of human history: for example, he said, “China was the world’s tech leader from 500 to 1500.” Then came the rise of the West with the Industrial Revolution. By the mid-20th century, Asia had 60 percent of the world’s population but represented only 20 percent of its GDP. The trend is now in reverse—“We are in a process of catch-up now,” Professor Sachs said—and this has great significance in shaping the macroeconomic forces we will need to understand moving forward. The current focus on the savings rate among the Chinese (and the Asian Tigers), and its role in the credit crisis, is a strong example of Professor Sachs’s claims.

Next, the persistence of poverty is a factor that, Professor Sachs said, “violates the principle of catching up.” It is the stumbling block to any progress, and it is easily demonstrable. For example, the population of sub-Saharan Africa doubles each generation, yet its GDP has remained flat over the past 25 years. The direct symptoms of poverty are obvious, but secondary symptoms are just as detrimental: in areas of poverty there is often no schooling for females, which in turn feeds the lack of awareness about contraception and family planning, which leads to continued population growth. The 800 million people of sub-Saharan Africa are projected to grow to 1.8 billion by 2050. “This,” Professor Sachs said, “would not just be a disaster for Africa, but for humanity.”

With regard to the environment, the bottom line for Professor Sachs is sobering and simple: “This subject is much worse than you think,” to the point that it cannot be a side issue any longer. Professor Sachs shares the increasingly consensus view that climate change is caused in large part by human activity and that global warming has the potential to become self-sustaining. “If we reach the climate tipping point,” he said, “we won’t have a second chance” to address the issue. The atmosphere is also not the only area where Professor Sachs sees a self-reinforcing cycle of destruction. The increase in population, coupled with the resulting increase in consumption, leads to increased demand on crops and increased fertilizer use, which lead in turn to species loss and nitrogen deposits that have created “130 dead zones in the world’s estuaries.” After citing Malthusian arguments about the planet reaching its finite limits to feed its inhabitants, Professor Sachs said, “We did not solve the Malthusian problem. We just learned to mine better. We’re so smart that we catch more fish, dig deeper and deplete faster.” Again, population growth is central to these problems, he said: “Geometric growth is putting us at dire risk.”

Professor Sachs made two main claims related to global health, his fourth central point. First, population growth pushes people up against animal habitats, which makes those people without immunizations susceptible to animal-borne disease. AIDS, SARS and other zoonotic

diseases have arisen in this manner. Professor Sachs said that H5N1 has a “high probability of becoming a massive epidemic.” Second, nourishment is a problem. Professor Sachs said that 4.5 billion people are chronically malnourished, a shockingly high proportion of the world population. In America and other developed countries, he said, obesity is in part an economic phenomenon: poorer people use less healthy foods because such foods are cheaper.

Finally, societies crumbling under the weight of these four challenges turn to conflict. Persistent and obvious evidence of this can be seen, particularly in Africa. But there is also a growing public understanding of the systemic connections between resource use and the political economy, and resource use’s extension into foreign policy. China’s well-documented resource-buying trips around the globe are an obvious example. Recent reporting on the current economic crisis takes a similarly holistic view, citing the fear that a persistent global downturn may cause disproportionate damage to emerging economies, which may “slip back” into conflict and social unrest after several decades of wealth creation and poverty reduction.

Professor Sachs’s description of these five branches, or tenets, left the large room in silence. Hearing such facts and prognoses during the dismal fall of 2008, no less, made for a double dose of MBA sobriety. But Professor Sachs did not come to Columbia Business School as a harbinger of doom.

His presentation, in fact, focused as much on business thinking as on policy as a fundamental ingredient of any solution. “It fundamentally changes life,” Professor Sachs said, when the “markets do the heavy lifting.” He cited the prevalent use of cellular telephony by the poorer world population as evidence of humanity’s ability to rapidly create systemic changes. Such lessons can be applied to changes that he sees as vital to the future survival and prosperity of humanity. “We’re going to have to overhaul major tech systems,” he said. “The power system will look very different in 30 years.” Examining the requirements of a new-generation power system for the world, however, illustrates what Professor Sachs sees as an inevitable linkage between public and private in the future: “Markets alone do not steer major, all-pervasive changes.”

Thus, policy does the steering, and markets do the lifting. This was a prescient metaphor, coming as it did before the Obama stimulus and budget plans and the Geithner public-private mechanism for purchasing toxic assets. Professor Sachs hit upon the flip side of yet another increasingly consensus piece of public opinion that has arisen in the midst of the current crisis: that the Reagan-era legacy of deregulation and market rule may well have ended.

Where do Professor Sachs’s sharp insights and painstakingly documented trend analyses lead? He proposed that “private equity for villages” may well be a valid model for localized solutions that feed into global, systemic change. He called upon the business students present to get involved in creating business plans for enterprises in the developing world. While microfinance has brought about substantial change in poor regions of the world, Professor Sachs said, it is not enough. A more fundamental, systemic solution is required—a foundation of infrastructure and basic integration of the population, which perhaps is even a prerequisite to microfinance—and small businesses in the developing world are ready for it, he said. This aspect of Professor Sachs’s thinking, and his insistence that young business leaders should be involved, also proved timely, given the School’s fall-semester classes Innovation in India and Private Equity and Entrepreneurship in Africa.

If, however, the solution to these five areas of challenge requires uplifting the poor of the world engagement at the village level, then the problems are certainly enhanced by waves of defensive capital flows out of the emerging markets in the recent months of economic displacement, freefall and, perhaps, panic. One wonders how private equity, despite its evident push into the developing world in recent years, can take on such a task when its own model is burdened by the siege of public opinion, the fire sale of limited-partner interests on the secondary market and the uncertainty of regulatory and tax policy in the West.

And as Professor Sachs has since noted in public opinion pieces, the West’s thinking has turned inward toward solving its own homegrown financial and economic problems. As a result, the localized solutions for the billions of nonparticipants in the global economy he described in his talk may now be out of sight and out of mind.

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