



# Lawrence Summers

## The Bank Memo



On December 12, 1991, the chief economist for the World Bank, Lawrence Summers, wrote an internal memo that was leaked to the environmental community ...

### The Memo

DATE: December 12, 1991  
TO: Distribution  
FR: Lawrence H. Summers  
Subject: GEP

'Dirty' Industries: Just between you and me, shouldn't the World Bank be encouraging MORE migration of the dirty industries to the LDCs [Less Developed Countries]? I can think of three reasons:

- 1) The measurements of the costs of health impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that.
- 2) The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost. I've always thought that under-populated countries in Africa are vastly UNDER-polluted, their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City. Only the lamentable facts that so much pollution is generated by non-tradable industries (transport, electrical generation) and that the unit transport costs of solid waste are so high prevent world welfare enhancing trade in air pollution and waste.
- 3) The demand for a clean environment for aesthetic and health reasons is likely to have very high income elasticity. The concern over an agent that causes a one in a million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under 5 mortality is 200 per thousand. Also, much of the concern over industrial atmosphere discharge is about visibility impairing particulates. These discharges may have very little direct health impact. Clearly trade in goods that embody aesthetic pollution concerns could be welfare enhancing. While production is mobile the consumption of pretty air is a non-tradable.

The problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalization.

### Postscript

After the memo became public in February 1992, Brazil's then-Secretary of the Environment Jose Lutzenburger wrote back to Summers: "Your reasoning is perfectly logical but totally insane... Your thoughts [provide] a concrete example of the unbelievable alienation, reductionist thinking, social ruthlessness and the arrogant ignorance of many conventional 'economists' concerning the nature of the world we live in... If the World Bank keeps you as vice president it will lose all credibility. To me it would confirm what I often said... the best thing that could happen would be for the Bank to disappear." Sadly, Mr. Lutzenburger was fired shortly after writing this letter.

Mr. Summers, on the other hand, was appointed the U.S. Treasury Secretary on July 2nd, 1999, and served through the remainder of the Clinton Administration. Afterwards, he was named president of [Harvard University](#).

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