Remarks
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Good evening, Ladies and Gentlemen:

I'm grateful for this opportunity to speak with business and economic writers from around this country. We at The World Bank welcome every opportunity to have an exchange of views with the press.

As an institution owned by the governments of 144 nations, the World Bank has an obligation to inform both the governments and their peoples about what it is doing. We believe, as well, that by being open with the press we can contribute a little towards greater public understanding of some of the pressing issues of our time.

I would like to talk to you tonight about one such issue: the interdependence of the developing and industrial worlds; how neither can thrive without the other; and how a healthy global economy, which we just don't have at the moment, depends on cooperation within the international community to make it, and keep it, healthy for all.
The World Bank has a role to play in that cooperative effort, and it should be an expanding role. So I want to talk about that too.

Finally, I will have a few words to say about the role of the business and economic press. The greater the public understanding of the issues, the greater the prospect that the right solutions can be found and supported.

I need scarcely remind this audience that the global economy has, for some time, been in a poor state of health. But there are some indications that we might now be emerging from the longest, and most severe, recession in four decades. It's possible that the gross national product of the United States may grow by more than four percent this year. And the situation in some parts of Europe may also begin to improve soon. But the challenge of securing sustained, non-inflationary, economic growth on a global basis remains a very great one.

Meanwhile, the recession has taken a very heavy toll. In the industrial nations, more than 30 million people are unemployed. In the developing nations, the living
standards of hundreds of millions of already very poor people are falling. And last year, thirty developing countries had negative growth rates.

Economic recovery in the industrial world, much needed as it is, will not, of itself, dramatically reverse these negative trends in the developing world. The damage already inflicted by the recession has been substantial. And it will take time, resources, and skillful economic management by the developing countries themselves, to repair that damage.

We must also be alert to the danger that the still deepening recession in the developing nations could retard the rate of economic recovery in the industrialized world. So, we're nowhere near out of the woods yet.

What should be done, then, to secure sustained, non-inflationary growth of the global economy? The first essential is to agree that the measures taken must be internationally coordinated. There can be no recovery and return to growth unless the industrial and developing nations recognize today the extent of their interdependence and act accordingly.
Let me suggest three essential measures: the avoidance of new inflationary policies; the creation and guarding of a truly open trading system; and the securing of adequate flows of international capital to the developing countries.

The last few years have seen a substantial and welcome fall in inflation rates. If this price stability can be maintained then real rates of interest will surely decline. In the international context this is significant, for high interest rates have been an important disincentive to investment. They have also been a major factor in the debt-servicing difficulties of developing countries who have been relying heavily on access to the international commercial credit. A one percent decline in interest rates means a cut of around $4 billion in the debt-servicing costs of the developing countries.

Having achieved greater price stability, it would be disastrous for governments to revert to the old policies of stop and go. But the political difficulties of avoiding such a course, when there is such pressure to boost employment, are very great. Much political courage will be required, especially in election years.
The second essential is to secure and maintain an open trading system. The benefits of liberalized trade were one of the major reasons why the post-World War Two era witnessed such unprecedented growth. The current recession has intensified protectionist pressures, which in turn have increased rigidities in protectionist nations, so contributing to the inflationary cycle. A reversal in the protectionist trend is crucial for the future growth prospects of the industrial countries.

It is also crucial that a resumption of export growth by the developing countries not be impeded by protectionist tendencies in the industrial world. If they cannot sell to the industrial world, they cannot buy from the industrial world. For example: the United States now sells two-fifths of its exports to the developing countries. That's a bigger market than Europe and the Soviet Union combined. And given steadily growing purchasing power in the developing world, it can expand still further.

But that purchasing power cannot grow in the face of protectionism. And foreign trade opportunities are the only way debt-laden developing countries can earn their way out of their cash-shortage problems and expand their economies.
Adjustment to international competition is often painful. But the benefits of unhindered trade are so great that nations can afford to provide generous assistance to citizens who are hurt by competition. Given the benefits to all of a liberalized trading system and the immense dangers of rising protectionism, it is now more important than ever that nations respect, use and fortify the General Agreement on Tariffs and Trade (GATT). But I want to stress that a liberalized trading system does not mean only that the industrial world must open its markets freely to the developing world. A liberalized trading system must be truly multilateral, with all nations, industrial and developing, supporting its maintenance and enjoying its benefits.

Before the recession took hold, the rapid expansion of international trade had been a very forceful engine of economic growth. And it had gone hand in hand with a steady expansion of international capital flows. While the volume of world trade was roughly tripling between the first few years of the Sixties and the last years of the Seventies, the net flow of capital to developing countries was also tripling, and in real terms. Official lending, aid, export credit, direct investment, and commercial lending -- all types of flows
were increasing. But commercial lending increased the fastest, from one fourteenth to one-fourth of the total flow of capital to the developing world.

The middle-income developing countries were able to borrow heavily from these commercial sources because their economies were performing strongly, expanding at a significantly faster rate than the industrial economies.

Certainly some nations borrowed too much and some lenders were imprudent. But the developing nations with the largest debts, which are now experiencing debt-servicing difficulties, are confronting liquidity, not solvency problems. These nations, like Mexico, Brazil and Argentina, have developed substantial economic bases in recent decades.

But these countries, like so many other Third World nations, were hit hard by soaring interest rates, and slumping foreign exchange earnings as the recession took hold. And compounding the problem was a decline in development assistance flows. Most Third World nations have maintained excellent debt-servicing records through these stormy times and talk of a generalized Third World debt crisis is inaccurate. There are country-specific debt-servicing
problems which have to be dealt with on a country-by-country basis. And that is what is happening. No one denies that they are serious; but they do not add up to an unmanageable Third World debt crisis.

Meanwhile, the developing world governments are finding no alternative to the painful task of adjusting their economies to these difficult new circumstances. Investment programs in many nations are being brutally cut, and severe austerity programs have broken the momentum of development. If sustained over any length of time, this condition is a sure recipe for social and political upheavals which the world is in no condition to bear.

This is especially true of the nations of Sub-Saharan Africa. No group of nations has suffered more from the global recession than have these, where the recession has accelerated what was already an extended period of economic decline.

Twenty-four of the 39 nations of Sub-Saharan Africa have national incomes below one dollar per day per person. On average, people in these low-income countries are now earning about one-sixth less than they did 10 years ago.
Both for humanitarian reasons, and in the interests of political stability, we cannot stand aside and shrug our shoulders at the chronic suffering on that continent.

Clearly the Third World needs an accelerated inflow of capital to augment their domestic savings. And unless it is a net inflow, there will be no economic growth. To accelerate that inflow, it is essential that the commercial banks continue, in a prudent fashion, to provide credit. To withdraw now would simply aggravate the problems.

At the same time it is vital to enhance the ability of the International Monetary Fund to contribute to the short-term international stabilization process, assisting nations to adjust and encouraging commercial lenders to continue lending. The Fund's decision, therefore, to go ahead with a substantial quota increase is a very welcome step.

It is also clear that official development assistance should account for a larger share of an expanded total flow of capital to developing nations than in the past decade. The World Bank is an instrument of governments able to play a bigger role in this context.
The Bank has a proven record of success in the development arena. This together with its reputation for conservative financial management has kept the credit standing of the Bank in the capital markets very high indeed. Even in today's tight conditions, the capital markets of the globe are most receptive to new World Bank bond flotations and I can tell you tonight that we are planning to take advantage of this fact. We borrowed around $9.2 billion in the first 10 months of this current fiscal year, which started on July 1, 1982 and before our fiscal year ends we might borrow an overall total of around $10.8 billion.

The Bank will have approved loans of over $11.2 billion by the close of this fiscal year. Our developing members increasing needs will be calling for even greater growth in lending that has been seen in the last couple of years. But we are limited not by the capital markets, but by the requirement of the articles of the Bank which constrain it to lend no more than the exact equivalent of its capital plus reserves.

That is why the Bank's Management will shortly be placing before its Executive Board a proposal for a Selective Capital Increase which will empower us to expand our lending still further.
I have been speaking of those developing member countries eligible for World Bank 15-20 year loans at an interest rate currently set at 10.97 percent. But 51 of our member countries are low-income countries whose need is essentially for concessional finance. They rely now more than ever, on our affiliate, the International Development Association, IDA, which provides 50-year interest-free credits with a very small service charge.

IDA was established 23 years ago and has proven to be very effective indeed. I assure you it is no habit-forming welfare program. Twenty-seven nations have now graduated from IDA borrowing to World Bank borrowing. And a few of these, South Korea and Colombia among them, are now among the thirty-two contributors to its resources.

But aid budgets are facing fierce competition for public funds during the current recession. IDA's funding, has suffered from this; shortfalls in contributions from the United States have cut into our lending program. Despite their own budget problems, other donor nations, have contributed more than they originally agreed to help compensate for U.S. shortfalls. And we are deeply grateful to them.
This is a time for leadership in the political arena to place IDA on a secure and financially much stronger footing. And I am convinced, after discussions with many leaders around the world, that if the United States provides the leadership on this front, then all the other nations who contribute to IDA's resources will follow this lead.

I have spoken this evening of some of the measures which the international community needs to take if we are to set the global economy back on the right course and the momentum of development in the Third World restored. And in the course of those remarks I have sought to stress that we must take these measures within an agreed framework of coordinated international action. In this age of global economic interdependence, no country or group of countries can go it alone. There must be a commitment to international cooperation for the common good.

It is this spirit which one hopes will prevail at the forthcoming Williamsburg Summit. The industrial world has everything to gain from economic growth in the developing world; and everything to lose from stagnation and decline there. Surely it can be agreed, then, that to help the developing nations help themselves is an act of enlightened self-interest.
And now I ask this question:

Has the American press adequately enhanced public awareness of this self-interest factor in the age of global interdependence?

I do not think that The World Bank has done a good enough information job on this front and we are trying now to do a better one. I trust you will take it well and in a constructive spirit if I also say that much of the American press could do a better job on this front as well.

American journalism has had a curious relationship with business. Journalism has always depended heavily on advertising. I know first hand that editors must also be resourceful businessmen, because my father ran a weekly newspaper in Illinois. During the Depression, they sometimes had to barter newspapers for food and clothing.

But for all this, business was traditionally regarded as a journalistic backwater. Even now, only about one newspaper in eight has more than one full-time business staffer. The development of this professional society over the last 20 years is part of a trend towards better coverage
of economics. The emergence of expert specialists, like yourselves, has vastly improved business journalism. And business sections and business editions are developing rapidly.

This trend has been pushed forward over the last ten years by economic problems that have become increasingly prominent. Severe inflation and unemployment have shaken people's faith in the economy. Unpleasant shocks have taught Americans that prosperity here is closely related in such assorted areas as oil, steel, automobiles and grains, to decisions and strategies taken in foreign nations. As opinion polls show, Americans are now hungry for information about the global economy.

And yet there is still too little understanding of how much America is a part of an interdependent global economy. And I might add that there is too little knowledge of just what The World Bank is and what it is striving to do, even though this nation has played so great a part in its creation and development.

But the problem is much bigger than a lack of information about The World Bank. The problem is a lack of information about the global economy, and especially the developing countries.
To be sure this more general problem poses some presentational problems for editors, especially of regional papers. Often local angles have to be found. But those local angles can be found and global issues placed in perspective. There is barely a community in this country today that does not have within it a business of some sort that is deeply involved in international business.

Investigative reporting has had a profound and beneficial impact on the business pages of the American newspapers of today. You are welcome to investigate the effectiveness of World Bank projects, for example. Discover for yourselves whether they are meeting their objectives.

And use The World Bank, too, as a source of information on the global economy. We work in many nations and many sectors, from energy to agriculture, and we have a substantial and first class research capability. We cannot share information given to us in confidence, but there is much we can share and we shall do so most willingly.
We can work together to foster understanding, from which can come the actions and the political leadership that is now so necessary. You have an enormous responsibility. The public places a great trust in you and turns to you to learn about the problems that we all confront. I wish you well in your most difficult task -- a task particularly difficult when the issues are as complex and vital as they are today.

Thank you.