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REMARKS OF A.W. CLAUSEN TO THE BUSINESS COUNCIL, MAY 7, 1982

Thank you, Rube. I am delighted to be part of this program and to have the opportunity to speak with you this morning about some issues which have been consuming much of my time in recent months since coming to The World Bank.

The Bank -- owned as it is by more than 140 of the world's nations -- has a special vantage point from which to view the global economy. And it has a special task in that economy: it is an important catalyst for the flow of investment funds between those nations, helping to promote better living standards and mutually beneficial economic relationships among their peoples.

Actually, everyone in this room has a vested interest in seeing greater development in the Third World. And today I'd like to outline some of the arguments for that, and urge you to work to promote policies that will lead to a more stable global environment.

If one takes an even superficial look around the globe today, it's obvious that the world is faced with enormous economic and political challenges.

Recession and unemployment in the industrial nations continue to resist efforts at recovery. Interest rates still remain uncomfortably high. And inflation persists.

But let me comment first on a few particular features of this overall situation, and respond to some specific questions about debt and development trends that Rube has asked me to touch on this morning.

The developing countries grew on average by about 2.5 percent in real terms in 1981, and they may well grow by around 4 percent this year. Such a general forecast, however, masks the substantial differences between differing groups of these nations.

There has been considerable comment about the size of the external debt in certain developing countries. But it is important, of course, to keep the numbers in perspective.

For starters, the debt outstanding owed by developing countries (including Spain) at the end of 1981 was about \$500 billion.

Roughly two-thirds of that debt was owed by 13 major borrowers -- each of these countries having a debt exceeding \$12 billion.

Those 13 principal debtor developing countries are: first of all, a group of five oil-exporters -- Algeria, Egypt, Venezuela, Indonesia, and Mexico; second, a group of six major exporters of manufactured goods -- Argentina, Brazil, Israel, Korea, Spain, and Yugoslavia; and the final two countries are Turkey and India.

India is the only low-income developing country among the 13 major borrowers, and since India is a very large country, its debt on a per-capita basis is actually quite small.

It is the low-income developing countries, however, that have had the most debt difficulties, although ninety percent of their borrowing comes from official lenders, and thus usually on easier than market terms.

In 1981, Bolivia, Jamaica, and the Sudan rescheduled their debts from commercial banks only; and the Central African Republic, Liberia, Madagascar, Pakistan, Senegal, Togo, Uganda, and Zaire rescheduled their debt from both private and official sources -- with the notable exception of The World Bank, which as a matter of policy, I should add, does not reschedule its loans -- and notwithstanding that unique and unexcepted discipline, has never in its entire history suffered a default.

Further, the fact is that all the rescheduled and renegotiated debt for developing countries totaled less than \$3 billion in 1981. When this is compared to the total debt of developing countries of \$500 billion, you can see that the rescheduling was not very significant.

As for debt service, it is worth reflecting that the present levels in developing countries are on average not as critical as one might have supposed. For the oil-importing developing countries, debt-service totals 10 percent of export earnings; and for the oil-exporting developing countries, debt service amounts to 20 percent of export earnings.

The greatest difficulty that we may have to confront is that debt-servicing might become more problematic if the industrial nations become more protectionist. That could block in effect the export growth so vital for the developing nations if they are to earn the foreign exchange necessary to service their external debts.

Export orientations, and freer and more open economic systems, are clearly essential if nations are to deal with their debts. The World Bank's experience in many countries points unmistakably in this direction. Rube asked specifically about Eastern Europe's debt. My feeling is that some of the East European governments are coming to appreciate now that they too must become more open, and export-oriented, if they are to overcome their problems.

Perhaps it is significant in this context that both Poland and Hungary have applied for membership in the International Monetary Fund and The World Bank and Hungary was admitted as a member of the Fund just yesterday. These institutions may be able to help these countries, and enable them to participate more fully in the global economy. But the key to solving their problems rests primarily, of course, with the policy actions they take in their own domestic economies.

At The World Bank, we have been firm in advising many developing countries that they need to stimulate greater private enterprise, and redesign domestic policies in order to make more effective use of domestic resources. Today in Eastern Europe, Poland in particular is facing that moment of truth in which it must follow the well-established, more open effective economic route if it wishes to strengthen its domestic economy.

Now to be sure, the prospects for all countries in the world are most directly influenced by developments within the key industrial nations. The current high level of interest rates in the United States, for example, is unquestionably having a dampening effect on global growth. Increasingly, even America's closest friends around the world are becoming restless with the high rates continuing here.

The crucial test, perhaps, for the next few months will be how the United States manages to secure lower interest-rate levels without unleashing new inflationary pressures. Some formidable successes have now been achieved on the inflation front, and they must not be allowed to slip away. The task is not an easy one, and we can appreciate just how true this is as we observe the clash of the current budget debate in Washington.

But let me move now a bit from the specific, individual problems we confront to some more general issues. There is a danger that we can lose sight of the big, central trends as we become understandably wrapped-up in more detailed matters. I leave this weekend for Europe for some talks, and I expect to learn more about the evolving agenda for the Versailles Summit.

My hope is that at Versailles, the leaders of the industrial nations will come to practical decisions that take fully into account the longer-term requirements of the international economy. They need, for example, to resist the current strong pressures -- prompted by high unemployment -- to become more protectionist.

The manner in which international debt problems are resolved in coming years may well depend on the degree to which leaders in industrial nations adopt enlightened, long-term, perspectives. This is certainly the case in such areas as trade, international investment, and aid. I want to touch on these briefly.

It may be politically tempting to respond to the protectionist pressures generated by high unemployment, and impose new restrictive tariffs and quotas. But over time such policies will retard economic progress, undermine international alliances, and erode the vital cohesion of what has become an inescapably interdependent world.

Narrow reciprocity is not the formula. Trade arrangements between nations must be fair. But there is a danger that some governments may take too subjective a view, too nationalistic a view, of what might be considered fair. There is a need for nations to look at trade actions in terms of their full global impact and to review trade actions in the light of long-term, enlightened, self-interest perspectives.

I fear that such considerations are not being given sufficient attention in some official quarters today. I fear that in some cases there is too narrow a set of factors influencing governments when they talk of reciprocity in trade negotiations.

The prime obligation of the corporate leader is to secure the long-term survival of his company. Sometimes it is necessary for the businessman to take decisions that may restrict the balance sheet in the short term -- in order to provide it with a sounder future for the long term.

And corporate leaders in America today -- especially in this period of worrisome global economic and political instability -- need to ask themselves this question. How ought they to use the weight and influence they have to help promote an environment that assists government leaders and politicians in taking the longer-term, more fundamentally sound, policy positions?

For there is no doubt that business leaders can assist in creating a favorable climate of opinion for more prudent, wise, and statesmanlike solutions. In my view, businessmen have an obligation to do so and a tradition of being effective in doing so.

We cannot ignore the real security and economic dependence of one nation upon another. We are seeing the globe shrink as economic and political interdependence becomes tighter every day. Businessmen can be effective by their statements and actions in ensuring that this interdependence does lead to greater global stability.

Increased multilateral development assistance can promote both a more stable world -- which clearly benefits everyone -- as well as a world of enhanced opportunities for trade and commerce.

Further -- though this is difficult to prove by hindsight alone -- I believe there is much validity to the assertion: "that had there been broader economic progress in some of those developing countries, which are now in serious internal turmoil, they might well have been spared their present political upheavals."

The United States is providing military assistance, at immense cost, to an increasing number of nations today. Is it unreasonable to suggest that had there been greater economic assistance to these nations earlier, then the need for military assistance now would have been less, and the budget drain on the U.S. correspondingly would have been reduced?

Doesn't history suggest that when developing societies are caught up in severe economic difficulties, and stagnate rather than progress, the prospects for revolution rise? And does it not illustrate that a critical element of resistance to violent political disorder in a society is the degree to which ordinary citizens have a sense of hope and belief in the prospects of a brighter future?

Deprive the people of all hope, and of the very possibility of an escape from poverty, and they surely become more susceptible to the blandishments of those extremists who preach violent revolution in place of peaceful evolution.

The United States, of course, cannot possibly be the world's policeman, nor the guardian of civil order in the developing countries. It has neither the mandate nor the power to play that role. Nor does any other nation today.

As it is, the costs of even modest U.S. military assistance programs, as we know all too well, can quickly become vast. How many such programs, for how many nations, can the United States launch and manage? And what benefits can it reasonably expect to gain from such programs?

I do not know the answer to that. But I am convinced that the prospects of winning friends, and keeping friends, are far greater when nations are at peace and have internal political stability, than when they are in the midst of civil wars and urgently pleading for massive U.S. arms supplies.

But in the world as it is, you cannot give the peoples of the developing nations hope and confidence, and at the same time deny them the means to achieve more adequate economic progress for themselves. And one important approach to that is through multilateral economic development assistance.

Ten years from now how many developing nations will be in the midst of revolutions and internal political chaos, and rushing to the U.S. authorities in search of arms? And how many of these nations will require the U.S. to respond with costly military assistance programs?

None of us can say. But I am convinced that the number will be smaller than would otherwise have been the case, if over the next ten years the U.S. supports multilateral economic assistance programs that are of meaningful and realistic orders of magnitude.

As you know, the International Development Association -- IDA -- is the affiliate of the World Bank that provides loans at zero interest to the very poorest nations: ones with average per capita incomes of just a few hundred dollars per year or less.

As you also know, IDA is no give-away institution. Every loan made by IDA must show at least a 10 percent economic rate of return. The supervision of IDA projects is rigorous. The rate of credit disbursements is directly tied to project performance.

IDA is the largest single source of multilateral development assistance to the poorest nations that there is. These nations are fragile, and unless they develop, they could become the scenes of civil wars and revolutions and international tensions. The United States agreed to a three-year IDA funding program for the period ending in June 1983 amounting to \$3.24 billion. That is \$1.08 billion each year.

In the first year, the U.S. Congress provided only \$500 million. In the second year, the current one, the U.S. provided but \$700 million -- \$400 million less than its agreed total. Today, two-thirds of the way through the planned program, the U.S. has provided just \$1.2 billion, or just a fraction over one third of its total original commitment.

Needless to say, other industrial nations have been concerned about this. Indeed, in order to preserve international burden-sharing agreements, most other industrial nations decided last September that they would cut their funding of IDA by the same percentage as the United States did.

When the U.S. cut by almost 40 percent, the others followed suit and the trigger impact of the U.S. action was great. We had planned a \$4.1 billion IDA program for this fiscal year to June 30, 1982, but we had to cut it by \$1.5 billion.

In recent weeks, some industrial nations, such as Britain, Italy and the Nordic countries, have decided that the needs of the poorest nations are so great that for the time being they will turn a blind eye to burden sharing, and will provide their full IDA payments, irrespective of the U.S. action.

But there is, nevertheless, a real funding crisis in the world's leading multilateral concessional aid institution in a period of critically severe strain for the poorest nations. The crisis results from a U.S. decision to cut prior commitments by just \$400 million at a time when total U.S. budget outlays are set for the 1983 fiscal year at over \$750 billion.

Supporting greater multilateral development assistance is, of course, a difficult task in Congress today since there is no strong constituency for it, and the demonstrable benefits are not in the immediate short term.

But U.S. public support there must be -- certainly, greater support than now exists -- if the prospects for international security are to be brighter down the road.

What are needed throughout the electorate are thoughtful observers of the world scene who can grasp the underlying realities in foreign and security policy, and can assess the current budget battles with broader perspective.

The populations of the developing nations are growing -- they now contain some three-quarters of the world's inhabitants -- and their overall share in global trade is growing as well. Some 38 percent of the United States total exports are now going to the developing countries.

The Third World economies have demonstrated formidable growth in the last two decades. They have come to account for an increasing share of world trade and output. Indeed, as a consequence, even with a respectable recovery from the present recession in Western Europe and North America, it is possible that these older industrial countries will, by 1990, account for less than half of total world output, compared with over two-thirds in 1960.

At the same time, the most advanced of today's developing countries -- often called NICs or newly industrialized countries -- together with Japan, may well account for over one-quarter of world production by the end of this decade, as compared with just one-twelfth in 1960.

There is, then, a solid, clear-cut, self-interest case for American business to support adequate levels of multilateral assistance to help promote economic progress and growth in the developing world. That progress will translate into greater trade all around.

Let me just sum up, now, the points that I've wanted to make this morning.

Societies -- like individuals -- do really need something realistic and attainable in which to place their hopes. For life without hope breeds despair. And despair is usually but a step away from irrational anger and mindless violence.

Economic development -- and reasonable multilateral assistance to help achieve it -- cannot, of course, by itself make the world peaceful.

But what it can do -- and what it does do -- is to offer an alternative to the corrosive culture of poverty that is self-perpetuating and dehumanizing. It offers hope. It offers a constructive choice. It offers a way out of destructive despair.

Multilateral development assistance helps the developing countries -- collectively containing most of the world's population, and much of it desperately poor -- to achieve greater economic stability, greater self-reliance, and greater social cohesion. And this, together with a liberal trading system, can help resolve some of the global debt questions we are confronting today.

And that is surely in the national self-interest of the United States. It is in its security interests. It is in its political interests. And it is in its commercial interests.

And -- need I add? -- it is also in the deeply personal interests of all of us here who want a less dangerous and a more tranquil world to bequeath to future generations.

Thank you very much.

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