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Mid-America Committee Remarks – Department of State – Washington, D.C. – March 16, 1983

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Remarks

by

A. W. Clausen, President

The World Bank

and

International Finance Corporation

to the

Mid-America Committee

Department of State

Washington, D.C.

March 16, 1983

Thank you, Jerry. Good evening, ladies and gentlemen.

It is a pleasure for me to meet with this distinguished delegation from mid-America. I sense I'm among kindred spirits here, not only because many of you are old-time friends and acquaintances, but because the region you represent has a big investment in internationalism.

Internationalism needs support just now from people like you.

We'll have some time for questions and discussion, but, in these prepared remarks, I would like to focus on just one point, and that point is: <u>We simply cannot afford to ignore the economic problems of the developing countries during the current recession</u>.

* * *

This is a time of cutting back. Some people ask how we can possibly afford to be concerned about the developing countries when more than a tenth of our own labor force is out of work.

But the fact is that we won't be able to get back to full employment in this country without sustained, non-inflationary growth. And there is no practical way to achieve sustained, non-inflationary growth in the United States without recovering the momentum of economic development worldwide.

The U.S. economy can't "go it alone" in a world where one-quarter of everything produced is now traded internationally.

One-tenth of our national income comes from exports. One-fifth of U.S. jobs depend on trade. One-third of corporate profits come from international activity. Two-fifths of U.S. agricultural production is sold abroad.

And a third of all the export-related jobs in the country are located in Illinois and the six surrounding states. Two-thirds of all the new jobs created in those Midwestern states between 1977 and 1980 were export-related jobs.

Finally, here's a statistic I'd ask everyone in this room to blaze into his memory: the United States now sells two-fifths of its exports to developing countries.

The OPEC price increases in the Seventies shocked Americans into a new awareness of the economic importance of the developing countries. And perhaps the only positive outcome of the recent rash of debt problems among some of the developing countries will be to again hammer home the message -- that the United States has a vested economic interest in the developing countries.

Looking back from the current recession, we can better appreciate how the developing countries helped to moderate the recession of the mid-Seventies. Most of the developing economies out-performed the industrial economies throughout the Seventies. Sub-Saharan Africa slumped into economic stagnation, but the other developing economies managed to average rates of growth about double the growth-rate of the industrial economies.

While investment plummeted in the industrial countries, developing countries -- especially some of the more dynamic, middle-income developing countries -- kept up rapid increases in investment. Nine-tenths of developing-country investment continued to come from domestic saving. But the oil-importing developing countries also borrowed part of OPEC's idle savings through the commercial banking system and, for the most part, put those funds to work productively.

That investment, and the continuing rapid expansion of developing-country exports and imports, kept the recession of the mid-Seventies relatively short. The Third World was, in fact, the fastest growing market for American exports in the last decade -- a market creating hundreds and hundreds of thousands of American job opportunities.

But the recession of the early Eighties has finally broken the economic momentum of the developing countries. Few developing countries have been able to withstand record low commodity prices and record high interest rates. On average, the developing countries suffered declines in per capita income in 1981 and, more sharply, in 1982.

The financial markets have been shaken by the liquidity problems of some of the major borrowing countries. Commercial banks have rather abruptly reduced their exposure, and that's made the problems worse.

This unexpected series of events in the developing countries was one reason why all the prognosticators proved to be over-optimistic in predicting economic recovery in the industrial countries in 1982. These financial problems made the developing countries slash their imports from the industrial countries.

The U.S. Treasury estimates that the Mexico debt crisis alone cost the United States about $10 billion in exports in 1982. By their reckoning, that's equivalent to a quarter of a million American jobs.

The industrial countries' GNP declined in 1982 by one-half of one percent. The slowdown in Third World demand probably reduced the GNP of the industrial countries in 1982 by just about that much -- one-half of one percent.

No one knows yet if the U.S. economy is still dominant enough to be able to pull the rest of the world back to positive growth again this time. The U.S. share in global production has dropped from 40 percent, back in 1955, to about 25 percent. In order to pass beyond "recovery" to sustained, rapid, non-inflationary growth again in the United States, we <u>definitely</u> need economic dynamism in the rest of the world, too.

The developing countries are strapped for liquidity now. But many of these countries have demonstrated exceptional dynamism over most of the last generation, certainly in the Seventies. The untapped potential and unsatisfied aspirations of the Third World are solid promises of future growth, even in many of the poorest developing countries.

So, if we want to get out of economic stagnation, and stay out, we can hardly afford not to invest in the potential of the Third World at this decisive juncture in its economic history.

* * *

The only area of expenditure that has largely escaped cut-backs in Washington is defense. In my view, it is clearly right that the United States strengthen its military preparedness -- and do so substantially! But it is also my view that, on the margin, a few more dollars spent for Third World development will do far more for our security than a few more dollars added to an already monumental military budget.

Let me speak frankly about the security aspects of the current recession.

Let's start with the situation in Latin America. People in Latin America have been used to per capita income growth averaging about five percent a year throughout the Seventies, but in 1982 per capita income decreased -- by three percent. That's quite a jolt!

Even in Europe, the Great Depression of the Thirties made some countries vulnerable to dictatorship and violence. In Latin America, too few countries enjoy stable political institutions, and many countries are plagued by sharp social divisions -- between rich and poor, and between races. If the current depression in some Latin American countries drags on, or even gets worse, the politics of frustration will be unpredictable, probably economically counter-productive, and almost certainly problematic for the United States.

The other area of the Third World which is taking a particularly severe beating from the global recession is Sub-Saharan Africa. Per capita income averages only a little over \$400 in Africa, and, from such low levels, 15 of the 39 nations of Sub-Saharan Africa suffered gradual economic decline in the 1970s.

The current global recession has accelerated this process of economic retrogression in Africa:

o Let me give you an example from Zambia -- a country with a population of about six million and GNP per capita of $560. Zambia had to cut its government budget 20 percent this year. Among the many casualties were spare parts and maintenance for Ministry of Health vehicles, so that three-quarters of the Ministry's 600 vehicles are now reported to be inoperative. Improving health and reducing population growth are fundamental for Zambia's development, but because of the government's financial crunch, rural clinics are now, more than ever, short of medical supplies.

o Or take the example of Ivory Coast. Ivory Coast has a population of eight million, with an average per capita income of $1,150. Here's a well-managed economy that grew about seven percent a year throughout the 1970s. Ivory Coast had raised the proportion of its income devoted to investment to 28 percent; that compares favorably with the 18 percent of income that the United States devotes to investment. But as cocoa and coffee prices dropped, international creditors became hesitant, growth came to a standstill ... and Ivory Coast has had to cut its investment program by nearly half.

o And there are many other equally dramatic examples of economic retrogression in this part of the world.

The relatively progressive, often democratic governments that started the period of post-colonial independence in Africa are mostly all long gone. They have been replaced by military dictatorships, many of which lack even the virtue of stability. Continued economic stagnation, and very possibly deterioration, is sure to place even further strains on the post-colonial political order in Africa.

The United States has an interest in political stability and orderly change throughout the world. Most of the major challenges to global stability -- most of the flashpoints of East-West confrontation over the last generation -- have been in the Third World. So for security reasons, as well as pocketbook reasons, we simply cannot afford to ignore the acute economic problems of the developing countries during the current recession.

* * *

Over most of the last generation, the framework of multilateral economic institutions that was set up after the Second World War (principally the GATT, the IMF, and The World Bank) has contributed powerfully to rapid economic progress worldwide, including the developing countries.

Now, more than ever, it is imperative that nations maintain their commitment to liberal trade under the GATT. Nothing is more important to the developing countries than a revival of their export sales, assisted by the maintenance of a trading system that is open and fair.

It is also essential that the IMF be strengthened. The Fund acted quickly to cope with the debt crises of late 1982. The proposed increase in IMF quotas would make sure that the Fund has adequate resources to cope with any contingency. The Fund is the only entity in place now with the capacity to stabilize the international financial system.

Finally, The World Bank. The World Bank is a proven, efficient means of investing in Third World development. Because it is a multilateral institution, the Bank is particularly effective in pressing for institutional and economic policy reform in the developing countries.

The World Bank is adapting its programs to help developing countries cope with the recession. We're speeding up disbursements. We're working to attract more commercial co-financing to our projects. We are trying to be more catalytic in encouraging private sector involvement in the development process. And we're using more of our resources to support policy changes that will help countries recover from the current economic malaise.

Where we need help -- and we do very much need help -- is on funding for IDA (the International Development Association), the World Bank's concessional-assistance affiliate, which extends credits to the very poorest of the poor countries.

Our operations in these poorest countries -- including nearly all of Sub-Saharan Africa -- depend on grant funding for IDA. Last year the other 32 donor nations agreed to contribute an extra $2 billion in 1984 to partly make up for a U.S. failure to meet a previously negotiated commitment to IDA. The Administration is now trying to obtain a supplemental appropriation of $245 million for fiscal year 1983 and $1.1 billion for fiscal year 1984, in order to fund this already reduced U.S. commitment. But last week, Secretary Regan told the press that he fears IDA funding is in trouble.

IDA gives the world's poorest nations access to steady, seasoned, multilateral assistance, at a time when many of them are virtually overwhelmed by economic problems. It is ironic that the sum of $245 million can be so important and loom so large in a developmental sense -- and yet be so small when compared with a U.S. military budget, where it represents less than 10 hours of spending. I seriously doubt that any comparably sized item in the defense budget would do as much to enhance the security of the United States as meeting this already deferred and stretched out commitment to IDA. It should be noted that for every dollar of grant money the United States provides to IDA, other donors contribute an additional three to four dollars of grant money.

Let me read you something George Shultz said on Capitol Hill several weeks ago about his entire security and development cooperation proposal, because it applies with special aptness to IDA. He said:

> Our security and economic assistance programs are directly linked to the national security and economic well-being of the United States. They must be seen in the context of our priority effort to reestablish the fact and the perception among our friends and allies that we are a reliable partner -- that we have the capacity and the will to build international peace, foster economic growth, and sustain mutual security.

The global recession makes the vested self-interest arguments for supporting Third World development more compelling than ever. We simply cannot afford to postpone the IMF quota increase or continue to lag in our funding for IDA. Our own economic recovery and our own security depend, in part, on how well the developing countries rebound from the economic problems of today.

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