Folder Title:	Pre-Board Meeting of Science Applications, Inc., Annapolis, MD.September 13, 1984
Folder ID:	1776078
Series:	Speeches
Dates:	09/01/1984 - 10/01/1984
Subfonds:	Records of President A. W. Clausen
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-09-3962S
Digitized:	03/01/2023

Pre-Board Meeting of Science Applications, Inc - Annapolis Dinner - September 13, 1984

Annapolis Speech

Remarks

As Delivered

By

A. W. Clausen, President

The World Bank

and

International Finance Corporation

before the

Pre-Board Meeting of

Science Applications, Inc.

Annapolis Dinner

September 13, 1984

Thank you for your kind words, Dr. Beyster.

As you know, I've spent the greater part of my life in California. It therefore gives my special pleasure, Dr. Beyster, to welcome you and all your associates to the greater Washington area -- which has been my home now for the past three years.

Some of you know that your colleague, Francis Herwood, is responsible for my being here tonight. Francis is a long-time friend from my Bank of America days. In truth, he has had a great influence on my life -- and still does! It if were not for his wise counsel over more than 30 years -- as a boss, as a teacher, as a colleague, and most importantly as a friend -- my career would have taken a far different path than what it did. So it is a real disappointment for me that Francis is a bit under the weather at the moment and is not able to join the Board of Directors on this trip to Annapolis.

Science Applications International is a familiar name to me not only because of its ranking and growing reputation in the world of technology. Through Francis, of course, I have heard and learned much about you. But one of my sons also had a brief association with you as an employee on one of his early year summer breaks before graduating from UC-San Diego several years ago.

So I feel very good -- and grateful -- to be with you this evening.

It occurs to me that the world would be a rather different place now if a good many more companies in a good many more countries had done as well as SAI over the past 10 years. From your Annual Report, I see that since 1975 the Corporation's revenues have grown more than ten times. I note that your net income has increased more than fifteen times. And you are now an organization with more than 5,000 employees and some 20 offices around the country. That is an impressive performance indeed -- a testimony to expert management and, I'm sure, to the concept of giving employees a strong sense of involvement and of excitement from being associated with a dynamic corporation in a dynamic industry -- as well as a significant stake in company ownership.

It is also testimony to the California success story in high technology industries. Here, too, there is a lesson for the world at large. It seems to me that you have followed the principle that is at the very foundation of sustained economic growth in a national country sense: -- specialize in those products where your comparative advantage and potential economies of scale are the greatest, and never let up in your efforts to enhance efficiency and productivity.

Such principles are obviously part of your company motto, in spirit if not in the letter, and I would like to make them my theme for this evening. I submit to you that without some impressive gains in the efficiency and productivity of the global economy, the recovery that we are witnessing now will not be sustained.

The current economic upturn in the industrialized countries, particularly in the United States, can be looked upon as a window of opportunity -- there is a chance for non-inflationary growth, and therefore there is a chance to make the Eighties a different, and much better, story from the Seventies. But this historic opportunity will slip between our fingers if the nations of the world -- all nations -- rich and poor alike -- don't get their economic policies right and thus fail to improve their economic performance.

So tonight I want to touch briefly upon three related areas of key importance to securing sustained economic growth: trade, economic management, and capital flows between nations.

Take, first, the matter of international trade and its capacity to transform economies. As high-technology superstars, I am sure it has not escaped your attention that some of the middle-income countries of East Asia have shown consistently superior growth, fueled by strong export performance of impressive dimensions. And why does expanding trade contribute to national economic growth so effectively? First, it enables countries to improve their productivity by specializing in those products in which their comparative advantage is greatest. Second, by producing for the world market rather than for their limited domestic markets, countries can garner the economies of scale that are so important in modern industry. Third, efficiency is also encouraged by competition from imports made possible by expanded earnings from exports.

There are also more subtle ways in which expanding trade contributes to growth. It inevitably exposes a country to new products, new technology, new ideas and new standards. The result is a stimulus to learning, innovation, entrepreneurship and investment. It is qualities such as these which have made America's high-technology sector, of which your industry forms such a prominent part, one of the brighter stars on the quite dismal economic horizon of the past decade. And it is qualities such as these which give hope for the future. As Paul McCracken wrote last month in the Wall Street Journal, "meeting competition makes for lean, efficient production and marketing." The gist of his article was upbeat, as was its title The World Economy Bounces Back. I think this puts the potential of the present situation very nicely.

But it is a potential we must aggressively exploit. Nothing can be taken for granted, nothing is engraved in cement. Look how fast the scene is shifting among some of the developing countries. Between the newly industrialized countries -- the nick's -- and the low-income countries, an increasing number of countries, such as Malaysia, Thailand, Tunisia, and Colombia, are emerging as a new wave of exporters of manufactures on a significant scale. Just as the newly industrialized countries replaced Japan in many markets for textiles, clothing and consumer electronics, so this second tier of countries is now replacing some of the original newly industrialized countries in these labor-intensive products. At the same time, a country like Korea is advancing to more complex skill-intensive manufacturing such as transportation and engineering products.

We must be aware of a particular damaging threat: every country's comparative advantage will get distorted, and indeed gravely stifled, if protectionism becomes the order of the day. That would be a grievous economic setback for each and every country on Planet Earth. Import controls can only make national economies less efficient and discourage exports for years to come. Those who react defensively to the penetration of particular sectors of our market by successful developing country exporters need to see the full picture.

For example, at the same time as developing countries' exports of manufactures have been increasing rapidly so their imports of manufactures from the industrial countries have increased even more rapidly. In recent years, moreover, the developing countries have been a more rapidly expanding market for the manufactured products of the industrial countries than the industrial countries themselves. Even if we exclude the OPEC countries, Third World imports of manufactures from the industrial countries exceed twice the value of their exports, and this excess grew sharply over the decade of the Seventies. Today, the developing countries take forty percent of all U.S. exports. That's up from twenty-nine percent of a much smaller base in 1970. The developing countries are now a more important market for American goods than all of Europe combined, including the Soviet Union.

In sum, we see liberal trading rules as one of the pillars on which sustained world economic recovery must be based. International comparative advantage must be permitted to work itself through the system -- this is the essence of long-term economic progress. Painful as competitive pressures may sometimes be, they must be encouraged, not resisted.

We need to recognize as well that the key to improved debt-servicing capacity for the major debtor developing countries is export expansion. Countries denied export growth opportunities, will be boxed into crippling debt and just won't be able to import. That's very bad news for the businesses and workers, and therefore for the economies, of the industrialized countries, as our experience in 1982 and 1983 has shown.

Liberalized trade is not the only pillar needed to support economic recovery. Improved economic policy and performance -- if you will, efficiency and productivity in national economic management -- is essential in all parts of the globe. In the industrial countries, the momentum of this year's recovery will surely be unsustainable without a reduction in budget deficits. Here in the United States, the prospects of budget deficits continuing in the $200 billion range may well keep upward pressure on real interest rates, which are already at record levels. This is bound to dampen business investment and confidence.

The move from recovery into sustained non-inflationary growth will require policies in the industrial countries that also permit and facilitate structural change in their economies. A failure to keep up with the need to adapt means falling returns on investment and hence slow growth. Economic progress requires change. Not that you need to be told that at SAI! You know better than anyone that it is by increasing productivity through new technology, and by adjusting to evolving patterns of comparative advantage, that you have chalked up your impressive record.

And the developing countries must also pursue economic policy reform urgently and tenaciously. This is absolutely fundamental to the resumption of their economic progress. They must improve financial discipline to keep their balance of payments under control and, at the same time, they must enact policies that will revive economic development and restore creditworthiness on a lasting basis. Governments must also move towards more efficient pricing policies -- policies based on scarcity values, and take steps to eliminate costly subsidies. Developing nations must do more to foster initiative and private investment.

We must recognize that many such adjustments are complex and painful. But currently many developing countries are "biting the bullet" with more courage and determination than in the past. Many have taken impressive measures to improve their balance of payments position and to restructure their economies. These efforts need to be encouraged! But there also must be a recognition that the speed or pace of economic adjustment is limited by the need to maintain political stability.

Here the international economic institutions are of great help. The International Monetary Fund uses its resources to support policies designed to address critical and immediate balance of payments problems. The World Bank's objectives are economic growth and the reduction of poverty in the developing countries. We invest in carefully planned and supervised projects, and we carry on a dialogue with our borrowing member countries on broad issues of economic policy. Our role is to help countries put in place economic and social policies that work, so that borrowing from us for productive purposes contributes directly to their economic and social progress.

The World Bank has two affiliates -- the International Finance Corporation or IFC, which helps put together international deals between commercial enterprises in the developing countries and the International Development Association or IDA, which provides concessional finance to the low-income developing countries -- those poorest of the poor countries which are not creditworthy even for World Bank loans. While IDA is funded largely by grant contributions from the industrialized countries, the World Bank's resources come essentially from the capital markets around the world. The Bank has never suffered a loan loss in its history -- not one penny of loss -- and we have generated substantial profits in every single year of our existence -- $600 million last year -- More this year! The Bank is owned by 147 govrnments, the United States being the largest shareholder with a little more than a twenty percent stake.

The third pillar which must underpin global recovery besides liberalized trade and efficient economic management by governments is increased resource transfers to developing countries. Today's unsatisfactory trends in international capital flows have got to be reversed if there is to be orderly management of the debt problem -- as well as resumption of progress in lessening the burden of poverty in the world by making the poor more productive. Here the World Bank could be of even greater help if its resource base was broadened and deepened.

The total debt of all the developing countries -- medium-, long- and short-term, official and private -- amounted to some $800 billion at the end of last year. Payment of principal and interest on their debt is still growing, despite the relief provided by reschedulings. At the same time, new commercial bank lending to developing countries, especially to the major borrowers, has fallen dramatically. Today the developing countries are now paying back to the commercial banks each year -- in principal and interest -- more than the banks are currently lending. Twenty-one billion dollars more in 1983, according to our estimates!

Restoring creditworthiness is a long-haul operation which requires coordinated action on several fronts. First of all, by the developing countries themselves who are obviously first, last and foremost responsible for the management of their own economies. But institutions like the World Bank, with its financial clout and unique experience with policy change, must give a lead by showing its borrowers what policies will free up economic forces and stimulate private initiative as well as public sector efficiency. Beyond that, as financial catalysts the Bank and IFC can do much to stimulate foreign private investment and commercial flows. That's why our Board of Executive Directors recently approved a doubling in the capital of IFC, a $650 million increase; and why we have developed new cofinancing techniques for commercial bank lending; and why we are giving priority to a proposed Multilateral Investment Guarantee Agency.

Governments and international economic financial institutions cannot, and should not, aspire to do everything. But we can help create a climate conducive to private investment -- local and foreign -- without which an awful lot of urgent development tasks will be left hanging in the air. Encouraging other sources of finance, particularly commercial banks, to lend with us side-by-side is potentially a major step forward in reactivating international lending to developing countries.

But the low-income developing countries -- those countries where GNP per capita incomes are $410 a year or less -- can borrow little if anything at all from commercial sources. Unlike the middle-income developing countries, they depend on concessionary assistance for more than three-quarters of all the external capital they receive, notably from our affiliate, the International Development Association. Yet the total flow of concessionary assistance to the poorest countries -- which include the most populous nations of the world like India and China where there are over 1.7 billion people living, nearly 40 percent of the entire world population -- is also stagnant. What's more, under bilateral government-to-government programs about two-thirds of the total goes to the middle-income developing countries.

For the world's low-income countries, especially for those in Sub-Saharan Africa, where the recession has hit hardest with appalling consequences on living standards that were already miserable, effective programs of official development assistance are absolutely essential. And, on a global basis, enhanced resource transfers, public and private, for investment in development in the Third World are a precondition of world economic growth and of social and political stability.

We ignore these linkages at our own peril. The American dream is based in our historic notion of independence! But it may founder if we fail to recognize today's twin reality of interdependence. For in the absence of a firm commitment, the world over, to roll back protectionism and to remain true to trade liberalization, to improve economic management and to keep financial resources flowing where there is need and opportunity, the economic recovery which we are thankfully witnessing now will prove to be no more than a hiccup. Action is urgently needed in all the areas I have suggested to make this recovery stick and multiply.

The nature of your work at SAI, with its focus on national security technology, is such as to keep you sharply sensitive to global issues of a different kind. Here, too, we see interdependence at work: regressive economic policies breed economic and social malaise, which in turn put the world on edge from a security standpoint. At the World Bank, we are doing our best, along with many others, to help keep this particular equation in mankind's favor. The self-interest of all people and of all nations -- indeed, of the globe -- requires that we succeed in our endeavors. And the prescriptions for success, I put it to you most imperatively, include action along the lines I have suggested here this evening.

THE END