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Mr. Wolfensohn's April 17 Luncheon Meeting with Dr. Stiglitz - Briefing Note - April 3, 1996



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 **30295887**

A2014-004 Other # 3 Box # 392178B
Mr. Wolfensohn's April 17 Luncheon Meeting with Dr. Stiglitz - Briefing Note

F. Desmond McCarthy

April 3, 1996

Mark:

**Re: Mr. Wolfensohn's April 17 Luncheon Meeting with Dr. Stiglitz:
Briefing Note**

The attached briefing note should be sent from you to Rachel Lomax with copies to Josie Bassinette, Matthew McHugh, Khin Mala U., Jane Holden, Kate O., Michael B., and myself.

Desmond

OFFICE MEMORANDUM

DATE: April 3, 1996

TO: Mr. Mark Baird

FROM: F.D. McCarthy

EXTENSION: 31362

SUBJECT: **Mr. Wolfensohn's April 17 Luncheon Meeting with Dr. Stiglitz: Briefing Note**

1. Joe Stiglitz has a number of very impressive credentials. He has a distinguished academic career that has sought to address problems in virtually every major sphere of economics. Presently he heads the Council of Economic Advisors.

2. It should be interesting to get his views on three broad areas:

(a) **Global Development**

- What is the present Washington view of development? What are seen as the critical areas that need attention? What are the new problem areas on the horizon?
- Within this overall sphere what does the U.S. see as its role? What areas are its main focus and what instruments does it expect to use? Bilateral, multilateral, EX-IM style operations?
- What is seen as the appropriate role for the World Bank and other multilaterals.
- How is the Bank seen at the moment? Are we on the right track or are we lacking in some key areas?
 - ⇒ **Funding.** What are the future prospects for IDA and especially the US role.
 - ⇒ **Bank Strategy.** Should we seek to extend the range of instruments along the lines suggested by Larry Summers. Do we have the right mix in our approach to public-private development.
 - ⇒ **Staffing.** Are our personnel policies seen as being about right; in terms of numbers, salaries, benefits.
- If there is a second Clinton term can we expect any major changes?

(b) Role of Economics

- Recently Stiglitz published a book “Whither Socialism“. This book offers some serious criticism of the standard neoclassical model. He suggests that this model has rather limited practical applicability to real world situations and consequently much of the work of the economics profession associated with it may have been misplaced.
- He offers a new paradigm which gives greater prominence to the role of information, and to such areas as the role of government intervention in economies with incomplete markets and imperfect information. Stiglitz suggests that in the area of competition, for instance, the real world situation is not so close to the perfect competition of textbook economics but more similar to the type of monopolistic competition discussed by Chamberlin half a century ago.
- If one were to accept his (Stiglitz) view, what might the Bank do differently not only in terms of research but also operations? Should we look for operations to place more emphasis on information and technology transfer?

(c) Role of the State

- Stiglitz will be the keynote speaker at the next World Bank Conference (ABCD) and for the next WDR the theme will be the role of the state.
- In recent years there has been some withdrawal from the more shrill calls for monotonic reduction of the role of the state. Depending on a country's particular history and cultural values, the role of the state may differ. One might also expect that role to change during various phases of development.
- Since Stiglitz has given a lot of thought to this it should be interesting to hear his views.
- Can he offer any guidelines on what should be the appropriate role of the state?
- For countries going through transition are there any particular needs that are not being addressed? What should the priorities be for those countries and where might we play a useful role? At the same time are there any areas where we should not seek to play a role?

- In many of our client countries we find that financial systems are not functioning satisfactorily; the problems range from undercapitalized banks, poor prudential and regulatory framework; lack of credit at a reasonable price in rural areas. How should we go about setting priorities?
- If we had a small sum (US\$ 1 million) available to address any particular problem with global dimension how would he suggest using it?