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ISAD Reference Code: WB\_IBRD/IDA\_96-01

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Hollis B. Chenery papers - McNamara Discussions 1980 (Sept.-Dec.)

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Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1980  
(September - December)



McNamara - Dec 31, 1980

Items 2b

## D.P.S. - Analytical / Research

Orientation for Transition Year. Review new initiatives.

### → ① Current Outlook -

#### ② World Economy / WDR 4 (Review on 18 Jan)

→ - Kuwait Meeting - OPEC parameters - sign for further discussion?

→ - ST. Adjustment - diversity of situations

- WDR 5 - (4 given at next meeting) -

Manages  
1. Stern  
2. AK  
3. Waidel  
4. Chomsky

#### ③ CHINA - future analysis / research

- DPS / EA Collaboration - analysis & research

- Report - title & subtitle

→ - Research & Policy - opportunity - will give priority  
China Program.

#### ③ RESEARCH DIRECTIONS

- Comparative review - To Ric N on Jan 16

Board Feb 1 - review on 24

- Implementation / application -

→ - Collaboration with LDCs - start program this year -  
ask GRAP (Bell & Parnell) to help.

#### ④ BANK PROGRAMS / Country Visits

- Energy

→ - SAL - use of research results

SAL

→ ⑤ Preparation for Chairman - Payments in charge of Transition  
- Briefing material?



Bank outlook - Jan

1) Managerial data

2) Director

3) Public

402 SW

Committed H.M.

Benzel

Helen

Barnett

Ward

HC

Committed H.M.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 31, 1980

JAN 05 1981 FROM: Hollis B. Chenery, VPD *RSZ*SUBJECT: "Terms of Trade" Changes as Estimated by OPEC

This is in response to your query about whether the "terms of trade" changes estimated by OPEC sources agreed with our estimates.

The method followed by the OPEC source in their Chart 3 (shown here as Chart I) evaluates the "terms of trade" effect of price rises for oil and for exports from industrialized countries, respectively, without taking into account the relative prices of developing countries' own non-oil exports. As is pointed out in the attached note, real income losses occur only if relative prices change. It appears that developing countries' non-oil exports to industrialized countries have not experienced declining prices in relation to their imports from those countries. This is, however, far from true of their oil imports, whose relative prices have risen sharply.

Apart from the problem of interpreting the OPEC chart, we have also had difficulty in checking their numbers because of a lack of information about the sources and methodology. If we understand the latter correctly, they suggest that the price rise between 1973 and 1979 for goods from industrialized countries on 1973 constant volumes, cost non-OPEC developing countries \$49.7 billion annually, while the oil price rise cost them only \$14.2 billion (Chart I). Our own figures, based on what we believe is the same methodology, are \$61.6 billion and \$30.6 billion, respectively (see Tables 1 and 2 and Chart II). We are not clear about the reasons for these discrepancies.

Attachments

cc: Mrs. Hughes (o/r); Messrs Baneth, Colaço, Wolf

MWolf:ps



COMPARISON BETWEEN THE EFFECTS ON DEVELOPING COUNTRIES  
OF OIL PRICE RISES AND OF INFLATION IN THE PRICE OF EXPORTS  
FROM INDUSTRIALIZED COUNTRIES

We have received some charts from OPEC sources, one of which - their chart 3 (shown attached as chart I) - purports to analyze the impact of price rises for oil and exports from industrialized countries, respectively, on non-OPEC developing countries. The implication of the chart is that between 1974 and 1979 the oil price rise had a much smaller effect on developing countries than the rise in prices of industrial goods.

In attempting to check these numbers, we have been hampered by our failure to discover the sources. What we have done in the attached charts and tables is to use as the base 1973 exports of fuels to developing countries both from OPEC and from all sources (see Table 1), as well as imports of all goods from industrialized countries (see Table 2). The inflation factors we have used are (except for 1979) those for developed countries' exports to developing countries and for all developing countries' imports of fuel, both derived from United Nations, Monthly Bulletin of Statistics.

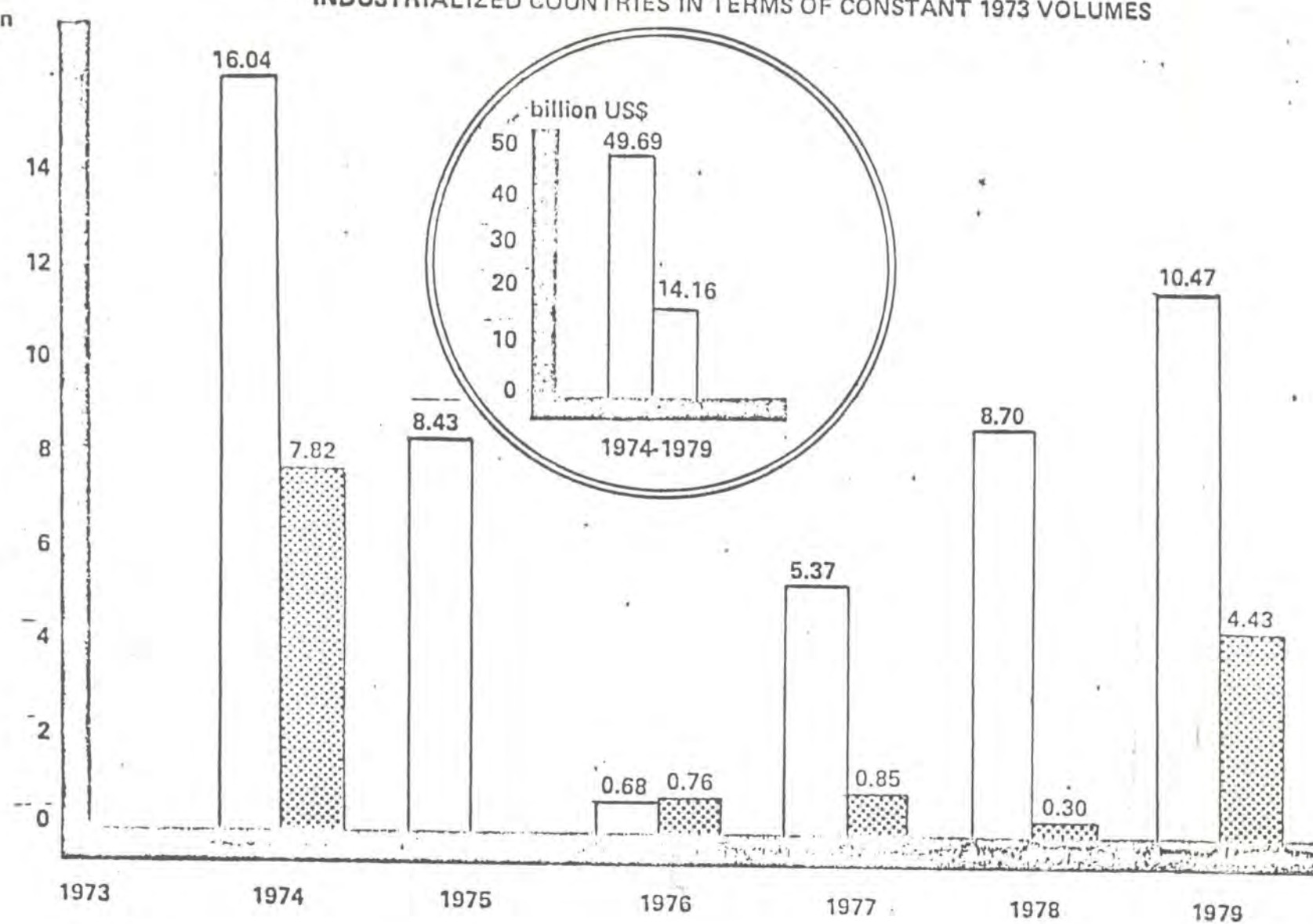
Our results are markedly different from those of the OPEC chart. While the latter suggests that the price rise between 1973 and 1979 for goods from industrialized countries on 1973 constant volumes cost non-OPEC developing countries \$49.69 billion annually while the oil price rise cost them only \$14.16 billion, our figures are \$61.63 billion and \$30.59 billion, respectively, (when the 1973 volume of imports of fuel by non-OPEC developing countries from OPEC only are the base) and \$61.63 and \$41.24 billion, respectively, (when their total 1973 fuel imports are the base). The discrepancy between our own and the OPEC data for the oil price effect is extremely large. The reasons for this are unclear.

These figures should, in any case, be interpreted with extreme caution, if the purpose is to indicate that the rise in the price of oil has had a relatively minor effect on developing countries. In the first place, the inflation and recession of industrialized countries is at least in some part the consequence of rises in the price of oil. This indirect effect clearly has to be taken into account <sup>1/</sup>. In the second place, general inflation, which affects both exports and imports in roughly similar ways, has entirely different real income effects from changes in the terms of trade. While the proportional rise in the overall export unit values of non-OPEC developing countries has more or less kept pace with that of imports from industrialized countries, (see Table 3) this is far from the case for imports of oil. It is only the change in the terms of trade, however, that leads to a decline in the real purchasing power of output in importing countries.

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<sup>1/</sup> For a discussion of these indirect effects see OECD, Economic Outlook, Number 27 (July 1980), pp. 114-30, "The Impact of Oil on the World Economy".

NON-OPEC DEVELOPING COUNTRIES:  
OIL PRICE IMPACT VS. INFLATION IMPACT OF EXPORTS FROM  
INDUSTRIALIZED COUNTRIES IN TERMS OF CONSTANT 1973 VOLUMES



Oil price impact in terms of constant 1973 oil import volume in developing countries. (oil imports from OPEC countries only).



Inflation impact of exports from industrialized countries to developing countries in terms of constant 1973 import volume.

**Table 1: THE ANNUAL INCREASE IN THE COST OF NON-OPEC  
DEVELOPING COUNTRIES' OIL IMPORTS DUE TO PRICE INCREASES, 1973-79**

**(Based on 1973 Import Volumes)**

	UN Unit Value Index for Fuels <sup>1/</sup> (1973=100)	LDC (exc. OPEC) Imports of Fuels from OPEC <sup>2/</sup>	LDC (exc. OPEC) Total Imports of Fuels <sup>3/</sup>
<u>Annual Cost Increase from Previous Year</u> (US\$ Billions on 1973 volumes)			
1974	295.0	13.92	18.76
1975	314.5	1.39	1.88
1976	338.0	1.68	2.26
1977	365.4	1.96	2.64
1978	366.5	0.08	0.11
1979	528.5 <sup>4/</sup>	11.56	15.59

<sup>1/</sup> Unit value indices of exports from developed and developing areas to developing areas in UN, Monthly Bulletin of Statistics, July 1980, Special Table F II.

<sup>2/</sup> Based on 1973 value of OPEC countries exports of fuels of US\$7,138 millions and the UN unit value index.

<sup>3/</sup> Based on 1973 value of LDC (excluding OPEC) total fuel imports of US\$9,621 millions and the UN unit value index.

<sup>4/</sup> Because the UN unit value index was not available for 1979, this figure was derived by applying the rate of increase in the average OPEC price in 1979 to the base of the 1978 UN unit value index for developing country imports of fuel.

**Sources:** United Nations Monthly Bulletin of Statistics, July 1980 and World Bank, (EPDCE) Commodity Price Forecast - Updating - Nov. 12, 1980.



**Table 2: THE ANNUAL INCREASE IN THE COST OF NON-OPEC  
DEVELOPING COUNTRIES TOTAL IMPORTS FROM  
INDUSTRIALIZED COUNTRIES DUE TO PRICE INCREASES**

**(Based on 1973 Import Volumes)**

	<u>Unit Value Index <sup>1/</sup></u> <u>(1973=100)</u>	<u>Annual Cost Increase <sup>2/</sup></u> <u>(US\$ billion on 1973 volume)</u>
1974	128.6	16.42
1975	144.1	8.93
1976	142.9	-0.71
1977	152.1	5.32
1978	177.8	14.76
1979 <sup>3/</sup>	207.2	16.91

1/ Based on 1973 sectoral weights for imports of non-OPEC developing countries from industrialized countries from UN, Yearbook of International Trade Statistics, 1978 Special Table B, and the Unit Value Indices of exports from Developed to Developing areas in UN, Monthly Bulletin of Statistics, July 1980, Special Table F II for all years excluding 1979. The published indices were not used directly because they include trade with OPEC countries.

2/ Based on 1973 value of non-OPEC developing countries' imports from industrialized countries of US\$57.5 billion and the unit value index.

3/ Because the UN unit value indices were not available for 1979 this figure was derived from the rate of increase in WDR sectoral deflators for industrialized countries' exports in 1979.

**Source:** United Nations, Monthly Bulletin of Statistics, July 1980; and, Yearbook of International Trade Statistics, 1978; and EPD data.

CHART II

Billions  
US\$

16

12

8

4

1973

1974

1975

1976

1977

1978

1979



Annual cost increase in Industrialized Countries' exports to Developing Countries (exc. OPEC) on 1973 volumes.



Annual cost increase in OPEC Fuel Exports to Developing Countries (exc. OPEC) on 1973 volumes.

Source: Tables 1&amp;2.

16.42

13.92

8.93

1.39

-0.71

1.68

5.32

1.96

14.76

0.08

16.91

11.56

61.63

30.59

1974-79



**Table 3: TERMS OF TRADE OF DEVELOPING COUNTRIES (EXC. OPEC)  
WITH INDUSTRIALIZED COUNTRIES**

**(1973=100)**

UNIT VALUE INDICES			
	Developing Countries' (exc. OPEC) exports to Industrialized Countries 1/	Industrialized Countries' exports to Developing Countries (exc. OPEC)	Terms of Trade
1974	148.6	128.6	115.6
1975	143.6	144.1	99.7
1976	156.7	142.9	109.7
1977	180.6	152.1	118.7
1978	191.5	177.8	107.7
1979	233.5	207.2	112.7

1/ Based on 1973 weights and unit value indices of exports from Developing to Developed Areas in UN, Monthly Bulletin of Statistics, July 1980, Special Table F II.

Source: United Nations, Monthly Bulletin of Statistics, July 1980 and Table 2.

Mr. Robert S. McNamara

December 31, 1980

Hollis B. Chenery, VPD

Projections for Developing Countries

Attached are the tables you requested at the last  
WDR IV Steering Group meeting.

Attachment

HBC:jm



## OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery, VPD

DATE December 19, 1980

FROM: Francis X. Colaço, Chief, EPDIT

SUBJECT: Tables for Mr. McNamara

Attached are two sets of tables which had been requested by Mr. McNamara.

In the first set are the following four tables with data for 1978:

Table 1: Gross National Product and Population by Regions and Countries, 1978

Table 2: Shares by Region of Gross National Product and Population in Total Developing Countries, 1978

Table 3: Shares of Sample Panel Countries in Gross National Product, Population and GNP Per Capita of Groups of Developing Countries, 1978

Table 4: Shares of Sample Panel Countries in Exports and Imports of Merchandise of Groups of Developing Countries, 1978

Please note that while the sample panel countries represent a high coverage of GNP, population and per capita GNP, the coverage of exports and imports is low in some cases (see Tables 3 and 4). This is because of the exclusion from the sample panel of such countries as Hong Kong, Singapore, Taiwan, Trinidad & Tobago etc., which have trade flows which are disproportionate to their size. Adjustments will be made in "residual" regions to account for this.

The second set of four tables represents a preliminary allocation of the Low Case balance of payments numbers of the "Guidelines for Global Analysis", dated November 4, 1980, between oil-importers (low-income and middle-income) and oil-exporters. The tables follow the format of Tables SA.6 and SA.7 of the World Development Report, 1980. We have excluded some debt service indicators from the tables, since these will be available only when the models have been run. The numbers in these tables are preliminary, and could be expected to be modified as the models are run.

## Attachments

cc: Mrs. Hughes (o/r), Mr. Baneth, Mr. Cassen

FXColaço:ps

Table 1: GROSS NATIONAL PRODUCT AND POPULATION BY REGIONS AND COUNTRIES, 1978

Page 1

Region/Country	GNP (mil.US\$)	% Share	Population (mil.)	% Share
<u>Low Income Countries (Oil Importers)</u>				
Africa South of Sahara	36,807.0	100.0	164,900.0	100.0
Ethiopia	3,477.0	9.4	30,982.0	18.8
Kenya	5,311.0	14.3	14,720.0	8.9
Madagascar	2,006.0	5.5	8,289.0	5.0
Niger	1,201.0	3.3	5,001.0	3.0
Tanzania	4,355.0	11.8	16,955.0	10.3
Zaire	6,480.0	17.6	26,770.0	16.2
Others	13,977.0	38.0	62,183.0	37.7
South Asia	157,242.0	100.0	880,800.0	100.0
Bangladesh	7,328.0	4.7	84,655.0	9.6
India	117,085.0	74.5	643,896.0	73.1
Pakistan	18,433.0	11.7	76,078.0	8.6
Sri Lanka	2,676.0	1.7	14,346.0	1.6
Others	11,720.0	7.5	61,825.0	7.0
<u>Middle Income Countries (Oil Importers)</u>				
Lower Middle Africa South of Sahara	35,895.0	100.0	82,100.0	100.0
Cameroon	3,859.0	10.8	8,058.0	9.8
Ghana	4,160.0	11.6	10,969.0	13.4
Ivory Coast	7,424.0	20.7	7,836.0	9.5
Senegal	1,973.0	5.5	5,380.0	6.6
Sudan	5,730.0	16.0	17,376.0	21.2
Zambia	2,707.0	7.5	5,291.0	6.4
Others	10,042.0	28.0	27,190.0	33.1
Upper Middle Africa South of Sahara	46,068.0	100.0	28,528.0	100.0
Others	46,068.0	100.0	28,528.0	100.0
East Asia and Pacific	149,166.0	100.0	155,903.0	100.0
Korea, Republic of	47,350.0	31.7	36,648.0	23.5
Philippines	23,834.0	16.0	45,639.0	29.3
Thailand	23,289.0	15.6	44,517.0	28.6
Others	54,693.0	36.7	29,099.0	18.7
Lower Middle Latin America and Caribbean	65,524.0	100.0	71,730.0	100.0
Chile	15,127.0	23.1	10,734.0	15.0
Colombia	22,530.0	34.4	25,573.0	35.7
Costa Rica	3,420.0	5.2	2,111.0	2.9
Dominican Republic	4,587.0	7.0	5,128.0	7.2
El Salvador	3,035.0	4.6	4,283.0	6.0
Guatemala	6,208.0	9.5	6,621.0	9.2
Others	10,617.0	16.2	17,280.0	24.1
Upper Middle Latin America and Caribbean	265,272.0	100.0	155,901.0	100.0
Argentina	56,452.0	21.3	26,386.0	16.9
Brazil	185,056.0	69.8	119,461.0	76.6
Uruguay	4,874.0	1.8	2,885.0	1.9
Others	18,890.0	7.1	7,169.0	4.6
Southern Europe	317,765.0	100.0	126,119.0	100.0
Portugal	18,864.0	5.9	9,798.0	7.8
Turkey	53,072.0	16.7	43,144.0	34.2
Yugoslavia	55,538.0	17.5	21,963.0	17.4
Others	190,291.0	59.9	51,214.0	40.6
North Africa and Middle East	22,803.0	100.0	32,308.0	100.0
Jordan	2,313.0	10.1	2,984.0	9.2
Morocco	12,828.0	56.2	18,914.0	58.5
Others	7,662.0	33.6	10,410.0	32.2



Table 1 (Contd.): GROSS NATIONAL PRODUCT AND POPULATION BY REGIONS AND COUNTRIES, 1978

Page 2

Region/Country	GNP (mil.US\$)	% Share	Population (mil.)	% Share
<u>Middle Income Countries (Oil Exporters)</u>				
Africa South of Sahara	52,282.0	100.0	89,388.0	100.0
Nigeria	46,334.0	88.6	80,563.0	90.1
Others	5,948.0	11.4	8,825.0	9.9
Lower Middle East Asia and Pacific	47,692.0	100.0	135,993.0	100.0
Indonesia	47,692.0	100.0	135,993.0	100.0
Upper Middle East Asia and Pacific	17,141.0	100.0	13,500.0	100.0
Malaysia	15,151.0	88.4	13,300.0	98.5
Others	1,990.0	11.6	200.0	1.5
Latin America and Caribbean	153,636.0	100.0	110,471.0	100.0
Ecuador	7,281.0	4.7	7,814.0	7.1
Mexico	89,925.0	58.5	65,442.0	59.2
Venezuela	39,107.0	25.4	13,973.0	12.6
Others	17,323.0	11.3	23,242.0	21.0
Lower Middle North Africa and Middle East	56,379.0	100.0	72,973.0	100.0
Algeria	24,988.0	44.3	17,734.0	24.3
Egypt	15,926.0	28.2	39,855.0	54.6
Tunisia	5,955.0	10.6	6,075.0	8.3
Others	9,510.0	16.9	9,309.0	12.8
Upper Middle North Africa & Middle East	76,044.0	100.0	35,831.0	100.0
Others	76,044.0	100.0	35,831.0	100.0

Source: Economic Analysis and Projections Department.

December 19, 1980

**Table 2: SHARES BY REGION OF GROSS NATIONAL PRODUCT AND POPULATION IN  
TOTAL DEVELOPING COUNTRIES, 1978**

Regions	GNP (bil.US\$)	% Share	Population (mil.)	% Share
Low Income Countries (Oil Importers)	<u>194.0</u>	<u>12.9</u>	<u>1,045.7</u>	<u>48.5</u>
Africa South of Sahara	36.8	2.4	164.9	7.6
South Asia	157.2	10.5	880.8	40.9
Middle Income Countries	<u>1,305.7</u>	<u>87.1</u>	<u>1,110.8</u>	<u>51.5</u>
Oil Importers	902.5	60.2	652.6	30.3
<u>Oil Exporters</u>	<u>403.2</u>	26.9	<u>458.2</u>	21.2
Oil Importing Developing Countries	1,096.5	73.1	1,698.3	78.8
All Developing Countries	1,499.7	100.0	2,156.5	100.0

Source: Economic Analysis and Projections Department.

December 19, 1980



**Table 3: SHARES OF SAMPLE PANEL COUNTRIES IN GROSS NATIONAL PRODUCT, POPULATION AND GNP PER CAPITA OF GROUPS OF DEVELOPING COUNTRIES, 1978**

Regions	Regional Totals			Sample Panel Countries			Sample Panel Countries as % of Regional Total		
	GNP (bil.US\$)	Popula- tion (mil.)	GNP per capita (US\$)	GNP (bil.US\$)	Popula- tion (mil.)	GNP per capita (US\$)	GNP	Popula- tion	GNP per capita
Low Income Countries (Oil Importers)	<u>194.0</u>	<u>1,045.7</u>	<u>185.0</u>	<u>168.3</u>	<u>921.7</u>	<u>183.0</u>	<u>86.8</u>	<u>88.1</u>	<u>98.9</u>
Africa South of Sahara	36.8	164.9	223.0	22.8	102.7	222.0	62.0	62.3	99.6
South Asia	157.2	880.8	179.0	145.5	819.0	178.0	92.6	93.0	99.4
Middle Income Countries	<u>1,305.7</u>	<u>1,110.8</u>	<u>1,175.0</u>	<u>856.6</u>	<u>862.4</u>	<u>993.0</u>	<u>65.6</u>	<u>77.6</u>	<u>84.5</u>
Oil Importers	902.5	652.6	1,383.0	564.2	481.7	1,171.0	62.5	73.8	84.7
Oil Exporters	403.2	458.2	880.0	292.4	380.7	768.0	72.5	83.1	87.3
Oil Importing Developing Countries	1,096.5	1,698.3	646.0	732.5	1,403.4	522.0	66.8	82.6	80.8
All Developing Countries	1,499.7	2,156.5	695.0	1,024.9	1,784.1	574.0	68.3	82.7	82.6

Source: Economic Analysis and Projections Department.

December 19, 1980

**Table 4: SHARES OF SAMPLE PANEL COUNTRIES IN EXPORTS AND IMPORTS OF MERCHANDISE OF GROUPS OF DEVELOPING COUNTRIES, 1978**

	<u>Regional Totals</u>		<u>Sample Panel Countries</u>		<u>Sample Panel Countries as % of Regional Total</u>	
	<u>Exports</u> (mil.U\$)	<u>Imports</u> (mil.U\$)	<u>Exports</u> (mil.U\$)	<u>Imports</u> (mil.U\$)	<u>Exports</u>	<u>Imports</u>
Low Income Countries (Oil Importers)	<u>14,849</u>	<u>22,194</u>	<u>12,792</u>	<u>17,285</u>	<u>86.1</u>	<u>77.9</u>
Africa South of Sahara	4,729	7,061	3,304	3,894	69.9	55.1
South Asia	10,120	15,133	9,488	13,391	93.8	88.5
Middle Income Countries	<u>237,265</u>	<u>287,907</u>	<u>122,521</u>	<u>151,028</u>	<u>51.6</u>	<u>52.5</u>
Oil Importers	148,044	192,953	67,113	85,858	45.3	44.5
Oil Exporters	89,221	94,954	55,408	65,170	62.1	68.6
Oil Importing Developing Countries	162,893	215,147	79,905	103,143	49.1	47.9
All Developing Countries	252,114	310,101	135,313	168,313	53.7	54.3

Source: Economic Analysis and Projections Department.

December 19, 1980



Table 1: LOW CASE: PRELIMINARY CAPITAL FLOWS AND DEBT OF THE OIL-IMPORTING DEVELOPING COUNTRIES, 1975-90  
(billions of current \$)

	1975	1976	1977	1978	Est. 1980	Projection	
						1985	1990
Current account deficit before interest payments <u>a/</u>	32.1	19.8	14.2	13.4	43.2	33.3	45.9
Interest payments	6.6	7.0	8.7	12.2	21.1	41.0	59.0
Changes in reserves and short-term debt	-9.3	6.8	12.4	21.2	-7.7	5.2	11.1
Total to be financed	29.3	33.5	35.3	46.7	56.6	79.6	116.0
Financed by medium and long-term capital							
From public sources	12.0	12.7	12.7	15.5	23.5	39.9	62.2
From private sources	17.4	20.9	22.6	31.2	33.1	39.6	53.9
Private direct investment	3.3	3.4	3.9	4.8	5.6	9.3	13.5
Private loans	14.1	17.5	18.8	26.4	27.5	30.3	40.4
Total net capital flows							
Current dollars	29.3	33.5	35.3	46.7	56.6	79.6	116.0
<u>Constant 1978 dollars</u>	<u>37.8</u>	<u>42.0</u>	<u>40.8</u>	<u>46.7</u>	<u>47.1</u>	<u>45.1</u>	<u>49.1</u>
Outstanding medium- and long-term debt							
Public sources	56.2	65.3	75.4	89.1	114.4	217.7	379.6
Private sources	69.9	86.6	107.0	137.3	192.0	337.9	518.6
Total debt							
Current dollars	126.1	151.9	182.4	226.4	306.4	555.6	898.2
<u>Constant 1978 dollars</u>	<u>162.7</u>	<u>190.4</u>	<u>210.3</u>	<u>226.4</u>	<u>255.1</u>	<u>314.8</u>	<u>380.3</u>
Price deflator	77.5	79.8	86.7	100.0	120.1	176.5	236.2

a/ Excludes official transfers

Source: Economic Analysis & Projections Department

December 19, 1980

Table 2: LOW CASE: PRELIMINARY CAPITAL FLOWS AND DEBT OF THE LOW-INCOME OIL-IMPORTING DEVELOPING COUNTRIES, 1975-90  
(billions of current\$)

	1975	1976	1977	1978	Est. 1980	Projection	
						1985	1990
Current account deficit before interest payments <u>a/</u>	4.8	1.7	0.8	4.2	9.3	14.6	25.9
Interest payments	0.6	0.7	0.7	0.9	1.3	2.6	5.0
Changes in reserves and short-term debt	0.5	3.0	3.8	1.1	-2.4	1.4	1.0
Total to be financed	6.0	5.3	5.4	6.2	8.2	18.6	31.9
Financed by medium and long-term capital							
From public sources	5.3	4.6	4.6	5.4	7.4	17.6	30.5
From private sources	0.7	0.8	0.8	0.8	0.7	1.0	1.3
Private direct investment	0.3	0.4	0.3	0.2	0.2	0.4	0.6
Private loans	0.4	0.4	0.5	0.6	0.5	0.6	0.8
Total net capital flows							
Current dollars	6.0	5.3	5.4	6.2	8.2	18.6	31.9
<u>Constant 1978 dollars</u>	<u>7.7</u>	<u>6.7</u>	<u>6.2</u>	<u>6.2</u>	<u>6.8</u>	<u>10.5</u>	<u>13.5</u>
Outstanding medium- and long-term debt							
Public sources	24.2	27.8	31.6	35.5	41.7	80.0	150.3
Private sources	3.3	3.5	4.2	4.9	6.0	8.8	12.2
Total debt							
Current dollars	27.5	31.3	35.7	40.4	47.7	88.8	162.5
Constant 1978 dollars	35.5	39.2	41.2	40.4	39.7	50.3	68.8
Price deflator	77.5	79.8	86.7	100.0	120.1	176.5	236.2

a/ Excludes official transfers

Source: Economic Analysis & Projections Department

December 19, 1980



**Table 3: LOW CASE: PRELIMINARY CAPITAL FLOWS AND DEBT OF THE MIDDLE-INCOME OIL-IMPORTING DEVELOPING COUNTRIES, 1975-90**  
(billions of current\$)

	1975	1976	1977	1978	Est. 1980	Projected	
						1985	1990
Current account deficit before interest payments <u>a/</u>	27.3	18.1	13.3	9.1	33.9	18.7	20.0
Interest payments	6.0	6.3	8.0	11.2	19.9	38.4	54.0
Changes in reserves and short-term debt	-9.9	3.8	8.6	20.1	-5.3	3.9	10.2
Total to be financed	23.3	28.2	30.0	40.5	48.4	61.0	84.2
Financed by medium and long-term capital							
From public sources	6.6	8.1	8.1	10.1	16.0	22.3	31.6
From private sources	16.7	20.1	21.8	30.4	32.4	38.7	52.5
Private direct investment	3.0	3.0	3.6	4.6	5.4	8.9	12.9
Private loans	13.7	17.1	18.2	25.7	27.0	29.7	39.6
Total net capital flows							
Current dollars	23.3	28.2	30.0	40.5	48.4	61.0	84.2
Constant 1978 dollars	20.1	35.3	34.5	40.5	40.3	34.5	35.6
Outstanding medium- and long-term debt							
Public sources	32.0	37.5	43.8	53.6	72.7	137.6	229.4
Private sources	66.6	83.1	102.8	132.3	186.0	329.2	506.4
Total debt							
Current dollars	98.6	120.6	146.7	186.0	258.7	466.8	735.7
Constant 1978 dollars	127.2	151.2	169.2	186.0	215.4	264.5	311.5
Price deflator	77.5	79.8	86.7	100.0	120.1	176.5	236.2

a/ Excludes official transfers

Source: Economic Analysis & Projections Department

December 19, 1980

**Table 4: LOW CASE: PRELIMINARY CAPITAL FLOWS AND DEBT OF THE OIL-EXPORTING DEVELOPING COUNTRIES, 1975-90**  
(billions of current \$)

	1975	1976	1977	1978	Est. 1980	Projected	
						1985	1990
Current account deficit before interest payments <u>a/</u>	-0.2	-3.2	1.0	11.6	-15.2	0.5	11.9
Interest payments	2.7	3.5	4.5	6.0	11.0	16.2	21.0
Changes in reserves and short-term debt	14.1	15.9	16.9	4.7	23.2	7.8	5.4
Total to be financed	16.6	16.2	22.4	22.3	19.0	24.4	38.3
Financed by medium and long-term capital							
From public sources	6.1	4.4	6.8	5.3	8.0	11.0	17.0
From private sources	10.5	11.7	15.6	17.0	11.0	13.5	21.3
Private direct investment	3.4	2.1	3.1	2.4	3.2	4.7	6.5
Private loans	7.1	9.6	12.4	14.6	7.8	8.8	14.8
Total net capital flows							
Current dollars	16.6	16.2	22.4	22.3	19.0	24.4	38.3
Constant 1978 dollars	21.4	20.3	25.8	22.3	15.8	13.9	16.2
Outstanding medium- and long-term debt							
Public sources	20.9	24.2	30.4	35.8	41.8	77.9	131.3
Private sources	32.2	42.6	56.0	72.5	85.2	127.0	187.8
Total debt							
Current dollars	53.1	66.8	86.4	108.3	127.1	204.9	319.0
Constant 1978 dollars	68.5	83.7	99.6	108.3	105.8	116.1	135.1
Price deflator	77.5	79.8	86.7	100.0	120.1	176.5	236.2

a/ Excludes official transfers

Source: Economic Analysis & Projections Department

December 19, 1980

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery, VPD *Signed Hollis B. Chenery*

SUBJECT: "Terms of Trade" Changes as Estimated by OPEC

DATE December 31, 1980

This is in response to your query about whether the "terms of trade" changes estimated by OPEC sources agreed with our estimates.

The method followed by the OPEC source in their Chart 3 (shown here as Chart I) evaluates the "terms of trade" effect of price rises for oil and for exports from industrialized countries, respectively, without taking into account the relative prices of developing countries' own non-oil exports. As is pointed out in the attached note, real income losses occur only if relative prices change. It appears that developing countries' non-oil exports to industrialized countries have not experienced declining prices in relation to their imports from those countries. This is, however, far from true of their oil imports whose relative prices have risen sharply.

Apart from the problem of interpreting the OPEC chart, we have also had difficulty in checking their numbers because of a lack of information about the sources and methodology. If we understand the latter correctly, they suggest that the price rise between 1973 and 1979 for goods from industrialized countries on 1973 constant volumes, cost non-OPEC developing countries \$49.7 billion annually, while the oil price rise cost them only \$14.2 billion (Chart I). Our own figures, based on what we believe is the same methodology, are \$61.6 billion and \$30.6 billion, respectively (see Tables 1 and 2 and Chart II). We are not clear about the reasons for these discrepancies.

Attachments

cc: Mrs. Hughes (o/r); Messrs Baneth, Colaço, Wolf

:ps



COMPARISON BETWEEN THE EFFECTS ON DEVELOPING COUNTRIES  
OF OIL PRICE RISES AND OF INFLATION IN THE PRICE OF EXPORTS  
FROM INDUSTRIALIZED COUNTRIES

We have received some charts from OPEC sources, one of which - their chart 3 (shown attached as chart I) - purports to analyze the impact of price rises for oil and exports from industrialized countries, respectively, on non-OPEC developing countries. The implication of the chart is that between 1974 and 1979 the oil price rise had a much smaller effect on developing countries than the rise in prices of industrial goods.

In attempting to check these numbers, we have been hampered by our failure to discover the sources. What we have done in the attached charts and tables is to use as the base 1973 exports of fuels to developing countries both from OPEC and from all sources (see Table 1), as well as imports of all goods from industrialized countries (see Table 2). The inflation factors we have used are (except for 1979) those for developed countries' exports to developing countries and for all developing countries' imports of fuel, both derived from United Nations, Monthly Bulletin of Statistics.

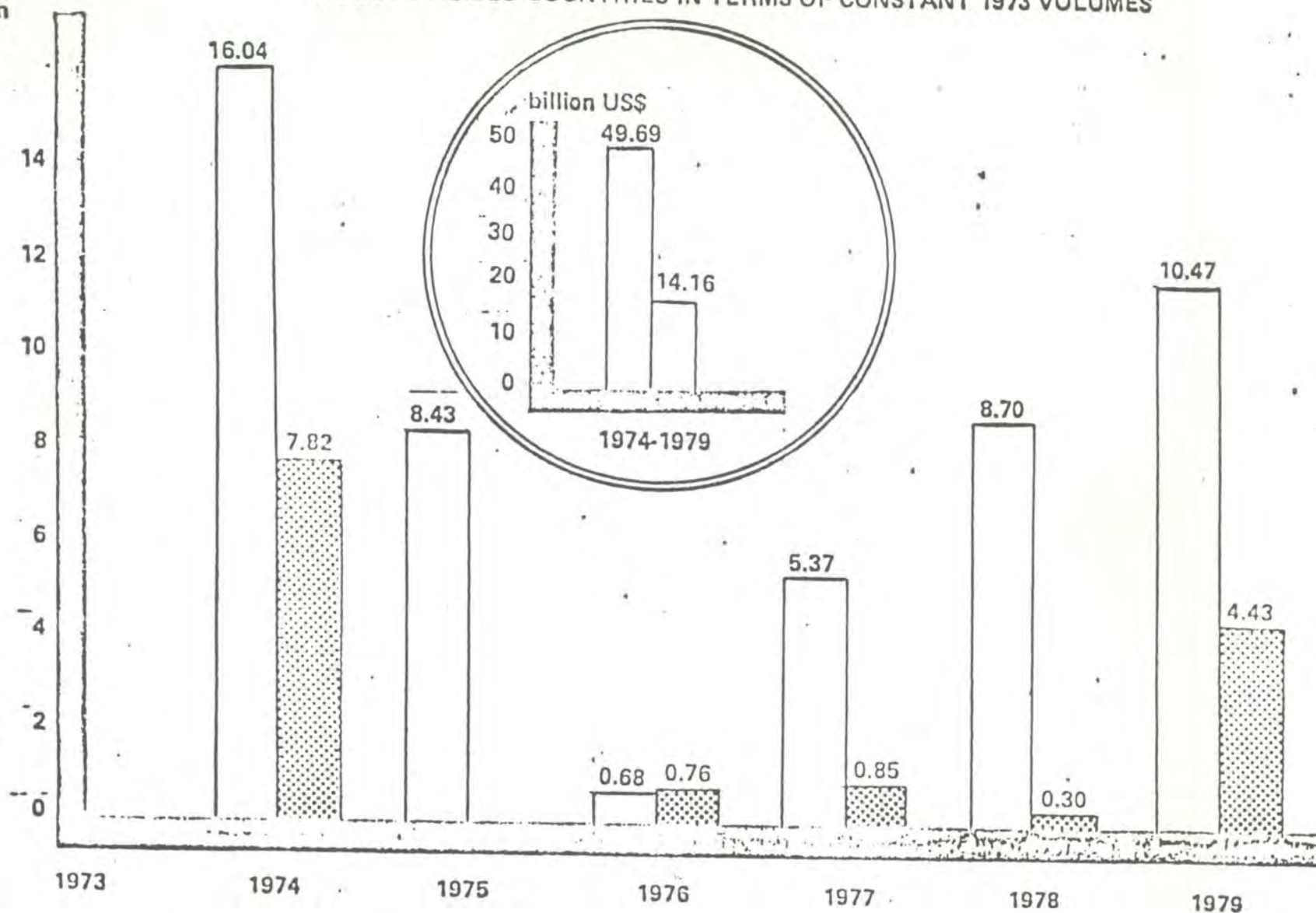
Our results are markedly different from those of the OPEC chart. While the latter suggests that the price rise between 1973 and 1979 for goods from industrialized countries on 1973 constant volumes cost non-OPEC developing countries \$49.69 billion annually while the oil price rise cost them only \$14.16 billion, our figures are \$61.63 billion and \$30.59 billion, respectively, (when the 1973 volume of imports of fuel by non-OPEC developing countries from OPEC only are the base) and \$61.63 and \$41.24 billion, respectively, (when their total 1973 fuel imports are the base). The discrepancy between our own and the OPEC data for the oil price effect is extremely large. The reasons for this are unclear.

These figures should, in any case, be interpreted with extreme caution, if the purpose is to indicate that the rise in the price of oil has had a relatively minor effect on developing countries. In the first place, the inflation and recession of industrialized countries is at least in some part the consequence of rises in the price of oil. This indirect effect clearly has to be taken into account 1/. In the second place, general inflation, which affects both exports and imports in roughly similar ways, has entirely different real income effects from changes in the terms of trade. While the proportional rise in the overall export unit values of non-OPEC developing countries has more or less kept pace with that of imports from industrialized countries, (see Table 3) this is far from the case for imports of oil. It is only the change in the terms of trade, however, that leads to a decline in the real purchasing power of output in importing countries.

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1/ For a discussion of these indirect effects see OECD, Economic Outlook, Number 27 (July 1980), pp. 114-30, "The Impact of Oil on the World Economy".

NON-OPEC DEVELOPING COUNTRIES:  
OIL PRICE IMPACT VS. INFLATION IMPACT OF EXPORTS FROM  
INDUSTRIALIZED COUNTRIES IN TERMS OF CONSTANT 1973 VOLUMES

billion  
US\$

Oil price impact in terms of constant 1973 oil import volume in developing countries. (oil imports from OPEC countries only).



Inflation impact of exports from industrialized countries to developing countries in terms of constant 1973 import volume.



**Table 1: THE ANNUAL INCREASE IN THE COST OF NON-OPEC  
DEVELOPING COUNTRIES' OIL IMPORTS DUE TO PRICE INCREASES, 1973-79**

**(Based on 1973 Import Volumes)**

	UN Unit Value Index for Fuels <u>1/</u> (1973=100)	LDC (exc. OPEC) Imports of Fuels from OPEC <u>2/</u>	LDC (exc. OPEC) Total Imports of Fuels <u>3/</u>
	<u>Annual Cost Increase from Previous Year</u> (US\$ Billions on 1973 volumes)		
1974	295.0	13.92	18.76
1975	314.5	1.39	1.88
1976	338.0	1.68	2.26
1977	365.4	1.96	2.64
1978	366.5	0.08	0.11
1979	528.5 <u>4/</u>	11.56	15.59

1/ Unit value indices of exports from developed and developing areas to developing areas in UN, Monthly Bulletin of Statistics, July 1980, Special Table F II.

2/ Based on 1973 value of OPEC countries exports of fuels of US\$7,138 millions and the UN unit value index.

3/ Based on 1973 value of LDC (excluding OPEC) total fuel imports of US\$9,621 millions and the UN unit value index.

4/ Because the UN unit value index was not available for 1979, this figure was derived by applying the rate of increase in the average OPEC price in 1979 to the base of the 1978 UN unit value index for developing country imports of fuel.

**Sources:** United Nations Monthly Bulletin of Statistics, July 1980 and World Bank, (EPDCE) Commodity Price Forecast - Updating - Nov. 12, 1980.



**Table 2: THE ANNUAL INCREASE IN THE COST OF NON-OPEC  
DEVELOPING COUNTRIES TOTAL IMPORTS FROM  
INDUSTRIALIZED COUNTRIES DUE TO PRICE INCREASES**

**(Based on 1973 Import Volumes)**

	<b>Unit Value Index <sup>1/</sup> (1973=100)</b>	<b>Annual Cost Increase <sup>2/</sup> (US\$ billion on 1973 volume)</b>
1974	128.6	16.42
1975	144.1	8.93
1976	142.9	-0.71
1977	152.1	5.32
1978	177.8	14.76
1979 <sup>3/</sup>	207.2	16.91

**1/** Based on 1973 sectoral weights for imports of non-OPEC developing countries from industrialized countries from UN, Yearbook of International Trade Statistics, 1978 Special Table B, and the Unit Value Indices of exports from Developed to Developing areas in UN, Monthly Bulletin of Statistics, July 1980, Special Table F II for all years excluding 1979. The published indices were not used directly because they include trade with OPEC countries.

**2/** Based on 1973 value of non-OPEC developing countries' imports from industrialized countries of US\$57.5 billion and the unit value index.

**3/** Because the UN unit value indices were not available for 1979 this figure was derived from the rate of increase in WDR sectoral deflators for industrialized countries' exports in 1979.

**Source:** United Nations, Monthly Bulletin of Statistics, July 1980; and, Yearbook of International Trade Statistics, 1978; and EPD data.

CHART II

Billions  
US\$

16

12

8

4

16.42

13.92

8.93

1.39

-0.71

1.68

5.32

1.96

0.08

14.76

16.91

11.56

61.63

30.59

1974-79

1973

1974

1975

1976

1977

1978

1979

□ Annual cost increase in Industrialized Countries' exports to Developing Countries (exc. OPEC) on 1973 volumes.

▨ Annual cost increase in OPEC Fuel Exports to Developing Countries (exc. OPEC) on 1973 volumes.

Source: Tables 1&amp;2.

**Table 3: TERMS OF TRADE OF DEVELOPING COUNTRIES (EXC. OPEC)  
WITH INDUSTRIALIZED COUNTRIES**

**(1973=100)**

UNIT VALUE INDICES			
	Developing Countries' (exc. OPEC) exports to Industrialized Countries 1/	Industrialized Countries' exports to Developing Countries (exc. OPEC)	Terms of Trade
1974	148.6	128.6	115.6
1975	143.6	144.1	99.7
1976	156.7	142.9	109.7
1977	180.6	152.1	118.7
1978	191.5	177.8	107.7
1979	233.5	207.2	112.7

1/ Based on 1973 weights and unit value indices of exports from Developing to Developed Areas in UN, Monthly Bulletin of Statistics, July 1980, Special Table F II.

Source: United Nations, Monthly Bulletin of Statistics, July 1980 and Table 2.



OFFICE MEMORANDUM C O N F I D E N T I A L

TO: Mr. Robert S. McNamara

DATE: November 14, 1980

FROM: Hollis B. Chenery, VPD *HBC*

DECLASSIFIED

JAN 11 2017

WBG ARCHIVES

SUBJECT: Albert Fishlow

I am sorry that I was not able to return your call until after you had left. I spoke further with Stern on the subject and he agreed to convey the substance to you on your return.

My own feeling is that, of the original list of candidates, only Michael Bruno would be a substantially stronger appointment if the nationality problem could be got around. Both Krueger and Balassa have a somewhat higher standing as researchers since Fishlow has shifted more to policy and administration, but I don't think that is enough to offset our earlier judgment.

I will be visiting my daughter in New Mexico Monday afternoon and Tuesday morning; my secretary can get hold of me if you wish to discuss it further.

cc - Mr. Stern

HBC:jm

Office of the President

11/12  
To Dr. Henry  
may I have your  
comments on this draft  
that I understand is in line  
with it. Lm

- ① - ag to Committee in draft  
② E P W to Committee,



## THE UNITED NATIONS UNIVERSITY

New York Liaison Office  
United Nations, Room DC-1177  
New York, N.Y. 10017

TELEPHONE: (212) 754-5610/11  
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11 November 1981

Dear Mr. McNamara,

You will remember the many discussions we had and our mutual concern with present international economic problems and the need for fresh ideas that might contribute to their understanding and to the design of a viable global economic system. Your recent statements on these matters have shown your own preoccupation with the future of negotiations in a spirit of mutual interest.

The World Bank and many other international and national institutions have already approached some of these issues in a constructive fashion in accordance with each institution's mandate and objectives. We feel that the time has come for the United Nations University to make its own contribution to the urgent need for global, independent, policy-relevant research on world economic issues.

Its Charter enjoins the UNU to concern itself with research on the pressing global problems of human survival, development and welfare. Being a non-inter-governmental body, and enjoying academic freedom, the UNU could do the kind of independent, high quality research that takes into account the variety of perspectives that exist in a pluralistic world.

It could do so from an autonomous, non-advocacy, independent position, in a manner that would earn it the trust and co-operation of national governments and international institutions, while maintaining its capacity for independent inquiry and judgement.

Mr. Robert S. McNamara  
President  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433

.. /





The UNU is proposing the creation of a new, relatively small institution, integrated into its structure, that would seek to perform that role at the highest possible level of excellence, by attracting highly qualified professionals and establishing a network of collaborating institutions and individuals throughout the world.

..... Sometime ago you expressed an interest in such an institution, and it is for this reason that I am looking to the World Bank for a major contribution to this effort. I am also addressing other donors to guarantee stability, continuity and independence for the institution and its work for an adequate period of time, to enable it to find its way and establish itself. The attached proposal represents our present thinking on the matter. It sets out the main ideas, objectives and structure of a UNU Global Economic Policy Research Institution. It is a document for discussion and exploration purposes and one that is open for revision.

I would be delighted to have an opportunity to discuss this proposal at your convenience and I look forward to an early response.

Yours sincerely,

Soedjatmoko  
Rector

## OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara, President  
 Thru: Mr. Hollis B. Chenery, Vice President, DPS  
 FROM: Helen Hughes, Director, EPD MM

DATE November 12, 1980

SUBJECT: Estimates of the Current Account Surplus of  
Oil-Exporting Countries, 1980 and 1981

DECLASSIFIED

JAN 11 2017

WBG ARCHIVES

The table below shows the most recent IMF staff estimate of the current account surplus of their grouping of oil exporting countries. The figures have not been revised since the update of the World Economic Outlook dated September 23, 1980. The breakdown showing the capital surplus oil exporters was provided to us on a strictly confidential basis.

As you know, we have not undertaken independent economic analyses of these countries, and have accordingly relied on secondary sources of information for them. In the WDR Guidelines, and in my memorandum to Mr. Chenery on October 24, we have reproduced the IMF estimates of the current account surpluses of the capital surplus oil exporters for 1980-1981, though we think the 1981 estimates may be on the low side. For other countries in the IMF's oil exporter group, we have received estimates from Bank country economists, which lead us to a slightly higher estimate for the surplus in 1980 than the IMF's, as shown in the table.

CURRENT ACCOUNT BALANCES OF OIL EXPORTING COUNTRIES,  
 IMF DEFINITION, 1980-1981 a/

(US\$ billion)

	1980	1981
Capital Surplus Countries <u>b/</u>	100	80
Other Oil-Exporters <u>c/</u>	<u>10</u>	<u>5</u>
Total	<u>110</u>	<u>85</u>
Memo: Bank estimate <u>d/</u>	112.3	86.0

a/ Excluding official transfers.b/ Iraq, Kuwait, Libya, Qatar, Saudi Arabia, U.A.E.c/ Algeria, Indonesia, Iran, Nigeria, Oman and Venezuela.d/ Adjusted to conform to IMF country coverage.

Mr. McNamara

November 12, 1980

We understand that in view of the fluid situation in the Middle East and attendant uncertainty regarding the price and production prospects for oil in the near term, the Fund staff has no plans to revise or update the estimates very soon, although a review is planned for February. We will keep you advised of any revised estimates that we receive.

JKatz:mk



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President  
FROM: Hollis B. Chenery, VPD *HB*  
SUBJECT: Future World Development Reports

DATE: November 7, 1980

At the Board Seminar on Wednesday, November 12, it is possible that questions may be raised about future World Development Reports. I would suggest that Bevan Waide reply, using material as appropriate from the attached memorandum.

Since you are meeting with the WDR IV Steering Group on Monday, November 10, at 2.00 p.m., could I suggest this memorandum be placed on the agenda.

Attachment/-

cc. Mr. Benjenk; Mr. Qureshi; Mr. Stern;  
Mr. Cassen (WDR); Mrs. Hughes (EPD);  
Mr. Lafourcade (EXC); Mr. Waide (VPD).

EBWaide/HBChenery/ko

## OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery, Vice President

DATE: November 7, 1980

FROM: E. Bevan Waide, VPD *VBW*SUBJECT: Future World Development Reports

With WDR 1981 we will have completed four World Development Reports and will also have come to the end of the list of topics mentioned to the Board in 1978. In order to review experience to date, and also to start planning for WDR 1982 and beyond, I have consulted with producers and users of WDRs throughout the Bank and collected the opinions of a number of outside audiences.

I. General Issues.

The WDRs set out to reach multiple audiences: (a) the political leadership, policy makers and development practitioners in developing countries; (b) leaders and concerned publics in developed countries whose support the Bank and other development agencies require; (c) staff of bilateral and multilateral development agencies; and (d) students, researchers and teachers on development topics. Evidence to date suggests that all these audiences have been reached, but in varying degrees. Distribution has risen from 110,000 for WDR 1978 to 125,000 for WDR 1980. The report is now translated into six languages, but 20,000 of the circulation increase is accounted for by English versions. There is very broad mention and use of the report by the media in North America, Europe and Scandinavia, and increasing coverage is evident in English-speaking ldc's; coverage in Latin America and French-speaking Africa is modest. Increasingly frequent references are made to WDRs (and the World Development Indicators) in public and private national and international fora; and more use is being made of WDRs in teaching. It is not easy to isolate the effect which WDR-based ideas have yet had, but where the messages are clear--e.g. the minimal impact that expected relatively low growth is likely to have on poverty, or the importance of linked human resource development programs--they have gained recognition. The WDRs have also been very useful within the Bank in encouraging synthesis and dissemination of research and operational knowledge, and as a broadening experience for the staff concerned. In particular, the background papers to successive WDRs have met a need for state-of-the-art reviews of the policy implications of research findings. This accords with the recommendations of the GRAP Report on research.

The generally successful launch of the WDRs seems to rest heavily on their content. The essence is that they have tackled broad international and developmental issues in a thorough and objective way, and use the Bank's comparative advantages in operational experience and research, and its capacity to draw lessons from cross-country comparisons. Acceptance of WDR messages have however been somewhat grudging amongst many developing countries, who see in WDRs a tendency to preach and an emphasis on policy actions to be taken by them rather than by developed countries. The spirit of issues in the North-South dialog,



such as the targets of the Lima resolution or of the Third Development Decade, are not seen to be addressed; dissemination, and the limited translations, seem to be aimed at the media in developed countries rather than organized for policy makers in ldc's.

This problem of the multiplicity of audiences is not easy to solve with a single report because of the compromises required in content and style. There seems however to be a strong case for continuing with the stylistic approach of WDR 1980, aimed at the informed general reader, while making use of fuller general summaries and, perhaps, summaries on the special topics. There should, for the specialist reader <sup>1/</sup>, be more references to source materials including the many background papers which are an integral part of the WDR output. While there is no need to stick to a uniform length, brevity is clearly of the essence: WDR 1979 is regarded as too long, and too broad in coverage, while WDR 1978 was closer to the mark.

The status of WDRs--staff papers rather than statements of the official position of the Bank--is consistent with the objective of freely imparting information, analyses, and new ideas. But the distinction is a fine one and is blurred (a) by the use of WDRs as Bank submissions to e.g. the Development Committee or UN Special Sessions, (b) by the fact that WDRs are published in mid-August only just before the Annual Report is issued (as the official view of the Board) and the Annual Meetings' Speech (the official view of the Bank's President), and now (c) by the issue of the Fund's official views on the short to medium term in the World Economic Outlook. There is a case for (i) slightly advancing the publication date of the WDR--say to end-June--to distinguish better between this and other annual events (also to avoid the present excessive concentration of distribution and publicity work in the August/September period) and (ii) making it clear that the policy implications of WDR analyses for the Bank will be dealt with in other papers.

In short, the review of experience to date shows that the WDR formula is a good one: a market has been established and the annual issues of WDRs should retain and expand it. Further improvements in the balance of contents, the summaries, the range of languages, and techniques for dissemination are however necessary to suit the various audiences.

## II. Content

Turning now to content, it is clear that in covering major subjects in long-run perspective, significant changes in analyses or conclusions are not to be expected from year to year--hence the case for special topics, treated in depth. The same argument however has come to be recognized to be applicable also to the analysis of long-run trends in

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<sup>1/</sup> The university audience for WDRs is clearly far from satiated.

<sup>2/</sup> From a publicity viewpoint, an even earlier date would help reach the Fall academic market.



the international economic environment. New long-run projections need not be presented more than once every two to three years. In the intervening period, in the absence of major disruptions, the WDR can limit coverage to an updating, plus descriptions of the impact on long-term trends for developing countries of notable events during the year. With WDRs 1978 through 1980 having presented (different) long-term forecasts, and with WDR 1981 devoted wholly to international issues, WDR 1982 and perhaps 1983 can thus be years in which such coverage is relatively brief: staff resources can best be devoted to improving the underlying global model(s) and data bases, plus covering particular international issues in more depth, such as the uses and limitations of commodity agreements, or South-South trade and cooperation.

With regard to future special topics, it is widely felt that WDRs should not confine themselves to analyses of problems and general solutions, but should go as far as possible towards indicating how to solve them in practice, drawing more heavily on the Bank's operational experience where possible. This should help allay concerns about preaching.

A number of ideas for future special topics have emerged from discussions, of which four are sufficiently concrete to mention now. These are:

1. Lessons from experience in agriculture and rural development; impact of various strategies intended to benefit small farmers and the landless; experience with water resource development and particular policy interventions (e.g. agricultural pricing policies, land reform, cooperatives); past and likely future trends in agricultural research; food supplies and food security; impact of increased energy prices.
2. Given the faltering political support for aid in several countries, an authoritative examination of aid effectiveness would be highly desirable, looking at the costs and benefits from the points of view of recipients as well as donors. Effectiveness could be seen at both micro (projects) and macro (growth, balance of payments, poverty) levels. We might include an analysis of volumes of OPEC and Eastern Bloc aid, and assess the merits of different forms of resource transfer, such as food aid, etc.
3. Lessons from experience for development strategies of the main groups of least developed countries, with particular stress on pre-conditions for successful industrialization; tradeoffs between human resource development, infra-structural development, and directly productive investment; creation of conditions for entrepreneurial development, capital market development and resource flows; advance avoidance of problems besetting middle and high income countries today (excessive energy use, serious inequality, pollution etc.). This would build on the analysis done in WDR 1978.

4. Weak public administration is universally recognized as a constraint on the effectiveness of development policies; public enterprises, chosen instruments in many countries and sectors, also often perform poorly. Problems in these areas constrain absorptive capacity and the returns on investment. It would be useful to assess what is known at national, sector and project levels about techniques of planning, organization, management and training that can lead to better public administration and stronger institutional development, as well as strengthened management in the private sector. There may well be lessons for developed countries from developing countries in these areas.

In addition to the above, it has been urged that future WDRs cover periodically some of the basic underlying determinants of development trends such as the causes and consequences of movements in demographic variables, including internal and external migration, and review the determinants of rates of economic growth at different stages of development.

I would recommend that WDR 1982 be built around the first of the groups of topics mentioned above, i.e. agriculture, on which we have substantial material and experience on which to draw. We should give further thought to the research necessary to pursue the other subjects above for future WDRs and make recommendations in the late summer of 1981.

### III. Working Arrangements

The WDRs, while clearly effective, are also costly to produce compared with other written outputs of the Bank. While no doubts have been expressed by the Board about the effectiveness of the WDRs, the cost was questioned in the FY81 Budget discussions. The major single item of expenditure is work on the global model and associated data. The suggestion above, to have a major revision of the global model only once every three years, will reduce costs. Also, having now established major markets for the WDR, the growth in sales from 5,000 in WDR I to 12,000 for WDR II and probably 15,000 for WDR III should continue.

While it is also costly to have a separate Core Team and a substantial consultants' budget for each WDR, the evidence on the detachment and originality that each Core Team brings overwhelms the argument for institutionalizing WDRs in one Bank department. However, changing all members of each Core Team every year gives a loss of continuity on the analysis of international economic issues. While not detracting from the responsibilities of the Core Team leader, we propose that there be more continuity on this side so as to maintain close mutual links with EPD's work. Experience has also shown that a WDR team assembled, in effect, in July/August each year, only seven months before the report is drafted, does not allow enough time for proper planning and assimilation of background papers

and research nor for full consultations on content with interested outside agencies. There is a case therefore for having each Core Team at work for a rather longer period, from, say, March of the preceeding year. If this were done, it would be possible to have a slightly smaller Core Team and avoid increases in total costs.

EBWaide/ko



11/5 JM.  
cc - Wanda  
Hag

ROUTING SLIP

Date

11/5

OFFICE OF THE PRESIDENT

Name

Room No.

1. Mr. Qureshi

2. Mr. Chenery

cc: Wanda

Hag

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

Robert S. McNamara

From

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery, VPD *HB*

SUBJECT: DPS Attendance at Finance Committee Meetings

DATE: November 3, 1980

NOV 3 1980

Since the Finance Committee is becoming a more active forum for discussion of a range of policy matters, I would like to raise the issue of DPS attendance at relevant meetings.

A number of subjects that have come up recently are of concern to the DPS: at the last meeting, for example, the issue of the Bank's response to the UNCTAD debt resolution was discussed, as was the question of the allocation of Bank/IDA resources to, inter alia, structural adjustment lending operations. DPS had contributed papers for the meetings on these subjects, and has some responsibility for follow up.

Could I suggest that the best arrangement is similar to the one we have worked out with Mr. Stern for the OVP meetings, namely, that the Committee secretariat routinely send this office notices of the meetings so that we could consider whether any items on the agenda relate to the DPS; in such cases we would indicate to Mr. Qureshi or Mr. Wood our interest in being represented. Needless to say, we are always ready to assist the work of the Committee whenever we can do so.

*[Handwritten signature: Qureshi]*  
*[Handwritten signature: L. H. E.]*

cc. Mr. Qureshi; Mr. Stern; Mr. Haq (PPR); Mr. Wood (FPA).

EBWaide/HBChenery/ko

# OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: Oct. 2, 1980

FROM: Hollis B. Chenery *HBC*

DECLASSIFIED

SUBJECT: Candidates for DPS

JAN 11 2017

WBG ARCHIVES

Since our meeting of September 22 on this subject, I have consulted with six outside economists who have a broad view of the development field as well as specific knowledge of the candidates and some experience with the Bank. Those consulted are:

Prof. W. Arthur Lewis, Princeton

Prof. Dwight Perkins, Chairman, Harvard  
Economics Department

Prof. Paul David, Chairman, Stanford  
Economics Department

Prof. Gustav Ranis, Director, Yale Growth  
Center

Prof. Carlos Diaz-Alejandro, Yale Growth  
Center

David Bell, Ford Foundation

I asked each one for general comments on the suitability of Fishlow and Bruno for my position in the Bank and then discussed Fishlow's qualifications in some detail.

There was general agreement that these were indeed the two leading candidates for the job as described; no one suggested a third possibility of equal caliber. The five professors regard Bruno as one of a handful of leading development economists in the world and significantly better than Fishlow as a research director. Four of them would be inclined to choose him on these grounds.

Those who have observed Fishlow's performance as Director of International Studies at Yale at first hand--Bell, Diaz-Alejandro, and Ranis--give him high marks for policy judgment and administrative ability. Bell and Diaz-Alejandro would choose him for the job on this basis as well as his earlier work in Brazil.



A more detailed evaluation suggests that there is little difference between Bruno and Fishlow in basic intelligence, ability or training. It is only in the past ten years that their careers have diverged significantly, with Bruno giving priority to research while Fishlow has moved increasingly into advisory work and administration. Fishlow is quite ambitious (and correspondingly mobile), while Bruno has repeatedly refused offers from leading universities for any but visiting assignments.

In summary, this further probing confirms the judgment of the internal search committee that these are both excellent candidates and that the choice between them depends on the relative weight given to the several functions to be performed.

There are a few further observations that I would like to give to you orally before you reach a decision.

cc: Messrs. Stern  
Qureshi  
Paijmans

HBC/tsa

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: Sept. 24, 1980

FROM: Hollis B. Chenery *HBC*SUBJECT: Visit to Egypt

1. At the request of Mr. Karaosmanoglu, I joined the Bank's economic mission to Egypt for four days last week. We had two main purposes:

- to discuss the Bank's draft report on Egypt's development prospects for the 1980s; and
- to explore the possibilities for collaborative research with several university groups.

As you requested, I am forwarding a few general reactions.

2. We had a very favorable reception from the economic ministries, and particularly from the Deputy Prime Minister for Economic Affairs, Dr. Abdel Meguid. While this may be partly attributable to his being a former member of the DPS, I think that he finds the Bank's general approach to the analysis of structural changes needed in Egypt to be quite useful, and he went to some pains to publicize it. Presumably, it also fits in with his own political and economic position vis a vis other ministers.

3. The main theme that we developed over several discussions was the need to separate the medium-term effects of increased oil revenues from the longer term constraints on Egypt's foreign exchange earnings and investment resources. On the Bank projections, the current favorable position gives Egypt a breathing space of five years or so during which it needs to develop agriculture and industry and thus to reduce import requirements and become an exporter of manufactured goods. Current policies of controlling prices and subsidizing consumption work against these longer term objectives although it is not politically feasible to change them too rapidly.

4. As an extension of our dialogue on Egyptian development problems, Meguid organized a seminar with government and academic economists in which I presented the Bank's general views on structural change in a comparative framework. He and I then took turns in answering questions over a period of two hours or so. I have no idea what led to this performance, but it seemed to have been well received.

5. Since I am no student of Egyptian politics, I will leave it to the Region to provide their interpretation of the present state of government policy. Compared to my last visit in 1974, the level of competence in government and the universities seems much better, and the analytical basis for policy is much improved. The Bank's present draft report is technically one of the best I have seen on any country. There is considerable interest in Egypt in transferring its underlying economic model to the Development Research Center at Cairo University (which has had support from an AID/MIT contract). I hope this will prove to be feasible, since it fits in well with our current emphasis on local collaboration and disseminating Bank research.

cc: Messrs. Stern  
Chaufournier  
Karaosmanoglu  
Dubey

HBC/tsa



## OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: September 4, 1980

FROM: Hollis B. Chenery *HSC*SUBJECT: Candidates for DPS

DECLASSIFIED

JAN 11 2017

WBG ARCHIVES

As requested, I submit a list of possible candidates for my successor as Vice President, Development Policy. In our last discussion, we agreed that January 1982 would be a reasonable target date for such an appointment, which would allow for me to be relieved of my administrative responsibilities a year before I retire in January 1983. For the purpose of this exercise, I have assumed that the future functions of the DPS would be similar to what they are now.

Procedure

To ensure the consideration of a wide range of nationalities and backgrounds, I have proceeded in three steps:

- 1) Identification (with the help of a small search committee) of a list of 39 potential candidates. These have been divided according to their backgrounds into three groups given in Attachment A. (Although no quotas were imposed, the nationality distribution turns out to be rather similar to that of the Bank, with a third from Part II countries and a quarter from the U.S.) This list was sent to you on July 31.
- 2) Screening of this list against the criteria established for the job (which are summarized below). As a result, the group was reduced to 25 people, who have been subject to more intensive scrutiny. Biographical data on this group are given in Attachment B.
- 3) Preparation of a short list of ten candidates as given below. In this process I have discussed the qualifications of some of the leading candidates with senior Bank officials (including Stern and Qureshi) as well as outside economists. From this process, I conclude that there are very few additional possibilities to be found unless one changes the selection criteria significantly.

Five main criteria have been used in the evaluation process:

- professional standing and experience in development and international economics;
- research leadership;
- policy judgment;
- administrative ability; and
- interest and commitment to development.

The experience of candidates varies from "mainly academic" to "mainly governmental". To facilitate comparisons, they were therefore classified into three groups:

- I. Balanced (adequately qualified on all criteria)
- II. Mainly Policy/Administration
- III. Mainly Professional/Research

#### Results

In preparing a short list for your consideration, I have first eliminated people for whom economic development has not been a primary field of activity and interest. This excludes several very able people (Cooper, Lindbeck, Ichimura, Marris) whom you might wish to consider if the job description is somewhat changed. I have also omitted several internationally recognized academic economists who would be well suited for a research position but whose administrative and policy qualifications are not well established.

The short list that emerges from this process is as follows:

<u>Name</u>	<u>Nationality</u>	<u>Age</u>
1. Michael Bruno	Israeli	48
2. Anne Krueger	American	42
3. Albert Fishlow	American	45
4. Wouter Tims	Dutch	50
5. Bela Balassa	American	52

<u>Name</u>	<u>Nationality</u>	<u>Age</u>
6. I.G. Patel	Indian	56
7. Jagdish Bhagwati	Indian	46
8. Miguel Urrutia	Colombian	41
9. Attila Karaosmanoglu	Turkish	48
10. Herman van der Tak	Dutch	54

There is widespread support for the first three candidates, and particularly for Professor Bruno. Beyond that there is a greater divergence of views that is considerably affected by whether greater weight is given to policy/administrative qualifications or to academic distinction. Some of these qualifications are indicated in the short comments appended to the C.V.s in Attachment B.

Please let me know whether you wish further information and if you want any distribution given to this memorandum.

Attachments

HBC/tsa



## OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: July 31, 1980

FROM: Hollis B. Chenery, VPD *HSC*

DECLASSIFIED

SUBJECT: Candidates for DPS: A Progress Report

JAN 11 2007

WBG ARC 07

I have now completed the first stage of identifying people who might succeed me. My search committee and I have reviewed some 40 potential candidates against five main criteria:

- professional standing and experience in development and international economics;
- research leadership;
- policy judgment;
- administrative ability; and
- interest and commitment to development.

The experience of candidates varies from "mainly academic" to "mainly governmental". To facilitate comparisons, they were first classified into three groups:

- I. Balanced (adequately qualified on all criteria)
- II. Mainly Policy/Administration
- III. Mainly Professional/Research

The leading candidates in each group, together with the others considered, are shown in the attachments (which have only been seen by the search committee).

I have also prepared a preliminary short list that reflects the rankings of the search committee as well as discussions with Stern, Qureshi and several other senior Bank staff as well as a number of outsiders. There is substantial agreement on the first two candidates, both of whom are very highly regarded in academic circles as well as having substantial experience with development policy. Some further work is needed to get a balanced judgment of the remainder of the list.

I expect to submit a revised short list with biographical data the first week in September.

Attachments

cc - Mr. Ernest Stern

HBC:jm

PRELIMINARY SHORT LIST

(See complete lists for details.)

		<u>Nationality</u>	<u>Group</u>
1st	1. Bruno, M.	Israel	I
1st	2. Fishlow, A.	U.S.	I
2nd	3. Krueger, A	U.S.	III
1st	4. Tims, W.	Dutch	I
1st	5. Balassa, B.	U.S.	I
	6. Patel, I. G.	Indian	II
X	7. Cooper, R.	U.S.	I
	8. Urrutia, M.	Colombian	I
	9. Ichimura, S.	Japanese	I
	10. van der Tak, H.	Dutch	II
	11. Thorbecke, E.	U.S.	III
	12. Singh, M.	Indian	II
X	13. Frank, C.	U.S.	I
	14. Karaosmanoglu, A.	Turkish	II
	15. Ranis, G.	U.S.	I
	16. Bhagwati, J.	Indian	III
	17. Please, S.	British	II

July 31, 1980

Group I: Balanced Qualifications (10)

		<u>Nationality</u>	<u>Age</u>	<u>Positions</u>
✓ 1.	Balassa, B.*	American	52	Prof., John Hopkins; Research Adviser, World Bank.
✓ 2.	Bruno, M.*	Israel	48	Director Research, Folk Inst. Israel; Professor Hebrew Univ.; Bank of Israel.
✓ 3.	Cooper, R.*	American	46	Undersecretary of State; Prof., Yale.
✓ 4.	Fishlow, A.*	American	45	Professor, Yale; Berkeley; Dept. of State, L.A.
✓ 5.	Fleming, J.X	British	40	Bank of England.
✓ 6.	Frank, C.*	American	43	Solomon Bro.; State Department; Brookings Institution.
✓ 7.	Ichimura, S.*	Japanese	55	Professor, Kyoto University; Director, Center of Southeast Asian Studies.
8.	Malinvaud, E.X	French	57	Director General, INSEE.
✓ 9.	Mellor, J.*	American	52	Director, IFPRI; AID; Prof., Cornell.
10.	Ohlin, G.X	Swedish	54	Professor, Uppsala University; Brandt Commission; World Bank.
✓ 11.	Ranis, G.*	American	58	Yale Growth Center.
12.	Ruttan, V.X	American	56	President, Agric. Dev. Council; Professor, Minnesota.
✓ 13.	Tims, W.*	Netherlands	50	Professor, Free University, Netherlands; World Bank.
✓ 14.	Urrutia, M.*	Colombian	41	Director Fedesarrollo; Director, National Planning.

\* Leading candidates.



Group II: Mainly Policy/Administration (17)

	<u>Nationality</u>	<u>Age</u>	<u>Positions</u>
1. Ardito-Barletta, N. X	Panamanian	42	Vice Pres., LAC, World Bank; Minister, Economic Planning and Economic Pol., Panama.
✓ 2. Hopper, D.*	Canadian	53	Vice Pres., South Asia, World Bank; IDRC (1970-77).
3. Hughes, H. X	Australian	51	Director, EPD, World Bank.
✓ 4. Karaosmanoglu, A.*	Turkish	48	Director, EMENA, World Bank; Director, DPS, World Bank; Deputy Prime Minister, Turkey.
✓ 5. Marris, S.*	British	50	Economic Adviser, Secretary General, OECD; Brookings Institution.
✓ 6. Patel, I.G.*	Indian	56	Governor, Reserve Bank of India; Dep. Adm. UNDP.
✓ 7. Please, S.*	British	57	World Bank (1963-1980), AEA, EAP, DPS.
✓ 8. Singh, M.*	Indian	48	Secretary, Planning Commission; Adviser, Ministry of Finance.
9. Solis, L. X	Mexican	51	Bank of Mexico.
✓ 10. van der Tak, H.*	Netherlands	54	Director, CPS, World Bank; DPS, World Bank.
11. Waide, B. X	British	44	Director, DPS, World Bank.
12. Haq, M. ul X	Pakistani	46	Director, PPR, World Bank

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\* Leading candidates.

Group III: Mainly Academic/Professional (8)

	<u>Nationality</u>	<u>Age</u>	<u>Positions</u>
✓1. Bhagwati, J.*	Indian	46	Professor, MIT; Colombia
2. Corden, M. X	Australian	53	Professor, ANU
✓3. Diaz-Alejandro, C.*	Cuban	43	Professor, Yale
✓4. Helleiner, G.*	Canadian	44	Professor, University of Toronto.
✓5. Krishna, R.*	Indian	55	Professor, School of Economics, Delhi; Planning Commission.
✓6. Krueger, A.*	American	46 <sup>2</sup>	Professor, University of Minnesota
✓7. Lindbeck, A.*	Swedish	50	Professor, Stockholm University
8. Manne, A. X	American	55	Professor, Stanford; Harvard
9. Mirrlees, J. X	British	44	Professor, Oxford; Edinburgh; Cambridge
10. Scott, M.F. X	British	55	Professor, Oxford
11. Sen, A.K. X	Indian	46	Professor, Oxford; LSE
✓12. Srinivasan, T.N.*	Indian	45 <sup>7</sup>	Special Adviser, DPS, World Bank; Professor, Yale.
✓13. Thorbecke, E.*	American	50 <sup>1</sup>	Professor, Cornell (1974- ) Asst. Admin. for Program Policy, AID, 1967-68.

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\* Leading candidates

Mr. Robert S. McNamara

September 2, 1980

Hollis B. Chenery, VPD *HBC*

Governor's Speech

1. On reading over the latest draft, I am struck by the fact that the tone of the speech is distinctly more pessimistic than the WDR on which it is based. Since the pessimistic outlook of WDR III has already been widely commented on, I think a further step in this direction should be a deliberate one and not just a product of the drafting process.

2. The following passages illustrate the change in emphasis:

- Table 1 (p. 3) gives only the low case, which is labelled the Bank's current projection. Table 2.1 of the WDR (p. 6) gives both high and low projections; the text indicates that the outcome will be somewhere in between, depending on the success of policies.
- Paragraph 25 of the speech (p. 7) lists significant differences between the present adjustment problems and 1974-78. However, the eight items listed are all negative, while the positive factors -- improved agricultural policies in the subcontinent, successful adjustment experience in a number of countries -- are not mentioned.
- The last item in paragraph 25 goes well beyond anything in the WDR (or the IMF or OECD) in referring to the "prospect of a prolonged recession", which would imply a lower OECD growth rate for 1980-85 than the 2.5% given in Table 1.

3. Since you are presenting your own candid views, you may well wish to take a more pessimistic view than your staff (although the present version of Chapter 2 of the WDR already represents a compromise on this issue). However, my recommendations would be to follow the WDR line more closely. Drafting changes to do this are attached.

Attachment

HBC/tsa



Editorial Suggestions

P. 3, Table 1

Either show a range (low and high) for the period 1980-85 or add a footnote that this is the low case. Revise para. 12 accordingly.

P. 7, Para. 25

Either delete the last point entirely or make it conditional (as shown).

P. 7, Para. 26 (replacement)

26. On the positive side, the experience of the relatively successful adjustment in the earlier period, and particularly the improvement in internal policies in several important countries, should help in the design of policies of structural adjustment for the future. However, the growing constraints on the world economy clearly make the present adjustment problems more difficult to cope with.

*Cherry suggestions*

25. But such a reversal in fortunes will not be easy to achieve.

To begin with, there are significant differences between the present adjustment situation, and that of the 1974-78 period; *that makes the present adjustment more difficult*

- The real cost of oil actually declined from 1974 to 1978 by about 23%. Since 1978 it has risen sharply, and is now expected to continue to rise during the 1980s.
- The commercial banks rapidly expanded their claims on developing countries in the previous period: from \$33 billion in 1974 to an estimated \$133 billion in 1978. But now their capital to risk-asset ratios have worsened, and some feel overexposed in certain of these countries. *oil importing* "Prospects for capital flows" page 4.
- Some of the middle-income developing countries, which borrowed extensively in the past, are regarded by the commercial banks as being less creditworthy today than they were then. Increased spreads on new lending and a slower rate of growth in such lending are both likely.
- Considerable financing became available to cushion the impact of higher energy costs during the 1974-1978 period from bilateral aid programs and from international financial institutions. Neither source now seems likely to expand as rapidly in the future as they did in the past.
- The debt servicing burden was considerably reduced in the 1970s by negative real interest rates, whereas the developing countries have recently been borrowing large amounts at positive real interest rates.
- Many developing countries have already carried out a major pruning of their import, investment, and consumption levels so that the scope for further retrenchment is now considerably less.
- The *capital surplus* oil-exporting nations *which* are currently accumulating surpluses are likely to have them longer this time -- thus prolonging the recycling task -- since their imports are not expected to expand as quickly as they did in the previous period, nor are the workers' remittances from these countries likely to accelerate as fast.
- And finally, the *possibility* prospect of a prolonged recession in industrialized nations, particularly if it is accompanied by restrictive measures applied to trade or capital flows, will make the adjustment task of the developing countries that much harder this time. *1/4*

26. It is well to remind ourselves of this comparison between the present and past. The sense of relief over the relatively successful adjustment in the earlier period should not be allowed to lead to a feeling of complacency now.

*(see replacement)*