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Remarks

by

A. W. Clausen, President

The World Bank

and

International Finance Corporation

before the

United Nations General Assembly

Second Committee

New York

November 12, 1982

Mr. Chairman, distinguished delegates. This is my first opportunity to address the Second Committee of the General Assembly, and indeed it is an honor for me to participate in your discussion of development and international cooperation.

For most of the period since the United Nations was established, international cooperation and development have reinforced one another. For 35 years, increasing levels of international trade, finance, and aid have fostered rapid economic development nearly worldwide.

But nearly ten years of sputtering growth, including three years of global recession, are putting unprecedented strains on the structures of trade, finance, and aid.

The first part of my remarks this morning will be about what national governments can do to recover growth without aggravating inflation. We urgently need disciplined economic expansion -- not just for its own sake, but also in order to reduce strains on the structures of international trade, finance, and aid.

Then, in the second half of my remarks, allow me to report to you on what The World Bank is doing to assist the developing countries in regaining the momentum of economic progress, and to ask for continued international cooperation in supporting the vital work of the Bank at a difficult moment.

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Today's interdependent world economy has been built up over a generation of cooperative effort. Governments have encouraged the expansion of international trade and finance. Technical and financial assistance has grown substantially and has made a significant contribution in many developing countries.

Almost everywhere, people have enjoyed a widening range of economic choice. And, supported by a favorable international environment, some developing countries have enjoyed extraordinarily rapid growth. Other countries have at least been able to escape the Malthusian threat of population outpacing food production. Massive poverty and formidable problems remain in the developing world, of course. But, overall, the experience of the last 35 years has proved that international cooperation encourages development.

During the last ten years, the dynamism of the world economy has been dampened by a series of difficulties, and, more recently, most of the world economy has ground to a virtual standstill. If just 5 percent of the world's productive capacity now stands idle because of the recession -- and that is probably a conservative estimate -- each year's lost production is about the same order of magnitude as the <u>total</u> income of the poorer half of humanity.

For the first time since the Second World War, large groups of people, including some of the planet's poorest people, are suffering economic retrogression. Many of the world's low-income countries, including most countries in Sub-Saharan Africa, are registering annual declines in average per capita income. The prices of non-fuel commodities, on which most low-income countries heavily depend for their export earnings, have fallen to their lowest levels in 35 years. Even middle-income countries, which generally have managed to maintain some growth momentum throughout the Seventies, have mostly been battered to an economic standstill by the current world recession.

What most concerns me is that the whole edifice of international cooperation, carefully constructed over a generation, is now creaking under the strains of slow growth.

- International trade didn't grow at all in 1981. As new economic opportunities have dwindled, protectionist lobbies have grown stronger and more demanding.

- Countries which could manage their debts comfortably as long as trade was expanding now have more difficulty paying their debts, and commercial banks seem to be responding by curtailing credit rather than expanding. The deepening relationship between commercial banks and developing countries, which helped the world cope with the economic shocks of the Seventies, could conceivably suffer a serious setback in the difficult period ahead.

- Finally, as governments in the developed industrial countries have looked for ways to cut back on public spending, the level of development assistance actually dropped in 1981. The share of assistance being contributed to multilateral institutions is also declining, even though it is generally agreed that the multilateral approach is usually a more effective way to assist development.

Unless there is some correction in these circumstances, the fabric of international cooperation just might not be able to bear up under the strains of prolonged economic stagnation, and international cooperation could certainly come unraveled much more quickly than it could later be repaired.

We urgently need a disciplined expansion of the world economy -- to reduce the suffering of unemployment and aggravated poverty, to more fully use the world's productive capacity, and now also to reinforce structures of economic cooperation which are basic for the future prosperity of the developed and developing countries alike.

Today's global recession, and stop-and-go growth over the last ten years, are partly the result of deliberate policy efforts to fight inflation, and we are finally seeing inflation start to come down. The world has paid far too much for these gains in price stability to squander them through unduly expansionary policies.

The only way I can see that we're ever going to get off the seesaw between recession and inflation is through improved economic management and efficiency. Inefficiencies which might have been tolerated in the past simply must be overcome, in both developing and developed countries.

The World Bank has been paying considerable attention to this issue as it affects the developing countries. In our economic dialogue and lending operations, we are focusing on policies that can foster the growth of output and employment without provoking inflation or balance-of-payments problems. Again and again in our analysis, we find that countries have labored for years under such handicaps as unrealistic limits on the prices paid to farmers, for example, or overvalued exchange rates and high levels of protectionism.

But quite a few of the developing countries are now responding to worldwide economic difficulties with programs to reduce domestic inefficiencies and programs which take greater advantage of international trade. Let me point out that such efforts can go hand-in-hand with continuing efforts to bring low-income people more fully into the development process.

Improved efficiency in the developing world will have limited impact, however, unless it is matched by improved efficiency in the world's dominant economies. If the industrial countries could, for example, achieve better consistency between their fiscal and monetary policies, the costs of fighting inflation would be reduced. And the advanced industrial economies might do well to emulate the developing countries' successes in stimulating domestic savings and investment. The developing countries are now, on average, investing 25 percent of their income, a higher average than the advanced industrial countries have ever achieved.

Protectionism is another persistent inefficiency, in the developed as well as in the developing countries. The world economy obviously just can't work if all countries try to expand their exports but, at the same time, limit their imports from other countries. We have simply got to get the message out that free trade fosters growth, and that cheaper imports of food, clothing, and other goods help in the fight against inflation. The alternative to protectionism is to assist people in declining industries, and to encourage the mobility of people and resources to industries that are internationally competitive.

The task of recovering global economic dynamism is urgent and immense. And, in this context, the Secretary-General's comparison between spending for defense and spending for development becomes even more compelling. We struggle for a few hundred million dollars in international development assistance, while the world is spending hundreds of billions each year on arms. In one country after another, including countries at all income levels, development expenditures are being pruned from the public budget, while defense spending continues apace. Each individual government is, of course, the best judge of the level of defense expenditure required for its security; but when viewed from a worldwide perspective, this comparative relationship in expenditures is a global absurdity which we must try to reverse, for the very sake of more real security and stability.

A number of international consultations on economic issues are taking place or being planned in the period ahead -- these meetings of the Second Committee, the GATT Ministerial this month, forthcoming negotiations regarding the replenishment of IDA and IMF quota increases, UNCTAD-6 in June, and, of course, the proposed global negotiations. We dare not let such international deliberations fail to make immediate, pragmatic gains in the cause of economic cooperation.

Protectionism is one particularly obvious and immediate threat, and the GATT Ministerial meeting this month offers a once-in-a-decade chance to turn the tide against the waves of protectionism that threaten to overwhelm us. Reducing barriers to trade should also be a starting point for the UNCTAD-6 meeting next June.

This first part of my remarks has been focused on what national governments can do to revive non-inflationary growth and reinforce international interdependence, because only national governments command resources on a scale commensurate with the task of regaining global growth in the Eighties.

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The World Bank is itself part of the structure of international cooperation for development. The Bank has repeatedly adapted to meet the changing needs of its borrowing member countries, and we are changing now to help counter today's adverse conditions of slow growth, increasing poverty, and faltering cooperation. Let me briefly explain a few recent changes in our lending operations, in our programs of cooperation with other organizations, and in our efforts to obtain resources at a time of contraction.

First, our lending operations.

Analysis and discussion of economic policy management has long been an integral part of our lending operations. In view of the urgency and difficulty of economic management right now, we consider such policy dialogue with our borrowing member countries more important than ever. In a number of countries, The World Bank has supplemented its normal project lending with "structural adjustment loans" in support of comprehensive programs to adjust domestic economic structures to changed international conditions.

This increased interest in economic management doesn't divert attention from The World Bank's objective of reducing poverty. It wouldn't be good economic management to neglect development fundamentals -- like the education and health of low-income people -- in response to short-term crises. The Bank is still investing roughly a quarter of its resources in agriculture and rural development. And, in view of the poverty and chilling lack of economic progress in Sub-Saharan Africa, Africa has become our number one priority among all the regions of the world.

The most striking change in our lending operations over the last few years has been the rapid growth in our energy program. World Bank lending for energy now accounts for another quarter of our total lending. The energy potential of the developing world is not being adequately tapped, and increased energy production is essential for the sustained growth of the world economy. Yet The World Bank cannot devote more of its regular resources to energy, without cutting deeply into other essential sectors. So we've been urging further international action -- whether co-financing, an energy affiliate, or some other mechanism -- to marshall additional resources for investment in energy.

More generally, the conundrum of the Eighties is how to raise the resources necessary to respond to an abundance of pressing investment needs. And one way we can maximize the impact of the resources at our disposal and attract additional resources for development is through cooperation with other organizations. The Second Committee is likely to be especially interested in cooperative efforts, so allow me to outline The World Bank's ongoing programs of cooperation with other institutions affiliated with the United Nations, and our expanding programs of public and private co-financing.

Many of the United Nations agencies currently face critical funding problems, as the Administrator of the United Nations Development Program has noted so eloquently. This situation adds to the importance of cooperation between The World Bank and other institutions within the United Nations system. Such cooperation touches on virtually every aspect of Bank activity, but let me highlight a few prominent examples.

In the agriculture sector, UNDP, FAO, and The World Bank together sponsor the Consultative Group on International Agricultural Research -- which is providing $150 million this year to first-rate agricultural research institutes in the developing world. FAO contributes to the planning of nearly a third of all the Bank's agriculture and rural development projects, and the Bank has co-financed or appraised more than half of all the projects of IFAD.

In the energy sector, the Bank is working closely with UNDP. The Bank and UNDP are jointly undertaking assessments of the energy problems and options of some sixty developing countries.

The Bank also serves as executing agency for over 130 UNDP projects in various sectors. This is in addition to the technical assistance included in the projects we finance, which itself totalled over $1 billion last fiscal year; much of this Bank-financed technical assistance is directed to improved planning and development management.

The Bank participates in Cooperative Programs with the World Health Organization, Unesco, and UNIDO. We're working with the World Health Organization, for example, in combatting river-blindness and in financing research into tropical diseases. We work closely with the U.N. Fund for Population Activities and the U.N. Environment Program. And we continue to expand our relations with the International Labor Organization, particularly in training.

Our interest in cooperation also extends beyond the United Nations system -- to programs of cooperation and co-financing with both the public and private sectors.

Our programs of co-financing with other multilateral banks, bilateral agencies, and export-credit institutions have been expanding. We are particularly grateful that a number of bilateral aid agencies have initiated concessional co-financing programs with us.

Given the constraints on public finance everywhere, we have also been working to attract more private finance for development. We have already substantially increased the level of private co-financing for our projects, and we think much more progress along these lines is possible.

We are also convinced that more direct investment by private corporations could serve the interests of the developing countries, and the Bank is now investigating the possibilities for a system of multilateral insurance for private investment in the developing countries.

We are, in sum, eager to cooperate -- with other international organizations, with national governments, and with the private sector -- wherever cooperation will serve the Bank's objectives of raising living standards and reducing poverty under today's adverse conditions. Cooperation is a way for us to make the best use of <u>our</u> resources and to mobilize <u>additional</u> resources for development.

Finally, this morning, allow me to explain our efforts to raise resources for The World Bank itself at this moment of economic contraction. We cannot respond adequately to the needs of our borrowing member countries without resources to do the job.

Three-quarters of the resources we channel to the developing countries come through IBRD (International Bank for Reconstruction and Development). IBRD lent $10.3 billion to the developing countries in fiscal year 1982, up from $8.8 billion in 1981.

IBRD is able to borrow large and growing sums in the world's capital markets at relatively low interest rates because of its exceptional financial soundness. Its bonds are fully backed by paid-in and callable capital from member governments. Its projects are rigorously appraised and supervised. And the repayment record of its borrowing member countries has been extraordinary.

In view of the needs of our borrowing member countries, we think IBRD should continue to expand. But IBRD's size is limited by the capital its member governments contribute, and we are presently operating on the basis of a notional planning figure that would permit virtually no real growth in IBRD's lending program over the next few years. We are seeking support from our member governments to relieve this constraint on IBRD growth.

Also, we just recently began borrowing for the first time in the huge United States market for short-term securities. This opens up new possibilities for borrowing, and thus relaxes what might have otherwise become another constraint on the future growth of IBRD.

In addition to IBRD, The World Bank has two affiliates. The first of these, the International Finance Corporation (IFC), works closely with private investors from around the world, and invests in commercial enterprises in the developing countries. IFC lends without government guarantees, and can also take equity positions in commercial companies. Despite adverse business conditions, IFC's program of investment grew 16 percent last year.

The World Bank's other affiliate, the International Development Association (or IDA), provides credits to low-income countries on concessional terms. These low-income countries are not creditworthy for much IBRD lending, but we are able to assist them with IDA funds. All of IDA's resources go to very poor countries, and two-fifths of the IDA funds go to nations in the "least developed country" category.

In general, the poorer countries have been hardest hit by the global recession. Yet IDA was forced to cut its planned program by some 35 percent in fiscal year 1982. We are gratified that many of the industrial nations recently agreed on special additional IDA funding. We can now hope that IDA credits in fiscal years 1983 and 1984 will at least approach the $3.5 billion level achieved in fiscal year 1981.

Negotiations regarding the longer-term future of IDA begin in Washington this month. In preparation, we recently completed an exhaustive review of what IDA has done since its creation in 1960. Let me commend to your attention the resulting report, IDA in Retrospect. This report demonstrates that IDA has been highly efficient and successful. IDA projects have attained rates of return just as high, on average, as IBRD projects. And IDA has been instrumental in supporting sound economic policies in the world's low-income countries.

The proven efficiency of The World Bank as a whole, together with the versatility which the combination of IBRD, IFC, and IDA gives us, have allowed the Bank to make some headway in raising resources for development at this difficult time. But the Bank will need continued support from its member governments, if it is to adequately assist the developing countries in regaining the momentum of economic progress.

Improving and expanding international financial institutions like The World Bank is also one of the disciplines that will make for worldwide growth in the years ahead.

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There is no effortless way to recover and maintain global economic dynamism.

This morning I have explained how The World Bank is adjusting its operations to meet today's pressing needs in the developing countries. We are expanding our cooperation with other organizations, and making every effort to mobilize resources for development without relying entirely on government contributions. But we count on both developed and developing countries to support the continued expansion of IBRD and IFC, to support new initiatives to attract more public and private co-financing, and -- most urgently -- to rally around the effort to provide adequate funding for IDA.

I have also argued this morning that national governments, in both the developed and the developing countries, should dedicate their resources and attention to the tasks of non-inflationary economic expansion, as a matter of the highest priority. Sustained, non-inflationary growth will require better economic management and the elimination of some long-standing inefficiencies. It will require more liberal trade, more support for international financial institutions, and, in general, more -- not less -- international cooperation.

Mr. Chairman, distinguished delegates, the virtual standstill of the world economy makes it possible that wrong-headed actions now might reverse the momentum of a generation, and draw us down into a vortex of narrow nationalisms and economic malfunction.

Surely now -- right now -- is the time to get the spiral of international cooperation and development moving upward and outward once again.

Thank you very much.

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