

Overview

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Let me deal with the issues before us, which are the issues of budget deficits and debt. Let me say that I have been troubled by some earlier comments about the differences among developed countries, developing countries, and countries in transition. Let me extend the debate by saying that from my limited experience up to now, even the attempts that have been made are not adequate. Within the framework of developing countries, there are developing countries, and there are developing countries. We have had admirable presentations by Sebastian Edwards, my colleague, on Latin America, and José Pablo Arellano on Chile, and John Flemming on Eastern Europe.

But when I look at my portfolio, I think in terms of 24 percent of the world, of some 1.3 billion people who live on less than a dollar a day, of 100 million refugees, of people who Boutros Boutros-Ghali has recently pointed out are involved in fourteen wars in Africa. Economic generalizations of the type that have been put forward here about the importance of borrowing less are difficult because if you borrow too much, you run out of the ability to borrow; if you burden your society with debt repayments, it makes it much more difficult to have growth, it increases poverty, it has effects on inflation and on exchange rates. All those fundamental economic issues may be true in the formulation that each of you has, and there may be agreement on the economics.

But my task, in terms of the World Bank, is not on the economic debate, the broad principles of which I think are generally agreed. But when you get to the developing world, you come to look at it in terms of regions and then within those regions, individual countries. And so you go from Asia to Latin America to Eastern Europe. But Asia has scarcely been mentioned in this conference, Africa has not been mentioned at all, the Middle East has not been mentioned at all; China and India have also not been mentioned. As I look around the room, I notice there are not very many representatives from the countries outside of Latin America. This meeting has been talking at the level of general economic doctrine, which is, of course, extraordinarily interesting. But I have spent my first ninety days at the World Bank traveling around in the field. I have only had a sample, but I have been to twenty countries. I have spent 80 percent of my time in the field. I have been to Mali, Malawi, the Ivory Coast, Uganda, Haiti, Jamaica. I have gone into the Amazon and into northeast Brazil where there are 40 million people, 20 million who live on less than one dollar a day. I have been to Chiapas and Gaza.

My impressions of the issues and options come down to the question of how we, in this environment and from the developed world, which is principally represented here, can be effective in terms of our interface with the developing world. And it is not a question of debate on economic doctrine. It is a question of debate on how we move from policy to practice. There are some elements that are common to the developed world, which Goran Persson has spoken about today and Paul Martin spoke about yesterday, such as the realities of politics in terms of the freedom of choice. But we are dealing with the developing world at a time that is totally unique in our history. It is in a post-Cold War period to which we have to adjust. Throughout this developing world, we are seeing new democracies, fragile new democracies in many cases—tentative new democracies which have to make the sort of decisions that Paul Martin can make in Canada with the knowledge that there is a substantial base, there is a substantial infrastructure, there is a democratic practice which has been there for a long time. I am sure the same holds for Sweden and certainly for what Marty Feldstein was talking about in the United States. We have this basic democratic base.

But what you have to understand about the developing world is that in an immediate post-Cold War period where there is a move to democracy (which we have had in so many countries), there is an extraordinary fragility. But combined with that fragility there are extraordinarily high expectations: high expectations in terms of political sense, and in terms of the stability—the very stability of those governments and the ability of those governments to make decisions to balance their budget, to cut their deficit, to do the sorts of things of which we have been speaking here. These countries are under a magnifying glass of political and social pressures which we do not have to that degree in my judgment. And the developing world is doing it in an environment in which we, in the developed world, are putting more and more attention on ourselves, on our own problems, be they unfunded pensions or balancing the budget—all the debates that have been going on in this country. As a result, those of us who are trying to work with the developing world are increasingly less credible because of the increasingly inward-looking attitudes of the developed countries. And, dare I say it, when the U.S. Congress is particularly concerned at this very moment about balancing the budget, we are a lot less credible in terms of what we are able to do to help the least economically developed countries.

And so, if the United States is going to cut its contribution to the World Bank by 50 percent, then the \$6 billion that would have been available to the International Development Association (IDA) becomes \$3 billion. Those are the realities. And so the ability of the World Bank to influence development becomes considerably less. The debates in the United States on bilateral aid and the debates on what we are going to do about the Agency for International Development (AID) are similar to the debates in the other donor countries which I have visited. I raise this point because there is now a different environment than that in which the debate took place some twenty years ago. In a Cold War period, we had a need, a political need to help developing countries, and we were less focused on our own inner problems.

We at the World Bank, as you know, are concerned about poverty alleviation and sustainable development, however those terms are

defined. But what is extraordinary to me as I travel, as I meet with government representatives, is that although the issues vary from country to country, they are issues that (as Paul Martin pointed out yesterday) are fundamentally social and political. Economics, of course, is an over-reaching umbrella. If you breach the basic rules of economics, you run into deep trouble as some countries have, many countries have. So, there are absolute limits.

But in all my discussions in my ninety days on the job, I have never had detailed discussions on the sorts of things we are talking about here. I have had detailed discussions on social pressures, and I have had detailed discussions on political pressures. I have come to try to understand that in the choices you have to make, in countries with a fragile democratic environment, you have to think in terms of systemic solutions, which are long-term and which need consistency of support. In addition, there must be a new feeling of partnership, not professor and student, but partnership between these countries and the international institutions, particularly the World Bank. Moreover, it is not just partnership with the multilateral institutions. It's partnership with nongovernmental organizations, with the private sector, with bilateral institutions, and with the regional institutions.

And why am I saying all this? I am saying all this because there is a long step between economic doctrine and effectiveness in terms of the developing world. I hope some day we can have a conference, Mr. Chairman, on the issues of deliverability of these economic packages. It is very comfortable to talk about these issues in Jackson Hole, but it is difficult to do it on the ground. For example, if you are in Uganda and they make a political decision to increase spending on education, to make it available to everybody, and overnight they move from 1.8 million to 3.2 million children in school. In this situation it is very difficult to talk to them about budget imbalances. In Haiti, Aristide said to me, "We are trying to move from misery to poverty." And he will get there any way that he can. And if you go to northeast Brazil, where you have 20 million people living on less than one dollar a day, the regional governors are going to do everything they can to get the money, at whatever cost to the federal government, to make sure that they can provide education, health,

and communications. I am only saying this, Mr. Chairman, because I believe that in the developed countries, these choices are made on a base of an established political framework. But when you get to the developing world, change is made more difficult by the political and social context. And the ability of the developed countries to influence this process is under stress because of their own inward-looking focus.

I know we all believe that our growth is importantly dependent on growth in the developing world, that we are one world, that it is a unified world, and that it is hard to have a foot that is gangrenous and not die yourself. We live in a world where we need to build human capacity in the developing countries; we live in a world where there is conflict; we live in a world where drugs are a major threat. Therefore, I must caution you. I would not want this conference to finish without remembering that the political and social environment in the developing world is at this moment fragile, and that the issues of delivery and of our commitment in the developed countries are absolutely crucial to the stability of world order.

