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Folder 20

E M B A R G O:

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FRIDAY, NOVEMBER 28, 1980
19:00 HOURS

REMARKS OF ROBERT S. McNAMARA, PRESIDENT OF THE WORLD BANK,
TO THE FOREIGN RELATIONS ASSOCIATION AND THE ECONOMIC SOCIETY
OF THE CANTON OF BERNE, SWITZERLAND, NOVEMBER 28, 1980

Mr. Chairman, Ladies and Gentlemen:

Let me say how delighted I am to be back here in Switzerland, and to have the chance to chat with you about what we have been doing in the World Bank.

This beautiful land -- with its irresistible skiing, and its magnificent mountains -- began to work its spell on me nearly a half century ago.

Fellow mountain-enthusiasts among you will understand -- and sympathize -- when I tell you that on my desk in Washington I have two paperweights to remind me of the joys I have experienced in your country. One is a piton. And the other is a carabiner.

Mountains have a way of telling us very quickly who and what we are. They humble us. They challenge us. They elevate our spirits. And they broaden our vision.

All of us are going to need a kind of clear, bold mountain vision in the years that lie ahead, for whatever else can be said about the final two decades of the twentieth century, it is certain that they are going to be very different -- and very demanding.

In its own way, that was also the kind of situation that confronted the world in the closing months of World War II, when the post-war era was about to begin. At Bretton Woods in New Hampshire a group of men with vision -- from 44 nations -- drew up the charter of an institution designed to deal with the gigantic tasks of reconstruction and development that were inevitably to follow.

Today the IBRD -- the International Bank for Reconstruction and Development -- remains the original component of the World Bank, though its

44 member countries have now grown to 139. Its headquarters are in Washington, but it is owned and operated by its membership, and is staffed by international civil servants comprising over a hundred nationalities -- including, I am very pleased to say, some outstanding Swiss nationals.

The Bank's Articles of Agreement provide that it can lend only for high-priority development purposes; that procurement must be open to international competitive bidding; and that the Bank's decision to lend must be based exclusively on economic rather than political considerations.

The World Bank Group today, as you know, comprises three affiliated institutions: the original IBRD; the International Finance Corporation, or IFC; and the International Development Association, or IDA.

The IBRD lends at slightly less than market rates, and generally at 20 to 25-year maturities. Its loans are guaranteed by the borrowing governments themselves, they are financed by: the paid-in portion of the capital subscriptions of the Bank's membership; retained earnings which amount to over $3.5 billion; and the sale of World Bank bonds in the principal capital markets of the world -- including, of course, here in Switzerland. In more than 30 years of lending, the IBRD has never had a default, or lost a penny.

The International Finance Corporation, established in 1956, acts as a financial catalyst in helping to fund private enterprise ventures in our developing member countries -- ventures without government guarantees, but with a high development component.

The International Development Association, which is today the world's largest and most important source of funds to the poorest developing countries, was established in 1960. It was created in order to assist the Bank's poorest member countries that simply could not afford to borrow on the IBRD's terms.

They desperately needed external financial assistance for their development programs, but at concessional terms.

Thus, IDA lends for 50 years, including a 10-year period of grace, with an annual service charge of three-quarters of one percent to cover administrative costs.

Now, the point I want to stress about IDA is that the projects and purposes for which it lends are precisely of the same high quality and priority as those of the IBRD.

The same professional staff in the World Bank negotiates and administers these credits; the same high rates of economic return are insisted upon; the same standards of supervision and international competitive bidding for procurement are rigorously applied; and the same full government guarantees of repayment are required.

I want to underline those points because IDA credits are sometimes referred to in the press as "soft loans". But that term can be very misleading. It is true that IDA's terms are highly concessional, but there is nothing soft about the operations these credits help finance. We apply the same rigorous standards in appraising IDA projects as we do for IBRD projects.

Now, how is IDA financed ?

There are four principal sources of IDA funds:

- The initial paid-in capital subscriptions of its membership;
- The periodic replenishments of funds by its more prosperous member countries;
- Certain special contributions made by some member nations -- at times in the past, Switzerland has been very helpful;
- And transfers of a portion of the profits of the Bank -- I mentioned that over $3.5 billion of Bank earnings have been retained in the IBRD: an additional $1.5 billion have been transferred to IDA.

Negotiations for the most recent -- the sixth -- replenishment of IDA have been concluded, and a level of $12 billion has been agreed upon for commitment during the three-year period, July 1, 1980 to June 30, 1983.

The traditional donors, the OECD nations, as well as a number of the capital-surplus OPEC countries, were joined by nine middle-income developing countries -- Argentina, Brazil, Greece, Korea, Mexico, Portugal, Romania, Venezuela and Yugoslavia -- bringing the total number of contributors to the sixth replenishment to 33. Unfortunately, Switzerland, one of the wealthiest nations of the world, is not among them.

Now, since I have mentioned these two categories of the approximately 100 developing countries that the World Bank Group serves -- that is, the poorest, or low-income countries, and the so-called middle-income countries -- let me say a word or two about what their situation has been over the past decade, and what their prospects are for the decade of the 1980s.

Taken altogether these roughly 100 countries contain some 2-1/4 billion people. The recent addition of the People's Republic of China to the countries served by the Bank now adds nearly another billion.

The per capita incomes of the low-income countries, containing some 1-1/4 billion people (excluding China) average $220. They grew at only 1.7% a year over the past decade; and in Africa, at only .2%.

This, of course, is virtual stagnation. It means that for hundreds of millions of individuals -- already trapped at the bare margin of survival -- "growth" in income was only two or three dollars a year. These countries, with nearly 60% of the population in the developing world, have been able to produce in the 1970s only 16% of its gross domestic product, and less than 10% of its exports.

But the outlook for the next five years is even more depressing. Their already desperately low per capita income is likely to grow by no more than 1% a year. And, within the group, there will almost certainly be negative growth -- an actual reduction in income -- for the 140 million people in the low-income countries of sub-Saharan Africa.

The middle-income developing countries, on the other hand -- even those which do not export oil -- have done considerably better during the decade of the 1970s: per capita growth of 6.6% for the oil-exporters, and 3.6% for the non-oil exporters. They have been able to take advantage of their more favorable endowment in resources, of better market opportunities, and of higher capital inflows.

But the oil-importing countries among them -- with a population of some 700 million -- have been seriously affected by the recent 80% increase in the real prices of petroleum products. These countries are now projected in the 1980-85 period to achieve per capita growth rates of only about 2%.

In summary, global economic conditions over the past 18 months have become substantially more difficult, and the prospects for growth in both the low-income and middle-income oil-importing developing countries during the decade of the 1980s now appear far less promising.

The sharp new rise in oil prices has more than doubled these countries' cost of imported energy, and the continuing recession in the industrialized nations will seriously limit demand for their exports.

In 1973 the oil-import bill of these developing countries (in current dollars) was $7 billion. In 1980 it is likely to be $67 billion. The price of oil is not going to come down -- on the contrary, it is likely to continue to rise in real terms by perhaps 3% a year. The projection for 1985, therefore, is $124 billion, and by 1990 -- even assuming these countries more than double their own domestic energy production, and make a considerable effort at conservation -- the bill is projected to be nearly $230 billion.

Meanwhile, the continuing sluggishness in the growth rate of the industrialized nations will pose additional problems for these developing countries. The rate of expansion of their principal export markets will decline, and an already unfavorable situation could be seriously compounded by a resort to greater protectionism in the developed world.

Reflecting the effect of these two factors, the current account deficits of the oil-importing countries have increased sharply, and now amount on average to 4% of their gross national product -- and for many countries substantially more.

Though they can continue to finance these deficits in the short term by additional external borrowing, were such financing to continue over the longer term, the mounting debt service would become unsupportable. The deficits must be reduced.

This can only be done by expanding their exports, or by reducing their non-oil imports, or by some combination of the two.

If these difficult changes are undertaken soon, and can be completed over the next five to eight years, growth rates in the oil-importing developing countries should recover to more satisfactory levels during the second half of the decade.

This, however, will require financial assistance in the interim, beyond what is now in prospect, if severe reductions in the level of their development activity are to be avoided. If this financial assistance is not available, or if the developing countries delay initiating the necessary structural changes, their development progress will be seriously compromised throughout the decade.

The current adjustment process is likely to be much more difficult than the earlier one in the 1974-1978 period. One of the most important actions the oil-importing developing countries can take to moderate its damaging effects is to adopt efficient import substitution policies in energy.

At present and prospective oil prices, many of these countries can turn what were previously regarded as marginal energy reserves of oil, gas, coal, hydroelectric, and forest resources into profitable investments. This will require their mobilizing additional domestic and external finance, but would permit them by the end of the decade to reduce their annual oil-import bill by more than $50 billion.

The current global economic situation has imposed particularly severe penalties on the poorest developing countries. They desperately need additional Official Development Assistance to get through the adjustment period. But total ODA flows declined in real terms from 1977 through 1979, and that portion of the flows allocated to the poorest countries was shockingly small in both relative and absolute amounts.

Both the OECD nations, and the capital-surplus members of OPEC, should now consider what measures they can take to increase concessional assistance to the poorest nations who continue to be damaged by a global economic situation they neither caused, nor can do much to influence.

The middle-income developing countries will continue to depend primarily on external capital flows from the private markets throughout the decade, though it is questionable whether the volume will be sufficient from these sources to meet the additional requirements imposed by the new adjustment difficulties.

Commercial banks, of course, constituted by far the most dynamic element of capital flows to middle-income developing countries in the 1970s.

The chief anxiety today is that the commercial banks may not be able to play a similar role in the 1980s.

This does not mean that the private market flows to developing countries will not expand in the years ahead. They will. But the key question is this: will they expand enough to permit the adjustment process in these countries to take place at relatively high -- rather than at unacceptably low -- growth rates? In all probability they will in 1980, and perhaps even in 1981. But beyond 1981 they well may not. Already leading commercial bankers in both Western Europe and North America have expressed their doubts.

In this situation, the Bretton Woods institutions -- that is, the World Bank, and the International Monetary Fund -- can, and in my view, should take various steps to supplement and facilitate the role of the private markets.

Financial intermediation was, after all, one of the main reasons for setting up these institutions: to stand ready to step in as last-resort intermediaries to help recycle funds from those countries that are in surplus to those countries that need them most, whether for short-term balance-of-payments support, or longer-term development needs.

If, then, the task of recycling to the developing countries a portion of the more than $80 billion a year of additional surpluses now being earned by the capital surplus oil-exporting countries is to be tackled in the 1980s efficiently and equitably, there is no doubt that the financial intermediation of the World Bank, and other international institutions, should increase substantially above previously planned levels.

But as important as these financial considerations are, there is another underlying issue, which is in danger today of being obscured by the anxiety over the global adjustmet problem. And that is the most fundamental development issue of all: the drive against absolute poverty.

Over the past decade I have drawn attention repeatedly, sometimes at the risk of tedium, to the principal goals of development: the acceleration of economic growth, and the eradication of what I have termed absolute poverty.

Economic growth, of course, is obvious enough. But once one has been in contact with developing societies, so is absolute poverty: it is a condition of life so limited by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any rational definition of human decency.

The two goals are intrinsically related, though governments are often tempted to pursue one without adequate attention to the other. But from a development point of view that approach always fails in the end. For the pursuit of growth without a reasonable concern for equity is ultimately socially destabilizing, and often violently so. And the pursuit of equity without a reasonable concern for growth merely tends to redistribute economic stagnation.

Neither pursuit, taken by itself, can lead to sustained, successful development.

At the World Bank's Annual Meeting in 1972, I pointed out that all too little of the benefits of economic growth was reaching the bottom 40% of the population in the developing world. For 800 million individuals, their countries were moving ahead in gross economic terms, but their own individual lives were standing still in human terms, locked in absolute poverty.

As our research and analysis of this problem improved in the Bank, we outlined a number of specific actions designed to deal directly with it. It was clear that any successful effort to combat poverty would have to do two basic things:

. Assist the poor to increase their productivity; and

. Assure their access to essential public services.

At the Bank's Annual Meeting in Nairobi in 1973, I proposed a major program for the rural areas, where the vast majority of the absolute poor are concentrated. The strategy focuses on a target group of roughly 100 million subsistence farmers and their families, most of whom farm two hectares or less. It is directed towards raising their agricultural productivity, and thus their incomes, as well as providing more equitable access to the services they need.

Two years later, in 1975, we outlined a comparable program for the urban areas. Though the circumstances of the some 200 million absolute poor in the cities differ from those in the countryside, the strategy is fundamentally the same: remove the barriers to their greater earning opportunities, broaden their access to basic public services, and help them more fully achieve their productive potential.

In each of the following years -- as our research and experience in the Bank improved -- we have pursued these issues further.

But now, as I have pointed out this evening, most of the developing countries are facing a new, an unanticipated, and what is certain to be -- for at least the next several years -- a very difficult situation.

Their rates of growth are going to be low. Their capital requirements are going to be high. And there are going to be severe pressures on their governments to adopt austere budget allocations for every activity that is not considered of immediate priority.

In these circumstances the temptation will be strong to push aside and postpone anti-poverty programs. The argument will be that poverty is a long-term problem, and that the current account deficits are a short-term emergency: that poverty can wait, but that deficits can't.

It is a very specious argument.

Mounting deficits cannot be indefinitely sustained, and, as we have seen, the necessary solution lies in structural adjustment. Efforts to get that basic adjustment in place must not, indeed, be delayed.

But absolute poverty in a society cannot be indefinitely sustained either. To ignore it, to temporize with it, to downgrade its urgency under the convenient excuse that its solution is "long-term" -- and that there are other immediate problems that preempt its priority -- is dangerous self-deception.

To reduce and eliminate absolute poverty lies at the very core of development itself. It is critical to the survival of any decent society.

Development is not simply economic progress measured in terms of gross national product. It is something much more basic. It is essentially human development: the individual's realization of his or her own inherent potential.

Absolute poverty, on the other hand, is a set of penalizing circumstances that is the direct denial of the individual's pursuit of that potential.

What we must remember is that absolute poverty is not a simple function of inadequate personal income. Though the poor have too little income, and desperately need more, their plight is not exclusively related to that.

Their deprivations go beyond income. And in many cases, even if their income were higher -- which it must become -- they could not by that fact alone free themselves from their difficulties.

The reason is that absolute poverty is a complicated web of circumstances that reinforce and strengthen one another.

And lest we become insensitive to the magnitude of those circumstances in the developing countries, it is worth reminding ourselves of their scope:

- 600 million of their adults -- 100 million more than in 1950 -- can neither read nor write, and only 4 out of every 10 of their children complete more than 3 years of primary school.
- Of every 10 children born into poverty, 2 die within a year; another dies before the age of 5; only 5 survive to the age of 40.

- Malnutrition afflicts hundreds of millions of individuals, reducing their energy and motivation, undermining their performance in school and at work, reducing their resistance to illness,and often penalizing their physical and mental development.

- In the low-income developing countries, average life expectancy for their 1.3 billion people is 50 years. It is nearly 75 years -- 50% more -- here in Switzerland.

- In short, compared to those fortunate enough to live in the developed nations, individuals in the poorest countries have an infant mortality rate eight times higher; a life expectancy one-third lower; an adult literacy rate 60% less; a nutritional level, for one out of every two in the population, below minimum acceptable standards; and for millions of infants, less protein than is sufficient to permit optimum development of the brain.

Now, these impersonal rounded numbers are not simply statistics on some economist's computer. They represent individual human beings. Most tragic of all, so many of them are children.

All of this illustrates the tragic waste of poverty. If millions of a country's citizens are uneducated, malnourished, and ill, how can they possibly make a reasonable contribution to their nation's economic growth and social advance? The poverty they are immersed in, through no fault of their own, simply denies them that.

The point is that it is the poverty itself which is the liability. Not the individuals who happen to be poor. They represent immense human potential.

It used to be said that lack of capital was the chief obstacle to economic growth. But we now know that capital formation explains less than one-third of the variation in growth rates among developing countries. Human resource development explains a great deal more.

Investment in the human potential of the poor, then, is not only morally right; it is very sound economics.

Certainly what is very unsound economics is to permit a culture of poverty to so develop within a nation that it begins to infect and erode the entire social and political fabric.

No government wants to perpetuate poverty. But not all governments, at a time of depressed economic growth, are persuaded that there is much that they can really do against so vast a problem.

But there is.

Moving against the roots of poverty by assisting the poor to become more productive, and hence more an integral part of the whole development process; and by redirecting economic growth and public services more toward meeting fundamental human needs; these are practical and attainable objectives.

To the extent that the poor possess some tangible assets, however meager--a small farm, a cottage industry, or a small-scale commercial operation in the urban sector--it is possible to help them to become more productive through better access to credit, extension assistance, and production inputs.

Experience, for example, in the rural areas of such diverse societies as India, northeast Brazil, Kenya, Mali, Upper Volta, and Bangladesh demonstrates that the productivity of small farms can be significantly enhanced through well-designed programs.

The investments the Bank and IDA have helped to finance in both the agricultural and rural development sectors over the past six years are expected to raise substantially the incomes of some 103 million of the poorest individuals in the developing world.

But not only are the poor without adequate incomes, they are without equitable access to essential public services: to clean water, to basic education, to preventive medical care, to electricity, to public transportation--to those services fundamental to their health and productivity.

Since most of these services cannot be privately purchased by the poor, they must be expanded through government programs as a key element in a practical strategy to reduce poverty.

Wealthy urban and rural families, often constituting a very small but politically influential and elite group, have frequently managed to preempt a disproportionate share of scarce public services.

It is a very old story in human affairs, and is far from being characteristic of developing countries only. But wealth and privilege have made their influence felt in these matters, and almost always at the expense of the poor.

Not only are essential public services often out of financial and geographical reach of the poor, but such facilities as are in place may be so inappropriately designed as to be virtually irrelevant to their needs: impressive four-lane highways, but too few market roads; elaborate curative-care urban hospitals, but too few preventive-care rural clinics; prestigious institutions of higher learning, but too few village literacy programs.

Public services that are not designed modestly and at low cost per unit will almost certainly end by serving the privileged few rather than the deprived many.

To reverse this trend, governments must be prepared to make tough and politically sensitive decisions, and to reallocate scarce resources into less elaborate--but more broadly based--delivery systems that can get the services to the poor, and the poor to the services.

What is certain is that absolute poverty can never be eliminated simply by traditional welfare. And the reason is obvious. No feasible redistribution of already inadequate national income in a developing society is, by itself, going to be enough to wipe out poverty. There must be growth in that income, and the poor must be enabled both to contribute more productively to that growth, and to participate more equitably in its benefits.

The tragedy of the absolute poor in most developing societies is that they remain largely outside the development process.

They must be brought more fully into it.

The primary responsibility lies with the governments in developing societies.

Certainly no external development assistance -- no matter how great -- can substitute for the internal political resolve necessary to take these steps.

But once that firm resolve is evident, then the international community must support these politically difficult decisions with comparable courage and generosity.

Here in Switzerland I do not need to argue for a development approach that focuses on the problems of poverty. Indeed, the Swiss Development Law of 1976 clearly gives priority to "poorer countries, regions, and people". That phrase describes exactly what the International Development Association is doing too.

The truth is that all of us are trying to accomplish the same goals. We are all trying to find more effective ways to help reduce, and ultimately to eliminate the scourge of absolute poverty.

That kind of poverty is an open insult to the human dignity of us all: to the poor themselves, because simply as human beings they have deserved better; and to all the rest of us, for we have collectively had it in our power to do more to help fight poverty, and we have failed to do so.

Now that both the developing countries and the developed nations are under the sting of hard times, are we going to do still less ?

Surely we ought not to think that sustaining the attack on poverty is some kind of an economic luxury -- something affordable when times are easy, and superfluous when times become troublesome.

It is really just the opposite. It is a continuing social and moral responsibility, and an economic imperative. And its need now is greater than ever. It is true that sluggish economic growth in both the developing and developed nations in the early years of the 1980s may mean that the privileged and affluent in most societies will have to accept slower rates of advance or even some selective reduction in their already favored standard of living. If they have to, they can absorb such inconveniences.

But for the 800 million absolute poor such a downward adjustment is a very different matter. For them downward does not mean inconvenience, but appalling deprivation. They have little margin for austerity. They lie at the very edge of survival already.

The twin goals of development--accelerating economic growth, and reducing absolute poverty--must clearly continue to be our goals in the 1980s. But the environment in which these goals will have to be pursued will be so different, and so difficult, that all of us must be ready to make even greater efforts.

- Population growth, although decelerating, will place increasingly heavy burdens on the resources of most developing countries;
- Labor forces growing at explosive rates, reflecting past levels of population growth, will place a premium on job creation;
- Migration from the countryside will burden metropolitan areas grown larger than most in the developed world;
- Widespread malnutrition if it is to be overcome, will require substantial increases in food production per hectare because opportunities for putting additional land under cultivation in the developing countries will be reduced; and
- External payments imbalances will require acceleration of industrialization and expansion of exports in the face of slower growth in world trade and rising tides of protectionism.

And it is shocking to reflect that in spite of the very real progress of the past quarter century, and the advances that are likely in the next two decades, it is probable that at the end of this century 600 million human beings in the developing countries will remain trapped in absolute poverty.

None of us, of course--within the Bank, or outside the Bank, or anywhere--can pretend that our understanding of the immense complexities of the poverty problem is complete. We are all still learning.

But I think all of us can take a measure of satisfaction that so many governments and institutions throughout the international development community, including the World Bank, are beginning to consider the problem in a more thoughtful way than they did a decade ago, and are asking themselves how they can reshape their own efforts to deal with it more effectively.

Let me now conclude my remarks with one last point.

We are all aware that it has become almost axiomatic today to say that our world is rapidly becoming more interdependent.

And it clearly is.

But the danger is that the word "interdependence" is becoming something of a cliché: And the trouble with clichés is not that they are not true, but rather that they are so true, and so often repeated, and so taken for granted that in the end we no longer really think very seriously about them.

Interdependence has entered our contemporary public rhetoric. But it has yet to enter in a truly effective way our contemporary public consciousness.

The fact is that cooperation with the developing world has become a vital economic necessity for all of the OECD nations, including Switzerland.

. The developing world now supplies 98% of Switzerland's imports of crude oil, and 25% of its imports of other primary commodities.

. In 1979 the developing countries absorbed 25.6% of Switzerland's exports -- more than 2-1/2 times as much as did the United States (7%) and Japan (3%) put together.

. In 1979 the developing countries bought 5-1/2 times more manufactured goods from Switzerland than it bought from them.

These are the facts that turn the concept of interdependence from rhetoric into reality. Economic growth throughout the entire developed world, and particularly here in Switzerland, is now directly linked with the social and economic progress of the developing countries.

There is simply no question about that.

But for various historical reasons, Switzerland's assistance to the developing countries, particularly to the poorest among them, has been low. Swiss Official Development Assistance as a percent of gross national product is among the lowest in the OECD.

I understand that your Parliament is now in the process of reviewing this matter, and that an expanded Official Development Assistance program was recently approved by the first Chamber.

As for support of the World Bank itself, we look to Switzerland to continue to play an increasing role in the expansion of our operations.

There are a variety of ways in which we have cooperated in the past -- through raising IBRD funds in your capital market, through the co-financing of IDA projects, through special Swiss loans to IDA, and through the provision of Swiss technical assistance.

Ladies and Gentlemen, the truth is that your lovely country -- so stable, so skillful, so successful -- stands in many ways as a veritable paradigm for the aspirations of the developing societies.

You believe -- as we do in the World Bank -- that there is no contradiction between being a hard-headed investment manager, and at the same time a socially-responsible individual, sensitive to basic human welfare.

You believe -- as we do in the World Bank -- that the greatest contributions that managers can make to development is to help the developing countries use their resources effectively.

You believe -- as we do in the World Bank -- that competence is not the enemy of compassion, but its ally.

I hope you will agree that the developing countries, and the World Bank, need more support from Switzerland than they have been receiving.

Draft 11/16/80

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REMARKS OF ROBERT S. McNAMARA, PRESIDENT OF THE WORLD BANK, TO THE FOREIGN RELATIONS ASSOCIATION, AND THE ECONOMIC SOCIETY OF THE CANTON OF BERNE, SWITZERLAND, NOVEMBER 28, 1980

Mr. Chairman, Ladies and Gentlemen:

Let me say how delighted I am to be back here in Switzerland, and to have the chance to chat with you about what we have been doing in the World Bank.

This beautiful land -- with its irresistable skiing, and its magnificent mountains -- began to work its spell on me nearly a half century ago.

Fellow mountain-enthusiasts among you will understand -- and sympathize -- when I tell you that on my desk in Washington I have two paperweights to remind me of the joys I have experienced in your country. One is a piton. And the other is a carabiner.

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All of us are going to need a kind of clear, bold mountain vision in the years that lie ahead, for whatever else can be said about the final two decades of the twentieth century, it is certain that they are going to be very different -- and very demanding.

In its own way, that was also the kind of situation that confronted the world in the closing months of World War II, when the post-war era was about to begin. At Bretton Woods in New Hampshire a group of men with vision -- from 44 nations -- drew up the charter of an institution designed to deal with the gigantic tasks of reconstruction and development that were inevitably to follow.

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44 member countries have now grown to 139. Its headquarters are in Washington, but it is owned and operated by its membership, and is staffed by international civil servants comprising over a hundred nationalities -- including, I am very pleased to say, some outstanding Swiss nationals.

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- Certain special contributions made by some member nations -- ~~and here again,~~ at times in the past, Switzerland has been very helpful;
- And transfers of a portion of the profits of the Bank -- I mentioned that over ~~$3~~ $3.5 billion of Bank earnings have been retained in the IBRD: an additional ~~$1~~ $1.5 billion have been transferred to IDA.

Negotiations for the most recent -- the sixth -- replenishment of IDA have been concluded, and a level of $12 billion has been agreed upon for ~~the~~ commitment during the three-year period, July 1, 1980 to June 30, 1983.

The traditional donors, the OECD nations, as well as a number of the capital-surplus OPEC countries, were joined by nine middle-income developing countries -- Argentina, Brazil, Greece, Korea, Mexico, Portugal, Romania, Venezuela, and Yugoslavia -- bringing the total number of contributors to the sixth replenishment to 33. Unfortunately, Switzerland, one of the wealthiest nations of the world, is not among them.

Now, since I have mentioned these two categories of the approximately 100 developing countries that the World Bank Group serves -- that is, the poorest, or low-income countries, and the so-called middle-income countries -- let me say a word or two about what their situation has been over the past decade, and what their prospects are for the decade of the 1980s.

Taken altogether these roughly 100 countries contain some 2 1/4 billion people. The recent addition of the People's Republic of China to the countries served by the Bank now adds nearly another billion.

The per capita incomes of the low-income countries, containing some 1 1/4 billion people (excluding China) average $220. They grew at only 1.7% a year over the past decade; and in Africa, at only .2%.

This, of course, is virtual stagnatinn. It means that for hundreds of millions of individuals -- already trapped at the bare margin of survival -- "growth" in income was only two or three dollars a year. These countries, with nearly 60% of the population in the developing world, have been able to produce in the 1970s only 16% of its ~~combined~~ gross domestic product, and less than 10% of its exports.

But the outlook for the next five years is even more depressing. Their already desperately low per capita income is likely to grow by no more than 1% a year. and, within the group, There will almost certainly be negative growth -- an actual reduction in income -- for the 140 million people in the low-income countries of sub-Saharan Africa.

The middle-income developing countries, on the other hand -- even those which do not export oil -- have done considerably better during the decade of the 1970s: per capita growth of 6.6% for the oil-exporters, and 3.6% for the non-oil-exporters. They have been able to take advantage of their more favorable endowment in resources, of better market opportunities, and of higher capital inflows.

But the oil-importing countries among them -- with a population of some 700 million -- have been seriously affected by the recent 80% increase in the real prices of petroleum products. These countries are now projected in the 1980-85 period to achieve per capita growth rates of only ~~about~~ 2%.

In summary, global economic conditions over the past 18 months have become substantially more difficult, and the prospects for growth in both the low-income and middle-income oil-importing developing countries during the decade of the 1980s now appear far less promising.

The sharp new rise in oil prices has more than doubled these countries' cost of imported energy, and the continuing recession in the industrialized nations will seriously limit demand for their exports.

In 1973 the oil-import bill of these developing countries (in current dollars) was $7 billion. In 1980 it is likely to be $67 billion. The price of oil is not going to come down -- on the contrary, it is likely to continue to rise in real terms by perhaps 3% a year. The projection for 1985, therefore, is $124 billion, and by 1990 -- even assuming these countries more than double their own domestic energy production, and make a considerable effort at conservation -- the bill is projected to be nearly $230 billion.

Meanwhile, the continuing sluggishness in the growth rate of the industrialized nations will pose additional problems for these developing countries. The rate of expansion of their principal export markets will decline, and an already unfavorable situation could be seriously compounded by ~~deflationary policies and~~ a resort to greater protectionism in the developed world.

Reflecting the effect of these two factors, the current account deficits of the oil-importing countries have increased sharply, and now amount on average to 4% of their gross national product -- and for many countries substantially more.

Though they can continue to finance these deficits in the short term by additional external borrowing, were such financing to continue over the longer term the mounting debt service would become unsupportable. The deficits must be reduced. ~~What is needed are fundamental structural adjustments in their economies.~~ This can only be done by expanding their exports, or by reducing their non-oil imports, or by some combination of the two.

If these difficult changes are undertaken soon, and can be completed over the next five to eight years, growth rates in the oil-importing developing countries should recover to more satisfactory levels during the second half of the decade.

This, however, will require financial assistance in the interim, beyond what is now in prospect, if severe reductions in the level of their development activity are to be avoided. If this financial assistance is not available, or if the developing countries delay initiating the necessary structural changes, their development progress will be seriously compromised throughout the decade.

The current adjustment process is likely to be much more difficult than the earlier one in the 1974-1978 period. One of the most important actions the oil-importing developing countries can take to moderate its damaging effects is to adopt efficient import substitution policies in energy.

At present and prospective oil prices, many of these countries can turn what were previously regarded as marginal energy reserves of oil, gas, coal, hydroelectric, and forest resources into profitable investments. This will require their mobilizing additional domestic and external finance, but would permit them by the end of the decade to reduce their annual oil-import bill by more than $50 billion.

The current global economic situation has imposed particularly severe penalties on the poorest developing countries. They desperately need additional Official Development Assistance to get through the adjustment period. But total ODA flows declined in real terms from 1977 through 1979, and that portion of the flows allocated to the poorest countries was shockingly small in both relative and absolute amounts.

Both the OECD nations, and the capital-surplus members of OPEC, should now consider what measures they can take to increase concessional assistance to the poorest nations who continue to be damaged by a global economic situation they neither caused, nor can do much to influence.

The middle-income developing countries will continue to depend primarily on external capital flows from the private markets throughout the decade, though it is questionable whether the volume will be sufficient from these sources to meet the additional requirements imposed by the new adjustment difficulties.

Commercial banks, of course, constituted by far the most dynamic element of capital flows to middle-income developing countries in the 1970s.

The chief anxiety today is that the commercial banks may not be able to play a similar role in the 1980s.

This does not mean that the private market flows to developing countries will not expand in the years ahead. They will. But the key question is this: will they expand enough to permit the adjustment process in these countries to take place at relatively high -- rather than at unacceptably low -- growth rates? In all probability they will in 1980, and perhaps even in 1981. But beyond 1981 they well may not. Already leading commercial bankers in both Western Europe and North America have expressed their doubts.

In this situation, the Bretton Woods institutions -- that is, the World Bank, and the International Monetary Fund -- can, and in my view, should take various steps to supplement and facilitate the role of the private markets.

Financial intermediation was, after all, one of the main reasons for setting up these institutions: to stand ready to step in as last-resort intermediaries to help recycle funds from those countries that are in surplus to those countries that need them most, whether for short-term balance-of-payments support, or longer-term development needs.

If, then, the task of recycling to the developing countries a portion of the more than $80 billion a year of additional surpluses now being earned by the capital surplus oil-exporting countries is to be tackled in the 1980s efficiently and equitably, there is no doubt that the financial intermediation of the World Bank, and other international institutions, should increase substantially above previously planned levels.

But as important as these financial considerations are, there is another underlying issue, which is in danger today of being obscured by the anxiety over the global adjustmet problem. And that is the most fundamental development issue of all: the drive against absolute poverty.

Over the past decade I have drawn attention repeatedly, sometimes at the risk of tedium, to the principal goals of development: the acceleration of economic growth, and the eradication of what I have termed absolute poverty.

Economic growth, of course, is obvious enough. But once one has been in contact with developing societies, so is absolute poverty: it is a condition of life so limited by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any rational definition of human decency.

The two goals are intrinsically related, though governments are often tempted to pursue one without adequate attention to the other. But from a development point of view that approach always fails in the end. For the pursuit of growth without a reasonable concern for equity is ultimately socially destabilizing, and often violently so. And the pursuit of equity without a reasonable concern for growth merely tends to redistribute economic stagnation.

Neither pursuit, taken by itself, can lead to sustained, successful development.

At the World Bank's Annual Meeting in 1972, I pointed out that all too little of the benefits of economic growth was reaching the bottom 40% of the population in the developing world. For 800 million individuals, their countries were moving ahead in gross economic terms, but their own individual lives were standing still in human terms, locked in absolute poverty.

As our research and analysis of this problem improved in the Bank, we outlined a number of specific actions designed to deal directly with it. ~~that problem.~~ It was clear that any successful effort to combat poverty would have to do two basic things:

- Assist the poor to increase their productivity; and
- Assure their access to essential public services.

At the Bank's Annual Meeting in Nairobi in 1973, I proposed a major program for the rural areas, where the vast majority of the absolute poor are concentrated. The strategy focuses on a target group of roughly 100 million subsistence farmers and their families, most of whom farm two hectares or less. It is directed towards raising their agricultural productivity, and thus their incomes, as well as providing more equitable access to the services they need.

Two years later, in 1975, we outlined a comparable program for the urban areas. Though the circumstances of the some 200 million absolute poor in the cities differ from those in the countryside, the strategy is fundamentally the same: remove the barriers to their greater earning opportunities, broaden their access to basic public services, and help them more fully achieve their productive potential.

In each of the following years -- as our research and experience in the Bank improved -- we have pursued these issues further.

But now, as I have pointed out this evening, most of the developing countries are facing a new, an unanticipated, and what is certain to be -- for at least the next several years -- a very difficult situation.

Their rates of growth are going to be low. Their capital requirements are going to be high. And there are going to be severe pressures on their governments to adopt austere budget allocations for every activity that is not considered of immediate priority.

In these circumstances the temptation will be strong to push aside and postpone anti-poverty programs. The argument will be that poverty is a long-term problem, and that the current account deficits are a short-term emergency: that poverty can wait, but that deficits can't.

It is a very specious argument.

Mounting deficits cannot be indefinitely sustained, and, as we have seen, the necessary solution lies in structural adjustment. Efforts to get that basic adjustment in place must not, indeed, be delayed.

But absolute poverty in a society cannot be indefinitely sustained either. To ignore it, to temporize with it, to downgrade its urgency under the convenient excuse that its solution is "long-term" -- and that there are other immediate problems that preempt its priority -- is dangerous self-deception.

To reduce and eliminate absolute poverty lies at the very core of development itself. It is critical to the survival of any decent society.

Development is not simply economic progress measured in terms of gross national product. It is something much more basic. It is essentially human development: the individual's realization of his or her own inherent potential.

Absolute poverty, on the other hand, is a set of penalizing circumstances that is the direct denial of the individual's pursuit of that potential.

What we must remember is that absolute poverty is not a simple function of inadequate personal income. Though the poor have too little income, and desperately need more, their plight is not exclusively related to that.

Their deprivations go beyond income. And in many cases, even if their income were higher -- which it must become -- they could not by that fact alone free themselves from their difficulties.

The reason is that absolute poverty is a complicated web of circumstances that reinforce and strengthen one another.

And lest we become insensitive to the magnitude of those circumstances in the developing countries, it is worth reminding ourselves of their scope:

- 600 million of their adults -- 100 million more than in 1950 -- can neither read nor write, and only 4 out of every 10 of their children complete more than 3 years of primary school.
- Of every 10 children born into poverty, 2 die within a year; another dies before the age of 5; only 5 survive to the age of 40.

- Malnutrition afflicts hundreds of millions of individuals, reducing their energy and motivation, undermining their performance in school and at work, reducing their resistance to illness, and often penalizing their physical and mental development.

-- 50% more --

- In the low-income developing countries, average life expectancy for their 1.3 billion people is 50 years. It is nearly ~~50% more~~ 75 years ~~in the industrialized nations.~~ here in Switzerland.

- In short, compared to those fortunate enough to live in the developed nations, individuals in the poorest countries have an infant mortality rate eight times higher; a life expectancy one-third lower; an adult literacy rate 60% less; a nutritional level, for one out of every two in the population, below minimum acceptable standards; and for millions of infants, less protein than is sufficient to permit optimum development of the brain.

Now, these impersonal rounded numbers are not simply statistics on some economist's computer. They represent individual human beings. Most tragic of all, so many of them are children.

All of this illustrates the tragic waste of poverty. If millions of a country's citizens are uneducated, malnourished, and ill, how can they possibly make a reasonable contribution to their nation's economic growth and social advance? The poverty they are immersed in, through no fault of their own, simply denies them that.

The point is that it is the poverty itself which is the liability. Not the individuals who happen to be poor. They represent immense human potential.

It used to be said that lack of capital was the chief obstacle to economic growth. But we now know that capital formation explains less than one-third of the variation in growth rates among developing countries. Human resource development explains a great deal more.

Investment in the human potential of the poor, then, is not only morally right; it is very sound economics.

Certainly what is very unsound economics is to permit a culture of poverty to so develop within a nation that it begins to infect and erode the entire social and political fabric.

No government wants to perpetuate poverty. But not all governments, at a time of depressed economic growth, are persuaded that there is much that they can really do against so vast a problem.

But there is.

Moving against the roots of poverty by assisting the poor to become more productive, and hence more an integral part of the whole development process; and by redirecting economic growth and public services more toward meeting fundamental human needs; these are practical and attainable objectives.

To the extent that the poor possess some tangible assets, however meager -- a small farm, a cottage industry, or a small-scale commercial operation in the urban sector -- it is possible to help them to become more productive through better access to credit, extension assistance, and production inputs.

Experience, for example, in the rural areas of such diverse societies as India, northeast Brazil, Kenya, Mali, Upper Volta, and Bangladesh demonstrates that the productivity of small farms can be significantly enhanced through well-designed programs.

The investments the Bank and IDA have helped to finance in both the agricultural and rural development sectors over the past six years are expected to raise substantially the incomes of some 103 million of the poorest individuals in the developing world.

But not only are the poor without adequate incomes, ~~but~~ they are without equitable access to essential public services: to clean water, to basic education, to preventive medical care, to electricity, to public transportation -- to those services fundamental to their health and productivity.

Since most of these services cannot be privately purchased by the poor, they must be expanded through government programs as a key element in a practical strategy to reduce poverty.

Wealthy urban and rural families, often constituting a very small but politically influential and elite group, have frequently managed to preempt a disproportionate share of scarce public services.

It is a very old story in human affairs, and is far from being characteristic of developing countries only. But wealth and privilege have made their influence felt in these matters, and almost always at the expense of the poor.

Not only are essential public services often out of financial and geographical reach of the poor, but such facilities as are in place may be so inappropriately designed as to be virtually irrelevant to their needs: impressive four-lane highways, but too few market roads; elaborate curative-care urban hospitals, but too few preventive-care rural clinics; prestigious institutions of higher learning, but too few village literacy programs.

Public services that are not designed modestly and at low cost per unit will almost certainly end by serving the privileged few rather than the deprived many.

To reverse this trend, governments must be prepared to make tough and politically sensitive decisions, and to reallocate scarce resources into less elaborate -- but more broadly based -- delivery systems that can get the services to the poor, and the poor to the services.

What is certain is that absolute poverty can never be eliminated simply by traditional welfare. And the reason is obvious. No feasible redistribution of already inadequate national income in a developing society is, by itself, going to be enough to wipe out poverty. There must be growth in that income, and the poor must be enabled both to contribute more productively to that growth, and to participate more equitably in its benefits.

The tragedy of the absolute poor in most developing societies is that they remain largely outside the development process.

They must be brought more fully into it.

The primary responsibility lies with the governments in developing societies.

Certainly no external development assistance -- no matter how great -- can substitute for the internal political resolve necessary to take these steps.

But once that firm resolve is evident, then the international community must support these politically difficult decisions with comparable courage and generosity.

Here in Switzerland I do not need to argue for a development approach that focuses on the problems of ~~absolute~~ poverty. Indeed, the Swiss Development Law of 1976 clearly gives priority to "poorer countries, regions, and people." That phrase describes exactly what the International Development Association is doing too.

The truth is that all of us are trying to accomplish the same goals. We are all trying to find more effective ways to help reduce, and ultimately to eliminate the scourge of absolute poverty.

That kind of poverty is an open insult to the human dignity of us all: to the poor themselves, because simply as human beings they have deserved better; and to all the rest of us, for we have collectively had it in our power to do more to help fight poverty, and we have failed to do so.

Now that both the developing countries and the developed nations are under the sting of hard times, are we going to do still less?

Surely we ought not to think that sustaining the attack on poverty is some kind of an economic luxury -- something affordable when times are easy, and superfluous when times become troublesome.

It is really just the opposite. It is a continuing social and moral responsibility, and an economic imperative. And its need now is greater than ever. It is true that sluggish economic growth in both the developing and developed nations in the early years of the 1980s may mean that the privileged and affluent in most societies will have to accept slower rates of advance or even some selective reduction in their already favored standard of living. If they have to, they can absorb such inconveniences.

But for the 800 million absolute poor such a downward adjustment is a very different matter. For them downward does not mean inconvenience, but appalling deprivation. They have little margin for austerity. They lie at the very edge of survival already.

The twin goals of development -- accelerating economic growth, and reducing absolute poverty -- must clearly continue to be our goals in the 1980s. But the environment in which these goals will have to be pursued will be so different, and so difficult, that all of us must be ready to make even greater efforts.

- Population growth, although decelerating, will place increasingly heavy burdens on the resources of most developing countries;

- Labor forces growing at explosive rates, reflecting past levels of population growth, will place a premium on job creation;

- Migration from the countryside will burden metropolitan areas grown larger than most in the developed world;

- Widespread malnutrition, if it is to be overcome, will require substantial increases in food production per hectare because opportunities for putting additional land under cultivation in the developing countries will be reduced; and

- External payments imbalances will require acceleration of industrialization and expansion of exports in the face of slower growth in world trade and rising tides of protectionism.

And it is shocking to reflect that in spite of the very real progress of the past quarter century, and the advances that are likely in the next two decades, it is probable that at the end of this century 600 million human beings in the developing countries will remain trapped in absolute poverty.

None of us, of course -- within the Bank, or outside the Bank, or anywhere -- can pretend that our understanding of the immense complexities of the poverty problem is complete. We are all still learning.

But I think all of us can take a measure of satisfaction that so many governments and institutions throughout the international development community, including the World Bank, ~~and including so many non-governmental organizations,~~ are beginning to consider the problem in a more thoughtful way than they did a decade ago, and are asking themselves how they can reshape their own efforts to deal with it more effectively.

Let me now conclude my remarks with one last point.

We are all aware that it has become almost axiomatic today to say that our world is rapidly becoming more interdependent.

And it clearly is.

But the danger is that the word "interdependence" ~~itself~~ is becoming something of a cliché. And the trouble with clichés is not that they are not true, but rather that they are so true, and so often repeated, and so taken for granted that in the end we no longer really think very seriously about them. ~~at all.~~

Interdependence has entered our contemporary public rhetoric. But it has yet to enter in a truly effective way our contemporary public consciousness.

The fact ~~truth~~ is that cooperation with the developing world has become a vital economic necessity for all of the OECD nations, including Switzerland.

- The developing world now supplies 90 % of Switzerland's imports of crude oil, and 20 % of its imports of other primary commodities.

- In 197_ the developing countries absorbed 25. % of Switzerland's exports -- more than 2 1/2 times as much as did the United States (7 %) and ~~Eastern Europe~~ JAPAN (_ %) put together.

- In 1979 the developing countries bought 5 1/2 times more manufactured good from Switzerland than it bought from them.

These are the facts that turn the concept of interdependence from rhetoric into reality. Economic growth throughout the entire developed world, and particularly here in Switzerland, is now directly linked with the social and economic progress of the developing countries.

There is simply no question about that.

But for various historical reasons, Switaerland's Official Development Assistance has ~~been low in relation to~~ ~~the growth of~~ as a percent of ~~its~~ gross national product is among the lowest in the OECD.

Assistance to the developing countries, particularly to the poorest among them, has been low. Swiss

I understand that your Parliament is now in the process of reviewing the matter, and that an expanded Official Development Assistance program was recently approved by the first Chamber.

I am confident that you here tonight, together with your associates and colleages in government and the private sector, support an improvement in that.

As for ~~the work~~ of the World Bank itself, we look to Switzerland to continue to ~~play~~ support an increasing role in the expansion of our operations.

There are a variety of ways in which we have cooperated in the past -- through raising IBRD funds in your capital market, through ~~to~~ be confinancing of IDA projects, through special Swiss ~~contributions~~ loans to IDA, and through the provision of Swiss technical assistance.

Ladies and Gentlemen, the truth is that your lovely country -- so stable, so skillful, so successful -- stands in ~~so~~ many ways as a veritable paradigm for the aspirations of the developing societies.

You believe -- as we do in the World Bank-- that there is no contradiction between being a hard-headed investment manager, and at the same time a socially-responsible individual, sensitive to basic human welfare.

You believe -- as we do in the World Bank -- that the greatest contributions that managers can make to development is to help the developing countries use their resources effectively.

You believe -- as we do in the World Bank -- that competence is not the enemy of compassion, but its ally.

I hope you will agree that the developing countries, and the World Bank, need more support from Switzerland than they have been receiving.