Notes On World Bank's 12th Annual World Development Report

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According to the World Bank's 12th annual World Development Report released July 4, 1988 was the best year thus far of the decade, with real economic growth of 4.2% in the world's most wealthy nations, compared to 3.4% in 1987. A 20% price increase for primary commodities in 1988, said the report, was helpful to Third World nations, especially in Asia. Meanwhile, "in Africa and Latin America hundreds of millions of people have seen economic decline and regression rather than growth and development," the report said. Bank vice president and chief economist Stanley Fischer cited the increase in real interest rates in late 1988 as an adverse development for indebted nations. If the trend continues, he said, it would likely mean greater need for debt relief resources beyond the level contemplated in Washington's relief initiative advanced by US Treasury Secretary Nicholas Brady. Fischer, who presented the report, said, "The fundamental problem is a shortage of world saving. We focus very much in economics on the United States budget deficit, but that's only one aspect of the shortage of world saving." The Organization of Economic Cooperation and Development finds that of 19 advanced industrial countries, citizens of Britain, Finland, the Netherlands, Norway and Sweden saved proportionately less than US households in 1988. Japanese, West Germans, French, Swiss, Belgians, Spaniards and Italians saved much more proportionately than US counterparts. Most of the report is dedicated to discussion of Third World nations' precarious banking systems, and whether they will be capable of providing necessary services in future economic recovery, and if not, what could be done to remedy the situation. The report said, "For several decades after World War II, regulation of the financial system in developing countries was designed to control the economy rather than foster the safety and soundness of banks...To operate efficiently, financial institutions and markets have to be guided primarily by market forces rather than government directives." According to the World Bank report, Third World nations used the financial system to pursue economic development objectives to a greater degree than did nations currently described as advanced industrialized. The report added, "This left their financial institutions weak, and as a result, many were unable to withstand the worldwide economic shocks of the 1970s and early 1980s." Principal author Millard Long stated that Third World nations must face the reality that their financial systems "are today in disarray." Fischer said it is clear that developed nations' banking systems will no longer be the major source of funding for Third World nations through variable interest rate loans. Consequently, poor nations will be forced to rely more heavily on direct foreign investment and to portfolio investment, he said. The report said that at present bank insolvency in Third World countries is widespread. For instance, in 1981 eight insolvent banks accounting for 35% of the total financial system in Chile were liquidated. In 1983, another eight banks with 45% of system assets were taken over. Of these, three were liquidated. By September 1988, Chilean central bank holdings of bad commercial bank loans amounted to almost 19% of gross domestic product. Bank failures in Argentina and Uruguay have been common. "We know what needs to be done," Long said. "The measures that need to be followed in these developing countries are very similar to what needs to be followed to solve the problem in the United States: You have to decide how to allocate these losses, and in most cases we know that it's not the deposit holder being
asked to pay those losses, but the taxpayer." Besides Long, the team that prepared the World Bank
report included Yoon Je Cho, Warren L. Coats Jr, Erick Evenhouse, Barbara Kafka, Catherine Mann,
Gerhard Pohl, Dimitri Vittas, Robert Vogel and Robert Wieland. They were assisted by Anastasios
Filippides, Lynn Stckelberg Khadiagala, Clifford W. Papik, Anna-Birgitta Viggh and Bo Wang. The
work was carried out under the general direction of Fischer. (Basic data from Washington Post, New
York Times, 07/05/89)

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