"The World Bank and the International Debt Crisis"
Prepared by Barend A. deVries

[Editor's note. Given the realities of heavy debt in many Third World nations, and the work that Bob de Vries has been doing on this problem for the World Bank; and given the Old Testament teachings which speak to the problems of excessive debt facing poorer individuals and families (countries?); the editors felt it might be helpful to have him speak to this issue as a Christian and an economist. This brief note is his offering. Bob will have published in late November of this year a work entitled Remaking the World Bank (Seven Locks Press, PO Box 27, Cabin John, MD 20818).]

The interrelations between official and private providers of capital to developing countries is of central importance to a resolution of the lingering international debt crisis. How can official capital encourage private sources to make available more equity capital and credit for development, and do so more effectively? This question became urgent after the sharp cutback in private lending in 1982 and following years, causing a massive outward transfer of resources.

In a study started in mid-1984, I have dealt with the possibilities of reducing countries' debt problems by focusing on the role and experience of the World Bank, where I had been professionally active for three decades. Set up at the 1944 Bretton Woods Conference, the World Bank is a remarkable instrument of international financial intermediation, tapping funds from private markets for relending to productive development projects. It can expand lending without burdening taxpayers in the industrial countries, which are the Bank's main shareholders. A major purpose of the Bank is to encourage private capital flows. As my study progressed, I gained more perspective on the Bank and began to focus on ways of making it more effective. Many of my views are contained in Remaking the World Bank which will be published this fall by the Seven Locks Press in Washington.

Three issues are of particular importance. First, the poorest countries must attain a new momentum. Many of them have suffered declines in output and exports despite high and rising levels of aid; these setbacks are caused by adverse external trends aggravated by the affected countries' own policy failures. Secondly, the semi-industrial countries, including the major debtor countries, need to be restructured. They must reshape, rebuild and refinance their industries, many of them in the state sector. They suffer from excessive protection and dependence of industry on public finance (causing government deficits of sometimes 15% of GDP). Pressed by a cutback in foreign resources, many of these countries have begun to rationalize their economic policies, often with the assistance of the IMF and the World Bank. And thirdly, the private sector in the developing countries must be strengthened; this sector has suffered badly from the effects of the 1980-82 recession, and the rapid expansion of the public sector in the seventies.

Facing up to new issues in a changed external environment the World Bank can build on a solid record of past performance. It is well suited for assisting change in specific sectors, such as transport, agriculture, and technical education. It has gained expertise in project-specific finance and methods of project appraisal. Financially it is strong and well managed, with favorable returns on assets and earnings exceeding $1 billion for three years in a row.

But despite its inherent strength the Bank has thus far stood on the sidelines in the international debt crisis. In 1982 it was the Bank's sister institution, the International Monetary Fund, which swiftly took the lead in mobilizing new finance from its own and other resources. The IMF also negotiated essential policy packages which often made it highly unpopular with the debtor countries. There is widespread agreement that the IMF's assistance in monetary stabilization must be accompanied by longer-term structural measures, where the World Bank has particular expertise.

The Bank's initially timid posture in the debt crisis stands in sharp contrast with its activities in earlier years, when it provided assistance in the management of external debt (in Mexico, for example) and developed theories and policies linking the buildup of debt with the growth of borrowers. [See D. Avramovic, "Economic Growth and External Debt," 1965.] Even though since 1983 the Bank has accelerated its loan disbursements, it has failed to formulate a comprehensive strategy for dealing with the debt crisis. The present debt predicament calls for a combination of fundamental policy reform, fresh long-term finance to bolster new growth-oriented programs, and more effective linking of private and official finance.

The World Bank has many instruments to provide essential technical and financial assistance. Its "country programs," maintained since the McNamara years (1968-81), analyze individual countries' socio-political problems and possibilities, medium-term macroeconomic and balance of payments projections, and place the external finance from various sources in a broad yet realistic framework. These "programs" can be brought into the center of international discussion and debt negotiations, with full participation of the debtor country and the creditors concerned. Discussions should focus not merely on questions of debt restructuring or new finance, but on the policies that can improve confidence and efficiency, establish a better balance between the public and the private sectors, and strengthen domestic financial markets. In this process the Bank must
deepen and broaden its collaboration with the IMF. The Bank’s “conditionality” is project and investment specific; it supplements rather than displaces that of the IMF.

Is the World Bank able to play a more effective role than it has so far? At present it is bogged-down in a far-going internal reorganization aimed at making its operations more efficient, and in reducing staff. It is crucial that its president, Barber Conable, a former Congressman from upstate New York, exercises the leadership without which an institution as complex as the World Bank cannot function. With experienced economists in key operational positions the Bank should be able to provide more effective policy assistance in all its operations, including project lending. It need not go on so-called “program lending,” which is akin to the balance of payments finance provided by the IMF.

The future pace of Bank lending should be governed by its success in policy reform. To make possible a continued expansion in lending the Bank will soon need an increase in the capital which backs up its bonds.

Expanding the role of the World Bank will undoubtedly encounter close scrutiny. In the past its activities have been subject to a barrage of criticism. The left (such as Teresa Hayter) accuses the Bank of being neo-imperialist and excessively intrusive in countries’ internal affairs. The right (such as P.T. Bauer) claims that it ignores the workings of the free market and overemphasizes the role of government. The bank has much to learn from these criticisms, although it has a long record of stressing market price incentives (see the many writings of Bela Balassa), the importance of self-financing and autonomy of enterprises, and the role of private business (for example, the establishment in 1960—and current expansion—of the International Finance Corporation, the Bank’s private enterprise affiliate). One hopes that in reshaping the Bank its new management will pay attention to outside views, and will explain how the Bank actually works and deals with the problems of the major debtors, as well as the poorest countries in Africa and elsewhere.

Biblical observations are central to my thinking about the debt crisis. They are not afterthoughts. They underline the importance of the attention given by the World Bank and others to improving the productivity of the poor. They also confirm the urgency of measures to deal innovatively with the distress in the major debtor nations. There is mounting evidence that the debt crisis and its aftermath have caused deep cuts in the standard of living and investment of the countries concerned. [See Guy Pfeffermann, “Public Expenditure in Latin America,” and “Poverty in Latin America: The Impact of Depression,” both 1987 World Bank publications.] The crisis itself poses the same issues which have been at the core of international development economics since the 1950s: the impact of market fluctuations, the sensitivity to events in industrial countries, the causes of poverty, and policy failure and the advisable extent of reliance on external finance.

The Bible gives us extensive guidance. To mention just a few examples: The Old Testament priests and prophets were aware of the power of interest and the burden of debt. Many had an overwhelming concern with the poor. No interest was to be charged in Israel (Dt. 23:19-20). Creditors should not take collateral when lending to a poor man (Dt. 24:12). In graphic language Amos singled-out suppression of the poor as a main sin of Israel (Amos 2:6-7). And at the end of every seven years one was to make a remission of all debts (Dt. 15:1). Do such teachings suggest that institutions be reformed when they stand in the way of economic justice?

The most compelling text is Rms. 8:13: “Be in debt to no-one. The only debt you should have is to love one another.” A country or person does well in exercising caution in incurring debt. At the same time, from a creditor’s standpoint, a loving relation with a person—or a country—should bring with it an in-depth knowledge of that person/country. There indeed we must start: knowledge of the needs and possibilities of the country. The current vogue of many private bankers is to call for a “menu” of different instruments, such as swaps of debt into equity or exit bonds. But these piecemeal suggestions contribute little to the total need and distract from the real issues: what can the debtor nation do to meet its own needs, how can it improve resource allocation, and what additional external funds must reasonably be provided. A realization of these issues gives meaning to the warning with which this text begins. It should govern much of our advice and teaching.

“The Methodological Reformation in Economics”

A Review of Donald McCloskey’s The Rhetoric of Economics


Prepared by James R. Wible (Univ of New Hampshire)

The last ten to fifteen years have been a time of ferment and turmoil in that field of economics most commonly known as methodology. Evidently, this methodological ferment mirrors to some degree the tumultuous intellectual changes pervading recent history and philosophy of science. During the past few decades, historians and philosophers of science have rejected the notion of a universally accepted METHODOLOGY of science. By