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The Honorable Michel Camdessus
Managing Director of
International Monetary Fund

The Honorable James D. Wolfensohn
President of the World Bank

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Questioners: James D. Robinson, III

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Introduction

Chairman William J. McDonough

Ladies and gentlemen, would you please take your seats. I would like to welcome you to the 352nd meeting of the Economic Club of New York. We are particularly fortunate today to have two outstanding speakers. And since they are very busy, as are you, we will follow our usual luncheon procedure and have the speakers speak first, and therefore if you're nibbling on your first course, if you would nibble rather quietly, that would be very much appreciated.

Our first speaker is the Managing Director of the International Monetary Fund, Monsieur Michel Camdessus. His name is a wonderful test for those of you who took high school French, whether you can get the "eu" correct. Michel Camdessus is in his third term as the Managing Director of the International Monetary Fund and is already recognized as one of the most outstanding persons to hold that very challenging position.

In fact, when his second term ended and there was a question for about five seconds as to whether he was the appropriate person to serve yet a third term, I felt myself, during those five seconds and then verbalized to members of our own government, why in the world would anybody think that there could be possibly a question? He has done such an extraordinarily good job. He is so highly respected in the emerging countries and in the developed country markets that he is exactly the right person for this demanding position. And it gives me great pleasure to introduce him to you. Michel. (Applause)

The Honorable Michel Camdessus

Managing Director of International Monetary Fund

Well, Bill, thank you very much indeed. You know the longer people stay in a position, the more they like compliments. (Laughter) And I will tell you why – because as people know you better and better, the fewer compliments they receive and then the greater the temptation to believe them. But I will resist once again to this temptation.

Mr. Chairman, it's a great honor for me to join you all at the Economic Club of New York. And indeed, a pleasure to share this podium with my old friend and young colleague, Jim Wolfensohn. Of course, he's one of few...I will not speak about him. I have not to introduce him, but I must tell you that it has been amazing to see him, not only immediately take control of Washington, but to take control even of the World Bank.

Well, the World Bank and the IMF, you have here two institutions which have been founded in the aftermath of World War II to help restore economic stability and create conditions for prosperity in the world. Half a century later, the two institutions are still working together to promote these goals, but in a world which has changed.

The international economy is now dominated by you or at least by massive capital flows available in a scale undreamed, not only at Bretton Woods, but even ten years ago – massive flows which are opening new opportunities for investment, trade, and growth to an even larger group of countries. And each year is a record year for that. Last year was another record year. Net private capital flows to emerging market economies reached $235 billion – five times the level in 1990 – while maturities lengthened and spreads declined. On this last thing, I have mixed feelings, but the fact is there. So one may well ask, in this day and age of the Chile Fund, the China Fund, the Czechs Fund, and so forth, do we still need the International Monetary Fund? Of course, we need the World Bank, no doubt. But do we need the IMF?

I raise this question, of course, only because in my view, the answer is very clear. Yes, the world needs the IMF, and I would like to show you that it needs it today even more than ever before. It’s true that global economic opportunities are increasing, but many countries are not yet able to take advantage of them. Moreover, for countries that do tap private capital markets, the risks have increased. As we have seen on countless occasions, the market rewards what it sees as sound economic policy and punishes – sometimes resoundingly – what it perceives as policy weakness.

Hence, the upside potential for good economic performers is substantial, but the latitude for policy mistakes remains, and the cost of mistakes, if anything, is greater. As a matter of fact, I remember when I joined the French Treasury in 1960 as a younger civil servant there, we had a very prestigious Minister of Finance who had been sent by our governor, Mr. Baumgartner, and the first time I accompanied him to the parliament, I heard him introducing the budget for 1961 or something like that, and saying, well, for France, if you take on board the international environment, the only problem we have is to make less mistakes than our neighbors. And he was good at that.

Today it would be a formidable mistake to still have the illusion that by doing less mistakes than your neighbors you can live safely. This is why, with a remarkable unanimity, our 181 member countries are increasingly looking to the Fund to help enhance the stability of the global economic and financial system and increase the chances of high quality growth in ways that individual countries are not as well equipped to do. This is why more than ever our member countries expect us to:

One, encourage countries to pursue the sound economic and financial policies required to attract private capital and then expand opportunities for investment, trade, and growth worldwide. And indeed, we do that through our advice, our technical assistance, and in the framework of our financial program, the so-called Stand-by and ASAF and all of that.

Two, through this emphasis on appropriate policies, to reduce the risk of a sudden reversal of capital flows and their potentially disruptive spillover effects.

Third, when crises do occur – and undoubtedly they will – to ensure that they are dealt with in ways that are not detrimental to international prosperity.

And fourth, to provide a forum in which members can discuss and learn from each other's policy successes and failures, assess developments in the global economy and, to the extent possible, diffuse emerging problems before they become major crises.

Admittedly, these are ambitious goals, indeed, but also very traditional for us even if we have done that all our lifelong, now we are doing that in a much bigger scale than in the past. And to give you an idea of the magnitude of the adjustment effort, the reform effort in the world, you have now 60 countries in the world with these kinds of programs – the IMF used to have, which I'll qualify it as harsh and tough and too severe and all of that – 60 countries are under this regime, and 20 more are now presented _____, with us to try to enter in such programs. It gives you an idea of the formidable effort for change which is going on. Of course, somewhat under the pressure of the markets and to enable countries to be able to take advantage of all the opportunities of this new world.

But I insist, the IMF can hardly expect to forestall every crisis or inspire every member to economic and financial rectitude. However, we do believe that prevention is better than cure and that the opportunities in the global economy should not be squandered. Thus, we have taken a number of steps recently both to strengthen the IMF traditional surveillance over member country policies and to broaden its scope.

And if you have still a little bit of patience, I would like very much now to highlight four domains where we are working hard just now to help the world to maximize opportunities and reduce the risks of this new era of global capital markets.

One, liberalization of movements of capital. We have a mandate on that, but it has been limited in Bretton Woods to the current transactions with the so-called Article VIII regime. And we have years after years increased the list of countries which have allowed the full convertibility of their currencies for current account transactions. Now 139 countries are there and the others are accelerating their efforts in this direction.

But this is only for current account transactions. And indeed, in this new world, this is not enough. The benefits of an open and liberal system of capital movements for individual countries, investors, and for the world economy at large are obvious. But to get there, and to create the incentives for all countries to go there, you need to add to our Carta Magna, to our Articles of Agreement, the chapter our founders in Bretton Woods didn't dare to write. Namely, the full liberalization of capital movements. And now we believe that time has come for that and we are working hard in an amendment to our charter specifically calling upon the Fund to promote capital account liberalization and giving the Fund appropriate oversight over restrictions on capital movements. We hope that the provisions of this amendment will be worked out over the next few months. And when you see how important it has been for the world to be, and for every country to be pushed by our predecessors to go to current account convertibility, you see the benefits the world could find in this new step. I dare to say that this is history.

Needless to say, the point is not to encourage countries to remove capital controls prematurely, or to enjoin them from using still capital controls on a temporary basis in cases of severe emergencies. Rather, the emphasis will be on fostering the smooth operation of international capital markets, and encouraging countries to remove capital controls in a way that is consistent with sustainable macroeconomic policies, strong monetary and financial sectors, and lasting liberalization. Nothing is worse than to have to be back-pedaling for some time after having opened new windows. This is good for recipient countries, good for investors, and good for the world economy.

And this brings me to our second big work at this very moment, namely to contribute – and this second point is made more relevant by what I've told you about liberalizing capital movement – contributing to the soundness of domestic financial systems in general, and of banking systems in particular. As you can suspect, particularly at the end of a good lunch, I am often asked where I think the new Mexico will occur. I can give you my answer at the beginning of this lunch. I used to say I don't know, and if I were to know I wouldn't tell you. (Laughter) But I will tell you something confidentially, and of course when you say that, it is for that to be repeated. I will tell you confidentially that the next Mexico will almost certainly start with a banking crisis or be intensified by one. And I'm sure you would say the same thing, Bill.

In many countries, poor bank management, weak supervision, and unfavorable macroeconomic conditions have left the banking system in a perilous state. Moreover, when the banking system is weak, countries are often reluctant to tighten macroeconomic policies when they should, for fear of provoking a banking sector crisis. In these circumstances, a banking crisis is an accident waiting to happen. What can be done?

From our perspective, the main emphasis should be on strengthening internal bank management and reinforcing market discipline over banking practices. But there is also a clear need to improve bank regulation and supervision. Our policy dialogue with member countries now places greater emphasis on banking and financial system problems. At the same time, however, having seen the state of banking systems around the world, the IMF has pointed to the need for a set of best practices in the financial area that are internationally recognized and applicable in countries at varying stages of development.

We have also indicated our readiness to help disseminate these best practices through our policy discussions with member countries. I am happy to say that thanks to the untiring efforts of people such as Bill, important steps are now being taken in this direction such as the Basel Committee's "Core Principles for Effective Banking Supervision." We applaud these steps and we are sure we will see more work in this direction.

The third point, the third issue on which we are working hard is transparency. Since market perceptions determine where capital will flow, there is now a much higher premium on accurate information about country economic policies and performance. Besides, better information makes for better investment decisions and fewer market surprises. Thus, the IMF is actively encouraging all countries, but especially those tapping, or hoping to tap, international capital markets, to improve the economic and financial data they provide to the public. We have taken several steps to help develop and disseminate a set of standards regarding the coverage, frequency, and timeliness of data, their quality and integrity, their availability to the public. And we will continue.

But let me tell you, nevertheless, that I'm afraid progress will still be too slow and we must join forces in convincing countries on this need to be more transparent, to get better conditions from the market. I insist on that because it's an extremely difficult task to convince countries to devote resources to this improvement of quality of information to the public when frequently their instincts go to the opposite direction.

So far, I have focused mainly on issues confronting countries that have access to global financial markets. What about those that don't? This is my fourth point. In this era of global markets, countries face a rather stark choice: either to integrate themselves into the international economy or to become marginalized from it and thus fall farther and farther behind in terms of growth and development. This marginalization is not only the source of much human misery, but a drag on world growth, and increasingly, a threat to peace.

Part of our mission at the Fund is to help countries to make the right policy choices so that they can avoid these pitfalls. Traditionally, our assistance has focused on helping countries to correct macroeconomic imbalances, reduce inflation, undertake key trade, labor, and market reforms needed to improve efficiency and expand production. And indeed, this is still our first order of business in all our member countries. But increasingly, we find that a much broader range of institutional reforms is needed if countries are to establish and maintain private sector confidence, and thereby lay the basis for sustained growth. We call it the “second generation” of structural adjustment programs. These include a simple, transparent regulatory system, an independent and professional judicial system, and a government that makes cost-effective use of public resources.

Every country that hopes to maintain market confidence must come to terms with these issues associated with, let’s say good governance. Our approach at the Fund is to focus on those aspects of good governance that are most closely related to our surveillance over macroeconomic policies, such as increasing the transparency of government accounts – an excellent means indeed of controlling corruption and a lot remains to be done there – encouraging countries to reduce unproductive public expenditure in favor of investment of a human nature on education, health, and basic infrastructure.

Well, you have heard now where the Fund is heading – toward freer capital movements, sounder financial systems, greater transparency, and a more encompassing view of policy reform – all with the goal of enhancing stability and growth in the world economy. What I have not yet made clear, perhaps, is what it takes to get there. And that is the financial support of our shareholders, especially our largest shareholder, the United States. Let me reassure you. I don't plan to pass the hat, at least not here. But I would like you to understand where the Fund gets the bulk of its resources, so that you will see just what a good deal the Fund is for your country, and indeed, all countries.

One minute more. As you may know, the Fund is a financial cooperative. You know more or less how it works. On joining the Fund, each member country subscribes a sum of money called its "quota" which it pays partly in national currency and partly out of reserves. When a member encounters a need for temporary balance of payments financing and borrows from the Fund, it exchanges a certain amount of its own national currency – at that time in very bad shape indeed in general – for an equivalent amount of currency of another Fund member in a strong balance of payments position. The borrowing country pays interest at the floating market rate on the amount of currency it is using, while the country whose currency is used receives interest. When it comes time to repay, the country exchanges the hard currency it is using for its own national currency. It's a kind of swap which is undone.

Why am I telling you that? Because for a country – rich or poor – subscribing to a quota increase is like putting your money in the bank, it does not reduce your net worth, and as your government, it does not increase your budget deficit. Let me repeat that. The miraculous thing, it does not increase your budget deficit. You remember that. The United States, for example, considers its quota subscription an exchange of assets with the IMF, not a budgetary outlay. In fact, remember that, in many years, the U.S. has actually made money on its position in the Fund through the interest it receives on other countries' use of dollars, and the exchange gains it has realized on its SDR-denominated position.

The economic history of the world over the last fifty years is marked by many occasions when the United States exercised its leadership to help strengthen the world economy: in successive rounds of trade liberalization, in the resolution of the debt crisis, and in the economic transformation of Eastern Europe and the former Soviet Union, among other occasions. And in doing that, the United States has served the world well. They have served well the world common good. This has a name, this is leadership.

The United States has been able to accomplish all of this at very low cost to the U.S. Treasury, in large part because it could work through the IMF – and because the IMF, itself, has maintained its financial strength and credibility. Our membership is now considering a quota increase to ensure that they IMF continues to have the strength and the credibility to fulfill its functions. Americans are well known for their pragmatism. Thus, I am confident that America will continue to recognize the benefits of a strong IMF, see what a miraculously good business it is, and give to it its wholehearted support. Thank you very much. (Applause)

Chairman William J. McDonough: Thank you very much, Michel. You can see why it was such an easy choice for the Governors of the International Monetary Fund to decide in 1995 that they had a brilliant Managing Director and all they had to do was to convince him to take a third term.

It was a rather greater challenge, however, for the Governors of the World Bank. The tradition of the Bretton Woods institutions is that the United States nominates the President of the World Bank. And that challenge, for President Clinton and Secretary Rubin, was very great indeed. In an era of funds, there was a considerably greater question about the need for the World Bank than there was for the IMF. And so, they had to look for somebody who could form a strategy and then have the ability to sell that strategy to a world that was somewhat questioning, a great knowledge and a great understanding of the world was therefore required as well.

But the World Bank had become an extraordinarily, almost infamous, entrenched bureaucracy. And therefore, in order to use the instrument to carry out the new strategy, the person had to have great leadership skills and the ability to make things happen. That may sound as if it would be a very difficult person to find – and it was. But fortunately, there was a man whose credentials made him absolutely the obvious choice. Throw in great strategic ability, a superb financial mind, an accomplished cellist, just to be able to woo people into following his inspired desires, and you have our speaker today, the President of the World Bank, Jim Wolfensohn. (Applause)

The Honorable James D. Wolfensohn

President of the World Bank

Well, thank you very much, Bill. And as you can see, it's not yet certain whether I'll get a second or a third term, and I would say the jury is still out. The one thing the jury is not still out about is the cooperation which exists between the Fund and the Bank and I want to pay a special tribute to both the friendship and the guidance which I've received from Michel since I've been at the bank.

You posed the subject, Bill, in a rather interesting way as though it was a challenge as to whether the World Bank should be around in this new world of the private sector and of capital flows. Let me respond to that because I have to give you a sense of what it is that we're facing. We have a task that was set for us in recent years – not originally 50 years ago when our task along with the Fund was the reconstruction of Europe and the post-War devastation – now our task is to alleviate poverty in a sustainable environment.

You probably know the numbers but let me remind you. There are 5.6 billion people in the world of whom 4.7 billion are in the developing world. Of the 4.7 billion, 3 billion live under $2 a day and a 1,300,000,000 live under $1 a day. There are about a billion people that don't have access to clean water. There are 160 million kids that don't go to school. There are a couple billion people that don't have access to any sort of power. And our environment, contrary to our expectations and hopes, is not getting better, it's getting worse. In fact, 300 tons of extra carbon has gone into the atmosphere since Rio. And many of you can see today, even if you didn't believe the science, you can see with what's happening with our weather that we're in some trouble, and forests are being degraded. And as I travel around the world and I've been now to some 55 countries, it's not difficult to see that there's a lot to do.

So my immediate reaction just in terms of the numbers and my own experience is that there surely is a need for the Bank. But then you say, but what about all this private sector funding which is going, the $230 billion that Michel spoke about? Well, the $230 billion, 75% of it goes to 12 countries, 140 countries get less than 5%, and Sub-Saharan Africa with 580 million people gets less than 1%. You have a world in which 56% of the people in the world have less than 10% of the income. You have a difference between rich and poor which is increasing, not diminishing. And you have companies and banks now, as Michel said, giving five times more than they did seven years ago. And I should tell you that seven years ago, they were half the volume of the official contributions from the World Bank and the official institutions. Today they are five times the size – five times the size.

But they don't typically go into the slums. They don't typically go to the 140 countries as I've told you. In fact, less than 5% of the funding goes to those countries. And on issues of health and on issues of education and on issues of environment and on issues of social structure and on issues of justice systems and on issues of making countries an effective operating unit so that investors will wish to get there, they don't do anything.

Quite appropriately, the private sector invests where it can get a return. It's not a charitable group. It's a group that is interested, appropriately, in expanding its business and in getting returns – industrialists on their industrial investments, portfolio investors on their portfolios, and quite appropriately so. And banks, which this year were $30 billion, having gone up ten times in the last ten years from $3 billion – having suffered a few problems for the sort of thing that Michel was talking about in '68 and '70 when they were a very much larger number, 70% of the total flow – they go appropriately to those investments where they will get paid back and where the countries work.

Now if we could leave it to the private sector, it would be wonderful for all of us in the official sector that are dealing with questions of development. But you can't. And so what we're looking at in the developing world is a change in the approach of the World Bank and other institutions to adapt to these conditions. Building on a tradition of 50 years in which I believe the World Bank and its related institutions, IDA which is an institution that was set up to give concessional lending to the poorest countries, International Finance Corporation which deals with assisting corporations, and MIGA which is there to assist in insurance, building on a significant 50-year history and on remarkable people, one of whom is here today, Ernie Stone, who is in this room, we have been given the opportunity now to take a new look at the role of the World Bank and how is it positioned?

Well, 50 years ago, there were two Bretton Woods institutions. Today, there's a multiplicity of development institutions. There are bilateral assistance, from our own country, AID, from regional banks, from a developed U.N. system, from the European Union. There are a whole range of these institutions which are now working in terms of both people and in money, but where the parliaments are saying let's reduce this amount of money that we have available, to a point where in this last year we were at the lowest level in 50 years in terms of available funding for the developing world. And yet we're out there working tirelessly to try and bring about development. But there's that level, that's the level of the official institutions. So it's not just the bank, it's a whole variety of institutions, all of which you're out to challenge.

And then there's the private sector which is now five times our size, but which gets to 12 countries, 75% of it, and it's not great in a large part of the world, and is limited. In the issue of infrastructure which we talk on very often, the needs in the developing world are $200 billion a year alone; $200 billion a year are the infrastructure needs. So that the amount of money that we're talking about in direct investment is certainly not going to meet that and all the money does not go into it. And when it goes into toll roads, because that's a good way of building infrastructure, typically that's 3% of the roads in the country. What about the rural roads?
If it's power, what about the regional power authorities? If it's water, how do you get water out to the country? And 70% of the poor people in the world live in rural areas, and they're not dramatically attractive for outside investors. Of course, most people will go into telecommunications, and today telecom is something which can be financed very readily and

happily so in almost any country. But then there's education, and there is health, and then there's creating the system, a judicial system – property rights, regulations – all of which private sector doesn't do. And that's where that top sector comes in.

And then there is a third new force in this whole field which is really dramatic and important, and that is civil society. Twenty years ago, 39 countries had some form of democratic government. People were elected in a form of democratic system. Today, three-quarters of the countries in the world, 70% of the people in the world have some form of democratic system. And that has brought about an enormous change in the whole issue of development because with it has come civil society. With it has come non-government organization. With it has become the powerful voice of people, the power voice of people expressed in non-governmental organizations and through their parliaments.

And so the mix is no longer the Bank and the Fund on a hill setting the rules and giving out money. It's now part of a mosaic which is more government bilateral agencies, private sector now literally thousands and thousands of non-governmental organizations. I was in Poland last week. And in the short time that Poland has been more or less under a democratic system, there are now 30,000 registered NGOs in that country. And these are a tremendous force for development. And the Bank can play a tremendous role in terms of working with the civil society and with the parliaments to try and bring this whole group together. And if you don't have a Bank, then you don't have a sort of unity of function.

The fourth thing that the Bank is doing is recognizing, of course, what is true, which is that the ultimate dependency for success is on the governments and the administrations of the countries in which we operate. So building capacity in those countries, in terms of human capacity, is really the ultimate, the ultimate example of how it is that we can make effective the sort of work we're doing. So it's not as simple as saying private sector funding has gone up five times, therefore there's no longer a need for the World Bank – would that it was so. Would that it was so easy. But it isn't.

It's easy for us to use it as a reason perhaps not to support granting of funds to IDA or for development assistance. But even that's not smart. Because this developing world of 4.7 billion people is a highly relevant part of our mosaic of the economy of the developed world. Today it's 18% of the world's GDP. In another 30 years it'll be 30%. Of the United States exports at the present time, it represents 40% of our exports. It represents over 4 million jobs in our country. In this state of New York, it's $8.9 billion in exports and 168,000 jobs. And it's also the fastest growing part of the world. In terms of economics in the last five years, it's been 50% of the growth in GDP and 40% of the growth in world trade.

So the developing world in which the Bank is involved is not something that you can ignore. It is an essential part of our economy. It is the growth of our economy. It's growing at twice the rate of the OECD countries. And so you can't just wipe it and you can't say that the institutions are no longer necessary. They're mandatory. They're also mandatory because this world is not just linked with this economically; it's linked with this in every other way. You breathe the same air. We have the same health problems. You have immigration which is caused from one country to another. We share the same wars. We share the same famines. We share the same drug problems. We share crime.

These are all things which link this world with us so that you cannot talk of writing off the developing world or getting rid of the World Bank and leaving it to the market. It is something which needs to be nurtured and developed. And that is something which you need to have a functionary, an institution which can combine, as we do, the 180 shareholders of the bank to try and bring about a sense of growth and development in something which is not an option or election for us, but something which is central to our own growth. And as Michel said, to the peace and security of our world.

We borrow our money in the capital markets based on the credit of the Bank. The only decision that a country and the United States has to make annually is the decision on IDA which is concessional lending. Lending long term to the poorest countries, countries where the per capita income is under $2.50 a day. And that is done, not just as a matter of charity, that is also done as a matter of bringing about development and bringing about peace and security and saving us an evermore expensive task of intervening in wars because of the poorest countries in the world, over 50% of them in the last 15 years have had some form of conflict. And who comes to the aid in conflict typically but the United States.

So there's a good preemptive reason even if you don't have a moral or a social reason. But we, in our country, do have this moral and social reason. We fought a Cold War when it was easy to get money for the development institutions because we were all fearful that if we didn't come in with some form of democracy, another system might emerge and would have rockets pointed at us or would have turbulence. And so the issue in the past has been let's go and give assistance to these institutions because we want to protect democracy.

Well, democracy and the market system is one, and our country cannot turn its back on the reason that we were fighting and the things we were standing for. That is not what this country is about. There has to be a sense of moral value. There has to be a sense of social responsibility. And there has to be a sense of leadership. If there isn't, what is America? And that is not often heard in the debates. And this 4.7 billion people in 30 years is going to be 8 billion people. And we have to provide the leadership to that 8 billion people – leadership and partnership. And we have to ensure that they have a chance to develop.

I was in Rio just three weeks ago looking at some of our work. And I was in a favela – many of you will have been to the favelas in Rio or at least know what they are. They're not attractive places. Eighty million Brazilians live in favelas. And we are doing a project; they had to bring water and sewerage to the inhabitants of these favelas. And we have reached a million people already. And I went to the top of the hill of one of the favelas in Rio and I saw the water flowing and I saw the sewerage being taken away, and my guide said to me, Jim, go into any of the habitations you want and you'll see how different they are than the places we've just been to.

And they were clean and the people there were full of pride. Every one of the women wanted to show me the tap so we could turn on the water, and tell me that previously they had to carry up this enormous hill every day two buckets of water with a wooden thing over their shoulders, right in the middle of Rio. That was moving enough.

And then they came up and they showed me pieces of paper at a reception we had afterwards with their names on it and saying 5 cruzeiros, 4 cruzeiros, 6 cruzeiros, which was the money they were paying for the water and sewerage. And this was a joint activity between the private sector, the civil society, the local government, the World Bank, and the people in these communities. And it's paying for itself. It couldn't have happened with any one group alone, but coming all together, it now functions.

But what was significant about these pieces of paper was not that it is now just showing the credit-worthiness of the people in the favelas. What my guide said to me was, Jim, you're missing the point. This is the first time in the lives of these people that they have been recognized by society. It is the first time they've had a piece of paper with their name on it which comes regularly to some address. Now these people are people who will be a stable element in society. They will stop the crime in the favelas. They will build Brazil. They will be a market. And they will provide a more stable world for all of us.

I'm proud that the Bank is part of that. I'm very hopeful that our country will continue to be one of the main supporters of our institution. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN WILLIAM J. MCDONOUGH: Well, ladies and gentlemen, I'm sure you will agree with me that we are fortunate indeed that we have two such outstanding people at the heads of the two great Bretton Woods institutions. We will now have questions from two of the members of the Club, James Robinson and Deryck Maughan, well known to all of you. So if I could ask you, Jim, and you Michel, to stand here, you will receive the questions and at a certain point I will stand up and we'll thank everybody for being here. Jim, you have the first question.

JAMES ROBINSON: Thank you Bill, Jim Wolfensohn, one of the first projects, of course, you undertook when you went to Washington was establishing a blueprint for re-engineering the place. Where are you in the process? What's been implemented? And what really are the next major steps?

THE HONORABLE JAMES D. WOLFENSOHN: Well, we are taking a good look at ourselves in terms of how you meet the needs of this world. And to the extent that there was a bureaucratic environment, we're trying to make ourselves more like a business. We've established, my management team and myself, a plan to judge ourselves by the effectiveness of what we do, to not make the approval process in terms of the amount of money that we approve to target, but the effectiveness. And we've also decided that we need to be more open and more able to deal with those four sectors of society of which I've spoken. So we decided first that we would establish a program to look at our own procedures which we are considerably through. And we have established a number of benchmarks in terms of various aspects of the organization which we are working on and I think we're about 50% of the way through. But what was the most crucial thing to recognize was that you can't change anything by edict. It's the people in the place that make the difference. You can say operate in this way, but if you do it and the people don't change, you achieve nothing. So we have started what I think is a fantastic experiment and which I'm very proud of and which is really working. We've got Harvard, Stamford, The Kennedy School, and INSEAD from Europe. We've designed a six-week, what amounts to an advanced management program. And we're putting classes through in groups of 60 with 15 outsiders from civil society, from the private sector, from our clients, from really all segments of society, so that the group in terms of its discussions is not inward looking. And they're doing six weeks of this, residential, in three lots of two weeks. And then everybody spends the seventh week in the field living in a project or a slum or a village with the NGOs so that we can see the result of what we're doing. There was a lot of apprehension about this. They thought I was nuts. And all I can say is that we've now got 180 people that have gone through this course and we've got the first of our people having coming back from the field. And there is a new sense of vigor, and while there is some legitimate concern on management reorganizations that we now have, I think we have the finest team of people that you could find anywhere in the world, a team that's been built up over years, but which is now taking a new look. And I think that as you look at the Bank over the coming years, you'll be very proud of what's happening there. It's not yet finished, I would say we're 50% of the way. But we're going to get there and it's going to make a big difference.

DERYCK MAUGHAN: Michel, both you and Jim have spent a lot of time in Russia. Could you comment on their fiscal position and what seems at times a desperate need for cash?

THE HONORABLE MICHEL CAMDESSUS: Well, thank you very much. Working in ____, doing that since six years is at the same time an extremely frustrating, hard, and at the same time exciting experience. We have been with them so tremendous time of crisis for them, tremendous difficulty, and possibly we have not seen immediately when starting working there. At the time we were so excited about dismantling the power of the party that we were simultaneously dismantling the state. And that we had the day after to start helping the country to be run and living, recreating the state from scratch. We have been working on that and working hard. And after two, two years and a half of hesitations on the part of leadership for whom it was extremely hard to accept the dialogue and the conditionality from these anonymous people of an institution, a little bit technocratic, and who had the pretense to be even-handed, between Burkina Faso and Russia where Russia had nuclear heads. I tell you that because these are things Mr. Yeltsin told me. You will not impose me the same condition as to Burkina Faso. Well, we did patiently our job. Helped first, of course, because we are primarily a monetary institution, helping rebuild the central bank from scratch. And it is there now and it is well respected central bank, Bill, I think.

And then we started time and again to multiple technical assistance missions trying to build, to rebuild a Ministry of Finance, able not only to have a budget, a treasury, and to collect taxes. And the problem appeared there, particularly, well sometime late in the process, but it exacerbated during the time of the illness of President Yeltsin, at a time where everybody had the impression that anyway something else will come afterwards. And, of course, it was not indispensable to pay taxes. And a kind of culture, we see that in other parts of the world, namely to have as a national sport not paying taxes, developed very rapidly. But where are we now, and I come to your question. We have a three-year program with them, an extended Fund facility program for which we have risked $10 billion of IMF money covering the years '96, '97, '98 and part of '99, whose objective is to bring this country to truly a full-fledged market economy, an economy standing on its own feet and being able to go to the market hopefully without the need of being, to having the seal of good conduct of the IMF and being on their own. This program is going on well. Last year, of course, was difficult for the reasons I have told you, but they have made enormous heroical efforts to say the course in the monetary field, in the budget field. They weren't able to do that perfectly in the budget field. And developing an important program of structural changes as you have heard a lot. This year we have concluded an agreement covering the second year, 1997. We signed that in Moscow last March. And the program is being implemented pretty well in all fields under our control. And you know that we have a monthly monitoring of their performances. On the monetary side, they have, the ruble is remarkably stable. They are reconstituting their reserves which were somewhat depleted during the crisis of last year. The interest, the price, deflation is continuing. Now they are down to a yearly 14%

average inflation which is still high, but much better than the 2,000 a year in which they were not long ago. And they are going to single digit by the end of this year. And in the budgetary side, both for expenditure and for revenues, they are complying with the program. As a matter of fact, they are over-performing a little bit. They have tremendous fight with the Duma, as you have possibly heard or read in the press, but government is very clear. He will not feel obliged by the Duma to spend beyond the limits agreed with us. And they are putting the proper pressure on the Duma to vote a new tax code which would allow to broaden the base of the tax regime to simplify it, to make it more transparent, and indeed easier to deal with for investors. So, so far so good. Still a lot remains to be done but I must tell you that I am impressed by the quality and the determination of the new team, and Prime Minister Chernomyrdin, and the two Deputy Prime Ministers, Mr. Nemtsov and Mr. Chubais.

CHAIRMAN WILLIAM J. MCDONOUGH: Jim, I think we're going to run out of time. In fact, we have just about run out of time. Our two questioners asked such profound questions that the answers had to be full. In fact, the World Bank also has a very important role to play in Russia. So I think we will end our session by asking Jim Wolfensohn to tell us about that.

THE HONORABLE JAMES D. WOLFENSOHN: Thank you Bill. We work in tandem with the Fund, and I share Michel's appraisal of the new economic team with whom I've spent also a lot of time. What might interest you is one aspect of the transformation of a transition economy. Under Communism and Socialism, all the social needs are met. There is some form of health care. There's some form of education. There's some form of pension. There's some form of kindergarten. There's some form of everything because that's the nature of Socialism. And much of it was given in rather uneconomic ways through state companies which come the market system we are now seeking to privatize. And we're now seeking to make them efficient so people are out of their jobs and a lot of the transfer systems that there were previously are no longer there. And the result is that the pressures which have emerged in Russia have essentially been pressures for social payment. And we at the Bank have just agreed a $6 billion program for the next two years, 90% of which is for social expenditures – the conversion of the coal industry, social adjustment loans, allowing pensions to be paid, allowing back salaries to be paid. These are the issues where we can come in alongside the Fund in terms of the work that the Fund is doing to set that overall framework. And I have to say that I think this partnership is now working extremely well in terms of us assisting on the social and the human side and the development side in everything from agriculture to health and education. And I think I would only endorse what Mr. Camdessus said which is that we have a high degree of confidence in this team and we all feel a very great commitment to assist Russia in its transition and we look forward to their success.

CHAIRMAN WILLIAM J. MCDONOUGH: Well, please join me in thanking our two very important speakers. (Applause) We will now adjourn the official part of our lunch. We hope very much that you are able to stay and enjoy the rest of your lunch. We look forward to your attending the very busy schedule that we anticipate having for you this coming fall. Thank you.