



LARSON ON THE GLOBAL ECONOMY

Alan Larson,
Under Secretary of State for Economic, Business and Agricultural Affairs;
interview for the Department of State,
Washington, DC, September 14, 2000

Q: The International Monetary Fund (IMF)/World Bank annual meetings give world leaders an opportunity to review the conditions of the world economy. How do you see the global economic situation?

LARSON: We've had a continuation of very strong growth in the U.S., improved performance in Europe, a recovery in many of the countries that were hit by financial turbulence in 1997 and 1998 and even some signs of growth in Japan. But this is not the moment to be complacent about global growth for at least two big reasons. First, in many, many countries the task of financial restructuring, corporate restructuring and economic reform is far from complete. I'm referring to East Asia, but there are other countries as well, including Russia, where vigorous progress on structural reform needs to continue and in many cases should be accelerated.

The second reason is the danger that high and rising oil prices could threaten global growth and the recoveries in countries that were hit by financial turbulence in recent years. It is important to make sure there is adequate oil on the market not only to meet current demand but also to replenish stocks that are quite low by historical standards.

The U.S. has been very active in discussing the importance of having adequate oil on the market to replenish stocks and to meet the needs of a growing world economy. The recent announcement that the oil-producing countries will increase production is an important step. It is going to be important for that to be fully implemented. At the same time, we have to keep a very close eye on whether even that is going to provide sufficient oil to meet the needs of a growing economy while at the same time replenish global oil stocks.

Q: Are the trade disputes between the U.S. and the European Union (EU) affecting the world economy?

(Puede reproducirse en Colombia.)

LARSON: We have an unusually large number of unresolved trade problems dividing the U.S. and the EU right now. I think it is very important for our relationship and for the overall atmosphere of the global trading system that we find a way to resolve some these conflicts. On September 13 we had a meeting of the Senior Level Group of the EU and U.S., which reviews the major issues and helps prepare for the annual U.S.-EU Summits where the President of the United States and the EU leadership meet.

I'd certainly like to think that by the time we have the U.S.-EU summit on December 18 that we will be able to solve some of these problems.

Q: Are there concerns about the euro and the status of structural reform in Europe?

LARSON: I don't have any comments on the euro. I do believe that for reasons that go beyond currency policy, it is very important for Europe, and for other countries, including the United States, to make real progress on structural reforms. I was encouraged by initiatives coming out of some of the European summit meetings this spring focusing on deregulation, progress in telecom and electric power and the like. For the Europeans to reap the benefits of the New Economy, which carries with it the potential for higher productivity rates and much more efficient and productive economies, their economic structures must be made more flexible and adaptable. Certainly that flexibility and adaptability has to be present in those parts of the economy that support electronic commerce: telecommunications, but also for air parcel delivery, air transportation regimes, customs and things of that sort.

Q: And Japan?

LARSON: A strong, growing Japan is very important for the Japanese people and for the rest of the world economy. A world in which the U.S. is growing at 4% or 5%, and Europe is growing at 3% and where Japan is growing at 1% or less is a world where there is a serious risk of imbalances. Even if Japan grows between zero and 1% annually, is that adequate over the long run? My guess is no.

Q: Turning to the IMF/World Bank meetings, can you comment on how to approach the issues of development and poverty?

LARSON: The international community (in the context of the Okinawa (Japan) G-8 meetings, the United Nations Millennium Summit just held in New York, and the World Bank and IMF meetings earlier this year) is making a very strong commitment to support development and poverty reduction. In this effort, economic growth is a necessary, absolutely necessary, but not sufficient condition for poverty reduction.

We also support the recent emphasis on what President Clinton calls investing in people. This means investments by the international financial institutions and the multilateral development banks as well as by bilateral donors and by the countries themselves on basic education, including education for girls. It also means devoting adequate resources to health issues, including

communicable diseases, and particularly HIV/AIDS. In many African countries the HIV/AIDS epidemic has reached such a proportion that it is not only an humanitarian disaster, but also is something that has a measurably negative impact on the overall performance of the economy because there are not enough healthy, productive workers.

In addition to those issues, we support the emphasis on governance, accountability and transparency. These are absolutely essential for an effective poverty reduction strategy.

We also believe that participation in the global economy by countries at all levels of development is the most plausible path for the reduction of poverty because it is the most plausible path for sustained high levels of economic growth. To eradicate poverty, it is very important to have an increased emphasis on openness, free trade and giving all countries, and the citizens in those countries, the tools they need to participate effectively in the global economy.

Q: One problem that has confounded development programs is the number of armed conflicts going on in regions that most need outside assistance. How should this issue be approached?

LARSON: Regrettably, one of the biggest challenges right now for the international community is dealing with the relationship between conflict and development. We put significant focus in the G-8 deliberations in Okinawa (Japan) on conflict prevention. Conflicts of the sort that have become too prevalent in Africa have imposed a terrible cost on the people. They have also very significantly disrupted the development process in a lot of these countries. Broad-based participatory development can tend to reduce conflicts and the World Bank, working with others, can, by promoting participatory development, contribute to conflict prevention.

There is also a very important set of issues about how one emerges from conflict and makes the transition from relief to recovery. The World Bank also has a role in that, but many other organizations including some affiliated with the UN, for example, relief organizations and technical assistance organizations, also participate. Getting a sharper understanding of the respective roles and responsibilities in post-conflict situations will be an ongoing subject of discussions at this and future meetings.

Q: Will countries that are involved in conflict continue to get IMF/World Bank assistance?

LARSON: There is no cookie-cutter answer to this sort of question. I don't think anyone wants to see international assistance subsidizing conflict. In the U.S., we don't provide and don't support assistance in cases where there is excessive military expenditure or where there is a lack of transparency about the military budget. On the more positive side, we have given increased support for democracy, the rule of law, and other things that we believe reduce the potential of conflict. At times, with the support of the U.S., the international community has delayed action for certain types of assistance because it appeared that, if provided at the time it was scheduled, it would have either financially supported conflict or have been perceived politically as acquiescing in conflict. One thing is absolutely clear. Poor countries that have an interest in improving the lives of their citizens can't afford to be gratuitously engaged in conflict outside their borders. The

developmental cost for this is high and is paid over a long period. Years and even decades of progress has been reversed in some of these conflict ridden countries.

Q: What is the status of the Heavily Indebted Poor Countries (HIPC) debt relief initiative?

LARSON: The HIPC program is in place. The pace of implementation depends in large part on the countries that are its potential beneficiaries. The countries must develop their poverty reduction strategies and pursue reforms under their programs with the IMF and World Bank. It is our goal to see as many of them complete the process of debt reduction as possible.

President Clinton, Secretary of State Albright and Treasury Secretary Summers have made adequate financial support for debt reduction a very high priority for the U.S.. All have been strongly lobbying for it in the U.S. Congress.

Q: There has been some debate over the proper roles of the IMF and the World Bank. Do they need to be more carefully defined?

LARSON: The IMF and World Bank clearly have distinct goals and distinct responsibilities. The IMF's primary mandate is the promotion of financial stability. The World Bank' job is basically to promote development. There are many, many areas where they can and do work together.

My biggest focus for the Prague (Czech Republic) meeting is to make sure that the institutions and the major stakeholders in the institutions are focused on the ultimate goal of development and poverty reduction. We need to make sure that development works for ordinary people in the developing world. That requires a broad consensus on a basic strategy. The strategy should include a commitment to help developing countries be equipped to benefit from globalization.

This meeting should be an occasion to continue to build consensus for a strategy that can help achieve our poverty reduction goals. A lot has been accomplished in the last 20 years. Literacy is up and infant mortality is down. Longevity is up. The amount of food calories available around the world is up. But even with this improvement, there are still more than a billion people living on less than one dollar a day. The point is that more progress can be achieved if you follow the right path and the right policy.

Q: The U.S. supports continued IMF involvement in poverty reduction.

LARSON: Poverty reduction requires more than just development assistance. If a country has a misguided fiscal policy that can undo any poverty alleviation made possible by the development assistance. If a country is isolating itself from the global economy and is not participating effectively in globalization and international trade and investment it is unlikely that it can wage an effective fight on poverty. A focus on poverty requires pulling together strains of trade, investment policies and fiscal policies.

* * * * *