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Rotberg--

Thank you David, I will apologize to those in the audience who might hear today, some of the things that I said last night. I don't mean to imply that I'll reverse mys... completely, but I'll try not to duplicate too much. Let me start off with a very basic premise, my own bias is simply that right now the international debt contition, I won't use fancy words like crisis, is one of those issues, which in my own view, if things continue as they now are, will be the direct immediate cause for political instability i[illegible]tin America, the weakening of emerging democracies, the movement of countries to the far left or to the far right, an increase of drug exports as countries with fragile political systems are faced with an untenable choice at this time for their future. Why untenable? Untenable, because if a head of state decides to pay all the debt service and decides to pay the interest without any increased resources i[illegible]e form of equity or lending from the private sector outside his borders that person will be deposed and will not be able to maintain political power because the party out of power will find the inexorable pressure on the poorest people in that society such that it will one way or another through democratic or non-democratic forms take that group and say to them you are financing New York City banks, one [illegible]y or another get rid of those who put you into that position. If on the other hand that head of state decides not to pay unless new resources are made available to facilitate that payment then too it is an untenable choice because trade lines will get cut, short-term credit facilities, imports will dry up and in perhaps a month or two countries fall apart, witness Peru, and the country goes into a v[illegible] quick decline of high unemployment, massive inflation, as the pieces are not typically in place in the country to prevent the inexorable flight of the little bit of capital that is left. As you know, I take the position that new money is needed for growth and the situation is destabilizing now and fast. I do not believe however that the choice is exactly as Hans has just put it. The choice as just presented is case by case basis on one hand versus debt forgiveness on the other. Once the issue is framed that way certainly it is easy to say that little can be done and we can pretend it is therefore an insoluable problem and pretend that things are getting better. There are a whole range of potential intiatives and solutions which do not involve debt forgiveness and do not involve as is or case by case basis which too often is often used as an excuse for no new iniative of the multi-lateral agencies. Yet, the truth is, that nobody in this room is likely to be held accountable for not taking iniatives which could diminish the likelihood of the litany of unhappy occurrences that I mentioned a few minutes ago. As we all know, whether we are in po[illegible]cs or live in Washington or don't live in Washington, or live in or outside the United States, there are very few gold stars awarded for taking steps whose only visible positive effect is found in the result that untoward events don't occur. Invisible goodies don't produce gold stars. And if things continue without a country falling apart in Latin America without a country moving to the far left or far ri[illegible] and if one can claim I did something to prevent that from happening there's no gold star. And if indeed a country does fall apart, there are few who will criticize any of us here for not having done five years or ten years ago those things which would have tended to prevent that from happening. It's simply hard to get credit for bad events which don't happen. It's also, I suspect, particu[illegible]y difficult to fashion a solution when it's not likely to fully satisfy everyone where risk and pain second will be visible and third where any perceived failure called the existence of something will be criticized. Most solutions, which require very subtle analysis do require pain, risk, hurt, with a great deal of potential for failure. It is not unreasonable to say that under those conditions few of us are willing to take the chance. The problems made not easier by the fact that no one has (a) been given the mandate or (b) has chosen to take the mandate to allocate that pain and risk so as to what will be far worse outcomes down the road. In coming up with what I call more subtle solutions, is also made more difficult beca[illegible] the major player, the United States, is in a somewhat social psychic funk. It has lost power. When one loses power it is embarrassed. When the loss of power is embarrassing, it is very hard to admit it to oneself and it is particularly difficult to wake up in the morning and realize that you no longer have the leverage the power the money the skills the intellgence the desire the freedom to iniate let along dictate a change. Because there are other major players in your own society and the world has changed and it is almost embarrassing to admit that the world has passed you by and you no longer have all the marbles. You certainly can't admit it during an election year. So, for yet another reason it is very hard to get a responsible cabinet member to say let's do it this way when he knows that the is going to be pain, visible, it may not work, and there are consitituencies no longer under his control. I said before last night and other times, that a solutions must deal with the honest concerns of the various constituencies, but the sheer pain can't be so high either in quantitative terms or in terms of what is decent and proper public policy that it will be rejected by one of the major players. It be subtle enough, that although there is the risk of pain, it won't cause any of the major constituencies to pull out. It's been said for example, that the World Bank ought to take it over. World Bank ought to buy the debt out take the losses and take the risks and it should act in a more catalytic role. I can only say in response that it is a bit of a naive understanding of the way the world works to attribute the failure to solve what I do think is an international debt crisis. A crisis derived from a very complicated set of political, social financial relationships to the managerial inefficiencies of the World Bank. That place is not a magic institution. The programs and adjustments that have to be imposed, that's the straight word, in a developing country by the banking fund [illegible] very tough, very painful, very difficult, involving the fundamental social structure of nation states that 6,000 staff in Washington have very tenuous control over. There are no quick fixes, nor is there a quick financial fix. The World Bank and the IMF are not magic institutions. Neither particularly the bank, doesn't have a printing press. It can't print dollars. It has to go out to a hundrea und five billion dollar balance sheet. In my life, I've raised a hundred billion dollars of that money. Over a twenty year period. The money comes from insurance companies, pension funds, and a lot of people who simply don't want their money taken to take care of commercial bank mistakes in the 1970's and the 1980's. Otherwise, they are not going to [illegible]ance the place. It's not the US taxpayer money, it's the private sector institutional market. They'd buy the bonds, and the moment they'd perceive that that money was going to be used to take care of Hans, they wouldn't buy the bonds anymore. It's just that simple. There's no magic to the institution. The World Bank is owned by governments, that's all. It's not financed by governments. The US government in [illegible]ty some years has put into the World Bank 1.7 billion dollars.

Out of a hundred and five billion dollar balance sheet. That's it. They got the votes, but it's not their money. The money comes from a guy at Metropolitan Life Insurance Company, the Texas State Teachers fund, or the New York City Pension Fund, who decides to buy the bonds and nobody makes him do it, and he's not about to let his money tak re of what he considers to be a banking problem. Some objectives: very straight. Again, as I said last night, my own agenda. By my own I mean, is it everybody's--no--is it the only agenda--no. Very straight forward. One, new lending to LDC's, by new I mean that amount which helps them stand the negative cash flow out of their countries. Two, new lending from commercial banks. Three, LDC's remain politi y viable. That means that whatever the quote solution, however you get to cause commercial banks to voluntarily want to lend more it doesn't prompt a collapse of fragile political processes in the developing world. Fourth, banks by lending new money still can afford and attract capital with the prospect of earning a reasonable term. In other words, when a bank begins to increase its lending to an LDC because of the financial engineering which I will not describe here, the banks don't find their stock falling to pieces. Fifth, the solution is not in fact though it is perceived as bailing as anyone out. That's for the US Congress. As I indicated last night in the popular society, banks shouldn't be taking care of the United State From a Congressional point of view, for their bad loans to real estate operators, bad loans to energy producers, bad loans for tankers, and bad loans to farmers, they're not going to be taken care of by congressional action. Because of bad loans to foreigners. There is no political constituency in the United States, one for nine money center New York City banks, there's a lot of constituency for banks in Iowa and Oklahoma and Texas. And three thousand SNL's who ... money for housing. That constituency does not exist for a few banks domiciled in New York and Chicago who lend money to a few foreign countries who (a) vote the wrong way in the UN it is perceived, (b) dump products in the US (c) ship drugs. That's not a political constituency. And the US Treasury knows it. The State Department knows otherwise, however, the stakes at risk. So it's got to be politically workable and politically practical. That means accounting professionals, stock holders, legislators, and industrial countries and a broad range of the body politic in the LDC's find it fair. The fact is, it doesn't take any great financial expertise or wisdom to implement techniques which would cushion past or future commercial bank loses protect them by fiat through taxes or through the Fed or through other entities which would cushion any further loss on the LDC's. Though those measures simply would raise political as well as significant public policy questions to my own mind. It would send bad signals, but the techniques are available. They should not be implemented, I do not believe that the taxpayer politically will take it, .. think it's bad public policy. For taxpayers or the call-aple capital of the World Bank to stand behind future lending. It is far more difficult however to fashion an initiative that would encourage commercial banks to lend voluntarily without creating the political problems on the hill or in at the Treasury or destroy the World Bank in the process. It can be done, it involves however, the Bank itself [illegible]ing the go ahead to take the mandate to fashion that iniative. My ex-colleagues at the Bank, my guess is, it would take them no more than eight weeks to come up with a plan which would protect the US Treasury, protect the US taxpayer, provide credit enhancement for commercial banks for increased lending, and not jeopardize the World Bank call-able capital. It would take them eight weeks, that [illegible] all. And you would get new lending to LDC's. But the most difficult challenge is the one that hasn't been described in the last several days, and that is to fashion not a financial solution, that's child's play, that's easy stuff. Even the politics of how you create a financial structure which the major political entities will accept, but it's how you fashion now days a solution which will encourage developing countries to make very difficult structural adjustments in their own economies with the prospect that by so doing new funds will be available from the commercial banks because its financial solution, its financial engineering will work. From their perspective, the results of belt-tightening are quite uncertain, their poli[illegible]l systems are fragile, the atitude of the external w ... to their condition is who are these people. There is no perception that what goes on in Mexico and Brazil and Chile and Argentina really affects our lives. The American public does not really function with the understanding that a million jobs have been lost in the United States alone because of the drop of exports of the United States to Latin America, below that which would have occurred had they sustained the growth of the late 70's. Much of the debate obviously focuses on the question of whether the wisest thing to do is to directly or indirectly just cut the amount of debt service and hope the countries can grow out of it. As you know my own view is that is not a viable scenario because it shuts off new money. When you shut off money, you shut off not only hope, you shut off funds for growth, you shut off investment, you doom that nation to sterility for a long period of time. My own view is that it is politically unwise right now, although from what I've heard over the last day or two, many of the LDC's apparently prefer that approach. I took a show of hands last night. Answers were, I think, ambivalent. Most LDC's, th ...uth is, if you said to them you've got a moratorium, you've got some kind of debt forgiveness, we've reduced the debt from 80 billion to 50 billion, or we reduced the interest rate from 8% to 4%, even though it is not being paid now, but we have forgiven you, we have blessed you, as Jim Burnham said, "Gene, that's not a theological question, it's a religious one." He's right. If you said that to them, and said you know you're not going to get any more new money now, you've had it, they would say, it's okay, we've been forgiven. From a financial point of view. And the head of state goes back to his people and says we have been forgiven, I have cut our debt service in half, even though he hasn't been paying any of it for the previous five years. The language forgiveness gives him all kinds of vo And so many would prefer forgiveness to new money, even though it wouldn't change the financial cash flow one iota. There is uncertainty and great debate as to which approach is the wisest one. New money or reduction of old debt, and as you know, the argument that I made last night is that new money which is targeted, focused, linked to productive enterprises simply gives you more leverage in the development process. I opt for that school which would not put the LDC's in the sink or swim category which is debt forgiveness. Because that means no new money. Let me summarize quickly, I believe that the polls are not business as usual, case to case, or one side debt forgiveness on the other hand. I think it should be six points, one, a new facility two, no liability through a new facility for US taxpayers; three, no use of IBRD capital; four, credit enhancement through the new facility, which is owned and bought in part by the twenty-two billion dollars of liquidity of the World Bank; five, no bail-out for the banks. If they tend to take a guarantee, and they exercise that guarantee, they are going to have to re-lend the money right back to the World Bank at Treasury Bill rates, an opportunity loss, therefore, not a visible accounting loss; fifth, case, by case basis, it's a global concept but you apply it case, by case for each country, because you get the last piece of it, you target for each country a specific package of loans, commercial banks, IMF, and World Bank, guarantee parts of the principal by the affiliate only if that project produces high rates of return or the reforms that are made consistent with economic growth. Is it perfection? No. Is there still a lot of pain? Yes. Will everyone buy it? No. Are there losses involved? Yes. Are there potential losses involved? Yes. Is it fair? I think so. Will it do what it is supposed to do? Giving people a chance for their futures by bringing in new external money? I think so. Is it better than what we are now doing, which is nothing? Yes. Will we be blamed if we don't have an iniative? No. No one will hold us accountable if we leave things go as is. If things fall apart in Latin America and the US subtlely begins to lose a major trade partner and if we have more troops that have to go into some country, will we say that's because those children lost hope. Will we be held accountable? [illegible] Should we be? Yes. I define success for any iniative as that which avoids political instability now in LDC's and simply in those countries facilitates the sense that those people feel their lives are worth living and that their children are not forgotten. In my view, that is not the case now. And to me that is a very simple, operational, functional definition of a debt crisis. As our ne[illegible]ors, tens of millions of people on our borders feel hopeless with little positive prospect for the future or a sense of expectancy in their lives. They are driven to extreme positions. That is not a healthy environment anywhere, and certainly not on our borders. Let me summarize in one sentence. What must be done is the implementation of some kind of iniative which is specifically workable po[illegible]cally and which is designed to break the impasse which now exists between the United States government and parts of the United States government, because there is a split between the controller, the fed, the Treasury and the Department of State, and the commercial banks, the LDC's and the multi-national agencies and the regulatory agencies. Because each of those constituencies only puts up a solution which solves totally their problem and dumps the pain on one of the other constituencies. What's needed is some breaking of the impasse of those constituencies. I'm convinced that's has got to be done. Thank you very much.