

**NOMINATION OF LAWRENCE H. SUMMERS**

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**HEARING**  
**BEFORE THE**  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
**ONE HUNDRED THIRD CONGRESS**  
**FIRST SESSION**  
**ON THE**  
**NOMINATION OF**  
**LAWRENCE H. SUMMERS TO BE UNDER SECRETARY**  
**OF THE TREASURY FOR INTERNATIONAL AFFAIRS**

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MARCH 18, 1993

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Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

67-167—CC

WASHINGTON : 1993

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For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-040815-6

5361-31

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# CONTENTS

## OPENING STATEMENTS

	Page
Moynihan, Hon. Daniel Patrick, a U.S. Senator from New York, chairman, Senate Committee on Finance .....	1
Bradley, Hon. Bill, a U.S. Senator from New Jersey .....	2
Baucus, Hon. Max, a U.S. Senator from Montana .....	5

## COMMITTEE PRESS RELEASE

Confirmation Hearing for Lawrence Summers Scheduled .....	1
---	---

## ADMINISTRATION NOMINEE

Summers, Lawrence H., Under Secretary designate for International Affairs, Department of the Treasury, Washington, DC .....	5
--	---

## CONGRESSIONAL WITNESS

Kennedy, Hon. Joseph P., II, a U.S. Senator from Massachusetts .....	3
--	---

## PUBLIC WITNESS

Perkins, Jane, president, Friends of the Earth, accompanied by Brent Blackwelder, vice president for Foreign Policy and Programs, Washington, DC .....	24
--	----

## ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Baucus, Hon. Max: Opening statement .....	5
Bradley, Hon. Bill: Opening statement .....	1
Hatch, Hon. Orrin G.: Prepared statement .....	33
Kennedy, Hon. Joseph P., II: Testimony .....	3
Moynihan, Hon. Daniel Patrick: Opening statement .....	1
Prepared statement .....	34
Perkins, Jane: Testimony .....	24
Prepared statement with attachments .....	35
Summers, Lawrence H.: Testimony .....	5
Prepared statement .....	98
Responses to questions submitted by:	
Senator Riegle .....	100
Senator Packwood .....	102
Senator Dole .....	104
Senator Roth .....	106
Senator Grassley .....	108
Senator Boren .....	111

## COMMUNICATIONS

Greenpeace .....	114
Sierra Club .....	117
Washington Office on Africa .....	141

# **NOMINATION OF LAWRENCE H. SUMMERS TO BE UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS**

**THURSDAY, MARCH 18, 1983**

**U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, DC.**

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the committee) presiding.

Also present: Senators Baucus, Conrad, and Chafee.

[The press release announcing the hearing follows:]

(Press Release No. H-6, March 16, 1983)

## **CONFIRMATION HEARING FOR LAWRENCE SUMMERS SCHEDULED**

Senator Daniel Patrick Moynihan (D.-N.Y.), Chairman of the Senate Committee on Finance, announced today that the Committee will hold a confirmation hearing on the nomination of Lawrence Summers to be Under Secretary of the Treasury for International Affairs.

The hearing will begin at 10:00 a.m. on Thursday, March 18 in room SD-215, Dirksen Senate Office Building.

## **OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN, SENATE COM- MITTEE ON FINANCE**

The CHAIRMAN. The hour of 10:00 o'clock having arrived, our hearing would normally proceed, but a nominee has new arrived. So the hearing will stand in recess for a few moments.

[Whereupon, at 10:01 a.m., the hearing was recessed.]

## **AFTER RECESS**

The CHAIRMAN. A very good morning to our guests and our distinguished nominee.

Senator Bradley is here. And I believe Representative Kennedy will be here shortly. I mean, Ambassador Kennedy will be here shortly. [Laughter.]

Ambassador Kennedy is here.

May I take the occasion of welcoming Mrs. Summers to our hearing room. We are very happy that you are able to join us this morning.

Senator Bradley, if you would like to lead off?

**STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM  
NEW JERSEY**

Senator BRADLEY. Thank you very much, Mr. Chairman.

It is a pleasure to be sitting on the other side of the table today and to have a chance to introduce my friend of many years, Larry Summers.

I have followed his career with great admiration. He clearly is one of the most respected economists of his generation.

He has had a brilliant academic career: a Professor of Economics at M.I.T. and Harvard and an author of three books and numerous impressive articles.

In addition to his brilliance as a theoretical economist, he has also demonstrated a deep commitment to public service at the Council of Economic Advisors, as advisor to numerous governments around the world, and most recently, as Chief Economist for the World Bank.

And I might say, Mr. Chairman, all of this took place before he was 40 years old.

Now, President Clinton and Secretary Bentsen have asked Larry to apply his learning and thinking to some of the most important issues of our time. Economic issues are increasingly international. And more and more economic matters are at the forefront of international affairs.

We can no longer make economic policy here in the United States without considering what is happening in Asia and Europe and elsewhere around the world.

As President Clinton noted in his speech to the American University last month, the distinction between what is domestic and what is international is quickly disappearing.

With the fall of the Soviet Union and the end of the cold war, the importance of economic questions has become even more apparent.

Unprecedented challenges confront us today. We need to reinvent the mechanisms for international economic cooperation, find ways to support the transition to democracy and free markets in Russia and the other republics, and renew our commitment to help the developing world join the modern economy and do so in ways that are sensitive to the relationship between development and the environment.

We need to conclude our two major international trade agreements, the NAFTA and the GATT, which will provide the framework for our trading relationships as we enter the 21st century.

This is a tall order and a very lengthy and complicated and important agenda, but I believe Larry Summers is uniquely qualified to help us meet these challenges.

Larry will be a great asset to this administration. He is a clear and brilliant thinker. He asks hard questions and offers frank advice. He is a forceful advocate for his positions. It speaks very highly of our former chairman and colleague, Secretary Bentsen, that he has chosen Larry for this position.

I frankly can think of no better person for this job. I think the country will be well served and that we are very fortunate to have him in the position he is at this time. And I hope the committee will move quickly to confirm him and the Senate as a whole.

The CHAIRMAN. Senator Bradley, clearly, he has your vote.

Senator BRADLEY. I think so. I mean, barring any development in this hearing that you might uncover through your questioning, I think that he will definitely have not only my vote, but my enthusiastic support both now and during his tenure.

The CHAIRMAN. He could scarcely have a better advocate from your committee.

And Representative Kennedy, good morning, sir. And we are very happy to have you here.

**STATEMENT OF HON. JOSEPH P. KENNEDY II, A U.S.  
CONGRESSMAN FROM MASSACHUSETTS**

Congressman KENNEDY. Good morning, Mr. Chairman and Mr. Baucus.

It is a pleasure to be here. It really is a great honor to be here to—and I was delighted when my good friend Larry Summers called and asked to give me this great honor to introduce him this morning.

Like Senator Bradley, I have known Larry for a long period of time. I think his work on our Nation's economy as well as international economics is really second to none.

Sometimes I think if economics were a little bit more like baseball, it has been said that Larry can pitch, catch, and play center field, really, any position on the field, if you need him.

He has been a brilliant economist. Two of his uncles, as a matter of fact, both Paul Samuelson and Kenneth Arrow, have won Nobel Prizes in economics. And someone who hopes that if your uncles did well in a particular line of work that maybe that rubs off a bit. [Laughter.]

I think this will stand him in good stead.

Despite all of the honors and accolades that he has had, in fact, being one of the youngest professors of economics in our country's history, the Nathaniel Ropes Chair at Harvard when he was still in his twenties.

People understand what he is talking about. He has a tremendous ability of working with people from very diverse and divergent perspectives.

I have seen him in a number of instances, whether it be working with people in the Third World or working with some of the best brains at Harvard and M.I.T.

He really has a unique and I think tremendous capability of bringing out the best in those whom he works with.

He has been very committed to development in the Third World and in improving people's lives. He is knowledgeable, again, about how to get our economy moving again.

And as much as I want to see him involved in Third-World development, I hope that we also can take advantage of his willingness to take on tough issues.

Long before it was in vogue for Democrats to advocate for business development and tax breaks, Larry had done yeoman's work in the vineyards trying to make this an issue that many of us have since taken as main line and center stage Democratic policy.

I think his work on public finance and labor markets gives a blueprint for economic development both here and in the Third World.

He has been an independent thinker, a leading advocate of the investment tax credit. And I think his work has really been second to none in that field.

I just want to end by saying that he has one more and even perhaps a greater accomplishment in the area of productivity. And the fact that he happens to be the father of twins. And the fact is that I am as well.

And I think he has actually got one more on the way here. Or have you already—

Dr. SUMMERS. No. On the way.

Congressman KENNEDY. On the way.

In any event, I highly recommend him, Mr. Chairman and members of the committee. I think he will do a great job for this country. I think he will do a great job for the Third World. And I think that that holds the future for America.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Now, let's see. You say that the nominee is directly related to two uncles who have been Nobel laureates. He has produced a set of twins and has a further offspring coming, but you're not recommending him for breeding purposes? [Laughter.]

Congressman KENNEDY. Well, he might be good at that, too, Mr. Chairman. I do not know what the range of this committee's jurisdiction is. [Laughter.]

The CHAIRMAN. We shall explore that matter no doubt.

Thank you very much, sir.

Congressman KENNEDY. Thank you very much.

The CHAIRMAN. We appreciate both of your statements.

And Dr. Summers, I will make just a very brief opening remark to say that Mr. Kennedy's references to your work in the Third-World development leads me to say that we would be interested, I am sure the committee will be, to hear any thoughts you have on what is a new subject in American development policy which is to take that not very illuminating usage that the French developed about a First World and a Second World and a Third World, to discuss the question of development efforts by the West in the former communist regions of Eastern Europe and the former Soviet Union itself.

Now, that is a new subject which we have only just begun to discuss. And I know it will be very much on your mind. And we look forward to any thoughts you may have.

I have a statement which I will put in the record at this point.

[The prepared statement of Senator Moynihan appears in the appendix.]

The CHAIRMAN. And Senator Baucus, you were here brightly and briskly. And we welcome you, sir.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR  
FROM MONTANA**

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Chairman, I very much welcome the nominee. I have known Dr. Summers for a good number of years, not quite as many as Senator Bradley and others in the State of Massachusetts.

But in the years I have known him, I have been very, very impressed with him, with his intellect, with his perception, and more than that, with his sense of commitment and service to our country.

I think when you go into teaching, essentially, you are trying to educate people. You are trying to seek the truth and further the world's and even one's own community's understanding of a certain issue. And that is ultimately service.

And I think service, Mr. Chairman, in all of its many forms, whether it is service to families, service to communities, service to church, whether it is public service, is a most noble human endeavor.

I very much commend you, Dr. Summers, for all the years you have been serving and dedicating all your talents to that effort.

I think the President made a very wise choice.

The CHAIRMAN. That seems to be unanimous so far.

Senator Chafee, would you like to make an opening statement?

Senator CHAFEE. No, thank you. Thank you, Mr. Chairman.

The CHAIRMAN. You are very kind, sir.

Dr. Summers, Mr. Secretary-designate, the hearing room is yours.

**STATEMENT OF LAWRENCE H. SUMMERS, UNDER SECRETARY-  
DESIGNATE FOR INTERNATIONAL AFFAIRS, DEPARTMENT  
OF THE TREASURY, WASHINGTON, DC**

Dr. SUMMERS. Thank you very much, Mr. Chairman.

I am sure my mother believed all those kind words that Senator Bradley and Congressman Kennedy said. And I hope you will as well.

Mr. Chairman and members of this committee, I welcome the opportunity to appear before you today as President Clinton's nominee to be the Under Secretary of the Treasury for International Affairs.

If I am confirmed, I will look forward to serving President Clinton and Secretary Bentsen and to working with you and your colleagues in the Congress to promote and defend the economic well-being of the United States.

President Clinton has committed his administration to a policy of engaged, enlightened, and hard-headed economic internationalism to go along with his program of domestic renewal.

We are living in an era of increasing global economic interdependence, where national economies are interconnected as never before, and domestic and foreign policies are inextricably linked.

Truly, the nations of the world have the opportunity to grow and prosper together or stagnate and scapegoat apart.

The Under Secretary of the Treasury is charged with helping the President and the Secretary to design and implement American international economic strategy.

The Under Secretary's responsibilities include policy in such areas as international macroeconomic policy coordination, exchange rate coordination, trade and investment, debt strategy, and U.S. participation in international financial institutions.

There are many aspects of the job, but what I would like to do this morning, Mr. Chairman, is outline for you four critical policy areas that will be at the top of my agenda if I am confirmed.

First, we must improve macroeconomic coordination between the United States and its G-7 partners.

The U.S. economy is likely to grow far more rapidly than the economies of Europe and Japan over the next year or two.

While we can take satisfaction from our recovery, slow growth abroad means slower growth for U.S. exports. And it means rising trade imbalances.

Secretary Bentsen has taken the initiative to revive the policy coordination process. The President's economic program has brought the United States new respect in the international economic arena. And it will strengthen our hand in encouraging our major trading partners to take complementary actions to strengthen growth in their own countries.

The Secretary began this effort at the London meeting last month. And both he and the President have made it clear that they hope and expect to see real progress in putting measures in place for increased growth in Europe and Japan by the time of the Economic Summit in Tokyo.

Second, we must work to promote international economic integration and to ensure that its benefits are fairly shared among nations. There is no viable alternative.

As President Clinton said at American University, the United States must compete, not retreat.

This means that we must promote exports because exports are the path to economic growth and to the creation of better jobs in the United States. For America to expand exports, foreign markets must be opened.

Good Uruguay Round and NAFTA agreements will make a major contribution to the health of our economy and to that of our trading partners.

Concluding trade treaties is not enough. Where serious barriers to U.S. exports remain, we must vigorously enforce existing trade law to remove them.

Trading practices of those nations that run chronic and increasing surpluses with most regions of the world are obviously of particular concern.

If confirmed, in line with responsibilities of the Treasury Department, I will place particular emphasis on promoting financial market liberalization.

Our financial institutions are world class. They will succeed where they are given the opportunity to compete.

I will also work to ensure that American firms are not victimized by exchange rate manipulation. And Treasury will insist that, just as our market is generally open to foreign friends who wish to invest here, foreign markets will be open to American investment.

Third, this is the point, Mr. Chairman, that you highlighted in your opening statement. We must do what we can to ensure the success of Russia's democratic and economic reform effort.

Political scientists offer this critical lesson of history. Democracies do not make war on each other. To this important political science maxim, an economist would attach a critical corollary: democracy cannot survive hyper-inflation. These twin truths are overriding considerations when we confront America's interests in securing the success of the embattled reform effort underway in Russia.

Russia is perilously close to hyper-inflation. And unless its leaders can reassert macroeconomic discipline, there are real risks ahead.

The Clinton administration is already fully engaged in devising and implementing, in cooperation with our allies, an effective economic assistance package for Russia and the other states of the former Soviet Union.

The Treasury Department brings critical economic perspectives to the table, on matters concerning stabilization policy, debt, technical assistance, and economic restructuring.

The task of rebuilding the Russian economy is the greatest economic restructuring job since the Marshall Plan.

If confirmed, I will work under the President's and Secretary Bentsen's leadership, with the rest of the administration, and with the Congress, to ensure that the United States does all that it possibly can to support Russia at this historic moment.

Fourth, we must work to support sustainable and environmentally responsible development in the developing world. With 1 billion people trying to survive on less than \$1 a day, this is a moral imperative.

It is also an economic imperative as the developing world represents the fastest growing market for U.S. exports, and it is a security imperative as prosperous nations are most likely to be peaceful ones.

The Secretary of the Treasury is the U.S. Governor of the international financial institutions: the IMF, the World Bank, and the regional development banks. These institutions afford the United States extraordinary leverage. The World Bank, for example, has committed about \$220 billion to the less developed world over the last 40 years, while U.S. contributions to the bank have cost taxpayers less than \$2 billion over the same period.

But if these institutions are to serve U.S. interests in the less developed world, they must be much more than financial institutions. They must make a real, as well as a rhetorical, contribution to help the poor and protect the environment.

The Treasury will break with tradition to ensure that the U.S. representatives to these institutions during the course of this administration draw on the expertise of the environment and the development communities, as well as the financial community.

In his welcoming address to the employees of the Treasury Department, Secretary Bentsen said that as the Departments of State and Defense were the guarantors of military security during the cold war. The Treasury Department must be the guarantor of America's economic security in the post-cold war world.

It is a great privilege and honor to have been asked by Secretary Bentsen and nominated by the President to serve at Treasury during this critical time.

Mr. Chairman and members of the committee, if confirmed, I look forward to working with you. Thank you.

[The prepared statement of Dr. Summers appears in the appendix.]

The CHAIRMAN. Thank you, Dr. Summers, for a very concise and a very impressive statement. I am particularly pleased to hear your fourth point about the use of the international financial institutions, and that the Treasury will break with tradition to ensure that the U.S. representatives of these institutions draw on the expertise of environment and development in communities, as well as the financial community.

Can I just ask you, what in that sense do you mean by the development community?

Dr. SUMMERS. I mean those organizations that have been focused on, and advocates who have been focused on, the problem of poverty in less-developed countries; organizations that have focused on problems like hunger, problems like inadequate health care.

The CHAIRMAN. Now, surely, every new administration has been seeing the same old world anew and discovers the same things.

You do not mean to suggest that for the last 40 years since Bretton Woods, the World Bank has paid no attention to the issue of development?

Dr. SUMMERS. Oh, of course, not.

The CHAIRMAN. And acted rather like the Bearing Brothers?

Dr. SUMMERS. Of course, not. I was making a much more modest statement about the background from which the United States has typically drawn the people who have been asked to serve as executive directors and alternate executive directors.

The CHAIRMAN. Right.

Dr. SUMMERS. U.S. representatives to those institutions who most frequently have been drawn from the business and financial communities. I think it is very important in looking ahead that we draw people into those positions with a diverse range of backgrounds and interests. That is what the statement meant.

The CHAIRMAN. It is also the case, is it not, that the World Bank has never had a serious default, a major one? Or that it is well within the percentages of large banks?

Dr. SUMMERS. The bank has had occasional arrearages in its lending.

The CHAIRMAN. Yes.

Dr. SUMMERS. But the bank has been a very strong triple A credit and continues to be a very strong triple A credit.

The CHAIRMAN. Would you mind if one member of this committee said to keep it that way?

You do not get an almost half-century record of that kind—to put it in jeopardy—the bank has authority. And it is why it is there.

There are two things I would like to raise. First of all, on your third point which is the cold question of the success of Russia's democratic and economic reform effort, I hope we would be careful about our generalization of what is going on and how we characterize them.

You say to this important point that political science offers this critical lesson of history: democracies do not make war on each other.

And I have been watching that idea make its way around. And you and I are friends. And I have been, before your time, at times a colleague of the person who first wrote that paper.

And it may be that this will become true. Even that we can say this is a measure of how much we have forgotten how the twentieth century began and how the age of totalitarianism began.

The great war, the traumatic and final event of this century, what we call the first world war, was a war fought principally, not entirely, of course, amongst four nations which were by any standards of the time the most democratic nations in the world.

All four had manhood suffrage, had representative institutions, had good independent judiciaries. They were the triumphs of civilization. And they proceeded to slaughter each other.

So let's not let the propaganda of World War I about the Hun and this or that allow us to forget.

Remember, in the Third Republic in France, in the Britain of Lord George, in Germany of that time, and in the United States of Woodrow Wilson, you had surprisingly, surpassingly civil societies. And they slaughtered one another.

It is just that basic economists do not take those courses, right? [Laughter.]

Dr. SUMMERS. Senator, and if I might, Professor Moynihan, I would hesitate to try to get into an argument with you on a point of history or political science or government in private.

The CHAIRMAN. It is not an argument.

Dr. SUMMERS. And I would know better than to even to think about getting into such an argument with you in public. And I would surely know better than to get in any argument with the chairman of the committee that is charged with confirming me. [Laughter.]

The CHAIRMAN. That will get you nowhere. [Laughter.]

One question I want to get to. And then, we will hear from Senator Baucus.

And that is on this question of dealing with Russia. And, of course, when you speak of Russia, you will not forget about Belarussia and the Ukraine and Tadjikistan and Uebekistan and so forth. And you do mean them, I am sure.

Has the Treasury given any thought systematic or otherwise to the extraordinary miscalculation of the Central Intelligence Agency during the last quarter of a century as to the size and the range and the direction of growth in the Soviet Union generally?

In the history of economic estimates, there cannot have been—and I would like to hear you say if you think there has been because I would want to know—any instance of as massive a miscalculation as we made about the Soviet Union in the past, up until the last 2 or 3 years.

And those institutions still in place are going to be guiding us in the future. I mean, without protest from the Treasury, to the best of my knowledge, at the beginning of the 1980's, the United States intelligence agencies estimated the GDP of the Soviet Union at roughly three-quarters of that of the United States.

And Anders Aslund and others would say it was about one-quarter. You are off by a factor of three. And also, you are off by the absolutely qualitative difference.

Are you dealing with a growing super power or a declining underdeveloped nation? We thought the latter.

We prepared our military for an encounter with the latter. We ended up as the world's largest debtor. Treasury never protested that.

In 1986, for example, the CIA formally estimated and published estimates that the per capita GDP in East Germany was higher than West Germany.

Now, that would never pass Orwell's taxi drivers's test. I mean, get a taxi driver in Berlin and say, "Let me tell you. Drive around here and tell me which side you think is doing better."

And we did have Secretary Baker here at one point who said that he had some doubts about the Soviet Union being the third largest economy, but that is the closest we have ever heard of a query.

Do you agree that the estimates of those economies were massively wrong?

And two, do you have any better idea of how to make institutional arrangements to keep from being wrong in the future, as we have been wrong in the past?

I will just say, if we go back to the Draper Commission of 1957, those projections which pretty much stayed in place, across the river, would have the Soviet economy surpassing the United States economy this year, this calendar year.

What do you think?

Dr. SUMMERS. Senator, I agree completely with your assessment of the quality of those estimates. I think the only thing that can be said in defense of them is that the error made was not an error that was made uniquely in the CIA, but was fairly widespread in parts of the academic community.

I believe that error came——

The CHAIRMAN. That is, indeed, the case.

Dr. SUMMERS [continuing]. I believe that error came as a consequence of a kind of myopic emphasis on statistical measures of how much tonnage of stuff was produced without any attention to what the market value was of what was produced.

Somebody gave me a wonderful example of the kind of error that went into this. When you sweep things into a dust bin in America, it has a little ridge so that the dust stays in and that the thing works. No such implement in Russia has that little ridge so that the dust stays in.

But they cost an equal amount to produce. It doesn't cost anything to put that ridge in. It just works with that ridge, and it doesn't work without that ridge.

And so when we used our procedure which was to compare one of theirs with an American product and ask how much it would cost to produce, they said it would cost the same amount as it would cost to produce one of our kind.

What would have been much more helpful was to apply the kind of test that then Vice President Nixon suggested, which was to

show the products of both economies to, not the producers, but the consumers and see what they valued them at.

I think if that test had been applied a little more systematically, we would have come to the right view much more quickly.

As far as avoiding these kinds of errors in the future, we have had some discussions with the people who are involved in preparing estimates of these kinds.

And I am hopeful that opinion will be canvassed more widely in the future and that the new degree of openness will permit much greater emphasis on market information on the use of how much things actually sell for in different places to guide the preparation of these kinds of estimates.

The CHAIRMAN. Fine.

Dr. SUMMERS. But I think the problem is a very real and important one. It may well be that we are now seeing with respect to Eastern Europe and Russia, a mirror-image problem, that all that output that we valued so highly and led to the earlier error that you spoke of is now not being produced.

And we are probably showing that in our official statistics as a rather larger collapse of output.

The CHAIRMAN. That is a nice point.

Dr. SUMMERS. And, in fact, it reflects the suffering that these economies are really undergoing.

The CHAIRMAN. I want to get my colleagues here. But that is a very nice point. If you had the Soviet Union at three-quarters of American GDP when, in fact, it was one-quarter and then, you discovered it is one-quarter, the report is that production has dropped by two-thirds. That is nice.

Correction. I said the "Draper Commission." I meant the "Gaither Commission."

Senator BAUCUS.

Senator BAUCUS. Thank you, Mr. Chairman.

I know that Senator Chafee has a very imminent appointment. I will yield to the Senator.

Senator CHAFEE. Oh, aren't you nice, Senator.

I will be very brief. I would just like to say to Dr. Summers two things. One, your predecessor David Mulford was quite active in the Enterprise for the Americas Initiative. This initiative, as you know, dealt with the Latin American countries and their changing economies.

I just want to say that the changes, particularly as they have come about in Mexico, have been very, very important to the economy of my State. And our exports to Mexico have grown substantially.

In fact, oddly enough we export to 114 different countries out of little Rhode Island. And Mexico ranks ninth out of those markets.

So I would urge you to pay attention. I know that Russia is high on your general radar screen, and it should be. But please do not forget Latin American countries like Mexico and Chile, for example.

Second, I again would urge you on in connection with Russia. I just feel the time is now when the chariot is drawing near.

I thought that was a very, very powerful article on Russia that former President Nixon wrote, which you and I discussed in our

earlier meeting. I thought he was right on target. And I think the time is of the essence in all of this.

Thus I would urge you with all the energy I have to please put Russia very, very high on your priority list. If it requires coming to this Congress for some money, so be it. As you pointed out, we can leverage that with the other countries.

So I for one would support assistance for Russia, and I hope you come forward with something rather quickly.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Dr. Summers, there are some in the environmental community who are not exactly enamored by your nomination.

As I understand it, they say that you at some point made a statement or wrote a memo something to the effect that toxic waste should be sent to developing countries because they are poor and have a lot of space and they can deal with it, something along those lines.

Did you say that? And do you believe that? And what is the actual situation here as you see it?

Dr. SUMMERS. Senator Baucus, thank you very much for giving me the chance to address that question. I have been committed to sustainable development. And I am committed to the goal of sustainable development.

When I make a mistake, I make a big one. The—

The CHAIRMAN. Mayor La Guardia said, "You don't make many, but when you make one, it's a beauty."

Senator CHAFEE. Yours qualified.

Dr. SUMMERS. Yes, indeed. [Laughter.]

Yes, indeed.

Senator BAUCUS. So what is your belief?

Dr. SUMMERS. The memo in question was drafted in my office at the World Bank as a comment on a research paper that was being prepared by part of my staff at the World Bank.

As drafted, the memo sought to clarify the strict economic logic by using some rather inflammatory language, not to make any kind of policy recommendation. And I obviously reviewed the memo inadequately before I signed it.

It made no attempt and it was never intended in any way as a serious policy recommendation. No sane person favors dumping toxic waste near where anybody lives or thinks that places could be made better off with more toxic waste.

These are obviously internationally and particularly nationally very difficult issues, namely not in my backyard kinds of issues associated with the handling of pollution.

But very clearly the best strategy is to avoid the production of pollutants, to produce in less toxic and more efficient ways. That is what our strategy should be geared to.

The area in Treasury, which intersects with these set of questions, is, of course, Treasury's role with the international financial institution.

Congress has been very concerned with environmental practices in the multilateral development banks. And at Treasury, I look for-

ward to advancing that agenda of greater transparency, greater emphasis on energy conservation, greater emphasis on lending to support education, to support health care rather than to support heavy industries, and in particular, to avoid supporting the production of energy in countries where there are large energy—

Senator BAUCUS. So you are saying you do support the concept of sustainable development?

Dr. SUMMERS. Absolutely.

Senator BAUCUS. And what does that mean to you, some examples?

Dr. SUMMERS. That means—sustainable development means economic development in ways that allow current generations to prosper without burdening future generations.

It means producing in a way that conserves natural resources to the maximum extent possible and leaves the greatest available resources for the future, so what each generation passes on to the next generation is greater than what it inherited, not less.

Senator BAUCUS. I think that is a good point. And it is also clear that as this world becomes more integrated, you alluded to that in your opening statement, there is also a convergence of environmental policy and trade policy.

And that is coming to the forefront in NAFTA as the administration attempts to negotiate side agreements with Mexico and to some degree Canada on the environment, particularly environmental enforcement and labor standards.

Have you had a chance to either be involved with or look at those environmental side agreement negotiations. And if so, I'd like your views on them?

Dr. SUMMERS. I have been involved generally in the administration's internal discussions over NAFTA and have been peripherally involved in the particular side agreements.

I think it is very clear that an acceptable NAFTA, as Ambassador Kantor made clear in his testimony before this committee several days ago, must be one that includes side agreements that ensure that the harmonization that will inevitably take place, with free trade, between environmental and for that matter, labor standards in the United States and in Mexico. That will involve leveling up rather than leveling down in the—

Senator BAUCUS. I appreciate that, but in this case, that is somewhat the problem, but not exactly the problem.

The harmonization of standards, environmental standards is not a problem in Mexico because, as you know, the NAFTA does already provide for harmonization of standards, that is a country has to maintain its standards. It cannot lower its standards.

And at the same time, Mexican environmental standards are very similar to the U.S. standards because they were essentially adopted in 1988 and 1989 from American environmental laws. That is not the problem.

The problem is enforcement, that is we have equal standards, equal laws. They do not have legal enforcement. And that provides a significant competitive advantage to Mexican companies that are competing with American companies.

So I urge you to look into this and also to urge the administration to negotiate a very strong environmental side agreement that results in equal enforcement of environmental laws.

It cannot just be a platitude. It cannot just be a commission that looks into it. There has to be sanctions. There have to be provisions which do provide for meaningful and effective enforcement, if we are going to have sustainable development, as you and I both want.

Dr. SUMMERS. Senator, I should have spoken more precisely. I think the commitment must be to a de facto harmonization of the actual standards that are in place rather than simply a de jure commitment to that, which in some sense has already been met.

Senator BAUCUS. I have another question. It is about an article which I know you saw in this morning's paper. Hobart Rowan wrote a piece about the investment tax credit.

And citing clearly a work of yours, he is basically suggesting that the investment tax credit makes no sense, that businessmen will invest or not invest for reasons unrelated to an investment tax credit. If they have the credit great. They will take it and run with it, that is run to the bank with it.

Your views. Why do you think that the administration should recommend and Congress should enact an investment tax credit?

Dr. SUMMERS. I should say that in my current capacity, as designate for the International Affairs position, I have not been closely involved in the investment tax credit question.

But as part of my earlier work as an economist, I did look at the question of equipment investment. And my reading of what is admittedly a complex statistical record suggests two relevant things.

First, if you look across different countries, the strongest determinant of the rate of productivity growth is their level of equipment investment. Japan's higher rate of equipment investment can explain a very substantial part of the difference between Japanese productivity growth and American productivity growth over the last 20 years.

Second, if you look historically at periods when the investment tax credit has and has not been in place in the United States, my reading of that evidence is that performance of equipment investment relative to other categories of investment and relative to the strength of the overall economy was considerably stronger in periods when the investment tax credit was in place than periods when it was not.

For example, following the original enactment of the investment tax credit in 1962, in the succeeding several years, you saw a major boom in equipment investment.

So I believe the record suggests, equipment investment is crucial for growth and that the provision of incentives is statistically, and eye balling different periods, closely related to the periods of particular strength in equipment investment in the economy.

I am aware that there are those who think that this kind of incentive has no effect. It seems to me that businessmen are very concerned with pressing their suppliers and that when their suppliers are prepared to provide capital goods at a significant discount from what they would otherwise cost, that seems to be something they care about as they make purchasing decisions.

And, of course, that is the effect of an investment tax credit, to reduce the effective purchase price of new equipment.

The investment tax credit has a particular virtue relative to other kinds of investment incentives, and the incremental investment tax credit that the President has proposed has virtue to an even greater extent; it is a forward-looking incentive, an incentive that applies only to new investment, an incentive that rewards investments companies make for the future rather than reducing their tax burden on the one kind of capital that you cannot create more of, namely capital that has been put in place in the past.

Senator BAUCUS. One more question that is referring to your statement that you wish the administration to open up more markets, particularly financial markets for America. I agree with that.

Could you list which practices or which countries you think should be at the top of your priority countries list as we attempt to knock down trade barriers, particularly, financing or financial service trade barriers?

Dr. SUMMERS. Senator, I have not yet had an opportunity to get into those issues in great detail, but I would suggest that the greatest concerns are in Asia, and probably Japan and South Korea would be among the areas of particular concern.

There are also issues in other parts of the world, but I think the largest part of the problems are in Asia. I think that there are a number of areas that we have to look at, including underwriting, banking, and in particular, insurance, where U.S. companies have potentially tremendous competitive strength and have not fully had the opportunities to participate in those markets.

Senator BAUCUS. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Baucus.

I just have a followon question to Senator Baucus' query about the investment tax credit.

It is a most agreeable thing we do in this committee, which is to lower tax rates for friends and fellow Americans, but if we are to lower this tax rate, lower the tax on these suppliers and their friends, we are going to have to pay for it by raising taxes on someone else.

Would you like to give us some candidates for the someone elses? [Laughter.]

Dr. SUMMERS. Mr. Chairman, I strongly support the President's program as he put it forward as the right strategy for creating more rapid growth in the United States and laying a basis for domestic renewal.

And beyond the content of the President's program, I have no recommendations to make at this point on tax policy.

The CHAIRMAN. Dr. Summers, when Mr. Bentsen is abroad and you are at the cabinet meetings, you will do well. [Laughter.]

Senator Conrad.

Senator CONRAD. Thank you very much, Mr. Chairman.

And welcome, Dr. Summers. It is good to have you here. I enjoyed our conversation the other day in my office.

Since that conversation, I have had a chance to look at some of your writings. And specifically, the work entitled, "Taxation in a

Small World." I noticed in that, you spoke very favorably of formula apportionment in international taxation.

As a former State tax commissioner and as former chairman of the Multi-State Tax Commission and as a member of the working group during the Reagan administration on taxation of foreign multinationals, I am a strong advocate of formula apportionment. And I am a strong advocate of formula apportionment because I am convinced personally that trying to recreate arm's length transactions between subsidiaries of major multinationals just does not work, cannot work. And we are spending an enormous amount of energy and resources trying to get it to work.

Let me just ask you, in your view, should we be working with our economic partners to move towards a formula apportionment system of taxation of these companies that operate across borders, across boundaries?

Dr. SUMMERS. Senator, I understand the concern you expressed and the rather academic article that I wrote 5 or 6 years ago—

Senator CONRAD. A very good academic article.

Dr. SUMMERS [continuing]. Stresses the same kind of consideration. Indeed, it makes the point that in many ways, the situation going forward is going to—is like the situation in the United States at the beginning of this century when different States had difficulty disentangling income.

But I think I should make very clear that that article was written with a view to very long-term vision, and my guess is that at some point, the world will have to move in that direction.

At this point, since coming to Treasury, I have not yet had a chance to look into any taxation questions.

For the near term I think the priority expressed in the President's program of enforcing the tax law satisfactorily—as regards foreign corporations in the United States and as regards U.S. companies abroad—is the appropriate thing to emphasize for the next several years.

I do believe, but it does not represent any current policy initiative, that in the very long run there will have to be some movement in the direction you suggest.

Senator CONRAD. You are getting awfully cautious on me here. Don't get too cautious.

I understand you have to stick with the President's plan. The President has a game plan here for the near term. I think all of us are supportive of that game plan.

But I just say to you that for the long run, and our sense of what the long run might be might differ here, I think we have to move towards a different basis. The current system just does not work.

I can tell you, serving as a State tax commissioner and reviewing personally hundreds of returns, tax returns of companies that are involved in multinational transactions, there is no way of establishing arm's length relationships between the dozens of subsidiaries of a major multinational corporation. It cannot be done. It cannot be done.

Anybody that tells you it can be done has never tried to do it. I do not care how many resources we throw at it, we cannot figure out for companies that are jointly controlled, have a parent that controls them, what would happen in the transactions between

those operations if they were really separately owned. To try to establish that is a nightmare.

Mr. Chairman, I say to you, this is a very important issue for the future of the revenue base of this country because one thing you learn—and I have a masters in business—one thing you learn in business school is how to engage in transfer pricing to put your profits where there are no taxes.

The CHAIRMAN. Could I ask a question of the Senator?

Senator CONRAD. Yes. Absolutely.

The CHAIRMAN. And perhaps Dr. Summers would want to comment. Would you anticipate this being carried out through a series of tax treaties that trading partners agree to the formula apportionment?

Senator CONRAD. I think it would almost have to occur in that way, Mr. Chairman. I do not know really any other way we could get at it.

There are many good examples out there of how we can do it. Do you look at the property, payroll, and sales?

Or do you look at the percentage, an individual country's percentage, of the property, payroll, and sales of a company and say, we get that percentage of the total worldwide profits to subject our taxes to?

The CHAIRMAN. It is a question of applied accounting at some level, isn't it?

Senator CONRAD. Right.

The CHAIRMAN. Yes.

Senator CONRAD. It absolutely is. I can tell my colleagues Dr. Summers is somebody who has looked into this. And I commend him for his article because his article was right on point. Formula apportionment is the wave of the future.

But I understand. You are here as a spokesman for the administration. And I honor that and respect that.

I just say for the future, I think it is terribly important that the world community move in the direction of formula apportionment if for no other reason than to save resources.

The CHAIRMAN. And arguments.

Senator CONRAD. And endless arguments.

The CHAIRMAN. Endless arguments.

Well, Dr. Summers, what do you think?

Dr. SUMMERS. Senator, I hope we can discuss this question in greater detail at some point. I think in your discussion with Senator Moynihan, you agreed on what I think is the crucial point, which is that any kind of movement in this direction has to be multilateral and has to involve cooperation probably of all the major nations.

It is okay for us to drive on one side of the street and for the British to drive on the other side of the street, but if people try to drive in both directions, on both sides of the street, you get chaos. And I think exactly the same thing is true in—

The CHAIRMAN. That is called Manhattan. [Laughter.]

Where the banks come from.

Dr. SUMMERS. I think the same is true in the tax area. It would very dangerous to have some countries operating on one system and other countries operating on an entirely different—

Senator CONRAD. Let me just say that that is really where we are now. I can tell you, some of our major competitors are having a field day under the current system, an absolute field day.

And all you have to do is look at what our Japanese competitors are doing with respect to business activity in this country versus the taxes they pay in this country.

And it becomes very, very clear, there is an enormous international shell game being played here. And the result is enormous profits that are not being taxed anywhere.

They are not being taxed in the country of domicile. They are not being taxed in the country where the business is being conducted.

And unfortunately in all too many cases, the United States' companies are the losers because they do get taxed right here at home. And it puts our companies in an unfair competitive position.

And I hope very much that this administration will aggressively look at moving towards formula apportionment and moving the rest of the world toward formula apportionment so we can have some rational basis for international taxation.

The CHAIRMAN. Dr. Summers, we are not discussing some personal matter here. This is a very public issue. Could you anticipate that the administration might take the initiative in proposing a round of negotiations?

They do it in the GATT. May I ask Senator Conrad, it could be done in the GATT?

Senator CONRAD. Yes. In fact, I think it requires that kind of venue, that kind of forum to address this issue and move toward some resolution.

None of this will happen quickly, as the chairman so well knows, as Dr. Summers certainly so well knows.

But it has to start somewhere. And right now, we have a system that makes no sense whatsoever. It just makes no sense.

The CHAIRMAN. May I say that Senator Conrad is the only professional we have on this committee. And we take his views on these matters with great attention. And this is the first time in my 17 years that this subject has been raised in the Finance Committee. And it is not going to go away, not while you go away.

What do you think? Could we have been hearing a lot of—let's be clear. And I am open to correction. But during the campaign, we heard a lot about a transfer pricing measure which would bring in enough money to float North Dakota down to the Caribbean. And then, it turned out, well, maybe it won't. [Laughter.]

So this is an issue we confront. What do you think?

Dr. SUMMERS. Senator, I am an economist who is married to a tax lawyer. And being married to a—

The CHAIRMAN. Mrs. Summers, would you like to help out? [Laughter.]

Dr. SUMMERS. And being married to a tax lawyer, I have learned that economists make statements about tax provisions more complicated than the investment tax credit only at their great peril if they have not checked with tax attorneys, but I will—

Senator CONRAD. Do not check with tax attorneys. Believe me, this current system—[Laughter.]

This current system is a full employment act for tax attorneys.

Dr. SUMMERS. I will consult with my colleagues in the tax area of the Treasury. And Senator Conrad, I hope we can have a chance to discuss this in the future.

As the article you referred to makes clear, I am attracted to it, to the kind of scheme you suggest.

As a long-run vision, I think there are enormous issues in making a transition. So it would be a very difficult step for us to think about without very careful preparation and consultation with our allies.

The CHAIRMAN. No, no. Not allies, trading partners.

Dr. SUMMERS. Excuse me. Trading partners.

The CHAIRMAN. The cold war is over. [Laughter.]

Senator Conrad, would it be appropriate for the committee to ask of our distinguished nominee that he think of coming back in 3 months, 6 months, whatever, in this session to give us some further thoughts on this subject? Would that be agreeable to you?

Senator CONRAD. I thank the chairman very much. I think that would be very helpful. I think this is an issue that has to start somewhere. It needs to start now because we have a system that is creating a revenue hemorrhage for this country with respect to international transactions.

It is unfair. It is irrational. It is putting our companies at a competitive disadvantage. And we have an opportunity to do something about it. But it will not happen unless it starts somewhere. It needs to start here.

The CHAIRMAN. I think I would like to just offer the judgment that it has started here in this committee and thanks to you.

Senator CONRAD. Well, I thank the chairman.

I have one other area if I might, Mr. Chairman, and that is the question of exchange rates in international treaties.

For those of us who are right on the border with our friends to the north, we have seen first hand the effect of exchange rate variation.

And in reading the Journal of Commerce recently, I noted that there was a prediction that our friends to the south would devalue upon the passage of NAFTA, undermining much of what the negotiators thought they were accomplishing.

So one naturally turns one's attention to the agreement to see if there is any protection against exchange rate fluctuation or a devaluation. And lo and behold, one finds there is no protection. Exchange rates are not any part of the agreement.

I would just ask the question, in your view, Dr. Summers, how should trade policy and exchange rate policy be linked?

Dr. SUMMERS. The area of concern is that a decline in the exchange rate would lead to a surge in exports for one country and imports for the other.

In the NAFTA, there is language addressing the question of surges of imports in one direction or another, and that is the nature of the protection that is provided.

I think the experience of the European monetary system over the last year illustrates that efforts to fix exchange rates unless managed very carefully and unless the exchange rates are set in appropriate ways, which is very difficult to know in advance—can lead to a variety of kinds of difficulties.

The place where I think the greatest emphasis is called for is not in the case of free market and market determined exchange rates, but instead, in cases where countries have entirely managed exchange rate schemes, where there is one exchange rate that is used for certain classes of importers, another exchange rate that is used for tourists, and another exchange rate that is used for certain categories of exporters, where they become like a tariff.

The CHAIRMAN. Could you give us an example, a for-instance country?

Dr. SUMMERS. I think the Treasury will be reporting to the Congress within a matter of months on the question of the exchange rate manipulation. And I am confident that China will figure prominently in that report.

One of the issues that, if I am confirmed, I will be working with the Secretary on is the whole question of the Chinese exchange rate regime and its possible role as a trade barrier.

The CHAIRMAN. I'm sorry to interrupt.

Senator CONRAD. No. I am pleased for the question.

I say to the nominee, I am very concerned about this issue because I have seen it playing hob on the border with Canada. Exchange rate fluctuations can just totally wipe out any reduction in tariff barriers.

My own sense is that the surge elements of the agreement are not going to be adequate to deal with a broad devaluation by the Mexican Government.

We are now getting a lot of warning signs that there is some intention to move in that direction by our neighbors to the south.

And I must say, it concerns me. It concerns me a great deal. I am not at all certain and I am not at all confident that the surge provisions are going to provide the kind of protection that really puts the United States in the position that we can be confident of the result.

Mr. Chairman, I appreciate very much this time. And I appreciate your many courtesies.

The CHAIRMAN. We thank you most particularly for these issues. And I am looking forward to some trade negotiations on these issues. Clearly, this is a matter to be dealt with. Again, thank you.

Dr. Summers, I want to return to this question of the degree of confidence which we should have in the economic assessments of the executive branch of the American Government.

It is easily dismissed partly because it is not generally known. This committee knows it and is worried.

Bill Jorgeson who is a colleague of yours, a professor of economics and director of the Program on Technology and Economic Policy at the Kennedy School has written that the long-standing intelligence failure in assessing the Soviet economy and the Soviet military effort has to be one of the great failures of economics, right up there with the inability of economists, along with everyone else, to find a remedy for the Great Depression of the 1930's.

Now, the failure of the economists to be able to cope with the Depression of the 1930's, which was the prelude to the second world war and had with it some incidental things, such as the tariff policies, led to an enormous surge of energy in the economic profession, saying, what went wrong? How could we have been so mistaken?

And you had the development, I think, of a whole—and I leave you to tell me what you think—new era in economics, the classical Marchelian economics, the economics of the equilibrium, and such like that, gave way to a new analysis, the Keynesian analysis, is what is most generally used.

And there were huge debates. That is an enormous amount of writing. Texts were changed. Reputations were made. Your uncles got Nobel prizes.

And a new consensus emerged, the tools and balances. And that is the normal mode by which even the dismal science tries to make some progress.

The massive failure of the U.S. Government in its assessment of the size of the Soviet economy and its military effort has elicited no comparable concern.

A few persons, Frank Holtzman at Tufts and the Russian Research Center at Harvard remained a skeptic, but nobody else did.

And the monopoly model, the CIA tells you. And nobody else gets a chance to correct it because their judgment and their processes are secret. The monopoly model is in place.

That model led us to become—we ended up the world's largest debtor nation. That is what you will be doing around the world, discussing that fact.

In a few weeks' time, this committee will first of all have to consider and then take to the floor another debt ceiling extension. We will have to raise the debt or we default.

I mean, either we raise the debt or we are about 4 weeks from the point where you cannot cash Social Security checks.

And when we default on our debt, I suppose the yen becomes the reserve currency. It might save you a lot of problems. You will not travel as much.

Dr. SUMMERS. My daughters will be grateful.

The CHAIRMAN. Sir?

Dr. SUMMERS. I said my daughters will be grateful.

The CHAIRMAN. Your daughters will be grateful. Now, we do not want his daughters to say that the crash of 1993 was led in part by the domestic arrangements of the Under Secretary of the Treasury. [Laughter.]

What about that? I mean, why should we believe anything any of you say when you have been so absolutely wrong and don't admit it and don't seem even interested in the fact that you were and insist on keeping the monopoly model in place? That is what the administration wants to do.

I am dead in earnest about this question.

Dr. SUMMERS. I can say, I do not think I can fully answer your question. I can make a couple of remarks that may be helpful.

The CHAIRMAN. Sure. By which you cannot fully answer it because you do not think you have the answers, not because you are not at liberty to say?

Dr. SUMMERS. I am fully at liberty to say, to address your question as fully as I can, but the abilities of the CIA, going backwards, and the economics profession, going forward, I may not have ready remedies for.

I would say that looking forward that because of this new openness, we will have—

The CHAIRMAN. What new openness?

Dr. SUMMERS. Because of the much greater public access to data of all kinds on Russia.

The CHAIRMAN. Oh, you mean, the Russians are putting out the data?

Dr. SUMMERS. There are now many more independent analyses of the Russian economy than there have been in—

The CHAIRMAN. If I ask you the size of the economic intelligence programs of the U.S. Government, you wouldn't be able to tell me, would you? It's secret.

If you do not know, I will tell you. You would not be able to tell me. It is secret.

Dr. SUMMERS. If I knew, I probably would not be able to tell you, but I do not know. [Laughter.]

The CHAIRMAN. Yes. That is right. It is secret. Why should you know? You are not properly cleared. That monopoly model that got us into those disastrous mistakes is still in place. Doesn't that bother you?

Dr. SUMMERS. I think it is a critical problem. I have had enough difficulty in trying to find my way around the Treasury building so that I have not given much thought to what the intelligence community should do differently in the future than it has done in the past.

I have been concerned in the Treasury to make sure that we have access to independent economic analyses prepared by staff at Treasury and to the kinds of analyses that are being done on the outside on these questions.

I think that the greater openness on the Russian side on this particular question is probably reducing the power of the monopoly that you spoke of.

But I believe your question is a much broader one about the general character of economic intelligence, and that is one that I have not yet had any opportunity to think about in any detail.

I agree completely with you on the magnitude of the past failure.

The CHAIRMAN. I appreciate that. I only wanted to make clear that what you know in the Treasury is not necessarily going to be what the President knows.

And you will not necessarily know what the President knows, what the NID tells him. He will get the NID every morning. He does not get one from you. The NID is the National Intelligence Daily.

I mean, a failure that massive shouldn't just be said, oh, well, what are you going to do? That is the way the world is.

I mean, the economics profession did not respond to the 1930's by saying, oh, well, everybody makes mistakes sometimes. They said, what do we have? What went wrong?

And I am just suggesting that that is not happening.

Dr. SUMMERS. I think, Senator, there are really two separate issues here. In terms of the economics profession going forward—if I might defend my professional brethren for just a moment—when I was at the World Bank, one section of the bank published a newsletter each month that included a list of all the conferences on economies in transition.

And I would say that in various parts of the world, there were probably 20 to 25 conferences a month, looking at the special problems of formerly socialist economies and economies in transition.

So as the economic problems of the 1930's drew the attention of economists, I think, this problem of reconstruction in formerly socialist economies is drawing forth an enormous amount of intellectual energy.

And I hope and trust that the U.S. Government will draw on that intellectual energy going forward.

I think there is a separate and second question which is the role of monopoly in the provision of economic estimates and intelligence, and I think that is something that does need to be very carefully considered.

I hope that, if I am confirmed, I will have a chance to consult with my colleagues in different parts of the administration and make sure that issue is addressed, and to work towards there being some system where there is a kind of permanent, semi-permanent, or at least more frequent Team B kind of approach to ensure that there is some competing provision of information so that there is at least some protection against the possibility of major error.

The CHAIRMAN. But don't be so careful in your statements. I mean, you ought to raise hell and ask those people, what did we give you a trillion dollars for to give us all that misinformation?

And a Team B approach is fine, but you might also consider the next time they estimate the economies of Central Europe, they get a taxi cab driver to just go around and check up on the other side of the Berlin Wall that things are really that much better.

I am just trying to make you feel that this is part of your portfolio. And the Treasury ought to have some proper resentment because your policies were driven by Presidents who were profoundly misinformed.

Now, sir, I have one question for you, which Senator Hatch asked that I address. This will be the last question. The crisis in Russia will demand your immediate attention.

Last Tuesday, in his meeting with the French President Mitterand, President Yeltsin called for immediate Western support. Mitterand wants the G-7 to get involved.

I am told there are foot draggers. Germany and France want to help now. Japan seems unwilling to do anything before the G-7 meeting this July. That might be too late.

What should we be doing now? For example, why shouldn't we act cooperatively outside of the G-7? And is the G-7 showing weakness that should make us reevaluate its value to worldwide economic cooperation which is the organization's reason for existence?

Dr. SUMMERS. Mr. Chairman, I was one of the U.S. participants in the meeting in Hong Kong that took place this past week where a Russian representative spoke to us about the process of economic reform. There followed discussions among the G-7 countries.

I am optimistic. I do not think it would be appropriate at this point to go into any detail, but—

The CHAIRMAN. But you are optimistic?

Dr. SUMMERS. Optimistic that the G-7 will be in a position to provide significant support for the Russian reform effort in coming months.

The CHAIRMAN. Fine. I am sure Senator Hatch will be encouraged by that statement. And he was pleased to see that the European Bank for Reconstruction and Development agreed to a \$44 million technical cooperation loan for Russia this week.

He thinks that the debt structure needs attending and generally some of the things you have said.

Sir, it has been now a long morning, but the last time we will see you in your present status. Senators Riegle, Dole, Packwood, Roth, and Grassley will have some questions for the record. I will ask that they be provided by the end of the day. Is that possible? Of course, that is possible.

And it will give you a chance to respond in writing to them, all of which will be part of the record.

[The questions appear in the appendix.]

The CHAIRMAN. Again, we thank you for coming this morning. We will take up this nomination on an occasion when we have a quorum which will be next week, next Wednesday I think. It will be soon. And it will be agreeable to you. Thank you very much, Dr. Summers.

Dr. SUMMERS. Thank you.

The CHAIRMAN. And again, Mrs. Summers, we welcome you.

[Pause.]

The CHAIRMAN. And now, our next witness is Jane Perkins who is president of Friends of the Earth, a Washington organization, well known to those of us on the Committee on Environment and Public Works.

Ms. Perkins, good morning.

Ms. PERKINS. Thank you.

The CHAIRMAN. And I do not believe you have ever been before the Finance Committee.

Ms. PERKINS. I have never been before any committee, sir.

The CHAIRMAN. Well, then, we welcome you to your first committee and that it should be the Finance Committee is auspicious I would think. And you have an associate with you?

Ms. PERKINS. I do. This is Dr. Brent Blackwelder who is vice president for policy and program at Friends of the Earth.

The CHAIRMAN. Well, Dr. Blackwelder, we welcome you.

And you have a statement which we will put in the record. And you go right ahead. I guess I will have to ask you to summarize it if you can because it is about 50 pages and we cannot, under Senate rules, go past noon.

Ms. PERKINS. I would bore myself to death if I attempted to do that. Our statement in the package is 4 pages. And I have some remarks that I would like to deliver.

The CHAIRMAN. Go right ahead.

**STATEMENT OF JANE PERKINS, PRESIDENT, FRIENDS OF THE EARTH, ACCOMPANIED BY BRENT BLACKWELDER, VICE PRESIDENT FOR FOREIGN POLICY AND PROGRAMS, WASHINGTON, DC**

Ms. PERKINS. First of all, I want to thank you for the opportunity to address the committee today on the nomination of Dr. Summers. And I am here to oppose the nomination.

The CHAIRMAN. Just one second.

Now, the hearing room will be in order. If there are persons who have conversations, if they will be so kind as to take them to the corridor.

Ms. Perkins.

Ms. PERKINS. Thank you.

In 1979, I became a citizen activist. I did this because I felt that people in positions of power were having difficulty as they made decisions affecting people like me with basic issues about right and wrong.

This activism then led me to local politics in Harrisburg, Pennsylvania where I stood for election and won.

I know, therefore how politics and comraderie and loyalty attempt to influence decisions which often should be judged on common sense, the values we have about right and wrong, and perhaps the sense of justice that was instilled in us as children.

Gentlemen, I think the appointment of Dr. Summers to the post in question is wrong on common sense and ethical grounds and his nomination should be rejected.

It is a big government. And I would like to see Dr. Summers pursue a less sensitive, more straight-line economic centered job to use his many talents.

But put Dr. Summers aside for a moment. I do not believe an economist should have the last word in such a high-level, sensitive development job.

Development needs to be defined more broadly than the narrow principles applied in strict conventional economic training and thinking. There is more to the development picture than the bottom line, the GNP, or abstract statistics.

There are people, their lives, their homes, their families, and a way of life that have to be factored into this decision-making.

The job in question, I think, has different requirements. It needs a thinking, but feeling person with a strong sense of justice and a world view that values all people equally.

It requires a future-oriented person who has a profound respect for the earth we are leaving to future generations. It requires a common sense and sensitive person who exhibits this in his or her dealings with others.

This is the sort of person who should be considered for the job. And I do not believe unfortunately that I am describing Dr. Summers.

Friends of the Earth opposes his nomination for three reasons. First of all, Dr. Summers' confirmation would send a terrible signal to the people of our own country, as well as those around the world who already suffer from victims of environmental racism and injustice.

Second, your confirmation of Dr. Summers would suggest that Congress was not serious in calling for the major reforms you have championed within the multilateral development banks in recent years.

And finally, Dr. Summers' world view is too narrow for this essentially development job.

You only have to pick up this morning's Washington Post to find outrage on the part of major institutions about racist jokes being made at public gatherings.

What Dr. Summers' conventional economic theories espouse is not a joke, but it is racist. And if one is trained as an economist whose interest is the bottom line, then, it may even be valid.

I would like to share with you some comments from people who cannot be here today regarding their feelings on the Summers' nomination.

From the General Secretary of the National Council of Churches in Kenya, he says, "The structural adjustment policies which Larry Summers has helped to formulate affect mostly the poor, women, and children in the Third World. These structural adjustment policies are not a panacea to the socioeconomic problems in the south, but add to stress and more burden. The one cure that the Clinton administration can give the Third World is by revoking the appointment of Larry Summers."

From the Women and Development Institute, University of West Indies, Barbados, they say, "Larry Summers is known for his aggressive promotion of structural adjustment programs which leave little room for debate on the impact of these programs on human or natural environments. I think that his appointment to this post by the Clinton administration will raise very serious doubts in the minds of informed citizens from the south about the new administration's sensitivity to issues of equity, human rights, and environmental sustainability."

And from Equipo PUEBLO in Mexico, they say, "We are concerned that the U.S. Administration designate for such an important position is a person who has advocated structural adjustment policies during his employment at the World Bank. Far from promoting the satisfaction of the basic needs of the majority of the population and effectively combating poverty, these policies have resulted in an irrational use of natural resources and a sharp concentration of wealth and income in our country."

Gentlemen, I believe this Under Secretary position is a big and demanding job, a job that requires broad reach and compassionate sensitivity. And we believe Dr. Summers has failed to demonstrate these qualities. And we urge you to reject his nomination.

Thank you.

[The prepared statement of Ms. Perkins appears in the appendix.]

The CHAIRMAN. We thank you, Ms. Perkins. That is not nearly half your statement.

Would Dr. Blackwelder want to add something further?

Dr. BLACKWELDER. No. We would be glad to take any questions you may have.

The CHAIRMAN. Well, the statement is very carefully made. I want to get something clear here. We have a larger statement of yours.

Dr. BLACKWELDER. Mr. Chairman, there are three attachments referred to in the statement.

The CHAIRMAN. Right.

Dr. BLACKWELDER. The large statement is the testimony which we gave to the House Appropriations Committee about the activities of the World Bank. The second is the law which Congress passed governing the International Monetary Fund.

The CHAIRMAN. Oh, I see. This is the March 1. Forgive me.

Dr. BLACKWELDER. Yes. We attach those because we refer to them in the text itself as the background about the institutions, the multilateral development banks over which Dr. Summers will have capacity and responsibility.

The only comment I might add since you raised the question about World Bank performance earlier, an internal review conducted by the World Bank last year by vice president retired Wapenhans found that over one-third of the bank's projects are unsatisfactory, that 78 percent of the loan conditions are not being complied with, and that this rate of unsatisfactory performance is the highest in 15 years.

So the World Bank's performance under its own criteria, apart from applying social or environmental criteria which we might use, is at a very low ebb.

And it is because the World Bank and IMF come first in line as creditors, they can boast about lack of defaults and so forth, but in terms of substantive analysis, looking at their own performance, their own recommendations, their own evaluations is extremely negative.

The CHAIRMAN. I am sorry. But I will have to ask, the name sounded Dutch.

Dr. BLACKWELDER. Wapenhans.

The CHAIRMAN. Wapenhans. Dutch of some kind or another. By unsatisfactory, what was his criteria?

Dr. BLACKWELDER. To my understanding as I have looked at the report, the economic performance of the projects for a variety of reasons in their analysis is characterized as being unsatisfactory. The project is just not producing. It is not producing as projected.

The CHAIRMAN. The bottom line?

Dr. BLACKWELDER. Right. And they also looked at the rate of returns projected and what was realized and found that those were getting worse and worse. They were getting less.

The CHAIRMAN. An investment bank would not have made that investment, right?

Dr. BLACKWELDER. Or a private bank, you would have a question. Right. Yes.

The CHAIRMAN. Yes.

Dr. BLACKWELDER. They would characterize their loan as unsatisfactory on these economic grounds, not because they were environmentally unsatisfactory.

The CHAIRMAN. I see.

Dr. BLACKWELDER. But they were on the economic conditions, rates of return, compliance.

The CHAIRMAN. The structural adjustment problem is a hard one. I was once an Ambassador. I was as close as I could be to that part of the world. And the bank has begun to make conditions with the Indian Government on these things. And it is not an easy relationship.

I am just now spinning my theory. Most of those governments began with a very large confidence in planning the government in the case of India and Beirut. They talked about controlling the commanding heights of the economy. And it mostly did not work.

One of the great secrets of the world is that India in 1900 was a large steel producer. And Japan had no steel of any kind.

But the structural adjustment programs are an intervention for internal political life. Of that, there is no doubt. They tend to be austere. Older men than I can say I know the answer to it.

The problem is, of course, that so much of the world, that, "Third World," is divided into countries where living standards are probably on the decline and regions where they are just roaring ahead.

And it is hard put to say why this is the case. The sub-Sahara in Africa is desperate. And Asia is full of tigers they say.

And parts of India prosper. And others do not. When I was Ambassador to 400 million persons there. There are now 850 million. It was not that long ago.

Senator Chafee, you have come back. And we welcome you, sir. Senator CHAFEE. Thank you, Mr. Chairman.

I am sorry I missed the testimony of Ms. Perkins. I know Dr. Blackwelder well. And I certainly know Ms. Perkins by reputation. When they say there are matters of concern, then we should certainly pay heed to them.

I was disturbed by the Summers memo. I guess you get to the point of asking when can you forgive. Dr. Summers was contrite, both in his testimony here and when he came to visit me in the office.

I would like to read over what Dr. Blackwelder and Ms. Perkins are saying in their testimony, however.

The CHAIRMAN. Fine.

Senator CHAFEE. I will also say that one of the advantages of being on this committee is I feel I am getting a Harvard education without paying the tuition. [Laughter.]

As I listen to these very thoughtful remarks our chairman makes.

Mr. Chairman you might be interested to know that last night there was an interesting TV series on a man who is, in a light-hearted way, proceeding around the world in 80 days.

The portion of his trip shown last night was from Bombay to Madras by train. And there, he was trying with difficulty to catch a freighter to Singapore.

It was a wonderful view from the train of India, portions that you are very familiar with, but that regrettably I am not. So I thought it might bring back a bit of nostalgia to hear about this.

The CHAIRMAN. He would have gone across the Malibar Mountains and went through Bangalar in southern India, a very special part of the world.

Senator CHAFEE. I just want to say one other thing, and this is completely digressing from the subject at hand. I am the possessor of some ancient turn of the century silver mugs that somehow came into our family, because somebody, no relation, was Brigadier so and so who won the Puna Horse Show in 1903.

I do not even know what took place in Puna. It must have been sort of a retreat place for British officers. Was it?

The CHAIRMAN. Puna was a hill station where the weather is livable in the summer.

Senator CHAFEE. Because the train stopped in Puna last evening. And the voyager recounted that he had a cap that belonged to some Brit who participated in the shell races on the Puna River, which

he showed us, although there was no river there anymore, just a trickle.

But it all brought back memories of the silver goblets that for some reason are in our family.

The CHAIRMAN. That whole subject of development links up with populations though. And the key to all of it is two things. One is water. Water is so profoundly important.

And of all the environmental issues on someplace like the sub-continent where a billion people live, India will have a larger population than China, the demographic profile.

Their principle environmental problem, their overwhelming environmental problem—I mean, in Bhopal and all—is that the water is not clean.

And the World Bank does what it can. I think it can be short-sighted.

About the time those mugs were made, there were three cities on the Bay of Bengal. Each had been founded by the British East India Co. Each had a hotel where Somerset Maugham stayed. Each had a race track. Each had a very interesting, satisfactory way of life.

A century goes by. Then, at the end of the century, one of those cities is a place where 1 million people sleep on the sidewalks every day. Another of those cities is no longer a city. It has gone back to grass.

And the third city has an air conditioned subway and one of the highest standards of living in the world. That is Calcutta, Rangoon, and Singapore. Don't think government doesn't make a difference. You cannot explain it any other way.

But that is by way of thanking you for your testimony.

Please, Ms. Perkins, you want to say something?

Ms. PERKINS. Well, I wonder if I could comment briefly on Mr. Chafee's reference to the infamous Dr. Summers' memo.

The CHAIRMAN. Please.

Ms. PERKINS. And I think that—

The CHAIRMAN. No, no. The infamous memo of Dr. Summers. [Laughter.]

Ms. PERKINS. The infamous memo of Dr. Summers, Professor.

I think that Dr. Summers has done a good job recanting the memo. And that is fine. However, what bothers me and what bothers a number of people in the environmental community and, I think, a lot of people you have heard from with letters and correspondence about this particular appointment is the underlying principles that are espoused in that letter.

They are straight-line, conventional economic thinking that actually has some logical value to it, but when you try to apply it in the kind of position that Dr. Summers is seeking here, it creates a lot of hardship for people in Third World countries.

And at its worse extreme, it is racist. And it provides for a lot of injustice in lending policies. And so you can throw out the words and you can accept apologies for shortsightedness or not paying enough attention, but what the underlying problem is for a lot of us is the theory and the principles that go with it.

And we think that they are alive and well in the World Bank and in the MDB's. And we do not want them at the level of the Under Secretary in the Treasury. That is why we are here.

Senator CHAFEE. Mr. Chairman, if I might. I am not an apologist for Dr. Summers by a long shot.

I might say with a little irony here that if this had been a Republican nominee with these credentials, this room would be filled. Certainly, that side would have been pouring all over this individual, showing no mercy. I think that is important to bear in mind.

I do believe in salvation. Sometimes when people have been scorched a bit—and I am afraid he was not very badly scorched here—they are extra cautious.

Wally Hickel, for example. Wally Hickel came in and was chastised for his positions, but I think he bore that in mind and turned out to be a very good Secretary of the Interior. Now he is the Governor of Alaska.

So I think people can bear these lessons in mind. Now, it does not always prove true—I mean, Jim Watt did not change his stripes when he became Secretary of the Interior.

I would be interested—just briefly because I know we all have other engagements—but Mr. Summers is being nominated for Under Secretary of the Treasury. True, he will be dealing with the World Bank. But I somehow envision him spending his first areas of concentration on Russia. So I do not see the World Bank situation quite the way you do. Am I missing something here?

The CHAIRMAN. Dr. Blackwelder.

Dr. BLACKWELDER. Yes. What we are saying is that it appears to us that you are putting into a position of authority someone who at the World Bank has resisted all of the reforms which Congress has enacted, urging our own executive directors at the World Bank and the IMF to change.

For example, as part of last year's Russian bill, accompanying our testimony, there were instructions for the International Monetary Fund to start looking at the environmental and poverty impacts of its structural adjustment programs.

And here in the case of Russia, pendency of the G-7 is to turn everything over to the IMF and the World Bank to solve Russia's problems.

And our experience in trying to analyze structural adjustment in Africa and other places is that it has been a massive and serious failure and that these high level, macroeconomic policies are totally leading to destruction of the environment and impoverishment of the people.

The programs that first suffer are education, women's programs, and environmental protection programs as part of the structural adjustment.

And Dr. Summers' writings, for example, on the economy suggests that he applies just the straight-line economic approach.

He speaks about and spoke this morning about sustainability, he is being supportive of that. Yet, he resisted in this article incorporating a sustainability criterion or anything like that looking towards future generations into economic benefit cost analysis.

The bottom line rate of return was what we had to look at. And if you do the right thing with your benefit cost analysis, all these

other concerns you are taking care of, don't worry. And that is exactly what we believe Congress has for 10 years been legislating, trying to get these institutions to change, to take a different impact.

Sure, on one level, great benefit cost analysis is terrific. And you want to make it as good as possible.

But in our judgment in the case studies we attach in the testimony, we tried to illustrate that these policies are failing regularly.

And it was similar, Mr. Chairman, to what you were describing, I think, with the failure of our intelligence on the economy in Russia.

We have found the same thing that the IMF and the World Bank's failure to look at the actual impacts of the structural adjustment.

They do not. They refuse to gather that information, that data. We have tried using U.S. laws to ask them and force them to do an ex-post analysis of whether they succeeded or failed.

And our own directors are doing their best. The previous administration and the Congress worked together. And we still could not get these institutions to do those analyses.

The CHAIRMAN. May I just say, I think you are getting their attention. You certainly have mine. I mean, I read that memo, for example.

And I thought that one of the clear mistakes just at the simple economic level of analysis is that it assumed that pollution is short term with no long-term effects. Wouldn't you agree? And it is supposed to have long-term effects. That is not a wrong assumption.

We thank you. I thank you.

Senator CHAFEE. The same here.

The CHAIRMAN. Thank you, sir.

The hour of noon having arrived, our allowed period for a hearing is concluded.

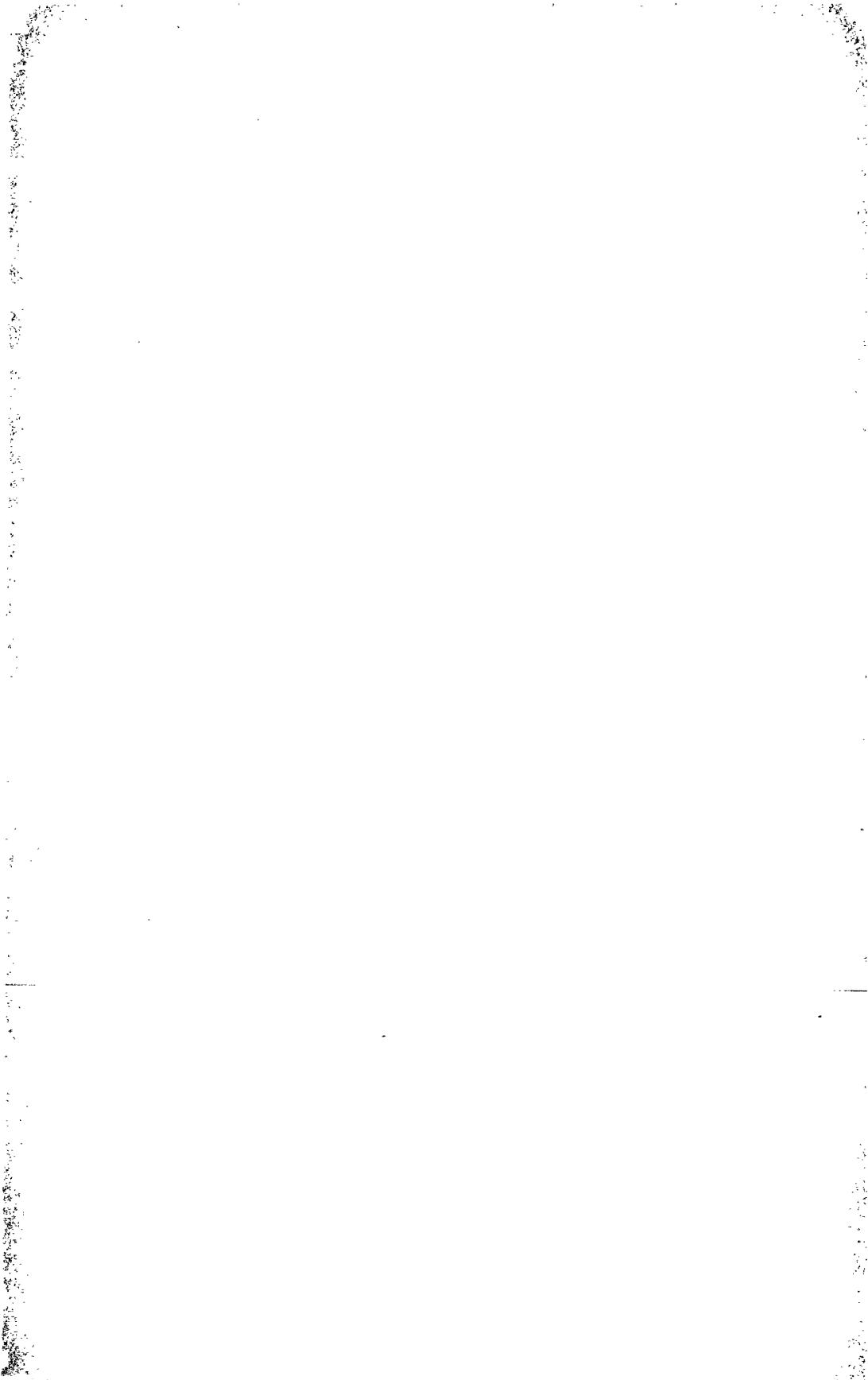
If there are any questions that the Senators wish to address to Ms. Perkins, they will do so in writing by the end of the day.

We thank our guests. We thank our witnesses.

And the hearing is now concluded.

[The prepared statement of Senator Hatch appears in the appendix.]

[Whereupon, at 11:55 a.m., the hearing was concluded.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

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### PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, I want to join my colleagues in welcoming Dr. Summers to this session. Of all the quirks science has identified in human genetics, a "tendency toward economics" is certainly one of the lesser known. Dr. Summers' mother and father, along with his uncle, Nobel Laureate Kenneth Arrow, are among the most distinguished scholar-economists in this century.

Of course, Dr. Summers has earned his own spurs, many times over, in fact. There are probably few Americans with his credentials for this important job.

I am encouraged by the thinking and writing that Dr. Summers has done on some of the very issues that he will encounter, if the nomination succeeds.

I refer first to his comments made at a G-7 Special session in Tokyo in November 1991. In his speech, Dr. Summers refers, somewhat prophetically, I might add, to the types of financial problems facing the world at the end of World War II, and which, he adds, could just as well be the agenda for today's G-7. The four problems are: controlling inflation while promoting growth; integrating nations into the world economy; directing capital to high-productivity uses; and promoting trade.

I would like to see Dr. Summers use the great influence of his office, to promote this agenda, using the G-7, OECD and other international economic bodies and institutions. There are three specific issues that I would like Dr. Summers to address that seem to further this goal.

First, the G-7 and the OECD can play a much greater role in coordinating national macroeconomic policies to promote growth.

Second, this country cannot relent on its long-standing commitment to workable foreign investment policies that promote growth. In fact, I would urge that we take the experience of the dozens of bilateral investment treaties negotiated over the years and combine it into a workable multilateral treaty, spearheaded by the OECD, and open to all countries.

Third, we need to assure ourselves that domestic economies do not harbor fiscal policies that distort trade and investment, or other policies on competition. I am thinking specifically of taxation policies, which can discourage U.S. investment abroad, lead to retaliation by others, and obstruct the competitiveness of American companies.

I am very hopeful that Dr. Summers' great talents will lead to significant improvements in international cooperation along the lines that I specified.

With those thoughts having been enunciated, Mr. Chairman, I would like to request that the balance of my comments be placed in the hearing record.

Let me elaborate on the first issue. The G-7 and OECD should cooperate and coordinate in assisting countries review structural economic issues that hinder competitiveness and growth. The International Labor Office should be brought into this fold where its activities promote flexible labor policies to accommodate such growth. The U.S. should have a new voice on these deliberations in light of our own strong steps now being taken to remedy our structural deficit. But we, too, have to do more, to include promoting more savings and investment while concentrating the use of such capital on high-productivity projects, something that Dr. Summers raised in his November 1991 speech.

As regards the second issue, we cannot foolishly ignore the tremendous benefits that our political and economic stability invites through foreign investment. Not only is this a source of growth capital, but also jobs and, as we have seen throughout our history, innovations that improve our economic efficiency and way-of-life. Assaults on foreign investment are, for the most part, short-sighted. A very small

share of U.S. assets are foreign held, and our growing economy has been well-served by foreign investment. National treatment must become the U.S. standard in its global effort for enlightened foreign investment.

—Let me add that approaches like the Fair Trade in Financial Services Act, as proposed, is not the way to go. It seeks reciprocity and absolute parity across borders, ignoring to its peril inherent legal and social system differences that are matters of sovereignty. Rather, national treatment can be achieved within the framework of existing national systems. Fairness and equity are not foreign words in any domestic legal system.

Finally, there needs to be a universal set of foreign investment standards. These would establish rights to national treatment, the protection of foreign investment and the repatriation of fair profits.

—We need to guard against attacks on the generally liberal investment policies that the U.S. stands for. The bilateral investment treaties (BIT) were negotiated to create a favorable investment climate. They guarantee protections of property, and limit host country inclinations to expropriate it.

—The OECD has provided the bedrock for universal rules on investment protection. The Codes of Liberalization and National Treatment Instrument are useful precedents, although non-binding. We need to move to the next plateau, with OECD's assistance. This has been done in the Dunkel Draft Agreement of the Uruguay Round of GATT. There, for example, we limit trade-distorting investment measures, and give GATT enforcement capabilities.

Mr. Chairman, I appreciate the opportunity to raise these issues and to invite Dr. Summers' views on them.

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#### PREPARED STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN

This morning we welcome to the Finance Committee Dr. Lawrence Summers, who is the President's nominee to be the Under Secretary of the Treasury for International Affairs.

Dr. Summers, you will be assuming this job at a time when our international economic challenges are mounting. Your plate will be full.

The G-7 is grappling with the difficult question of how to assist the states of the former Soviet Union—at a time when their commitment to economic reform appears to be wavering. The world is looking increasingly to the international lending institutions—the International Monetary Fund, the World Bank and the regional development banks—to play a much greater role in coordinating Western aid to Russia and assisting the developing countries with their economic development goals. And the Uruguay Round of multilateral negotiations is looking for a jump-start, just as the United States is trying to wrap up the NAFTA through the negotiation of supplemental agreements on labor, the environment and import surges. You will play a key role in all of these matters.

Your resume suggests to me that you are well-prepared to tackle this job. You come, as I understand it, from a family of economists: I am told that your parents and two of your uncles are highly regarded in the field. You became a full professor at Harvard at the ripe old age of 28. You served as *domestic* policy economist at the Council of Economic Advisers under President Reagan. And your tenure at the World Bank has given you a great deal of *international* experience.

It also gave you a great deal of international *exposure*. As you know, a number of environmental groups oppose your nomination. They will be ably represented here later this morning by Jane Perkins, who is the President of Friends of the Earth.

The Committee will want to hear your views on the role the international financial institutions should play in promoting environmental protection and economic reforms and in improving the standard of living throughout the developing world. And we will listen carefully to the concerns expressed by Ms. Perkins and others.

It is my intention to schedule a vote on this nomination relatively soon, but after the Committee has had an opportunity to digest the testimony and comments.

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## PREPARED STATEMENT OF JANE PERKINS

Friends of the Earth opposes the nomination of Lawrence Summers to the position of Undersecretary of Treasury for International Affairs for three main reasons:

First, Summers' confirmation to such a position would send a terrible signal to those people in the United States and around the world who are victims of environmental racism and injustice;

Second, Summers' confirmation would suggest that Congress was not serious in calling for major reforms of the multilateral development banks (MDBs);

Third, Summers' world view is too narrow for this job.

**A SIGNAL TO THE WORLD:**

We would like to call to the Committee's attention the worldwide reaction to Mr. Summers' infamous memo advocating dumping of toxic wastes in developing countries because they are 'under-polluted.' One of the main reasons this memo brought out the ire of the world's environment, development, and social justice communities was that it captured in writing the actual impact on the ground of far too much World Bank activity; namely the institution's callous disregard for the suffering of the poor, and in particular to the very suffering caused by the Bank's own projects and lending policies. That Summers was the World Bank's chief economist simply added fat to the fire.

Attached to this testimony are examples of the reactions of leaders from around the world to his memo and nomination. Typical of the reactions was that of Brazil's environment secretary, Jose Lutzenberger, who wrote to Summers, "Your thoughts are a concrete example of the unbelievable alienation, reductionist thinking, ruthlessness, and arrogant ignorance of many conventional 'economists' concerning the nature of the world we live in." The Development Group for Alternative Policies has received some 20 statements from citizens' organizations around the world opposing his confirmation. Some of these comments are as follows:

From the General Secretary of the National Council of Churches of Kenya:

The structural adjustment policies (SAPs) which Larry Summers has helped to formulate affect mostly the poor, women and children in the Third World. The SAPs are not a panacea to the socio-economic problems in the South but only add distress and more burden. The one cure that the Clinton Administration can give the Third World is by revoking the appointment of Larry Summers.

From the Women and Development Institute, University of the West Indies, Barbados:

Larry Summers is known for his aggressive promotion of structural adjustment programmes which leave little room for debate on the impact of these programmes on human or natural environments. I think that his appointment to this post by the Clinton Administration will raise very serious doubts in the minds of informed citizens from the South about the new Administration's sensitivity to issues of equity, human rights and environmental sustainability.

From Equipo PUEBLO in Mexico:

We are concerned that the U.S. Administration designate for such an important position is a person who has advocated structural adjustment policies during his employment at the World Bank. Far from promoting the satisfaction of the basic needs of the majority of the population and effectively combatting poverty, these policies have resulted in an irrational use of natural resources and a sharp concentration of wealth and income in our country.

To understand their rage, it is perhaps useful to imagine how this Committee would feel if the gross insensitivity exhibited in Summers' memo had been directed at poor communities in the United States rather than poor Third World countries.

Viewed in the context of last June's Earth Summit in Rio de Janeiro with its strong emphasis on environmental justice, it would be hard to find a more inappropriate person to serve the U.S. in such a sensitive position. Approving this nomination will send a signal to the World that as far as U.S. policy in the arena of the MDBs is concerned, business is proceeding as usual.

#### A SIGNAL TO CONGRESS:

Summers' confirmation would not simply be disappointment because of his personal views, but because his selection would indicate that the United States, which has long been the leader in seeking reforms of the MDBs, has decided to back down.

For the past decade, the U.S. Congress has led the world in examining the true environmental and social impacts of the MDBs lending programs. It has helped expose disasters such as the Brazil Power Sector loans which would have flooded thousands of acres of tropical rainforest and displaced thousands of Kayapo Indians. In that case, the project was ultimately stopped. Now the Congress is keeping the spotlight on disastrous projects such as the Narmada Dams in India which will displace hundreds of thousand of people.

The Congress has issued specific instructions for a reform agenda at the World Bank, IMF and other MDBs. Most dramatically, the so-called Pelosi Amendment forced the World Bank to undertake Environmental Impact Assessments of its projects. Now, attention is being focused on the effects of IMF structural adjustment programs. Last year, in conjunction with the Russian Aid package Congress amplified its concern that the IMF was not looking at the poverty and environmental impacts of its structural adjustment lending. Attached to this statement is a copy of that legislation. We would encourage you to question Mr. Summers to determine whether he supports the legislation and how he would go about pursuing the goals it spells out.

Also attached is testimony we presented to the House Appropriations Committee on March 1 concerning U.S. policy and support for the MDBs. It provides many details of the poor record of the World Bank, for which Summers shares part of the responsibility. It also may provide the Committee with an idea of the depth and complexity of the problems that the Undersecretary's post must address.

This reform agenda, while conceived by Congress, must be executed by Treasury; i.e., by the very office that Mr. Summers now wishes to head. On his shoulders will fall the responsibility for implementing the will of Congress.

During his tenure at the World Bank, Summers has been part of these problems, not part of the solution. Summers has no track record of reform or achievement at the World Bank. Instead, he stands for the very international economic development strategy which Congress has been trying to change for the past 10 years. In our review of Summers' performance at the World Bank we have found that the only area in which he distinguished himself and for which he should be commended is women's education. But his work here is overshadowed by his espousal of the structural adjustment programs which have failed to consider impacts on women, poverty or the environment.

#### **SUMMERS' VIEW IS TOO CONSTRICTED FOR THIS JOB:**

Today Summers claims that he did not read the infamous memo or that it was intended as ironic counterpoint. Either answer does not assuage our concern. (It does, however, strike us as unacceptable for someone in such a high position not paying attention to the key memoranda which leave his office.)

Whether ironic or inadvertent, the vision of the famous memo is something this Committee should keep foremost in its mind as it deliberates because, the limited, purely economic standpoint of Mr. Summers leads directly to the morally repulsive conclusions that a person who earns less is worth less and that Africa is 'vastly under-polluted'.

We would also point out to the Committee that, while unusually blunt, the sentiments expressed in the memo are consistent with other statements made by Mr. Summers. For example, he belittles concerns about global warming, claiming that several months of GNP growth would more than offset any costs occasioned by climate change. He believes moral criteria and sustainability conditions should not be built into foreign aid. The rate of return is the sole criterion to use, he argues in a piece written for the Economist.

We believe that the job of Treasury Undersecretary and the task of reforming the MDBs, requires a far broader vision than that of the laser-lines of conventional economics. This vision should start from the standpoint that all human lives are of equal value and that transferring pollution to other countries is not an acceptable development path. The vision should extend to taking into account the long term social and environmental costs of projects and structural adjustment conditions. And, this vision should be tempered by a fundamentally democratic viewpoint that seeks to involve affected citizens from the outset in the planning and development of projects that will profoundly affect their lives.

This Undersecretary position is a big and demanding job -- a job that requires broad reach and compassionate sensitivity. Mr. Summers has failed to demonstrate these qualities and we urge you to reject his nomination.

PUBLIC LAW 102-511—OCT. 24, 1992

**FREEDOM FOR RUSSIA AND EMERGING  
EURASIAN DEMOCRACIES AND OPEN  
MARKETS SUPPORT ACT OF 1992  
(FREEDOM SUPPORT ACT)**

. . . . .

**TITLE X—INTERNATIONAL FINANCIAL  
INSTITUTIONS**

**SEC. 1001. INTERNATIONAL MONETARY FUND QUOTA INCREASE.**

The Bretton Woods Agreements Act (22 U.S.C. 286 and following) is amended by adding at the end the following:

**\*SEC. 56. QUOTA INCREASE.**

22 USC 286e-11.

"The United States Governor of the Fund may consent to an increase in the quota of the United States in the Fund equivalent to 8,608,500,000 Special Drawing Rights, limited to such amounts as are provided in advance in appropriations Acts.

**\*SEC. 57. ACCEPTANCE OF AMENDMENTS TO THE ARTICLES OF AGREEMENT OF THE FUND.**

22 USC 286e-5b.

"The United States Governor of the Fund may agree to and accept the amendments to the Articles of Agreement of the Fund as proposed in the resolution numbered 45-3 of the Board of Governors of the Fund that was approved by such Board on June 28, 1990.

**\*SEC. 58. APPROVAL OF FUND PLEDGE TO SELL GOLD TO PROVIDE RESOURCES FOR THE RESERVE ACCOUNT OF THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST.**

22 USC 286e-13.

"The Secretary of the Treasury is authorized to instruct the United States Executive Director of the Fund to vote to approve the Fund's pledge to sell, if needed, up to 3,000,000 ounces of the Fund's gold, to restore the resources of the Reserve Account of the Enhanced Structural Adjustment Facility Trust to a level that would be sufficient to meet obligations of the Trust payable to lenders which have made loans to the Loan Account of the Trust that have been used for the purpose of financing programs to Fund members previously in arrears to the Fund."

**SEC. 1002. INTERNATIONAL MONETARY FUND POLICY CHANGES.**

The Bretton Woods Agreements Act (22 U.S.C. 286 and following) is amended by adding after the sections added by section 1001 of this Act the following:

**\*SEC. 59. FUND POLICY CHANGES.**

22 USC 28611.

"(a) POLICY CHANGES WITHIN THE IMF.—The Secretary of the Treasury shall instruct the United States Executive Director of

the Fund to promote regularly and vigorously in program discussions and quota increase negotiations the following proposals:

“(1) POVERTY ALLEVIATION, REDUCTION OF BARRIERS TO ECONOMIC AND SOCIAL PROGRESS, AND PROGRESS TOWARD ENVIRONMENTALLY SOUND POLICIES AND PROGRAMS.—(A)(i) Considerations of poverty alleviation and the reduction of barriers to economic and social progress should be incorporated into all Fund programs and all consultations under article IV of the Articles of Agreement of the Fund.

“(ii) Preparation of Policy Framework Papers should be extended to all nations which have Fund programs and active Bank or International Development Association lending programs, and existence of a Policy Framework Paper should be a precondition for new lending to such nations by the Fund.

“(iii) All Policy Framework Papers should articulate the principal poverty, economic, and social measures that the borrowing nation needs to address, and this portion of the Policy Framework Paper (or a summary thereof that includes specific measures and timing) should be made available when the Policy Framework Paper is submitted to the Executive Directors of the Bank and of the Fund for consideration.

“(iv) In considering whether to allocate resources of the Fund to a borrower, the Fund should take into consideration the nature of the program and commitment of the borrower to address the issues referred to in clause (iii).

“(v) The Fund should establish procedures to enable the Fund to cooperate with the Bank in evaluating the effectiveness of the measures referred to in clause (iii), at the levels of policy, project design, monitoring, and reporting, in the international financial institutions and in the borrowing nations.

“(E)(i) The Fund should be encouraged to make further progress toward environmentally sound policies and programs.

“(ii) The Fund should incorporate environmental considerations into all Fund programs, including consultations under article IV of the Articles of Agreement of the Fund.

“(iii) The Fund should be encouraged to support the efforts of nations to implement systems of natural resource accounting in their national income accounts.

“(iv) The Fund should be encouraged to assist and cooperate fully with the statistical research being undertaken by the Organization for Economic Cooperation and Development and by the United Nations in order to facilitate development and adoption of a generally applicable system for taking account of the depletion or degradation of natural resources in national income accounts.

“(v) The Fund should be encouraged to consider and implement, as appropriate, revisions in its national income reporting systems consistent with such new systems as are of general applicability.

“(2) POLICY AUDITS.—(A) The Fund should conduct periodic audits to review systematically the policy prescriptions recommended and required by the Fund in the areas of poverty and the environment.

“(B) The purposes of such audits would be—

“(i) to determine whether the Fund's objectives were met; and

"(ii) to evaluate the social and environmental impacts of the implementation of the policy prescriptions.

"(C) Such audits would have access to all ongoing programs and activities of the Fund and the ability to review the effects of Fund-supported programs, on a country-by-country basis, with respect to poverty, economic development, and environment.

"(D) Such audits should be made public as appropriate with due respect to confidentiality.

"(3) ENSURING POLICY OPTIONS THAT INCREASE THE PRODUCTIVE PARTICIPATION OF THE POOR.—The Fund should establish procedures that ensure the focus of future economic reform programs approved by the Fund on policy options that increase the productive participation of the poor in the economy.

"(4) PUBLIC ACCESS TO INFORMATION.—(A) The Fund should establish procedures for public access to information.

"(B) Such procedures shall seek to ensure access of the public to information while paying due regard to appropriate confidentiality.

"(C) Policy Framework Papers and the supporting documents prepared by the Fund's mission to a country are examples of documents that should be made public at an appropriate time and in appropriate ways.

"(b) PROGRESS REPORT.—Each annual report of the National Advisory Council on International Monetary and Financial Policies shall describe the following:

"(1) The actions that the United States Executive Director and other officials have taken to convince the Fund to adopt the proposals set forth in subsection (a) through formal initiatives before the Board and management of the Fund, through bilateral discussions with other member nations, and through any further quota increase negotiations.

"(2) The status of the progress being made by the Fund in implementing the proposals set forth in subsection (a).

"(c) STUDY.—The Secretary of the Treasury shall instruct the United States Executive Director to the Fund to urge the Fund—

"(1) to explore ways to increase the involvement and participation of important ministries, national development experts, environmental experts, free-market experts, and other legitimate experts and representatives from the loan-recipient country in the development of Fund programs; and

"(2) to report on the status of Fund efforts in this regard."

**SEC. 1003. REDUCTION OF MILITARY SPENDING AND PROMOTION OF LONG-TERM SUSTAINABLE ECONOMIC GROWTH BY DEVELOPING NATIONS.**

The Bretton Woods Agreements Act (22 U.S.C. 286 and following) is amended by adding after the sections added by sections 1001 and 1002 of this Act the following:

**\*SEC. 60. MEASURES TO REDUCE MILITARY SPENDING BY DEVELOPING NATIONS.**

22 USC 286mm.

"(a) DEVELOPMENT BY THE FUND OF MEANS TO MEASURE MILITARY SPENDING.—

"(1) POSITION OF THE UNITED STATES.—The United States Executive Director of the Fund shall use the voice and vote of the United States to urge the Fund, in consultation with the Bank, to continue to develop an economic methodology

to measure the level of military spending by each developing country.

"(2) PROGRESS REPORT TO THE CONGRESS.—No later than 1 year after the date of the enactment of this section, the Secretary of the Treasury shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate a report on the status of the development by the Fund of a workable economic methodology to measure military spending by developing countries.

"(b) ANNUAL REPORTS BY FUND ON LEVELS OF MILITARY SPENDING.—The United States Executive Director of the Fund shall use the voice and vote of the United States to urge the Fund, beginning with 1994, to provide the Executive Board of the Fund with annual reports stating the estimate by the Fund of the level of military spending by each developing country in the immediately preceding calendar year (or, with respect to developing countries whose fiscal years are not calendar years, in the most recently completed fiscal year of the developing country), not later than the date of the annual fall Interim and Development Committee meetings.

"(c) ANALYSIS AND ASSESSMENT OF MILITARY SPENDING TO BE INCLUDED IN ARTICLE IV CONSULTATIONS BY THE FUND.—The United States Executive Director of the Fund shall use the voice and vote of the United States to urge the Fund, beginning no later than the date of the first report provided as described in subsection (b), to include in every article IV consultation with a developing country an analysis of the level of military spending by the developing country in the immediately preceding calendar year (or, with respect to developing countries whose fiscal years are not calendar years, in the most recently completed fiscal year of the developing country)."

22 USC 5812  
note.

**SEC. 1004. SUPPORT FOR MACROECONOMIC STABILIZATION IN THE INDEPENDENT STATES OF THE FORMER SOVIET UNION.**

(a) IN GENERAL.—In order to promote macroeconomic stabilization and the integration of the independent states of the former Soviet Union into the international financial system, enhance the opportunities for trade, improve the climate for foreign investment, and strengthen the process of transformation of the former socialist economies into free enterprise systems and thereby progressively enhance the well-being of the citizens of these states, the United States should in appropriate circumstances take a leading role in organizing and supporting multilateral efforts at macroeconomic stabilization and debt rescheduling, conditioned on the appropriate development and implementation of comprehensive economic reform programs.

(b) CURRENCY STABILIZATION.—In furtherance of the purposes and consistent with the conditions described in subsection (a), the Congress expresses its support for United States participation, in sums of up to \$3,000,000,000, in a currency stabilization fund or funds for the independent states of the former Soviet Union.

(c) STUDY OF THE NEED FOR AND FEASIBILITY OF A CURRENCY STABILIZATION FUND FOR UKRAINE.—The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to use the voice and vote of the United States to urge the Fund to conduct a study of the need for and

feasibility of a currency stabilization fund for Ukraine, and, if it is found that such a fund is needed and is feasible, which considers and makes recommendations with respect to the economic and policy conditions required for the success of such a fund.

**SEC. 1005. ROLE OF THE INTERNATIONAL FINANCE CORPORATION IN SUPPORTING ECONOMIC RESTRUCTURING IN THE INDEPENDENT STATES OF THE FORMER SOVIET UNION.**

The International Finance Corporation Act (22 U.S.C. 282-282k) is amended by adding at the end the following:

**"SEC. 15. AUTHORITY TO VOTE FOR CAPITAL INCREASES NECESSARY TO SUPPORT ECONOMIC RESTRUCTURING IN THE INDEPENDENT STATES OF THE FORMER SOVIET UNION.** 22 USC 282m.

"The United States Governor of the Corporation or may vote in favor of any increase in the capital stock of the Corporation that may be needed to accommodate the requirements of the independent states of the former Soviet Union (as defined in section 3 of the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992)."

**SEC. 1006. AUTHORITY TO AGREE TO AMENDMENTS TO THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL FINANCE CORPORATION.** 22 USC 282n.

The International Finance Corporation Act (22 U.S.C. 282-282k) is amended by adding after the section added by section 1005 of this Act the following:

**"SEC. 16. AUTHORITY TO AGREE TO AMENDMENTS TO THE ARTICLES OF AGREEMENT.**

"The United States Governor of the Corporation is authorized to agree to amendments to the Articles of Agreement of the Corporation that would—

"(1) amend Article II, Section 2(c)(ii), to increase the vote by which the Board of Governors of the Corporation may increase the capital stock of the Corporation from a three-fourths majority to a four-fifths majority; and

"(2) amend Article VII(a) to increase the vote by which the Board of Governors of the Corporation may amend the Articles of Agreement of the Corporation from a four-fifths majority to an eighty-five percent majority."

**SEC. 1007. REPORT ON DEBT OF THE FORMER SOVIET UNION HELD BY COMMERCIAL FINANCIAL INSTITUTIONS.** 22 USC 5812 note.

The Secretary of the Treasury, using information available from the International Monetary Fund, the International Bank for Reconstruction and Development, and other appropriate international financial institutions, shall report to the Congress, not later than one year after the date of enactment of this Act, on the debt incurred by the former Soviet Union that is held by commercial financial institutions outside the independent states of the former Soviet Union that are obligated on such debt.

**SEC. 1008. HUMAN RIGHTS.**

(a) **ADVANCEMENT OF HUMAN RIGHTS THROUGH THE IMF AND EBRD.**—Section 701(a) of the International Financial Institutions Act (22 U.S.C. 282d(a)) is amended by striking "and the African Development Bank," and inserting "the African Development Bank,

the European Bank for Reconstruction and Development, and the International Monetary Fund.”

(b) ACCOUNTING FOR AMERICANS MISSING IN ACTION CONSIDERED IN ASSESSING HUMAN RIGHTS IN THE INDEPENDENT STATES.—Section 701(b)(4) of such Act (22 U.S.C. 262d(b)(4)) is amended by inserting “Russia and the other independent states of the former Soviet Union (as defined in section 3 of the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992),” after “Laos,”.

Reports.

**SEC. 1009. MULTILATERAL INVESTMENT GUARANTEES FOR THE INDEPENDENT STATES OF THE FORMER SOVIET UNION.**

Not later than 60 days after the date of enactment of this Act, the United States Director of the Multilateral Investment Guarantee Agency shall transmit to the Congress a report analyzing—

- (1) the investments in the independent states of the former Soviet Union which have been guaranteed by the Agency; and
- (2) the demand for investment guarantees of the type provided by the Agency for investments in the independent states.

Approved October 24, 1992.

**LEGISLATIVE HISTORY—S. 2532 (H.R. 4547):**

**HOUSE REPORTS:** No. 102-569, Pts. 1 and 2 (both from Comm. on Foreign Affairs), both accompanying H.R. 4547, Pt. 3 (Comm. on Armed Services), and Pt. 4 (Comm. on Agriculture); and No. 102-964 (Comm. of Conference).

**SENATE REPORTS:** No. 102-292 (Comm. on Foreign Relations).  
**CONGRESSIONAL RECORD**, Vol. 138 (1992):

June 29, July 1, 2, considered and passed Senate.

Aug. 6, H.R. 4547 considered and passed House; S. 2532, amended, passed in lieu.

Oct. 1, Senate agreed to conference report.

Oct. 3, House agreed to conference report.

**WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS**, Vol. 28 (1992):

Oct. 24, Presidential statement.

## THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, INC.

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**STATEMENT OF DOUGLAS HELLINGER, MANAGING DIRECTOR  
THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES  
(THE DEVELOPMENT GAP)  
TO THE SENATE COMMITTEE ON FINANCE  
ON THE NOMINATION OF LAWRENCE SUMMERS**

18 MARCH 1993

Thank you, Mr. Chairman, for the opportunity to address the Committee on the matter of the nomination of Mr. Lawrence Summers to be Undersecretary of the Treasury for International Affairs.

My colleagues and I at The Development GAP worked extensively as consultants in the World Bank during the 1970s, demonstrating in the field how to support sustainable, equitable and more self-reliant development at local levels. Over the past decade, however, we have joined colleagues around the world in fighting policies of indiscriminate economic liberalization pushed by the Bank and IMF because of the highly negative impact these have had on the people and the environments of the South.

Mr. Summers' record at the Bank as its Chief Economist must be examined in connection with the promotion of these policies. The attention paid to his suggestion in his now infamous memo that toxic waste be dumped in developing countries has overshadowed the deeper significance of his work at the Bank. Consistent with the memo's arguments in favor of toxic dumping, Mr. Summers and his fellow Bank economists have advocated, in the form of structural adjustment programs in some 75 countries, unregulated economic activity regardless of its devastating social and environmental impact and the economic and political polarization it has wrought. While Mr. Summers has disavowed his comments proposing toxic-waste dumping in the Third World, he has yet to renounce the trickle-down economic policies of the Bank that have even more dire consequences.

In his memo, Mr. Summers recognized that the arguments against dumping pollution on the people of developing countries -- "intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc." -- could be used against every World Bank proposal for liberalization. Yet he continued to dump adjustment programs and their tragic social and environmental fall-out on the people of the South.

#### **Reaction of Third World Citizen Groups**

Not surprisingly, the nomination of Mr. Summers has incensed citizen groups across the Third World because of his record at the Bank. Many question his qualifications to hold a post in which he would have direct policy responsibility for the international financial institutions.

These organizations have reacted as much to Mr. Summers' consistent promotion of socially and environmentally destructive structural adjustment programs across the Third World as to his infamous statement on toxic-waste dumping. To them, the two

are linked because they both demonstrate an insensitivity to the interests and perspectives of the people of the South. They question, as we do, Mr. Summers' ability to put aside his personal views and carry out a full and objective evaluation of the economic-reform programs of the World Bank and the International Monetary Fund.

But beyond matters of policy, there is the equally troubling problem of the public perception of the Clinton Administration both here and abroad. While we have communicated to our many partner organizations working at grassroots and policy levels around the world our positive perception of the Clinton team as respectful of common people and their concerns, we have heard from them a consistent refrain over the past few months: that they and their constituencies are insulted by the inclusion of Mr. Summers in the Clinton Administration and see it as a sign that the indifference to Third World concerns of the past twelve years will continue. These groups understand, as do we, that Mr. Summers' memo is indicative of deep-seated attitudes that have been reflected repeatedly during his tenure at the Bank and that would undoubtedly affect policymaking in the Administration.

The international outrage over Mr. Summers' appointment is captured in the following statements by citizen leaders representing some of the principal non-governmental organizations (NGOs) in Africa, Asia, Latin America and the Caribbean. As representatives of these organizations are not able to testify before your Committee, we appreciate the opportunity to present the views of these leaders. Their constituencies are voiceless in the confirmation process, despite the fact that they will be affected significantly by the actions of whomever assumes the responsibilities of Treasury Undersecretary. These groups call upon the U.S. Senate to reject the Summers nomination and to conduct a thorough re-examination of the structural adjustment programs imposed by the Bank and IMF. We believe that the Committee needs to hear and reflect upon these views before it proceeds with a vote on Mr. Summers' confirmation.

#### **Views from Africa, Asia, the Caribbean and Latin America**

Church leaders in Africa have been particularly vocal on Mr. Summers' nomination. According to the All Africa Conference of Churches, "[M]ost people in the Third World saw the election of Bill Clinton as a sign of hope...[The] nomination of Lawrence Summers has, however, come to them as a shock and has introduced, rather too soon, an element of disillusionment..." The prestigious National Council of Churches of Kenya also "strongly opposes" the appointment of Mr. Summers to the Treasury post. The organization's General Secretary, Rev. Samuel Kobia, states that "The structural adjustment policies (SAPs) which Larry Summers has helped to formulate affects mostly the poor, women and children in the Third World. The SAPs are not a panacea to the socio-economic problems in the South but only add distress and more burden. The one cure that the Clinton Administration can give to the Third World is to revoke the appointment of Larry Summers." Likewise, the Evangelical Lutheran Church in Tanzania, the Church Province of Tanzania, the Moravian Church of Tanzania and the Christian Council of Tanzania "...urge the U.S. Senate not to confirm this nomination because it will diminish the hope we have for Clinton's government. The nomination of Summers is not consistent with U.S. policies that are geared to eradicate misery in the Third World."

Church leaders in the Caribbean have been equally troubled by Mr. Summers' appointment. According to E.R. St. John Cumberbatch, General Secretary of the Caribbean Conference of Churches, "The peoples of the developing world eagerly anticipated a change after twelve years of Reagan/Bush policies, which in many cases have proved inimical to the so-called Third World... The nomination of Mr. Larry Summers...has caused consternation, since Mr. Summers' record is such as marks him as very unfriendly to developing countries." The Caribbean Policy Development Center, which services NGOs throughout the Caribbean, states that "The Caribbean, and the

South as a whole, has already suffered enormously from insensitive and ill-advised policies emanating from the IMF, the World Bank, and associated agencies. During his tenure at the Bank, Larry Summers consistently blocked initiatives to make the Bank more sensitive to environmental and social issues in its policies and programs." Peggy Antobus, who coordinates the Women and Development Institute at the University of the West Indies in Barbados, writes that the Summers appointment will "...raise very serious doubts in the minds of informed citizens from the South about the new Administration's sensitivity to issues of equity, human rights and environmental sustainability."

Leonor Briones, President of the Freedom from Debt Coalition, a grouping of over 250 labor, community, environmental and business groups in the Philippines states: "To us, Summers sums up the World Bank -- cold, calculating, inhuman -- high officials who claim to represent freedom and democracy yet see Third World people as third rate... We want the American government officials to hear our say on this. In a world gearing for less aggression and more cooperation between nations, Summers is an anachronism that deserves to be buried in the toxic wastebasket of history."

The opposition to Mr. Summers' nomination has been particularly vigorous in Latin America. The president of the Instituto Latinoamericano de Servicios Legales Alternativos (ILSA), which represents more than 3,000 groups providing legal services to low-income people in Latin America, claims that Summers' work at the World Bank "...showed contempt for such key universal issues as environmental protection, transparency and international accountability. His standings on structural adjustment programs proved he has no commitment to the gradual changes that may protect the standard of living of Latin Americans." In Chile, the President of the Instituto de Ecología Política asks the Senate to reject the Summers nomination, "...which would be a sign that would indicate that the era of Reagan and Bush is finished, [and] that there exists a better understanding of the needs of the people in the South."

Humberto Campodonico of the Centro de Estudios y Promocion del Desarrollo (DESCO) in Peru points out the "...contradictory economic policies of the Clinton Administration. On the one hand (at least in theory) it attacks the old Reaganomics formula that the reduction of taxes for the rich and the 'free market' will allocate resources in the best way. Thus, it favors state 'industrial policies' so that U.S. enterprises can compete against foreign companies and improve their productivity. Also, the Clinton discourse advocates public spending to reconstruct the infrastructure and promote employment. But, for Third World countries, the nomination of Lawrence Summers gives exactly the opposite formula. They keep the old recipe of 'Reaganomics'... Why the double standard? We see this as unacceptable and we protest vigorously. For that reason we oppose Mr. Summers' nomination..."

Arturo Gallese, Executive Secretary of The Coordinadora Regional de Investigaciones Económicas y Sociales (CRIES), the largest economic- and social-policy research network in the Central American and Caribbean region, writes that "The inflexible structural adjustment programs promoted by [the World Bank and IMF] have proven ruinous to our region over the past twelve years of highly politicized Republican administrations. The fact that Mr. Summers has been an outspoken advocate of these policies, and is the author of unacceptable opinions concerning the world environment, leaves us with the impression that the possibility for a constructive shift in U.S. development policy may be in danger."

Carlos Heredia, Director of Projects for Equipo PUEBLO, a Mexican NGO which works with popular organizations in the formulation of public policy, states that the Summers appointment is "...inconsistent with the pledges of Mr. Clinton during his electoral campaign to nominate for his work team persons whose record has been distinguished by defense of the environment and the promotion of sustainable development. We are concerned that the U.S. Administration designate for such an

important position a person who has advocated structural adjustment policies during his employment at the World Bank. Far from promoting the satisfaction of the basic needs of the majority of the population and effectively combatting poverty, these policies have resulted in an irrational use of natural resources and a sharp concentration of wealth and income in our country."

Mr. Chairman, I would like to submit for the record the full text of statements on the Summers nomination from some 19 groups in 16 different countries.

### Conclusion

With the appointment of Mr. Summers, President Clinton has missed his first opportunity to disavow the Third World economic policies of the Reagan and Bush Administrations and to establish a respectful and forward-looking relationship with the people of the South. Both the Administration and Mr. Summers himself have a long way to go before those people, who have suffered so much over the past twelve years, are convinced that the recent transfer of power in Washington truly signifies change. The Clinton Administration needs to take seriously its commitment to support real democracy in the Third World by opening up the economic policymaking process to the ordinary women and men who have paid the price for the policies that Larry Summers has come to symbolize.

The Senate also has its obligations. It must challenge Mr. Summers and all other nominees with responsibility for our economic policy in the Third World to develop policy positions based on more than economic theory and to ensure that these policies serve more than narrow financial interests. The policies must take into account the lives of real people overseas, as well as the broader interests of the American public. If the Senate should choose to confirm Mr. Summers, it must then take seriously its oversight function of reviewing his work and ensuring that local views are reflected in the policies he promotes.

Thank you, Mr. Chairman.

## INTERNATIONAL REACTION TO THE NOMINATION OF LAWRENCE SUMMERS

### AFRICA

The National Council of Churches of Kenya (NCCCK) strongly opposes the appointment of Mr. Lawrence Summers to the post of Undersecretary for International Affairs at the United States Treasury....The structural adjustment policies (SAPs) which Larry Summers has helped to formulate affects mostly the poor, women and children in the Third World. The SAPs are not a panacea to the socio-economic problems in the South but only add distress and more burden. The one cure that the Clinton Administration can give to the Third World is by revoking the appointment of Larry Summers.

*Rev. Samuel Kobia, General Secretary, National Council of Churches of Kenya*

Apart from the crooks and violators of human rights, most people in the Third World saw the election of Bill Clinton as a sign of hope after decades of disenchantment with American administrations which showed them only cynicism....Quite favorable reports have announced President Clinton's intention to make democratization throughout the world a major policy issue....Much work is going to be done to educate, to organise, and present the voice of

various community groups, development organizations, and other citizens groups clearly calling for democratic processes in the governance of their countries and their lives....Such groups throughout the world considered his election as a triumph for their own vision as well. [The] nomination of Lawrence Summers has, however, come to them as a shock and has introduced, rather too soon, an element of disillusionment.

In Clinton's inaugural address he disdained Washington, D.C. because it is "a place of intrigue and calculation". It is hard to imagine a mind more coldly calculating than that which would advocate, on the basis of "impeccable logic", that the less developed countries accept dirty industries and the dumping of toxic waste in their territory. The people of the Third World did not miss the insult in Mr. Summers' 12 December 1991 memo. No, they will be justified to feel under direct threat if Mr. Summers is appointed Undersecretary for International Affairs at the U.S. Treasury.

*Mosi Kisare, All Africa Conference of Churches*

The nomination of Lawrence Summers will certainly work to the detriment of people as they continue to suffer under the structural adjustment programmes designed by the World Bank in which Summers served as Chief Economist. The receipt of Summers nomination is thus bad news to us. We urge the U.S. Senate not to confirm this nomination because it will diminish the hope we have for Clinton's government. The nomination of Summers is not consistent with U.S. policies that are geared to eradicate misery in the Third World. We are in support of all other NGOs that are opposed to Summers nomination and hope that the Senate will revoke such a nomination in favor of a progressive person.

*The Evangelical Lutheran Church in Tanzania, The Church Province of Tanzania  
The Moravian Church of Tanzania, The Christian Council of Tanzania*

We have sincerely, and deeply in our heart, welcomed Bill Clinton as the 42nd president of the U.S.A. The day of his inauguration was a day of hope. We are sure that the forthcoming years will witness a real interaction with people in the South. But how can this be possible with the nomination of Larry Summers? Summers has insulted all the South by promoting dumping toxic waste on the people of the South. And we cannot forget it.

*Thierno Kane, Federation des Associations du Fouts pour le Developpement, Senegal*

## ASIA

Lawrence Summers stings the Filipino memory....How can we forget this World Bank Chief Economist who boldly stated that death is no big deal to us Third Worlders because we have high infant death rates anyway? To us, Summers sums up the World Bank - cold, calculating, inhuman - high officials who claim to represent freedom and democracy yet see Third World people as third rate, less developed, thus deserving of dirt.

It is with much surprise and pain that we learn Mr. Summers is going to figure more in Third World affairs....We do not understand why Clinton, a man who is presumably for equal rights and the environment, is considering a racist responsible for policies that scorched the earth. Surely the American concept of justice and a clean environment is not to dump all the toxic waste in "less developed" countries such the Philippines?

The Filipinos absolutely oppose such a man as Summers to influence American policy over the "Third World". We want the American government officials to hear our say on this. In a world gearing for less aggression and more cooperation between nations, Summers is an anachronism that deserves to be buried in the toxic wastebasket of history.

*Leonor Briones, President, Freedom from Debt Coalition, Philippines*

## THE CARIBBEAN

The peoples of the developing world eagerly anticipated a change after twelve years of Reagan/Bush policies, which in many cases have proved inimical to the so-called Third World. When Mr. Clinton was elected President, a huge sigh of relief was expelled, as people began to look forward to improved relationships and a cessation of the economic and political measures which have contributed to immense suffering.

The nomination of Mr. Larry Summers...has caused consternation, since Mr. Summers' record is such as marks him as very unfriendly to developing countries. His infamous memo about the dumping of toxic waste on countries of the South and his ultra-conservative posture as Chief Economist at the World Bank...cannot be ignored or forgotten. His behavior has been most offensive to peoples of developing nations. We feel sure that President Clinton was unaware of this gentleman's history and that he will not disappoint the peoples of the South by sustaining this ill-advised nomination.

*E.R. St. John Cumberbatch, General Secretary, Caribbean Conference of Churches*

The appointment of Larry Summers...is a blow by the Clinton Administration against the most fundamental aspirations of Third World people. The Caribbean, and the South as a whole, has already suffered enormously from insensitive and ill-advised policies emanating from the IMF, the World Bank, and associated agencies. During his tenure at the Bank, Larry Summers consistently blocked initiatives to make the Bank more sensitive to environmental and social issues in its policies and programs. How much more will we suffer if such a man is now given more power by President Clinton to unleash his inhuman policies from a key position within the U.S. Administration?

Mr. Summers' contempt for the poor and the peoples of the South exhibits...tendencies which run counter to the image of tolerance, reconciliation and democracy which the Clinton Administration has tried to establish within the United States and abroad. We call on President Clinton to revoke immediately the appointment of Larry Summers to the post of Undersecretary for International Affairs at the United States Treasury, and to ensure that he is not appointed to any other post...

*Caribbean Policy Development Center*

I object very strongly to Larry Summers' appointment as Undersecretary for International Affairs at the U.S. Treasury. The international community was shocked when Summers' memo about dumping toxic waste on the people of the South was released. He is also known for his aggressive promotion of structural adjustment programmes which leave little room for debate on the impact of these programmes on human or natural environments. I think that his appointment to this post by the Clinton Administration will raise very serious doubts in the minds of informed citizens from the South about the new Administration's sensitivity to issues of equity, human rights and environmental sustainability. I certainly hope that the Administration will reconsider its position...

*Peggy Antrobus, Women and Development Institute, University of the West Indies, Barbados*

## LATIN AMERICA

The entire network of the Instituto Latinoamericano de Servicios Legales Alternativos (ILSA) – more than 3,000 groups providing legal services to low income people – is both aware of and concerned about the intended appointment of Mr. Lawrence Summers. Mr. Summers has demonstrated in the past little or no concern for the well-being of the vast majority of our people. His memo about dumping toxic waste on the people of the South is considered by ILSA as a violation...of human rights and a crime against our people. His work at the World Bank showed contempt for such key universal issues as environmental protection, transparency and international accountability. His standings on structural adjustment programs proved he has no commitment to the gradual changes that may protect the standard of living of Latin Americans.

We can only hope that our views will serve the purpose of strengthening the domestic and international campaign to prevent Mr. Summers' appointment to the new Clinton Administration. Were Mr. Summers' appointment to be confirmed by the Senate we and other international networks of NGOs would closely monitor his work and conduct information and action campaigns whenever necessary.

*Fernando Rojas, President, ILSA, Colombia*

It is hard for us to believe that a Democratic Administration would appoint Lawrence Summers to a post in the American Treasury. His ideas regarding development threaten the chances for a better understanding between the U.S. Government and the people of the South. We hope that this serious mistake will be reconsidered by President Clinton.

*Maria Clara Couto Soares, Instituto Brasileiro de Análises Sociais e Econômicas (IBASE), Brazil*

With the election of Bill Clinton to the Presidency of the U.S. the people of the South had high expectations concerning a highly needed change in U.S. policies regarding Latin America and all the developing countries. However, the appointment of Larry Summers is a serious disappointment. As one of the World Bank's economists responsible for blocking any progressive reform in the areas of the environmental and social consequences of the Bank's projects it is hard to imagine any positive evolution of U.S. policies under Clinton. This is why we would really appreciate...the U.S. Congress rejecting Larry Summers' appointment, which would be a sign that would indicate that the era of Reagan and Bush is finished, that there exists a better understanding of the needs of the people in the South and that they also are working on sustainable development in the whole world.

*Manuel Baquedano, President, Instituto de Ecología Política, Chile*

We have learned with great concern that Lawrence Summers, former Chief Economist at the World Bank, has been named by the Clinton Administration to the post of Undersecretary for International Affairs at the US Treasury. Mr. Summers is widely known in Latin America and the Third World for promoting structural adjustment policies that have aggravated the living conditions of the poor in the city and in the countryside. Also, Mr. Summers wrote unacceptable declarations last year about the dumping of toxic waste in the Third World because of a supposedly favorable cost-benefit advantage for these nations.

In the specific case of Peru, the World Bank has supported since March 1991 the most profound structural adjustment program in Latin America. Under this program, subsidies for the poor have been removed; labor laws have been modified, causing prejudice to the workers; tariffs protecting industries have been removed, favoring the entry of foreign merchandise thus ruining local industries and fostering unemployment; state enterprises have been sold at disadvantaged prices for the state. All these measures...have caused recession and aggravated unemployment and living conditions. Mr. Summers has been responsible for these policies in his position as Chief Economist at the World Bank.

We would like to point out the contradictory economic policies of the Clinton Administration. On the one hand (at least in theory) it attacks the old Reaganomics formula that the reduction of taxes for the rich and the "free market" will allocate resources in the best way. Thus, it favors state "industrial policies" so that U.S. enterprises can compete against foreign companies and improve their productivity. Also, the Clinton discourse advocates public spending to reconstruct the infrastructure and promote employment. But, for Third World countries, the nomination of Lawrence Summers gives exactly the opposite formula. They keep the old recipe of "Reaganomics"... What does this mean? That what is good for the USA is not good for Third World countries? Why the double standard? We see this as unacceptable and we protest vigorously. For that reason we oppose Mr. Summers' nomination...

*Humberto Campodonico, Centro de Estudios y Promoción del Desarrollo (DESCO), Peru*

We want to express our disagreement over the appointment of Lawrence Summers....Since the Rio '92 Conference, Costa Rica has witnessed new initiatives of international cooperation that are seeking to promote sustainable development and fight poverty and environmental degradation in the Third World. We strongly believe that in this pursuit the U.S. Government's position is essential....It must build with our countries respectful and cooperative relationships in which the preservation and educated management of our natural resources will be a central factor.

[S]ome European governments are beginning to support in Costa Rica...the participation of diverse popular groups in the formulation of environmental policies. The present U.S. government has to play a more responsible role...on a topic as crucial as cooperation on sustainable development in our countries.

*José Cazango, Centro de Capacitación para el Desarrollo, Costa Rica*

The Coordinadora Regional de Investigaciones Económicas y Sociales (CRIES) feels compelled to register deep concern over the nomination of Mr. Lawrence Summers....As the largest economic and social policy research network in the Central American and Caribbean region, CRIES recognizes the importance of this post in formulating U.S. policy towards the World Bank and the IMF. The inflexible structural adjustment programs promoted by these organizations have proven ruinous to our region over the past twelve years of highly politicized Republican administrations. The fact that Mr. Summers has been an outspoken advocate of these policies, and is the author of unacceptable opinions concerning the world environment, leaves us with the impression that the possibility for a constructive shift in U.S. development policy may be in danger.

Our region desperately needs a break from its recent past of war and declining living standards. Yet in Nicaragua, after years of war, economic policies designed by the World Bank, the IMF and USAID have further impoverished the nation. In fact, in 1993 the Nicaraguan GNP per capita is expected to fall below that of Haiti. Just as President Clinton has rejected 'trickle down' formulas for resolving the fundamental economic ills within the United States, many within the region's governmental, private sector and non-profit communities now realize that these inequitable formulas are even less capable of resolving the dramatic problems these nations face.

If our region is to avoid present many of the dilemmas to U.S. policy now evoked by the Haitian exodus of political and economic refugees, the new administration must accept the challenge to accompany its Southern neighbors in a realistic process of development of human, productive and environmental resources. We hope that President Clinton will reconsider the appointment of Mr. Summers and help construct a spirit of creativity and cooperation needed to meet the challenges of the 21st century in our hemisphere.

*Arturo Gallese, Executive Secretary, CRIES, Nicaragua*

The appointment of Larry Summers frustrates the desires and hopes of a people that thought that, with the arrival of President Clinton to power, changes would be produced in U.S. policy towards our country, changes that would signify halting in great measure the effects of structural adjustment programs which have committed an outrage against the people of our country. Summers is an ideologue and a major offender on this issue, and his appointment will negatively impact the efforts of environmental groups that oppose making countries like ours toxic waste dumps for the United States.

The appointment of Mr. Larry Summers is inconsistent with the pledges of Mr. Clinton during his electoral campaign to nominate for his work team persons whose record has been distinguished by defense of the environment and the promotion of sustainable development. We are concerned that the U.S. Administration designate for such an important position a person who has advocated structural adjustment policies during his employment at the World Bank. Far from promoting the satisfaction of the basic needs of the majority of the population and effectively combatting poverty, these policies have resulted in an irrational use of natural resources and a sharp concentration of wealth and income in our country.

*Carlos Heredia, Equipo PUEBLO, Mexico*

**STATEMENT OF FRIENDS OF THE EARTH BEFORE THE  
HOUSE APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS  
CONCERNING APPROPRIATIONS FOR THE WORLD BANK, IMF, ASIAN  
DEVELOPMENT BANK, INTER-AMERICAN DEVELOPMENT BANK, EXPORT-  
IMPORT BANK, UNEP AND OTHER UN AGENCIES, BERD, AND AID**

March 1, 1993

**I. Introduction**

Friends of the Earth is pleased to have the opportunity to testify today about a group of international institutions that ought to be playing important roles in protecting the environment and promoting sustainable development. Unfortunately, in spite of excellent advice and recommendations from Congress in recent years, there has been little progress on the part of the World Bank, International Monetary Fund and a number of the other institutions that we will describe. For fiscal year 1994 we would like to see a fundamental shift in the U.S. foreign aid program.

We call on Congress to be even more demanding on these institutions that are continuing to harm the environment and the very people they are supposed to be helping. In some cases, this will mean cutting the U.S. share of the funds they have requested. In others, it means being more explicit in instructing U.S. representatives how to promote the reform agendas outlined in previous laws.

**II. Overview of Failure at the World Bank**

The World Bank is widely viewed as an institution that has demonstrated its inability to promote environmentally sustainable projects. Its withholding of most of the information generated in project preparation, its failure to provide for local participation on the part of its putative beneficiaries, and the poor quality of its projects are causes for deep concern.

Two recent reports--by the Independent Morse Commission on the grotesque situation existing around the Narmada Sardar Sarovar Dam project, and the Bank's Vice-President Willi Wapenhans--describe an institution whose overwhelming priority is to move money quickly, whatever the price in systematic violation of its environmental, economic and social policies. Mr. Chairman, we submit that profound changes are required to make environmental quality and social equity the WB's top priorities, rather than lending targets.

As a start, the U.S. should seek G-7 support for withholding funding for IDA, the GEF and other World Bank affiliates until a reform plan is in place and operating successfully. In this context, we urge that Congress outline a new plan for changing the nature and behavior of the Bank. The WB needs to change its direction and procedures to make it possible to promote sustainable development that is socially, environmentally and culturally sound.

The US should put forward an agenda for change at the WB that includes the following points:

- \* full implementation and enforcement of existing Bank policies on environmental assessment, forcible resettlement, and all substantive policies, coupled with a concerted effort to make project quality and poverty alleviation the highest priorities. This should require appropriate benchmarks and measures of success;

- \* ensure that affected people and knowledgeable NGOs are involved in WB projects from the earliest planning to monitoring after construction, and in structural adjustment plans proposed by the Bank. An indispensable condition is that affected populations have full access to information on Bank activities, as well as the general public in member countries;

- \* revise national income accounts to take into account loss and degradation of biological and natural capital, and the impact of pollution on human health and ecological systems. The Bank (along with the International Monetary Fund) should be leading the effort to develop new methodologies along these lines. This will require creation of a new Working Group composed of experts from other institutions and the private sector, which we hope Congress will endorse this year;

- \* empower women, through a new commitment to investment in resources for women, including access to capital, land, education and health clinics. Women's participation is essential in the design, development and implementation of programs, and women should be much better represented at all levels of the Bank and Fund hierarchies. A related objective should be to ensure (in concert with other organizations and aid programs) that every woman desiring family planning information, services, and products is provided with them;

- \* focus on basic societal infrastructure by investing mostly in schools, health clinics, clean water, sewerage, justice systems, libraries, mass transit, etc., to prepare people and societies with the tools allowing them to live productive and decent lives;

- \* update agricultural policies to integrate environmental considerations into all agriculture sector lending;

- \* reorient the Bank's energy portfolio toward least-cost investments in energy efficiency and renewable energy, and develop and implement a program to fight global warming. Involvement with some energy projects should be closed out, including Narmada, in close consultation with the country and people involved about alternatives; and

- \* create an Independent Appeals Commission, which would hear and act on complaints of environmental and social abuses in specific projects, and would have full access to Bank project files.

We would note that the Development Committee has the mandate to advise the Boards of Governors of the World Bank and the IMF on all aspects of the transfer of resources to developing countries. Its next regular meeting is in April, here in Washington. In the past the Development Committee has not been a very effective forum

for promoting U.S. proposals regarding reforms of the World Bank and IMF. We urge that the Clinton Administration make it a high priority to use the Development Committee in new ways, to lay the foundation for change.

#### A. Energy Lending

The World Bank approved funding for 28 energy sector projects in Fiscal 1992. Appendix IV provides a breakdown of these 28 projects. Not a single loan had as its primary purpose the support of end-use efficiency improvements among electricity consumers, and only a handful of projects contain even small components targeting efficiency increases. Instead, many of the projects funded large scale energy generation, including five projects designed to promote oil and gas development, seven projects to construct thermal power plants, and five projects to construct hydropower plants. While several loans were made for "Energy Efficiency Projects," these funds will actually be used to rehabilitate or expand countries' generating and distribution capacity and not to increase efficient energy end-use in those countries.

The World Bank has spent the last six years struggling to systemically incorporate environmental concerns into its project approval process, and, according to The World Bank and the Environment: Fiscal 1992, "The important events of 1992 can be thought of as marking the transition from the first phases [of this process], one of efforts to integrate the goals of environment and development, to a new phase in which particular attention will be given to the implementation of these policies, so that actions will more consistently correspond to agreed principles." However, Friends of the Earth's examination of the energy sector projects funded by the World Bank suggests that there is no such transition. In Fiscal 1992, as in previous years, the vast majority of money disbursed by the Bank as energy sector loans supported the construction of large fossil fuel power plants and dams. In funding these projects, the Bank missed the opportunity to help developing nations meet their power needs in the most cost-effective and environmentally sound way possible: by funding projects designed to improve energy efficiency.

Many of the loans are funding energy projects that are environmental disasters. The Ertan Hydroelectric Project in China will force 30,000 people out of their homes, while elsewhere in China the Daguangba Hainan Project will displace another 21,400 people. Another World Bank loan will help Egypt fund the expansion of the Kureimat Thermal Power Plant on prime riverfront land along the Nile that is now home to five endangered species. The Malawi V Project on the Shire River in Malawi will flood part of the Majete Game Reserve that provides critical protected habitat to the fifth largest elephant population in the country. The Third Power System Development Project in Thailand includes a dam that will submerge 60 square miles of diverse riparian habitat and will force 1,500 people from their homes.

Even the projects with less visible impacts will significantly affect the global environment. The new thermal plants funded by the World Bank will add tons of greenhouse gases and chemicals that create smog and acid rain to our atmosphere each year. They will also generate solid wastes and effluents that can contaminate drinking water in rivers and underground aquifers.

Improving energy efficiency is now widely accepted as the cheapest way to meet increasing demand for electricity. Pacific Gas and Electric, the largest private utility company in the U.S., plans to meet 75 percent of the increased demand it will face in the next decade by increasing its customers' energy efficiency.

Many developing nations have the potential for energy efficiency gains even greater than the U.S. because much of their technology base is significantly outdated and inefficient. Efficiency improvements not only provide the least cost means for developing countries to meet their growing energy needs, they also strengthen the industrial sector in the developing world by making its industries more productive and competitive in global markets.

Improving energy efficiency is also the key method of meeting expanding electricity demand that has a positive impact on the environment. Improved efficiency allows an economy to produce more goods that people need without requiring additional generating capacity. This conserves limited nonrenewable energy resources for the future and avoids impacts associated with thermal, hydroelectric, and nuclear power generation. In short, increased efficiency not only leads to a healthier economy, but a healthier environment as well.

The social environmental impacts of the World Bank's 1992 energy portfolio include increased air pollution; destruction of very important wildlife; massive dislocations of rural people; habits for endangered species; degradation and destruction of free flowing rivers.

Since many developing nations already have crushing foreign debt burdens it is critical that they meet their energy needs in the least costly way possible. Increasing efficiency not only provides this least cost solution, it also increases local industrial competitiveness while protecting the overtaxed natural resources of the developing world. Yet the World Bank's energy sector loans for fiscal year 1992 go in precisely the opposite direction: they continue to feature large scale, destructive energy generation projects. This policy will hurt the economic and environmental health of developing nations, both of which the World Bank is pledged to help. The developing world, the contributing nations, and the global environment cannot afford the costs from the World Bank's shortsighted energy policy. It is far past time for the Bank to dramatically increase its efforts to fund energy efficiency improvements in the developing world as the primary focus of its energy sector loans.

#### B. IFC and Structural Adjustment

Friends of the Earth would like to call the Committee's attention to two important trends in MDB lending: first, the increase of Structural Adjustment lending and second, the increasing importance of private sector lending. Both trends have profound environmental consequences and allow the MDBs to evade considering their operations' long-term impact.

As pressure builds on the MDBs to lend ever more money, Structural Adjustment loans are becoming more and more common. For example, in Central and Eastern Europe, where lending has boomed in the last 3 years, 30 percent of World Bank lending is for Structural Adjustment loans. In the rest of the Bank's portfolio, around 12 percent is for Structural Adjustment. Although these loans may have tremendous long-term consequences, the World Bank does not undertake environmental assessments on the conditions that it attaches to these loans. A recent study by Robert Repetto at the World Resources Institute analyzes the effects of structural adjustment programs on the Philippines' environment and finds that adjustment programs led to rapid liquidation of the country's natural resources. This study, along with similar stories we are hearing from around the world, show that the environmental consequences of adjustment programs must not be ignored.

At the same time that MDBs escape environmental scrutiny by expanding structural adjustment lending, they are also escaping it through their private sector lending. Industries are often privatized as part of the conditionality of MDB and IMF adjustment programs. These newly-privatized bodies then become candidates for loans from the private sector arms of the MDBs such as the IFC and

the Merchant Banking division of the EBRD. This allows environmental assessments to be evaded. For example, we believe the Bio Bio dam project in Chile (see below) would have had great difficulty passing the World Bank's regular environmental assessment procedures. Now that the Chilean power sector has been largely privatized it has become possible to channel funds to the project through the IFC without the same environmental analysis or citizen involvement that would have been required if the IBRD had undertaken the project.

Consequently, while this Committee has over the years helped propel the Banks to new procedures and environmental awareness, the

in lending seem to be moving more and more money outside the channels where new procedures have been established.

In 1992 the IFC took the initial step to destroy the "Grand Canyon" of Chile, by providing money for the first dam on the Bio Bio River. The IFC took this action despite widespread opposition to the project in Chile, despite litigation pending against the project in Chile, despite the existence of superior energy alternatives, and despite the fact that the Bio Bio River is of world heritage calibre and merits the highest level of environmental protection. Furthermore, the IFC made a mockery of environmental assessment when it indicated that it would review the cumulative impact of dams on the river when it proceeds with support for the second of six planned dams.

We are also concerned that the IFC has loaned money for the construction of a dam in Belize which would destroy tropical rainforests, again without thorough environmental assessment.

### C. Wapenhans Report

The seriousness of the present situation is verified by Mr. Willi Wapenhans, World Bank VP and head of the Portfolio Management Task Force, in his confidential internal review of World Bank projects. Specially appointed by World Bank president Lewis Preston to review the Bank's supervision of its \$140 billion in outstanding loan disbursements, Mr. Wapenhans has written a damning indictment of the declining trend in quality of the Bank's portfolio.

The problems that Probe International and Friends of the Earth found with the Three Gorges feasibility study, and the problems the Independent Review Team found with the Sardar Sarovar dam project in India, Mr. Wapenhans found were rife throughout the Bank's portfolio. In this, he verifies the more generalized conclusions of the Morse Commission's Independent Review of Sardar Sarovar. Every director and public official connected with the World Bank should read the entire text of these two documents.

The Bank's pervasive preoccupation with new lending, Mr. Wapenhans discovered, has resulted in a "promotional -- rather than objective -- approach to appraisal," and the Bank's "reluctance to take a firm stand with Borrowers is reflected in the prolonged survival of 'problem projects'." Borrowers' non-compliance with legal covenants in loan contracts - especially financial ones - is, as the Wapenhans report describes it, gross and overwhelming.

More than one-third of all World Bank projects are failing, Wapenhans found, while he described the deterioration in the Bank's portfolio performance as gradual, steady and pervasive. "It is easy," Mr. Wapenhans warned, "to become alarmist about these trends." The study shows that the bigger the project, the more likely it was to fail. Bear in mind that this analysis is only based on the Bank's economic criteria. The record would be even sorer if environmental and social criteria were also honestly evaluated.

#### D. Yacyreta Dam (Argentina)

This project illustrates the folly of throwing good money after bad. Having provided \$460 million to this construction boondoggle in 1979 and 1988 in prior loans, the Bank approved another installment of \$300 million last fall (with conditions which are discussed below).

There is serious concern that the dam will be filled to a height of 83 meters above sea level which would cause an estimated 50,000 people to be evicted from their homes and businesses, as substantial parts of the cities of Posadas (Argentina) and Encarnacion (Paraguay) are inundated. This reservoir would destroy or permanently alter four biologically distinct ecosystems, including one of the southernmost tropical rainforests in South America. Unique wetland and grassland ecosystems, riverine forests, and freshwater marshes would also be inundated.

The history of the Yacyreta Project is one of corruption, mismanagement, and cost overruns with completion costs now estimated at 4 to 6 times that of the original estimate. The implementing agency Entidad Binacional Yacyreta has a huge debt with arrears to contractors on the order of \$300 million. Considering that several billion more would be needed for satisfactory completion of the project, it is past time to say enough is enough; yet the Bank proceeded with another loan.

The project as it proceeds violates four major World Bank policies: on environment, large dams, involuntary resettlement, and indigenous peoples. The same mistakes made at the Narmada Project are being repeated at Yacyreta.

Despite these serious concerns, the World Bank approved the loan for Yacyreta, hoping that some loan conditions would help remedy the worst aspects. Such exhortation and promises have been made on the Narmada Project and many other big Bank projects, but when 78% of loan conditions are not complied with (as the Wapenhans Report Indicated), there is little prospect for a sound outcome.

#### E. IDA Replenishment

The U.S. Government's Negotiating Points for IDA 10 were not bad, but given the record of IDA lending during the past few years, we don't think our representatives went far enough. The NGO community put forward a detailed set of suggestions, which are attached as Appendix 1 to this testimony.

As the December negotiating session began, Friends of the Earth called for a moratorium on US funding. Evidence of IDA practices and projects in the field has led us to conclude that IDA is not worthy of financial support from U.S. taxpayers. The often cited "progress" at the World Bank in recent years has amounted to little more than exercises on paper. Harmful IDA projects continue to be pushed through the pipeline.

## 1. IDA-9 Negotiation

In the IDA-9 negotiations Deputies asked that IDA make poverty reduction central to its focus. To that end, the staff have produced volumes on the topic, namely the Poverty Policy Paper, the Operational Directive on Poverty, and the Poverty Reduction Handbook. In concert with the IMF, Policy Framework Papers have also been churned out.

On the environment, IDA-9 Deputies asked for National Environmental Action Plans for all active borrowers, and more application of environmental assessments. IDA points to these plans, the revised Environmental Assessment Operational Directive, its new Forestry Policy, and the 1992 World Development Report on the environment, as proof of its progress on the environment.

But writing tomes and making promises - which anyone can do - has done nothing to stop IDA projects currently underway from hurting the poor and their environment. Even worse, they have done nothing to stop more harmful IDA projects from entering the planning pipeline and getting approval.

## 2. The IDA Record

The most telling example of this flagrant gap between rhetoric and reality is the Sardar Sarovar project in India. This project will force over 240,000 people off their land, causing untold economic, physical, social, cultural, and spiritual hardship. IDA management has known about this human crisis for many years and yet never suspended disbursements of the IDA credit. It is no defense that the credit was originally approved in 1985, prior to IDA-9 and its poverty focus. At the time of signing, IDA projects were subject to numerous policies which, had they been rigorously applied, would have made it virtually impossible for the project to get the green light.

Given that the Sardar Sarovar Project was approved, IDA staff had the duty to ensure that the Indian and state governments abided by the minimal conditions in the loan contract. When they did not, IDA had the duty to suspend disbursements. It did not.

Some IDA Governors may say that Sardar Sarovar Project is an exception, but it is not. The Independent Review Team concluded that "the problems besetting the Sardar Sarovar Projects are more the rule than the exception to resettlement operations supported by the Bank in India." The same could be said for numerous other countries. The following projects - all in the planning pipeline funded by IDA-9 - illustrate the fact that IDA continues to routinely fund harmful projects, giving lie to its rhetoric. Here are some examples, which were compiled by Probe International researchers in Canada, with whom FoE works closely:

1. As part of the Bangladesh Flood Action Plan (FAP), \$115 m. of IDA funding is earmarked for the "River Bank Protection" project. The multi-billion dollar FAP will attempt to tame the highly mobile and silt-laden Ganges, Brahmaputra, and Meghna Rivers with the construction of thousand of kilometers of continuous embankments along the lengths of the rivers to funnel water from Nepal and India out to the sea. If the FAP goes ahead, it will displace five million people. According to Mohiuddin Ahmad, a Bangladeshi environmentalist, "the displaced people are likely to squat around urban centers joining the pool of slum-dwellers, as no investments are likely to be made for their rehabilitation in the near future."

2. In China, IDA \$37 m. is slated for the Daquangba Multipurpose Project, which will resettle about 21,400 people.

3. Also in China, \$400 m. of Bank/IDA loans is in the works for the Xiaolangdi dam on the Yellow River, which will require the forcible resettlement of 190,000 people.

4. In India, two more loans worth US\$475 m. are in the works for the controversial Sardar Sarovar Projects: Sardar Sarovar Canals II project, IDA \$150 m./Bank \$225 m., and the Narmada River Basin Development project, IDA \$100 m.

5. In Nepal, a \$115 m. IDA loan is slated for the Arun III Dam. According to Dipak Gyawali, a Nepali engineer/economist, the Arun III dam "has been propogandized as cheap but whose estimated cost is reaching the one billion dollar mark...the assumptions that have gone into NEA's [Nepal Electricity Authority] "Least Cost Generation Expansion Plan", which justified Arun III, were shamelessly concocted." And USAID has warned that the 200 kilometer access road, required to construct the dam, could result in "unregulated and illegal removal of marketable timber and other forest products during and after construction...severe gully erosion can occur."

6. In Malawi, the IDA \$55 m. Power V loan will finance, among other things, the Kapichira Dam. This dam will destroy the fisheries on which thousands of people depend for their livelihood and their protein. It will also flood part of a game reserve. A wholly inadequate environmental assessment was done (omitting, for example, the need to control soil erosion and the subsequent problem of sedimentation); and the families who will be forcibly resettled by the dam have not been informed.

7. In Benin, the Adjarala Hydroelectric Dam, IDA \$30 m. on the Mono River will displace about 10,000 people.

8. In China, the World Bank's record to date on the Three Gorges Dam on the Yangtze River is worth considering briefly.

o In 1986 the Canadian International Development Agency financed a \$14 million feasibility study for the Three Gorges dam, and the World Bank supervised the study to ensure its soundness. The purpose of the study was to "form a basis for securing funding from international institutions." The Canadian engineers who carried the study out recommended that the dam be built at a height that would displace three-quarters of a million people, nearly the entire population of Saskatchewan. The benefits of doing so outweighed the costs, they claimed.

o When Probe International heard of the engineers' conclusion they and other NGOs were stunned. But NGOs that wanted to look at the calculations were rebuffed by the World Bank, which refused to provide a copy of the Three Gorges feasibility study. Eventually the bulk of the study was made public informally.

o Probe contacted nine colleagues from around the world - an engineer, an economist, a chemical limnologist, and so on - and asked them to go through the feasibility study carefully, to look at how CIDA, the engineers, and the Bank had valued the costs and benefits for the millions of people that would be affected. Their findings were published in the book "Damming the Three Gorges: What Dam-Builders Don't Want You To Know" -- which has been made available to U.S. decision makers.

o What these experts found was shocking. The Feasibility study was inconsistent, systematically biased, and incomplete. For example, the Bank, CIDA, and the Canadian engineers left 500,000 people to live in the active flood control area around the perimeter of the reservoir, where they would be subjected to flooding: moving them would have increased the project's costs by 20%. As for the submerged spillway bays - 27 in all - the engineers were confident they could design, construct, and operate them, even though their discharge would be "well beyond the proven world experience."

o When it came to predicting the dam's flood benefits - its main purpose - the engineers used an analytically crude method because the data wasn't available to do a proper hydrodynamic analysis. Their seismic analysis was incomplete and unjustifiably optimistic, and as far as we can tell (the engineers managed to delete certain sections of the feasibility study before releasing it to Probe), they didn't even review the Chinese data on sedimentation before declaring the Yangtze's massive silt load a non-problem.

o The expected costs and benefits of this development scheme, it appears, were based on unsubstantiated engineering and compromised economics: costs were systematically underestimated and benefits overestimated.

o The Three Gorges feasibility study - the first feasibility study for a mega-development project ever released for public scrutiny and independent peer review - was supposed to be, according to CIDA and the World Bank, the best feasibility study ever done, a state-of-the-art study to which all others would strive. But if this was the best, no wonder so many World Bank projects are failing to perform as planned.

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All of these projects are being instigated, planned and/or implemented right now, making a mockery of the claim that the conditions of the IDA-9 replenishment have made any difference to the environment or the poor.

Even if IDA did scrupulously abide by all its guidelines - every policy, framework paper, plan, report, operational directive, and handbook it had ever produced - and that is a big if, IDA would still be a dictatorial institution. It would still be essentially unaccountable to the people whose lives are directly affected. The people affected by IDA projects would still not have the final say over those projects; all the ultimate decision-making power would still reside in the Executive Directors, who do not have to live with the consequences of their decisions, and in essence would remain in the hands of the World Bank's staff, which hides many important details of projects even from its Directors and Governors.

No law of any land can, apparently, touch IDA or the World Bank. People hurt by IDA projects cannot sue the institution, its staff, or its Executive Directors. They cannot sue when IDA policies and guidelines are flouted, nor when harmful projects are approved, nor can they sue for damages suffered as the direct and proximate result of World Bank misfeasance, non-feasance and malfeasance. IDA and the World Bank are elusive, unaccountable, and secretive, changing the tune to suit the mood of the day: the environment one year, the poor the next.

Legal immunities, the Articles of Agreement, the procedures for amending those articles, the voting structure of the Board of Executive Directors, the multilateral nature of the Bank and the

demands of diplomacy that flow from that nature, and the coinciding interests of member governments at the expense of their peoples, all have helped make democratization of the World Bank an illusion.

World Bank guidelines indicate a deeply embedded notion that experts know what "development" is better than the billions of people in the Third World do. The guidelines in the Bank's "Directive on Involuntary Resettlement" are particularly insidious: these guidelines are based on the fundamentally flawed premise that it is right and proper for the Bank and its borrower governments to violate the property rights of Third World citizens in the name of progress and the national interest.

The livelihoods and environments destroyed because of this authoritarian attitude are incalculable: just a sample of the World Bank hydro dams for which we have numbers indicate over 1.5 million people were forcibly displaced, most without proper compensation. At least another half-million are slated to lose their land to hydro dams and other projects now in the World Bank's pipeline.

The consequences of forced resettlements cannot be underestimated. Eminent anthropologist Thayer Scudder calls forced resettlement the worst thing you can do to a people, next to killing them. What should be unthinkable has become routine, and the World Bank's "Directive on Involuntary Resettlement" has become an instrument in a dreadful form of institutionalized abuse.

The guidelines in the "Directive on Environmental Assessment" also reject the right of those hurt by a project to negotiate with its proponents, and to ultimately decide whether a project proceeds. Affected parties have no right to see project documents, nor to examine and challenge the often compromised interests of the proponents. The Bank's "Directive on Disclosure of Information" instructs World Bank staff to consider who is requesting the information, their reason for seeking the information, and the purpose to which it would be put, before releasing that information.

### 3. The NGO Response to the IDA Record

During the past few years, grassroots groups in the Third World have started getting the information out to their counterparts in the North. Those counterparts have tended to be not the traditional development NGOs, but environmental and indigenous-rights groups. These activists didn't have a history with the World Bank. They weren't in awe of the Bank and they weren't impressed by what they saw. The Bank was treating Third World people and their environments in ways that would never be tolerated in the Northern countries, in ways that would land Northern governments in court, or bring people out on the streets in opposition. These activists, working together with southern grassroots groups, started exposing the evidence and demanding justice from the Bank.

For many years Friends of the Earth and its partners have been working with citizens groups from around the world to stop environmentally disastrous projects financed by the World Bank. For ten years we have been accumulating more and more evidence of environments destroyed and economies undermined by World Bank loans.

This growing worldwide movement of groups has made a sincere and concerted effort to reform the World Bank. Countless petitions have been collected, endless meetings held, regular telephone calls made, proposals for disclosure of information and environmental reviews submitted, and demands made to shift the decision-making power to the citizens who must pay for World Bank activities with their environments and their economies. The U.S. Congress has been an honest partner in this effort, on a bipartisan basis.

Now, on reviewing the past decade, and especially in light of the extraordinary events surrounding the Sardar Sarovar dam project in India, we regretfully conclude that these global efforts have failed. While some changes have occurred at the World Bank as a result of this unprecedented attention to its activities, we believe these changes have been superficial. They have failed to make the World Bank an instrument of good government and have failed to stop harmful projects from being approved.

We have succeeded at only one thing. After years of experience with the day-to-day operations and decision-making procedures of the Bank, the public today is better informed about World Bank operations than at any other time in its history. What we have learned suggests that the World Bank is not reformable. Changes in response to the criticisms leveled against the Bank have been toothless and, ultimately, largely irrelevant. Additional environmental staff have been relatively powerless to change the actual outputs of the institution.

The annual environmental report is nothing more than a public-relations document, and one that embarrasses the Bank rather than redeeming it. The first report claimed that the notorious Polonoeste project, which was responsible for massive destruction of the Amazon rainforest, wasn't all bad because it helped to raise public consciousness about the need to protect the Amazon.

The billion-dollar Global Environment Facility (GEF), now housed at the World Bank, is a blatant attempt to buy environmental respectability for the Bank while the Bank continues to allocate its current \$20 billion annual budget on environmentally and socially destructive projects.

The Bank implies that its environmental problems are trivial. It portrays them as something that Northern NGOs are irrationally preoccupied with, as something that can be fixed by operational directives, by a World Development Report, or by a "Green Fund". In fact, the Bank's environmental woes are just the tip of a very big iceberg, and the environmental scrutiny to which the Bank has been subjected over the past decade is forcing the truth to surface.

Widespread and unrelenting evidence of environmental and social harm caused by the Bank, growing evidence of financial mismanagement, and the experience of the past few years have demonstrated to citizens around the world that the World Bank does not operate with the accountability that make public institutions legitimate and that foster sustainable, constructive development.

But it is the Bank's response to the crisis in the Narmada River valley which is so revealing and which must guide policy makers now. Despite the overwhelming evidence that the Bank should withdraw from Sardar Sarovar, and despite opposition from the Canadian, American, Japanese, German, Australian, and Norwegian executive directors, the World Bank's Board voted to accept the staff's business-as-usual approach.

The message to us, as the taxpayers who keep the Bank going, is clear: As the U.S. Executive Director to the Bank said, it sends a signal that "no matter how egregious the situation, no matter how flawed the project, no matter how many policies have been violated, and no matter how clear the remedies prescribed, the Bank will go forward on its own terms."

#### 4. Present Position of Friends of the Earth

For all these reasons Friends of the Earth calls upon the U.S. Congress not to agree to fund IDA-10. To the extent that there are elements of IDA's lending, such as its "Population, health and

nutrition" and "Education" projects - currently 19% of IDA's budget - are doing valuable things and are actually benefitting people without harming them, those elements should be covered through direct bilateral grants and other forms of concessional aid.

Although this statement does not include an evaluation of projects in these categories - it is worthwhile noting that there are anecdotes about universities being built with no provision for professors' salaries, and of libraries being built with no provision for books. In other words, just because a project falls into the "Population, health, and nutrition" and "Education" categories does not necessarily mean it is a good project. The fact that IDA does fund the occasional benign project provides no justification for replenishing IDA as the institution is presently set up and run.

It is not as if IDA is the only game in town for supporting development. Development that is truly sustainable - that comes from, and is for, the local community - can be financially supported through a myriad of other mechanisms. Local cooperatives, credit banks for the poor, like the Grameen Bank, small sums of foreign aid channeled through NGOs, user fees and tolls, savings bonds, and shares, are just some of the ways that communities around the world finance projects and programs that better their livess in spite of IDA.

#### F. GEF

Restructuring of the GEF, a critical issue related to North/South assistance that has been addressed in UNCED and other fora, needs to be completed at the end of 1993 when the GEF's current pilot phase comes to an end. GEF governance reform is needed to accommodate the Climate and Biodiversity Conventions and to increase the GEF's legitimacy as the world's principal multilateral mechanism in control of green aid flows. To its credit, the Bush Administration took the provisions of US law seriously, which call for public access to information on GEF projects and associated World Bank loans, public participation in GEF projects throughout the project cycle and improved oversight of the quality of GEF projects -- benchmarks which must be met before direct US contributions to the GEF core fund can be made. However, the Bush Administration's lack of strategy and political will to gain international support for these vital issues and its general lack of environmental credibility was counterproductive.

An independent and open evaluation of the GEF pilot phase is needed to learn from its successes and failures before decisions on expanding the scale and scope of the GEF are taken. While defending a tough position on transparency, public participation and quality control of projects, the Clinton Administration should actively pursue a strategy of consensus building with other governments. This will require that the US be ready to contribute its fair share to any global financial mechanism as soon as these basic conditions are met. The current lack of environmental leadership on a global level offers the Clinton Administration a unique window of opportunity.

The Congress and the Clinton Administration should make it clear that independent of the many possible governance mechanisms, there are two bottom line issues that are non-negotiable: Transparency, access to information and public participation on the one hand, and project quality control on the other. Concrete US initiatives should include:

- 1) whatever voting mechanisms the GEF will establish, projects should only be approved if there is a very high degree of consensus among all parties represented (for example 80% of the vote). The US

should call for an independent and public evaluation of the GEF pilot phase, which would look at both the effectiveness of project execution and monitoring as well as the process whereby projects are chosen and funding decisions taken. The evaluation should also examine the basic premises of the GEF and its impact on the main body of World Bank lending, since Bank lending dwarfs by comparison the GEF's lending portfolio. The US also should call for NGO observer status at all meetings of GEF participants; and

2) request that the option of making the GEF Secretariat independent of the GEF implementing agencies be seriously explored and taken into consideration.

Appendix II to this testimony contains the text of an Open Letter to GEF Participants dated February 24, which provides more details about our critique and our proposals.

### III. Asian Development Bank

The record of the ADB is in many ways better than that of the World Bank and the other regional banks. NGOs have an open dialogue with senior officials, and on occasion have been able to stop or modify a project based on direct meetings with officials. Having said this, however, the Bank still has a long way to go.

Since last year's Annual Meeting in May, there have been two official "consultations" between ADB staff and regional NGOs. Friends of the Earth has actively participated in both. Although these have not gone as smoothly as NGOs would have liked, the consultations have afforded the chance to discuss a number of problem projects, with NGOs from the country in question able to come to Manila and make a presentation to Bank officials.

In addition to the case studies, the major issues that NGOs have raised were as follows:

1. The Bank has to treat NGOs as equal partners in the development process and not as extension agents. Governments and the Bank must recognize NGOs as civil institutions as responsible as the government for societal change. ADB should play an enabling role in this process.
2. As partners, NGOs should work with the government in the planning of ADB country programme and its priority sectors.
3. NGOs, the government and ADB should form a tripartite group that meets regularly to formulate Bank policy on NGOs.
4. NGOs should be involved in project design and implementation.

The general sentiment of the participants is that nothing concrete happened during the consultation. ADB's answer to the issues raised by NGOs is the establishment of the Social Dimensions Unit and they will study the recommendations made.

To its credit, however, ADB officials, including Mr. In Yong Chung, Vice President (Projects), are now stressing the importance of an ongoing dialogue between ADB and the NGOs. He said that "the role of NGOs is to motivate the people to participate. These are the areas we can rely on you." He said that they tried to accommodate the issues raised by NGOs since 1989 and interpret them into action. He emphasized the importance of maintaining our good working relationship to achieve our common goals. We appreciate this willingness to engage in a constructive dialogue.

Appendix III to this testimony is the Open Letter that NGOs wrote to the President of the ADB, Kimimasu Taramizu, at last year's Annual Meeting. We still have not received a response!

The following summaries of three loans were prepared by colleagues in Manila who are following the ADB's activities. They offer food for thought about the Bank's activities. The first is an action alert about a loan that will be very destructive and is actively opposed by the local communities. The second is a model small grant that is based on community needs and input. The third demonstrates a project that has both substantial benefits and some problems, where the process of dialogue and consultation appears to be working.

## A. Masinloc Coal-Fired Thermal Power Plant

### 1. Background

A 600MW Coal-Fired Thermal Power Plant Project of the National Power Corporation (NPC) in Masinloc, Zambales, is posing danger to the livelihood of some 3,000 families in Barangay Bani and heavy damage to the environment.

Considered as one of the most controversial energy projects of the government, the project has been issued an Environmental Compliance Certificate (ECC) by the Department of Environment and Natural Resources (DENR) last December 18, 1992. The said ECC contains 37 conditions including one that would require community endorsement before construction takes place. Ironically, the ECC was issued despite NAPOCOR's inability to gain social acceptance for the project. Meanwhile, opposition from the local communities heightens as the projected environmental and social cost is considered too high for the people to bear.

Dredging activities for the power plant are expected to cause heavy damage to Oyon Bay, from which milkfish (bangus) fry are harvested as the major source of income to the number of fisherfolks in Bani. Oyon Bay is a productive estuarine system possessing significantly high species diversity to include endangered blue corals and colonies of aquarium fishes. The damage is feared to extend further to a marine sanctuary in San Salvador Island.

The major source of freshwater of the nearby communities is likewise endangered. The projected freshwater intake of the plant would dry up the Masinloc river, consequently damaging their irrigation project which services 300 hectares of rice lands. One hundred six hectares of land planted with century-old mango trees, which is the primary source of livelihood of the majority from the marginal areas, is programmed to be cleared. This is no less than equivalent to physical and economical dislocation of the farmers directly depending upon the land.

The experience of the local communities with the first coal plant in the country, the Calaca I Coal-Fired Thermal Plant in Batangas sponsored by the NPC, was enough to justify the growing concern and resistance to this second project. As lands were taken from the farmers, the communities' living patterns drastically changed. Dubbed by the Philippine environmentalists as an "environmental fiasco", Calaca I bred environmental problems which posed health hazards to the communities. The effects of fly ashes from coal combustion which contain carcinogenic trace elements were feared to have caused the increase of the respiratory disease cases. Another cause of alarm for the local residents was the contamination of ground water and soil by trace elements leached from the ash disposal area.

Meanwhile, as protest against the project mounts, military presence in the area is notably increasing. Presently, a Regional Special Action Force (RSAF) is deployed within the nearby areas, inciting fear and tension among the communities. Cases of threats and harassments have been reported by several vocal leaders of the campaign against the power plant's construction.

The opposition is continually drawing support from the Zambales residents, local officials and national environmental organizations. Several neighboring municipalities have passed resolutions objecting to the construction of the plant. The local mayor was joined by majority of the members of the municipal council and the provincial board in expressing their resistance to the project. A provincial coalition against the project has been formed to strengthen and consolidate protest actions and facilitate information dissemination to the public. To date, two successful human barricades have already been staged to prevent government and NAPOCOR representatives from conducting exploratory work in the area.

## 2. The Role of the ADB

These facts did not deter the Philippine government, as the major proponent of the project, from securing financial support from the Asian Development Bank (ADB) for the construction of the 600-mw coal-fed power project. This is the government's response to the increasing power peak load demand in the country. The approval of the loan for the strongly-opposed project garnered once again heavy criticisms for the ADB.

In 1989, the ADB approved a loan of \$200 M under the XVI Power Sector Loan to the Philippines. This approval came amidst the already growing massive protest against the plant and lack of clearance from the DENR. Part of the conditions imposed by the ADB for the effectivity of the loan were the issuance of the ECC and the participation of the Export-Import Bank of Japan as co-financier of the project. In a recently held dialogue between the Masinloc residents and the Manila representative of the ExIm Bank of Japan, the latter assured the community representatives that they will not get involved in the project so long as there is opposition from the local communities.

The decision now lies with the ADB. The Bank has played a major role in other similar controversial development projects. This is yet another challenge for them to make true their commitment to the environment. The Masinloc Coal-Fired Thermal Plant has proven to be a socially non-acceptable and environmentally dangerous project. ExIm Bank has made its stand. It is now the ADB's turn to take a decisive position.

As the Philippine energy crisis worsens, more energy projects are rushed for development. And more loans are solicited by the Philippine government from multilateral development institutions.

As we urge the government to take the other option of looking into alternative strategies of solving this crisis, we enjoin ADB to lend its support in this kind of endeavor.

Let us push for the development, not of these environmentally-sensitive and capital-intensive projects, but of renewable sources of energy; promotion of energy conservation as well as energy-efficient measures.

Let us make them understand and realize that we cannot solve the crisis we face today by sacrificing the future of our people and the environment.

## B. Provincial Government of Bukidnon (Philippines)

The ADB has decided to provide a \$100,000 technical assistance grant for this project.

Basic transport, social infrastructure and agricultural support services for the development of agriculture, agro-industry, irrigation, and rural industry will be given to the province of Bukidnon in Northern Mindanao through a \$100,000 technical assistance grant approved by the Asian Development Bank.

Bukidnon province is a major producer of rice, corn, sugarcane and pineapple in the Philippines. Bukidnon, a predominantly rural and agricultural region, is found in the northern part of Mindanao. Most of the residents are small farmers and landless poor.

Given the natural resources of the project area, Bukidnon has a high potential for reduction of rural poverty but experiences of widespread forest destruction resulting from excessive exploitation of the forests for the past 30 years is a continuing impediment to the improvement of the people's living condition. As of 1989, 50% of the Bukidnon area has eroded. Extensive logging activities especially in the province's major watershed areas caused massive loss of soil and fertility in the uplands. There results to lowland floods and consequently to the destabilization of agricultural land.

The ADB-funded Bukidnon Integrated Area Development (BIAD) project aims to develop the agricultural and forestry aspect of the province by providing support services to small-scale rural industries. The technical assistance funds will be used to prepare a program projected to upgrade farm-to-market roads and social infrastructure. The funds will cover other socio-agricultural services like construction or rehabilitation of communal irrigation systems. As part of the project, too, training programs will also be developed. These will help improve agriculture and rural-based livelihood industrial productivity.

A team of consultants comprised of economists, financial analysts, civil engineer, and agronomist is currently conducting feasibility studies in the project's target area. A social design study on the profile of the project beneficiaries and an outlay for benefit monitoring and evaluation will be carried out by Central Mindanao University. The technical assistance service will be carried out over a period of 6 months.

While the executing agency for this project is primarily the provincial government of Bukidnon, non-governmental agencies, community-based organizations and other concerned groups are encouraged to participate in the formulation and the implementation of this development program.

## C. Umiray-Angat Transbasin Project (UATP)

The Asian Development Bank (ADB) has agreed to extend financial assistance to a major infrastructure project of the Metropolitan Waterworks Sewerage System (MWSS). The Umiray-Angat Transbasin Project (UATP) seeks to enhance the reliability of supply from the Angat Water Supply Optimization Project (AWSOP) by diverting water flows from the Umiray basin. It is expected to provide the future water demands of Metro Manila and other suburbs. The project extends from the upper reaches of the Umiray River in General Nakar, Quezon and its tributaries on the eastern side of the Sierra Madre mountain range, to the Macua River which is a tributary to the Angat Reservoir in Bulacan. It traverses the provinces of Quezon, Aurora and Bulacan.

The Umiray-Angat project is actually the second stage in the development of AWSOP, also a Bank-financed project. This seeks to ultimately increase the water flow diversion to MWSS by 24 cu.m/sec. from the Angat Reservoir. During the first stage of AWSOP, multiple-use of Angat water resources for hydropower and irrigation will be observed. This will divert an extra 15 cu.m/sec. to Metro Manila's Water Supply System. With the transbasin project, the proponents aim to divert an additional 9 cu. m/sec. of water from the Umiray river to complete the projected 24 cu.m/sec. increase in diversion to MWSS.

This is to be funded primarily by a \$119.6 million loan from the Asian Development Bank which would account for about 70% of the P4.6 billion financing required. The remaining funding requirements will come from the local resources of MWSS. Furthermore, a Primary and Secondary Mains Improvements technical assistance is attached to the loan commitment which seeks to rehabilitate existing MWSS water distribution lines.

The main components of this proposed project include run-off-river type diversion weirs, a 13.1 km. main transbasin tunnel, two minor branch tunnels, a 4.8 km. long access road along the Matulid-Macua River branch of the Angat reservoir and, a 500 Mld water treatment plant. The three diversion weirs to be built on Umiray River and its tributaries are of the overflow-type spillway structures measuring 3-4 meters high. The main transbasin tunnel expected to traverse the Sierra Madre mountain range will convey streamflows from the Umiray basin in Quezon to the Angat Reservoir in Bulacan.

A new technology developed in Germany will be utilized for the excavation. A Tunnel Boring Machine (TBM) allows higher excavation progress rate than the ordinary drilling and blasting method. This project is so far the only attempt in the Philippines to operate with the TBM.

MWSS has already secured an Environmental Clearance Certificate (ECC) for the project which was issued by the Department of Environment and Natural Resources last October 7, 1992. Consultations with the local community, however, are still underway.

The series of dialogues between the proponent agency and the Gen. Nakar community and local officials started when the ADB, ordered MWSS to conduct more consultations. This came as a response to the requests made by the local community. The Tribal Center for Development (TCD), an organization based in Quezon, sent a letter to the Bank through the Philippine Executive Director expressing concern over the potential social and environmental impacts of the Transbasin project especially to indigenous Agta communities in the area. The municipal mayor of Gen. Nakar likewise, has compelled the proponent agencies to hold more consultations prior to the signing of a Memorandum of Agreement.

During the consultations, several economic, social and environmental issues pertaining to the potential impacts of the project were presented by local residents, NGOs, local government officials, church representatives and, indigenous communities. Major concerns raised include potential impact of the project's construction on the Umiray River, a primary water source of the local community for multiple domestic purposes; soil erosion from the tunnel excavation; clearing of forested areas for infrastructures; possible displacement of Agta communities and; potential effects on irrigation.

Even the MWSS projected several significant environmental impacts of the project. There will be a change in land-use and landscape as well as loss of forest cover due to the clearing of job sites. These are attributed to the creation of the lake rim access road, the opening of quarries and areas for disposal of tunnel excavation material. Two-thirds of the total area occupied by the project are presently covered by thick forest.

Moreover, it is expected that there will be an increased turbidity and siltation of the Angat reservoir as access roads are constructed and excavations conducted. The problem of siltation is further compounded by risks of soil erosion with the creation of a disposal area for a large quantity of materials from tunnel excavation.

As of date, MWSS is awaiting the endorsement of the Gen. Nakar local officials for the commencement of the project's construction phase. The local mayor has delayed the decision on the project pending the completion of an independent Fact-Finding Mission to the area. This was organized to assess the potential social and environmental implications of the project. ADB, on the other hand, has likewise deferred the approval of the total loan commitment as it awaits the completion of the consultation process. It has, however, disbursed an initial \$2.6 million for the project's engineering phase.

#### IV. European Bank for Reconstruction and Development

In Friends of the Earth's report on federal environmental spending, Earth Budget, we discuss the MDBs and come to the conclusion that, "On balance, eliminating all U.S. taxpayer support for these banks would be good for the environment." This is particularly true of the newest, and in its way most disappointing, of the MDBs, the European Bank for Reconstruction and Development. We recommend that the Committee withhold funding for this Bank.

##### A. An Optimistic Start

When the EBRD was created in 1990, optimism ran high that this Bank would be different from its brethren. Its mandate charged it with "promoting in the full range of its activities environmentally sound and sustainable development." In addition, it was to promote "democracy." Such goals, of course, are absent from the Charters of the other older MDBs.

The MDBs themselves estimate that cleaning up Central and Eastern Europe will cost several hundred billion dollars. Since environmental degradation siphons off an estimated 10 percent of the region's GNP, environmental improvement could be one of the fastest ways of raising living standards. The EBRD's opportunities to simultaneously clear the environment and turn profits seem enormous.

##### B. Disappointing Environmental Procedures in the Development Banking Unit

The first major policy document on the environment brought forward by the EBRD was its environmental procedures. These procedures, passed in January, 1992, do not screen projects for positive environmental gains but stress mitigation and primarily aim to protect the Bank from incurring environmental liabilities which might undermine the financial soundness of investments. The EBRD's Charter's active charge of promoting sustainable development was largely lost in this passive policy.

In addition to stressing environmental defense, these procedures do little to promote democracy. Around the world it is becoming clear that the best development projects are those where local people are involved from the outset, where the decision-making process is transparent, and where citizens have access to the important documents. Nowhere should these principles be more vigorously promoted than in Central and Eastern Europe, where state secrecy and repression drove the economies into their environmental morass.

Yet the EBRD's environmental procedures waffle. While they do require public consultations on the most environmentally damaging projects, they do not require that the resulting Environmental Assessment reports be made public.

The U.S. 'Pelosi Amendment', passed by this Committee in 1989, requires Environmental Assessments of MDB projects be available to both Executive Directors and affected publics 120 days before votes. This provision makes assessments meaningful by ensuring that people and governments have a chance to consider projects carefully before votes.

The EBRD environmental procedures do not meet the Pelosi Amendment requirements and for this and other reasons the U.S. Government rightly voted against the Bank's procedures.

Subsequently, the EBRD has flaunted the amendment and the U.S. has abstained from a number of votes on projects since Environmental Assessments have not been provided in a timely fashion. For example, the U.S. abstained on a 114 million ECU power plant upgrade at Maritza in Bulgaria. The EBRD screened the Maritza East II Power Project as a "B" project -- requiring a partial environmental analysis. This is despite the fact that thermal power developments are listed as an example of an "A" project requiring full environmental assessment in Appendix 1 of the Environmental Procedures. According to the same Appendix the partial environmental analysis will normally require more limited and specific environmental analysis. In this case EBRD has identified that within the environmental analysis required there must be an EIA of alternative FGD and coal and ash handling facilities of the plant. Neither of these had been carried out before approval for the project was given. In addition no public consultation was carried out despite the fact that Maritza is a major pollution source. Moreover, in a letter to Friends of the Earth from the EBRD dated 12 October 1992 flatly declared that once the EIA identified as necessary was finally carried out "it is not anticipated that these studies will involve participation from the general public".

### C. No Public Participation and Private Sector Redundancy

According to its charter, 60 percent of the EBRD's lending should be for private sector projects. For such projects, the EBRD does not provide public access to information about the proposed project. According to EBRD officials the reason for withholding information is that the EBRD sees itself in competition with the rest of the private sector. If it were to make information about projects public, the argument goes, private sector borrowers would be spooked or even would sue the Bank for releasing information.

Such arguments fall down on three grounds. First, to avoid lawsuits the EBRD could quite simply make it clear that it requires a publicly-available Environmental Assessment on all projects as a pre-condition for receiving its internationally-guaranteed loans. Second, if the EBRD is only able to make loans by beating out other private banking concerns then we believe there is absolutely no justification for the U.S. Government to be providing money which is competing with the private sector. In theory the EBRD should be

taking the lead in putting together new money for innovative investments in the region. Instead it is making loans such as the \$78 million provided to General Motors' Hungarian operations -- funds which GM officials confirmed in a Washington Post article, "'absolutely' could have been raised from other sources." Third, the EBRD has so far squandered the opportunity to be innovative in "promoting" sustainable development. Its private sector lending could have been at the forefront of challenging the rhetorically more progressive sector of the corporate world which has collectively calling for business interests to "expand our concept of those who have a stake in our operations to include not only employees and shareholders but also . . . , neighbours, citizens' groups, and others" (Business Council on Sustainable Development).

#### V. Agency for International Development

Given that the Administration has announced a 90-day analysis of the structure and future of AID, Friends of the Earth wishes to submit comments to the Committee subsequently concerning budgetary levels. We believe that substantial reform of AID is long overdue. Friends of the Earth worked to obtain \$15 million for environmental protection and restoration in a previous aid bill for Nicaragua and Panama. We are still trying to determine whether positive results were achieved with this money.

About \$3.2 billion of AID's 1993 budget of \$10.3 billion went to grants and loans for military equipment and training in foreign countries. Egypt and Israel get substantial foreign assistance. Friends of the Earth asks the basic question: why isn't a part of this money devoted to environmental protection and restoration?

In summary, AID needs a major overhaul and a new mission of rescuing developing nations from environmental catastrophe.

#### A. Somalia Lessons

Governments around the world need to recognize that starvation in Somalia and in other parts of Africa can only be eliminated by a long-term program of environmental rehabilitation of the land. The Horn of Africa has experienced 4 major famines in last 20 years, but each time the almost exclusive focus on short-term relief misses essential actions necessary to prevent the recurrence of this type of tragedy.

Well before the present disaster in Somalia and the departure of the dictator Siad Barre, there had been repeated warnings about food shortages facing many African countries. The 1988 World Bank task force on food security in Africa estimated that 2.3 million Somalis, which is about 42% of the population, did not have enough food. The report stated that more than 40 percent of the populations of Somalia, Uganda, Chad, and Mozambique suffered from a food shortage.

In 1984 and 1985 it is estimated that more than a million Africans died of malnutrition and related diseases, primarily in Ethiopia, Sudan, Somalia, Niger, Mali, Mozambique, and Chad. The World Resources Institute noted that the food crisis of the 1980's in Africa showed little had changed:

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<sup>1</sup>. Washington Post, 12 April, 1992.

"Both the famine and the relief effort were haunting repetitions of a similar catastrophe that struck the continent in 1973-74. Although the recent relief campaign was bigger (and) better-coordinated... the agricultural debacle was stark proof that, on the policy level, little had been learned since the previous famine."

Countries involved in the current Somalian relief effort must discuss a long-term strategy that address the root causes of hunger and its connection to destruction of the natural resource base. Something must be done about the state of lawlessness in Somalia, but the challenges to put the country back on its feet are much greater than a mission of a few months in duration.

Unless something is done about desertification and the destruction of the natural resource base, the world will continue to witness massive starvation episodes. The United States dealt with the Dust Bowl through comprehensive control of soil erosion. This sort of effort is needed in Somalia and other parts of Africa.

Such a land and water restoration program needs to be significantly different from the large engineering projects that are typically financed by the multilateral development banks. We hope that this Committee will take the lead in convincing the Administration to take a long-range view of the problem in Africa, to look at the diversity of actions which might be put in motion while our troops remain there, and not to walk away leaving some of the root problems unaddressed.

#### VI. Export-Import Bank

As discussed elsewhere in this testimony, Friends of the Earth is very disturbed by the Export-Import Bank's loan of \$136 million for a nuclear reactor in Czechoslovakia. Our analysis of Export-Import Bank activity over the past several years suggests that this Bank pays little or no attention to the Congressional directives given to the multilateral development banks or to environmental concerns generally. Friends of the Earth is opposed to providing more funds to the Ex-Im Bank until it pledges to implement the following basic reforms:

- 1) pay attention to the environmental directives of Congress concerning foreign aid;
- 2) prepare environmental impact assessments of its loans;
- 3) cease lending for construction of more nuclear power plants;
- 4) provide energy loans only for solar, wind, biomass, and energy efficiency improvements.

As the U.S. Executive Director to the World Bank was voting against the Yacyreta Dam (see discuss elsewhere in this testimony), the Ex-Im Bank was providing a loan for the hydroelectric turbines for the Dam. The Ex-Im Bank acted in utter disregard of the concerns being expressed by the U.S. Treasury Department on this project.

We are concerned that the Ex-Im Bank is in the process of lending for a geothermal project on Mount Apo in the Philippines at the very time citizens have convinced the World Bank and the Asian Development Bank not to fund such an environmentally and socially disruptive project. The Mount Apo project threatens to destroy one of the last intact primary rainforests in the Philippines and to ruin an area which is sacred to the indigenous people.

## VII. International Monetary Fund

The IMF is not now promoting sustainable development. It is failing to carry out even its own limited notion of its responsibilities effectively, in that "structural adjustment" as articulated and implemented has been a failure in most countries. The IMF employs no consultation mechanism with affected populations in designing structural adjustment packages, does not consider the longer-term implications of its policy prescriptions, and in general does not analyze the effectiveness of its packages.

Congress recently enacted a detailed blueprint for IMF reform, contained in the Russian Aid Bill and Foreign Aid appropriation. We congratulate Congress for passing these bills. To summarize, the legislation now requires the US Executive Director to promote (1) incorporation of poverty alleviation and reduction of barriers to economic and social progress into all Fund programs and consultations; (2) incorporation of environmental considerations into all Fund programs and consultations; (3) Fund participation in the design and operationalization of a revised national income reporting system; (4) creation of an audit system to review, on a country-by-country basis, the impact of the implementation of IMF required or recommended policy prescriptions on poverty, economic development, and environment; (5) insurance of policy options that increase the productive capacity of the poor; (6) establishment of procedures for public access to information; (7) development of procedures to measure the levels of military spending and incorporation of analysis and assessment of military spending in Fund consultations. Furthermore, the US Treasury is required to explore ways to incorporate the involvement and participation of important ministries, social, environmental, and other legitimate experts from the recipient country in the development of Fund programs.

The job now is to see that these directives are implemented. This will require hard diplomatic work by the U.S. to gain the support both of other donors and of borrowers. Congress should insist that the Administration aggressively promotes the full package of IMF reforms articulated in US legislation. We urge the U.S. to launch a diplomatic initiative to commission an independent review of the environmental and social impacts of all structural adjustment lending by the MDBs.

We also note that the Interim Committee is composed of Finance Ministers from all member countries of the Fund, and that it is a forum that may be useful in promoting the reforms. Like the Development Committee, the Interim Committee has not featured prominently in efforts to advance U.S. proposals. It is time for a change. NGOs have no access to these committees, or to other formal meetings of the Bank and Fund. It would be very useful for an NGO to be added to the US delegation as a public sector representative.

### A. Background

Friends of the Earth started the IMF (International Monetary Fund) reform campaign ten years ago. It has been Friends of the Earth's primary purpose to bring about a fundamental shift in the structural adjustment policies (SAPs) of the IMF and to make the institution accountable to the public for its actions.

Friends of the Earth's involvement has been based upon the recognition that structural adjustment programs are shaping the economies of most developing nations. During the last decade more than 70 countries have turned to the IMF for assistance with their balance-of-payments problems. Under IMF conditionality, these countries are required to restructure their economies in an attempt

to prevent a balance-of-payments crisis, while at the same time meeting debt obligations, maintaining essential imports, and struggling to return to economic growth. Many of them have been also experiencing increased environmental and social stresses, which are gravely exacerbated by the IMF's prescriptions.

The Fund itself is not only a major creditor to developing nations but also provides the seal of approval needed if countries want to be eligible for additional commercial bank loans. Moreover, without a debtor country's commitment to an IMF structural adjustment program, the Paris Club will not consider debt reduction programs or debt renegotiations schedules. Both through the conditions that are connected with its adjustment loans and through the amounts of money that are being transferred, the IMF has a strong impact on national and local politics, economies and populations.

The Fund's traditional prescription for restoring a country's economy includes a combination of policies: accentuating export-oriented growth, reduction in public spending mostly happening in social areas like education and health, cutback of the role of the state sector in the economy, removal of subsidies on basic foods and transportation, devaluation of the national currency, and freezing the real wages of workers.

In response to NGO critiques, The Executive Board of the IMF has mandated that the IMF staff should (1) develop a greater understanding of interplay between economic policies, economic activity and environmental change; (2) draw extensively upon the research and information from other institutions with environmental competence and responsibilities; and (3) use these findings to help staff carry out informed discussions with national authorities who may face difficult macroeconomic policy choices in the context of country's serious environmental problems.

This mandate of the IMF Executive Board reflects the Fund's answer to the pressure from the NGO community around the quota increase and the legislation that was passed by the U.S. Congress in response to these concerns. It is striking that after three years of research on the issue the IMF still does not have better understanding of the link between SAPs and the environment.

There is no doubt that we all can benefit from more research but there comes a time that one has to act upon the findings of the research. The IMF's unwillingness to undertake any significant action in response to the findings of the already existing research is indicative of its general reluctance take social and environmental considerations seriously. Instead the IMF prefers to focus all its time spent on environmental research on the justification of its traditional SAPs.

The Fund should take the finding of the existing research seriously and engage in a pilot project to design a SAP based upon a wide consultation process incorporating the various affected ministries, environmental and poverty experts and national NGO representatives.

#### B. Main NGO Concerns At Present

Friends of the Earth started the IMF work by analyzing the structure of the IMF on an institutional level, comparing it to the World Bank and other multilateral banks which we and other NGOs have been studying for several years. We concluded that certain obvious things were missing from the IMF's structure, staff and basic policies.

Unlike the World Bank, the IMF has not conducted studies of possible environmental and social consequences of its actions and has not given any indication of being concerned about these issues. This is partly the result of the absence of qualified personnel on the IMF staff, in the areas of natural resources, development, poverty and other related subjects. But it is also a result of the IMF's explicit policy of not holding consultations with affected ministries and populations or even considering their interests.

We obtained and analyzed available case studies on the impacts of IMF structural adjustment programs on social sectors. That effort is continuing. In this context, we became aware that the World Bank carried out a confidential analysis in 1988 of the effects of its structural adjustment lending in Africa. The study showed that those countries receiving adjustment loans were doing significantly worse economically than the African countries not receiving loans. There was a large increase in the debt-export ratios of countries receiving the adjustment loans, and inflation escalated in most of the countries. This study was important for two reasons. First, it showed the IMF was not meeting its own macroeconomic goals. Second, it showed that the IMF should analyze the impacts of its actions and hire appropriate staff with the mandate to do so.

Another leading institution, UNCTAD, stated in its 1989 Trade and Development Report that SAPs had so far produced mixed results and achieved, at best, limited success. The report criticized the Fund for its short-term focus on balance of payments management, thereby neglecting to develop longer run potentials of the national economy.

NGOs in many countries provided us with various types of specific information about negative impacts of IMF activities in their countries. We assembled the information and produced a report on the structure and functioning of the IMF and the impact of SAPs on the social sectors of Developing countries which was translated into Spanish and distributed to our colleagues in the South. The study reports on the impact of SAPs on countries' economic performance, the poor, women and children, and the environment.

### 1. Macroeconomic Performance

IMF structural adjustment measures have not led to the resurrection of Third World nations' economies but have aggravated the economic crisis. The total Third World debt has continued to increase steadily from \$668 billion in 1981 to \$1,281 billion in 1991. Between 1980 and 1991, the debts of the highly indebted nations, including most Latin American countries, increased nearly 60% (approximately \$240 billion), and the debts of Sub-Saharan Africa have increased by more than 80% (approximately \$50 billion). The situation of economic growth looks equally bleak. Per capita GDP in Sub-Saharan Africa declined by 3.6% in 1980-85, by 0.5% in 1986, and by 5.1% in 1987. Latest World Bank projections for the year 1995, for example, show zero per capita growth in Sub-Saharan Africa.

In 1987, rising interest rates escalated debtor countries' debt service payments. The increase is estimated to be around \$6-8 billion annually. The higher interest rates resulted in a sharp increase of resource transfers from debtor countries to the creditors. For the highly indebted countries this transfer was twice as large in 1988 than in 1987, reaching \$42 billion. According to mainstream economists the debt crisis is over because countries are honoring their interest payments. They tend to forget that this is happening at the expense of the poor. Social sector and productive investment has halted as resources are channeled to the debt service payments. Countries are exporting an unsustainable amount of, often unrenewable, natural resources, and thereby consuming their long term capital.

The IMF has not made any significant attempt to review and change its structural adjustment policies. According to IMF officials, the failure to improve the external debt situation of most Third World countries should be attributed to the lack of commitment to the strict implementation of the structural adjustment measures. But even countries, such as Korea, that have been portrayed as the success stories of structural adjustment are now showing signs of social unrest and environmental decay.

## 2. Poverty

IMF adjustment policies have been based upon the implicit assumption that where structural adjustment policies are followed, the poor would benefit in the long run. No evidence could be found to back up this "trickle down" theory. What has seemed to trickle down is economic hardship. The most vulnerable sectors of society paid the highest price in structural adjustment programs. Not only have the poor carried the heaviest burden of economic recession, they also have been struck most severely by the adjustment measures, such as cuts in government expenditure and social services. Severe cut-backs in health care, education services, and food subsidies have threatened the very existence of the poor. Their wages (if they have been able to keep their jobs) have fallen steeply in relation to the cost of living. The cost of their basic food has increased as the government subsidies have been lifted.

For the past several years, the idea behind the IMF structural adjustment facilities has been that adjustment and growth must be mutually reinforcing. Evidence, however, has indicated that the IMF's stabilization and structural adjustment programs, such as policies focused on increased exports and the curtailment of domestic consumption, have been in most instances eroding the basis upon which future economic growth and social well-being depend.

- o Investment incentives and credit policies under SAPs have favored capital-intensive industries, retarded employment generation, and worsened the distributional inequities.

- o Cuts in government expenditure have resulted in layoffs of lower-rank civil servants and an overall rise of unemployment.

- o During the 80s, SAPs have induce economic contraction leading to a general income decline, increased unemployment and underemployment.

- o Even when wages remained unchanged, inflation, increased taxes, devaluation of the national currency, and reduction in government expenditure have increased the cost of living and therefore decreased the real value of people's income.

- o Economic recession and structural adjustment policies have put extra pressure on women's working and living conditions. They have tended to impose even greater demand on women's limited resource base, especially time and energy. Growing unemployment and declining wages have forced women to make up for the loss of cash earnings by increasing their contribution to the family income to meet basic subsistence requirements.

- o Children have been suffering unnecessarily through the neglect of their needs in the making of economic policies, nationally and internationally. UNICEF declared that after three decades of remarkable progress the condition of children in third-world countries started to deteriorate in the 1970s. The rate of reduction in infant mortality slowed, as did the progress of raising economic welfare, schooling, and provision of other basic needs.

o A decline in government expenditure on education has caused an overall decline in educational quality because of an insufficient number of teachers, a lack of appropriate local infrastructure, school books, etc. The effects have been seen in an increase in number of school drop-outs, failure rates, and illiteracy rates.

Whether IMF structural adjustment policies have been solely responsible for this deterioration of living conditions of the poor is unclear. Neither has it been possible to attribute the cause of deterioration of the economic situation of these countries solely to the IMF. In many cases the effects of the world recession, declining capital flows, high interest rates, and local weather conditions have contributed to the duration of the economic recession of third world countries.

But, one thing is strikingly clear: the IMF has not taken any efficient measure to protect the poorest sectors of society and the environment. Analysis showed that the heaviest burden of adjustment has been placed on the poorest in the society. This alone should have indicated the need for change in the traditional IMF structural adjustment policies, and in the way the IMF is staffed and operated.

The Fund's decision not to provide basic human needs of the population can be evaluated morally on the basis of the African proverb: "Give a rich man less food and he becomes thin, give a poor man less food and he dies." Not to respond to the needs of the poor is not only unethical, it is also very inefficient. When the significant part of the future generation consists of illiterate or malnourished people, it is hard to imagine they can form the base of an productive society.

### 3. Environment

While initially little research had been done on the impact of SAPs on the environment, the available studies indicated linkages between structural adjustment measures and the depletion of natural resources in at least three ways. Recent studies, produced by the World Resource Institute, and the World Wildlife Fund confirmed the original findings.

Structural adjustment programs have caused governments of developing nations to reduce government expenditure on natural resource management, compelling these governments to cut or delay the implementation of conservation measures that could preserve environmental quality.

The emphasis on increased export production has mainly led to an acceleration of the exploitation of natural resources without regard to longer term sustainability and other values. Examples are the cutting of the rainforest, the huge loss of wetlands and mangroves, and the shift away from the traditional subsistence farming to the export driven monoculture crop agriculture.

Measures taken by the governments in order to comply with the two main requirements of structural adjustment policies -- increased exports and decreased domestic consumption -- have increased hardships on the poor. Having less access to resources and being pushed onto marginal lands has forced the poor to overuse the scarce resources available to them.

### VIII. Nuclear Power in Central and Eastern Europe (CEE)

One of the most pressing environmental issues in Central and Eastern Europe is the fate of the Soviet-built nuclear power reactors that could well produce another Chernobyl-type disaster. Indeed 15 Chernobyl-design reactors are still operating in the region. U.S. and multi-lateral policy towards these ecological time-bombs has been notably complacent.

Friends of the Earth England recently completed an analysis of Western aid to the nuclear power sector in CEE as of 15 November, 1992. The report reveals that:

- 1) The total sum of money provided to date by Western governments to the CEE nuclear sector -- less than \$800 million is tiny compared to multi-billion dollar needs to close down and decommission the region's chronically unsafe reactors, including 15 of the Chernobyl design; while expensive compared to the costs of an accident, addressing the problem now is cheap;
- 2) Twice as much of that money is going toward expanding nuclear power generation as is going towards improving reactor safety;
- 3) The U.S. contribution exemplifies this imbalance. While a paltry \$15 million is going into reactor safety through AID, the NRC, and the DoE, the Export-Import Bank has offered a \$136 million loan to Westinghouse to complete a partially constructed reactor at Temelin in the Czech Republic.

The British report follows Friends of the Earth U.S.'s earlier publication of Russian Roulette, a report which showed that closing Soviet-built nuclear power plants throughout CEE was ecologically imperative and economically sensible given that energy efficiency measures and safer gas-fired power stations could comfortably cover the region's energy needs. CEE countries are between one half and one fifth as efficient in their use of energy as the countries of the West. World Bank analysis indicates large efficiency improvements coming with the introduction of market economics. Over time, the region should need less, not more, electricity generating capacity. We would also like to point out the U.S. support for the completion or operations of reactors in this region, or indeed anywhere in the world, opens up murky questions of liability should a plant explode. Keep in mind that, while the estimates are 'soft', the Chernobyl disaster's economic costs have been of a magnitude comparable to the U.S.'s Savings and Loan bailouts.

This situation points to three important necessary policy changes:

- a) It should be a policy of the U.S. Government not to provide assistance for expansion of nuclear power in Central and Eastern Europe through either bilateral bodies such as the Ex-Imp Bank or multilateral institutions such as the EBRD.
- b) The Ex-Imp Bank should require Environmental Impact Statements in accordance with the National Environmental Policy Act (NEPA) for the projects it funds.
- c) The U.S. needs an aggressive national policy to close these reactors. If one blows up, not only will the human and environmental costs be devastating but the economic losses could well upset one or more nation's whole economic recovery plans. The State Department, AID, DoE, EPA and other relevant Agencies should bring forward a plan to close down and decommission the dangerous reactors in Central and Eastern Europe. At the same time through both bilateral and multilateral assistance the U.S. should be promoting efforts to improve the region's energy efficiency, which would not only allow for the shutdown of the nuclear plants, but would also cut other energy-sector related pollution.

#### IX. Inter-American Development Bank

The Inter-American Development Bank has made progress on environmental issues in the past three years, especially within the Bank's Environmental Department. There are more qualified

environmental specialists reviewing loans for their potential environmental impact; the number of large infrastructure projects being funded by the Bank has decreased; and the Bank seems in general to be giving greater weight to environmental considerations in its regular lending activities. For example, the Environment Department now provides Executive Directors with environmental briefs on most loans. These briefs attempt to identify, at early stages of the loan cycle, some potential environmental impacts of the proposed loan. However, recent changes in the environmental screening process, the structure of the Bank's Environmental Management Committee, and a persistent hostility by non-U.S. Executive Directors to the Pelosi Amendment threaten to undermine these gains. It is particularly troubling that the Environmental Management Committee no longer has a representative from the Environment Department. This committee, which assigns environmental categories to loans that determine whether an environmental impact assessment is required, is now officially made up of management and staff from a number of departments but curiously excludes its own Environment Department from decision-making. This is not a good sign.

Nor is it encouraging that the Bank's environment and natural resources policy dates back to 1979. While related policies have been updated (for example for forests and urban development) and environmental assessments on loans likely to have a negative impact are carried out as part of the project cycle, the fundamental guiding policy statement is hopelessly outdated and should be revised to reflect current issues and trends.

Moreover, environmentalists in Latin America are also concerned about a number of projects that the IDB is currently carrying out or in the process of preparing. The following highlights a few problem projects:

\* Ecuador Cuenca-Molleturo-Naranjal Road, Azuay, Ecuador: A report from an environmental group in Ecuador, dated June 1, 1992, raised serious concerns about this IDB-financed road project, construction of which began in November, 1988. During the Ecuadorian winter of 1992, poor environmental safeguards of the 112 km road caused disastrous flooding, erosion, and other problems. A special commission, formed by affected communities and the environmental group Tierra Viva (which is a member of FoE International), inspected the and reported that in the worst affected areas, several houses, fields of crops, a school, and a road to a mine were destroyed. About 450 hectares have been affected by landslides. Changes to drainage patterns have exacerbated soil erosion, and caused the destruction of forested areas, footpaths, reservoirs and water pipes. Four pedestrian bridges across the river, connecting several communities, have been destroyed. Ultimately, the road project has changed the course of surface drainage, causing floods, disruption of irrigation canals, siltation of the Rio Tamarindo, and loss of wildlife habitat. Because the affected communities are now inaccessible, public health is threatened as it is impossible to carry out vaccination campaigns. Six cases of cholera have been diagnosed and other cases will be difficult to tend.

\* Hidrovia: The IDB is currently financing, through a technical assistance grant, several feasibility studies for an enormous project covering two river systems and five countries (totaling about 1.75 million square kilometers) called the Hidrovia, or Waterway. The concept of the project is to make the Paraguay and lower Parana Rivers navigable to ocean-going ships and barges 24 hours a day, 365 days a year. To do this, the rivers would need to be dredged, straightened, and otherwise "tamed". While the studies are not yet underway, there is already serious concern among environmental, indigenous, and development NGOs as to the

ecological and social implications for the region of Hidrovia, which includes one the largest and most important inland wetlands in all of South America, the Pantanal, in the Brazilian state of Mato Grosso.

\* Indigenous People's Fund: At the initiation of the Bolivian government, the IDB has established an Indigenous People's Fund to support the "self-development process" of indigenous peoples of the region. The Fund currently has no money in it; moreover, there have been questions raised about the effective participation of indigenous leaders in the creation and operation of the fund. While the Fund is a good idea, it can only work if it is conceptually and administratively led by indigenous peoples rather than well-meaning bureaucrats in Washington. Indigenous peoples organizations need to be directly involved in formulating the Fund's operational policies and priorities, and in decision-making once the Fund is operational.

An opportunity to make significant changes in the IDB's role in the region is during the negotiations for the Bank's Replenishment during 1993. The U.S. should pay special attention to improving the environmental assessment process, strengthening the environmental department, and updating environmental policies. Further, the current review of the loan portfolio, similar to the World Bank's "Wappenhans Report", should include an audit of the environmental affects of IDB lending.

#### X. United Nations

As a preliminary note we believe that all the I, O, and P accounts should be separate from anything the US decides to do on the Global Environmental Facility.

##### A. United Nations Environment Programme (UNEP)

In constant 1987 dollars the U.S. contribution to UNEP shrunk from \$16 million in 1979 to about \$15 million in 1992. For 1993 President Bush proposed to cut UNEP from last year's level, but Congress increased funding to \$22 million, of which \$1 million actually went to the State Department.

UNEP has a new executive director Elizabeth Dowdeswell, whom Friends of the Earth finds very impressive. We urge the Committee to substantially increase the UNEP contribution to \$30 million for fiscal 1994. The increase is justified for several reasons. The UN Conference on Environment and Development in Rio de Janeiro with Agenda 21 has placed large new responsibilities on UNEP. Furthermore, there is a need for UNEP to have special environmental assessment teams to plug into development proposals of UNDP and other UN agencies throughout the world on an as-needed basis in order to get better quality in development projects.

##### B. International Union for the Conservation of Nature (IUCN)

IUCN estimated that the U.S. provided 4.6% of its total contributions for 1991. Congress appropriated about \$1 million for IUCN for 1993. The current IUCN budget is approximately \$30 million, and Friends of the Earth would like to see the U.S. contribution increased to about \$8 million or roughly 25% of IUCN's total.

##### C. World Heritage Fund

This important Fund was established to identify and protect areas of unusual natural, historical, or cultural value. There are currently over 300 designated sites worldwide. The Fund provides about \$2.9 million in grants to member nations annually for

technical assistance, training, and management. Significantly increased funding is justified, especially for biodiversity projects. In 1993 Congress appropriated \$450,000.

#### D. Ramsar Convention on Wetlands of International Importance

Under this treaty, to which the U.S. became a party in 1986, participating nations designate wetlands within their jurisdiction for inclusion on a list of significant sites. More than 400 sites covering roughly 30 million hectares have been listed to date. The U.S. provided \$250,000 for the first time to Ramsar in 1991. In 1993 Congress increased funding to \$750,000. Increased funding is needed to provide urgent help to monitor listed sites and to conserve wetlands in developing countries.

#### E. Convention on International Trade in Endangered Species (CITES)

The CITES secretariat is chronically short of funds and has been forced to accept contributions from private organizations, including interest groups such as the Japan Ivory Traders Association. In 1991 Congress appropriated \$750,000 to pay back dues. In 1993 Congress appropriated \$1 million. The US contribution to CITES should be raised to approximately 25% of its budget or about \$1.23 million.

#### F. UN Gulf War Claims Commission

The House of Representatives passed a resolution (H.Con. Res.246) last year, urging the Claims Commission to devote substantial attention to environmental restoration of the Persian Gulf in the aftermath of the war. The Claims Commission does not have environmental concerns high on its agenda. We urge this Committee to reiterate the message that environmental quality in the Gulf needs to be addressed for the long-term well-being of the people and that at least some portion of the initial Fund should be devoted to addressing the environmental damages of the largest oil spill ever on land as well as the largest ever on sea.

Friends of the Earth's discussion with the Claims Commission last year revealed some interest in environmental problems, but its first priority was to pay the airplane tickets of people who had to leave Kuwait.

#### APPENDIX I:

##### Suggested NGO Points Regarding the Tenth Replenishment of IDA

In negotiating the tenth capital replenishment of IDA, the following items should receive consideration for implementation -

(1) the World Bank ensure public accountability and public participation in the use of IDA resources by --

(A) revising the World Bank's Directive on Disclosure of Information to ensure that complete information on all IDA operations is fully available to the public at every stage of the project cycle;

(B) establishing written procedures requiring consultation with and participation of affected populations and interested non-governmental organizations (hereinafter "NGOs") in all stages of all IDA operations; and

(C) establishing an independent appeals mechanism to receive and investigate complaints from members of the public on violations of World Bank policies and loan and credit agreements;

(2) IDA undertake a review, to be completed no later than July 31, 1993, of all ongoing projects involving forced resettlement of populations in order to ensure their compliance with the World Bank's policy on involuntary resettlement;

(3) IDA disqualify countries engaging in patterns of gross violations of internationally recognized human rights from receiving IDA credits; (4) IDA make poverty reduction a higher priority by --

(A) implementing extensive poverty assessments, involving NGOs and affected peoples, in each country where IDA is active;

(B) shifting lending to countries whose governments maintain pro-poor policies as defined in consultations with local populations;

(C) conducting annual reviews of progress toward poverty reduction in all borrowing countries;

(D) increasing the number and amount of credits for targeted interventions to reduce poverty; and

(E) integrating gender analysis fully into all IDA operations;

(5) The World Bank reduce IDA structural and sector adjustment lending and ensure that remaining adjustment lending is focused on poverty reduction and environmental sustainability by --

(A) reducing structural adjustment lending so that, as soon as possible and no later than IDA Fiscal Year 1993, adjustment credits approved for any borrowing country shall account for no more than ten per centum of the value of all IDA credits approved for that country in that year;

(B) providing documentation for all proposed adjustment credits demonstrating how such credits will support poverty reduction efforts in the borrowing countries;

(C) revising the World Bank's Operational Directive on Environmental Assessment to require preparation of full environmental assessments for all proposed adjustment loans and credits;

(6) IDA assist borrowing countries to adopt environmentally and economically sustainable energy development strategies by --

(A) establishing a policy that all credits in the energy sector be based on, or where necessary support development of, integrated energy resource plans that consider investments in end-use energy efficiency and non-conventional renewable energy options;

(B) hiring new staff with professional training and experience in implementing end-use energy efficiency programs and developing non-conventional renewable energy technologies and establishing training programs in these areas for existing staff;

(7) IDA assist borrowing countries to develop sustainable freshwater supply systems by --

(A) establishing a comprehensive water resource policy that requires IDA and its borrowers to implement an integrated, least-cost approach to planning for and investing in water resource development projects; and

(C) giving highest priority in the identification and preparation of IDA credits to water conservation programs, water use efficiency improvements, and water-conserving technologies.

February 23, 1993

**OPEN LETTER**  
**TO THE GEF PARTICIPANTS'**  
**MEETING ON GOVERNANCE AND**  
**REPLENISHMENT**  
(Rome, March 4-5, 1993)

Dear Participant,

We welcome your ongoing efforts on the restructuring of the Global Environment Facility (GEF) to ensure that it may become a transparent and accountable financial mechanism that is able to effectively help address the growing global environmental crisis.

We would like to reiterate some of our central concerns with regard to GEF Governance, which have so far not been successfully addressed by the GEF. In addition we describe the areas that should be covered by the terms of reference for the evaluation of the GEF pilot phase. This paper is focused on the World Bank's role because of its present control over most aspects of GEF management. The 78 organizations from 24 countries which have signed this letter look forward to a productive dialogue with you about our concerns and proposals.

## Governance Issues:

### (1) Transparency

Discussions on restructuring the GEF began at a special meeting of participants in Geneva in February 1992. A central request put forward by participants at this meeting was for GEF activities to be carried out in a transparent manner, with open disclosure policies and with full and timely availability of information. As a result, the World Bank prepared a draft information disclosure policy which was distributed to the participants at the last regular Participants' Assembly meeting in Abidjan in December 1992. That draft outlined an information policy that would have upheld the World Bank's current practice of withholding project documents that are critical for informed decision-making from the Participants, the Scientific and Technical Advisory Panel, and the communities directly affected by the projects. Several participants objected to the proposed information policy and prevented it from being adopted as official GEF policy in early January 1993.

Now, more than a year after participants first called for transparency, no progress appears to have been achieved on this critical issue. We urge the Participants to demand that the World Bank formulate a policy that will grant full access to information on GEF projects and associated World Bank loans throughout the project cycle to the Participants, the STAP and affected communities. The World

Bank as trustee of the GEF, should not be blindly trusted with managing GEF funds without public scrutiny, consultation and input.

The World Bank should be making special efforts to develop participatory and consultative mechanisms that will dramatically improve its performance.

## (2) Quality Control of GEF Projects

A recent internal World Bank study (the Wapenhans Report) found that more than one third of World Bank projects are failing, according to the Bank's own criteria, and that the situation is worsening. Many of the same problems identified by the Wapenhans Report as underlying the World Bank's poor performance record are present in the current GEF, such as a highly centralized management structure which is more focused on rapid project processing than on developing country needs and quality control of projects.

A continuation of the present system, where the Scientific and Technical Advisory Panel (STAP) focuses mainly on ensuring the thematic and regional balance of the GEF project portfolio, has no access to documentation on associated World Bank loans, and is not staffed and equipped to conduct independent individual project review, is inadequate and insufficient.

We recognize that the Participants have stated that no new institution be put in place. However, the international community did not intend for 80% of all GEF investment projects to be simple additions to regular World Bank loans, which the public has no right to know about and which in many cases undermine GEF goals. The GEF could, however, make use of the World Bank's comparative advantage in the finance, technical and banking areas, without giving it the lead role in protecting the global environment--an area where it has little, if any, credibility.

Participants should seriously consider alternative governance options. No bloated new bureaucracy is needed to create an effective institution. An independent technical review process, serviced by a GEF Secretariat that is independent of the implementing agencies, would assist Participants in reviewing GEF project proposals, monitor projects throughout implementation, and evaluate them after completion.

Approval of GEF projects should be in the hands of the Participants' Assembly, subject to appropriate coordination with the Conference of Parties to the relevant global conventions. Independent of the outcome of the current discussions on various options for a democratic decision-making system in the Participants' Assembly, all project approval should be conditional on a very high degree of consensus among all participants. In this context, we submit that it is important for the Conferences of Parties to the respective global conventions to have major roles in setting program directions within their areas of expertise.

## (3) Public Participation

While there seems to be consensus about the importance of public participation in the GEF, the GEF's pilot phase has made little headway in establishing a process whereby affected communities and NGOs are integrated into the GEF project cycle. We welcome the GEF's plan to present an options paper on NGO participation at the next Participants' Assembly meeting in Beijing, provided there is substantial NGO input for the paper.

Beyond examining the options for NGO cooperation with the GEF at the central level, such as consultations that provide NGOs, Participants and Implementing Agencies with the important opportunity to interact, it is our hope that the paper will focus on the useful role that local communities and developing country NGOs must play in project identification, design, implementation and review at the country level. We also urge you to support NGO observer status in the Participants' Assembly.

## Basic Parameters for Evaluation of GEF Pilot Phase:

We welcome the GEF's decision to proceed with an evaluation of the GEF pilot phase. In view of the inevitable institutional interests that the implementing agencies have in the outcome of the evaluation, it is crucial that it be conducted in an independent and open manner. At the Rome meeting Participants will be presented with draft terms of reference (TOR) for the evaluation. We strongly recommend that there be an open discussion of the TOR with representatives from both governments and NGOs before the evaluation is commissioned, in order to ensure that its results will be broadly accepted as a solid basis for a post-pilot phase GEF.

The GEF has stated that the evaluation will focus on process and not on projects, since the implementation of projects is not advanced. We agree with the focus on process only if process is very broadly defined and includes a field-based evaluation component. We do not believe that the evaluation of the GEF pilot-phase can be limited to a desk study in Washington, D.C. or other capital cities. The Wapenhans Report identified lack of attention to the projects in the field as one of the underlying causes of a project failure rate of almost 40%. The evaluation of the GEF pilot phase cannot afford to ignore the reality of projects on the ground, even if the projects are in a very early stage.

The following section outlines the main areas and questions that we recommend be included in the Terms Of Reference of the evaluation.

### (1) Decision Making Processes

We suggest the following questions:

- \* How are GEF projects chosen? Do they form part of an overall strategic framework that is aimed at making significant progress in protecting biodiversity, alleviating the threat of climate change, protecting marine ecosystems, and avoiding ozone depletion?
- \* As Participants have access only to limited documentation on GEF projects in the work program and no information on associated World Bank loans, who takes decisions on both the projects to be chosen and the levels of funding?
- \* How have the STAP and the partner implementing agencies been able to evaluate the 80% of World Bank GEF projects which are attached to larger World Bank loans, if they had no access to documentation on the associated loan?
- \* Who is ultimately responsible for GEF project quality control and can be held accountable should the project have negative environmental and social impacts?
- \* Where is the locus of accountability within the GEF? For example, what recourse is there for local communities to voice grievances about negative impacts of a project?
- \* How has the concept of incremental costs been defined and applied during the GEF pilot phase, especially with regard to biodiversity and climate projects?
- \* What is the process of decision-making among and within the implementing agencies, for example on the GEF's Legal Framework paper that was presented at the Abidjan meeting? What has been the process by which the Participants have adopted the Legal Framework paper?

- What actions has the GEF taken as a result of recommendations and objections by Participants with regard to individual projects and overall policies?

- What are the actual costs of the Pilot Phase? This requires an overview of use of financial resources, including administrative expenses; project preparation costs with separate indications for costs of implementing agencies, international consultants and national in-country expertise; actual implementation of projects; and the cost of NGO consultations at bi-annual Participants' Assembly meetings.

## (2) Field Interviews

The need for community participation and NGO involvement in the GEF has been recognized and the GEF has continuously emphasized the high degree of public participation in its projects. Attached is a list of projects which call explicitly for public participation (86.9% of all biodiversity projects and 55.6% of all GEF projects). Furthermore, the STAP's generic criteria require that all GEF projects be "participatory in nature."

Field work on a sample group of those projects should ascertain the nature and scope of actual community and NGO participation in the identification and design of projects, and, where applicable, in the implementation and monitoring of projects. We would suggest the following questions:

- Has social science expertise been used in the design of mechanisms for local participation?

- Have standards been developed to ensure that local needs are included in the project?

- What has been the degree of cooperation between the GEF agencies and both national NGOs and international NGOs, keeping in mind that national NGOs play a role in the long-term sustainability of the project after international NGOs have returned to their home bases?

- Has local absorptive capacity and the in-country institutional framework determined both spending priorities and volume of allocated funds?

- What measures do GEF projects take to assist national institutions in building long-term technical and institutional capabilities to ensure project viability once foreign assistance has been reduced or ended?

## (3) Impact of the GEF on Overall World Bank Lending

When public doubts first were raised about the GEF being too closely dominated by the World Bank, the response was that the GEF would help induce reforms at the Bank and make the Bank's overall lending operations consistent with global environmental goals. We suggest the following questions:

- The Wapenhans Report identified the emphasis on rapid loan processing and insufficient attention to the sustainability of projects in the field as the underlying causes for the World Bank's deteriorating loan portfolio. What lessons has the GEF drawn from this to avoid the same mistakes?

- What indications are there that the GEF has led to more transparency at the Bank and in Bank operations?

- How have GEF projects affected associated World Bank loans?

\* How have the GEF's program areas affected overall Bank lending for energy, industrial development and natural resources management?

\* Has the centralized GEF management at the World Bank (the GEF chairman, administrator and coordinator are all World Bank staff, the Bank is the trustee of the core fund and in charge of all GEF investment projects) been conducive to transparency and accountability with regard to both GEF and regular World Bank projects?

#### (4) Scope of the GEF

We suggest the following questions:

\* Will the evaluation include an assessment of the choice of topics for the GEF, including protection of the ozone layer, which was already addressed by the Montreal Protocol? By whom, how and why were these topics chosen? What comparative advantage does the Bank have on biodiversity projects, protection of international rivers, or limiting greenhouse gases, for example?

\* Will the evaluation assess the utility, efficacy and need for a restructured GEF in relationship to the global conventions, as compared to other alternatives?

Respectfully submitted,

FUNDACION PARA LA DEFENSA DEL AMBIENTE (FUNAM)  
Argentina

PAVANI  
Argentina

CLIMATE NETWORK EUROPE  
Belgium

INSTITUTO DE ESTUDOS AMAZONICOS E AMBIENTAIS (IEA)  
Brazil

INSTITUTO DE PRE-HISTORIA, ANTROPOLOGIA E ECOLOGIA (IPHAE)  
Brazil

VITAE CIVILE-INSTITUTO PARA O DESENVOLVIMENT, MEIO AMBIENTE E PAZ  
Brazil

PROBE INTERNATIONAL  
Canada

INSTITUTO DE ECOLOGIA POLITICA  
Chile

RESEAU ENVIRONNEMENTALE DE LA COTE D'IVOIRE  
Cote d'Ivoire

COTE D'IVOIRE NATURE  
Cote d'Ivoire

CESTA-CENTRO SALVADORENO DE TECNOLOGIA APROPRIADA  
El Salvador

**COLLECTIF ENVIRONNEMENT A DIMENSION INTERNATIONALE (CEDI)**

France

**GREENPEACE**

France

**MOUVEMENT NATIONAL DE LUTTE POUR L'ENVIRONNEMENT (MNLE)**

France

**FIAN**

France

**GEYSER**

France

**FRAPEL-CEDI**

France

**ECOROPA**

France

**SOLIDARITE FORET**

France

**NATURSCHUTZBUND DEUTSCHLAND**

Germany

**WELTWIRTSCHAFT, OEKOLOGIE UND ENTWICKLUNG (WEED)**

Germany

**BUND FUER UMWELT UND NATURSCHUTZ DEUTSCHLAND (BUND)**

Germany

**URGEWALD**

Germany

**PRO REGENWALD**

Germany

**REGENWAELDER KAMPAGNE**

Germany

**GERMANWATCH**

Germany

**WALHI (FRIENDS OF THE EARTH)**

Indonesia

**CAMPAGNA NORD/SUD**

Italy

**FRIENDS OF THE EARTH - ITALY**

Italy

**FRIENDS OF THE EARTH - AMAZONIA PROGRAMME**

Italy

**GREENPEACE - ITALY**

Italy

CENTRO INTERNAZIONALE CROCEVIA  
Italy

TERRA NUOVA  
Italy

MANITISS  
Italy

AMERINDIA  
Italy

LEGAMBIENTE  
Italy

CENTRO REGIONALE D'INTERVENTO PER LA COOPERAZIONE (CRIC)  
Italy

JAPAN TROPICAL FOREST ACTION NETWORK (JATAN)  
Japan

CASA - CITIZENS' ALLIANCE SAVING THE ATMOSPHERE  
Japan

ECONEWS AFRICA  
Kenya

CLIMATE NETWORK AFRICA  
Kenya

SAHABAT ALAM MALAYSIA (FRIENDS OF THE EARTH MALAYSIA)  
Malaysia

WORLD RAINFOREST MOVEMENT  
Malaysia

ENVIRONMENTAL PROTECTION SOCIETY  
Malaysia

SOCIETE MAROCAINE POUR LE DROIT DE L'ENVIRONNEMENT  
Morocco

NETHERLANDS COMMITTEE FOR I.U.C.N.  
Netherlands

BothENDS  
Netherlands

STICHTING NATUUR EN MILIEU  
Netherlands

GREENPEACE INTERNATIONAL  
Netherlands

NORWEGIAN RAINFOREST FOUNDATION  
Norway

**FRIENDS OF THE EARTH**  
Norway

**FIVAS**  
Norway

**GREEN FORUM**  
Philippines

**PHILIPPINES RURAL RECONSTRUCTION MOVEMENT (PRRM)**  
Philippines

**THE PHILIPPINE CORE GROUP ON CLIMATE CHANGE**  
Philippines

**SWISS AID AGENCIES COALITION**  
Switzerland

**ERKLAERUNG VON BERN**  
Switzerland

**WORLD WIDE FUND FOR NATURE - WWF INTERNATIONAL**  
Switzerland

**EARTH DAY TAIWAN**  
Taiwan

**GREEN CONSUMERS FOUNDATION**  
Taiwan

**TAIWAN ENVIRONMENTAL PROTECTION UNION**  
Taiwan

**ENDA INTER-ARABE**  
Tunisia

**THE ECOLOGIST**  
United Kingdom

**FRIENDS OF THE EARTH**  
United Kingdom

**OXFORD RAINFOREST NETWORK**  
United Kingdom

**SURVIVAL INTERNATIONAL**  
United Kingdom

**ENVIRONMENTAL DEFENSE FUND**  
United States

**BANK INFORMATION CENTER**  
United States

**CENTER FOR INTERNATIONAL ENVIRONMENTAL LAW (CIEL)**  
United States

**NATURAL RESOURCES DEFENSE COUNCIL**  
United States

**RAINFOREST ACTION NETWORK**  
United States

**GREENPEACE U.S.**  
United States

**WORLDWISE**  
United States

**SIERRA CLUB**  
United States

**FRIENDS OF THE EARTH**  
United States

**CENTER FOR THE DEVELOPMENT OF INTERNATIONAL LAW**  
United States

**NATIONAL WILDLIFE FEDERATION**  
United States

**INSTITUTO DEL TERCER MUNDO**  
Uruguay

**[For more information contact Korinna Horta, Environmental Defense Fund, 1875 Connecticut Avenue, NW, Washington, D.C. 20016, Tel: 202-387-3500 / Fax: 202-234-6049, or any of the signatory organizations.]**

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## APPENDIX III:

May 5, 1992

Mr. Kimimasa Tarumizu  
President,  
Asian Development Bank  
Manila, Philippines

Dear President Tarumizu:

We the undersigned have come to this 25th Annual Asian Development Bank Meeting, May 4-6, 1992, in Hong Kong to deliver a collective message of concern in the form of this open letter. We represent a variety of NGOs spanning the Asia-Pacific region, and some countries in the North, and have come to articulate the concerns of diverse grassroots constituencies that are directly or indirectly affected by ADB activities.

The core of our message is this: While we recognize positive changes in the Bank's policies, as reflected in the 1991 Annual Report and other relevant documents, we remain fully convinced that such changes do not as yet measure up to the urgent challenge of equitable and sustainable development.

Needless to say, the ADB has a role to play in assisting the Asia-Pacific region to improve the lives of some 700 million inhabitants from their poverty situation, as well as in ensuring the viability of the life support systems of more than a quarter of the inhabitants of this planet. For this reason alone, apart from the ADB's nature as a public institution, we have more than enough reason to expect the Bank to be more accountable.

We appeal to you to put your influential position to bear on the following major issues:

1. Flawed Development Model.

The Bank remains captive to the conventional development wisdom that sheer increases in GNP would lead to poverty alleviation. Growth is necessary but insufficient to attain poverty alleviation and sustainable development. To paraphrase the UNDP, economic growth and human development are organically related. People are the makers of growth, and growth should therefore uplift people's total well-being. But in the whole of Asia, despite positive growth in many countries, the overwhelming majority of the people remain stuck in abject poverty. After a quarter of a century of promoting this model, poverty has increased rather than decreased in many countries in the region. The quality of life for the majority of people in the region has not improved, in spite of the Bank's \$37.8 billion in lending and investments since 1966. Under these circumstances, we strongly challenge the ADB's development model.

Past and present projects funded by the Bank and its partners have resulted in further depletion of the region's already fast-shrinking natural capital and in a further net outflow of resources from the developing member countries in the region to the donor countries. Given the enormous social and ecological impacts of such projects, we find it hard to believe that the direction of your investment and lending activities will lead to poverty reduction and environmental restoration.

The biggest contradiction in the Bank's professed objectives of poverty alleviation, environmental protection and sustainable development is found in its advocacy of orthodox structural adjustment programs, which have resulted in tremendous social, environmental and human costs. As long as the Bank continues to champion such structural adjustment programs, its noble objectives will remain rhetorical, and its projects will have a negligible impact on poverty reduction and sustainable development.

The economic model utilized and promoted by the ADB falls short in terms of a strategic view of long-term costs and benefits. There appears to be little or no progress in this direction. Many projects that appear to be cost effective using an eight or ten year time frame will not be profitable if the longer-term costs are taken into account. Conversely, many projects whose benefits will not come fully on stream for longer periods will not even be considered for investments under the prevailing methodological approach. In this context, the question must always be asked, for whom is a project cost effective? It can not be just for the Bank only, but more importantly for the communities which have to pay the environmental, social and cultural costs.

We urge you to continue to examine the Bank's policy assumptions and to modify these in ways that will be in keeping with equitable and sustainable development. The ADB's investment and lending policies must first of all consider the interest of communities and the finite nature of regional as well as global resources. We would like to see a fundamental shift in terms of policy and budget support towards projects that promote equity, increase household and community incomes, and improve basic social and economic services.

## 2. Rhetoric and Practice.

Despite the Bank's environmental rhetoric and its newer policy statements, projects in the process of implementation and in the pipeline continue to erode the natural resource base and to marginalize communities. We urge that you re-examine the ADB's current activities that we have been discussing with the Bank's staff at this meeting. These include the Masinloc coal-fired thermal power plants in the Philippines, the 11th Road Sector loan in Indonesia, inappropriate flood control projects in Bangladesh, the artificial reef program in Malaysia, the Highland Agricultural Development Project in the Philippines, monoculture timber plantations in Indonesia, and the prevailing pattern of chemical-intensive agriculture fostered by the ADB in the entire region.

We question whether the present incentive structure rewards staff sufficiently for the nature and quality of loans as much as for the volume of money moved. In our opinion, an appropriate loan is one which is based on a true understanding of the needs of the people, and which improves their quality of life while ensuring that their natural resource base is not degraded. It is essential that staff be rewarded for the overall quality of the projects they are managing, and for having full regard for environmental and social factors. Therefore, we challenge the Bank to develop creative new indicators that stress the "quality of life" as a measure of success. Guidance on such indicators can come to some extent from those UN agencies that work on social issues. We also urge the Bank to review its sectoral approach, towards a socio-eco-regional approach.

We feel that the ADB still does not have an adequate number of environmental and social staff with the appropriate training needed to carry forward equitable and sustainable development. We recognize that there has been some improvement, and we congratulate the ADB for elevating the Environment Unit to Office status. But the number of employees with the requisite expertise is pitifully

small. To take a modest example, it is impossible to move rapidly toward sustainable agriculture and Integrated Pest Management (IPM) without the necessary expertise, and capital is no substitute for this. In 1991, the ADB spent a token amount of \$270,000 for one IPM project. This is only 0.0002% of the \$1.035 billion the ADB invested in the agriculture and agro-industry sector. We hope that the new Social Dimensions Unit will provide additional expertise to address issues that are deeply interwoven with environmental concerns.

In practice, the ADB rarely if ever reconsiders projects. One recent exception is the East Rapti Irrigation Project in Nepal. Had it not been for NGOs, the Bank would not have had the necessary understanding of local conditions. In this connection, the ability of the ADB to actually monitor the reality of projects on the ground is very limited. Hence, in most cases information is inadequate to be able to evaluate compliance with project conditions. At present it seems that the ADB does not carry out systematic post-evaluation reviews of the implementation of its environmental and social policies and procedures.

Institutionally, the ADB still has not developed a strategy for dealing with crucial global issues such as ozone depletion, tropical deforestation, loss of biodiversity, pesticide poisoning, and global warming. We are pleased that the ADB has agreed on the outline of a new strategic approach, which could be utilized to address these issues in a timely way, and we look forward to it being implemented. For example, we submit that the Bank should develop a strategic plan to address the issues being considered at the Earth Summit in Rio next month.

### 3. Information Access, Transparency and Accountability.

The first step in the planning process should be to find out what local people want and need in order to improve their lives. It is part of their human rights to play a fundamental role in the planning and decision making process, and not to have decisions imposed on them. This is what we call the democratization of development.

Although there has been some improvement in this regard, adequate consultations are not actually taking place in most cases, nor are appropriate materials made available to the affected people and to NGOs. Public participation means much more than merely consultation with a few NGOs. The entire process of planning projects must be based on respect for the existing ways of life and cultures of the people, and be carried out for their benefit. The environmental and social assessment procedures of the ADB should provide a key mechanism for holding useful consultations with the affected people and the intended beneficiaries, early in the planning process for any project or sector loan.

We note that often the ADB is involved in feasibility studies that lay the foundation for sweeping investments by other entities, often with very bad environmental and social results, such as the pulp and paper industry development in Indonesia. In order to avoid this, it is imperative that the ADB make available to NGOs and the public timely information about projects and sector loans being considered, as well as the documents used in environmental assessments. This is mostly handled at present on an ad hoc basis. So long as the assessments and other documents about project and sector loans are considered to be the property of the recipient governments, it is difficult to see how there will be adequate public access to information about ADB activities in those countries. At the same time, it is difficult for NGOs from donor

countries to ensure accountability for their aid funds if they are not able to review the documents.

An effective ADB-NGO liaison is needed to promote equitable and cooperative relationships. The new Social Dimensions Unit may provide a vehicle for this. We look forward to working closely with it and with the Environment Office. However, we must note that the ADB's present practice of accreditation of NGOs coming to the annual meeting is discriminatory and inappropriate. NGOs do not represent their governments. It is the Bank that is holding the annual meeting, and it is wrong to leave a veto power in the hands of governments over which NGOs are to be accredited. We understand that some governments also are of the view that accreditation is the ADB's responsibility.

It is our view that any NGO which is engaged in a dialogue with the ADB, and wants to participate at the annual meeting, should be able to do so. We suggest that the ADB adopt a simple registration procedure similar to the ECOSOC status utilized in the UN system, so that any NGO working on ADB issues can participate at the annual meetings. Ideally, NGOs should have a form of Observer status to those meetings. These suggestions will assist in the transparency of the ADB and will improve the access to information that leads to productive partnerships.

On the positive side, we appreciate your support for NGOs having a room at this Annual Meeting, and the opportunity once again to meet with you. We believe that your leadership over the past three years has been a primary reason why the ADB has made some genuine progress on the critical issues we have put forward here. We urge the Bank not to lose what momentum has been achieved, and to move rapidly toward the more fundamental shifts that we have outlined. We look forward to a continuing dialogue with you and your staff on these issues.

Sincerely,

Antonio B. Quizon  
Executive Director,  
Asian NGO Coalition  
Manila, Philippines

Chip Fay  
Director,  
Manila Office  
Friends of the Earth-USA

Camena Guneratne  
Environmental Foundation  
Sri Lanka

Roel Ravenara  
Asian NGO Coalition  
Manila, Philippines

Rey Ureta  
ANGOC  
Manila, Philippines

Chad Dobson  
Bank Information Center/NOVIB  
Washington, DC

Ross Hughes  
Asian Wetland Bureau  
Kuala Lumpur, Malaysia

Mafruza Khan  
Proshika Manobik Unnayan  
Kendra  
Dhaka, Bangladesh

Srisuwan Kuankachorn  
Project for Ecological Recovery  
Bangkok, Thailand

Falboon Wattanasiritham  
Foundation for Thailand Rural  
Reconstruction Movement  
Bangkok, Thailand

Elizabeth Pua  
 Legal Rights and Natural  
 Resources Center  
 Manila, Philippines

Peter Illig  
 Director, FOE  
 Hong Kong

Gani Serrano  
 Philippine Rural Reconstruction  
 Movement  
 Manila, Philippines

Filomeno Sta. Ana  
 Freedom from Debt Coalition  
 Manila, Philippines

Nicanor Perlas  
 Center for Alternative  
 Development Initiatives  
 Manila, Philippines

Father Dick Timm  
 Coordinating Committee for  
 Human Rights  
 Dhaka, Bangladesh

Athena Ronquillo  
 Legal Rights and Natural  
 Resources Center  
 Manila, Philippines

Sandra Moniaga  
 WALHI  
 Jakarta, Indonesia

Irwansyah Hasibuan  
 SINTESA Foundation  
 Medan, Indonesia

Nora Sy. Ibrahim  
 Asia Pacific Peoples  
 Environment Network (APPEN)  
 Penang, Malaysia

Mariko Urano  
 Japan Tropical Forest Action  
 Network (JATAN)  
 Tokyo, Japan

Nonette Royo  
 Legal Rights and Natural  
 Resource Center  
 Manila, Philippines

Faina V. Lucero  
 ANGOC  
 Manila, Philippines

James N. Barnes  
 Head, International Dept.  
 Friends of the Earth-US  
 Washington, DC

Carol Sherman  
 Rainforest Information Center  
 Lismore, NSW  
 Australia

**WORLD BANK ENERGY SECTOR LOANS 1992**  
**Grand Lending Total: \$4.037 Billion**

Type of Project	Project Name	Loan Amount \$US
<b>Oil and Gas Development</b>		
Algeria	First Petroleum Project	\$100 million
Argentina	Hydrocarbon Engineering Project	\$28 million
Indonesia	Energy Sector Adjustment	\$82.1 million (2 part loan)
India	Oil and Gas Sector Development	\$150 million
Pakistan	Domestic Energy Resources Development Project	\$180 million
		<b>Total: \$540.1 million</b>
<b>Construction of Hydroelectric Power Plants</b>		
China	Daguanqie Haimen Hydroelectric Plant	\$67 million
China	Ertan Hydroelectric Power Plant	\$380 million
Malawi	Power V Project	\$55 million
Turkey	Berkis Hydropower Project	\$270 million
		<b>Total: \$772 million</b>
<b>Infrastructure Development and Rehabilitation</b>		
Angola	Power Sector Rehabilitation Project	\$13.5 million
Czechoslovakia	Power and Environmental Improvement	\$246 million
India	Power Utilities Efficiency Improvement Project	\$265 million
Korea	Gas System Expansion Project	\$100 million
Nepal	Power Sector Efficiency Project	\$65 million
The Philippines	Rural Electrification Revitalization Project	\$91.3 million
Sierra Leone	Power Sector Rehabilitation Project	\$21 million
Sri Lanka	Second Power Distribution and Transmission Project	\$50 million
Thailand	Distribution System Upgrading	\$40 million
Tunisia	Gas Infrastructure Development Project	\$60 million
		<b>Total: \$971.8 million</b>
<b>Expansion of Coal-Fired Thermal Power Plants</b>		
China	Zoumahe Thermal Power Project	\$310 million
China	Yanhai Thermal Power Project	\$180 million
India	Second Maharashtra Power Project	\$350 million
Indonesia	Suralaya Thermal Power Project	\$423.6 million
		<b>Total: \$1,264 million</b>
<b>Miscellaneous Power Plants/Dams</b>		
Egypt (construction of oil and gas-fired thermal power plant)	Kareimut Power Project	\$220 million
Malaysia (expansion of natural gas-fired thermal power project)	Power System Development Project	\$200 million
Mauritius (construction of a bagasse-fired thermal power plant)	Sugar Energy Development Project	\$15 million
Thailand (construction of a hydroelectric project and expansion of lignite mining)	Third Power System Development Project	\$54 million
		<b>Total: \$489 million</b>

**BEST AVAILABLE COPY**

## PREPARED STATEMENT OF LAWRENCE H. SUMMERS

Mr. Chairman, distinguished members of the Senate Finance Committee, ladies and gentlemen:

I welcome the opportunity to appear before you today as President Clinton's nominee to be Under Secretary of the Treasury for International Affairs.

If confirmed for the position of Under Secretary, I will look forward to serving President Clinton and Secretary Bentsen, and to working with you and your colleagues in the Congress to promote and defend the economic well-being of the United States.

President Clinton has committed his Administration to a policy of engaged, enlightened, and hard-headed economic internationalism to go along with his program of domestic renewal. We are living in an era of increasing global economic interdependence, where national economies are interconnected as never before, and domestic and foreign policies are inextricably linked. We have the chance to free up billions spent on national defense, to promote free elections and free economies from Poland to Peru, and to realize the vast potential of global economic integration. The nations of the world have the opportunity to grow and prosper together -- or stagnate and scapegoat apart.

The Under Secretary of the Treasury for International Affairs is charged with helping the President and the Secretary design and implement American international economic strategy. The Under Secretary's responsibilities include the development and implementation of policies in the areas of international macroeconomic policy coordination, exchange rate policy, trade and investment policy, international debt strategy, and U.S. participation in international financial institutions. The Under Secretary also serves as the G-7 Financial Deputy, with primary responsibility for coordinating economic policy with other industrial nations, and as the financial "Sherpa" in preparation for the annual Economic Summit.

There are many aspects to the job, but what I would like to do this morning, Mr. Chairman and Members of the Committee, is outline for you four critical policy areas that will be at the top of my agenda if I am confirmed.

First, we must improve macroeconomic coordination between the United States and its G-7 partners. The U.S. economy is likely to grow far more rapidly than the economies of Europe and Japan over the next year or two. While we can take satisfaction from our recovery, slow growth abroad means slower growth for U.S. exports and rising trade imbalances.

Secretary Bentsen has taken the initiative to revive the policy coordination process -- which is important to the restoration of global growth and employment. The President's economic program has brought us new respect in the international economic arena. And it will strengthen our hand in encouraging our major trading partners to take complementary actions to strengthen growth in their own countries. The Secretary began this effort in London. Both he and the President have made it clear that they hope to see real progress by the time of the Economic Summit in Tokyo.

Second, we must work to promote international economic integration and to insure that its benefits are shared fairly among nations. There is no alternative to economic integration. As President Clinton said at American University, the United States must compete -- not retreat.

This means we must promote exports, because exports are the path to economic growth and to the creation of better jobs in the United States. For America to expand exports, foreign markets must be open. Good Uruguay Round and NAFTA agreements -- when concluded, as I am confident they will be -- will make a major contribution to the health of our economy and to that of our trading partners.

But concluding trade treaties is not enough. Where serious barriers to U.S. exports remain, we must vigorously enforce existing trade law to remove them. The trading practices of those nations that run chronic and increasing surpluses with most regions of the world are of particular concern.

If confirmed, I will place particular emphasis on promoting financial market liberalization in Asia, Latin America, and Europe. Our financial institutions are world class innovators. They will succeed where they are given the opportunity to compete. I will also work to ensure that American firms are not victimized by exchange rate manipulation. And Treasury will insist on ensuring that just as our market is generally open to foreign friends that wish to invest here, foreign markets will be open to American investment.

Third, we must do what we can to ensure the success of Russia's democratic and economic reform effort. Political scientists offer this critical lesson of history: democracies do not make war on each other. To this important political science maxim, an economist would attach a critical corollary: democracies can not survive hyperinflation. These twin truths are overriding considerations when we confront American interests in securing the success of the embattled reform effort underway in Russia. Russia is perilously close to hyperinflation, and unless Russia's leaders can reassert macroeconomic discipline, the country could go the way of Weimar Germany or the Junta's Argentina.

The Clinton Administration is already fully engaged in devising and implementing, in cooperation with our allies, an effective economic assistance package for Russia and the other states of the former Soviet Union. The Treasury Department brings crucial economic perspectives to the table on matters concerning stabilization policy, debt, technical assistance, and economic restructuring. The task of rebuilding the Russian economy is the greatest economic restructuring job since the Marshall Plan. If confirmed, I will work, under Secretary Bentsen's leadership, with the rest of the Administration and Congress to ensure that the United States does all that it possibly can to support the political and economic transition in Russia at this historic moment.

Fourth, we must work to support sustainable and environmentally responsible development in the developing world. With 1 billion people trying to survive on less than \$1 a day, this is a moral imperative. It is also an economic imperative as the developing world represents the fastest-growing market for U.S. exports. And it is a security imperative because prosperous nations are most likely to be peaceful ones.

The Secretary of the Treasury is the U.S. Governor of the International Financial Institutions -- the IMF, the World Bank, and the regional development banks. These institutions afford the United States extraordinary leverage. The World Bank, for example, has committed over \$20 billion to the less developed world over the last 40 years, while U.S. contributions to the Bank have cost the taxpayers less than \$2.0 billion over the same period.

If these institutions are to serve U.S. interests in the Third World, they must be much more than financial institutions. They must make a real, as well as a rhetorical commitment to helping the poor and protecting the environment. The Treasury Department will break with tradition to ensure that the U.S. representatives to these institutions draw on the expertise of environment and development communities, as well as the financial community.

In his welcoming address to the employees of the Treasury Department, Secretary Bentsen said that as the Departments of State and Defense were the guarantors of military security during the Cold War, the Treasury Department must be the guarantor of America's economic security in the post-Cold War world. It is a distinct privilege and honor to have been asked by Secretary Bentsen and nominated by the President to serve at Treasury during this critical time. Mr. Chairman and members, if confirmed, I look forward to working with you. Thank you.

#### BIOGRAPHICAL

Lawrence H. Summers is Vice President, Development Economics and Chief Economist of the World Bank. He is on leave from his position as Nathaniel Ropes Professor of Political Economy at Harvard University. He is the author of more than one hundred articles and two books, *Tax Policy and the Economy* and *Understanding Unemployment*.

Born in New Haven, Connecticut in 1954, Summers received his S.B. degree from M.I.T. in 1975 and his Ph.D. from Harvard in 1982. He served as an assistant and then associate professor of economics at M.I.T. from 1979 to 1982 and as Domestic Policy Economist at the President's Council of Economic Advisers during 1982-1983. In 1983, he joined the Harvard faculty as the youngest tenured professor in the history of the Harvard Economics Department.

In 1987, Lawrence Summers was the first social scientist to receive the National Science Foundation's \$500,000 Alan T. Waterman Award given annually for outstanding scientific contributions and was elected as a fellow of the American Academy of Arts and Sciences. He has been editor of *The Quarterly Journal of Economics* and a number of other journals. He presently serves as a member of the Brookings Panel of Economic Activity, a Research Associate of the National Bureau of Economic Research, and a member of the Board of Advisors of the Congressional Budget Office.

In addition to his academic research, Summers has written regularly in the business press on a wide range of economic policy issues. Summers has served as a consultant to the United States Treasury and Department of Labor and a number of major U.S. corporations. He has also provided economic advice to the governments of Mexico, Indonesia, Jamaica, and Lithuania. Summers was recently recognized by *The Economist* magazine as one of the world's leading young economists.

#### RESPONSE OF DR. SUMMERS TO A QUESTION SUBMITTED BY SENATOR RIEGLE

**Question.** Mr. Summers, the U.S. government currently has frozen payments from Iraq and Iraq-based companies to U.S. companies for work or goods provided prior to invasion of the Kuwait by Saddam Hussein.

One of these companies affected by this policy is Berger and Company based in Saginaw, Michigan. Berger and Company has been waiting more than two years to recover almost \$2 million from an account in the Bank of New York.

All monies owed to this Michigan company are for business completed before the invasion of Kuwait except payment for the services rendered in May.

As the Under Secretary for International Affairs at the Treasury Department, will you move quickly to unfreeze these assets? If not, what assumptions are you working from that precludes Berger and Company and companies in similar situations from receiving payments from the blocked Iraqi assets?

**Answer.** I referred your question to the Director of Foreign Assets Control at the U.S. Treasury Department. He provided the following response:

"The approach to satisfying claims of U.S. nationals against the Government of Iraq has as its principal goal the equitable compensation of all similarly situated U.S. claimants. Thus, any proposal with respect to the

U.S. compensation regime must take into consideration the claims of all U.S. claimants, and must proceed in coordination with the United Nations Compensation Commission. It must also take into account Iraqi government assets available to satisfy awards relative to the value of claims asserted. As you are no doubt aware, on both the global and national levels, claims far exceed assets. In the United States, claims against the Government of Iraq are at least four to five times the value of blocked assets.

"Within this factual context, several steps have been taken with respect to compensation of U.S. nationals. First, a legislative proposal was sent to the last Congress to establish a domestic claims settlement process for creditors of Iraq, and a similar proposal is currently under review within the Executive Branch. This review is near completion and a proposal should be forwarded to Congress in the near future. Second, the United States is fully cooperating with the United Nations Compensation Commission, which will review claims of persons and entities resulting from the August 2, 1990 Iraqi invasion and occupation of Kuwait.

"Third, the Iraqi Sanctions Regulations, 31 C.F.R. Part 575 (the "Regulations"), which implement the Presidential declaration of national emergency with respect to Iraq, provide for the unblocking of Iraqi government property to permit payment for goods exported prior to the imposition of sanctions where payment is required as a mandatory and binding legal obligation of a U.S. bank. Section 575.510 of the Regulations provides for the issuance of licenses to permit payment for pre-sanctions exports involving a pre-August 2, 1990, irrevocable letter of credit issued or confirmed by a U.S. bank, or a letter of credit reimbursement confirmed by a U.S. bank. 31 C.F.R. 575.510. In contrast to the legal obligation imposed upon a bank which confirms a letter of credit, an advising bank has no independent obligation to pay a beneficiary, even upon the beneficiary's compliance with the terms of the letter of credit.

"The distinction made in section 575.510 merely preserves distinctions made in letter of credit law which are central to that body of law. Letter of credit law creates a fundamental and universally recognized difference in the legal obligations of advising versus confirming banks. These distinctions are set forth in the Uniform Customs and Practices for Documentary Credits, 1983 revision (ICC Publication No. 400—"UCP"), which are incorporated by reference as the governing law of most international letters of credit. In issuing or confirming a letter of credit, a bank contracts to pay the beneficiary from its own funds upon fulfillment of the payment conditions of the letter of credit contract. UCP, Art. 10(b). This is starkly different from advising a letter of credit, which is a simple accommodation to another bank. The advising bank acts much as a messenger; it is a complete stranger to the letter of credit contract, and undertakes no obligation to any party to the contract to make payment. UCP, Arts. 6 and 8; see Art. 12.

"The issue you raise regarding the issuance of licenses with respect to advising letters of credit is currently in litigation in *Consarc Corporation v. Iraqi Ministry of Industry and Minerals*, No. 90-2269, before the United States District Court for the District of Columbia. Several appeals of the district court's rulings in *Consarc* have been filed with the United States Court of Appeals for the District of Columbia. In addition, several other cases have been initiated addressing this question. *E.g., Bergerco. Canada v. Iraqi State Company for Food Stuff Trading et al.*, No. 92-2781 (D.D.C. filed Dec. 10, 1992).

"*Consarc* arose out of a contract for the sale of furnaces by Consarc to the Iraqi Ministry of Industry and Minerals ("Iraqi MIM"). To finance the sale, Iraqi MIM had Rafidain Bank, an Iraqi bank, open a \$6.4 million letter of credit in favor of Consarc, advised by Pittsburgh National Bank ("PNB") without PNB assuming any obligation to pay Consarc. The Bank of New York ("BONY"), not a party to the letter of credit, entered into a confirmed reimbursement credit agreement with PNB. PNB was free to determine at the time documents were presented whether to pay Consarc. If PNB chose to pay, BONY would then reimburse PNB using its own funds and reimburse itself from the collateral set aside for BONY by Rafidain. These arrangements did not give Consarc the right to obtain the funds set aside for BONY in Rafidain Bank's account.

"No goods were shipped prior to imposition of sanctions and the Presidential blocking of Iraqi government property. Blocked Iraqi government property included Rafidain's account at BONY holding sums including the

\$6.4 million collateralizing Rafidain's obligation to BONY under the reimbursement credit, and the furnaces manufactured for the Iraqi government.

"In its most recent orders, the district court ruled that although the furnaces or their sales proceeds were properly blocked as Iraqi government property, the funds on deposit in the Rafidain Bank account at BONY were not the property of the Government of Iraq, and ordered Treasury's Office of Foreign Assets Control to unblock these funds. We believe that the court's decision with respect to the \$6.4 million blocked account improperly evaluated the rights and obligations of the parties under letter of credit law, and failed to consider important aspects of the International Emergency Economic Powers Act and the implementing Regulations. The decision is on appeal.

"We do not see legal or public policy merit to affording access to blocked Iraqi assets to beneficiaries of advised Iraqi letters of credit on which no person in the United States has any payment obligation. Such beneficiaries are not differently situated from any other unsecured creditor of Iraq, and should not receive priority over other unsecured creditors. Licenses issued pursuant to section 575.510 of the Regulations provide for payment to beneficiaries of Iraqi letters of credit only where an independent legal obligation to pay the beneficiary from non-Iraqi funds exists on the part of a U.S. bank. The confirming bank, in turn, is only licensed to reimburse itself from blocked Iraqi funds that, prior to the imposition of sanctions, and pursuant to the confirmation, were specifically set aside as collateral for the U.S. bank's payment obligation.

"We recognize and regret the inconvenience and hardship that economic sanctions programs inevitably impose on U.S. citizens, and endeavor to administer our programs in a manner that minimizes such hardships. We believe that the Administration and the Congress are united in the view that economic sanctions constitute an effective tool of U.S. foreign policy, and help speed resolution of national emergencies declared with respect to target governments such as Iraq, notwithstanding the burdens imposed on the U.S. private and public sectors through these programs. We also believe that the Congress desires equitable treatment among similarly situated U.S. claimants, including the U.S. Government, and that the Department's current licensing policies preserve that equity pending a comprehensive domestic claims settlement program."

#### RESPONSES OF DR. SUMMERS TO QUESTIONS SUBMITTED BY SENATOR PACKWOOD

*Question No. 1.* I'd like to get your general philosophy on taxes—should we be moving more toward consumption taxes and away from taxes on savings and investments?

*Answer.* I have felt that consideration should be given to greater reliance on consumption taxes. The Administration's proposals incorporate one kind of consumption tax in the form of an energy (or BTU) tax. In addition to raising revenues needed to help reduce the deficit, the proposed energy tax will encourage greater efficiency in energy consumption and reduced environmental damage.

*Question No. 2.* If you think emphasis should be on consumption taxes, should a consumption tax replace our current income tax system or should it be an additional tax?

*Answer.* I do not think that if additional consumption taxes were introduced, they would replace the existing income taxes. More likely, they will be used to raise revenues while meeting other policy objectives, as does the proposed energy tax.

*Question No. 3.* Should a consumption tax go to reduce the deficit or fund more spending, like health care?

*Answer.* The additional revenues from the energy tax will help to reduce the deficit. As far as health care is concerned, no decisions have been made at this time. But certainly taxes on consumption should be among the options considered for financing health care reform. Taxes on alcohol, tobacco, and health insurance premiums are forms of consumption taxes that have been mentioned publicly. But any decision in this area would have to carefully weigh these options as part of an overall program of health care reform.

*Question No. 4.* In the past you have said that our tax system needs to discourage short-term securities speculation because it diverts capital from more long-term productive uses and causes unstable markets. How would you reform the tax system to discourage, rather than encourage, short-term speculation?

*Answer.* While I have in the past entertained the idea of using the tax system to discourage short term speculation, I believe the President's proposals, which seek

to improve the long term health of our economy, should encourage investors to take a longer term prospective.

**Question No. 5.** What is your position on a securities transfer excise tax?

**Answer.** On examining this issue in the past, I have found that economic arguments can be made for using a securities transfer excise tax (STET) to curb excesses associated with short term speculation in international security markets. Since then, other countries have reduced their securities transfer excise taxes (STET) sufficiently so that the arguments which can be made against such a tax have greater significance. Hence, I believe that the United States should proceed cautiously, and only on a multilateral basis, in this area.

**Question No. 6.** If you believe we should impose a securities transfer excise tax, would you use the revenues to reduce the rate on capital gains?

**Answer.** Neither a securities transfer tax nor a broad reduction in the capital gains tax is currently under consideration by the Administration.

**Question No. 7.** Would you support an excise tax on electronic transfer of funds?

**Answer.** An argument for such a tax could be made to the extent that the revenues pay for services provided. User fees are charged, for example, by the Federal Reserve for electronic services provided to banks. Other than as a user fee, however, it is not clear what good arguments could be made in favor of a tax on electronic funds transfers. Such tax could discourage adoption of cost-reducing technology, and could increase the cost and reduce the production of financial services by banks. I do not support such a tax at this time.

**Question No. 8.** I noticed on your resume you have advised the Governments of Mexico, Indonesia, Jamaica, and Lithuania. Could you explain in detail what work you did for these governments, and whether you think it poses any potential conflict of interests if you were confirmed as Under Secretary?

**Answer.** My work for the four governments was as follows:

- **Mexico:** A number of years ago—probably in 1987—I participated in a set of discussions with their tax officials on the question of indexing Mexico's income tax system. For this I was paid between \$2,000 and \$3,000 by the Mexican Government.
- **Indonesia:** In 1979 and 1980, I advised Indonesia on petroleum pricing. I worked under the auspices of the Harvard Institute for International Development and was paid less than \$5,000.
- **Jamaica:** In 1982, I advised Jamaica on the creation of a new input/output table and on monetary policy questions. I worked under the auspices of MIT and was paid less than \$5,000.
- **Lithuania:** In 1990, I advised the Lithuanian Prime Minister on monetary reform and other economic issues prior to the time when Lithuania became independent. The only payment I received for this work came from the Soros Foundation, for my travel and living expenses.

Given the nature, quantity and timing of work I did for the four governments, I do not perceive that it could give rise to any potential conflict of interests if I were confirmed Under Secretary.

**Question No. 9.** In an October 1988 article in the *Financial World* you stated that there should not be barriers to imports in order to protect domestic industries. I agree with you, and ask should your philosophy apply to Treasury's review of the tariff reclassification of mini-vans—which, if reversed, would increase the tariff on these vehicles from 2.5 percent to 25 percent?

**Answer.** The classification of multipurpose vehicles, such as minivans, is a legal question, falling under the jurisdiction of the Commissioner of Customs and the Treasury Secretary for Enforcement and ultimately the Secretary. Thus, they must decide how to interpret correctly the tariff classification language based on the Harmonized System of tariff nomenclature and passed by the Congress.

This case would not be a question of protection but of the legal merits. My contribution would be limited to explaining the international implications of a decision that must rest on interpreting U.S. law.

**Question No. 10.** A major program of the previous Administration was the EAI, which was designed to reduce debt and open markets in Latin America. How do you think the program has worked in the past, and do you intend to actively pursue it if confirmed?

**Answer.** The Administration is in the process of reviewing how to continue to achieve the objectives of the Enterprise for the Americas Initiative, within current budgetary constraints. A request for funding for the EAI program will be included in the President's FY94 budget request, which we expect to be presented to Congress on April 5.

The Enterprise for the Americas Initiative was designed as a cooperative effort to increase trade, investment, and growth throughout the hemisphere. Progress to date on its trade, investment, debt, and environment components include:

- Successful completion of negotiations on the North American Free Trade Agreement with Mexico and Canada. In addition to NAFTA, agreements to facilitate discussion of trade and investment issues are in place with all but three countries in the region, a first step toward the ultimate objective of accomplishing free trade throughout the hemisphere.
- Two new programs have been established in the Inter-American Development Bank to support countries' investment policy reforms. The IDB Board has approved 9 investment sector loans, and the newly created Multilateral Investment Fund has a capitalization pledge of nearly \$1.3 billion.
- The USG has reduced \$875 million in bilateral debt obligations of seven countries in the region that are implementing sound economic reform programs, including substantial investment liberalization, consistent with Congressional legislation.
- These debt reduction agreements will facilitate a new source of funding, potentially totalling \$154 million, for grass roots environmental and child survival projects in these seven countries.

*Question No. 11.* You mentioned in your testimony that the United States must vigorously enforce existing trade laws to remove serious barriers to U.S. exports, particularly against nations that run chronic and increasing trade surpluses. Should this be the major emphasis in reducing our trade deficit (e.g., with Japan and China), or—as you argued in the paper "U.S. Competitiveness: Beyond the Trade Deficit"—should we focus on cutting the federal budget deficit to improve our trade balance?

*Answer.* Our global trade deficit is largely determined by macroeconomic factors. The Clinton Plan will contribute to lower trade deficits in several important ways:

- Reducing our federal budget deficit and increasing domestic savings will contribute to reducing import consumption.
- Higher investment and a better trained labor force with the opportunity to be retrained for the challenges of today's global economy will strengthen our ability to compete in world markets.
- In addition, the Plan puts us on the higher ground to encourage ways of restoring and strengthening the growth in Europe and Japan, bilaterally and as part of revived G-7 process.

At the same time, barriers by our trading partners can have a significant impact on particular U.S. industries. Therefore, it is also important that we simultaneously pursue the elimination of significant barriers to U.S. exports. We want to ensure that U.S. industries can compete internationally without facing major artificial barriers.

*Question No. 12.* You wrote in the paper "Challenges We Face" (November 1991) that we are more likely to see what will be labelled as a successful completion of the Uruguay Round than what could honestly be called completion of a successful Uruguay Round. What do you think is necessary for completion of a successful Round?

*Answer.* Needless to say, "Challenges We Face" was written before the election. I have full confidence in statements by the President and Ambassador Kantor that they will only agree to a good Uruguay Round agreement.

Such an agreement should include:

- significant reductions in tariff and non-tariff barriers by our trading partners;
- services rules and commitments that lead to liberalization;
- rules to provide adequate and effective intellectual property protection;
- substantial liberalization in the agricultural sector, including reductions in internal supports and export subsidies and conversion of all trade barriers to tariffs.

But most important our key trading partners must undertake a level of commitment to liberalization that is equivalent to ours. Multilateral trade liberalization can make an important contribution to economic growth not only here in the United States but globally.

#### RESPONSES OF DR. SUMMERS TO A QUESTION SUBMITTED BY SENATOR DOLE

*Question.* Several American companies have applied to the Office of Foreign Assets Control for licenses to obtain payments from blocked Iraqi bank accounts.

These companies contend that they had irrevocable letters of credit issued by Iraqi banks and had shipped the goods or otherwise performed their contracts prior to Iraq's invasion of Kuwait on August 12, 1990.

When my staff inquired of Treasury the reasons for denying the licenses, several answers were provided. One official said the problem was that the letters were "advised" rather than "confirmed." Another official said it was due to the fact that the cases were being heard in Federal Court.

A January 15 letter from the then Assistant Secretary of Treasury for Legislative Affairs concludes that these claims are part of all other claims against the Government of Iraq including those imposed with sanctions after the invasion of Kuwait, and argument not made by the other two officials.

Please provide the reason or reasons for denying the licenses requested by the companies.

In light of the court ruling in *Consarc Corporation v. the Iraqi Ministry of Industry and Minerals* which found Treasury's arguments in error, please advise what Treasury's position is on further court procedures regarding these cases.

In regard to the January 15 letter, please advise if Treasury considers these cases to be part of all other claims against Iraq, including those of the U.S. Government.

*Answer.* I referred your question to the Director of Foreign Assets Control at the U.S. Treasury Department. He provided the following response:

"The approach to satisfying claims of U.S. nationals against the Government of Iraq has as its principal goal the equitable compensation of all similarly situated U.S. claimants. Thus, any proposal with respect to the U.S. compensation regime must take into consideration the claims of all U.S. claimants, and must proceed in coordination with the United Nations Compensation Commission. It must also take into account Iraqi government assets available to satisfy awards relative to the value of claims asserted. As you are no doubt aware, on both the global and national levels, claims far exceed assets. In the United States, claims against the Government of Iraq are at least four to five times the value of blocked assets.

"Within this factual context, several steps have been taken with respect to compensation of U.S. nationals. First, a legislative proposal was sent to the last Congress to establish a domestic claims settlement process for creditors of Iraq, and a similar proposal is currently under review within the Executive Branch. This review is near completion and a proposal should be forwarded to Congress in the near future. Second, the United States is fully cooperating with the United Nations Compensation Commission, which will review claims of persons and entities resulting from the August 2, 1990 Iraqi invasion and occupation of Kuwait.

"Third, the Iraqi Sanctions Regulations, 31 C.F.R. Part 575 (the "Regulations"), which implement the Presidential declaration of national emergency with respect to Iraq, provide for the unblocking of Iraqi government property to permit payment for goods exported prior to the imposition of sanctions where payment is required as a mandatory and binding legal obligation of a U.S. bank. Section 575.510 of the Regulations provides for the issuance of licenses to permit payment for pre-sanctions exports involving a pre-August 2, 1990, irrevocable letter of credit issued or confirmed by a U.S. bank, or a letter of credit reimbursement confirmed by a U.S. bank. 31 C.F.R. 575.510. In contrast to the legal obligation imposed upon a bank which confirms a letter of credit, an advising bank has no independent obligation to pay a beneficiary, even upon the beneficiary's compliance with the terms of the letter of credit.

"The distinction made in section 575.510 merely preserves distinctions made in letter of credit law which are central to that body of law. Letter of credit law creates a fundamental and universally recognized difference in the legal obligations of advising versus confirming banks. These distinctions are set forth in the Uniform Customs and Practices for Documentary Credits, 1983 revision (ICC Publication No. 400—"UCP"), which are incorporated by reference as the governing law of most international letters of credit. In issuing or confirming a letter of credit, a bank contracts to pay the beneficiary from its own funds upon fulfillment of the payment conditions of the letter of credit contract. UCP, Art. 10(b). This is starkly different from advising a letter of credit, which is a simple accommodation to another bank. The advising bank acts much as a messenger; it is a complete stranger to the letter of credit contract, and undertakes no obligation to any party to the contract to make payment. UCP, Arts. 6 and 8; *see* Art. 12.

"The issue you raise regarding the issuance of licenses with respect to advised letters of credit is currently in litigation in *Consarc Corporation v. Iraqi Ministry of Industry and Minerals*, No. 90-2269, before the United States District Court for the District of Columbia. Several appeals of the district court's rulings in *Consarc* have been filed with the United States Court of Appeals for the District of Columbia. In addition, several other cases have been initiated addressing this question. E.g., *Bergerco. Canada v. Iraqi State Company for Food Stuff Trading et al.*, No. 92-2781 (D.D.C. filed Dec. 10, 1992).

"*Consarc* arose out of a contract for the sale of furnaces by Consarc to the Iraqi Ministry of Industry and Minerals ("Iraqi MIM"). To finance the sale, Iraqi MIM had Rafidain Bank, an Iraqi bank, open a \$6.4 million letter of credit in favor of Consarc, advised by Pittsburgh National Bank ("PNB") without PNB assuming any obligation to pay Consarc. The Bank of New York ("BONY"), not a party to the letter of credit, entered into a confirmed reimbursement credit agreement with PNB. PNB was free to determine at the time documents were presented whether to pay Consarc. If PNB chose to pay, BONY would then reimburse PNB using its own funds and reimburse itself from the collateral set aside for BONY by Rafidain. These arrangements did not give Consarc the right to obtain the funds set aside for BONY in Rafidain Bank's account.

"No goods were shipped prior to imposition of sanctions and the Presidential blocking of Iraqi government property. Blocked Iraqi government property included Rafidain's account at BONY holding sums including the \$6.4 million collateralizing Rafidain's obligation to BONY under the reimbursement credit, and the furnaces manufactured for the Iraqi government.

"In its most recent orders, the district court ruled that although the furnaces or their sales proceeds were properly blocked as Iraqi government property, the funds on deposit in the Rafidain Bank account at BONY were not the property of the Government of Iraq, and ordered Treasury's Office of Foreign Assets Control to unblock these funds. We believe that the court's decision with respect to the \$6.4 million blocked account improperly evaluated the rights and obligations of the parties under letter of credit law, and failed to consider important aspects of the International Emergency Economic Powers Act and the implementing Regulations. The decision is on appeal.

"We do not see legal or public policy merit to affording access to blocked Iraqi assets to beneficiaries of advised Iraqi letters of credit on which no person in the United States has any payment obligation. Such beneficiaries are not differently situated from any other unsecured creditor of Iraq, and should not receive priority over other unsecured creditors. Licenses issued pursuant to section 575.510 of the Regulations provide for payment to beneficiaries of Iraqi letters of credit only where an independent legal obligation to pay the beneficiary from non-Iraqi funds exists on the part of a U.S. bank. The confirming bank, in turn, is only licensed to reimburse itself from blocked Iraqi funds that, prior to the imposition of sanctions, and pursuant to the confirmation, were specifically set aside as collateral for the U.S. bank's payment obligation.

"We recognize and regret the inconvenience and hardship that economic sanctions programs inevitably impose on U.S. citizens, and endeavor to administer our programs in a manner that minimizes such hardships. We believe that the Administration and the Congress are united in the view that economic sanctions constitute an effective tool of U.S. foreign policy, and help speed resolution of national emergencies declared with respect to target governments such as Iraq, notwithstanding the burdens imposed on the U.S. private and public sectors through these programs. We also believe that the Congress desires equitable treatment among similarly situated U.S. claimants, including the U.S. Government, and that the Department's current licensing policies preserve that equity pending a comprehensive domestic claims settlement program."

#### RESPONSES OF DR. SUMMERS TO A QUESTION SUBMITTED BY SENATOR ROTH

**Question.** Will the Office of Foreign Assets Control (OFAC) continue to deny payment from blocked Iraqi accounts to the domestic and foreign subsidiaries of U.S. companies if the following two conditions exist: (1) letters of credit were issued by Iraqi banks and advised by U.S. banks; and (2) the goods were shipped or the contract was otherwise performed prior to August 2, 1990?

**Answer.** I referred your question to the Director of Foreign Assets Control at the U.S. Treasury Department. He provided the following response:

"The approach to satisfying claims of U.S. nationals against the Government of Iraq has as its principal goal the equitable compensation of all similarly situated U.S. claimants. Thus, any proposal with respect to the U.S. compensation regime must take into consideration the claims of all U.S. claimants, and must proceed in coordination with the United Nations Compensation Commission. It must also take into account Iraqi government assets available to satisfy awards relative to the value of claims asserted. As you are no doubt aware, on both the global and national levels, claims far exceed assets. In the United States, claims against the Government of Iraq are at least four to five times the value of blocked assets.

"Within this factual context, several steps have been taken with respect to compensation of U.S. nationals. First, a legislative proposal was sent to the last Congress to establish a domestic claims settlement process for creditors of Iraq, and a similar proposal is currently under review within the Executive Branch. This review is near completion and a proposal should be forwarded to Congress in the near future. Second, the United States is fully cooperating with the United Nations Compensation Commission, which will review claims of persons and entities resulting from the August 2, 1990 Iraqi invasion and occupation of Kuwait.

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"In its most recent orders, the district court ruled that although the furnaces or their sales proceeds were properly blocked as Iraqi government property, the funds on deposit in the Rafidain Bank account at BONY were not the property of the Government of Iraq, and ordered Treasury's Office of Foreign Assets Control to unblock these funds. We believe that the court's decision with respect to the \$6.4 million blocked account improperly evaluated the rights and obligations of the parties under letter of credit law, and failed to consider important aspects of the International Emergency Economic Powers Act and the implementing Regulations. The decision is on appeal.

"We do not see legal or public policy merit to affording access to blocked Iraqi assets to beneficiaries of advised Iraqi letters of credit on which no person in the United States has any payment obligation. Such beneficiaries are not differently situated from any other unsecured creditor of Iraq, and should not receive priority over other unsecured creditors. Licenses issued pursuant to section 575.510 of the Regulations provide for payment to beneficiaries of Iraqi letters of credit only where an independent legal obligation to pay the beneficiary from non-Iraqi funds exists on the part of a U.S. bank. The confirming bank, in turn, is only licensed to reimburse itself from blocked Iraqi funds that, prior to the imposition of sanctions, and pursuant to the confirmation, were specifically set aside as collateral for the U.S. bank's payment obligation.

"We recognize and regret the inconvenience and hardship that economic sanctions programs inevitably impose on U.S. citizens, and endeavor to administer our programs in a manner that minimizes such hardships. We believe that the Administration and the Congress are united in the view that economic sanctions constitute an effective tool of U.S. foreign policy, and help speed resolution of national emergencies declared with respect to target governments such as Iraq, notwithstanding the burdens imposed on the U.S. private and public sectors through these programs. We also believe that the Congress desires equitable treatment among similarly situated U.S. claimants, including the U.S. Government, and that the Department's current licensing policies preserve that equity pending a comprehensive domestic claims settlement program."

#### RESPONSES OF DR. SUMMERS TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

*Question No. 1.* I want to thank you for already following up on a problem I discussed with you when you visited with me in my office. And that problem involves a Treasury report that was mandated by Congress and is supposed to detail the assets held in this country by terrorist countries or organization. The problem is that the report is a year overdue, but I'm encouraged that there now seems to be some movement towards issuing the report.

The largest and most daring terrorist attack in the United States has just taken place with the bombing in New York. And, so its even more important that victims of terror are able to go after these assets and put the terrorist on the defensive. I hope you'll continue to help ride herd on this report until it gets out.

Back in January, I asked Secretary Bentsen to look into the concerns of U.S. companies who have been blocked by Treasury from getting at money owed to them that has been stuck in frozen Iraqi accounts. I haven't heard about any movement on this problem yet. Could you follow up and let me know if Treasury has any plans to resolve this problem?

*Answer.* I referred your question to the Director of Foreign Assets Control at the U.S. Treasury Department. He provided the following response:

"The approach to satisfying claims of U.S. nationals against the Government of Iraq has as its principal goal the equitable compensation of all similarly situated U.S. claimants. Thus, any proposal with respect to the U.S. compensation regime must take into consideration the claims of all U.S. claimants, and must proceed in coordination with the United Nations Compensation Commission. It must also take into account Iraqi government

assets available to satisfy awards relative to the value of claims asserted. As you are no doubt aware, on both the global and national levels, claims far exceed assets. In the United States, claims against the Government of Iraq are at least four to five times the value of blocked assets.

"Within this factual context, several steps have been taken with respect to compensation of U.S. nationals. First, a legislative proposal was sent to the last Congress to establish a domestic claims settlement process for creditors of Iraq, and a similar proposal is currently under review within the Executive Branch. This review is near completion and a proposal should be forwarded to Congress in the near future. Second, the United States is fully cooperating with the United Nations Compensation Commission, which will review claims of persons and entities resulting from the August 2, 1990 Iraqi invasion and occupation of Kuwait.

"Third, the Iraqi Sanctions Regulations, 31 C.F.R. Part 575 (the "Regulations"), which implement the Presidential declaration of national emergency with respect to Iraq, provide for the unblocking of Iraqi government property to permit payment for goods exported prior to the imposition of sanctions where payment is required as a mandatory and binding legal obligation of a U.S. bank. Section 575.510 of the Regulations provides for the issuance of licenses to permit payment for pre-sanctions exports involving a pre-August 2, 1990, irrevocable letter of credit issued or confirmed by a U.S. bank, or a letter of credit reimbursement confirmed by a U.S. bank. 31 C.F.R. 575.510. In contrast to the legal obligation imposed upon a bank which confirms a letter of credit, an advising bank has no independent obligation to pay a beneficiary, even upon the beneficiary's compliance with the terms of the letter of credit.

"The distinction made in section 575.510 merely preserves distinctions made in letter of credit law which are central to that body of law. Letter of credit law creates a fundamental and universally recognized difference in the legal obligations of advising versus confirming banks. These distinctions are set forth in the Uniform Customs and Practices for Documentary Credits, 1983 revision (ICC Publication No. 400—"UCP"), which are incorporated by reference as the governing law of most international letters of credit. In issuing or confirming a letter of credit, a bank contracts to pay the beneficiary from its own funds upon fulfillment of the payment conditions of the letter of credit contract. UCP, Art. 10 (b). This is starkly different from advising a letter of credit, which is a simple accommodation to another bank. The advising bank acts much as a messenger; it is a complete stranger to the letter of credit contract, and undertakes no obligation to any party to the contract to make payment. UCP, Arts. 6 and 8; see Art. 12.

"The issue you raise regarding the issuance of licenses with respect to advised letters of credit is currently in litigation in *Consarc Corporation v. Iraqi Ministry of Industry and Minerals*, No. 90-2269, before the United States District Court for the District of Columbia. Several appeals of the district court's rulings in *Consarc* have been filed with the United States Court of Appeals for the District of Columbia. In addition, several other cases have been initiated addressing this question. *E.g., Bergerco. Canada v. Iraqi State Company for Food Stuff Trading et al.*, No. 92-2781 (D.D.C. filed Dec. 10, 1992).

"*Consarc* arose out of a contract for the sale of furnaces by *Consarc* to the Iraqi Ministry of Industry and Minerals ("Iraqi MIM"). To finance the sale, Iraqi MIM had Rafidain Bank, an Iraqi bank, open a \$6.4 million letter of credit in favor of *Consarc*, advised by Pittsburgh National Bank ("PNB") without PNB assuming any obligation to pay *Consarc*. The Bank of New York ("BONY"), not a party to the letter of credit, entered into a confirmed reimbursement credit agreement with PNB. PNB was free to determine at the time documents were presented whether to pay *Consarc*. If PNB chose to pay, BONY would then reimburse PNB using its own funds and reimburse itself from the collateral set aside for BONY by Rafidain. These arrangements did not give *Consarc* the right to obtain the funds set aside for BONY in Rafidain Bank's account.

"No goods were shipped prior to imposition of sanctions and the Presidential blocking of Iraqi government property. Blocked Iraqi government property included Rafidain's account at BONY holding sums including the \$6.4 million collateralizing Rafidain's obligation to BONY under the reimbursement credit, and the furnaces manufactured for the Iraqi government.

"In its most recent orders, the district court ruled that although the furnaces or their sales proceeds were properly blocked as Iraqi government property, the funds on deposit in the Rafidain Bank account at BONY were not the property of the Government of Iraq, and ordered Treasury's Office of Foreign Assets Control to unblock these funds. We believe that the court's decision with respect to the \$6.4 million blocked account improperly evaluated the rights and obligations of the parties under letter of credit law, and failed to consider important aspects of the International Emergency Economic Powers Act and the implementing Regulations. The decision is on appeal.

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"We recognize and regret the inconvenience and hardship that economic sanctions programs inevitably impose on U.S. citizens, and endeavor to administer our programs in a manner that minimizes such hardships. We believe that the Administration and the Congress are united in the view that economic sanctions constitute an effective tool of U.S. foreign policy, and help speed resolution of national emergencies declared with respect to target governments such as Iraq, notwithstanding the burdens imposed on the U.S. private and public sectors through these programs. We also believe that the Congress desires equitable treatment among similarly situated U.S. claimants, including the U.S. Government, and that the Department's current licensing policies preserve that equity pending a comprehensive domestic claims settlement program.

"With regard to your interest in Treasury's report on international terrorist assets in the United States, our report should be forwarded to Congress shortly. You should be aware that the report does not contain information on funds held by the terrorist organizations themselves. The report provides information only on the funds of certain terrorist-supporting states blocked under economic sanctions programs enforced by Treasury."

**Question No. 2.** Both the Israeli and Jordanian leaderships have requested that the World Bank become more involved in the Middle East. Throughout the Middle East Peace negotiations, the parties have agreed to initiate many studies on regional problems. Unfortunately, few if any of these studies have yet to take place. This is partly due to a lack of funding.

As Undersecretary, you can play a crucial role in promoting assistance programs to regional areas, such as the Middle East, through organizations like the World Bank.

Would you support increased World Bank involvement in these areas, and do you have any specific recommendations?

**Answer.** I strongly support and will work to increase the effectiveness of the World Bank's efforts to promote economic integration and sustainable development in the Middle East. Egypt and Jordan are traditional Bank borrowers, with new Bank commitments to these two borrowers over the last three years totalling \$1,162 million; \$962 million to Egypt and \$200 million to Jordan. The Bank has also just undertaken a major reconstruction loan for Lebanon.

Bank commitments to Egypt over the next few years is expected to average about \$400-450 million annually; there will also be considerable Bank efforts in such key non-lending activities as economic and sector work, aid coordination, and improved portfolio implementation. The Bank also plans a number of new operations for Jordan, although the level of Bank lending is contingent on progress by Jordan in undertaking needed structural reform.

On March 2, the Bank approved a \$175 million "Emergency Rehabilitation and Reconstruction" loan to Lebanon to finance part of the Government's three year emergency program to rehabilitate essential physical infrastructure, housing and education. The Bank is also working to strengthen aid coordination for Lebanon.

In support of the Middle East Peace Negotiations, the Bank has been participating in the Multilateral Working Groups on Water, Environment, and Economic De-

velopment and Regional Cooperation. On November 9, 1992, the U.S. requested the Bank to expand its contribution to include: a more in depth assessment of the development needs of the select economies of the region, including the West Bank and Gaza strip; and, an analysis of the current financial flows into the region and estimates on future financial needs to support reforms necessary to accelerate economic development and to support regional projects. The Bank has responded positively and I will continue to pursue this on a high priority basis.

*Question No. 3.* When we met in my office, I asked you about the Administration's proposal to cut the Enterprise for the Americas Initiative. The next day, there was a Washington Post article that discussed the battle going on between Treasury and OMB on this issue. I personally don't see a problem with cutting this program. Could you tell us whether the Administration is going to stick to its original plan to cut this program?

*Answer.* The Enterprise for the Americas Initiative has had significant bipartisan support in Congress as a cooperative effort to increase trade, investment, and growth throughout the hemisphere. Congress has specifically authorized U.S. participation in the Multilateral Investment Fund, the reduction of PL-480 and AID debts, and swaps of nonconcessional loans. In addition, \$90 million was appropriated for EAI debt reduction in fiscal year 1993 and \$90 million for the 1993 U.S. contribution to the MIF.

The Clinton Administration intends to continue the Enterprise for the Americas Initiative, within current budgetary constraints. A request for funding for the EAI program will be included in the President's FY94 budget request, which we expect to be presented to Congress on April 5.

#### RESPONSES OF DR. SUMMERS TO QUESTIONS SUBMITTED BY SENATOR BOREN

*Question No. 1.* Dr. Summers, as you may know, for several years I have been involved, with Lloyd Bentsen, Senator Baucus and others, in an initiative to reform our foreign aid program. My "Aid for Trade" legislation, which I intend to reintroduce next week, would ensure that a greater share of our foreign aid program goes to the purchase of American goods and services.

For too long, we have been handing out foreign aid with no strings attached, while our economic competitors have used their foreign aid programs to create new markets for their products. In Eastern Europe, for instance, less than a third of U.S. aid has been tied to the purchase of U.S. products. Meanwhile, over two-thirds of Japanese and German aid to the region has been in the form of credits to sell their products. Last year, almost 70% of our economic aid went out as cash transfers. That is unacceptable to the American people and for American interests.

In 1991, an agreement was reached between the U.S. and the other countries of the organization for Economic Cooperation and Development to reduce tied aid, the practice of explicitly linking foreign aid to the purchase of the donor country's goods. The Bush Administration hailed the agreement. Unfortunately, it appears that this agreement has succeeded only in tying one hand behind our back:

- Other countries can waive it for "national security reasons."
- It allows our competitors to "grandfather" existing projects, thus enabling them to continue using their aid to capture new markets.
- It has no enforcement mechanism.

My question to you, Dr. Summers, is threefold. First, what is your assessment of efforts by other signatory nations to circumvent the OECD tied aid agreement? Second, to what extent do you believe American businesses are disadvantaged by continued U.S. compliance with the agreement? Third, do you believe that United States ought to re-open negotiations to secure a more credible and enforceable agreement?

It seems that no agreement might serve American interests better than a bad agreement full of loopholes.

*Answer.* The new OECD tied aid credit agreement seeks to establish guidelines distinguishing types of projects that may be done with aid and those that should be allocated for commercial or standard export credits on market-related terms. The agreement was not meant to prohibit all tied aid credits, but to limit them where U.S. exporters were most severely affected. It reflected growing recognition on the part of aid donors—in particular finance ministries—that there is a common interest in minimizing the trade-distorting use of tied aid financing while maximizing the total flow of financial resources to developing countries.

Under the new guidelines, projects that can support market-related terms are ineligible for tied aid credits but those that cannot are eligible. The latter are primarily legitimate aid projects that do not involve the principal areas in which

Eximbank and Commerce found U.S. firms to be disadvantaged in their 1989 and 1990 reports to Congress. In addition tied aid is not allowed to "richer" developing countries (e.g. Mexico).

It is too early to reach definitive conclusions on the overall effectiveness of the new tied aid rules. These rules were fully implemented over the course of 1992, with some effective February 15, 1992, others August 15, and a few at year end. However, the negotiated deadline for the final implementation of the new disciplines is now past. While data are not yet available from which to draw concrete conclusions, we are closely monitoring the implementation process and beginning to form impressions.

To date, we see no evidence that countries are seeking to circumvent the agreement. Rather, we see numerous positive signs, most notably a willingness of traditionally heavy users of tied aid to cooperate with and be bound by the new rules. There have also been anecdotal indications that project notifications are moving away from the types of projects in which U.S. exporters have been primarily interested.

As the result of the new rules, we have also seen cases of a donor informing a major recipient government that only standard export credits, not aid, would be available for projects following a challenge and agreement to classify the projects as ineligible for tied aid. There have been other instances of donors withdrawing notifications following an initial challenge. We have even seen donors seeking guidance on eligibility of a project for aid prior to a notification of their intent to offer aid, apparently to avoid the possibility of a challenge.

Within the OECD, there has been substantial support for our views of projects that we believed should be ineligible for tied aid. We expect these findings to have not merely an immediate impact but, more importantly, a potentially positive long-term impact, because similar types of projects as well will be ineligible for tied aid in the future.

The new tied aid agreement implies significant changes in the aid practices of others. Its rules represent the strongest disciplines others would accept. To date, some use has been made of the derogation procedure that was necessary to reach a final agreement and accommodate an occasional political imperative for an aid project. We expected countries to use the derogation procedure more in the early stages of implementation to smooth sharp differences between past practices and the new rules. To date, we do not believe its use has been abusive. The new rules establish that use of the derogation procedure is to be "unusual and infrequent."

We believe that this agreement significantly improves the competitive position of U.S. exporters. Projects that are productive enough to service market related financing are reserved for Eximbank and other export credit agencies to finance on market related terms if they are open for business in the country concerned. While we believe it may be early to draw final conclusions that the agreement meets all of our expectations, it is certainly premature to suggest that the agreement is flawed and negotiations should be reopened.

*Question No. 2.* Dr. Summers, in the past you have indicated your support for a broad-based consumption tax as an alternative to the current income tax system. As you know, I share your concern that the current tax system acts as a disincentive to savings and investment and actually retards economic growth in this country. The savings rate in this country is unacceptably low. In 1992, the savings rate dropped below 5% as a percentage of GNP. Other countries save much more: Japan has a rate of 20.7%, Germany has a rate of 14%.

Our current tax system also penalizes investment relative to the cost of capital in other nations. Capital formation statistics compiled in a University of Maryland study compare the ability of U.S. firms to recover capital investment quickly with the ability of foreign businesses. Generally, a U.S. company paying the AMT recovers 34.06% of its investment in the first five years. A German company recovers 87.34% in the same period of time; a Japanese company, 64.35%; and a Korean company, 94.83%.

I find these statistics to be further proof that we make our tax policy in a vacuum. We do not consider the effect of other nation's tax policies on their businesses. We must compete, however, in a global marketplace where countries and economies are increasingly interdependent. For example, we are the only industrialized nation that does not rely in part on federal consumption taxes for revenue. I know that your work at the World Bank and in international economics has allowed you to think internationally. I welcome that experience and know that you will be an asset to the Treasury Department.

I believe we should take the opportunity presented to us now to reexamine our current tax structure and to replace it with a system that taxes consumption more heavily and reduces the burden on savings and investment. I have been working

with Senator Danforth on such a proposal that would replace much or all of the current corporate system, that would replace some of all of the payroll taxes, and that would make changes in the personal income tax system to eliminate any regressive aspects of a consumption tax.

What is your view of the possibility of making significant structural changes in our tax system and moving toward a consumption tax system in the near future?

*Answer.* Over the long term, we may want to consider some restructuring of the tax system. However, the most important problems currently facing the country are accelerating the economic recovery and dealing with the deficit.

I am sympathetic to the view that consideration should be given to greater reliance on consumption taxes. The Administration included one kind of consumption tax in the form of an energy tax in its budget proposals and is giving consideration to consumption taxes such as taxes on cigarettes as possible sources of financing for health care reform.

## COMMUNICATIONS

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# GREENPEACE

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### GREENPEACE STATEMENT IN OPPOSITION TO U.S. SENATE CONFIRMATION OF LAWRENCE SUMMERS

Greenpeace strongly opposes the confirmation of Lawrence Summers to the position of Undersecretary for International Affairs, U.S. Department of Treasury. This statement addresses three points:

- Mr. Summers is unacceptable for any position in a Clinton Administration;
- Mr. Summers is unqualified for the position and will likely be ineffective in promoting US goals; and
- Mr. Summers' expertise as an economist is narrow while the gaps in his economic, environmental and political expertise are great.

- \* Mr. Summers is unacceptable for any position in the Clinton Administration.

**OFFENSIVE MEMO:** His 1991 memo promoting the dumping of toxics on developing nations is entirely inexcusable. In it he argued that toxics should be dumped on low wage earners, and "under-polluted" countries in Africa should receive more pollution. His statements are deplorable and offensive to anyone concerned with promoting sustainable development and reducing poverty.

Summers' World Bank memo received wide international coverage and condemnation. Summers is known internationally as its author. His efforts to defend the memo following its release, including suggestions that the offensive points were "tongue-in-cheek" or otherwise not intended to be taken seriously, only add to the offensive nature of his statements.

**BAD IMAGE FOR CLINTON ADMINISTRATION:** If Summers holds a position in the Administration, the credibility of the Treasury Department and the US government will be tarnished, greatly reduced and Clinton Administration officials will be forced inappropriately to divert attention and energy to either defending or distancing themselves from his statements. One of the Clinton-Gore campaign promises was to restore US leadership in issues such as those addressed during the Earth Summit. Yet confirmation of Mr. Summers will only worsen U.S. relations abroad, especially with less industrialized States.

\* Mr. Summers is unqualified for this position.

**NEGOTIATING SKILLS:** The Undersecretary for International Affairs must conduct or oversee the negotiations for the G-7, and all of the multilateral development bank and IMF replenishments. It requires the talents of a respected professional. Summers has no experience as a negotiator.

**DEVELOPMENT EXPERIENCE:** The Undersecretary also should have experience in working with less industrialized States, and should understand what the Earth Summit emphasized: the inseparable connection between development and the environment. Summers lacks both this experience and understanding.

**RIGHT TO INFORMATION:** The appointee should respect the rights of people to be informed and consulted about multilateral development bank projects which affect them. Local people do not have opportunities to present their position on projects to decision makers before the projects are approved and have no access to an appeals process. This is critical to improving development institutions. Even under the Bush Administration, the Treasury Department pushed for greater information and consultation of affected groups, while Summers has actively discouraged public access to World Bank information. In expanding information disclosure to affected people, Summers has either played no role, or hindered more openness.

**POVERTY:** The Treasury Undersecretary should have a strong sensitivity toward issues of poverty. As Chief Economist of the World Bank, Summers promoted austerity programs which lowered real wages for middle and low income groups and cut programs intended to serve them at the same time. The policies are based on the Reagan/Bush faith that economic growth can be accomplished through deregulation, government divestment and trickle-down economics and this will benefit the poorest. These programs, even according to World Bank documents have increased poverty (they also facilitated debt repayment) and in no case have social assessments of adjustment projects been conducted before project approval. Summers still supports these programs.

**EFFECTIVENESS:** If confirmed, Summers will likely be ineffective in implementing the Administration's goals. As Chief Economist of the World Bank, Summers talked and theorized about the importance of education and women in development, but did not actually change the lending portfolio of the World Bank, which is dominated by massive energy, infrastructure, agriculture, and adjustment projects. Similarly, Summers had many opportunities to intervene in problematic World Bank projects and declined every opportunity.

**MANAGEMENT SKILLS:** His management of the World Development Report was heavily criticized inside the World Bank as is his management of the divisions he supervises. His managerial history and skills deserve close scrutiny.

\* Mr. Summers' expertise as an economist is narrow, while the gaps in his economic, environmental and political expertise are great.

**UNSOOUND THEORIES:** Summers' memo blatantly dismisses "intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc." Dismissal of these arguments as well as environmental, freedom of information or human rights arguments defined Summers' tenure at the World Bank and flies in the face of good economic and political decision-making.

**SUSTAINABILITY:** Summers has argued "there is no legitimate case" for sustainable development criteria in economic decision making, and against any definition of sustainability. This reflects a theoretical faith in growth, a belief that a 1 products are substitutable (financial or other production can substitute for physical production), and a view that a non-sustainable future is

simply impossible. However, World Bank studies show how per capita food production and gross domestic product have fallen in Africa during the last decade, in good part due to desertification and unsustainable resource use patterns.

Many World Bank projects (e.g., cotton production in Sudan) have displaced food production, degraded soil quality, produced short term benefits and foreign exchange earnings for debt repayment yet ended up as ecological, social, and ultimately economic failures. In forest, agriculture and fisheries management, sustainability criteria now define the disciplines. Even the World Bank's new forest policy emphasizes sustainable forestry. Mr. Summers is dogmatically wrong in his assessment of sustainability and development.

**GLOBAL ENVIRONMENTAL PROBLEMS:** Summers considers "the most serious global problem - climate changes from greenhouse gases... In the worst-case scenario..." to threaten only 0.1 percent of annual GDP over the next 200 years. The loss of environmental services which are not exchanged in markets and cannot be boiled down into present values costs also cannot be detected as economic problems. For example, if it were up to economists to ban the use of CFCs, we would all fry. The costs of ozone depletion are irreversibly held in the future, and not easily traced back to present value costs, whereas the benefits of CFC production are present value based and are easy to measure. Fortunately, the international community did not ask economists for studies to measure the costs and benefits of CFCs and wait for a recommendation.

Over one 150 nations, including the US, signed the climate convention in recognition of the threat it poses to all renewable resources and on the basis of the best-known science. As in the case of ozone depletion, Summers' theoretical analysis is hopeless for identifying or acting on global environmental problems that the world community is clearly concerned about.

**DECISION MAKING:** Summers has advocated cost-benefit analysis for economic decision making. As anyone who has done these studies knows, their outcome is often a function of who measures the costs and benefits (project proponents). However, affected people want to have a say in what their future will look like, and for this they require information, and a more open decision-making process.

**FUTURE GENERATIONS:** Summers thinks that resource decisions that will clearly affect future generations do not require ethical considerations. In a letter to *The Economist* Summers states: "Surely it is ethically relevant that our grandchildren will in all likelihood be much better off than we are." He goes on to argue that we should not worry about future generations. This flippant attitude among many World Bank staff has promoted projects for short term foreign exchange gains at the cost of long term ecological and economic sustainability. We cannot afford a Treasury Undersecretary who assumes future generations will be better off than the present.

**SHORT ON SPECIFICS:** These real world problems are not in the realm of Summers' theoretical expertise. At the World Bank when asked about specific projects and policies, Summers answered: "Sorry, I'm going to have to pull a Ross Perot: I don't know any specifics."

**CONCLUSION:** The U.S. Senate, on behalf of the U.S. Government, cannot afford to confirm Lawrence Summers. He would be an embarrassment, he is not qualified, and his economic knowledge is far too narrow for the position he is being asked to hold.

# SIERRA CLUB



408 C Street, N.E. Washington, D.C. 20002 202-547-1141

February 1, 1993

Senator Daniel Moynihan  
Chairman, Finance Committee  
Senate Russel 464  
Washington, D.C. 20510

Dear Senator Moynihan:

We are writing to urge you to question Mr. Lawrence Summers, nominee for the position of Under Secretary for International Affairs of the U.S. Treasury, on his views regarding environmental and social issues during his upcoming confirmation hearings in the Finance Committee. International concern about Mr. Summer's approach to economic development during his tenure as chief economist for the World Bank (see enclosed packet) suggests the need for Congressional caution with this appointment.

In addition, we hope that you strongly consider the importance of diplomatic skills and international experience regarding the appointment. The Under Secretary for International Affairs is in large part responsible for U.S. economic relations with the G-7 nations, and as such, could critically affect the U.S. domestic economy and international economic relations. While refined diplomatic skills and extensive international experience is imperative to the position, evidence suggests that Mr. Summers skills lie in the purely economic arena.

Should you decide to submit written questions or question with Mr. Summers directly during the hearing, we urge you to review the broad areas outlined in the following page.

Thank you for considering the issues surrounding this important appointment. If you or your staff have any questions or require further background information, please do not hesitate to call.

Sincerely,

Cathleen Fogel  
Washington Representative

"When we try to pick out anything by itself, we find it hitched to everything else in the universe." *John Muir*  
National Headquarters: 730 Polk Street, San Francisco, California 94109 (415) 776-2211

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- 1) What should the U.S. criteria be for providing development assistance through the multilateral institutions (the World Bank, and the International Monetary Fund), and how would U.S. criteria change under your leadership from the purely financial criteria of the Reagan and Bush years?

[To promote the Clinton agenda of putting people first, the U.S. lending criteria for the multilateral institutions must include poverty alleviation, human rights, environmental protection, and good governance -- including public accountability and reduced military expenditures.]

- 2) Would you provide leadership, as Under Secretary for International Affairs, to make appropriate reforms of the Bretton Woods institutions to reflect these new U.S. criteria and an increased emphasis on environmental and social issues during their fiftieth anniversary (1993).
- 3) Relate your experience in international negotiations and diplomacy that is relevant to the position (see enclosed newspaper article from Germany).
- 4) Explain how you would act to implement past Congressional directives and laws directing the U.S. to undertake environmental and social reforms of the multilateral institutions.
- 5) Can you clarify your position regarding environmentally sustainable development in light of the international controversy generated by your World Bank memorandum which stated "shouldn't the World Bank be encouraging more migration of dirty industries to the LDC's [less developed countries]?" and, "I think the economic logic behind dumping a loan of toxic waste in the lowest wage country is impeccable."
- 6) You have argued that investment in girl's education yields a higher rate of return than any other investment available in the developing world (see enclosed article). Can you please relate, then, whether and how World Bank spending on girl's education increased during your tenure as chief economist?

07 FEB 1982

# Third world dirty industry advocated

By Michael Proctor  
In Washington

MR Lawrence Summers, the World Bank's chief economist, last night found himself embroiled in controversy after the leaking of an internal memorandum part of which advocates the transfer of "dirty industries" to the third world.

"Just between you and me, shouldn't the World Bank be encouraging every migration of the dirty industries to the LDCs?" Mr Summers wrote in a confidential memo to senior staff dated December 22.

In the memo, Mr Summers says the cost of polluting lives and the loss of earning from tourism, fisheries and mortality, are lower in the countries with the lowest wages. "I think the economic logic behind changing a load of toxic waste in the lowest wage country is inescapable and we should look up to that."

"I've always thought that under-populated countries in Africa are vastly under-polluted, their air quality is probably vastly insufficiently low compared to Los Angeles or Mexico City," he suggests that only high cost transport could prevent "widespread enhancing transfers of solid waste to poor countries."

In a further passage he says the "concern over air quality thus causes a case for a million deaths in the odds of preventing cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under a mortality is 500 per thousand."

The World Bank last night issued a statement saying Mr Summers' memo does not represent the bank's views.

Mr Summers intended his memo to provide debate and sharpen the analysis in a forthcoming World Bank report on the prospects of the global economy, Mr Summers clearly regrets the... memorandum that his memo has caused and apologises for any misconceptions it may have generated.

FOR PAGE

Friday 7 February 1982

THE INDEPENDENT

# 'Send pollution to the Third World'

A TOP official of the World Bank has advanced the prospect of polluting industries being shipped overseas to the Third World.

An internal memo by the Bank's chief economist, Lawrence Summers, a former adviser to the US Democratic Party, appears to favour dumping toxic waste in low-wage countries. It argues that underpopulated countries in Africa are "vastly under-polluted" and says demand for a clean environment on industrial grounds is closely related to income.

By Peter Tunley  
Economics Correspondent

The World Bank, whose aim is to develop the economic and social development of the Third World, is now arguing that the reason for the very poor health in Africa, it said, "is that the world's dirty industries are being transferred to the Third World. It is probably very bad news for the Third World, but it is good news for the world's rich countries. The cost of solid waste is so high that it is probably better to prevent world-wide shipping trade in air pollution."

against his prospects - on the grounds of health, cost and the same rights - cost is used against every proposal made by the World Bank to promote their health and more open markets throughout the world. The Bank said that the way of thinking about the world's dirty industries of the Third World is very bad news for the Third World, but it is good news for the world's rich countries. The cost of solid waste is so high that it is probably better to prevent world-wide shipping trade in air pollution.

## THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, INC.

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For Immediate Release: 26 January 1993

Contact: Doug Hellinger  
 Ross Hammond

## STATEMENT ON THE APPOINTMENT OF LAWRENCE SUMMERS

The day after Bill Clinton was inaugurated as the 42nd President of the United States, he appointed Lawrence Summers to the post of Undersecretary for International Affairs at the U.S. Treasury. This position has traditionally included responsibility for the formulation of U.S. economic policy in the Third World, including U.S. policy related to the IMF, the World Bank and the regional development banks. Summers, formerly Chief Economist at the World Bank, achieved notoriety last year for advocating, in a memo leaked to the press, dumping toxic waste in the Third World. The memo made headlines around the world and transformed Summers into a symbol of World Bank insensitivity and arrogance.

In selecting Summers to this important post, for which he must still be confirmed, the Clinton Administration needlessly insulted millions of people in the Third World. "It is hard for us to believe that a Democratic Administration would appoint Larry Summers," says Clara Couto Soares of IBASE, a major Brazilian non-governmental organization. "His ideas regarding development threaten the chances for a better understanding between the U.S. Government and the people of the South. We hope that this serious mistake will be reconsidered by President Clinton."

During his tenure at the Bank, Summers aggressively promoted the economic austerity and liberalization policies that have caused social, economic and environmental devastation across the Southern hemisphere. While Reaganomics have been rejected at home, Summers has now been rewarded for pushing similar policies abroad. Furthermore, according to Doug Hellinger, Managing Director of The Development GAP, "had the target of Summers' memo been women or minority groups in the United States rather than people in the developing world he would have rightly been denounced and asked to remove himself for consideration for any post in the new Administration."

In fact, environmental and other non-governmental organizations tried to warn the Clinton transition team that Summers' appointment to any significant economic policymaking position would be seen widely in the Third World as a slap in the face. In December these groups helped to block his appointment as Chairman of the Council of Economic Advisors. They were unable, however, to do so this time for a post which will in large part define U.S. positions at the IMF and the World Bank, where for two years Summers blocked initiatives to make the Bank more environmentally and socially responsible.

President Clinton has thus missed his first opportunity to disavow the Third World economic policies of the Reagan and Bush Administrations and to establish a respectful and forward-looking relationship with the people of the South. Both the Administration and Summers himself have a long way to go before those people, who have suffered so much over the past twelve years, are convinced that the recent transfer of power in Washington truly signifies change. The Clinton Administration needs to take seriously its commitment to support real democracy in the Third World by opening up the economic policymaking process to the ordinary women and men who have paid the price for the policies that Larry Summers has come to symbolize.

#\*#\*#



President Clinton  
and Vice President Gore  
Via Fax: (202) 456-7044

Dear President Clinton,

I am writing to you concerning the appointment of Lawrence Summers to the position of undersecretary of the treasury. It is my feeling, as well as the overwhelming opinion of the environmental community and the under developed nations of the world, that appointing Lawrence Summers to this position will impede any chance of positive reform to US international development policies.

I am sure that you are aware of Mr. Summers racist and environmentally suicidal comments made in the internal World Bank memo dated December 21, 1991, where he states, "I've always thought that under populated countries in Africa are vastly under polluted...", and "I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable, and we should face up to that." These statements are inexcusable, and as Doug Heilinger in The Development GAP points out, "had the target of Summers' memo been women or minority groups in the United States rather than people in the developing world, he would have rightly been denounced and asked to remove himself from consideration for any post in the new Administration."

As a candidate that ran on a platform of hope and change and sound environmental policies, I find it hard but all too familiar to believe that you would consider appointing Lawrence Summers to this crucial position. Lawrence Summers presents no change in the policies that have determined third world development strategies for the last twelve years. His appointment will only aid transnational chemical and oil companies, encouraging them to further rape the third world. His vision for the environment can be seen clearly through the actions of the World Bank during his tenure as chief economist. With Summers at the economic helm, plans for environmentally devastating projects continued to roll off the assembly line without real rhyme or reason.

Your decision to appoint Lawrence Summers to the position of undersecretary of the treasury is a mistake, and I urge you to reconsider this decision.

Yours sincerely,

Randall Hayes  
Executive Director  
Rainforest Action Network

# Executive Memorandum

The Heritage Foundation

214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202)246-6400

**RUSH!**

7/1/87

Number 167

## THE WORLD BANK'S ENVIRONMENTAL DISASTERS

The World Bank is financing a series of environmental mistakes around the Third World. Barber Conable, the Bank's new president, has admitted that there are serious environmental problems with current and past bank projects, but insists that the Bank can reform and avoid the same errors in the future. He has pledged to increase the staff of environmental experts from the current half dozen or so to a department of 60 personnel. It is doubtful, however, that simply adding new staff will solve a problem that is inherent in the Bank's "have money, must lend" approach to Third World development.

Past environmental problems created in part by the Bank include:

◆◆ India, where the Bank is providing almost half a billion dollars for the Narmada Valley Development Project, a massive scheme that will dam up India's largest west-flowing river, forcibly displacing over two million people, flood 900 square kilometers, and wipe out 33,000 hectares of India's dwindling forest cover, including some of the country's best teak and bamboo. A study by the Indian Council of Science and Technology predicts that the dam will increase malaria, cholera, viral encephalitis, goitre, and other water borne diseases. The official Indian Institute of Science warns that "as much as 40 percent of Narmada Sagar's command area is likely to become waterlogged unless extremely careful and widespread measures are taken."

◆◆ Brazil, where the Bank is lending \$450 million for hydroelectric projects—even though then-Bank President A. W. Clausen conceded in June 1986 that one of the dams is "an ill-conceived project which has had substantial negative effects on the environment and on the AmerIndian population." Hugh H. Foster, U.S. alternate representative to the Bank's Board of Executive Directors, complains that the loan is "pure folly," that it will finance "a series of environmental disasters," and that "major environmental questions, to all appearances, are being swept under the rug."

◆◆ Indonesia, where the Bank has loaned the government over \$600 million to remove—sometimes forcibly—several million people from the densely populated island of Java and resettle them on comparatively barren islands. This

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

"transmigration" project makes little or no economic sense, and pointlessly destroys the environment. The outer islands' soil is poorly suited for farming. Crop yields often decrease 50 percent between the first and second year after deforestation. A recent government of Indonesia report complains that "an unfortunate cycle of destruction and rehabilitation is becoming institutionalized."

◆◆ Botswana, where Bank projects are helping create desert. Two livestock projects to promote cattle raising in this southern African nation have resulted in the deaths of hundreds of thousands of migratory animals and depressed "the already limited subsistence capabilities of [Botswana's] poorer citizen," according to a report by two Bank consultants. The African-based International Institute for Livestock Development says the project "has absolutely no chance of working out...Eighty percent of the rangeland which is under cattle in Botswana has already been severely degraded."

Why does the Bank get involved in these projects? Primarily to meet its self-imposed lending quotas, which increase by billions every year. For many Bank employees and managers, the most important single measure of their success is fulfilling the annual lending quota.

**Conable's Flow Charts.** Thus far, Conable's attempt at Bank reorganization appears to be primarily a change in flow charts and the ejection of a few hundred bureaucrats (with generous severance pay of up to a quarter of a million dollars each). Though hiring environmentalists might make the Bank more aware of the damage it does, it is unlikely that the Bank will change its approach fundamentally. The Bank has known for many years of the environmental damage its programs caused in Brazil, Indonesia, and sub-Saharan Africa--yet has not abolished funding for the harmful projects. It is still apparently motivated to set new records on its lending levels.

Unless the Bank can find a way to direct its megabillions intelligently to the private sector instead of to state-run enterprises and government bureaucracies, the Bank will continue doing more harm than good.

Prepared for The Heritage Foundation by  
James Bovard  
a Washington-based consultant

# Save Planet Earth from economists

Finan-  
cial  
Times

**M**r Lawrence Summers, the World Bank's chief economist, has a fine mind. As a young Harvard professor in the 1980s he gained a reputation for brilliance. He sympathized with many liberal causes and served as economic adviser to Governor Michael Dukakis's ill-fated presidential campaign in 1988. But he appears to have one blind spot: the environment.

This matters because the World Bank is emerging as a key player in the global environmental debate. Will the bank back efforts to impose effective controls on carbon emissions? Will it make development loans conditional on strict environmental controls? Will it support trade sanctions against countries which refuse to clean up their dirty industries?

Mr Summers is well placed to mould opinion within the bank on such controversial issues. Perhaps more importantly, he is responsible for this year's World Development Report, always a powerful pedagogical tool. This year's report - which will be devoted to the economics of the environment - is being published ahead of schedule in an effort to influence debate at the United Nations conference on the environment in Rio this June. The "Earth Summit" could help set global environmental policy for this decade.

In January, at the American Economics Association meeting in New Orleans, Mr Summers made little effort to hide his feelings. He listened in exasperation to papers arguing that global warming could prove a more serious economic threat than hitherto realized. His own view was that it was a grossly overstated problem. Even on the most pessimistic assumptions, it would cause damage equivalent to only half a year's growth of gross national product (GNP) over the next half century. The implication was that efforts to curb carbon emissions should not be a priority.

The leaking of a confidential bank memorandum last week provided further insight into Mr Summers's thinking. "Just between you and me, shouldn't the World Bank be encourag-



**MICHAEL PROWSE  
on America**

ing more migration of the dirty industries to the LDC (less developed countries)?" he wrote in a memo to senior staff dated December 12. He listed three reasons:

① The economic cost of pollution depends on the loss of earnings from increased illness and death. These costs are lowest in the lowest wage countries. "I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should live up to that."

② Pollution costs start low but rise more than proportionately with the output of toxic substances. It thus makes sense to shift dirty production to places where environments are still clean. "I've always thought underdeveloped countries in Africa are vastly underpolluted; their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City."

③ The value attached to clean and healthy environments increases as living standards rise. The poor, in effect, cannot afford to have scruples. "The concern over an agent that causes a case in a million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-five mortality is 200 per thousand."

Mr Summers subsequently used these comments were an "ironic" attempt to stimulate debate rather than serious policy proposals. The bank apologized to behalf of Mr Summers and said that protection of the environment was one of its main objectives. It did not condemn the dumping of waste in

other countries.

The memo's purpose is unimpeachable: it is the loss of the remarks that is revealing. It is hard to believe that anybody who cared deeply about the environment would write that way, even in a confidential memo. If you cared, you would not describe clean air as inefficient; you would not refer to an eye sore for dumping toxic waste in poor countries as "impeccable".

For Mr Summers, the environment seems to be just a pile of raw material: something you use up in creating GNP. It is not an incommensurable value over two centuries, the US after all, has despoiled its own continent. The air quality in the Blue Ridge mountains near Washington, once a natural paradise, is now sometimes so poor that people are advised not to leave their cars. Many rivers are poisonous. Urban landscapes are often indescribably ugly. But, hell, most Americans are happy enough. Why should the developing world not follow suit?

Viewed through the distorting prism of market economics, Mr Summers's arguments may appear logical. But should decisions on the location of factories really be determined by outcomes of where human life is cheapest? And if the answer is yes, why say that? Environmental concerns are costly. Why should the bank - or anybody else - try to impose any environmental constraints in the third world? Let it enjoy dirty growth. Let the factories smoke. If the globe warms up a few degrees, so much the better: we'll all get a sunnier. If the outside world becomes totally inhospitable, we can always live in presurized plastic bubbles.

This is a recipe for ruin. The challenge is to find an equitable way of financing clean growth everywhere. Rather than figuring out ways to export dirty industries, we should be trying to prevent poor countries from repeating our own awful environmental mistakes. This requires vision from institutions such as the World Bank, not neo-pragmatic utilitarianism of the kind Charles Dickens satirized in *Hard Times*.

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via Herald  
2-8-92

# Waste dumping in 3rd World urged

By SAM DILLON  
Herald Staff Writer

RIO DE JANEIRO — A World Bank memo urging that industrial wastes and high-pollution industries be shipped to the Third World has outraged environmentalists and drawn an apology from the Bank.

"Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industry... to the less-developed countries?" asked Lawrence Summers, the World Bank's chief economist and vice president, in an internal memorandum to his staff Feb. 12.

"Third World countries are 'vastly under-polluted,'" Summers said in the memo. "Health-impairing pollution should be done in the country with the lowest cost," the 36-year-old Harvard University economics professor wrote.

Alan Drattell, a bank spokesman, said in a phone interview from Washington that the memo was "tongue-in-cheek."

"You sit down in a bank, you brainstorm, and a lot of nutty ideas come out," Drattell said.

But skeptics in Brazil, Argentina and the United States have not been convinced that the memo was written in jest, and since it has circulated

*"Your arguments are perfectly logical, but totally insane... a concrete example of unbelievable alienation and arrogant ignorance."*

JOSE LUTZENBERGER,  
Brazilian environmental official

across the hemisphere by photocopy and fax in recent days, it has drawn indignant reactions.

"Your arguments are perfectly logical, but totally insane," Jose Lutzenberger, Brazil's top environmental official, wrote to Summers this week. "Your arguments are a concrete example of unbelievable alienation and arrogant ignorance."

Lutzenberger called on the World Bank to punish Summers. "If the Bank keeps him on as vice-president, it will lose all credibility," Lutzenberger said.

"The memo is real. Summers says it was a joke, but if you read it you see that it wasn't a joke," Steve Schwartzman, staff anthropologist

at the Washington-based Environmental Defense Fund, said in a phone interview. "And from the standpoint of neo-classical economic thinking, it's all impeccable reasoning. But there have to be limits to the purely market-driven approach."

The controversy has special immediacy for Argentina, said Daniel Collaesus, a staffer at the peace's Duque de Alca office. Several U.S. and European businessmen have tried to ship industrial wastes into Argentina recently, arousing so much public outcry that President Carlos Menem last week signed a decree prohibiting the importation of toxic wastes.

According to Mario Epstein, a physician working with Greenpeace, Africa was once the main recipient of shipments of human and industrial waste from the developed world. But after African countries signed a treaty banning waste imports into the continent in 1986, Latin America has emerged as the target of choice for waste shippers.

From 1980 to 1989, exporters in the United States, Europe and Australia tried more than 70 times to ship into Latin America a vast array of wastes, including radioactive residues and PCBs, according to a 1990 study by the South American Peace

Commission, a think tank based in Santiago, Chile. The Dominican Republic, Brazil, Peru and Haiti all received one or more of the shipments, according to the study.

In his World Bank memo, of which The Herald obtained a copy, Summers wrote: "The measurement of the costs of health-impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health-impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages... The logic behind dumping a load of toxic waste in the lowest-wage country is impeccable and we should face up to that."

"I've always thought that under-populated countries in Africa are vastly under-polluted," he wrote. "Only the lamentable fact... that the unit transport costs of solid waste are so high prevents world welfare-enhancing trade in air pollution and waste."

Bombarded by indignant phone calls and faxes from environmentalists, the World Bank issued a statement this week: "Mr. Summers deeply regrets the obvious misunderstandings his memo has caused and apologizes for any misconceptions it may have generated."

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 Tuesday February 11, 1992  
 Update #: 10 Item #: 154

**WORLD BANK CHIEF SLAMS "DIRTY" INDUSTRIES COMMENT**

**HARARE, Feb 11 (AFP)**- World Bank president Lewis Preston Tuesday slammed as "outrageous" a confidential memo by the bank's chief economist suggesting that the agency encourage the export of "dirty" industries to the Third World. "Well, in life I think very bright people say some very foolish things and this is an example of that, and as far as I am concerned the incident is closed," Preston said at a press conference at Harare Airport on his arrival here.

He was referring to a leaked memo by World Bank chief economist Larry Summers which said that much of Africa was "vastly under-polluted -- their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City."

Said Preston: "I think this that the comments which were taken out of a longer document that Mr. Summers wrote to his staff which was meant to be a provocative document but that language ... is really outrageous and not acceptable taken outside the full content of the memorandum." Saying it was unfortunate that the memo was shared with people outside the bank, Preston said Summers was very upset and had apologized "to people who find his remarks offensive."

"The bank's position on the environment is set by the management and it's approved by our executive directors, and Mr. Summers supports that position," he said.

Preston is on the third leg of a four-nation African safari which will take him from Zimbabwe to Tanzania, Zambia and South Africa AFP

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 Saturday February 08, 1992  
 Update #: 8 Item #: 36

**IN AN INTERNAL MEMO, THE WORLD BANK'S CHIEF ECONOMIST BACKS SHIFTING "DIRTY INDUSTRIES" AND TOXIC WASTE TO**

**Memo By World Bank Official Says To Send Pollution To Third World**

**LONDON (AP)** -- In an internal memo, the World Bank's chief economist backs shifting "dirty industries" and toxic waste to poorer countries that are less-polluted, a British magazine reports.

"I've always thought that underpopulated countries in Africa are vastly underpolluted," Lawrence Summers was quoted as saying in the memo dated Dec. 12, according to The Economist published Friday.

"Just between you and me, shouldn't the World Bank be encouraging more migrations of the dirty industries to LDCs (less developed countries)?" the memo was quoted as saying.

The demand for a clean environment for aesthetic and health reasons rises with income, he was quoted as saying.

The World Bank said the views expressed in Summers' memo do not represent the position of the bank, which was set up to encourage economic and social development.

"Protection of the environment is one of the World Bank's basic objectives and the bank does not condone the transfer of toxic wastes or other pollutants to other countries," the bank said in a statement issued by its Washington headquarters.

Summers had intended his memo to provoke debate and sharpen the analysis in a forthcoming World Bank report on prospects for the global economy, the statement said.

"Mr. Summers deeply regrets the obvious misunderstandings his memo has caused and apologizes for any misconceptions it may have generated," the bank said.

# World Bank Official's Irony Backfires

By Michael Weiskopf  
Washington Post Staff Writer

In a town where the pen is often mightier than the sword, the World Bank's chief economist is discovering how deep words can cut—even when they were intended to be ironic.

Last December, Lawrence Summers wrote a lengthy memo on trade policies to his staff in which he digressed into a few "nuggets," led off by a rhetorical question: "Just between you and me, shouldn't the World Bank be encouraging more migration of dirty industries to the LDCs [less developed countries]?"

He proceeded to list the reasons, noting that "underpopulated countries in Africa are vastly underpolluted"; that carcinogenic emissions are of greater concern in a country "where people survive to get prostate cancer" than in one where a fifth of the population dies in childhood; and that countries with the lowest wages should have "a given amount of health-impairing pollution" because the social costs of such pollution are based on lost earnings from increased death and disease.

"I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to it," he wrote.

Pulled out of the larger memo and circulated like *seminals* among lower-ranking officials, the "nuggets" ignited a firestorm at the normally staid bank dedicated to the easing of poverty and encouraging of economic development in the Third World.

As the bank's vice president for



development economics and chief economist, Summers does not usually have to explain himself. But only rarely does a high Washington official deviate so far from standard bureaucraticese.

On Jan. 12, a month after the original memo appeared, Summers issued a clarification. He wrote that while the excerpt "unfortunately makes it appear that I am seriously forwarding certain strong arguments," the statements were designed as a "harmonic counterpoint, an effort to sharpen the analysis."

In an interview last week, he apologized for using "inflammatory" language and stressed "it is not my policy view that pollution is good anywhere." Nevertheless, he insisted "it is a legitimate question whether en-

vironmental standards should be the same worldwide," and it is only because the question falls outside the bounds of "political correctness" that it generated such a strong backlash.

"Free trade policies will have a real effect on the distribution of pollution around the world," said Summers, 37, who was an economics professor at Harvard until taking the World Bank job a year ago. "Industries tend to locate in places where [production costs are the least]. The consequences need to be considered carefully."

His Jan. 12 clarification only deepened suspicion among the bank's environmental officials, long at odds with its economists and their cost calculus of ecological protections. Summer's "nuggets" seemed like a case of cost-benefit analysis run amok.

Leaked to environmental groups, the memo came to the attention of Brazilian officials who lodged a protest with the bank. Brazil is hosting the "Earth Summit" in June, where the bank is supposed to submit its first report on the environment.

Greenpeace has called for Summers to resign.

After defending Summers as a free-thinker who simply sought to provoke debate, a bank spokesman issued a statement last Thursday, stressing that the views in the memo "do not represent the position of the World Bank."

"Mr. Summers deeply regrets the obvious misunderstandings his memo has caused and apologizes for any misconceptions it may have generated," the statement said.

Post 2-10-92

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FROM: José A. Lutzenberger  
Secretário do Meio Ambiente  
Brasília

TO: Mr Laurence Summers  
Vice President Research & Policy  
Washington, DC 20433

It was almost a pleasant surprise to me to read reports in our papers and then receive copy of your memorandum supporting the export of pollution to Third World Countries and the arguments you present for justifying it. Your reasoning is perfectly logical but totally insane. It underlines what I just wrote in a chapter on the absurdity of much of what goes for "economic thinking" today as part of a book that will be presented at the RIO-92 Conference. Your thoughts will be quoted in full in the book, as a concrete example of the unbelievable alienation, reductionist thinking, social ruthlessness and the arrogant ignorance of many conventional "economists" concerning the nature of the world we live in.

If it came from some insignificant teacher in a third grade school in the backwoods it might be laughable, but coming from a Harvard professor and a man in your position it is an insult to thinking people all over the World. If the World Bank keeps you as vice president it will lose all credibility. To me it would confirm what I often said as an environmentalist, years ago, fighting ecologically devastating and socially disruptive World Bank "development projects", namely that the best thing that could happen would be for the Bank to disappear.

*J. A. Lutzenberger*

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AGENCE FRANCE-PRESSE INTERNATIONAL NEWS [AF01W] via NewsNet  
Friday February 07, 1992  
Update #: 18 Item #: 284

**WORLD BANK APOLOGIZES FOR MEMO SUGGESTING TOXINS BE SENT TO THIRD WORLD**

WASHINGTON, Feb 7 (AFP) - World Bank officials Friday scrambled to control potential damage from the leak of a confidential memorandum suggesting that polluting industries be transferred to the Third World.

"The views expressed in this internal memo ... do not represent the position of the World Bank," said a press release referring to a confidential note sent by chief economist Lawrence Summers on December 12. Excerpts from the memorandum were published Monday in *Jornal do Brasil*, one of the country's major dailies, and appeared Friday in an article entitled "Let Them Eat Pollution" published by *The Economist*, a London-based magazine. Summers' memo was quoted as saying that less populous African countries were "under-polluted" and that any diseases caused by contaminants such as cancer would cause less economic damage in developing countries. Noting "lamentable" obstacles to distributing contaminants generated by industries such as transportation and electrical generation and the high cost of transporting solid waste, Summers reasoned that "dirty" industries should simply be transferred to the poorer countries.

"I think the economic logic behind dumping a load of waste in the lowest-wage country is impeccable," wrote Summers, who heads the bank's research division.

The World Bank statement explained that Summers' memo was merely an attempt "to provoke debate and sharpen the analysis" in a forthcoming report on the prospects for the world economy.

"Mr. Summers deeply regrets the obvious misunderstandings his memo has caused and apologizes for any misconceptions it may have generated," said the release.

"Protection of the environment is one of the World Bank's basic objectives and the Bank does not condone the transfer of toxic wastes or other pollutants to other countries," it said.

Brazil's environment minister, Jose Lutzenberger, sent a letter to Summers on Thursday protesting the memo. "Your reasoning is perfectly logical but totally insane," Lutzenberger wrote.

"Your thoughts (are) a concrete example of the unbelievable alienation, reductionist thinking, social ruthlessness and the arrogant ignorance of many conventional 'economists' concerning the nature of the world we live in," he wrote.

The World Bank memo also elicited protests from the Greenpeace office in Rio de Janeiro.

The international environmental organization said Summers' remarks were typical of the World Bank's environmental policies

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 Friday February 07, 1992  
 Update #: 19 Item #: 99

#### LET THEM EAT POLLUTION, WORLD BANK OFFICIAL SAYS

LONDON (AP) -- The chief economist of the World Bank advocated exporting "dirty industries" and toxic waste to poorer countries, where complaints about pollution are less likely, a British magazine reported Friday.

"I've always thought that underpopulated countries in Africa are vastly underpolluted," Lawrence Summers was quoted as saying in an internal memo dated Dec. 12, according to an article in The Economist.

"Just between you and me, shouldn't the World Bank be encouraging more migrations of the dirty industries to LDCs (less developed countries)?" the memo was quoted as saying.

The World Bank said the views expressed in Summers' memo do not represent the position of the bank, which was set up to encourage economic and social development.

"Protection of the environment is one of the World Bank's basic objectives and the bank does not condone the transfer of toxic wastes or other pollutants to other countries," the bank said in a statement issued by its Washington headquarters.

Summers had intended his memo to provoke debate and sharpen the analysis in a forthcoming World Bank report on prospects for the global economy, the statement said.

"Mr. Summers deeply regrets the obvious misunderstandings his memo has caused and apologizes for any misconceptions it may have generated," the bank said.

The Economist quoted the memo as saying: "I think the economic logic behind dumping a load of toxic waste in the lowest-wage country is impeccable and we should face up to that."

The demand for a clean environment for aesthetic and health reasons rises with income, he was quoted as saying.

"The concern over an agent that causes a one-in-a-million change in the odds of prostate cancer is obviously going to be higher in a country where people survive to get prostate cancer than in a country where the under-5 mortality is 200 per thousand," the memo was quoted as saying.

The Economist characterized Summers' language in the memo as "crass," but said he was asking questions "that the World Bank would rather ignore -- and, on the economics, his points are hard to answer. The bank should make this debate public."

NY Times 2-7-72  
**Furor on Memo  
At World Bank**

Special to The New York Times

WASHINGTON, Feb. 6 — A memo by Lawrence H. Summers, the World Bank's chief economist, has angered environmentalists by arguing that many developing countries are underpolluted and that dirty industries should be encouraged to move to them. Mr. Summers has said the memo was meant to be sarcastic.

"A given amount of health-impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages," said the memo, which was obtained from a critic of the World Bank's environmental record. "I think the economic logic behind dumping a load of toxic waste in the lowest-wage country is impeccable and we should face up to that."

Mr. Summers said in a recent interview that the seven-page memo was a strongly worded and sarcastic response to a vague draft text on environmental issues by another World Bank division.

The World Bank said in a statement today that the memo did not represent the institution's position and that Mr. Summers had apologized "for any misconceptions it may have generated."

# 'Send pollution to the Third World'

A TOP official of the World Bank has advocated the export of polluting industries from developed countries to the Third World.

An internal memo by the bank's chief economist, Lawrence Summers, a former adviser to the US Democratic Party, appears to favour dumping toxic waste in low-wage countries. It argues that underpopulated countries in Africa are "vastly under-polluted" and says demand for a clean environment on aesthetic grounds is closely related to income.

By Peter Torley  
Economics Correspondent

The World Bank, whose main job is to encourage the economic and social development of the Third World, stated yesterday that the memo in no way represented its views. It said Mr Summers "deeply regretted" the memo, which had been written in a deliberately ironic fashion to provoke internal debate. It was intended to demonstrate that arguments

against his proposals — on the grounds of moral, social and human rights — could be used against every proposal made by the World Bank to promote freer trade and more open markets throughout the world.

The Bank said that the copy of the Summers memo published in today's edition of *The Economist* was a "cut and paste" job, taking Mr Summers's arguments out of context. The official's language is indeed likely to provoke debate. In the memo he says: "I think the

economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that."

Referring to Africa, he said, "Air quality [there] is probably vastly inefficient compared to Los Angeles and Mexico City ... I only the lamentable fact that so much pollution is by now tradeable industries [transport, electrical generation] and that the unit transport costs of solid waste are so high prevent world-welfare-enhancing trade in air pollution."

The Independent  
2-7-92

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## Let them eat pollution

**LAWRENCE SUMMERS**, chief economist of the World Bank, sent a memorandum to some colleagues on December 12th. The Economist has a copy. Some of the memo has caused a fuss within the Bank:

Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs? I can think of three reasons:

(1) The measurement of the costs of health-impairing pollution depends on the forgone earnings from increased morbidity and mortality. From this point of view a given amount of health-impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. I think the economic logic behind dumping a load of toxic waste in the lowest-wage country is impeccable and we should face up to that.

(2) The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost. I've al-

ways thought that under-populated countries in Africa are vastly under-polluted; their air quality is probably vastly insufficiently low (sic) compared to Los Angeles or Mexico City. Only the lamentable fact that so much pollution is generated by non-tradable industries (transport, electrical generation) and that the unit transport costs of solid waste are so high prevent world-welfare-enhancing trade in air pollution and waste.

(3) The demand for a clean environment for aesthetic and health reasons is likely to have very high income-elasticity. The concern over an agent that causes a one-in-a-million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-5 mortality is 200 per thousand. Also, much of the concern over industrial atmospheric discharges is about visibility-impairing particulate *smog*. These discharges may have very little direct health impact. Clearly trade in goods that embody aesthetic pollution concerns could be welfare-enhancing. While production is mobile the consumption of pretty air is a non-tradable.

The problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalisation.

The language is crass, even for an internal memo. But look at it another way: Mr Summers is asking questions that the World Bank would rather ignore—and, on the economics, his points are hard to answer. The Bank should make this debate public.



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REUTER NEWS REPORTS [RN01W] via NewsNet  
Thursday February 06, 1992  
Update #: 15 Item #: 349

#### WORLD BANK IN THIRD WORLD POLLUTION ROW - REPORT

LONDON, Feb 6, Reuter - Britain's Economist magazine said on Thursday it had obtained a confidential World Bank memo suggesting the lending agency should actually encourage exporting "dirty" industries to the Third World.

The magazine said its Friday edition would print the memo by World Bank chief economist Lawrence Summers in a report saying that parts of it "caused a fuss within the Bank."

According to the Economist, Summers says: "Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs (Less Developed Countries)?"

He is said to have written that such of Africa, for instance, was "vastly under-polluted -- their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City."

Summers is also quoted as saying: "The concern over an agent that causes a one-in-a-million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-five mortality is 200 per thousand."

The Economist said Summers was asking questions the World Bank "would rather ignore -- and on the economics, his points are hard to answer."

REUTER

rough translation from Portuguese by Julie Hermon

"World Bank Analyst Suggests Transferring Pollution to the Poor," *Jornal do Brasil*, February 2, 1992.

In an internal memo to his colleagues, the chief economist of the World Bank, Lawrence Summers, affirmed that to make sure there's good global prosperity, the bank should encourage the transfer of industrial wastes to the developing countries. He discussed the 'impeccable' economic logic of toxic waste exports from industrial parts of the world to poor countries. The memo, dated 12 December 1991, comments on the first draft of the report, *Global Economic Perspectives -- 92*. It was obtained through the president of the International Committee of NGOs for Rio-92, Roberto Smeraldi, of the group Friends of the Earth.

Sustained in a cold and technical argument, absent of human considerations, Summers cites three basic reasons to justify his reasoning. [article goes on to quote from memo]

(.....)

[The article concludes:] In other words, whoever is against Summers' economic logic is an adversary of the free market.

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 "CPI Official Protests Toxic Trade," *Jornal do Brasil* 5 Feb 92.

A proposal of an analyst of the World Bank, Lawrence Summers, to encourage the transfer of dirty industry to developing countries, revolted Italo Cardoso, counsellor of the Parliamentary Inquiry Commission (CPI) that investigates toxic waste. "If there is no mobilization of ecological entities and pressure on congress," he said, Rio 92 could be a grand farce. "We should promote a mobilization in the whole country and force Congress to create laws that will prevent Brazil from becoming the garbage can of the developing countries."

The counsellor recalls that some of the parties of Rio-92 are the principal agents of pollution. "There are companies that inside Brazil divert their industrial waste products to places that have the least potential for mobilization of the workers and the greatest shortage of jobs," denounces Cardoso, who is also one of the directors of the Chemical Workers Union of Sao Paulo. To avoid the transfer of radioactive residues or chemicals, there has to be, in his opinion, a major front of ecological movements in this moment.

"We've known for many years that many companies operate with the option to transfer to poor countries, dangerous technologies, toxic substance, or the dirty part of industrial processes," said, from Buenos Aires, Mario Epelman, coordinator of the anti-toxics campaign of Greenpeace Argentina. He cited as an example the producers of construction material that mix asbestos in cement, which has already been prohibited in the majority of developing countries, as asbestos is carcinogenic. And he pointed out Saint Gobin -- that continues to produce the mixture through Brasilit, in Brazil -- or Eternit, in Argentina, bonded by a Belgian multinational.

In Brasilia, the president of Ibama, Eduardo Martins, limited himself to two phrases: "If this were the official posture represented, it is the worst level of ethical distortion that a technocracy can create," he affirmed. "What an interesting ethic," he ironically said.

COLUMN LEFT/  
ALEXANDER COCKBURN

## 'Earth Summit' Is in Thrall to the Marketeers

It's good economics to boost pollution in poor countries, a World Bank official argues.

In the run-up to the huge summit on environmental crisis and economic development, scheduled for Rio de Janeiro in early June, the atmosphere—already sulfurous with mutual recriminations between the First and Third Worlds—has been further fueled by a memorandum circulated by a top World Bank official.

The World Bank is located at the strategic crossroads where economic growth and loans flow from the rich nations to the poor ones. The blueprints for development—dams, roads and the like—drawn up by the bank's economists have contributed mightily to Third World environmental degradation. And these days these same experts offer more schemes—they call them "structural adjustments"—plans and loans to lure poor countries into the fiscal straitjacket recommended by well-paid U.S. economists.

The vice president and chief economist at the World Bank is Lawrence Summers, a Harvard professor with the shameful distinction of having worked for both Ronald Reagan and Michael Dukakis. Summers is a tireless promoter of "free market" economics and recently unburdened himself on global pollution in an in-house memo recently leaked by appalled World Bank subscribers.

"Shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs [less developed countries]?" said the white-kid professor, who received tenure at Harvard when he was only 28. He went on to argue that "the economic logic behind dumping a load of toxic waste in the lowest-wage country to begin with" and that he "always thought that...surpopulated countries in Africa are vastly under-polluted; their air quality is probably vastly inefficient [high] compared to Los Angeles or Mexico City." Summers rounded off these brusque observations with the thought that "the concern over an agent that causes a one-in-a-million chance in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-6 mortality is 200 per thousand."

The memo was seen bounding its way round the Third World, where it provoked raves of fury. "Your reasoning is perfectly logical but totally insane," Brazil's minister for the environment, Jose Lutzenberger, wrote to Summers, adding, "if it came from some insignificant teacher in a third-grade school in the backwoods, it might be laughable, but coming from a Harvard professor and a man in your position it is an

"Your reasoning is perfectly logical but totally insane," Brazil's minister replied.

insult to thinking people all over the world. If the World Bank keeps you as vice president it will lose all credibility."

Summers tried to clear the air by saying that he was only being "sarcastic." It is true that economists love to talk dirty when they are alone among their kind, but he was clearly being more than the devil's advocate he claimed to be in his clarification. He had tapped his hand on some of the most fraught issues of the Rio summit.

The purpose of the summit is to try to bargain out a world schedule for saving the environment, curbing depletion of the ozone layer and, for more difficult and contentious, reducing "greenhouse gases." The participants will ponder the destruction of tropical rain forests and address themselves to strategies for economic development that do not simultaneously poison and pollute. They will sign treaties and adopt an "Earth charter."

Here's where the Summers memo is germane. In the meetings where the pro-market power plays are being fought out, the rich countries, led by the United States, are offering the sort of heretical scenarios proffered by Summers. As the nation furnishing 25% of carbon dioxide emissions worldwide, the United States drops its feet on meaningful reduction within its borders, while simultaneously pushing models of development that will see the poor countries getting the dirty end of the stick—in every sense of the phrase.

The Bush Administration now plans to offer \$125 million to help developing countries reduce their production of greenhouse gases. A substantial slice of this sugar sum is reportedly going to the Global Environmental Facility, an entity set up last May under the aegis of the World Bank, home of Summers, who has also said that he doesn't view global warming as "devastation-threatening."

So the memo for Rio is not suspicious. There will be fine phrase-making, but the memo belongs to people with the outlook of Summers, who feels no apparent discomfort in arguing that there's nothing wrong with dumping poisons on poor people, since by the time the poisons take effect they will be dead anyway. Christian capitalists in the early industrial era used to claim similarly that the little children they worked to death in their mines were, in a way, specially privileged because they reached heaven well ahead of schedule.

Alexander Cockburn writes for the Nation and other publications.

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might be hindered by such a treaty. It's the nuke world order.

KARL GROSSMAN AND JUDITH LONG

*Karl Grossman, a journalism professor at SUNY, Old Westbury, is the author of **Coverup: What You Are Not Supposed to Know About Nuclear Power** (Permanent Press). Judith Long has been a Nation copy editor for eleven years.*

## Toxic Banking

"I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that." The publication of these words, from a leaked internal memo, caused a rush of bad publicity for their author, World Bank chief economist Lawrence Summers, who now claims he was being ironic and provocative. There were calls for his resignation. But Summers was expressing honesty the logic of his discipline and his employer.

Summers—whose salary is 22.5 times the per-person income of the bank's Third World clientele—is a whiz-bang Harvard economist, a class that believes religiously that money is the final measure of value. Happiness is a growing C.D.P. Legal issues can be resolved as competing economic claims, and ethical decisions can be translated into dollar terms, with the cheaper alternative always preferable.

In his memo, which criticized a draft of the bank's *World Development Report*, Summers was applying cost-benefit analysis, which measures the value of a human life by the stream of wages remaining to it. Say it will cost Global Megacorp \$1 million to install a state-of-the-art scrubber in its chimney. If Global determines that not spending this sum will shorten the lives of five people by ten years, then all that would be lost would be the present value of thirty years of wages. At a wage of \$1,000 a year, the cost of those five lives can be figured at \$41,000, thanks to the magic of compound interest: at \$30,000 a year, they're worth \$1.2 million. As Summers said in his memo, "health-impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages."

Since the costs of pollution—always priced in dollars or their equivalent—rise with development, Summers argued, it makes sense, contrary to dump in Africa. If a pollutant is going to cause "prostrator" [sic] cancer, a disease of old age, why not locate it in countries where people aren't likely to live long enough to get it? He concluded this section by saying that disagreements with this logic suggest the belief that things like "intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc. could be turned around and used more or less effectively against every Bank proposal for liberalization." Exactly, as they should be.

It makes no sense for Summers to resign; he expressed the bank's logic perfectly. It's a bank, and acts like one. It may preside over a steady erosion of Third World incomes relative to First World ones, but it makes big money. Last year, after paying \$7 billion in interest and fees to its investors and bankers, it had a \$1.2 billion surplus and a rate of return that commercial banks would envy.

What's a public institution to do with that kind of surplus? The bank's executive board spends a lot of time working that question over. In 1991 it decided to contribute \$267 million to its soft-loan affiliate, which lends to very poor countries at concessional rates, \$29 million to the Global Environment Trust Fund and stuff the remaining \$904 million into its board of "retained earnings," which now stands at \$11.9 billion. According to Unicef, preventing vitamin-A-deficiency blindness would cost \$6 million. Preventing "the great majority" of childhood malnutrition deaths would cost \$2.3 billion. But adding to the World Bank's surplus is a higher priority.

In recent years, the bank has moved away from project-oriented lending—power plants and dams—and toward structural adjustment lending, in which credit is conditional on adoption of a standard austerity/deregulation package. Not surprisingly, these schemes have savage effects, to which the bank has a ready answer—more loans. The bank is lending its clients more money to treat the poverty, social dislocation and environmental damage that earlier loans helped create. The bank's greenhouse-gas reduction schemes in countries where the greenhouse-gas producers were initially financed by the World Bank.

Bank publicity makes much of a new environmental consciousness, but actions tell a different story. The bank expanded structural adjustment programs from environmental review even though their point is to work human and physical resources harder, which can't be friendly to people or their environment. It has realigned its environment department, leaving it little power. World Bank claims to a larger role in global environmental politics—to be pressed, for example, at this spring's United Nations Conference on the Environment and Development—should be beaten back with heavy sticks.

Whether or not Summers returns to Harvard, waste export will be a growth industry for these sluggish times. The practice of shifting dirty industries to poor countries is well established. Greenpeace follows the routine stuff all over the world—Germany (per capita income \$20,440) plastic to Argentina (\$2,160), U.S. (\$20,910) mercury to South Africa (\$2,470), car batteries from everywhere to Brazil (\$2,240). Plastic dropped into recycling bins is likely to be shipped to Malaysia (\$2,160). The logic is impeccable.

DOLG HENWOOD

## ★ TEXAS REMAKE FOR THE CAMPAIGN

*He puts aside his Mister Rogers voice.  
And tries to ape the other Rogers (Kenny).  
He drops "s's" & talks of "bidness," folks—  
Except that, now, alas, there isn't any.*

Calvin Trillin

**WORLD RAINFOREST  
REPORT**  
APRIL-JUNE 1992  
VOL. VIII No. 2



Director: Randall Hayes  
Editor: Matt Barry  
Contributing Editors: John Seed,  
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World Rainforest Report is published  
quarterly by:

Probe International (Canada)  
Rainforest Action Network (U.S.)  
Rainforest Information Centre (Australia)  
Friends of the Earth Malaysia  
Friends of the Earth, U.K.

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## A Call for the Resignation of the World Bank's Vice-President

Outrage upon outrage from the chambers of the planet's largest financial institution, the World Bank. Senior Vice President for Research and Policy, Lawrence Summers, recently circulated a highly secret memo (which showed up in RAN's fax machine) stating, "Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs (Less Developed Countries - i.e. rainforest countries)?" Summers went on to give three detailed reasons to justify his position. Not all of us see the future as Summers does.

The Secretary of the Environment for Brazil, José Lutzenberger, was a leading environmental activist before taking his current position with the government. Outside the World Bank headquarters in Washington, D.C., Dr. Lutzenberger and I shared the platform denouncing the Bank.

Lutz said it best then and said it best again in a letter to Lawrence Summers: "If the World Bank keeps you as its vice president it will lose all credibility. To me it would confirm what I often said as an environmentalist, years ago, fighting ecologically devastating and socially disruptive World Bank 'development projects,' namely that the best thing that could happen would be for the Bank to disappear."

I can think of no better way to start that process than to have Harvard-trained Lawrence Summers resign.

Mr. Lewis Preston (Summers' boss, World Bank President), you should call for Summers' resignation immediately. And if he won't, fire him. In the midst of getting rid of Summers, you ought to face up to the fact that the World Bank is a corrupt out-of-date ecologically dysfunctional institution. Your predecessor, Barber Conable, could not reform the Bank and you will have no better success. The Bank is too big to be fixed.

Out of the ashes we can design new institutions that can employ taxpayers hard-earned money to better the welfare and ecology of the Third World. Rainforest Action Network's has held this position since our inception. We called for this when we published full-page advertisements in the *Wall Street Journal* and *The New York Times* calling for the U.S. Congress to cut funding to this rainforest-killing organization.

The out-of-control activities of your Bank dangerously destroy the rainforests and the ecology of the planet. Face the facts and get rid of Lawrence Summers now. Dedicate the rest of your life to ridding the world of the World Bank and similar dysfunctional financial institutions. Do this, or your life's work will have represented a tragic failure that helped take the entire planet Earth down with it. What you are doing is killing the planet. Stop it now.

—Randall Hayes

• RAN's clarification and underlining except for the word "more"



RAINFOREST ACTION NETWORK

TOTAL 6 11

## LEADERS

was that Pathan Muslims invaded from the west, encouraged by the Pakistani government, and Kashmir Muslims rebelled against the maharajah—who then sought military help from Delhi. It arrived, but the price exacted by India's prime minister, the Kashmir-born Jawaharlal Nehru, was the accession of Jammu & Kashmir to India. Supposedly, this demonstrated Nehru's determination that India, for all its Hindu majority, would be a country for all religions. Mountbatten accepted the document of accession in October 1947, adding that "as soon as law and order have been restored... the question of the state's accession should be settled by a reference to the people."

## Back to basics

So much for wishful thinking. Reality is that Kashmiris have never been consulted on their destiny. Pakistan still calls for the plebiscite first proposed in 1948 by the United Nations—but wants it to involve only a choice between joining India or Pakistan. India says its Kashmiris, by voting in local elections and adopting a state constitution, have in effect ratified their accession to India; it notes that the Simla Accord of 1972 commits Pakistan and India to discuss a "final settlement" over Kashmir on a bilateral basis, with no UN involvement. Both countries regard independence for Kashmir as unpalatable.

Their distaste is understandable. Pakistan feels Kashmiri independence would undermine the raison d'être of Pakistan

as the homeland of the subcontinent's Muslims. India fears the unleashing of fissiparous forces: if Kashmir leaves the union, why not Punjab or Assam or Tamil Nadu? There are politicians in both countries who plead the strategic importance of Kashmir's mountains.

These self-serving arguments should not go unchallenged. Pakistan does not need the few million Muslims in Kashmir any more than it needs the 100m in India. India may well loathe the separatists of the Jammu & Kashmir Liberation Front as much as the Sikh secessionists in Punjab, but it cannot pretend the parallels are exact. Under article 370 of the Indian constitution, Kashmir has always had a special status, with non-Kashmiris forbidden to buy land in the valley (a ban that many Hindu chauvinists would like to flout with mass immigration). As for Kashmir's strategic importance, no general—be he from India, Pakistan or neighbouring China—would sensibly launch an invasion across the world's highest mountains.

If independence, then, the answer to Kashmir's woes? No more, perhaps, than for Lesotho, Andorra or any other midsize state landlocked in the mountains. But let Kashmiris decide that for themselves, through a referendum covering all the options. It may be impossible to rewrite history, but there is no shame in returning to its basics. If India wishes to influence the outcome, it should realise that to continue a policy of brutal repression is to feed, not starve, the separatism it fears.

## Pollution and the poor



Why "clean development" at any price is a curse on the third world

**L**AST week we published part of a memo sent by Lawrence Summers, the chief economist of the World Bank, to some colleagues. The memo pondered whether the Bank should "encourage more migration of the dirty industries to the third world" and said that "the economic logic of dumping a load of toxic waste in the lowest-wage country is impeccable". We objected to Mr Summers's language but said his economics was hard to answer. Many people, it seems, disagree. Mr Summers, as one commentator put it, views the world through "the distorting prism of market economics"; his ideas are "a recipe for ruin"; and he ignores the real challenge, which is "to find an equitable way of financing clean growth everywhere".

The Bank says that Mr Summers, one of America's best economists, was merely trying to provoke debate. If so, it is to be hoped that he succeeds—and that the Bank does not, instead, go silent on the subject. Much thinking on "clean development" is muddled. It is a confusion that threatens to cause great, if well-intentioned, harm to the world's poorest people.

### The clarifying lens of market economics

Mr Summers made three main points. First, the costs of pollution depend on earnings forgone through death or injury; these costs are lowest in the poorest countries. Second, costs rise disproportionately as pollution increases: so shifting pollution from dirty places to clean ones reduces costs. Third, people value a clean environment more as their incomes rise; if other things are equal, costs fall if pollution moves from rich places to poor ones. On the face of it, each seems a reason to dump

toxic waste in Africa. All three arguments share a distinctively economic premise: environmental policy involves trade-offs, and should seek a balance between costs and benefits.

If Mr Summers is wrong, why is he wrong? Many greens would say his premise is false. They appear to believe that the only acceptable amount of pollution is zero or—which looks more sensible, but is almost as daft—that all pollution above some arbitrarily low threshold must be stopped. This cannot be right. Controlling pollution is expensive (and many third-world countries can ill afford the expense), and the benefits (especially when levels of pollution are already low) may be small. Greens and eco-sceptics may disagree about these costs and benefits, and thus about where the proper balance should lie. But the notion that such a balance should in principle be struck—and that, as a result, the "right" level of pollution is greater than zero and varies according to circumstances—ought to be uncommercial. Without that idea, intelligent discussion of environmental policy is impossible.

But then Mr Summers makes a further, crucial assumption. He supposes that the value of a life, or of years of life expectancy, can be measured by an objective converter in terms of incomes per head—other words, that an Englishman's life is worth more than the lives of a hundred Indians. This is naive utilitarianism reduced to an absurdity. It is so outlandish that even a distinguished economist should see that it provides no basis for World Bank policy.

True, many of the decisions that governments make (on health care, roads and so forth) reflect implicit, and sometimes

THE ECONOMIST FEBRUARY 27, 1992

WANDZUSCHRIFT (Germany)

# Von Mulford zu Summers

Bei FRANKFURT. Wenige Tage vor dem Washingtoner Regierungsworttag haben Amerikaner und Deutsche Gelegenheit im Rahmen des "G-7-Council" die neuen transatlantischen Strömungen auszuwerten. Denn bei dem exklusiven Frankfurter Koshlone werden auch einige Mitglieder der Clinton-Mannschaft Fragen stellen und Antworten geben.

Dass nach zuverlässigen Informationen Larry Summers - Harvard-Professor und Chefökonom der Weltbank - als Nachfolger von David Mulford, dem für internationale Währungs- und Wirtschaftspolitik zuständigen Treasury-Beauftragten, erwartet wird, dürfte dem Frankfurter Worttag eine besondere Attraktion sein.

Wenn auch der neue Präsident Clinton die für die transatlantische Zusammenarbeit an kritischen Positionen noch nicht formal benannt hat, die Clinton Camp seit Längerem, daß Summers das von Mitte der vierziger Jahre von David Mulford gewählte Forum bekennt. Um so vornehmlich sum-

grühen: Weiter in der transatlantischen Kooperation, noch an den alten Finanzpolitikern. Die für Summers als Finanzminister der US-Treasury Regierung mit dem Degenwartigen Konflikt im Kreise der G-7 Nationen zu verweisen, daß mit dem durchgängig prominenten und Sozialdemokratisch charakterisierten Bill Clinton die dringende wirtschaftliche Verbindung der transatlantischen Zusammenarbeit im Vordergrund werden kann. Insoweit sich die Wahl Summers für die Weltbankposition des G-7-Finanziers als weiteres Indiz, daß er alle amerikanischen Präsidenten der Weltbank als wichtige Regierungspersonen sehr charakteristische Vorgesetzten. Ganz neue der abgegangenen Harvard-Professoren ist der Weltbank und Weltbanker zu bedürfen und Notenbankleistungen.

Verhandlungen mit dem Mitteln habe der frühere Berater des geschäftlichen Internationalen Präsidentenbankardaten. Danksie nicht nie machen können.  
From President Truman

Summary Translation

From Mulford to Summers

A few days before the change of government in Washington, Americans and Germans will have the opportunity to test the new trans-Atlantic currents during a meeting of the "G-7 Council." At the exclusive Frankfurt conclave, some members of the Clinton team will ask questions and give answers. The fact that, according to reliable sources, Larry Summers - Harvard professor and chief economist of the World Bank - is likely to succeed Under Secretary of the Treasury David Mulford, may give the meeting a piquant quality. Even though U.S. President-elect Clinton has not yet formally confirmed the appointment of the position so critical for international monetary cooperation, it can safely be assumed that Summers will get the job that Mulford has held since the mid-60s. To put it delicately, neither in Western capitals nor in financial centers does the prospect of Summers as Under Secretary of the Treasury arouse enthusiasm. On the contrary, first reactions from G-7 circles appear to doubt that an urgently needed strengthening of cooperation among leading industrial nations can be achieved, due to Summers' known aggressiveness and tendency to overrate himself. Insiders see in the almost certain appointment of Summers for the key position further proof that the new U.S. president follows a very unconventional path in his decision-making on key appointments.



## THE WASHINGTON OFFICE ON AFRICA

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March 17, 1993

Dear Senator:

**We the undersigned civil rights, human rights, Africa advocacy, environmental and religious organizations, write to oppose the nomination of Lawrence H. Summers to the post of Undersecretary for International Affairs at the U.S. Treasury Department.**

Mr. Summers, formerly the World Bank chief economist, achieved international notoriety last year for advocating the dumping of toxic waste in the Third World. In a confidential memo Mr. Summers argued that:

- ◆ world health would be improved if polluting industries and wastes could be shifted from heavily polluted areas in the developed world to "underpolluted" areas in the Third World.
- ◆ the demand for a clean environment has a lower priority in poor countries with more immediate health concerns.
- ◆ economic efficiency requires that pollution be concentrated in low-wage countries.

Following the release of the confidential memo, Mr. Summers has since said that he had been misunderstood and that his remarks were only meant to provoke debate within the Bank. The apparent wholesale disregard for people in the South that is reflected in the memo might be excused with that explanation. What can not be explained away or misunderstood is Mr. Summers insensitivity to the people of the South reflected in his aggressive support for an international form of Reaganomics--economic austerity and "liberalization" policies that have caused social, economic and environmental devastation across the Southern hemisphere--otherwise known as Structural Adjustment Programs (SAPs).

SAPs focus on cutbacks of essential investment in human resources, undermining long-term economic growth precisely as Reagan policies at home have undermined the U.S. economy.

Far from solving economic problems in the South, the SAP policy that Mr. Summers helped formulate has exacerbated poverty and underdevelopment. SAPs have also set back the cause of democracy and human rights by increasing the political power of military forces: budget cuts under SAPs fall almost completely on non-military programs, and in a number of countries, the army has repressed popular demonstrations against SAPs.

One recent example of the failure of the SAP policy is Zimbabwe, a country located in southern Africa, which has been operating under the direction of a World Bank/International Monetary Fund structural adjustment program for a year. Subsidies on basic foods, health care, public transportation and other vital sectors have been reduced. Food prices and basic services have doubled and in some cases tripled. The policies have weakened household and community economies, increased the vulnerability of low-income groups to the food shortages associated with drought and raised the likelihood of widespread hunger and deprivation across the Southern Africa region.

Religious, environmental, development and other non-governmental groups around the globe have expressed their dismay with the nomination of Mr. Summers:

The structural adjustment policies (SAPs) which Larry Summers has helped formulate affect mostly the poor, women and children in the Third World. The SAPs are not a panacea to the socio-economic problems in the South but only add distress and more burden. The one cure that the Clinton Administration can give to the Third World is by revoking the appointment of Larry Summers.

*Reverend Samuel Kobia, General Secretary, National Council of Churches of Kenya*

We join Reverend Kobia and our partners throughout the South in the request that Mr. Summers's nomination be rejected.

We hope that in our relations with Africa as well as in domestic economic policies you will opt for change rather than for continuing the bankrupt policies of the past. For that reason it is essential that the person confirmed for this position be someone who recognizes the failures of structural adjustment and is willing to encourage the development of World Bank Africa policies that mirror the U.S. foreign assistance guidelines contained in the Development Fund for Africa.

Respectfully,

Imani Countess  
Executive Director  
Washington Office on Africa

Reverend Archie Le Mone  
Executive Director  
Home Mission Board/  
Progressive National Baptist Convention

Anna Rhee  
Executive Secretary for Public Policy  
Women's Division  
United Methodist Church

Dan Hoffman  
Disciples of Christ/United Church  
of Christ Joint Ministry in Africa

Reverend Benjamin Chavis  
Director  
United Church of Christ  
Commission for Racial Justice

William Pace  
Center for Development of  
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Terrance Miller  
Justice and Peace Office  
Maryknoll Fathers and Brothers

Caleb Rossiter  
Director  
Project on Demilitarization  
and Democracy

William Johnston  
Episcopal Churchpeople for a Free  
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John Gershman  
Food First

Dave Batker  
Greenpeace, International

Barbara Dudley  
Executive Director  
Greenpeace, U.S.A.

Terry Allen  
Editor  
Covert Action Quarterly

Randy Hayes  
Executive Director  
Rainforest Action Network

Juliette Majot  
International Rivers Network

John Prendergast  
Center of Concern

Reverend Timothy Taugher  
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Tim Wise  
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Grassroots International

Will Toor  
Director  
University of Colorado Environmental Center

John Cavanagh  
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Joan Heckscher  
Global Exchange, Washington Office

Deohn Ferris  
Environmental Justice Project  
Lawyers' Committee for Civil Rights Under Law

Oxfam America

Mark Ritchie  
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Fair Trade Campaign

Christina Cobourn  
Coordinator for the Campaign  
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Missionary Society of St. Columban

Pharis Harvey  
Executive Director  
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Mark Dubois  
Executive Director  
World Wise  
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Development Bank Reform

Jennifer Davis  
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Father Stephen Price  
Society for African Missions

Jon Chapman  
Associate for Southern Africa  
Presbyterian Church (USA)

Randall Robinson  
TransAfrica

National Organization for Women

Gigi Gruenke  
SHARE Foundation

Brent Blackwelder  
Vice President  
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Kevin Bunger  
Central New York Friends of Canto Grande

Andrés Thomas Contelis  
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Executive Director  
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John Lenox  
David Phillips  
Executive Directors  
Earth Island Institute

Yoichi Kuruda  
Japan Tropical Forest Action Network  
JAPAN

Ian Tellam  
W.I.S.E.  
(World Information Service on Energy)  
NETHERLANDS

Moumié Maoulidi  
United Nations Office  
Unitarian Universalist

Barbara Aires  
Interfaith Center for Corporate  
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Pablo Stone  
Disciples Peace Fellowship

Reverend Phillip Wheaton  
Conversion for Reclaiming Earth  
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