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REMARKS BY THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE CHICAGO COUNCIL ON FOREIGN RELATIONS
CHICAGO, ILLINOIS
MAY 14, 1980

The International Financial Institutions:
A Critical Role for the 1980s

I welcome this opportunity to discuss key U.S. interests in the international financial institutions and the role of those institutions in assuring world economic stability and progress in the 1980s. It is particularly appropriate that I do so in the Midwest. The American heartland -- like the nation as a whole -- is increasingly influenced by and vulnerable to global economic developments, and has a keen self-interest in maintenance of an open, stable and cooperative world economy.

The world economy faces dual challenges over the next few years: to assure adequate financing of the huge payments imbalances arising from the major oil price increases that have taken place since 1978; and to promote fundamental adjustment to the changed world energy situation which is at the heart of global economic difficulties. The International Monetary Fund and the multilateral development banks are central to the international community's effort to meet these challenges. Whether the institutions succeed in restoring a strong and stable global economy has a critical and direct bearing on the economic

M-480

well-being of the United States. The health of the world economy directly affects markets for the production of our farms and factories and for the employment of our labor. In hard times, such as we are experiencing now, there is always a temptation to retrench, to cut back on our support for international organizations that seem to have no domestic constituency. This would be a tragic mistake. Our stake in a healthy world economy is strong and growing stronger.

The dependence of the United States upon world trade and financial flows has become enormous. Export markets constitute a major source of demand for U.S. goods and services. Today, one out of every seven U.S. manufacturing jobs and one out of every three acres of U.S. farmland produce for export. Imported goods, ranging from raw materials to highly sophisticated capital equipment, are thoroughly enmeshed in all phases of U.S. economic activity. International investment has become a major factor in U.S. production, both at home and abroad. The U.S. and international capital markets are highly integrated, and the dollar serves as the principal vehicle for trade and finance internationally as well as domestically.

More than most states, Illinois demonstrates the central importance of the world economy as a market for U.S. products. Illinois is our third largest exporter of manufactured goods

and our top exporter of agricultural products. Exports from Illinois totalled more than $9 billion in 1976 -- and certainly larger amounts in more recent years. One-third of these exports went to developing nations. Illinois businesses earned nearly $100 million during 1976-77 on development projects financed by the World Bank and the Inter-American Development Bank. In 1978 alone, 175 Illinois firms were contractors on World Bank projects.

Thus, this state is a major participant in international commerce, benefitting from -- but also dependent on -- a vigorous world economy. The health of the world economy is even more important today, when our own economy is undergoing a painful but needed adjustment.

Unfortunately, international tensions -- political and economic -- pose serious threats to the global economy. The disruption in Iran and Soviet aggression in Afghanistan make us acutely aware of the vulnerability of the world's major oil producing region to internal instability and external conflict. The turmoil in Southwest Asia has contributed to further uncertainty about oil supplies at a time when the world economy already faces extremely difficult problems. The dramatic oil price increases of the past year are causing a slow-down in world economic growth, a surging of inflation, and sharp deterioration in the balance of payments position of the oil-importing world. Today's world economic environment

is likely to make it not only more difficult for nations to obtain needed financing, but more difficult also for them to make the economic adjustments required by changed external circumstances:

In more concrete terms:

-- Economic growth in 1980 is likely to slow to a bare 1 - 1½ percent in the industrial nations this year and to 4½ - 5 percent in the non-oil exporting developing countries. Unemployment will increase in virtually all countries, compounding the difficulties of adjustment.

-- Inflation rates have surged to double-digit figures in most of the OECD nations and to an average of 35 to 40 percent in the developing world.

-- OPEC's current account surplus is rising sharply, to a range of $100 - $120 billion, with a corresponding deterioration in the current account position of the oil importing world.

-- As growth slows, unemployment rises, and trade deficits widen, all countries will inevitably face increasing internal pressures for restrictive trade action and other defensive measures.

An inward turn is not a solution to the political threat or to the world's economic problems. An international response to the situation in Southwest Asia is clearly needed and is emerging. As the U.S. has moved to reinforce its military

and political position in the region we have also turned to key international institutions -- NATO, the United Nations and the World Court -- to develop international support for our policy actions. We need at the same time to develop a coordinated and cooperative international response to the problems of the world economy in order to assure an effective solution and maintain the essential economic framework for broader political and military cooperation.

The world economic situation today is in some ways reminiscent of the situation following the major oil price increases of 1973-74. But there are key differences. First, on a positive note, the distribution of current account deficits and financing needs among oil importing countries is more stable than in the earlier period. The bulk of the current account deterioration is likely to be borne by industrial countries and some of the more advanced developing nations. As a consequence, a major part of the increased demand for external financing in 1980 is by countries that have relatively strong reserve positions and substantial access to private financing. It is clear that the oil price increases will impose serious hardship on the poorest nations, whose development plans must be altered to accommodate increased payments for oil, and some individual countries may encounter increasingly serious financing difficulties. But from the viewpoint of the system as a whole, the financing or "recycling" issue is not likely to be a serious problem in the immediate future.

Second, however, is the likelihood that large world payments imbalances will persist for some time, in contrast with the relatively rapid fall-off in OPEC surpluses during 1976-78. The prospect of continued tension in oil markets, and the possibility that the OPEC nations will not increase spending as rapidly as they did earlier, imply continuing large OPEC surpluses and persistent deficits in the oil importing world.

Third, there is widespread recognition today that the world economy has been altered fundamentally by developments in energy, and that a process of adjustment of basic economic structures is unavoidable.

Thus over the next few years the world faces a dual task of assuring not only that financing is available in adequate amounts, but also that basic economic adjustments are initiated -- and carried through -- to restore a sustainable basis for future world economic growth and development.

The need for a coordinated approach to these tasks is recognized by the international community. The IMF and the multilateral development banks are at the forefront of efforts to carry out that approach. The IMF is positioning itself to meet potentially large demands for balance-of-payments financing and to assist countries in undertaking longer-term programs to revitalize their economies. An increase in IMF quotas is now

in process and the Fund is considering the possibility of borrowing additional funds from major surplus countries should the need arise. Also, the Fund is moving to lengthen the horizon of its adjustment programs in appropriate cases, and to place greater emphasis on expanding and rationalizing the productive base in borrower economies, in recognition of the structural nature of some of the changes that must be made in its members' economies. These efforts by the IMF closely parallel a major initiative being undertaken by the World Bank to promote and support structural adjustment in the developing nations.

The Bank has initiated, with strong support from the United States, a new program of non-project lending in the form of sequential loan agreements over a medium-term period, perhaps 5 to 7 years. Disbursement of the loan segments, and decisions on subsequent loans in the sequence, would be conditioned on various identified micro- and macro-economic policy changes by the borrowing country, designed to produce "structural adjustment" -- especially in response to the changing energy supply situation -- in its economy. We are supporting this Bank initiative as an important and necessary complement to its regular practice of project lending.

By cooperating closely in implementing these programs, the Fund and Bank can support efforts of their member countries to undertake difficult adjustments, which necessarily have a medium-

term horizon, while simultaneously addressing their shorter-term external financing needs. At the same time, it is essential that flows of development assistance, both bilateral as well as through the development banks, be sustained to permit the development process to continue during this difficult period of adjustment.

Major steps are under way to strengthen the resources of both the IMF and the multilateral development banks to enable them to carry out these tasks. It is in the national interest of the United States to participate fully in these efforts. Let me discuss them in turn.

International Monetary Fund

The purpose of the International Monetary Fund is the maintenance of a strong and orderly international monetary system. It is a revolving fund, from which all participants benefit directly. It is not foreign aid. It is not commodity financing. It is unique, not like any other institution in which the United States participates.

The IMF has two basic functions. The first is general guidance over the operations and evolution of the international monetary system. The second, closely related, is provision of temporary financing in support of adjustment programs by IMF members facing balance of payments problems.

The IMF provides a source of funds, provided by all member nations and available to all through assigned quotas,

for supporting countries in their efforts to overcome balance of payments difficulties. A 50 percent overall expansion of quotas -- from about SDR 39 billion to SDR 58 billion or, in dollar terms, from about $50 billion to $75 billion -- has been agreed upon as a key element of the international community's response to increasing and potentially major world balance of payments problems. The IMF has periodically required increases in its resources, in response to rapid growth of world economic activity and international trade and financial transactions. Today, at a time when world payments imbalances and potential demands on the IMF are rising sharply, quotas represent barely four percent of world trade -- as compared with 12 to 14 percent during the 1960s. To maintain a strong IMF, capable of encouraging needed adjustment and providing the temporary financing required to maintain monetary stability, we must assure that its resources are adequate to meet potential needs.

Quotas are central in the IMF. They are its permanent resources. They determine the amounts of financing which countries can draw in time of need. They determine the distribution of SDR allocations. And they determine voting power. Because of these important advantages, nations compete for <u>increases</u> in IMF quota shares, rather than trying to reduce their shares as they do in many other international institutions. The United States has by far the largest IMF quota, the largest share of votes and the largest potential

access to IMF resources. Over the years, the U.S. has drawn about $7-1/2 billion in foreign currencies from the IMF, second only to drawings by the United Kingdom.

In support of the general IMF quota increase, the Administration has requested Congressional approval of a 50 percent increase in the U.S. quota, amounting to SDR 4.2 billion or about $5-1/2 billion at current exchange rates. The proposed increase in the U.S. quota will maintain our share intact at 21.5 percent of total IMF quotas, and thus will preserve our voting position and ability to influence key IMF decisions on the nature and operations of the international monetary system.

The Multilateral Development Banks

The multilateral development banks (MDBs) have received strong, sustained U.S. support throughout their thirty-five year history. Active, undiminished support during the 1980s will be critical to fundamental U.S. economic, political, and security interests.

MDB loan commitments represent by far the largest official source of external capital for the developing world, equivalent to $14 billion in 1979. These loans contribute in a major way to economic growth and stability in recipient developing countries. Economic growth in the developing countries is an important U.S. objective, both in terms of basic humanitarian concerns and as a source of strength to

the global economy as a whole. The developing nations are today -- at a time of a general slowdown -- the main area of world economic growth. Growth generates increased imports -- and non-oil developing countries now take 20 percent of total U.S. exports, 25 percent of our exports of manufactured goods, and support more than half a million U.S. manufacturing jobs.

In providing policy advice, preparing development projects based upon objective economic criteria, and serving as a financial catalyst, the MDBs are an important and respected force for the development of an efficient, responsive international market economy. They play a key role in the transfer of technology and in "human capital formation", which represent perhaps the greatest contribution to long-term development.

The MDBs also provide an important forum for cooperative efforts among developed and developing countries to respond rapidly to critical world needs. Most recently, this has produced initiatives in two key product areas and, as I noted earlier, structural adjustment:

-- The United States has actively supported a shift in the allocation of MDB lending away from infrastructure projects toward agricultural and rural development, and subsequently toward education, health, and population projects, as the banks increasingly have adopted a basic human needs strategy to target project benefits directly for the poor. The World Bank is far and away the largest

single source of external funding for agricultural and food production, providing over 40 percent of all official commitments to agriculture. Over the five years just ended, total lending commitments for these projects equalled $11.6 billion, representing 33 percent of total lending. The World Bank expects to finance projects which will contribute on the order of one-fifth of the increase in annual food production in its developing member countries in the 1980s.

-- With strong support from the United States, the World Bank plans to finance oil and gas projects which, combined with other official and private financing, will total more than $33 billion over the next five years. This effort should ultimately yield an additional 2.5 million barrels of oil equivalent a day. By increasing world energy supplies, this will help reduce pressures on world oil prices, as well as deal directly with one of the most critical bottlenecks to development.

At the same time, increased U.S. support for the multilateral development banks (MDBs) is fully consistent with the need for budget restraint. Indeed, U.S. participation in the MDBs is the most cost-effective approach available

to providing development assistance. We derive significant fiscal advantages, because the provision of development assistance is shared with other countries, developed and developing alike, and because the MDBs leverage our paid-in contribution through substantial borrowings in world private capital markets.

Also, increasing amounts of our contributions are provided through callable capital, not a penny of which has ever left the U.S. Treasury. Burdensharing and use of callable capital provide the perfect cost-effective combination for our national concern for fiscal prudence. As a result of that combination, the World Bank lends approximately fifty dollars for each and every dollar paid-in by the United States.

Finally, through the contributions of other MDB donors and the use of callable capital, MDB loans result in expenditures on U.S. goods and services well in excess of U.S. contributions to the banks. From the inception of the banks through 1978, the cumulative current account earnings of the United States directly attributable to MDB activities totalled $11 billion, as compared to cumulative U.S. paid-in contributions to the banks of $7 billion. This net balance of payments benefit is further multiplied within the U.S. economy and generates additional income, employment, and Federal Government and local tax receipts.

Indeed, our analysis indicates that during 1977-1978, every dollar contributed to the MDBs resulted in an increase

of U.S. GNP of three dollars. Total U.S. GNP growth directly attributable to MDB activities averaged $2.7 billion during this period, raising net Federal tax receipts by $720 million annually and reducing the net cost to the Federal budget for our participation in the banks to roughly $170 million each year. If increased local tax receipts were included, the net cost to the American taxpayer would be minimal.

Several U.S. Administrations have supported a more equitable sharing of international assistance provided through the development banks. This Administration has supported that concept, as a fair assumption of increased responsibilities by other nations in response to today's more pluralistic global economy. As a result, the U.S. share is declining in every MDB in which we have participated since the 1960s.

We must, however, be careful not to travel this path too far. The United States must continue to play a substantial role in the MDBs, not only because of the broad benefits we derive but as a measure of cooperation. It is a simple truism that if we do not support other nations in achieving their major economic objectives, we cannot expect their cooperation in achieving ours.

I must point out, in this connection, that the United States faces at this moment a growing problem, of our own making, which threatens the continued operation of these crucially important institutions. That is the failure of the U.S. Congress to deliver on commitments made by the United States in support of these institutions. The United States is now over $2.0 billion in arrears in its contributions to the multilateral development banks. At this point Congress has not yet passed last year's authorization and appropriation legislation for the banks. The result is a complete halt in lending by the Inter-American Development Bank and the Asian Development Fund. Passage of this legislation is urgent.

Conclusion

Energetic U.S. support for the International Monetary Fund and the multilateral development banks is in our basic self-interest.

-- These institutions are the centerpiece of our efforts to restore stability and growth to a troubled world economy, strengthening the foundations for broad political cooperation.

-- The proposed increase in IMF quotas will help to assure that the IMF can continue to meet its responsibilities for international monetary stability in a period of strain, danger, and financial uncertainty.

-- Our contributions to the multilateral development banks provide the most cost effective means of supporting U.S. humanitarian, economic, and foreign policy objectives in the developing nations, while

directly benefitting U.S. exports, production and jobs.

Legislation to support these institutions is now before the Congress. Senator Stevenson and Senator Percy have recognized the major U.S. interest -- and that of Illinois -- in the international economy, and have given their strong support to this legislation. I welcome their support and hope my comments this evening will encourage yours as well.

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M-480

well-being of the United States. The health of the world economy directly affects markets for the production of our farms and factories and for the employment of our labor. In hard times, such as we are experiencing now, there is always a temptation to retrench, to cut back on our support for international organizations that seem to have no domestic constituency. This would be a tragic mistake. Our stake in a healthy world economy is strong and growing stronger.

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The need for a coordinated approach to these tasks is recognized by the international community. The IMF and the multilateral development banks are at the forefront of efforts to carry out that approach. The IMF is positioning itself to meet potentially large demands for balance-of-payments financing and to assist countries in undertaking longer-term programs to revitalize their economies. An increase in IMF quotas is now

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-- These institutions are the centerpiece of our efforts to restore stability and growth to a troubled world economy, strengthening the foundations for broad political cooperation.

-- The proposed increase in IMF quotas will help to assure that the IMF can continue to meet its responsibilities for international monetary stability in a period of strain, danger, and financial uncertainty.

-- Our contributions to the multilateral development banks provide the most cost effective means of supporting U.S. humanitarian, economic, and foreign policy objectives in the developing nations, while

directly benefitting U.S. exports, production and jobs.

Legislation to support these institutions is now before the Congress. Senator Stevenson and Senator Percy have recognized the major U.S. interest -- and that of Illinois -- in the international economy, and have given their strong support to this legislation. I welcome their support and hope my comments this evening will encourage yours as well.

5175
Sam

Date: May 13, 1980

MEMORANDUM FOR: Secretary Miller

From: Executive Secretariat WJE

Subject: Your Trip to Chicago, May 14

Attached for your use on the trip are:

Tab A - Illinois "Travel Packet" prepared by the White House

Tab B - Administration Achievements Helping Illinois

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	SE:KButton					
als / Date	KRB / 5/13	/	/	/	/	/

a OS-3129
artment of Treasury

The White House
Washington

May 6, 1980

TO: RANDY KAU

FROM: BILL SIMON

SUBJECT: **TRAVEL PACKETS**

Attached is a briefing packet for Secretary Miller's trip to Chicago, Illinois on May 14.

I hope that you continue to find these packets useful. PLEASE REMEMBER THAT FOR THIS SYSTEM TO WORK IT IS IMPERATIVE THAT YOU COMPLETE THE ATTACHED RESPONSE FORM. WE NEED THE INFORMATION THAT ONLY PEOPLE RETURNING FROM THESE AREAS CAN PROVIDE.

Please note the Consumer Price Information. If you find this to be helpful and would like to see it continued, please indicate so on the response form.

If there is anything further that I can do for you or if you have any questions please call me directly at 456-7052. Thanks.

CHICAGO METROPOLITAN AREA

CDs III: 1-14; In: 1-2

Cluster # 24

DEMOGRAPHIC SURVEY

	Chicago	Illinois	U.S.
% of Population Urban:	94.4	83.0	73.5
% of Population Black:	17.7	12.8	11.1
% of Population Spanish:	4.7	3.3	4.6
% of Population Foreign Stock:	25.6	19.8	16.5
Median Age of Population:	28.6	28.9	28.3
Median Age of Voting Population:	4.7	43.3	43.0
Families w/Income $15,000 + :	30.9	26.4	20.6
Families w/Income below Poverty:	7.0	7.7	10.7
Unemployment (February 1980)	NA	7.5	6.8

CONSUMER PRICE INFORMATION

1 = US AVERAGE   2 = CHICAGO

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       7701    7709    7805    7901    7909    8005    8101    8109    8205    8301    8309    8
           7705    7801    7809    7905    8001    8009    8105    8201    8209    8305    8401
         +...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...
222.000+                                1
       -
       -                               22
       -                              1
       -                             12
212.000+                            1
       -                           1 2
       -                          1 2
       -                           2
       -                         1
202.000+                       11 2
       -                     11  2
       -                    1  22
       -                  11  2
       -                 1   2
192.000+                1  22
       -               1 22
       -             11 2
       -           11  2
       -        111   2
182.000+      11     2
       -    11     22
       -  11    222
       - 1    22
       -    22
172.000+  22
       - 2
       -
         +...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...+...-...
       7701    7709    7805    7901    7909    8005    8101    8109    8205    8301    8309    8
           7705    7801    7809    7905    8001    8009    8105    8201    8209    8305    8401
```

KEY ELECTED OFFICIALS (courtesy calls prior to trip)

--U.S. Senator Adlai Stevenson; 202-224-2954
--U.S. Rep Frank Annunzio, strong supporter; 202-225-6661
--City Treasurer Cecil Partee, strong supporter; 312-744-3356
--Alderman Clifford Kelly, key supporter; 312-744-6840
--City Councilman Tyrone Kenner; 312-268-4200

BUSINESS, LABOR & other LOCAL VIPs (recommended calls during trip)

--Roger Anderson, Chairman, Continental Illinois Corp.; 312-828-2345
--Lawrence Brown, V.P., Northern Trust Co.; 312-630-6000
--John Harrison, supporter; 312-267-5600
--Ross Harano, supporter; 312-774-9363
--Earl Neal, National Committee member; 312-641-7144

PRESS/MEDIA CONTACTS (arrangements should be made prior to trip)

Wires: AP - Tom Dygard, *bureau chief* 312-781-0500
UPI - Robert Kieckhefer, *bureau chief* 312-781-1600

Print: Dailies:
Sun-Times - James Hoge, *editor-in-chief* 312-321-3000
Tribune - Clayton Kirkpatrick, *editor* 312-222-3232
Chicago Defender (Black) - Louis Martin, *editor* 312-225-2400

Weeklies:
Chicago Independent Bulletin - Hurley Green, Sr. 312-783-1040
Clear Ridge Reporter - Marshall Peterson 312-476-4800
Community Publications - John Wilk 312-278-6100
Lerner Newspapers - Richard Bjorklund, *executive editor* 312-761-7200
Peacock Northwest Newspapers - Raymond Peacock 312-342-2500

Broadcast: Commercial Television

	NBC WMAQ-TV	ABC WLS-TV	CBS WBBM-TV
News Director:	Shel Hoffman	John Mies	John Huttman
Assignment Editor:	Val Press	Pete Bordwell	Dee McKimsey
Phone:	312-861-5555	312-263-0800	312-944-6000
Talk Shows:	"Today in Chicago" Taped, M-F 6:30-7PM	"Perspectives" Taped Sun 4-7:30PM Airs 6:30-7am	"Noonbreak" Live, Noon-12:30 M-F Airs M-F, 6:30-7am
Contact:	Britta Fayette	Alane Rollings	Susan Wilson

CONGRESSIONAL REPRESENTATIVES

DISTRICT		MEMBER		RESIDENCE	1976	1978
Ill.	1	Stewart	(D)	Chicago	-----	60/40
	2	Murphy	(D)	Chicago	85/15	86/12/2
	3	Russo	(D)	South Holland	59/41	64/36
	4	Derwinski	(R)	Flossmoor	66/34	67/33
	5	Fary	(D)	Chicago	77/23	84/16
	6	Hyde	(R)	Park Ridge	60/40	67/33
	7	Collins	(D)	Chicago	85/15	87/13
	8	Rostenkowski	(D)	Chicago	80/20	86/14
	9	Yates	(D)	Chicago	72/28	75/25
	10	Mikva	(D)	Evanston	50/50	50/50
	11	Annunzio	(D)	Chicago	67/33	73/27
	12	Crane	(R)	Mt. Prospect	74/26	80/20
	13	McClory	(R)	Lake Bluff	66/31	62/38
	14	Erlenborn	(R)	Glen Ellyn	74/26	76/24
In.	1	Benjamin	(D)	Hobart	71/29	80/19/1
	2	Fithian	(D)	LaFayette	55/44	57/36/7

ANALYSIS (last updated November 18, 1979)

PROVIDED BY THE DEMOCRATIC NATIONAL COMMITTEE

ILLINOIS
Chicago Metropolitan Area

MAYOR
JANE BYRNE (D)

In a shocking primary, former Daley aide Jane Byrne defeated incumbent Mayor and machine candidate Michael Bilandic by seventeen thousand votes. She then easily defeated Republican stockbroker Wallace Johnson in the general to become Chicago's new mayor. Her major issue was the ineffectiveness of the city and of the "machine" to get the snow off the streets after winter blizzards. Strong Black support and the invocation of the names of Mayor Daley and John F. Kennedy led to her victory.

Jane Byrne is, and will remain, unpredictable. An example is her critical remarks about the President's urban policy made at a U. S. Conference of Mayors' meeting in Pittsburgh. Her speech contained numerous inaccuracies most of which have been corrected by her surprised staff. It is always hard to be certain of motives, but it is possible that the Mayor was thoughtless in her Pittsburgh remarks rather than deliberately provocative. Most recently, these intentions were clarified. She has linked herself with the 1980 Kennedy effort (most likely an extension of her long-time ties with the Kennedy family). This decision is most confusing in light of her earlier signs of support during a visit to the city by the First Lady.

The largest outstanding issue between Chicago and the Federal Government is that of school desegregation. As the city is still not eligible for federal assistance to desegregate, the current negotiations are seen as a way to come to a solution without a court fight. As of late, the negotiations are faltering and HEW may recommend that the city be sued by the federal government.

1ST CONGRESSIONAL DISTRICT
BENNETT STEWART (D)

Taking in all of Chicago's South Side, the first holds the largest black ghetto in the country. It is staunchly Democratic with relatively high turnout rates and thus was an asset to the Chicago until the early '70's when cracks began to appear in the cogs. Today, the relationship between the blacks and the bosses is unsteady. Rep. Stewart was chosen in October of '78 to replace the deceased Ralph Metcalfe and sits on the Appropriations Committee.

2ND CONGRESSIONAL DISTRICT
MORGAN MURPHY (D)

This district consists of the heavy industrial heart of the city. Dominated by the large Calumet steel mills, the second includes both large houses and uncomfortable ghetto. Slowly, the blacks have gained the majority vote. Most feel that this will threaten the incumbent but on the heels of large electoral margins in the past three races, this is doubtful. The moderate Murphy ('78 ADA rating of 55) sits on the Rules and the Standards of Official Conduct Committees as well as the Permanent Select Committee on Intelligence and the Select Committee on Narcotics Abuse and Control.

3RD CONGRESSIONAL DISTRICT
MARTIN RUSSO (D)

The third is an older suburban area (including a ward or two in the city) with an conservative, ethnic base that votes independent of the machine. The population consists of the white-collar sons and daughters of blue-collar parents. Russo was elected in 1974 defeating an incumbent Republican who rarely visited the district. With this fact in mind, he has developed an adequate constituency service organization and should be safe for some time to come. He has ratings of 35 from the ADA and 34 from the ACA and sits on the Interstate and Foreign Commerce, the Small Business and the Aging Committees. In addition, he serves on the Select Committee on the Outer Continental Shelf.

4TH CONGRESSIONAL DISTRICT
EDWARD DERWINSKI (R)

The fourth is the mirror image of the third-a reflection in reverse. Demographically, there is little difference save for the fact that the people are the second or third generation of the urban, blue-collar worker. As they have prospered, they have become increasing conservative (as evidenced by the incumbent's ACA rating of 88). Derwinski was first elected in 1958 and has had no trouble returning. This held true last year despite the fact that he was the subject of an investigation into his dealings with the South Koreans. His assignments are with the Foreign Affairs and the Post Office and Civil Service Committees.

5TH CONGRESSIONAL DISTRICT
JOHN FARY (D)

This was Mayor Daley's home district. Largely white, strongly Irish, most were comfortable in the tightly knit frame houses. It goes without saying, the loyalties to the Democratic party run high. Fary was (sel-) elected in 1975 at the age of 65 to replace the late John Kluczynski. Most felt that this was an interim appointment but nobody else has stepped forward to claim the seat. Fary sits on the Public Works and Transportation Committee and rates a 40 from the ADA and a 17 from the ACA.

6TH CONGRESSIONAL DISTRICT
HARRY HYDE (R)

In the sixth, one is faced with the machine politics of the fifth and the mirror phenomenon of the fourth. That is, the machine is ethnic (eastern European), working class and Republican. The towns of Oak Ridge and Cicero are located here. In 1974, the powerful incumbent, Harold Collier, retired citing tiredness and job pressure. He was replaced by a hard working conservative (ACA-72), Harry Hyde who has had no trouble returning. He is assigned to the Banking, Finance and Urban Affairs and the Judiciary Committees.

7TH CONGRESSIONAL DISTRICT
CARDISS COLLINS (D)

This is Chicago. Known locally as "the Loop", one notes the presence of the city's business, government and shopping district. But the district has another side. This is the all-Black west end, from which a majority of the district's voters come. The machine is very much in evidence here as the district has gained a notoriety for ballot stuffing. The incumbent succeeded her late husband in 1972 and has the support of the community. She sits on the Foreign Affairs and the Government Operations Committees.

8TH CONGRESSIONAL DISTRICT
DANIEL ROSTENKOWSKI (D)

The eighth covers the north and northwest parts of Chicago and contains the fourth largest concentration of Polish-Americans of any district in the country. The voters are basicaly middle-class with a strong allegiance to the machine. Rostenkowski falls into this mold as he votes the Democratic line, though at present he is a voice of moderation arguing that the machine should avoid an early endorsement of a presidential candidate. With the unique assignments on the Ways and Means and the Joint Taxation Committees, he has a safe seat.

9TH CONGRESSIONAL DISTRICT
SIDNEY YATES (D)

This district is made up of the Lake Shore area which ranges from the Jewish section to the Mexican and Black communities. It is an area which prides itself on its independence from the machine. Still, the incumbent has had no trouble keeping this seat. Though first elected in 1948, he has seniority from 1964 after an unsuccessful though startling attempt at the Senate. He sits on the Appropriations Committee and is known as an environmental advocate as he chairs the Interior Subcommittee.

10TH CONGRESSIONAL DISTRICT
ABNER MIKVA (D)

Described as the "North Shore District", the tenth is the second wealthiest congressional district in the country. It notes the presence of Northwestern University and the Jewish community of Skokie. While the district defies political definition, it is not as liberal as the incumbent (a former vice-president of the ADA who recieved a 70 from that group in '78). Accordingly, the RNC gave last year's race special attention. The administration ralied to Mikva's side and the seat remained Democratic. He continues to sit on the Judiciary and the Ways and Means Committees.

11TH CONGRESSIONAL DISTRICT
FRANK ANNUNZIO (D)

The eleventh district is tucked away in the northwest corner of Chicago. Staunchly middle-class and very ethnic, the people resist black intrusion into the area. First elected in 1972, the incumbent gets along with the bosses and has no trouble retaining his seat. He sits on the Banking, Finance and Urban Affairs and the House Administration Committees where he leans to the right as shown by marks of 40 from the ADA and 13 from the ACA.

12TH CONGRESSIONAL DISTRICT
PHILLIP CRANE (R)

The 12th is a growing area of Chicago as it attracts young affluent families, who are for the most part conservative. (Their congressman, Phil Crane, is one of the leading conservative intellectuals in the country.) Last year, Crane was unopposed after his opponent was indicted for bond fraud. He has since announced his candidacy for the Republican nomination for President in 1980. His committee responsibilities are with the Education and Labor and the Post Office and Civil Service Committees.

13TH CONGRESSIONAL DISTRICT

ROBERT MCCLORY (R)

This district contains the more removed (from the machine as well as from the Loop) suburbs of Chicago. Its people are middle-working class and send forth a moderate Republican feeling. McClory was first elected in 1962 and even after his role as ranking minority member of the House impeachment hearings, has had little trouble returning. In addition to the Judiciary Committee, he sits on the Select Committee on Intelligence. He rates a 45 from the ADA and a 68 from the ACA.

14TH CONGRESSIONAL DISTRICT

JOHN ERLENBORN (R)

Taking in all of DuPage County, the fourteenth is one of the top five wealthiest districts in the county. It is a growing area and provides the muscle of Illinois Republicanism. As the incumbent follows in this trend (with an ACA rating of 75), it is a safe seat. He is assigned to the Committee on Education and Labor and the Committee on Government Operations.

U.S. SENATE

ADLAI STEVENSON (D)

Stevenson has already announced that he will not seek another term. He will be giving up seats on the Banking and the Commerce Committees as well as the chairmanship of the select committee on Ethics. His future plans include toying with the idea of running for President. Accordingly, he has denounced the President and will not support him but, has made no firm committments to run as a candidate or as a favorite son.

Candidates for the seat will, as traditional, in Illinois, be divided between downstate and Chicago. Major speculation at this time centers on Republican governor Jim Thompson and his decision on running.

CHARLES PERCY (R)

Despite having a solid national reputation, Senator Percy has a fairly lackluster image in Illinois. A Hart poll indicated that his positive job rating was less than 50% and (even among Republicans) his personal appeal was modest. He is a rather liberal Republican (ACA-27, ADA-50) who votes with the Democrats on most issues. Two notable exceptions are his support for free business enterprise and his hostility towards the administration (shown in his views as the ranking minority member of the Governmental Affairs Committee). Last year, he narrowly defeated his opponent in what was described as one of the dirtiest races in the nation as charges of racism flew both ways. Sources indicate a growing conservatism in Percy.

GOVERNOR

JIM THOMPSON (R)

The incumbent governor was first elected in 1976 on the strength of his reputation as a forceful prosecutor. Admired by conservatives and respected by liberals, Thompson had to deal with a Democratic legislature in passing a tough anti-crime bill and a balanced budget. Last year, he defeated State Comptroller Michael Bakalis, a good candidate hindered by a lack of money and recognition. Thompson has been mentioned in speculation for national office (most likely, Stevenson's Senate seat).

INDIANA

1ST CONGRESSIONAL DISTRICT

ADAM BENJAMIN, Jr. (D)

Resting on the shores of Lake Michigan is the port of Gary, the heavy industrial hub of the steel industry. This is the first district of Indiana. Originally, work in the mills brought a flood of immigrants to the area but today they have been replaced by a Black population. The district is solidly Democratic though tension will always exist between Mayor Richard Hatcher's Black organization and the white Lake County organization. The moderate Benjamin (ADA-65) has successfully walked a tightrope between the two groups and has a safe seat. He sits on the Appropriations Committee.

2ND CONGRESSIONAL DISTRICT

FLOYD FITHIAN (D)

This is the fertile farmland in Indiana's northwest corner. It is indisputably Republican as the district gave Nixon 74% in 1972 and Ford 61% in 1976. But, oddly enough, it has elected in 1974 and has re-elected by sizable margins, a Democrat, Floyd Fithian who swept into office on the strength of the Watergate Fiasco. Using his seat on the Agriculture Committee, a moderate conservatism (ADA-25, ACA-40) as well as an aggressive campaign style and a sophisticated constituent services organization, he should retain this seat.

PREVIOUS TRIPS

July	23	-Sterling Tucker
July	23	-Patricia Harris
July	23	-Louis Martin
July	24	-Ray Marshall
August	9	-Vernon Weaver
September	13	-Ray Marshall
September	13	-Julius Richmond
September	18	-Harlan Hobgood
September	26	-Benjamin Civiletti
September	26	-Sarah Weddington
September	26	-Jay Janis
October	15	-Moon Landrieu
October	16	-Lawrence Simons
October	26	-John Moore
October	30	-Alfred Kahn
October	30	-Patricia Harris
November	5	-Stanley Marcuss
November	14	-Neil Goldschmidt
November	13	-Geno Baroni
November	13	-Moon Landrieu
December	6	-Robert Hanfling
December	11	-Dale Hathaway
December	18	-Bob Bergland
January	12	-Moon Landrieu
January	17	-Donald Elisburg
January	23	-H.K. Allen
January	24	-Jordan Baruch
February	2	-Sarah Weddington
March	6	-Jordan Baruch
March	11	-Vernon Weaver
March	17	-Dale Hathaway
March	31	-Donald Elisburg
April	3	-John Gentry
April	11	-Shirley Hufstedler
April	21	-Ray Marshall
April	25	-Benjamin Civiletti
May	5	-Alexis Herman
May	8	-Dale Hathaway
May	8	-Eula Bingham

TRAVEL PACKET FEEDBACK

Name____________________ Department____________________

Date of Trip____________________ City/ State____________________

Contact Person____________________ Purpose of Trip__________

PLEASE LIST ALL PERSONS FROM **KEY ELECTED OFFICIALS** LIST THAT YOU CONTACTED:

A____________________ B____________________

C____________________ D____________________

PLEASE LIST ALL PERSONS FROM **LOCAL VIP LIST** THAT YOU CONTACTED:

A____________________ B____________________

C____________________ D____________________

PLEASE LIST ALL **MEDIA** CONTACTS MADE:

A____________________ B____________________

C____________________ D____________________

PLEASE GIVE A GENERAL EVALUATION OF YOUR TRIP IN TERMS OF THE RECEPTION AND THE COVERAGE THAT YOU RECEIVED:

PLEASE INDICATE IF YOU FOUND ANY OF THE INFORMATION IN YOUR TRAVEL PACKETS WAS INCORRECT OR COULD BE UPDATED IN ANY WAY:

DID YOU FIND THE CONSUMER PRICE INDEX INFORMATION HELPFUL?
YES [] NO []

PLEASE RETURN TO BILL SIMON, GROUND FLOOR, WEST WING, THE WHITE HOUSE.

PRESIDENT CARTER'S KEY ACHIEVEMENTS FOR THE PEOPLE OF ILLINOIS

ENSURING OUR ECONOMIC STRENGTH AND INDEPENDENCE

ECONOMY

Economic Stimulus

* $211 million in economic development funds since 01/77 including $90 million in Local Public Works Round-II funding (a 40% increase over Round-I).

* $154 million in economic development funds for Chicago since 01/77 including $44 million in Local Public Works Round-II funding (a 91% increase over Round-I).

* $90 million included in the economic development funds to Illinois in loan guarantees to Wisconsin Steel Co. under the Special Steel Loan Guarantee Program.

* 55 business and industrial loans from the Department of Agriculture during fiscal years 1978 and 1979 involving $25.3 million in funds (a 53% increase over the previous two years).

* 247 SBA direct loans worth $17.6 million in FY 1979 (a 151% increase over FY 1976).

* 867 SBA loan guarantees worth $130 million in FY 1979 (a 116% increase over FY 1976).

* The MTN Agreement will open and expand markets for Illinois manufacturing industries which employ 31% of the state's labor force. (One of every nine manufacturing jobs in Illinois results from exports).

Tax Cuts

* Federal Income Tax Reductions of $1 billion for Illinois individuals and businesses in 1978; cut equaled $1.75 billion from previous tax rate in 1979; and increase to $2 billion in expected savings in 1980.

Employment

* Unemployment rate reduced 34% from 7.0 in 01/77 to 4.6% in 08/79, while the state's labor force grew 7%.

* Number of employed grew 9.5% or 458,000 between 01/77 and 08/79.

* CETA funding of $406 million in FY 1979 (a 70% increase over FY 1976).

* CETA enrollment of 161,285 in FY 1978, 55% or 88,221 of these jobs are filled by youth.

* Under the Youth Employment and Demonstration Projects Act (YEDPA), over 13,512 additional youths in Illinois have been employed.

* A Job Corps Center in Joliet opened in June 1979 with a capacity for 400 youth and a total investment of $3.6 million in operating funds.

ENERGY

* Almost $93 million in assistance for low-income families in Illinois hard hit by energy price increases.

* $56.7 million in funding for 14 solar power development projects in ongoing, long-term contracts as of the end of fiscal year 1979.

* $5.6 million in funding for 17 coal energy development projects in long-term ongoing contracts as of fiscal year 1979.

* $7.9 million for funding of 7 alternative energy projects in long-term ongoing contracts as of the end of fiscal year 1979.

* Coal production in Illinois between 1985 and the year 2000 will more than double from 80.4 million to 168 million short tons.

MEETING HUMAN AND SOCIAL NEEDS

Health

* National Health Plan proposed -- $95.4 million in fiscal relief for Illinois.

  -- 1.2 million aged and disabled persons in Illinois would receive catastrophic coverage.

  -- 725,000 low-income citizens of Illinois would receive full subsidy protection.

  -- 2.8 million employed citizens in Illinois would receive new, adequate catastrophic protection.

  -- 75,000 hard to insure individuals would have major medical coverage available.

* Hospital Cost Containment would have saved families in Illinois $387 million per year for hospital care by 1984.

Older Americans

* Saved the Social Security system from bankruptcy ensuring Illinois' 1.6 million recipients of regular benefits.

* $850,000 in FY 1979 to Illinois State agencies providing services to senior citizens (a 18% increase over FY 76).

* $9.5 million in Social Services grants in FY 1979 (a 106% increase over FY 76).

* $12.3 million for nutrition grants for senior citizens of Illinois in FY 1979 (a 100% increase over FY 1976).

Assistance for low-income Americans

* Welfare Reform will provide Illinois an estimated $151.6 million in fiscal relief.

* Food Stamp reforms make an estimated additional 110,000 low-income citizens of Illinois eligible for benefits.

* Over $151 million in FY 1979 for social services aimed toward making eligible Illinois citizens become self-supporting (a 51% increase over FY 1976).

EDUCATION

* Total funding for education of $409.4 million in FY 1978 (a 58% increase over FY 1976).

* Funding for education of the handicapped of $28.3 million in FY 1978 (a 328% increase over FY 1976).

* Funding for Elementary and Secondary Education was $147.5 million in FY 1978 (a 40% increase over FY 1976).

* Higher Education and student financial assistance funding was $135.4 million in FY 1978 (a 46% increase over FY 1976).

* Funding for Occupational, Vocational, and Adult Education was $49.9 million in FY 1978 (an 83% increase over FY 1976).

* Over 77.9 million in FY 1979 for the National School Lunch Program in Illinois (a 26% increase over FY 1976).

COMMUNITY DEVELOPMENT

Urban Initiatives

* Creation of Urban Development Action Grant program -- 28 grants in 19 cities of Illinois with $50.2 million in funding leveraging $455 million in private investment and creating 8,085 jobs.

* $5.4 million in FY 1979 for rehabilitating residential and non-residential properties in 19 cities of Illinois (253% increase over FY 1976).

* Economic Development Funds as noted in the Economy section.

Community Development Block Grants (CDBG) -

* -- $189 million during FY 1979 entitlement (formula) funding for 40 cities in Illinois (112% increase over FY 1976).

* $27.4 million during FY 1979 under Small Cities (discretionary) funding for 49 cities in Illinois (200% increase over FY 1976).

Housing

* Over $105.9 million for over 24,000 reservations for low-income housing during fiscal years 1978 and 1979.

* 9521 low-income housing starts in FY 1979, (a 72% increase since FY 1976).

* 2 Neighborhood Strategy Areas (NSA) with an allocation of 422 low-income housing units.

* Allocation of almost 3000 housing units with over $16 million in funds for the elderly and handicapped during fiscal years 1978 and 1979 (Nothing in FY 1976).

* Over 2700 housing starts for the elderly and handicapped during fiscal years 1978 and 1979 (none in FY 1976).

Transportation

* Federal funds for mass transit in Illinois were $208.6 million in FY 1979 (a 27% increase over FY 1976).

* Highway funding for Illinois during fiscal year 1979 was $528.1 million (a 100% increase over FY 1976).

* Federal funds for bridge rehabilitation and replacement in Illinois exceeded $75 million during fiscal year 1979 (a more than 1000% increase over FY 1976).

AGRICULTURE AND RURAL POLICY

Agriculture

* Net farm income was over $1.2 billion in 1978 (an 19% increase over 1976).

* Farm prices for most major farm commodities (i.e., cattle, corn, milk) rose by at least 14% between 1976 and 1979.

* The MTN Agreement will open and expand markets for Illinois agricultural industry where $1 of every $2 (50%) in farm sales derives directly from exports, especially feedgrains, soybeans, protein meal, and soybean oil.

Rural

* Almost $78.9 million for 2877 housing loans during fiscal year 1979 (a 21% increase over FY 1976).

* Over $23.6 million for 71 rural water and waste disposal projects during fiscal years 1978 and 1979.

* Business and industrial loans as noted in the Economy section.

* $286,000 loan for the Christopher Greater Area Rural Health Planning Corp., in Christopher, Illinois.

NATIONAL RESOURCES AND ENVIRONMENT

* $2.1 million in funding during fiscal years 1978 and 1979 for acreage increases in federal "wildlife preserves" including National parks, recreation areas and seashores in Illinois (a 1,000+% increase over FY 1976).

* Outlays for waste water treatment projects were $214 million in FY 1979 (a 96% increase over FY 1976).

* Over $390,000 during FY 1979 from the Heritage Conservation and Recreation Service for Historic Preservation Grants-In-Aid (a 40% increase over FY 1976).

* Over $14.6 million in matching grants-in-aid during fiscal years 1978 and 1979 to acquire 5,143 acres for State and local parks and recreation areas in Illinois.

5184
gwm

Date: May 13, 1980

MEMORANDUM FOR: SECRETARY MILLER

From: C. Fred Bergsten

Subject: Your Chicago Speech

Attached is the revised version of your Chicago speech. We recommend that you approve it for final printing and distribution to the Congress and others. (after delivery?)

Approve ✓ (see p. 8-9) Bill 5/13

Disapprove ______________

Joe Laitin and I believe that the impact of the speech can be enhanced if I give a press backgrounder on it tomorrow afternoon. Do you agree?

Approve ✓ Bill 5/13

Disapprove ______________

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
itials / Date	/	/	/	/	/	/

orm OS-3129
Department of Treasury

REMARKS BY THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE CHICAGO COUNCIL ON FOREIGN RELATIONS
CHICAGO, ILLINOIS
MAY 14, 1980

The International Financial Institutions:
A Critical Role for the 1980s

I welcome this opportunity to discuss key U.S. interests in the international financial institutions and the role of those institutions in assuring world economic stability and progress in the 1980s. It is particularly appropriate that I do so in the Midwest. The American heartland -- like the nation as a whole -- is increasingly influenced by and vulnerable to global economic developments, and has a keen self-interest in maintenance of an open, stable and cooperative world economy.

The world economy faces dual challenges over the next few years: to assure adequate financing of the huge payments imbalances arising from the major oil price increases that have taken place since 1978; and to promote fundamental adjustment to the changed world energy situation which is at the heart of global economic difficulties. The International Monetary Fund and the multilateral development banks are central to the international community's effort to meet these challenges. Whether the institutions succeed in restoring a strong and stable global economy has a critical and direct bearing on the economic

well-being of the United States. The health of the world economy directly affects markets for the production of our farms and factories and for the employment of our labor. In hard times, such as we are experiencing now, there is always a temptation to retrench, to cut back on our support for international organizations that seem to have no domestic constituency. This would be a tragic mistake. Our stake in a healthy world economy is strong and growing stronger.

The dependence of the United States upon world trade and financial flows has become enormous. Export markets constitute a major source of demand for U.S. goods and services. Today, one out of every seven U.S. manufacturing jobs and one out of every three acres of U.S. farmland produce for exports. Imported goods, ranging from raw materials to highly sophisticated capital equipment, are thoroughly enmeshed in all phases of U.S. economic activity. International investment has become a major factor in U.S. production, both at home and abroad. The U.S. and international capital markets are highly integrated, and the dollar serves as the principal vehicle for trade and finance internationally as well as domestically.

More than most states, Illinois demonstrates the central importance of the world economy as a market for U.S. products. Illinois is our third largest exporter of manufactured goods

and our top exporter of agricultural products. Exports from Illinois totalled more than $9 billion in 1976 -- and certainly larger amounts in more recent years. One-third of these exports went to developing nations. Illinois businesses earned nearly $100 million during 1976-77 on development projects financed by the World Bank and the Inter-American Development Bank. In 1978 alone, 175 Illinois firms were contractors on World Bank projects.

Thus, this state is a major participant in international commerce, benefitting from -- but also dependent on -- a vigorous world economy. The health of the world economy is even more important today, when our own economy is undergoing a painful but needed adjustment.

Unfortunately, international tensions -- political and economic -- pose serious threats to the global economy. The disruption in Iran and Soviet aggression in Afghanistan make us acutely aware of the vulnerability of the world's major oil producing region to internal instability and external conflict. The turmoil in Southwest Asia has contributed to further uncertainty about oil supplies at a time when the world economy already faces extremely difficult problems. The dramatic oil price increases of the past year are causing a slow-down in world economic growth, a surging of inflation, and sharp deterioration in the balance of payments position of the oil-importing world. Today's world economic environment

is likely to make it not only more difficult for nations to obtain needed financing, but more difficult also for them to make the economic adjustments required by changed external circumstances:

In more concrete terms:

-- Economic growth in 1980 is likely to slow to a bare 1 - 1½ percent in the industrial nations this year and to 4½ - 5 percent in the non-oil exporting developing countries. Unemployment will increase in virtually all countries, compounding the difficulties of adjustment.

-- Inflation rates have surged to double-digit figures in most of the OECD nations and to an average of 35 to 40 percent in the developing world.

-- OPEC's current account surplus is rising sharply, to a range of $100 - $120 billion, with a corresponding deterioration in the current account position of the oil importing world.

-- As growth slows, unemployment rises, and trade deficits widen, all countries will inevitably face increasing internal pressures for restrictive trade action and other defensive measures.

An inward turn is not a solution to the political threat or to the world's economic problems. An international response to the situation in Southwest Asia is clearly needed and is emerging. As the U.S. has moved to reinforce its military

and political position in the region we have also turned to key international institutions -- NATO, the United Nations and the World Court -- to develop international support for our policy actions. We need at the same time to develop a coordinated and cooperative international response to the problems of the world economy in order to assure an effective solution and maintain the essential economic framework for broader political and military cooperation.

The world economic situation today is in some ways reminiscent of the situation following the major oil price increases of 1973-74. But there are key differences. First, on a positive note, the distribution of current account deficits and financing needs among oil importing countries is more stable than in the earlier period. The bulk of the current account deterioration is likely to be borne by industrial countries and some of the more advanced developing nations. As a consequence, a major part of the increased demand for external financing in 1980 is by countries that have relatively strong reserve positions and substantial access to private financing. It is clear that the oil price increases will impose serious hardship on the poorest nations, whose development plans must be altered to accommodate increased payments for oil, and some individual countries may encounter increasingly serious financing difficulties. But from the viewpoint of the system as a whole, the financing or "recycling" issue is not likely to be a serious problem in the immediate future.

Second, however, is the likelihood that large world payments imbalances will persist for some time, in contrast with the relatively rapid fall-off in OPEC surpluses during 1976-78. The prospect of continued tension in oil markets, and the possibility that the OPEC nations will not increase spending as rapidly as they did earlier, imply continuing large OPEC surpluses and persistent deficits in the oil importing world.

Third, there is widespread recognition today that the world economy has been altered fundamentally by developments in energy, and that a process of adjustment of basic economic structures is unavoidable.

Thus over the next few years the world faces a dual task of assuring not only that financing is available in adequate amounts, but also that basic economic adjustments are initiated -- and carried through -- to restore a sustainable basis for future world economic growth and development.

The need for a coordinated approach to these tasks is recognized by the international community. The IMF and the multilateral development banks are at the forefront of efforts to carry out that approach. The IMF is positioning itself to meet potentially large demands for balance-of-payments financing and to assist countries in undertaking longer-term programs to revitalize their economies. An increase in IMF quotas is now

in process and the Fund is considering the possibility of borrowing additional funds from major surplus countries should the need arise. Also, the Fund is moving to lengthen the horizon of its adjustment programs in appropriate cases, and to place greater emphasis on expanding and rationalizing the productive base in borrower economies, in recognition of the structural nature of some of the changes that must be made in its members' economies. These efforts by the IMF closely parallel a major initiative being undertaken by the World Bank to promote and support structural adjustment in the developing nations.

The Bank has initiated, with strong support from the United States, a new program of non-project lending in the form of sequential loan agreements over a medium-term period, perhaps 5 to 7 years. Disbursement of the loan segments, and decisions on subsequent loans in the sequence, would be conditioned on various identified micro- and macro-economic policy changes by the borrowing country, designed to produce "structural adjustment" -- especially in response to the changing energy supply situation -- in its economy. We are supporting this Bank initiative as an important and necessary complement to its regular practice of project lending.

By cooperating closely in implementing these programs, the Fund and Bank can support efforts of their member countries to undertake difficult adjustments, which necessarily have a medium-

term horizon, while simultaneously addressing their shorter-term external financing needs. At the same time, it is essential that flows of development assistance, both bilateral as well as through the development banks, be sustained to permit the development process to continue during this difficult period of adjustment.

Major steps are under way to strengthen the resources of both the IMF and the multilateral development banks to enable them to carry out these tasks. It is in the national interest of the United States to participate fully in these efforts. Let me discuss them in turn.

International Monetary Fund

The purpose of the International Monetary Fund is the maintenance of a strong and orderly international monetary system. It is a revolving fund, from which all participants benefit directly. It is not foreign aid. It is not commodity financing. It is unique, not like any other institution in which the United States participates.

The IMF has two basic functions. The first is general guidance over the operations and evolution of the international monetary system. The second, closely related, is provision of temporary financing is support of adjustment programs by IMF members facing balance of payments problems.

The IMF provides a source of funds, provided by all member nations and available to all through assigned quotas,

for supporting countries in their efforts to overcome balance of payments difficulties. A 50 percent overall expansion of quotas has been agreed upon as a key element of the international community's response to increasing and potentially major world balance of payments problems. The IMF has periodically required increases in its resources, in response to rapid growth of world economic activity and international trade and financial transactions. Today, at a time when world payments imbalances and potential demands on the IMF are rising sharply, quotas represent barely four percent of world trade -- as compared with 12 to 14 percent during the 1960s. To maintain a strong IMF, capable of encouraging needed adjustment and providing the temporary financing required to maintain monetary stability, we must assure that its resources are adequate to meet potential needs.

Quotas are central in the IMF. They are its permanent resources. They determine the amounts of financing which countries can draw in time of need. They determine the distribution of SDR allocations. And they determine voting power. Because of these important advantages, nations compete for increases in IMF quota shares, rather than trying to reduce their shares as they do in many other international institutions. The United States has by far the largest IMF quota, the largest share of votes and the largest potential

access to IMF resources. Over the years, the U.S. has drawn about $7-1/2 billion in foreign currencies from the IMF, second only to drawings by the United Kingdom.

In support of the general IMF quota increase, the Administration has requested Congressional approval of a 50 percent increase in the U.S. quota, amounting to SDR 4.2 billion or about $5-1/2 billion at current exchange rates. The proposed increase in the U.S. quota will maintain our share intact at 21.5 percent of total IMF quotas, and thus will preserve our voting position and ability to influence key IMF decisions on the nature and operations of the international monetary system.

The Multilateral Development Banks

The multilateral development banks (MDBs) have received strong, sustained U.S. support throughout their thirty-five year history. Active, undiminished support during the 1980s will be critical to fundamental U.S. economic, political, and security interests.

MDB loan commitments represent by far the largest official source of external capital for the developing world, equivalent to $14 billion in 1979. These loans contribute in a major way to economic growth and stability in recipient developing countries. Economic growth in the developing countries is an important U.S. objective, both in terms of basic humanitarian concerns and as a source of strength to

the global economy as a whole. The developing nations are today -- at a time of a general slowdown -- the main area of world economic growth. Growth generates increased imports -- and non-oil developing countries now take 20 percent of total U.S. exports, 25 percent of our exports of manufactured goods, and support more than half a million U.S. manufacturing jobs.

In providing policy advice, preparing development projects based upon objective economic criteria, and serving as a financial catalyst, the MDBs are an important and respected force for the development of an efficient, responsive international market economy. They play a key role in the transfer of technology and in "human capital formation", which represent perhaps the greatest contribution to long-term development.

The MDBs also provide an important forum for cooperative efforts among developed and developing countries to respond rapidly to critical world needs. Most recently, this has produced initiatives in two key product areas and, as I noted earlier, structural adjustment:

-- The United States has actively supported a shift in the allocation of MDB lending away from infrastructure projects toward agricultural and rural development, and subsequently toward education, health, and population projects, as the banks increasingly have adopted a basic human needs strategy to target project benefits directly for the poor. The World Bank is far and away the largest

single source of external funding for agricultural and food production, providing over 40 percent of all official commitments to agriculture. Over the five years just ended, total lending commitments for these projects equalled $11.6 billion, representing 33 percent of total lending. The World Bank expects to finance projects which will contribute on the order of one-fifth of the increase in annual food production in its developing member countries in the 1980s.

-- With strong support from the United States, the World Bank plans to finance oil and gas projects which, combined with other official and private financing, will total more than $33 billion over the next five years. This effort should ultimately yield an additional 2.5 million barrels of oil equivalent a day. By increasing world energy supplies, this will help reduce pressures on world oil prices, as well as deal directly with one of the most critical bottlenecks to development.

At the same time, increased U.S. support for the multilateral development banks (MDBs) is fully consistent with the need for budget restraint. Indeed, U.S. participation in the MDBs is the most cost-effective approach available

to providing development assistance. We derive significant fiscal advantages, because the provision of development assistance is shared with other countries, developed and developing alike, and because the MDBs leverage our paid-in contribution through substantial borrowings in world private capital markets.

Also, increasing amounts of our contributions are provided through callable capital, not a penny of which has ever left the U.S. Treasury. Burdensharing and use of callable capital provide the perfect cost-effective combination for our national concern for fiscal prudence. As a result of that combination, the World Bank lends approximately fifty dollars for each and every dollar paid-in by the United States.

Finally, through the contributions of other MDB donors and the use of callable capital, MDB loans result in expenditures on U.S. goods and services well in excess of U.S. contributions to the banks. From the inception of the banks through 1978, the cumulative current account earnings of the United States directly attributable to MDB activities totalled $11 billion, as compared to cumulative U.S. paid-in contributions to the banks of $7 billion. This net balance of payments benefit is further multiplied within the U.S. economy and generates additional income, employment, and Federal Government and local tax receipts.

Indeed, our analysis indicates that during 1977-1978, every dollar contributed to the MDBs resulted in an increase

of U.S. GNP of three dollars. Total U.S. GNP growth directly attributable to MDB activities averaged $2.7 billion during this period, raising net Federal tax receipts by $720 million annually and reducing the net cost to the Federal budget for our participation in the banks to roughly $170 million each year. If increased local tax receipts were included, the net cost to the American taxpayer would be minimal.

Several U.S. Administrations have supported a more equitable sharing of international assistance provided through the development banks. This Administration has supported that concept, as a fair assumption of increased responsibilities by other nations in response to today's more pluralistic global economy. As a result, the U.S. share is declining in every MDB in which we have participated since the 1960s.

We must, however, be careful not to travel this path too far. The United States must continue to play a substantial role in the MDBs, not only because of the broad benefits we derive but as a measure of cooperation. It is a simple truism that if we do not support other nations in achieving their major economic objectives, we cannot expect their cooperation in achieving ours.

I must point out, in this connection, that the United States faces at this moment a growing problem, of our own making, which threatens the continued operations of these crucially important institutions. That is the failure of the U.S. Congress to deliver on commitments made by the United States in support of these institutions. The United States is now over $2.0 billion in arrears in its contributions to the multilateral development banks. At this point Congress has not yet passed last year's authorization and appropriation legislation for the banks, and that is having the effect of bringing to a complete halt lending from the Inter-American Development Bank, the Asian Development Fund, and the African Development Fund.

Conclusion

Energetic U.S. support for the International Monetary Fund and the multilateral development banks is in our basic self-interest.

-- These institutions are the centerpiece of our efforts to restore stability and growth to a troubled world economy, strengthening the foundations for broad political cooperation.

-- The proposed increase in IMF quotas will help to assure that the IMF can continue to meet its responsibilities for international monetary stability in a period of strain, danger, and financial uncertainty.

-- Our contributions to the multilateral development banks provide the most cost effective means of supporting U.S. humanitarian, economic, and foreign policy objectives in the developing nations, while

directly benefitting U.S. exports, production and jobs.

Legislation to support these institutions is now before the Congress. Senator Stevenson and Senator Percy have recognized the major U.S. interest -- and that of Illinois -- in the international economy, and have given their strong support to this legislation. I welcome their support and hope my comments this evening will encourage yours as well.