Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 7:00 PM EDT,
SEPTEMBER 4, 1980

REMARKS BY THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE ECONOMIC CLUB OF NEW YORK
NEW YORK, NEW YORK
SEPTEMBER 4, 1980

The International Financial Institutions: A Time to Recognize U.S. Self-Interest

It's a pleasure to meet with this distinguished group to discuss a matter of central importance to U.S. interests -- our participation in the international financial institutions, the International Monetary Fund, the World Bank Group and the Regional Development Banks.

The 1980s will be a period of great economic challenge and opportunity for this nation. If we meet the challenge in a forthright and courageous way, we can ascend to even higher levels of prosperity; if we do not, we will slip into a steady decline to economic mediocrity. The program announced by President Carter on August 28 will put us on a course to revitalize our economy through increased investment and higher productivity. We are also taking strong steps to increase U.S. competitiveness in world trade.

Equally important to achievement of our domestic economic objectives is action to assure maintenance of the expanding and open world economy to which our own economic health has become so closely tied. The dependence of the United States upon world trade and financial flows has become enormous. The share of U.S. economic output devoted to exports has almost doubled over the past decade, from 6.4 percent in 1970 to over 12 percent in the first half of 1980. 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.

M-650

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

One of every three dollars of U.S. corporate profit derives from the international activities of U.S. firms. 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.

The international financial institutions are central to the effort to maintain a strong and growing world economy. Yet at a time of acute need for leadership in support of this effort, this country has fallen behind in its financial support for the institutions. To allow this situation to persist would be shortsighted and gravely damaging to key U.S. interests -- foreign policy, economic and humanitarian. This audience, perhaps as much as any single group that could be assembled in this country, should be attuned to the importance of a strong and cooperative world economy to the achievement of U.S. objectives at home and abroad.

The world economy faces challenges of financing of huge payments deficits and promoting fundamental adjustment to the changed world energy situation which is at the heart of current global economic difficulties. The International Monetary Fund and the Banks are leading 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 difficult 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 large and growing larger.

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 since the end of 1978 have caused a slow-down in world economic growth, a surge 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 also more difficult for them to make the economic adjustments required by changed external circumstances.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

In more concrete terms:

-- Economic growth has slowed to a bare one percent in the industrial nations this year and to 4 1/2 - 5 percent in the non-oil exporting developing countries. Unemployment is increasing in virtually all countries, compounding the difficulties of adjustment.

-- Inflation rates have surged to double-digit figures in many 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 balance of payments deficits widen, countries will inevitably face increasing internal pressures for restrictive trade actions, unfair or inappropriate exchange rate practices, or other "beggar-thy-neighbor" policies. But such an inward turn, by this nation or other nations, is not a viable response to the world's economic problems. History has demonstrated forcefully that efforts by individual countries to deal with their internal problems through such devices cannot succeed and in the end only worsen the situation for all. The need is for a coordinated and cooperative international response to the problems of the world economy in order to assure an effective solution and to maintain the essential economic framework for cooperation across the broad range of international relations.

This need is recognized by the international community. The IMF and the development banks are at the forefront of efforts to carry out a coordinated approach. They are the natural vehicles to spearhead this collective effort. These institutions have the experience, the expertise, the proven track record. And they are moving rapidly to adapt their policies to meet the needs for balance of payments financing, for structural adjustment and for expanded energy production that will be imperative in the period ahead.

The so-called "recycling problem" has in general been handled satisfactorily to date. Markets have worked smoothly. But success so far is not a reason for complacency. Commercial banks are scrutinizing loan requests more carefully. Individual countries are beginning to encounter financing difficulties. Some -- as yet only a few -- appear to be approaching limits of borrowing capacity and are facing growing pressures to adjust their economies. Adjustment is of course needed. The question is whether it can be carried out smoothly and responsibly, in a manner that benefits both the economies concerned and the world economy generally.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Recourse to the IMF has accelerated sharply in 1980, and the Fund is positioning itself to meet potentially major demands for balance of payments financing and to assist countries in undertaking longer-term programs to revitalize their economies. An IMF quota increase is in process, and the Fund is exploring the possibility of borrowing additional funds from major surplus countries. Four other important steps have already been taken or are in process.

-- Countries will be able to borrow substantially more from the IMF, enabling them to sustain positive growth rates and maintain needed imports while adjustment measures take effect.

-- The period for implementing IMF adjustment programs is being lengthened, in recognition of the time required to accomplish the structural changes that are needed in many cases.

-- The maturities on some IMF credits have been lengthened, again in recognition of the structural nature of some of the economic changes required.

-- Greater emphasis is being placed on stimulation of productive investment and enhanced supply to enable countries to maintain living standards while basic adjustments -- particularly in the energy area -- are undertaken.

These efforts by the IMF closely parallel a major initiative being undertaken by the World Bank to promote structural adjustment in the developing nations. The Bank has initiated a new program of non-project lending in the form of sequential loan agreements over a medium-term period, 5 to 7 years. Disbursement of the loan segments, and decisions on subsequent loans in the sequence, are conditioned on various identified micro- and macro-economic policy changes by the borrowing country which are designed to produce "structural adjustment" -- especially in response to the changing energy situation -- in its economy. The United States strongly supports this Bank initiative as an important and necessary complement to its regular practice of project lending and its focus on energy development.

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 and 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 IMF and the 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.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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 is 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 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 key to IMF operations. 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 United States has drawn about $7 1/2 billion in foreign currencies from the IMF, second only to drawings by the United Kingdom. Drawings of $3 billion equivalent of German marks and Japanese yen from the IMF were a major part of our November 1978 program to combat speculation against the dollar.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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 of total IMF quotas, intact at 21.5 percent, 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 World Bank and the Regional Development Banks

The development banks have received strong, sustained U.S. support throughout their history. Active, undiminished support during the 1980s will be critical to fundamental U.S. economic, political and security interests.

Loan commitments by these banks 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, the world's engine of expansion. 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. They are our most dynamic export market.

In providing policy advice, preparing development projects based upon objective economic criteria, and serving as a financial catalyst, the development banks 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 Banks 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, in the area of structural adjustment:

-- The United States has actively supported a shift in the allocation of lending by the development banks away from infrastructure projects toward agricultural and rural development, and subsequently toward education, health, and population projects, as the banks increasingly

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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 ending in 1979, total lending commitments for these projects equaled $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 is moving to intensify its programs for energy exploration and development. It has already programmed financing for 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.

Thus the international financial institutions, with strong U.S. leadership, are moving forcefully in directions that are essential to maintenance of a strong and stable world economy and are directly in the U.S. interest. But there is a potentially critical weakness in this approach. And that is the fact that the United States, whose full participation above all is needed for the institutions to carry out their tasks, is falling seriously behind in providing financial support.

U.S. arrearages to the multilateral development banks have been increasing in recent years and now exceed $1.3 billion. We are the only major contributor in this position. We are behind because we have not been able to obtain full and timely Congressional approval of our requests. For example, legislation authorizing U.S. participation in providing additional funds to the Inter-American Development Bank was needed to bring into effect the agreement by all of the donors to provide funding. Although such legislation was submitted to the Congress in January 1979, there were lengthy delays and the bill was not signed into law until June 1980. As a direct result of these U.S. delays, the Bank was forced to suspend all new lending operations. That suspension affected every developing country in this hemisphere, including such key nations as Brazil and Mexico, and posed particularly severe problems for the smaller countries of Central America and the Caribbean.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Similar delays in passing authorizing legislation for the Asian Development Fund halted concessional lending by that institution to some of the poorest countries in the world, such as Pakistan, Nepal and Bangladesh, and interrrupted lending programs for key U.S. allies such as Thailand and the Philippines. Indeed, at the very time the West was trying to respond to the Russian invasion of Afghanistan, all ADF lending to Pakistan was being held up by our legislative delays, effectively blocking more than $250 million that was in the pipeline. As of June 30, 1980, the mid-point of its fiscal year, the Asian Development Fund had been able to make new loan commitments of less than eight percent of its program for the entire year.

Legislative delays in our contribution to the sixth replenishment of the International Development Association (the World Bank's concessional lending window) are now preventing the entire replenishment agreement from taking effect.

The Congress is now considering major legislation to increase the U.S. quota in the IMF, to authorize U.S. participation in the sixth replenishment of IDA, and to fund this year's contributions to the multilateral development banks. Failure by the United States to participate fully and promptly in these funding programs would not only jeopardize their lending operations; it would disrupt our own strategy to deal with the most serious world economic crisis of the post-World War II period.

The fact is that this country has come to take for granted a world economy hospitable to its own interests. To be sure, there has been economic tension and instability in the past. Yet, because it has been handled with relative ease and efficiency, we have tended to assume that stability and order were the natural state of affairs. We have allowed our support for the institutions -- designed to assure that stability and order -- to erode.

We can no longer afford this assumption and neglect. We must recognize our own strong self-interest in actively providing needed financial support to the institutions as they confront the problems of the 1980s.

In doing so, we should bear in mind two additional points.

<u>First, participation in these institutions is of minimal cost to the United States</u>. The monetary character of our transactions with the IMF assures that, for every dollar we transfer to the IMF under our quota, we receive an automatically available, interest bearing reserve claim on which we can draw foreign exchange in case of balance of payments need. Consequently, U.S. transfers to the IMF under our quota have no net effect on budget expenditures or the Federal budget deficit.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

U.S. payments to the development banks likewise have little budgetary cost. Financial responsibility for the banks is shared broadly with many other countries, developed and developing alike, and the banks raise the largest part of their resoruces through the private capital markets. The cost-sharing principle and reliance on private markets together allow major development bank lending activity at very small cost to the taxpayer. The World Bank, for example, lends about $50 for each dollar paid in by the United States. For the banks as a whole, lending from their inception through 1978 financed roughly $11 billion in exports of U.S. goods and services, against total U.S. government payments to the banks of only $7 billion. These purchases of U.S. goods and services have major beneficial effects on U.S. employment and profits -- yielding GNP growth of $3 for each dollar we pay to the banks -- and this in turn leads to increased tax receipts. Ultimately, we believe, the net budgetary impact of this process has been minimal.

Second, our participation in the institutions provides major leverage for obtaining financing by other countries and assuring effective burden-sharing. The United States over the years has consistently sought a more equitable sharing of international assistance provided through the development banks as a fair assumption of increased responsibilities by other nations in response to today's more pluralistic global economy. This effort has been highly successful, and the U.S. share is declining in every development bank in which we have participated since the 1960s.

For example, we have been able to reduce our share in the World Bank from 35 percent in 1945 to 22 percent today, and our share of IDA from 43 percent at its inception in 1960 to 27 percent currently. But we must be careful not to travel this path too far. The United States must continue to play a substantial role in the banks, not only because of the broad benefits we derive and in order to retain our influence, but also as a measure of cooperation. It is axiomatic that if we do not support other nations in achieving their legitimate economic objectives, we cannot expect their cooperation in achieving ours.

Conclusion

The international economy is in a critically difficult period, easily as dangerous as any since the Second World War. Success in overcoming global difficulties is essential to success in dealing with the problems confronting our own nation.

The international financial institutions, with strong U.S. support and leadership, are positioned to guide the international effort. But a potentially major threat to this effort is our own failure -- a failure to recognize our own self-interest -- to provide full and timely financial support for the institutions. This must be corrected. The world community has charged the institutions with enormous tasks. They need the resources to do the job.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

The costs to us are minimal. The potential benefits are enormous.

These issues and concerns are not esoteric debating points to be thrashed out solely by government officials in Washington. Leaders of the business and financial community in this country -- many of whom are here tonight -- must assume part of the responsibility for making the American people aware of the benefits of strong U.S. leadership in the international financial institutions. Once the facts are known, then I am confident that the American people and the political process will respond with the necessary support that is so clearly in our national self-interest.

o 0 o

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

September 1980

Basic Facts on the International Monetary Fund

1. Role: The International Monetary Fund (IMF) is the central monetary institution for the world economy. The IMF serves two key functions:

-- General guidance of the monetary system, including surveillance over exchange arrangements and the balance of payments adjustment process, and evolution of the international reserve system.

-- Provision of temporary financing in support of members' efforts to deal with their balance of payments difficulties.

2. Operations: IMF is essentially a revolving fund of currencies, provided by every member and available to every member for temporary balance of payments financing under prescribed criteria. Financing thus flows back and forth through the IMF depending on balance of payments patterns and financing requirements at any given time. There is no fixed class of lenders or borrowers, no concept of "donor" or "recipient." In fact, while the U.S. quota subscription has been drawn upon many times over the years, the U.S. drawings on the IMF, totaling some $7.5 billion, are the second largest of the entire membership. The most recent U.S. drawing was for the equivalent of $3 billion in Japanese yen and German marks, in November 1978.

3. Quotas: Quotas are central in the IMF. Members' quota subscriptions constitute the IMF's permanent financial resources. Quotas determine both the amount of IMF resources a member can draw when in balance of payments need, and its obligation to provide resources when its balance of payments is strong. Quotas determine the distribution of SDR allocations and, of key importance, quotas also determine voting power. Given these benefits, countries compete to gain the largest possible share of total quotas in the IMF because of the financing and votes that a larger share provides.

4. Quota Increase: Quotas are reviewed periodically to insure realistic relationship to world economy and potential demands for IMF financing. The decision to propose a 50 percent increase in quotas, from about SDR 39 billion ($50 billion) to roughly SDR 58 billion ($75 billion), reflected two considerations:

-- First, despite increases on four occasions during the IMF's history, IMF quotas had fallen to very low levels in relation to international transactions and potential financing

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

needs. Moreover, the Fund's readily usable resources had declined sharply and the borrowing arrangements which provided a temporary source of resources, the $10 billion Supplementary Financing Facility, is scheduled to terminate in early 1981 or 1982.

-- Second, world payments imbalances are rising dramatically, due primarily to the latest oil price rises. The OPEC surplus is projected at $120 billion this year, after virtual balance in 1978, with corresponding deficits in the oil importing countries. Some countries, developed and developing, may experience financing difficulties which could lead to beggar-thy-neighbor policies -- excessive deflation, competitive exchange rate depreciation, trade and capital controls -- that would be harmful to other countries and the system as a whole. A strong IMF, with adequate resources, is needed to encourage adoption of internationally cooperative economic adjustment programs and provide temporary balance of payments financing while those programs take effect.

5. U.S. quota: The proposed increase in the U.S. quota is SDR 4,202.5 million (about $5-1/2 billion) or 50 percent, and would raise the U.S. quota to SDR 12,607.5 million (about $16-1/2 billion), maintaining the U.S. quota share at 21.5 percent. Under the proposed budget treatment, developed in consultation with the Congress and reflected in a budget amendment submitted by the Administration, the increase in quota would be fully appropriated and would constitute budget authority. Payment of the quota increase would result in budgetary outlays only as cash transfers are actually made to the IMF. Simultaneously with any cash transfer, an offsetting budgetary receipt, representing an increase in the U.S. reserve position in the IMF (a U.S. monetary reserve, automatically available for drawings by the U.S.), would be recorded. Consequently, there would be no net outlays or receipts as a result of these offsetting transactions. The only budget impact would result from exchange gains or losses in the dollar value of the SDR-denominated U.S. reserve position in the IMF, which net receipts or outlays would be recorded in prior-year budget results.

6. National Interest: A strong and effective IMF, with adequate resources, is essential to achieving vital U.S. economic and political objectives.

-- Foster international monetary cooperation and stability, and the open trade and financial system essential for U.S. economic prosperity.

-- Encourage adjustment by others, surplus and deficit, which can ease pressure on U.S. balance of payments and the dollar.

-- Promote orderly evolution in the role of the dollar.

-- Provide foreign currencies when U.S. has a balance of payments need to draw from the IMF.

\# \# \#

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 1980

Basic Facts on the Multilateral Development Banks

The World Bank Group includes the World Bank, the International Development Association, and the International Finance Corporation.

The World Bank was established in 1945. Although its capital is subscribed by 134 member countries, its loans are financed primarily by borrowings in private capital markets. These loans have a grace period of five years and are repayable over 20 years or less. They are directed toward developing countries at more advanced stages of economic and social growth. The interest rate charged by the Bank is calculated in accordance with a formula related to its cost of borrowing.

The Bank's charter spells out certain basic rules that govern its operations. It lends only for productive purposes in order to stimulate economic growth in borrowing countries. Each loan is made to a government or is guaranteed by the government. The Bank's decisions to lend are based only on economic considerations and the use of loans cannot be restricted to purchases in any particular member country.

The International Development Association was established in 1960 to provide assistance for the same purposes as the Bank, but primarily in the poorer developing countries and on terms that bear less heavily on their balance of payments. IDA's assistance is, therefore, concentrated on the very poor countries, principally those with per capita incomes of less than $345. More than 50 countries are eligible under present criteria.

The funds used by IDA come from contributions by more industrialized and developed members, special contributions by richer members, and transfers from the net earnings of the World Bank. The terms of IDA credits, are 10-year grace periods, 50-year maturities, and no interest, but an annual service fee of 0.75% is charged on the disbursed portion of each credit.

The IFC was established in 1956. Its function is to assist the economic development of less developed countries by promoting growth in the private sector of their economies and helping to mobilize domestic and foreign capital for this purpose.

World Bank Operations

During the current fiscal year the World Bank Group is expected to approve over 300 projects involving total commitments of about $11.5 billion. Disbursements should reach nearly $6 billion.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

During the past five years, World Bank and IDA activities have provided the base for producing one third of increased fertilizer production in developing countries, one fifth of the total investment in rural road networks in developing countries, and one quarter of total public investment in developing country irrigation systems.

Important as the transfer of resource function is for the Bank, a far more important contribution to development lies in the way its projects have become the principal catalyst for economic growth and contributed to rational sector and macro-economic policies in developing countries. The Bank also has a key role in the transfer of technology and in providing sound advice on economic policy associated with its lending activity. This contribution to "institution building" and "human capital formation" permeates the process of project implementation and is, perhaps, the greatest contribution made by the Bank to the long-term economic prospects of the developing countries. It is the combination of project financer, financial catalyst, and institution builder which makes the World Bank a unique and important agent in the development process.

Throughout the history of Bank operations, the United States has worked with other members to support and encourage those adaptions in Bank operations which we believe would further increase the effectiveness of Bank lending. This has resulted in a shift in the sectoral composition of lending to those sectors -- such as agriculture and rural development -- where project benefits accrue more directly to the poor, and the promotion of policy changes in the borrowing countries which favor the poor.

The Bank continues to provide an important forum for cooperative efforts among developed and developing countries which respond to critical world needs. Recent World Bank initiatives include a major expansion of lending to increase world energy supplies and a program of medium-term non-project lending designed to produce "structural adjustment" in response to the changed energy supply situation.

Financing the World Bank in the 1980's

In order to sustain the operations of the Bank, and encourage its pivotal role in maintaining the process of equitable economic growth, the United States and other Bank members have negotiated both a General Capital Increase for the World Bank and Sixth Replenishment of IDA's resources. The agreed General Capital Increase of $40 billion -- a doubling of World Bank capital -- will allow the Bank to increase, marginally, its lending in real terms over the coming years. In addition, the Sixth Replenishment of IDA totals $12 billion and will permit an increase in lending over the three year period of the replenishment.

The Regional Banks

The United States is also a member of three regional development banks - the Inter-American Development Bank founded in 1959 and headquartered in Washington, D.C.; the Asian Development Bank founded in 1966 and headquartered in Manila, the Philippines; and the African Development Bank founded in 1964 and headquartered in Abidjan, the Ivory Coast. (The U.S. is in the process of joining the African Development Bank this year although it has been a member of the African Development Fund, the Bank's soft loan window, since 1976.) The regional development banks are patterned after and complement the activities of the World Bank Group and have developed specialized expertise in their respective regions.

# # #

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 7:00 PM EDT,
SEPTEMBER 4, 1980

REMARKS BY THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE ECONOMIC CLUB OF NEW YORK
NEW YORK, NEW YORK
SEPTEMBER 4, 1980

The International Financial Institutions: A Time to Recognize U.S. Self-Interest

It's a pleasure to meet with this distinguished group to discuss a matter of central importance to U.S. interests -- our participation in the international financial institutions, the International Monetary Fund, the World Bank Group and the Regional Development Banks.

The 1980s will be a period of great economic challenge and opportunity for this nation. If we meet the challenge in a forthright and courageous way, we can ascend to even higher levels of prosperity; if we do not, we will slip into a steady decline to economic mediocrity. The program announced by President Carter on August 28 will put us on a course to revitalize our economy through increased investment and higher productivity. We are also taking strong steps to increase U.S. competitiveness in world trade.

Equally important to achievement of our domestic economic objectives is action to assure maintenance of the expanding and open world economy to which our own economic health has become so closely tied. The dependence of the United States upon world trade and financial flows has become enormous. The share of U.S. economic output devoted to exports has almost doubled over the past decade, from 6.4 percent in 1970 to over 12 percent in the first half of 1980. 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.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

One of every three dollars of U.S. corporate profit derives from the international activities of U.S. firms. 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.

The international financial institutions are central to the effort to maintain a strong and growing world economy. Yet at a time of acute need for leadership in support of this effort, this country has fallen behind in its financial support for the institutions. To allow this situation to persist would be shortsighted and gravely damaging to key U.S. interests -- foreign policy, economic and humanitarian. This audience, perhaps as much as any single group that could be assembled in this country, should be attuned to the importance of a strong and cooperative world economy to the achievement of U.S. objectives at home and abroad.

The world economy faces challenges of financing of huge payments deficits and promoting fundamental adjustment to the changed world energy situation which is at the heart of current global economic difficulties. The International Monetary Fund and the Banks are leading 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 difficult 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 large and growing larger.

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 since the end of 1978 have caused a slow-down in world economic growth, a surge 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 also more difficult for them to make the economic adjustments required by changed external circumstances.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

In more concrete terms:

-- Economic growth has slowed to a bare one percent in the industrial nations this year and to 4 1/2 - 5 percent in the non-oil exporting developing countries. Unemployment is increasing in virtually all countries, compounding the difficulties of adjustment.

-- Inflation rates have surged to double-digit figures in many 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 balance of payments deficits widen, countries will inevitably face increasing internal pressures for restrictive trade actions, unfair or inappropriate exchange rate practices, or other "beggar-thy-neighbor" policies. But such an inward turn, by this nation or other nations, is not a viable response to the world's economic problems. History has demonstrated forcefully that efforts by individual countries to deal with their internal problems through such devices cannot succeed and in the end only worsen the situation for all. The need is for a coordinated and cooperative international response to the problems of the world economy in order to assure an effective solution and to maintain the essential economic framework for cooperation across the broad range of international relations.

This need is recognized by the international community. The IMF and the development banks are at the forefront of efforts to carry out a coordinated approach. They are the natural vehicles to spearhead this collective effort. These institutions have the experience, the expertise, the proven track record. And they are moving rapidly to adapt their policies to meet the needs for balance of payments financing, for structural adjustment and for expanded energy production that will be imperative in the period ahead.

The so-called "recycling problem" has in general been handled satisfactorily to date. Markets have worked smoothly. But success so far is not a reason for complacency. Commercial banks are scrutinizing loan requests more carefully. Individual countries are beginning to encounter financing difficulties. Some -- as yet only a few -- appear to be approaching limits of borrowing capacity and are facing growing pressures to adjust their economies. Adjustment is of course needed. The question is whether it can be carried out smoothly and responsibly, in a manner that benefits both the economies concerned and the world economy generally.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Recourse to the IMF has accelerated sharply in 1980, and the Fund is positioning itself to meet potentially major demands for balance of payments financing and to assist countries in undertaking longer-term programs to revitalize their economies. An IMF quota increase is in process, and the Fund is exploring the possibility of borrowing additional funds from major surplus countries. Four other important steps have already been taken or are in process.

-- Countries will be able to borrow substantially more from the IMF, enabling them to sustain positive growth rates and maintain needed imports while adjustment measures take effect.

-- The period for implementing IMF adjustment programs is being lengthened, in recognition of the time required to accomplish the structural changes that are needed in many cases.

-- The maturities on some IMF credits have been lengthened, again in recognition of the structural nature of some of the economic changes required.

-- Greater emphasis is being placed on stimulation of productive investment and enhanced supply to enable countries to maintain living standards while basic adjustments -- particularly in the energy area -- are undertaken.

These efforts by the IMF closely parallel a major initiative being undertaken by the World Bank to promote structural adjustment in the developing nations. The Bank has initiated a new program of non-project lending in the form of sequential loan agreements over a medium-term period, 5 to 7 years. Disbursement of the loan segments, and decisions on subsequent loans in the sequence, are conditioned on various identified micro- and macro-economic policy changes by the borrowing country which are designed to produce "structural adjustment" -- especially in response to the changing energy situation -- in its economy. The United States strongly supports this Bank initiative as an important and necessary complement to its regular practice of project lending and its focus on energy development.

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 and 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 IMF and the 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.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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 adjustmant programs by IMF members facing balance of payments problems.

The IMF is 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 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 key to IMF operations. 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 United States has drawn about $7 1/2 billion in foreign currencies from the IMF, second only to drawings by the United Kingdom. Drawings of $3 billion equivalent of German marks and Japanese yen from the IMF were a major part of our November 1978 program to combat speculation against the dollar.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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 of total IMF quotas, intact at 21.5 percent, 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 World Bank and the Regional Development Banks

The development banks have received strong, sustained U.S. support throughout their history. Active, undiminished support during the 1980s will be critical to fundamental U.S. economic, political and security interests.

Loan commitments by these banks 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, the world's engine of expansion. 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. They are our most dynamic export market.

In providing policy advice, preparing development projects based upon objective economic criteria, and serving as a financial catalyst, the development banks 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 Banks 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, in the area of structural adjustment:

-- The United States has actively supported a shift in the allocation of lending by the development banks away from infrastructure projects toward agricultural and rural development, and subsequently toward education, health, and population projects, as the banks increasingly

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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 ending in 1979, total lending commitments for these projects equaled $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 is moving to intensify its programs for energy exploration and development. It has already programmed financing for 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.

Thus the international financial institutions, with strong U.S. leadership, are moving forcefully in directions that are essential to maintenance of a strong and stable world economy and are directly in the U.S. interest. But there is a potentially critical weakness in this approach. And that is the fact that the United States, whose full participation above all is needed for the institutions to carry out their tasks, is falling seriously behind in providing financial support.

U.S. arrearages to the multilateral development banks have been increasing in recent years and now exceed $1.3 billion. We are the only major contributor in this position. We are behind because we have not been able to obtain full and timely Congressional approval of our requests. For example, legislation authorizing U.S. participation in providing additional funds to the Inter-American Development Bank was needed to bring into effect the agreement by all of the donors to provide funding. Although such legislation was submitted to the Congress in January 1979, there were lengthy delays and the bill was not signed into law until June 1980. As a direct result of these U.S. delays, the Bank was forced to suspend all new lending operations. That suspension affected every developing country in this hemisphere, including such key nations as Brazil and Mexico, and posed particularly severe problems for the smaller countries of Central America and the Caribbean.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Similar delays in passing authorizing legislation for the Asian Development Fund halted concessional lending by that institution to some of the poorest countries in the world, such as Pakistan, Nepal and Bangladesh, and interrrupted lending programs for key U.S. allies such as Thailand and the Philippines. Indeed, at the very time the West was trying to respond to the Russian invasion of Afghanistan, all ADF lending to Pakistan was being held up by our legislative delays, effectively blocking more than $250 million that was in the pipeline. As of June 30, 1980, the mid-point of its fiscal year, the Asian Development Fund had been able to make new loan commitments of less than eight percent of its program for the entire year.

Legislative delays in our contribution to the sixth replenishment of the International Development Association (the World Bank's concessional lending window) are now preventing the entire replenishment agreement from taking effect.

The Congress is now considering major legislation to increase the U.S. quota in the IMF, to authorize U.S. participation in the sixth replenishment of IDA, and to fund this year's contributions to the multilateral development banks. Failure by the United States to participate fully and promptly in these funding programs would not only jeopardize their lending operations; it would disrupt our own strategy to deal with the most serious world economic crisis of the post-World War II period.

The fact is that this country has come to take for granted a world economy hospitable to its own interests. To be sure, there has been economic tension and instability in the past. Yet, because it has been handled with relative ease and efficiency, we have tended to assume that stability and order were the natural state of affairs. We have allowed our support for the institutions -- designed to assure that stability and order -- to erode.

We can no longer afford this assumption and neglect. We must recognize our own strong self-interest in actively providing needed financial support to the institutions as they confront the problems of the 1980s.

In doing so, we should bear in mind two additional points.

<u>First, participation in these institutions is of minimal cost to the United States</u>. The monetary character of our transactions with the IMF assures that, for every dollar we transfer to the IMF under our quota, we receive an automatically available, interest bearing reserve claim on which we can draw foreign exchange in case of balance of payments need. Consequently, U.S. transfers to the IMF under our quota have no net effect on budget expenditures or the Federal budget deficit.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

U.S. payments to the development banks likewise have little budgetary cost. Financial responsibility for the banks is shared broadly with many other countries, developed and developing alike, and the banks raise the largest part of their resoruces through the private capital markets. The cost-sharing principle and reliance on private markets together allow major development bank lending activity at very small cost to the taxpayer. The World Bank, for example, lends about $50 for each dollar paid in by the United States. For the banks as a whole, lending from their inception through 1978 financed roughly $11 billion in exports of U.S. goods and services, against total U.S. government payments to the banks of only $7 billion. These purchases of U.S. goods and services have major beneficial effects on U.S. employment and profits -- yielding GNP growth of $3 for each dollar we pay to the banks -- and this in turn leads to increased tax receipts. Ultimately, we believe, the net budgetary impact of this process has been minimal.

Second, our participation in the institutions provides major leverage for obtaining financing by other countries and assuring effective burden-sharing. The United States over the years has consistently sought a more equitable sharing of international assistance provided through the development banks as a fair assumption of increased responsibilities by other nations in response to today's more pluralistic global economy. This effort has been highly successful, and the U.S. share is declining in every development bank in which we have participated since the 1960s.

For example, we have been able to reduce our share in the World Bank from 35 percent in 1945 to 22 percent today, and our share of IDA from 43 percent at its inception in 1960 to 27 percent currently. But we must be careful not to travel this path too far. The United States must continue to play a substantial role in the banks, not only because of the broad benefits we derive and in order to retain our influence, but also as a measure of cooperation. It is axiomatic that if we do not support other nations in achieving their legitimate economic objectives, we cannot expect their cooperation in achieving ours.

Conclusion

The international economy is in a critically difficult period, easily as dangerous as any since the Second World War. Success in overcoming global difficulties is essential to success in dealing with the problems confronting our own nation.

The international financial institutions, with strong U.S. support and leadership, are positioned to guide the international effort. But a potentially major threat to this effort is our own failure -- a failure to recognize our own self-interest -- to provide full and timely financial support for the institutions. This must be corrected. The world community has charged the institutions with enormous tasks. They need the resources to do the job.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

The costs to us are minimal. The potential benefits are enormous.

These issues and concerns are not esoteric debating points to be thrashed out solely by government officials in Washington. Leaders of the business and financial community in this country -- many of whom are here tonight -- must assume part of the responsibility for making the American people aware of the benefits of strong U.S. leadership in the international financial institutions. Once the facts are known, then I am confident that the American people and the political process will respond with the necessary support that is so clearly in our national self-interest.

o 0 o

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 1980

Basic Facts on the International Monetary Fund

1. Role: The International Monetary Fund (IMF) is the central monetary institution for the world economy. The IMF serves two key functions:

-- General guidance of the monetary system, including surveillance over exchange arrangements and the balance of payments adjustment process, and evolution of the international reserve system.

-- Provision of temporary financing in support of members' efforts to deal with their balance of payments difficulties.

2. Operations: IMF is essentially a revolving fund of currencies, provided by every member and available to every member for temporary balance of payments financing under prescribed criteria. Financing thus flows back and forth through the IMF depending on balance of payments patterns and financing requirements at any given time. There is no fixed class of lenders or borrowers, no concept of "donor" or "recipient." In fact, while the U.S. quota subscription has been drawn upon many times over the years, the U.S. drawings on the IMF, totaling some $7.5 billion, are the second largest of the entire membership. The most recent U.S. drawing was for the equivalent of $3 billion in Japanese yen and German marks, in November 1978.

3. Quotas: Quotas are central in the IMF. Members' quota subscriptions constitute the IMF's permanent financial resources. Quotas determine both the amount of IMF resources a member can draw when in balance of payments need, and its obligation to provide resources when its balance of payments is strong. Quotas determine the distribution of SDR allocations and, of key importance, quotas also determine voting power. Given these benefits, countries compete to gain the largest possible share of total quotas in the IMF because of the financing and votes that a larger share provides.

4. Quota Increase: Quotas are reviewed periodically to insure realistic relationship to world economy and potential demands for IMF financing. The decision to propose a 50 percent increase in quotas, from about SDR 39 billion ($50 billion) to roughly SDR 58 billion ($75 billion), reflected two considerations:

-- First, despite increases on four occasions during the IMF's history, IMF quotas had fallen to very low levels in relation to international transactions and potential financing

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

needs. Moreover, the Fund's readily usable resources had declined sharply and the borrowing arrangements which provided a temporary source of resources, the $10 billion Supplementary Financing Facility, is scheduled to terminate in early 1981 or 1982.

-- Second, world payments imbalances are rising dramatically, due primarily to the latest oil price rises. The OPEC surplus is projected at $120 billion this year, after virtual balance in 1978, with corresponding deficits in the oil importing countries. Some countries, developed and developing, may experience financing difficulties which could lead to beggar-thy-neighbor policies -- excessive deflation, competitive exchange rate depreciation, trade and capital controls -- that would be harmful to other countries and the system as a whole. A strong IMF, with adequate resources, is needed to encourage adoption of internationally cooperative economic adjustment programs and provide temporary balance of payments financing while those programs take effect.

5. U.S. quota: The proposed increase in the U.S. quota is SDR 4,202.5 million (about $5-1/2 billion) or 50 percent, and would raise the U.S. quota to SDR 12,607.5 million (about $16-1/2 billion), maintaining the U.S. quota share at 21.5 percent. Under the proposed budget treatment, developed in consultation with the Congress and reflected in a budget amendment submitted by the Administration, the increase in quota would be fully appropriated and would constitute budget authority. Payment of the quota increase would result in budgetary outlays only as cash transfers are actually made to the IMF. Simultaneously with any cash transfer, an offsetting budgetary receipt, representing an increase in the U.S. reserve position in the IMF (a U.S. monetary reserve, automatically available for drawings by the U.S.), would be recorded. Consequently, there would be no net outlays or receipts as a result of these offsetting transactions. The only budget impact would result from exchange gains or losses in the dollar value of the SDR-denominated U.S. reserve position in the IMF, which net receipts or outlays would be recorded in prior-year budget results.

6. National Interest: A strong and effective IMF, with adequate resources, is essential to achieving vital U.S. economic and political objectives.

-- Foster international monetary cooperation and stability, and the open trade and financial system essential for U.S. economic prosperity.

-- Encourage adjustment by others, surplus and deficit, which can ease pressure on U.S. balance of payments and the dollar.

-- Promote orderly evolution in the role of the dollar.

-- Provide foreign currencies when U.S. has a balance of payments need to draw from the IMF.

# # #

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 1980

Basic Facts on the Multilateral Development Banks

The World Bank Group includes the World Bank, the International Development Association, and the International Finance Corporation.

The World Bank was established in 1945. Although its capital is subscribed by 134 member countries, its loans are financed primarily by borrowings in private capital markets. These loans have a grace period of five years and are repayable over 20 years or less. They are directed toward developing countries at more advanced stages of economic and social growth. The interest rate charged by the Bank is calculated in accordance with a formula related to its cost of borrowing.

The Bank's charter spells out certain basic rules that govern its operations. It lends only for productive purposes in order to stimulate economic growth in borrowing countries. Each loan is made to a government or is guaranteed by the government. The Bank's decisions to lend are based only on economic considerations and the use of loans cannot be restricted to purchases in any particular member country.

The International Development Association was established in 1960 to provide assistance for the same purposes as the Bank, but primarily in the poorer developing countries and on terms that bear less heavily on their balance of payments. IDA's assistance is, therefore, concentrated on the very poor countries, principally those with per capita incomes of less than $345. More than 50 countries are eligible under present criteria.

The funds used by IDA come from contributions by more industrialized and developed members, special contributions by richer members, and transfers from the net earnings of the World Bank. The terms of IDA credits, are 10-year grace periods, 50-year maturities, and no interest, but an annual service fee of 0.75% is charged on the disbursed portion of each credit.

The IFC was established in 1956. Its function is to assist the economic development of less developed countries by promoting growth in the private sector of their economies and helping to mobilize domestic and foreign capital for this purpose.

World Bank Operations

During the current fiscal year the World Bank Group is expected to approve over 300 projects involving total commitments of about $11.5 billion. Disbursements should reach nearly $6 billion.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

During the past five years, World Bank and IDA activities have provided the base for producing one third of increased fertilizer production in developing countries, one fifth of the total investment in rural road networks in developing countries, and one quarter of total public investment in developing country irrigation systems.

Important as the transfer of resource function is for the Bank, a far more important contribution to development lies in the way its projects have become the principal catalyst for economic growth and contributed to rational sector and macro-economic policies in developing countries. The Bank also has a key role in the transfer of technology and in providing sound advice on economic policy associated with its lending activity. This contribution to "institution building" and "human capital formation" permeates the process of project implementation and is, perhaps, the greatest contribution made by the Bank to the long-term economic prospects of the developing countries. It is the combination of project financer, financial catalyst, and institution builder which makes the World Bank a unique and important agent in the development process.

Throughout the history of Bank operations, the United States has worked with other members to support and encourage those adaptions in Bank operations which we believe would further increase the effectiveness of Bank lending. This has resulted in a shift in the sectoral composition of lending to those sectors -- such as agriculture and rural development -- where project benefits accrue more directly to the poor, and the promotion of policy changes in the borrowing countries which favor the poor.

The Bank continues to provide an important forum for cooperative efforts among developed and developing countries which respond to critical world needs. Recent World Bank initiatives include a major expansion of lending to increase world energy supplies and a program of medium-term non-project lending designed to produce "structural adjustment" in response to the changed energy supply situation.

Financing the World Bank in the 1980's

In order to sustain the operations of the Bank, and encourage its pivotal role in maintaining the process of equitable economic growth, the United States and other Bank members have negotiated both a General Capital Increase for the World Bank and Sixth Replenishment of IDA's resources. The agreed General Capital Increase of $40 billion -- a doubling of World Bank capital -- will allow the Bank to increase, marginally, its lending in real terms over the coming years. In addition, the Sixth Replenishment of IDA totals $12 billion and will permit an increase in lending over the three year period of the replenishment.

The Regional Banks

The United States is also a member of three regional development banks - the Inter-American Development Bank founded in 1959 and headquartered in Washington, D.C.; the Asian Development Bank founded in 1966 and headquartered in Manila, the Philippines; and the African Development Bank founded in 1964 and headquartered in Abidjan, the Ivory Coast. (The U.S. is in the process of joining the African Development Bank this year although it has been a member of the African Development Fund, the Bank's soft loan window, since 1976.) The regional development banks are patterned after and complement the activities of the World Bank Group and have developed specialized expertise in their respective regions.

# # #

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

9332
Thom

Date: September 3, 1980

MEMORANDUM FOR: THE SECRETARY

From: Joseph Laitin

Subject: Trip to New York, September 4, 1980

1. The meeting with the Newsweek editorial board is scheduled for 3 p.m. Here are the probable attendees -- any one of the top three could be the host.

Rich Thomas will be there too. He will also stay to cover the evening activities at the Economic Club.

Lester Bernstein - Editor
Peter Derow - President of Newsweek, Inc.
Kenneth Auchincloss - Managing Editor
Maynard Parker - Executive Editor
Rod Gander - Assistant Managing Editor
Larry Martz - Assistant Managing Editor
Mike Ruby - Senior Editor, Business
Douglas Ramsey - Business Editor, International Edition
Merrill Sheils - Business Writer
Harry Anderson - Business Writer
David Pauly - Business Writer
Pamela Abraham - New York Business Reporter

2. The Economic Club Banquet

6:30 p.m. - 7:00 p.m. - Reception and receiving line in the Princess Room on the 2nd floor. Invited news people to reception and dinner include:

Jim Rowe - Washington Post
Dan Hertzberg - Wall Street Journal
Robert Burns - Associated Press
John Connally - Time
Rich Thomas - Newsweek
Patricia Matson - ABC
Bonnie Siverd - Business Week
Anne Reilly - Dun's Review
Stephen Flax - Forbes

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

OS F 10-01.II (2-80) which replaces OS 3129 which may be used until stock is depleted

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

5277

ACTION

Date: August 29, 1980

MEMORANDUM FOR: Secretary Miller

From: Executive Secretariat

Subject: Your Speech to the Economic Club of New York, September 4

Attached is a very rough draft of the speech, not yet cleared by Mr. Bergsten. It deals only with the IFIs.

It would be very helpful to have your guidance on:

1. The overall thrust and style of the treatment of the IFIs.

   OK__________

   Other__________

2. The extent to which the speech should also focus on the Economic Revitalization Program.

   Only light references to it__________

   Highlight export promotion aspects of the program__________

   Other__________

8/31
Suggest a session on this or soon as convenient on Tues, Sept 2.
G

Attachment

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	SE:KButton					Shaske
Initials / Date	KRB / 8/29	/	/	/	/	2 / 8/29

Form OS-3129

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

~~DRAFT:TLeddy:ds:8/28/80~~

Economic Club of New York

Draft ~~New York Economics Club~~/September 4

The International Financial Institutions:
A Critical U.S. Interest

I am pleased to have ~~this~~ the opportunity to meet with this distinguished group to discuss ~~the~~ a matter of central importance to U.S. interests -- our participation in the international financial institutions.

The Bretton Wood institutions -- the International Monetary Fund and the World Bank -- were created under U.S. leadership to ~~lead~~ guide world economic recovery from the devastation of World War II. In this they succeeded remarkably, providing both the financial framework and the philosophical base for a vibrant, ~~and~~ open and expanding post-war world economy.

The institutions have grown and evolved over the years, responding to changing world economic needs and to major increases in membership. They have become the world's leading force for international financial and economic cooperation in an increasingly interdependent world. As such, the Fund and the Bank have served as the institutional cornerstone for U.S. foreign economic policy, promoting the essential economic basis for effective cooperation across the broad spectrum of political, defense and ~~economic~~ financial issues.

Today, largely as a consequence of the radical changes in the world energy balance, the global economy once again faces extraordinary strains and challenges. An inward turn by nations is not a valid response. History has demonstrated repeatedly and forcefully

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

that efforts by individual countries to deal with their own difficulties through protective devices, competitive exchange rate practices or excessive domestic restraint cannot succeed and in the end only worsen the situation for all. The need is for a joint cooperative effort to adjust our economies to new energy realities and to strengthen our mechanisms for assuring financial and monetary stability while these adjustments take place.

The IMF and the World Bank group are the natural vehicles for this collective effort. They have the experience, the expertise, the proven track record. And they are moving rapidly to adapt their policies to meet the needs for balance of payments financing, for structural adjustment and for expanded energy production that ~~are~~ will be imperative in the period ahead. It is unmistakably in the U.S. interest that the institutions have the support they need ~~-- financial and political --~~ to meet these demanding tasks.

Yet, at a time of acute need for strength and determination, support for these institutions in the United States is eroding, a paradox that threatens to undermine our own economic interests and position of leadership in world economic affairs.

I do not believe this is happening because the institutions are a partisan issue. They certainly should not be. They ~~institutions~~ have commanded the broadest of bipartisan support throughout their existence, reflecting public ~~recognition~~ awareness of our essential self-interest in their work. For example, the most far-reaching changes in the IMF's charter were negotiated by a Republican administration, were approved with the overwhelming

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

bipartisan support of the Congress and are today being implemented energetically by a Democratic administration.

Rather, I believe the erosion of support reflects a combination of factors. First, a growing preoccupation with our immediate internal economic problems of inflation, unemployment and energy. This is perhaps understandable, but it is mistaken because it fails to see that our own economic health is bound to that of the world at large. Second, there are a number of public misconceptions about the institutions: that they are costly to the United States; that they are ineffective in promoting their objectives; or that the United States does not have adequate influence over their operations.

These perceptions of the institutions and the U.S. role in them are simply wrong. I would like to address them briefly in full.

~~First;~~ Costs of U.S. participation. The ~~economic~~ unique financial structure of the International Monetary Fund provides assurance that U.S. participation is virtually cost-free. Each U.S. transfer of funds to the IMF is simultaneously offset by U.S. receipt of an increased reserve position in the Fund, an interest-earning monetary asset automatically available to us for use in times of balance of payments need. This is not a fake or a charade. The United States has drawn on its reserve position some 24 times, in amounts totaling the foreign currency equivalent of $7½ billion. Our most recent drawing was in November 1978, when we drew the equivalent of $3 billion in German marks and Japanese yen to help meet severe speculative pressures on the dollar in the exchange markets. U.S. drawings

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

are in fact the second largest ~~in~~ the Fund's membership. As a consequence of the monetary nature of these transactions, U.S. transfers to and from the Fund under our quota subscription have no net impact on budget expenditures or the Federal budget deficit.

The analysis of the costs of our participation in the World Bank and the other multilateral development banks is somewhat different, given the different financial structure and purposes of the institutions. Our participation in the MDBs is by far the most cost-effective approach available to providing development assistance. Financing responsibility is shared broadly with other countries, developed and developing alike. The banks raise the largest part of their financing through borrowings in private capital markets. Particularly important in a period of budgetary stringency, the cost-sharing principle and reliance on the private markets together yield major lending activity at relatively small cost to the U.S. taxpayer. The World Bank, for example, lends about $50 for each dollar paid-in by the United States.

For the development banks as a whole, ~~their~~ lending from their inception in 1948? 1978 has financed roughly $11 billion in exports of U.S. goods and services, even though the U.S. Government has paid in only $7 billion. Their purchases of U.S. goods and services, of course, have additional beneficial impacts on U.S. employment, profits and tax receipts. Ultimately, we believe, the budgetary cost of our participation is zero.

The World Bank example illustrates this point. As I mentioned a moment ago, the World Bank lends about $50 for each dollar paid in by the United States. Of that $50 in World Bank

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

lending, more than $10 comes back to the United States through project procurement and bank administrative expenses. Subsequent rounds of spending in the U.S. economy result in an increase in U.S. national income of more than ~~$120~~ $20, which in turn increases Federal tax receipts by more than $350, or 3½ times the original U.S. paid-in contribution of ~~more than $1.~~ one dollar.

The costs of U.S. participation in these institutions, even viewed in these narrow budgetary and financial terms, are minimal.

~~Second,~~ Effectiveness of the institutions. The IMF serves two basic functions -- general guidance of the international monetary system, and provision of temporary balance of payments financing in support of economic adjustment programs. The Fund's Articles of Agreement constitute the operating rules of the ~~international~~ monetary system and establish member countries' obligations to promote a cooperative and stable world monetary order. At the heart of these obligations is the need for members to puruse policies to achieve the underlying economic stability that is needed for genuine and sustained exchange rate stability.

Under its recently-amended Articles, the IMF has been given the task of surveillance over exchange arrangements and over members' compliance with those obligations. With strong U.S. support, the IMF is in the process of building its principles and procedures for surveillance over members' policy and over the balance of payments adjustment process more broadly. This is inevitably an evolutionary process, and one that will require patience and determination. But it is clear that ~~increasing~~ closer coordination of ~~inter-~~ national economic policy is the only effective route to genuine capacity and facing growing pressures to initiate adjustment. Adjustment is of course needed. The question is whether it can be carried out smoothly and efficiently, in a manner that benefits both the economy concerned and the world economy more generally.

The IMF is rapidly positioning itself to play a major role in this recycling cum adjustment effort. A number of steps have already been taken or are in process:

-- Access to IMF financing is being increased substantially, enabling countries to sustain higher growth rates and maintain needed imports while adjustment measures take effect.

-- The period for implementing IMF adjustment programs is being lengthened, in recognition of the time required to accomplish the structural changes that are needed in many cases.

-- The maturities on some IMF credits are being lengthened, again in recognition of the structural nature of some of the adjustments required.

Greater emphasis is being placed on stimulation of productive investment and enhanced supply to enable countries to maintain living standards while basic adjustments -- particularly in the energy area -- are undertaken.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

MDB Operations — With respect to the development banks, the

~~Last year the~~ World Bank Group and the regional development banks last year made loan commitments totaling nearly $14 billion which helped to finance 425 projects in 90 developing countries. During the past five years, World Bank and IDA activities have provided the base for producing one-third of all increased fertilizer production in the developing countries, and one quarter of total public investment in developing country irrigation systems.

The MDBs now account for between 10 and 15 percent of the total external resources moving to the developing world. This proportion is much higher for the poorer countries which do not have access to the international capital markets. Important as this transfer ~~of~~ resource function is for the MDBs, a far more important contribution to development lies in the way their projects have become the principal catalyst for growth and contributed to rational sector and macro-economic policies in developing countries. The MDBs also have a key role in the transfer of technology and in providing sound advice on economic policy associated with their lending activity. This contribution to "institution building" and "human capital formation" permeates the process of project implementation and is perhaps the greatest contribution made by the banks to the long-term economic prospects of the developing countries. It is the combination of project financer, financial catalyst, and institution builder which makes the World Bank and other MDBs unique and important agents in the development process.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

The MDBs also provide an important forum for cooperative efforts among developed and developing countries to respond to critical world needs. Recent World Bank initiatives include a major expansion of lending to increase world energy supplies -- at least 15 percent of World Bank/IDA lending will be for energy by the mid-1980's -- in close coordination with the IMF's efforts in this area, and a program of medium-term non-project lending designed to encourage "structural adjustment" which, will better equip developing countries ~~economies~~ to meet the new circumstances of higher energy costs.

<u>Third, U.S. influence in the institutions</u>. The U.S. share of participation in all of the institutions, and thus our share in total voting power, has declined substantially over the years. This is in part a natural consequence of the rapid post-war recovery and growth of foreign economies and the disappearance of an era in which the U.S. economy was almost absolutely dominant. But it is also the product of sustained U.S. efforts to encourage other countries to assume a larger part of the responsibility for funding the institutions and supporting an open and healthy world economy.

The evolution in shares and the assumption of greater responsibility by others has increased their influence over the operations ~~conduct~~ of the institutions. This is not only an inevitable result, it is a healthy one. At the same time, it has not unduly weakened the effectiveness of U.S. leadership in the institutions. Neither the U.S. nor any other country, of course, has an ~~absolutely~~ controlling voice over every loan or credit extended by the institutions. That would be wholly inappropriate and

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

incompatible with their multilateral nature. But the U.S. ~~has~~ retains retained ~~major~~ effective influence over broad policy direction, and the institutions have been highly responsive to U.S. initiatives and guidance.

Several illustrations come readily to mind. In the Fund, the U.S. was instrumental in shaping the comprehensive amendment of the Articles of Agreement I mentioned a few minutes ago. That amendment incorporated a number of changes long-advocated by the United States -- scope for flexible exchange rate arrangements, elimination of the par value/gold convertibility system that paralyzed us during the latter 1960s, and enhancement of the role of the Special Drawing Right ~~as a reserve asset~~ [illegible] in the system. The negotiation and implementation of the IMF's Supplementary Financing Facility corresponded closely to U.S. views and ~~observations of~~ and objectives. And the operating changes now in process reflect our own view, and that of others, that the Fund must be prepared to play a major stabilizing role in the difficult period ahead.

The World Bank's continuing responsiveness to U.S. leadership is equally clear. Its emphasis on basic human needs, on food production, on energy exploration and production and, most recently, on structural adjustment lending, reflect the priorities the United States has advanced for the Bank's lending policy.

Thus in both institutions, the U.S. has retained

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

major policy influence. The institutions, with strong U.S. support, are positioning themselves to help guide the world economy through a critically dangerous period. To accomplish this, they need not only our intellectual support but also our financial support. Legislation to increase the U.S. quota in the IMF, to fund IDA VI, and to finance U.S. participation in the regional development banks is now before the Congress. A failure by the United States to participate fully and promptly in the funding of these institutions will seriously impair our ability to influence and guide them.

More importantly, it will undermine our efforts to support the healthy and growing world economy that is so essential to achievement of our own economic objectives. Our dependence on the world economy has become enormous. We must recognize that we cannot succeed in the war against inflation in a world economy marked by instability and disruption. We cannot hope to achieve rapid advances in employment in a world economy of dwindling production and increasing barriers against U.S. exports, and we cannot succeed in our efforts to revitalize U.S. industry if foreign markets are closed to our competition.

The message is simple and needs to be heard. Our own economic health is vitally dependent on that of the world economy at large. Our international institutions have the health of the world economy as their overriding objective. Their effectiveness has been proven. They are poised now to help guide the world economy through a period as difficult as any in the post-war years. The costs of supporting them in this effort are minimal. The potential benefits are enormous.

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis