



FOR RELEASE ON DELIVERY
September 23, 1980
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Remarks of
the Honorable G. William Miller
Secretary of the Treasury
before the
Economics Club
Indianapolis, Indiana
September 23, 1980

In the years since World War II, the world has been transformed.

We now share this globe with over 100 developing nations -- nations with their own problems, interests and aspirations and with the ability, singularly and collectively, to affect our interests and the peace and progress of the world.

We have a new concern with development assistance to overcome the barriers to economic development in these lands and reverse the widening inequality of human living standards.

Today I want to talk to you about a crucial aspect of our relations with these countries: our assistance to them through the multilateral lending institutions.

And my message is simple but important.

It is just this:

U. S. support for the World Bank and the regional development banks is in America's interest.

If we neglect this interest the United States will pay a heavy price for our oversight.

We will lose exports and jobs and income here in Indiana and all across this nation.

We will lose powerful support for our foreign policy.

We will miss an opportunity to help build a more stable and more prosperous world economic, political and social system.

And we will betray our humanitarian tradition of helping people in need.

Economic Revitalization at Home

It goes without saying that the fundamentals of America's future prosperity must be created in our own domestic economy.

Our challenge for the 1980's is:

- to increase our savings and investment;
- to revive and enhance our productivity growth;
- to foster innovation and sharpen our competitiveness; and
- to achieve, through these measures and others, non-inflationary economic growth, high employment and rising standards of living.

President Carter's economic revitalization program announced last month is a major step toward meeting these challenges.

It is not a short term program or a quick fix.

It does not pour purchasing power into the economy with no more than a hope and a prayer for miraculous and unprecedented increases in the supply of goods and services.

This is not the time for that kind of black box economics. We cannot afford to fan the coals of inflation.

What is required is a prudent, targeted program that addresses our critical economic problems in ways that can be understood and explained.

The President's program is long-term. It provides more than half its proposed tax relief to expand investment and productivity. That fact reflects more than economic good sense. It reflects political courage -- the same kind of courage the President showed when he acted to decontrol domestic oil prices and set us on the road to reduced dependence on imported oil.

The President's program combats inflation both by increasing productivity and by offsetting Social Security increases that would raise business costs and cut workers take-home pay.

And it retains a fiscal posture that is consistent with budget balance as the economy strengthens.

We can, and I believe we will, meet our economic challenges at home.

The United States in the World Economy

But that is not enough. We live in the world economy. America's prosperity cannot be divorced from developments beyond our borders.

Many Americans may not realize the full extent of our interdependence with other countries. But, consider this:

- * Over 12 percent of our economic output now goes into exports of goods and services. Ten years ago it was little more than 6 percent.
- * One of every three acres of U. S. farmlands and one of every seven manufacturing jobs produce for export. In 1979 U. S. agricultural exports hit a record of \$32 billion. That will be broken this year with \$40 billion and again next year with \$45 billion.
- * One of every three dollars of U. S. corporate profits comes from the international activities of U. S. firms.
- * Developing nations, other than oil exporters, are our fastest growing markets. Already they take nearly a third of our exports -- more than we sell to all of Europe.
- * Indiana is a major participant in this burgeoning trade. Your state is our 8th largest exporter of agricultural products and 9th largest exporter of manufactured goods, with a substantial share of each going to developing countries.

All of this has not happened by chance. At the end of World War II, the United States took the lead in creating institutions that would help achieve an open and growing world economy.

The Development Banks

The World Bank, established in 1945, and the three regional banks that were set up later, have played a vital role in the post war economy.

The capital subscribed to the banks by industrialized countries allows the banks to raise funds in the private markets. The banks then lend to the world's developing countries capital they could not obtain on their own or could get only on unfavorable terms.

Other contributions to the World Bank's International Development Association and to similar units of the regional banks permit long-term, virtually interest-free loans to the poorest countries -- countries where the annual per capital income is less than three weeks average wages in the United States.

In 1979 the World Bank, the Inter-American Development Bank, the Asian Development Bank and the African Development Fund provided \$14 billion to the developing nations. They were the largest official source of capital. They provided 10 to 15 percent of all the external resources reaching the developing world, and an even larger share for the poorest countries.

With active support of the United States, the banks have shifted their lending from roads and dams and communications systems toward agriculture, rural development, education, health, population control and energy. Projects of these types not only help poor people directly. They also have an economic return in higher growth and productivity that matches or exceeds investments in physical capital.

The huge increases in world oil prices and the world-wide economic problems it has caused make the banks more needed now than ever.

In oil-importing countries, industrial and developing alike, inflation has soared, growth has slowed, and unemployment has risen. And this increases the danger of protectionism and the temptation to solve domestic problems at the expense of foreigners that proved so disastrous in the Thirties.

This year the OPEC nations will receive \$100 to \$120 billion more than they will spend for foreign goods and services. The counterpart of their surplus is huge balance of payments deficits among the oil importing nations.

The developing countries are hardest hit. The 1973-74 rise in oil prices had already increased their external debt. Now many of them are no longer able to finance the huge increase in energy costs. They must struggle to make basic changes in their economies to reduce their demand for imported oil.

The United States, therefore, strongly supports the World Bank's new emphasis on programs for energy exploration and development in less developed countries. Already the bank is participating in oil and gas projects that will cost \$33 billion over the next five years. These projects will ultimately yield the equivalent of 2 1/2 million barrels of oil a day in new energy production in the developing countries.

These new energy sources will eliminate a roadblock to progress in the developing countries. And they will help the United States and the other oil importers by reducing pressure on world oil prices.

Benefits of U. S. Participation in the Banks

Now there are four solid reasons why it is in our own self interest to support these efforts of the banks:

First, the United States derives direct economic benefits.

The banks play a crucial role in the economic growth of the developing world. That growth in turn generates the demand for exports from the United States.

Here in Indiana you have recently sold about \$1.5 billion a year in manufactured goods and farm products to developing nations. These countries have provided markets for your transportation equipment and for your electric, electronic and machinery industries. Two dollars out of every five earned by Indiana farmers comes from exports, including exports to developing countries.

The United States is now exporting \$53 billion to non-oil developing nations. We figure that every dollar the United States pays into the development banks generates three dollars worth of economic activity in the United States. That means employment in the United States is 50,000 higher every year as a result of our contributions to the banks. Because this economic activity increases Federal revenues, the net budget cost of our contributions is minimal.

Second, the aid delivered by the banks is many times the amount of our contributions.

Our participation in the banks helps assure the participation of other countries and allows us to work for reasonable sharing of the burdens of development assistance. As the strength of other industrialized nations has grown since the War, we have been able to reduce our capital share in the World Bank from 35 percent in 1945 to 22 percent today. Similarly, our share in the International Development Association has declined from 43 percent at its inception in 1960 to 27 percent now.

We benefit from these increased contributions by others. But we will not pursue this path too far because we want to and should contribute substantially to the development process. In these institutions voting power is linked to the level of contributions. So we want also to retain a degree of influence appropriate to our world role.

The money we pay to the banks is further multiplied by the banks' borrowings in the private capital markets. When the United States and the other donors subscribe capital to the World Bank, only 10 percent is paid in cash. The remainder is on call in case the bank cannot otherwise repay its debts. In 35 years, we have not paid out a penny for this reason.

The net result is that for each dollar we pay to the World Bank, the Bank lends fifty dollars. That's the kind of leverage that makes the multilateral approach so effective.

Third, the development banks use their funds effectively and efficiently.

The banks do much more than lend money. They are multilateral institutions in which the developing countries themselves have a voice. As such, they can and do provide policy advice and development projects based on objective economic criteria that might be resented and rejected if they came from a single donor.

They are contributing mightily to the process of institution building and the development of skills and training and education that economists call "human capital formation." These may be the banks' greatest contributions to the long-term economic prospects of the developing countries.

The combination of project financier, financial catalyst and institution builder makes the banks uniquely effective agents of development.

Fourth, development assistance through the banks helps support American foreign policy.

The developing world comprises three billion people in over 100 nations. It provides the industrial world with an array of vital resources such as tin, bauxite, cobalt, natural rubber, tungsten and zinc.

Throughout the developing world, the desire for economic progress and a better life is intense.

In about 40 countries, national output is still below \$360 per person. Over 800 million people have incomes too low to provide for minimum standards of health, nutrition, housing or education. Even in the more advanced developing countries, a large spread remains between their incomes and living standards and those of the industrialized world.

How we respond to these countries' deeply-felt aspirations for future development will have a pervasive and enduring effect on their attitudes and actions toward us and the entire Free World.

No one should expect development assistance to translate necessarily into friendship or support for our policies, especially in the short run. But it surely has positive effects on the broad context of our long-term relationships that are both real and important.

Development assistance through the banks contributes to the achievement of the open and growing world economy that America wants.

It helps poor countries to maintain their independence -- as we want them to do.

And it provides significant support to countries critical to U. S. strategic interests. In Egypt, for example, the World Bank Group is lending about \$300 million annually for industrial, infrastructure, and agricultural projects. These will buttress President Sadat's efforts to strengthen the Egyptian economy and demonstrate the economic benefits of peace.

Thailand, with its continuing exposure to the turmoil in Southeast Asia, has received nearly \$2 billion in loans from the World Bank and the Asian Development Bank over the last five years. These have helped the Thais achieve annual economic growth of almost 9 percent, in real terms. And they have done this despite the burdens of 350,000 refugees from Vietnam, Cambodia and Laos.

U. S. Financial Support for the Banks

But despite these benefits of our participation in the development banks, the United States is lagging in its financial support for the banks.

We have been unable to obtain Congressional approval to make our full contributions on time. Today we are \$1.3 billion behind on our subscriptions. We are the only major contributor in arrears.

The result of this is more than a delay in receipt of U. S. funds. Because our contributions are needed to complete financing arrangements with other donor countries, lending by the banks grinds to a halt or is seriously disrupted.

Sometimes, the side effects are particularly perverse. For example, at the very time we were trying to respond to the Russian invasion of Afghanistan, our inability to come up with the U. S. share of contributions to the Asian Development Fund effectively blocked more than \$250 million in loans to Pakistan.

By the middle of this year, due to delays in U. S. financing, the Asian Development Fund had been able to make commitments on only 8 percent of its programs.

For eight months, the Inter-American Development Bank was out of money to lend because of delays in U. S. subscriptions and contributions. This was particularly damaging to small economies in the Caribbean and Central America.

The delays and doubts about our contributions have also hurt our relations with the other donor countries.

Such a performance is bound to call into question our leadership in a matter of great importance to the entire Free World.

We are currently seeking from Congress authorization for an average of \$1.2 billion a year over the next three years. This would provide urgently needed funding for the world's poorest nations through the World Bank and the regional banks.

We are also seeking appropriations for the current fiscal year -- the year that ends next week -- for almost \$1.9 billion. The impact of these actions on actual expenditure by the United States over the next two years will be about \$250 million.

We need this money so the banks can carry on their work.

When we helped create the World Bank 36 years ago, we built well. The World Bank and the regional banks serve our interest as a nation, even while they advance the broader moral and humanitarian causes of relieving human poverty and misery.

The world cannot be a safe place for Americans if it is full of people who are so poor that they have no stake in life. It can only be a tinder box for disaster. We must compete in the world not solely through military power. We must compete for the minds of people who seek freedom and a better life by giving them an economic opportunity to achieve just that. If we deny them that economic opportunity, can we fault them for falling into radical ideologies? Give the world a chance and mankind will progress toward freedom and justice and peace and prosperity.

It is time for us to recognize our true interest and to provide these banks the support they deserve.



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