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Statement of
the Honorable G. William Miller
Secretary of the Treasury
before the
Joint Meeting of the International Monetary Fund
and the
International Bank for Reconstruction and Development
October 1, 1980

Mr. Chairman, Mr. De Larosiere, Mr. McNamara, Fellow Governors, Distinguished Guests:

The Bretton Woods institutions continue to grow in stature and in membership. The People's Republic of China, representing nearly one-fourth of the world's population, now participates with us as a fully active partner. Our newest member, which joined yesterday, is Zimbabwe, a nation whose struggle to gain independence and freedom has engaged our high admiration and support. To all those who sit in this assembly for the first time, I offer a special welcome.

At the same time that we are welcoming new associates, we will soon be losing the services of Robert McNamara, whose vision, energy and strength of purpose have fashioned the World Bank into a powerful and effective instrument for economic and human development. His performance, through more than a decade of wrenching change and multiplying difficulties for the developing world, has been magnificent. He deserves, and he has, the enduring gratitude of all mankind for his accomplishments. And he has our heartfelt best wishes for his future endeavors.

Bob McNamara has led the World Bank to giant accomplishments, but he is the first to point out the towering challenges ahead. He and Jacques de Larosiere have detailed for us a sobering outlook for the world's economy and people. Their perspective is not seriously contested by any of us. Together our nations face a formidable collection of problems.

-- First and foremost, persistent inflationary pressures.

-- Weak economic growth.

-- Low productivity improvement, and capital stocks threatened with obsolescence by world energy developments.

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-- High, in many cases rising, unemployment.

-- Sharply higher oil import bills, which siphon funds from investment, development and growth to pay for essential energy imports.

-- Massive payments imbalances and financing needs. The difficult global energy situation is a factor in all these problems. And it will not cure itself. After the oil price increases in 1973/74, the world failed to adjust sufficiently to the new situation. Instead, oil demand was temporarily reduced by a global recession. Thereafter, the oil-importing world to a large extent succeeded in financing a continuing high level of consumption, but it did not put in place the new investment needed to reduce dependence on imported oil. In many cases, the hope seemed to be that the oil and financing problems were temporary and could be resolved without fundamental changes. Indeed, there appeared to be some success, as for a brief time world inflation receded, economic activity recovered, and payments imbalances narrowed.

But a second round of massive oil price increases beginning early last year brought a renewal of the earlier difficulties. The new shock compounds the problems for a world economy already beset by strong underlying inflationary pressures and laboring under heavy external debt burdens accumulated during the 1970's.

There is no prospect of avoiding repeated oil shocks unless the oil-importing world recognized and adjusts deliberately to a radically altered global economic and energy balance. The required adjustments involve both energy conservation and development of new energy sources. But they must also encompass measures to stimulate investment and productivity in circumstances of greatly increased energy costs. And they must be carried out in an environment of financial stability within individual national economies, to facilitate movement of resources to more productive sectors and to ensure continued flows of external financing.

We look to the oil-exporting nations to follow responsible price and production policies.

And each nation represented here must face and act upon the need for internal adjustment. Many have done so. Most have at least started the process. None, including the United States, has yet done enough to assure its satisfactory completion.

The United States is taking strong steps to reduce oil imports, to control inflation and to improve productivity.

A broad array of policies -- most importantly, decontrol of domestic oil and natural gas prices -- has been marshalled to encourage energy conservation and stimulate domestic energy production. Principally as a result of these efforts, U. S. oil imports are about 25 percent below the average of 1977, the peak year. This reduction is primarily the result of improved efficiency in energy use, not reduced economic activity. The amount of energy needed to produce a unit of national output has been lowered by about 10 percent since 1973.

The United States continues to pursue fiscal and monetary policies designed to limit and then reduce inflation. In addition, the President has recently proposed measures to increase the share of national output devoted to investment.

Our efforts to reduce oil imports and strengthen the U. S. economy have supported a welcome improvement in our external accounts. They have also provided a firm basis for stability and strength of the dollar on the exchange markets.

We must all recognize that our individual efforts form part of a collective international response that ultimately can succeed only if it is coordinated and cooperative. The Bretton Woods institutions originated as just such a cooperative effort. Their task was to guide the world economy from the devastation of World War II, and their success was remarkable. In subsequent decades they have adapted flexibly and imaginatively to changing needs and circumstances. But a major test lies ahead. As we enter a new decade, we must again call upon these institutions for guidance through a difficult and dangerous period.

A world accustomed to strong growth and rising living standards now faces the prospect of a decade in which performance may fall short of expectations and aspirations. Large persistent imbalances in international payments are likely. And the associated financing requirements are huge. In 1980 alone, the aggregate of current account deficits that need to be financed could reach $150 billion.

In light of these prospects the Fund and Bank face a complementary task: the Fund to assure a judicious blend of financing and adjustment; and the Bank to assist in restructuring economies to permit development to continue as rapidly as possible.

Let me outline the United States' view of the roles of each of these institutions.

The International Monetary Fund

Looking ahead, the Fund faces truly awesome tasks. It must oversee the operation of the international monetary system at a time when pressures on that system are severe. It must encourage each member toward policies for orderly growth and price stability, in a period when the attainment of those goals is more difficult than ever before. It must see that nations follow exchange rate policies compatible with their international obligations, under conditions of enormous global payments imbalances and great uncertainty.

No one expects the Fund to fulfill these responsibilities to perfection. Our knowledge and foresight are imperfect. The Fund's authority over sovereign members is circumscribed. Its tools are limited.

But we must make sure that the Fund -- the international community operating collectively -- is in a position to make a maximum effort. Its approach must be right, its advice sound, its resources adequate. And we must keep in mind the longer-term objective of international cooperation: in designing our approach to immediate and pressing problems, we must not lose sight of the broad goals we have set for the evolution of the international monetary system.

Let me state my message plainly: the Fund's main job will be to encourage the appropriate blend of adjustment and financing by member nations; to facilitate forms of adjustment and financing that are most supportive of a strong world economy; and to continue progress toward the kind of international monetary system we need for a secure and prosperous future.

That means improving the Fund's ability to provide financing to those countries undertaking difficult adjustment efforts. It means a greater role for the SDR and progress toward an SDR-centered international monetary system. And it means improving IMF surveillance over members' policies.

In the past several months, discussion has focused on the role of the Fund in meeting prospective financing needs and in supporting the efforts of individual nations to come to grips with adjustment problems. In Hamburg last spring, the Interim Committee endorsed in broad terms the view that the Fund should be prepared to play a much larger role in adjustment and financing. The Executive Board has worked hard to define that role in the design of adjustment programs and the expansion of members' access to Fund resources. Clearly, present circumstances call for adjustment programs with a longer-term orientation than in the past. Larger amounts of Fund resources will need to be committed to countries adopting such programs over a longer period of time. The United States strongly endorses the results of the Board's work and urges its early implementation.

The Fund is presently in a satisfactory position to meet expanded calls on its resources. I am particularly pleased that the Congress has just completed final action on authorizing U. S. participation in the seventh quota increase. We will work with the Congress to complete the appropriation process, so that the general quota increase -- which totals about $25 billion -- can take effect at a very early date. This will be a welcome and needed addition to the Fund's resources.

We are all agreed that quotas must remain the basic source of IMF financing. But potential demands on the IMF are substantial.

As a precaution, the Managing Director has already begun to explore the possibility of IMF borrowing from surplus countries to supplement the Fund's resources in case of need.

We should also consider other prospects. The time has come for a careful examination by the Fund of the possibility of borrowing from private sources. A number of technical and legal questions must be reviewed, and there are factors that may limit the IMF's recourse to the private markets, at least over the short run. But Fund borrowing from the capital markets on a moderate scale may prove to be desirable, and I urge that the necessary preparatory work to be initiated promptly.

IMF borrowing from the private markets would be fully in line with the effort to enhance the role of the SDR in the international monetary system. We welcome the recent decision by the Executive Board to adopt a five-currency basket as the uniform basis for both valuation of the SDR and calculation of the SDR interest rate. This will provide an SDR that is more compact and understandable, easier to trade and work with in foreign exchange and capital markets, but still a reserve asset that is internationally backed and representative of a large segment of the world economy.

We should go farther, and consider other steps to promote the role of the SDR in the system.

The Executive Board has been examining the question of SDR allocations for next year and the fourth basic period, beginning in 1982. Clearly, there have been major developments in the world economy since the decision was taken in 1978 on allocations for the three years ending in 1981. But in my view, the most effective approach to expanding the SDR's role is a relatively steady expansion of allocations, from basic period to basic period as the world economy grows. We are not persuaded that an effort to "fine tune" a single year's allocation would be appropriate or consistent with our view of the longer-term evolution of the SDR's role. It is of paramount importance that we develop the credibility and reliability of the SDR as a reserve asset. We should not give the impression of tinkering with it. We will look toward a careful analysis by the Managing Director and the Executive Board of the question of allocations in the next basic period, and will consider positively a proposal by the Managing Director next spring.

The yield on the SDR has an important bearing on attitudes toward acceptance of the asset and decisions on allocations. The rate of interest on the SDR has been increased by a substantial amount over the years. I believe that it would be useful to raise further the rate of interest on the SDR, to the full market level, in order to enhance the attractiveness and therefore the usability of the asset. At the same time, we should raise the rate of remuneration to 80 percent of the full market SDR rate and eliminate the remaining residual SDR "reconstitution" obligation. Market-oriented characteristics and elimination of encumbrances can only enhance the usability and attractiveness of the SDR.

The prospect of IMF borrowing from the private markets raises in concrete terms the possibility of greater private use of SDR-denominated assets. From a longer-term perspective, we urge the Executive Board to initiate a study of other measures that might be taken to expand the use of SDR-denominated instruments by the private sector. As the private market in SDR's develops and takes hold, we propose that the World Bank give consideration to borrowing in the form of SDR-denominated securities and lending correspondingly in SDR terms, both as a means of giving further impetus to the instrument and as a technique of moderating exchange risk for the Bank's borrowers.

As another step toward expanding the role of the SDR, we urge the Executive Board to continue its work on the concept of a substitution account, which I believe would be better named a "Monetary Reserve Account." We should not be surprised that the development of this idea takes considerable time. The SDR itself took years to define and introduce.

The steps I have mentioned today can, together make a useful contribution to strengthening the SDR and promoting its use as a respected and effective international monetary instrument. The United States has also given attention to the renewed suggestions that a link be established between the creation of Special Drawing Rights and the provision of development assistance -- a so-called SDR-aid link. Our view remains that the establishment of the proposed link would be harmful to what we regard as the fundamental objective -- to develop the SDR's role as an important monetary instrument and promote orderly evolution of the international monetary system.

As the Fund carries out its expanded responsibilities in the current situation, we believe it important that it give renewed attention to strengthening its role in surveillance over the international monetary system and the policies of member countries. The United States has suggested a number of steps that could be taken toward this end. For example:

-- It seems to us natural that, in seeking to promote greater symmetry of adjustment responsibilities, the Fund should seek adjustment policy statements and analyses from any country experiencing large imbalance, whether surplus or deficit.

-- We have suggested that the policies and performance of individual countries be assessed against a broadly agreed global economic framework.

-- We believe the Managing Director should be invited to take the initiative in consulting members where he has concerns about the appropriateness of their policies.

The Executive Board has made some progress in developing its surveillance procedures over the past year. But that progress has been disappointingly modest. We all seem to agree that effective surveillance is the essence of a smoothly functioning international monetary system. Yet, I have noticed that many who are critical of the system are the most resistant to the development of surveillance which is at the heart of its effectiveness.

The world faces extraordinary economic and financial problems and challenges. The Fund is at the center of our response. Its ability is proven. Its resources are expanding. Its policies are being adapted to changing needs. Its objectives and purposes have been endorsed by every country represented here. We have endorsed a global strategy based on the IMF's financing and adjustment policies. Now we must make it work. I urge all member nations to help the Fund give substance to its agreed role in overseeing the operations of a sound international monetary system.

The World Bank

The Welfare of the developing countries and the immense problems which they confront are of paramount concern to the United States. We recognize fully the urgency of today's development needs. The Commission chaired by Chancellor Brandt has properly stressed the common interest of both industrialized and developing nations in meeting global economic problems, including the need for equitable growth in developing countries. Progress in the developing nations is essential to the health of the global economy as a whole.

It is for these reasons that the United States is so strongly committed to the work of the World Bank. Over the past 35 years, the Bank has made great strides as a project financer, financial catalyst, and institution builder. The Bank has pioneered efforts to speed human capital formation and has been in the forefront of efforts directly to reduce poverty. Bank operations have contributed enormously to development, and the Bank is now clearly established as the leader of the international community's efforts to address development concerns.

The record for developing countries since the Bank was established shows clear progress. Quality of life standards have shown significant improvement. Average per capita income has approximately doubled in real terms since 1960. Yet formidable development challenges remain.

Absolute poverty is pervasive. Serious, widespread deficiencies remain in health and nutrition, literacy and education, life expectancy, and in the overall physical and social environment. Population growth continues to add to the already immense problems of unemployment and underemployment. Rural to urban migration has fueled a rapid increase in the numbers of urban poor. In addition, there is the continuing critical need of low income countries -- with large numbers of rural poor and heavy reliance on agriculture -- to improve the productivity of the small farmer.

These serious development problems have been compounded by world economic conditions. Surging oil prices, worldwide inflation, slower growth in the industrial countries, and constraints on access to external capital have combined to cast a long shadow over development prospects for the 1980's.

In the difficult decade ahead, it is of vital importance that the Bank remain at the forefront of global efforts to deal imaginatively with the changed economic situation. For its part, the United States will continue to support and encourage those adaptations in the Bank lending which effectively meet the evolving needs of the developing countries and strengthen their capacity for further growth and development. We attach great importance to the Bank's existing plans to lend approximately $14 billion for energy development projects in oil-importing developing countries through 1985. We strongly support the Bank's search for additional ways to further expand energy development in its borrowing countries, including the possibility of an energy facility or affiliate which would consolidate and enhance the Bank's activities in this field.

The United States strongly applauds the Bank's new program to support "structural adjustment." It is a necessary response to altered global economic conditions and a radically changed world energy balance. The bank's structural adjustment loans, coordinated closely with the IMF, will serve as a catalyst for growth and help strengthen the recycling process. It is particularly appropriate for the World Bank to undertake this critical program because of its sound reputation, expertise, and long experience with the sectoral issues that are fundamental to any restructuring.

We appreciate the 1980 World Development Report's analysis of the relationship between population and other aspects of human resource development and economic growth. We look forward to increased Bank lending in the population area in coming years.

The Bank's record of solid achievement in maximizing project benefits for the poor should be maintained and the share of its lending allocated to the poorer borrowing countries should be increased. This is vitally important given the unacceptably high level of absolute poverty and the value -- so impressively highlighted in the 1980 World Development Report -- of human development as a tool of growth.

<u>Bank Financing</u>

The United States and other Bank members have a vital interest in encouraging effective responses by the Bank to critical world needs. It is thus of great common concern to note that the needs of the developing countries are -- for the reasons highlighted in Bob McNamara's address -- growing more rapidly than anticipated. Fortunately, we have already negotiated both a General Capital Increase for the World Bank and a Sixth Replenishment of IDA's resources.

The United States fully supports both the GCI and IDA VI. We hope to have legislative approval for U. S. participation in IDA VI before the end of this session of Congress. U. S. participation in the GCI will be the principal element of next year's funding request to Congress.

The agreed General Capital Increase of $40 billion -- increasing World Bank capital from $45 billion -- and the $12 billion IDV VI Replenishment should meet developing country needs for Bank financing over the next few years. We therefore will have time to assess carefully how best to finance the needs of the developing countries beyond these replenishments.

The United States is prepared to join other members to look at alternative ways to help support bank operations. Any reassessment of Bank financing must, of course, be done thoughtfully and deliberately, with due regard for the needs of developing countries, the need to maintain the high quality of lending standards, and the impact of future financing on the capital structure of the Bank.

We are also willing to join with others in a serious effort to improve the efficiency and effectiveness of both bilateral and multilateral concessional assistance, including channelling an increasing share to the poorest developing countries. We will also work to find practical ways ourselves to increase both the quality and quantity of such assistance.

Bank/Fund Collaboration

There is one additional area where I think there is a need for innovation: that is in the collaboration between the Fund and the World Bank.

When we established these twin institutions in 1946, the world was different, and the functions of the Fund and Bank were clearly separated and defined. Now the problems of short-term adjustment and the problems of development have become more intertwined, and the activities of the Fund and the Bank are focusing more on common problems.

Both developing and industrial countries have learned that an effective program of adjustment to achieve the multiple and sometimes conflicting objectives of economic policy requires attention to both demand management and the supply side of the equation. Over the years since Bretton Woods, the Fund has worked with its members in the design of demand management policies to achieve economic stabilization. The Bank has focused on the supply side in its effort to promote growth through development of sound investment strategies. In the years ahead, it is essential that the unique capabilities of these two institutions be brought to bear in a complementary and positive manner to assist countries in their adjustment efforts. The Bank and Fund should be prepared to collaborate with one another to assist member countries in assessing their economic prospects, developing effective economic programs and providing appropriate financing.

At the same time, it is also essential that the Fund and the Bank remain as autonomous institutions with distinct functions and purposes.

I know that the staffs of these two institutions have made significant strides in collaborating on adjustment programs in specific countries. At this stage, I think it would be useful to review what has been accomplished, with a view to improving the form and substance of this collaboration in the future. This review might best be undertaken under the auspices of a joint committee of the Executive Boards, supported by the staffs of both institutions.

Effective collaboration between these two institutions will help ensure their continued responsiveness to the changing needs of the world economy. We also urge consideration of steps to assure proper coordination of the borrowing policies of the two institutions. The prospect that both could be borrowing in world capital markets in the same time frame suggests the need for specific steps to assure a smooth coordination of those activities.

Conclusion

The record clearly shows that the Fund and the Bank have demonstrated repeatedly their capacity to evolve, adapt and respond flexibly during periods of major economic and financial strian. The institutions work efficiently and well. They deal in realities, and give practical content to the high objectives set forth in their Articles. But their ability to continue to perform their indispensable tasks depends on the commitment of their members to maintaining their integrity and competence and to avoiding injection of political issues into their work.

Difficult problems and challenges confront us. The Bretton Woods institutions are the central focus of our collective effort to meet those challenges successfully and cooperatively. The United States pledges its vigorous support to the Fund and Bank as they address the tasks before them. With the support of other nations represented here today, I am confident that lasting success will be achieved.

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