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Statement by

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Chairman, Board of Governors of the Federal Reserve System

before the

Subcommittee on International Development

Institutions and Finance of the

Committee on Banking, Finance, and Urban Affairs

House of Representatives

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Mr. Chairman, I appear before your Subcommittee today, in response to your request, in a purely personal capacity to support the provisions of H.R. 6811, authorizing U.S. participation in the sixth replenishment of the World Bank's International Development Association (IDA).

It is, to say the least, highly unusual for any Federal Reserve official to testify on legislative requests of this kind. Indeed, since joining the Federal Reserve Board last year, I have not been accustomed to speaking in favor of any federal expenditure program. Obviously, that is not because all those expenditures are unnecessary or undesirable, but because neither I nor my colleagues at the Federal Reserve want to be in a position to suggest to Congress or the Administration how Federal Government expenditures should be allocated.

Nevertheless, I have agreed to make this personal statement on the IDA replenishment because of several extenuating circumstances. First, Mr. Chairman, in another capacity I worked with you for a number of years in planning and administering U.S. participation in the multilateral development institutions. During my years at Treasury, in negotiating U.S. participation in IDA and the other related institutions, I came to appreciate the importance of the United States maintaining the integrity of the international negotiating process. In addition, I am satisfied that these institutions have performed well and should continue to play a central role in the overall program of foreign economic

assistance of the United States. From my present vantage point, the contribution that IDA and other institutions make to orderly economic development remains critical. Finally, I should point out that adoption of H.R. 6811 and the related appropriations would not result in significant budget outlays in the near future. Thus, passage of this bill is not in conflict with the immediate and pressing responsibility of the Congress and the Administration to put together a tough, anti-inflationary budget for FY 1981.

In my opinion, the multilateral development institutions deserve continued strong support by the United States. Since the late 1950's, when the United States proposed the creation of IDA and supported the expansion and establishment of other multilateral development banks, we have gradually shifted an increasing share of our budget for foreign economic assistance to these institutions. Their development policy goals are similar to those of the bilateral U.S. development assistance program of the Agency for International Development (AID). Moreover, a high degree of compatibility between the bilateral and multilateral programs remains despite the major reappraisal and reorientation of development objectives for our bilateral program that Congress initiated in the early 1970's. For, as AID began to restructure its program to emphasize meeting basic human needs, the development banks began cautiously to shift the composition of their lending programs in the same direction. As senior Treasury and IDCA officials have presented to you in

greater detail, there is a great deal of coordination between these programs, and they both serve the foreign policy, national security and economic interests of the United States.

There are strong reasons for the United States to channel a sizable portion of the resources for development assistance through the international organizations rather than through our separate bilateral program. U.S. contributions to the banks are matched by contributions of resources from other donor countries. For example, for each dollar that the United States contributes to the sixth IDA replenishment, other countries will contribute approximately three dollars. In the absence of an ongoing multilateral effort supported by the United States, other donor countries might contribute significantly less for development assistance purposes or divert more of their economic assistance to smaller, less-efficient and potentially competitive bilateral assistance programs. Thus, U.S. contributions to the banks potentially generate larger and more effective forms of economic assistance to the developing countries, without implying a disproportionate burden on the United States. In addition, the multilateral banks are normally better able than bilateral lenders to have effective influence on important areas of economic policy formation in the borrowing country. The banks can be especially effective in this area because they are seen to be politically independent and objective in their outlook.

I would also like to suggest to the Subcommittee that budgetary decisions about U.S. support for the multilateral development banks need to be made with a longer-range perspective than most other budgetary decisions that come before the Congress. As members of this Subcommittee are aware, there are substantial lags between authorization of replenishments for the banks and the expenditure of funds to fulfill the purposes of the authorization.

In the case of IDA, authorization is being sought for U.S. participation in the sixth replenishment of resources to cover a three-year period from FY 1981 to FY 1983. Appropriations will then be sought on an annual basis for each of those fiscal years. Approval of the full authorization and the first year's appropriation are needed to "trigger" the replenishment agreement and to bring the initial contributions of other countries into effect. Approval of each year's appropriation is needed to provide commitment authority for IDA lending and to "trigger" subsequent installments from other countries. The actual expenditures of funds, however, will be delayed for several years, on average, because funds are made available to the Bank only as needed to cover actual project costs. This long lag for disbursements is dictated by the types of projects that IDA finances.

Thus, if this legislation is approved and the appropriation for the first installment of our contribution goes forward, IDA will be in a position in July 1980, when its next fiscal year begins, or shortly thereafter, to make loan commitments based

on the sixth replenishment of its resources. However, the disbursement of those funds will be deferred for several years, with the bulk of the disbursements concentrated in the mid-1980's and with total disbursements not completed until about 1990.

One implication of the lag between project commitments and actual expenditures is that very little of the resources to be authorized and appropriated by the Congress for IDA VI will be spent during the U.S. fiscal year 1981. It can be estimated, on the basis of past spending patterns, that actual budgetary outlays will amount only to about \$20 million of the \$1.08 billion to be requested for the IDA appropriation for FY 1981. Thus, as I indicated in my introductory comments, deferral or reduction of U.S. contributions to IDA VI would not result in meaningful near-term savings in the federal budget.

The federal budgetary outlays that will occur in FY 1981 are the result of U.S. financial commitments to IDA and to other banks that were made during the mid- and late-1970's. These outlays definitely have a significant bearing on the overall budget planning problem for FY 1981, when the total disbursement of U.S. contributions through all the multilateral development banks is estimated by the Administration to amount to about \$950 million. Almost all of these funds, however, have been fully obligated by the U.S. Government, which has issued irrevocable letters of credit to the banks.

Because of the unusual timing problems associated with the negotiation and disbursement of resources for the multilateral development banks, the Congress needs to make its input to budget planning for these contributions at an earlier stage than in most other areas. This loss of flexibility -- flexibility that is usually desirable -- seems to me inevitable and justified in an area that involves the closest kind of coordination and planning with other contributors and a careful process of project development and execution. Congress may differ with an Administration about the appropriate size of the U.S. foreign assistance program or about the share of that program to be channelled through the multilateral banks. Those differences must be reconciled. But that process, in the case of replenishments that need to be negotiated internationally, works best if an Administration is made fully aware of, and is sensitive to, Congressional views before and during the process of multilateral negotiations. I understand that there have been a number of advance consultations on the negotiations for the sixth replenishment of IDA, and I am sure that officials at Treasury would be open to any suggestions from Congress for improvement of the consultation process.

We are now at a stage where negotiations have been completed on the IDA replenishment agreement for FY 1981-83. That institution serves the development needs of the poorest of the developing countries, where the bilateral foreign economic assistance program of the United States is also focused. My own view is that our multilateral and bilateral commitments in these

countries promote important strategic and foreign policy objectives of the United States. Failure to proceed in concert with other industrialized countries, would inevitably damage the fabric of international economic cooperation and undermine economic development. For these reasons, I feel that the bill to authorize the U.S. commitments to IDA VI deserves a favorable report by the Subcommittee and the full support of the Congress.

In supporting this legislation, I do not, of course, want to exempt the U.S. contribution to the international development effort from Congressional scrutiny and budgetary priorities. No program should escape that review, least of all now. I would simply emphasize that in this area the planning horizon needs to be long because so many other countries and institutions are involved and because of the nature of the development process. For those reasons, I hope the Subcommittee will take this and other opportunities to develop and indicate its own views of where the priorities lie in the years ahead, and work closely with the Administration in developing specific objectives for the negotiations yet to come.

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