Volume 12 | Issue 2

1980

Volume 12 Issue 2 (1980)

CWRU Journal of International Law

Case Western Reserve Journal of International Law

Volume 12, No. 2
Spring 1980

MONETARY ISSUES

Cite as:
CASE W. RES. J. INT'L L.

The *Case Western Reserve Journal of International Law* is published three times a year at the Case Western Reserve University School of Law. Current subscription prices are $12.00 per volume (domestic and foreign). Single issues of Volumes 11 and 12 are $5.00 each. Back issues can be purchased by contacting the *Journal* directly. The *Journal* is indexed in the *Contents of Current Legal Periodicals.* All notifications of change of address should include both old and new addresses with ZIP codes. Address all correspondence to the Case Western Reserve Journal of International Law, 11075 East Blvd., Cleveland, Ohio 44106. Telephone: (216) 368-3291.

The *Journal* welcomes submission of articles on topics in international and comparative law. Manuscripts should be submitted in duplicate, typed triple-spaced, and should conform to the *United States Government Printing Office Style Manual* (1973 ed.). Footnotes should be double-spaced and should conform to *A Uniform System of Citation* (12th ed.). Unpublished manuscripts will not be returned to the author unless requested.

The *Journal* is printed by the Darby Printing Co., 715 W. Whitehall St., Atlanta, Ga. 30310.

Cover design by Joan U. Smeltzer.
U.S. ISSN 0008-7254

Case Western Reserve
Journal of International Law

VOLUME 12 NUMBER 2 SPRING 1980

INTRODUCTORY COMMENT

Address to the World Bank and the International Monetary Fund, Belgrade, Yugoslavia, October 3, 1979

*by G.W. Miller**

I. INTRODUCTION

MR. CHAIRMAN, MR. McNamara, Mr. de Larosière, fellow governors, distinguished guests: On behalf of the United States, I want to express our appreciation to the Government of Yugoslavia for inviting us here. Yugoslavia's energetic and independent spirit has long attracted the world's admiration and respect. And Yugoslavia's full participation in the work of the IMF and the World Bank has shown how nations with different economic and political systems can cooperate to mutual advantage.

My remarks today are addressed to one central theme. Restoring balanced growth to the world economy will require purposeful domestic adjustment on the part of all nations—large and small. The two international institutions whose work we are reviewing at this meeting can help us make these adjustments in effective and mutually reinforcing ways. We must make sure they are in a position to do so. We must make sure they have our support to do so. In the last analysis, however, the responsibility rests with each of us. My country, as the largest economy in the system, is determined to carry out that responsibility in full. Only when balance is regained, will it be possible to resume the steady economic advance we all desire.

This is the final annual meeting of the World Bank and International Monetary Fund during the decade of the 1970's. It has been a decade marked by troublesome strains in the world economy. The will and ability of nations to cooperate internationally have been severely tested. The underlying strains might easily have led individual countries to the pursuit of inward-looking policies—to self-defeating efforts to protect their own limited interests at the expense of the broader interests of the community of nations. That this did not occur is convincing testimony to the vision of the architects of the Bretton Woods Institutions, and the maturity and wisdom of their successors—the representatives of the governments gathered here today.

The difficulties of the 1970's are all too familiar. The gains that have been achieved despite those difficulties are less widely appreciated. In the face of unprecedented payment imbalances, severe inflation, and high and persistent unemployment, international cooperation has been strengthened in important ways:

* Secretary of the U.S. Treasury.

(c) Private financial markets successfully channeled huge flows of funds from surplus to deficit countries, and developing countries gained access to these private capital markets on a substantial scale;
(d) Intergovernmental cooperation in exchange markets became stronger and closer;
(e) The IMF Articles underwent comprehensive revision, laying the basis for orderly evolution of the international monetary system.

This progress was not accidental. Nations might have responded to the problems of the 1970's by imposing trade and capital controls, by cutting back aid, and by aggressive competition in exchange rate policies. If that had happened, the world would have suffered staggering economic losses. Instead we chose deliberately to seek cooperative solutions, recognizing that the pervasive links among our economies made cooperation essential to our individual as well as our collective well-being. We must not forget that lesson.

Once again the world economy has been destabilized by a large oil price shock, almost equal in dollar amount to that of 1973-74. On an annual basis, the jump in oil prices will increase the import bill of the developed countries by almost $75 billion and of the developing countries by $15 billion. This action is disrupting international payments balances and adding greatly to the problems of containing inflation and reducing unemployment. Furthermore, uncertainty about the availability and price of energy seems likely to persist. Inflationary pressures, building up over a period of years, have become so virulent as clearly to require resolute, sustained, countermeasures. In this uncertain international economic environment, the prospects for world economic progress are less promising. And that is a particularly harsh prospect for the one-fifth of the world's population facing absolute poverty.

These problems are world wide. They are shared in common, to varying degrees, by all our societies. They can be successfully overcome only through persistent national action, augmented by intensified international collaboration, and that means relinquishing a degree of autonomy in national action.

It is in this context that we must examine the present and future work of the IMF and the World Bank group. These two institutions provide the infrastructure for world cooperation in economic policy, in finance, and in development. The degree to which we support them represents the central measure of our willingness to support more effective global economic management.

Intensified collaboration is the course we must choose for the 1980's. It is therefore essential that the IMF and the World Bank group be strong enough to do the job—strong enough in authority, operations effectiveness, and resources. I propose, therefore, to outline my views on the future direction of policy in these two institutions and on the tools they will need to do the job.

II. International Monetary Fund

Financially, the Fund is in a strong position to face the new testing period that lies ahead. The supplementary financing facility has been activated and remains almost fully available. The quota increase scheduled to take effect next year will add a large and timely infusion of resources. The compensatory financing facility, which proved so valuable during the cyclincal downturn of the mid-70's has recently been substantially liberalized and will provide an important element of security to primary producing nations. Furthermore, the IMF has revised its guidelines on conditionality so that it can foster orderly balance of payments adjustment in ways that meet the needs and circumstances of members.

Nonetheless, there is more to be done to assure the adequate utilization of the IMF's financial resources and to strengthen the Fund's capacity to manage the monetary system. Three areas deserve early attention.

First is surveillance. Under the amended articles, Fund surveillance—surveillance over members' general economic policies as well as exchange rate policies—is the centerpiece of international monetary cooperation. Without effective surveillance, there is no system. The Fund has moved cautiously and prudently in implementing its surveillance procedures. Bolder action is now required.

One possibility would be for the Fund to assess the performance of individual countries against an agreed global strategy for growth, adjustment and price stability. Another possibility would be to provide that any nation with an exceptionally large payments imbalance—deficit or surplus—must submit for IMF review an analysis showing how it proposed to deal with that imbalance. Now, only those countries borrowing from the Fund have their adjustment programs subjected to such IMF scrutiny. Greater symmetry is needed.

We should also consider inviting the managing director to take the initiative more often in consulting members directly where he has concerns about the appropriateness of policy. Any such approaches must, of course, be fully in accordance with the fundamental principle of uniform treatment for all members. For its part, the United States welcomes and values the Fund's views and advice, and would see merit in a more active role on the part of the managing director in initiating consultations with members.

As a further step, we might now give serious consideration to the establishment of the council, as successor to the Interim Committee, and give it a more specific and direct role in the surveillance process. There would be value in such a move both substantively and symbolically, and I urge that each of us give fresh consideration to this idea.

The second area for improvement is that of international liquidity. There has been solid progress over the past twelve months in enlarging the role of the SDR in the monetary system. A more fundamental move, the establishment of a substitution account, is now under consideration. If, working together, we can resolve the problems involved in setting up that account—and I am hopeful that with good will it will be possible to resolve them in due course—the result would represent an important new approach toward greater reliance on an international reserve asset and a more centrally managed international monetary system.

The third area in which it may be possible to strengthen the system and make the IMF more useful and influential is in the field of cooperation with the private financial markets. This is not a new idea. But the arguments in favor of it have become more compelling.

We all recognize that the private markets will have to play, in the future as in the past, by far the major role in channeling financing from surplus to deficit nations. Official institutions, including the IMF, play a vital role in this process, but it is essentially catalytic in nature.

We must ensure that the IMF is doing all it appropriately can and should do in order to ensure that private financing flows smoothly and efficiently. We should reexamine ways in which the Fund can encourage the availability of better information on international bank lending, with greater uniformity with respect to potential borrowers. This could facilitate the process without jeopardizing the IMF's close and confidential relationships with members. We should also explore ways of encouraging earlier recourse to the IMF by countries facing difficulty, in the interests of maintaining overall financial stability and avoiding the need for more severe adjustment measures at a later stage if problems are left unaddressed.

III. World Bank

The successful contribution by the Fund to the smooth operation of the world economy will help the World Bank to encourage longer-term economic improvement in the developing world. Over the past ten years we have called for a steady expansion in the scope of the Bank's activities and it has never failed to respond effectively. The Bank is now the largest single source of external finance and technical assistance for economic development and the primary exemplification of international cooperation to achieve social and economic advance.

It must continue to be so. As President McNamara pointedly reminded us, the goals we set and the choices we make today in this difficult area of economic policy will have a critical bearing on whether conditions in the world will be tolerable a generation from now. This is a weighty responsibility; it is one we cannot avoid addressing.

The size of the problem is graphically described in the second world development report, for which I offer my appreciation and congratulations. Over the next two decades, 750 million new job opportunities will have to be created in the developing world. The extent of success in this endeavor will determine how many people in the world are able to enjoy economic well-being, and any shortfall will determine how many are left to face conditions of absolute poverty at the beginning of the 21st century.

In this situation, capital will always be extremely scarce in relation to needs. It will be essential therefore, that Bank loans, IDA credits, and IFC investments should stimulate, to the maximum degree, mobilization of domestic savings in the developing countries and the flow of private capital from abroad. Specifically this means:

(a) Greater emphasis on creating productive job opportunities in the rural areas, where poverty and underemployment are pervasive. Without more progress here, the food problem could become worse, population pressure will become more severe, and the flow of people to cities could become overwhelming;

(b) New approaches to job creation in cities and the provision of low-cost basic services to the urban poor;

(c) Investments in human capital through programs in education, health and family planning;

(d) In all areas, a conscious and more effective program to reduce capital investment per job created, and to insure that in a fundamental economic sense investments pay for themselves. Only then will capital used today be recovered tomorrow to be invested for the benefit of others;

(e) New initiatives to encourage co-financing;

(f) More ambitious efforts to expand production of energy fuels, including new applications for renewable energy technology. The quantum jump in the price of oil is exerting a sharply constraining effect on economic growth everywhere, with particularly harsh effects in the oil importing developing countries. An increase in the availability of domestic energy supplies is necessary to increase the productivity of domestic labor and capital.

To move in this direction requires that the Bank be able to expand the scope of its activities. We believe that the capital of the bank must be increased substantially, and for this reason, supported the resolution of the executive directors to that effect.

We also support a sixth replenishment of IDA, and look to the completion of the negotiations before the end of this year. In accordance with our legislative procedures, our action in both respects will involve the close cooperation of the United States Congress.

IV. Private Financial Markets

Strengthening the capacity and effectiveness of the IMF and the World Bank is also necessary to enable private markets to function smoothly and effectively. The latest increase in oil prices will place new demands on these markets to move funds from surplus to deficit countries. The actions of the two Bretton Woods Institutions serve to strengthen the adjustment process, economic prospects and credit positions of borrowing countries—all of which is a necessary foundation on which private lending can take place on a sustainable basis. This process also emphasizes how the work of the two institutions reinforces each other.

More generally, a strengthened cooperative approach, looking toward a more orderly management of the world economy, provides a framework within which each nation can address common problems in a mutually supportive way. The United States recognizes its role in this system and will continue to act to carry out its national and international responsibilities.

V. United States Progress and Policies

Economic growth in the United States during the past four years has been strong, and has made a major contribution to world economic recovery. Output has increased by twenty-two percent in real terms. Thirteen million new jobs have been created. At the same time, our rapidly growing market has provided a major economic stimulus for other countries recovering from world recession. Most notably, this has benefitted the developing countries, which have increased their exports of manufactured goods to the United States much more rapidly than to other countries.

The United States is well aware of the important role of the dollar in the international monetary system. We are determined to maintain reasonable balance in our external accounts and to assure that the dollar is sound and stable. We have acted vigorously to meet that obligation, with policies to strengthen underlying economic conditions, and with forceful exchange market operations to counter market disruption.

The U.S. balance of payments has improved markedly. Our current account deficit will be reduced from $14 billion in 1978 to a few billion in 1979, despite an increase of $16 billion in the cost of oil imports. Next year, 1980, we expect a substantial current account surplus. Continued strong export performance, a rising surplus on services, slower import growth, and U.S. determination to respond forcefully to unwarranted exchange market pressures, all provide a firm basis for dollar stability strength in the period ahead.

We have already achieved important progress in strengthening the dollar exchange rate. The dollar has declined in terms of some currencies, moved higher in terms of others and remained stable relative to most. Measured against the average of OECD currencies, the dollar is now about five percent above the level prevailing last fall. From the viewpoint of the OPEC nations, in relation to the other currencies they use to purchase their imports, the dollar has increased about eight percent on average from a year ago. Notwithstanding the favorable changes in the value of the dollar measured in terms of these averages, the United States is determined to maintain exchange market stability for the dollar in terms of individual major currencies, such as the deutsche mark.

The United States also recognizes the necessity of solving its energy problem. We are making substantial progress. Since 1973 the amount of energy required to produce a unit of real output in the United States has dropped by 7.5 percent, and in the industrial sector, it has dropped by twenty percent. The ratio of the increase in energy consumption to the increase in GNP has fallen by one-third since 1973. That performance compares favorably with other industrial countries. Household energy consumption has leveled off. Our transportation fleet is rapidly becoming more fuel efficient—the average miles per gallon for new cars rose from thirteen in 1973 to nineteen in 1979, and will rise to 27.5 by 1985.

More must, and will, be done. President Carter has announced a series of measures, both administrative and legislative, which will sharply improve the overall U.S. energy position. Phased decontrol of domestic crude oil prices by September 30, 1981 will reduce oil imports by an estimated 1.5 million barrels per day by 1990. In addition, immediate decontrol of heavy crude oil prices will stimulate increase in production estimated at 0.5 million barrels per day. Creation of an Energy Security Corporation will provide the resources to help finance private sector development of synthetic fuel. Major emphasis is also being placed on developing renewable sources of energy. When fully in place, our energy program will cut oil import requirements by four to five million barrels per day.

At the recent Tokyo Suummit, the United States agreed that from now through 1985, we would import no more than 8.5 million barrels per day of oil, the level that prevailed in 1977. The President established a lower goal of 8.2 million barrels per day, for 1979. We are firmly committed to meeting the import targets.

Inflation continues to be our country's more serious problem. It threatens our ability to achieve full employment, it impedes investment, and it impairs productivity. We are determined to bring inflation under control and regain price stability. Our recent record is not satisfactory to us. Food and energy prices have temporarily driven U.S. price indices into the double digit range. Energy alone accounted for more than one-

(a) Agreement was reached on far-reaching trade liberalization;
(b) Flows of official development resources continued to expand;
half the total rise in finished goods prices at the producer level in the latest three-month period. In coming months this pressure will recede as the effects of recent OPEC price actions work their way fully through the economy. Food prices have moderated in the wake of good harvests.

Special factors aside, the inflation rate is still much too high and must be brought under control. This cannot be done quickly or easily. It can only be accomplished by a firm application of sound policies which deal with the economic fundamentals.

All major instruments of U.S. economic policy are being directed toward this task. Fiscal policy is directed toward restraint.

We have arrested the increase in government outlays in real terms, and tax receipts are rising. The federal deficit has been reduced from three percent to one percent of GNP. The Federal Reserve is exercising monetary discipline and will continue to keep firm limits on the growth of the money supply. Despite rapid increases in recent months, the increase in Ml over the past year was held to 4.9 percent—less than half the increase in consumer prices. The Federal Reserve is committed to meeting its targets for limiting the rate of growth of money and credit.

These fiscal and monetary policies are supported by price and pay policies that will help moderate inflationary forces. On September 28, President Carter announced a national accord with U.S. trade union leadership that provides for labor's involvement and cooperation on important national issues. The national accord confirms that top priority will be given to the war against inflation. It recognizes that the discipline essential to wring out inflation will mean a period of national austerity. As part of the accord, labor leadership agreed to participate in the voluntary program of wage and price restraint. The involvement and cooperation of labor—and of management—in developing and implementing policies to control inflation is critical for success, and this cooperation has now been strengthened. The national accord will add momentum to our comprehensive attack on inflation.

The United States intends to reinforce the foundation on which to achieve sustained growth with price stability. We are headed in the right direction and are determined to stay the course. We are also determined to work with the nations gathered here to strengthen the international economic system, both through our own actions and through support of the IMF and the World Bank.

Let me add a personal postscript. The curtain will soon fall on the decade of the '70's. It has been a turbulent period for the world's economy. Progress has fallen far short of our great hopes. Facing, as we do, another period of major adjustment, we have heard few words of encouragement at these sessions. It is right that we should be realistic about our difficulties. It is right that we should not delude ourselves with false expectations. It is possible, however, as we begin to prepare the agenda for the '80's, to see some cause for hope. In particular, we have not given in to the temptation to become self-centered. The institutions for international economic cooperation are alive and well. The IMF and World Bank are proving their resilience, rising to meet the challenges.

For its part, the United States is unequivocally dedicated to dealing effectively with its own inflation and energy problems. This is the single most important contribution we can make to our own economic health and that of the world community. I assure you that we have the will, determination and perseverance to succeed in this endeavor. You can count on it.