

EUROPEAN PARLIAMENT

DELEGATION FROM THE EUROPEAN PARLIAMENT

for relations with the

UNITED STATES CONGRESS

Notice to Members

Members will find attached for their information excerpts from the 1981 Joint Economic Report of the Joint Economic Committee of the United States Congress. This is in two parts, the first reflecting the views of the members of the Republican Party on the Committee, the second those of the Democratic Party members of the Committee.

(Source: USA Background, No. USAB 27 of 2 March 1981, published by the United States Mission to the European Communities in Brussels)

DIRECTORATE GENERAL FOR COMMITTEES
AND INTERPARLIAMENTARY DELEGATIONS

Annex

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Excerpts from 1981 Joint Economic Report

REPUBLICANS SEEK WORLD ECONOMIC STABILITY

WASHINGTON -- FOLLOWING ARE EXCERPTS FROM THE 1981 JOINT ECONOMIC REPORT OF THE JOINT ECONOMIC COMMITTEE, REFLECTING THE VIEWS OF MEMBERS OF THE REPUBLICAN PARTY ON THE COMMITTEE:

(BEGIN EXCERPTS)

IV. THE INTERNATIONAL ECONOMY

THE UNITED STATES OPERATES IN AN OPEN WORLD ECONOMY. THIS MEANS THAT STEPS TAKEN BY THE FEDERAL GOVERNMENT FOR DOMESTIC ECONOMIC POLICY REASONS HAVE RAPID INTERNATIONAL EFFECTS AND VICE VERSA, STEPS TAKEN FOR INTERNATIONAL REASONS HAVE RAPID DOMESTIC EFFECTS. THE LINKAGES BETWEEN DOMESTIC ECONOMIC POLICY AND THE INTERNATIONAL ECONOMY TAKE PLACE PRIMARILY THROUGH THE FOREIGN EXCHANGE MARKETS. EXCHANGE RATES CHANGES AFFECT INVESTMENT, TRADE FLOWS AND THE BALANCE OF U.S. INTERNATIONAL PAYMENTS. IN TURN, CHANGES IN TRADE FLOWS AND THE BALANCE OF PAYMENTS OFTEN IMPEDE DOMESTIC POLICY RESPONSES. IN THE PAST, SOME OF THESE RESPONSES HAVE BEEN DESTABILIZING DOMESTICALLY.

THE INTERNATIONAL ECONOMY IS A FAR DIFFERENT SYSTEM FROM WHAT EXISTED A DECADE AGO. THE INTRODUCTION OF FLOATING EXCHANGE RATES IN 1973, THE SOPHISTICATION OF TODAY'S FOREIGN EXCHANGE MARKET TRADERS, AND THE INCREASED MOBILITY OF INTERNATIONAL CAPITAL HAVE REMOVED OLD CONSTRAINTS BUT PLACED NEW ONES ON DOMESTIC ECONOMIC POLICY. UNDER THE NEW SYSTEM, DOMESTIC POLICY INITIATIVES CAN QUICKLY TRANSLATE INTO A RISE OR A FALL IN THE DOLLAR EXCHANGE RATE BEFORE THE INITIATIVES THEMSELVES HAVE HAD A CHANCE TO TAKE EFFECT IN THE U.S. ECONOMY. BECAUSE OF THE NEW "OPENNESS" IN THE INTERNATIONAL ECONOMIC SYSTEM, DOMESTIC ECONOMIC POLICY MUST BE FORMULATED TAKING INTO CONSIDERATION ITS INTERNATIONAL EFFECTS.

DESIGNING DOMESTIC ECONOMIC POLICIES TO PROMOTE INTERNATIONAL ECONOMIC STABILITY

WE BELIEVE THAT OUR MONETARY AND FISCAL POLICY RECOMMENDATIONS DESCRIBED EARLIER IN THESE VIEWS WILL ALSO SERVE THE INTERNATIONAL ECONOMIC OBJECTIVES OF A STRONG DOLLAR AND A STABLE BALANCE OF PAYMENTS. THIS IS BECAUSE FOREIGN EXCHANGE TRADERS WILL INTERPRET THE POLICIES WE ARE RECOMMENDING AS A SIGN THAT THE UNITED STATES AT LONG LAST IS DETERMINED TO HALT THE DANGEROUS INFLATIONARY TRENDS

WHICH HAVE CHARACTERIZED THE FEDERAL BUDGET, MONETARY POLICY, AND THE ECONOMY OVER THE PAST DECADE, AND WEAKENED THE DOLLAR INTERNATIONALLY. THE DOLLAR IS FIRING IN ALL EXCHANGE MARKETS DUE TO A NEW CONFIDENCE IN THE U.S. ECONOMIC POLICY. IN TURN, THIS MAKES IT EASIER TO IMPLEMENT THE TOUGH DOMESTIC POLICIES WHICH WE ARE RECOMMENDING AND WHICH CLOSELY PARALLEL THOSE OF THE NEW REAGAN ADMINISTRATION. IT MEANS, FOR EXAMPLE, THAT AS WE UNWIND INFLATION AND REDUCE GOVERNMENT SPENDING, DOMESTIC INTEREST RATES CAN FALL WITHOUT THE FLIGHT FROM THE DOLLAR THAT MIGHT OTHERWISE ACCOMPANY A REDUCTION IN INTEREST RATES. IN SHORT, FORTUNATELY, WE CAN PROMOTE BOTH DOMESTIC AND INTERNATIONAL ECONOMIC STABILITY WITH THE SAME DOMESTIC POLICIES. THE KEY IS THAT THESE POLICIES MUST BE BELIEVED CAPABLE OF STOPPING INFLATION AND, IN TIME, PROVE TO BE SO CAPABLE.

NOTWITHSTANDING OUR OPTIMISM ABOUT THE INTERNATIONAL ECONOMY, THERE ARE TWO MAJOR AREAS WHERE THE COURSE OF EVENTS WILL REQUIRE A CAREFUL U.S. RESPONSE.

INTERNATIONAL POLICIES WHICH WILL PROMOTE DOMESTIC ECONOMIC GROWTH AND STABILITY

-- TRADE COMPETITIVENESS

THE PROGRESS MADE IN THE PAST TWO YEARS TOWARD DEFINING THE COMPONENTS OF A COMPETITIVE TRADE POLICY, AS REFLECTED BY RECOMMENDATIONS MADE BY THE CONGRESS, THE EXECUTIVE BRANCH AND BY ORGANIZATIONS SUCH AS THE PRESIDENT'S EXPORT COUNCIL, NEEDS TO BE FOLLOWED UP IMMEDIATELY WITH ACTION TO ENSURE THAT THE HARD-FOUGHT CONSENSUS DOES NOT EVAPORATE IN A CONSTANTLY SHIFTING INTERNATIONAL COMPETITIVE ENVIRONMENT. RECENT STATISTICS PROVIDE LITTLE REASON TO CHEER.

THE MASSIVE 1980 MERCHANDISE TRADE DEFICIT OF 26,000 MILLION DOLLARS (C.I.F.) (CUSTOMS, INSURANCE, AND FREIGHT COSTS INCLUDED) WHILE REFLECTING MODEST IMPROVEMENT OVER 1979, WAS MUCH TOO LARGE. THE 1980 MANUFACTURED GOODS TRADE SURPLUS CAN BE LARGELY ATTRIBUTED TO BUSINESS CYCLE AND THE CHANGED EXCHANGE RATE EFFECTS FROM THE 1978 PERIOD AND DOES NOT REFLECT ANY SIGNIFICANT IMPROVEMENT IN COMPETITIVENESS OF U.S. MANUFACTURED GOODS. SIMILARLY, THE SURPLUS IN THE CURRENT ACCOUNT, ALTHOUGH WELCOME, WAS DUE IN SUBSTANTIAL PART TO ACCOUNTING CHANGES AFFECTING RETAINED EARNINGS OF OVERSEAS SUBSIDIARIES. IT IS NOT A REASON FOR COMPLACENCY.

INDEED, FOR A MORE ACCURATE ASSESSMENT OF OUR RELATIVE COMPETITIVE POSTURE, IT IS BEST TO CONSIDER THE U.S. SHARE OF WORLD EXPORTS OF MANUFACTURED GOODS. THIS STATISTIC SHOWS A STEADY DECLINE THROUGHOUT THE 1970 TO 1979 PERIOD -- FROM 21.4 PERCENT IN 1970 TO 17.4 PERCENT IN 1979. FURTHER, IN AN ERA IN WHICH INTERNATIONAL COMPETITIVENESS IS INCREASINGLY DEFINED IN TERMS OF THE HOME MARKET, U.S. MANUFACTURED IMPORTS AS A SHARE OF DOMESTIC MANUFACTURED GOODS PRODUCTION HAVE RISEN TO 20 PERCENT IN 1979, A 428 PERCENT INCREASE OVER 1960.

THE COMPETITIVE CLIMATE OF INTERNATIONAL COMMERCE DEMANDS AN AGGRESSIVE SPIRIT IN THE PRIVATE SECTOR AS WELL AS IN GOVERNMENT TO DEAL WITH THE REALITIES OF THE MARKETPLACE. NOTWITHSTANDING RECENT ACHIEVEMENTS WITHIN THE GATT (GENERAL AGREEMENT ON TARIFFS AND TRADE) TO ELIMINATE MANY TARIFF AND NONTARIFF BARRIERS TO FREE TRADE, INCLUDING UNFAIR EXPORT INCENTIVES, IT IS STILL A LESS THAN PERFECTLY COMPETITIVE WORLD IN WHICH U.S. PRODUCERS AND CONSUMERS MUST COMPETE. IT IS FOR THIS REASON THAT THE "BUSINESS AS USUAL" MENTALITY MUST GIVE WAY TO A MORE REALISTIC PERCEPTION BY BUSINESS AND GOVERNMENT OF WHAT IS REQUIRED TO COMPETE AT HOME AND ABROAD.

SEVERAL ISSUES INVOLVING INCENTIVES AND DISINCENTIVES TO TRADE WERE ADDRESSED INCONCLUSIVELY BY CONGRESS IN THE PAST YEAR. IN OUR VIEW, THEY WARRANT RENEWED ATTENTION. AMONG THESE ARE: LEGISLATION TO ESTABLISH EXPORT TRADING COMPANIES, A CONCEPT WHICH SHOULD PROVE USEFUL IN EXPANDING THE NATION'S EXPORT BASE; LEGISLATION REDUCING THE TAX BURDEN ON U.S. EMPLOYEES STATIONED OVERSEAS; A RECONSIDERATION OF THE EXTRATERRITORIAL APPLICATION OF U.S. ANTI-TRUST LAWS, WITH SPECIAL NOTE AS TO HOW SUCH APPLICATION DETERS U.S. COMPANIES FROM SEEKING NEW MARKETS; A RATIONAL CLARIFICATION OF THE ACCOUNTING AND BUSINESS PROCEDURES STANDARDS OF THE FOREIGN CORRUPT PRACTICES ACT.

IT IS CRITICAL AT THIS IMPORTANT JUNCTURE THAT THE FEDERAL GOVERNMENT IMPROVE THE CLIMATE FOR U.S. FIRMS' DIRECT INVESTMENT ABROAD AND THE INCREASED EXPORT OF SERVICES. U.S. FOREIGN DIRECT INVESTMENT, WHILE PROVIDING AN EFFICIENT ALLOCATION OF CAPITAL, ALSO HAS PROMOTED U.S. COMPETITIVENESS AND SERVED TO ACCELERATE EXPORTS TO OVERSEAS MANUFACTURING FACILITIES. SUCH DIRECT INVESTMENT ALSO SERVES A DEVELOPMENT FUNCTION BY PROVIDING NEEDED CAPITAL AND TECHNOLOGY TO THE DEVELOPING AREAS OF THE WORLD.

OUTPUT OF THE SERVICE SECTOR CURRENTLY ACCOUNTS FOR 30 PERCENT OF U.S. EXPORTS, 70 PERCENT OF U.S. JOBS, AND 65 PERCENT OF OUR GROSS NATIONAL PRODUCT. AS THE U.S. ECONOMY BECOMES INCREASINGLY SERVICE ORIENTED AND AS OUR BALANCE OF PAYMENTS BECOMES INCREASINGLY RELIANT ON SERVICE EXPORT EARNINGS, THE LACK OF INTERNATIONALLY AGREED CODE OF CONDUCT ON SUCH TRADE WILL BECOME MORE COSTLY TO U.S. INTERNATIONAL COMPETITIVENESS. SIMILARLY, A LACK OF UPDATED AGREEMENT ON SAFEGUARDS, ESPECIALLY IN A PERIOD OF GLOBAL HIGH UNEMPLOYMENT AND SLOW GROWTH, BODES POORLY FOR EFFICIENT RESOLUTION OF TRADE DISPUTES IN THE FUTURE.

THE ADVANCES MADE BY THE RECENT MULTILATERAL TRADE NEGOTIATIONS (MTN) AGREEMENTS TOWARD A MORE LIBERAL TRADING SYSTEM WILL CONTRIBUTE TO GROWTH IN WORLD TRADE AND RESULT IN FEWER CONTRIVED TRADE IMPEDIMENTS AND ENHANCED WELFARE FOR ALL PARTICIPANTS. HOWEVER, IT IS CRITICAL FOR THE TRADE NEGOTIATION PROCESS TO CONTINUE TO PURSUE MULTILATERAL AGREEMENT RESPECTING SERVICE INDUSTRIES AND A MEANINGFUL SAFEGUARDS CODE.

-- INTERNATIONAL FINANCE

AT THE PRESENT TIME, NON-OIL DEVELOPING COUNTRIES ARE ENCUMBERED BY A SET OF PRESSURES WHICH CARRIES POTENTIAL DANGERS FOR THE WORLD FINANCIAL SYSTEM. FIRST, THE DRAMATIC INCREASE IN THE PRICE OF CRUDE OIL OVER THE PAST TWO YEARS HAS ADDED TO THE ENERGY BILL OF THOSE NATIONS. ACCORDING TO THE U.S. INTERNATIONAL DEVELOPMENT COOPERATION AGENCY, THESE COUNTRIES ARE NOW PAYING 67,000 MILLION DOLLARS A YEAR FOR ENERGY IMPORTS WHICH COST ONLY 32,000 MILLION DOLLARS IN 1976. THE PROJECTED FIGURE FOR 1985 IS 124,000 MILLION DOLLARS.

SECOND, INTEREST RATE INCREASES HAVE ADDED TO THE COST OF FINANCING DEVELOPMENT. ESTIMATES OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT INDICATE THAT THE INCREASE IN INTEREST COSTS OVER THE PAST TWO YEARS HAS ACCOUNTED FOR AN ADDITIONAL 13,000 MILLION DOLLARS IN CURRENT ACCOUNT DEFICITS FOR THE NON-OIL LDC'S (LESS DEVELOPED COUNTRIES).

THIRD, THE SLOWDOWN IN GROWTH AMONG DEVELOPED COUNTRIES HAS DECREASED THE HARD CURRENCY FOREIGN EXCHANGE EARNINGS WHICH THE LDC'S MIGHT HAVE EARNED BY EXPORTING TO DEVELOPED COUNTRIES. THIS HELPS EXPLAIN WHY THE TOTAL CURRENT ACCOUNT DEFICIT OF NON-OIL LDC'S INCREASED FROM 36,000 MILLION DOLLARS AT THE END OF 1978 TO 79,000 MILLION DOLLARS FOR 1980.

FOURTH, NEW FINANCING FOR NON-OIL LDC'S IS EXPECTED TO GROW SLOWLY. THIS IS BECAUSE OFFICIAL FINANCING IS SUFFERING FROM BUDGET CONSTRAINTS; AT THE SAME TIME, PRIVATE FINANCING IS COMING UP AGAINST THE LIMITS THAT LENDERS BELIEVE TO BE THE PRUDENT ONES FOR EXPOSURE TO FINANCIAL RISK IN THESE COUNTRIES. AS A GROUP, THE NON-OIL LDC'S SUFFER TWICE THE WORLD AVERAGE INFLATION RATE. THEIR EXTERNAL DEBT HAS CLIMBED FASTER THAN THEIR ABILITY TO PAY IT OFF. THEY ARE IN HOCK TO THE REST OF THE WORLD TO THE TUNE OF 300,000 MILLION DOLLARS. THEIR BILL FOR ENERGY, A CONSUMABLE ITEM, IS BEING PAID INCREASINGLY BY LOANS RATHER THAN BY THE FOREIGN EXCHANGE EARNINGS FROM EXPORTS. PARTLY AS A RESULT OF THIS, THE DEBT SERVICE OF THESE POORER COUNTRIES HAS CLIMBED BOTH ABSOLUTELY AND AS A PERCENTAGE OF THEIR GNP (GROSS NATIONAL PRODUCT).

THE INTERNATIONAL BANKING SYSTEM HAS RELIEVED MANY OF THE PRESSURES AFFLICTING NON-OIL LDC'S IN RECENT YEARS. IN FACT, MORE THAN HALF OF THE OFFICIAL DEBT OF NON-OIL LDC'S NOW IS OWED TO PRIVATE LENDING SOURCES. THIS SO-CALLED "RECYCLING" PROCESS, FROM THE SURPLUSES OF OPEC COUNTRIES, THROUGH THE BANKING SYSTEM OF THE DEVELOPED NATIONS TO OTHER FINANCING NEEDS OF THE NON-OIL LDC'S, HAS BECOME A MAJOR ASPECT OF INTERNATIONAL FINANCE. PRELIMINARY DATA SUGGEST THAT ALL FINANCING NEEDS CAN BE MET IN 1981. THE SAME DATA, HOWEVER, INDICATE THAT THERE MAY BE PROBLEMS LATER ON. IN THE FINAL ANALYSIS, THESE PROBLEMS CAN ONLY BE RESOLVED BY THE NON-OIL LDC'S THEMSELVES. HOWEVER, THE UNITED STATES CAN ASSIST TWO WAYS: FIRST, BY STRENGTHENING THE CAPABILITIES OF THE INTERNATIONAL MONETARY FUND TO REDUCE PRESSURES ON THE WORLD MONETARY SYSTEM (E.G., DISCIPLINING NATIONS THAT FOLLOW IRRESPONSIBLE DOMESTIC POLICIES) AND SECOND, BY WORKING THROUGH DIPLOMATIC CHANNELS TO ENLIST THE COOPERATION OF OIL EXPORTING COUNTRIES. (END EXCERPTS)

DEMOCRATS FAVOR LARGER ROLE FOR IMF, WORLD BANK

WASHINGTON -- FOLLOWING ARE EXCERPTS FROM THE 1981 JOINT ECONOMIC REPORT OF THE JOINT ECONOMIC COMMITTEE, REFLECTING THE VIEWS OF MEMBERS OF THE DEMOCRATIC PARTY ON THE COMMITTEE:

(BEGIN EXCERPTS

RECOMMENDATION NO. 30: INTERNATIONAL FINANCIAL INSTITUTIONS

-- WE SUPPORT AN ENLARGED ROLE FOR THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK TO DEAL WITH OIL-INDUCED ECONOMIC ADJUSTMENT, AND WE SUPPORT AN ENLARGED ROLE FOR OIL-EXPORTING NATIONS IN PROGRAMS ADMINISTERED BY THESE INSTITUTIONS.

THE WORLD ECONOMY HAS ADJUSTED IN THE SHORT TERM ABOUT AS WELL AS COULD BE EXPECTED TO THE HUGE 1979 OPEC (ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES) PRICE HIKES AND TO THE MORE MODEST INCREASES THAT OCCURRED IN 1980. HOWEVER, THE EXTENT OF THE ADJUSTMENT AND ACCOMMODATION TO THESE OIL PRICE INCREASES HAS BEEN FAR FROM UNIFORM. THUS, THE NON-OIL EXPORTING LESS DEVELOPED COUNTRIES (LDC'S) HAVE EXPERIENCED MOUNTING PAYMENTS PROBLEMS OF DISTURBING PROPORTIONS. TEN YEARS AGO, THE DEBT SERVICE PAYMENTS OF THE 12 MAJOR NON-OIL EXPORTING LDC'S TOTALED 1,100 MILLION DOLLARS, ABOUT SIX PERCENT OF EXPORT EARNINGS. IN 1980, AFTER A DECADE OF SHARPLY MOUNTING OIL PRICES, SUCH PAYMENTS TOTALED 16,000 MILLION DOLLARS, FULLY 16 PERCENT OF EXPORT EARNINGS. DEBT SERVICE PAYMENTS COULD REACH 21 PERCENT OF THEIR EXPORT EARNINGS IN 1981. SINCE 1975, AS MUCH AS ONE-HALF OF THE RISE IN DEBT HAS FINANCED OIL IMPORTS. THE IMPLICATIONS OF THESE BURDENSOME DEBT INCREASES FOR THE DEVELOPMENT PROGRAMS OF THE LDC'S ARE DISTURBING.

IN RESPONSE TO THESE DEVELOPMENTS, THE INTERNATIONAL MONETARY FUND (IMF) AND WORLD BANK ARE EXPANDING THEIR AID AND FINANCING PROGRAMS, AND MANY COMMERCIAL BANKS ARE RESCHEDULING AND INCREASING THEIR LOANS. SUCH INCREASED FINANCIAL ASSISTANCE IS IMPORTANT, NOT ONLY TO THE LDC'S BUT TO THE WORLD ECONOMY GENERALLY. MOREOVER, OIL-EXPORTING NATIONS SHOULD BE ENCOURAGED TO UNDERTAKE A GREATER FRACTION OF RECYCLING IN COOPERATION WITH THE IMF AND THE WORLD BANK.

RECOMMENDATION NO. 31: PROMOTE WORLDWIDE GROWTH

THE UNITED STATES MUST WORK TO FOSTER ECONOMIC GROWTH AND FINANCIAL STABILITY AROUND THE WORLD, AND PARTICULARLY IN THE NON-OIL EXPORTING LDC'S, WHICH NOW PURCHASE 27 PERCENT OF OUR MANUFACTURED EXPORTS. WE SHOULD SUPPORT FAIR AND RECIPROCAL EFFORTS TO ACHIEVE FREER AND MORE OPEN TRADE AND CAPITAL FLOWS IN ORDER TO PROMOTE GROWTH AND ADJUSTMENT IN DEVELOPED AND DEVELOPING COUNTRIES.

MIDDLE-INCOME DEVELOPING COUNTRIES HAVE JOINED EUROPE AND JAPAN AS KEY TARGETS FOR AMERICAN EXPORTERS. A SUBSTANTIAL PORTION OF TOTAL U.S. EXPORTS (35 PERCENT IN 1979, AND AN EVEN HIGHER PERCENTAGE OF MANUFACTURED EXPORTS (0 PERCENT)

ARE NOW DESTINED FOR THE DEVELOPING WORLD. THE OPEC GROUP HAS BECOME AN IMPORTANT MARKET IN ITSELF (SOME 12 PERCENT OF U.S. EXPORTS), BUT THE NON-OIL PRODUCING COUNTRIES BUY MORE THAN TWICE AS MUCH. FOR SOME INDUSTRIES, THE DEVELOPING COUNTRY MARKETS ARE CRITICALLY IMPORTANT. IN 1979, ALMOST HALF (SOME 24,000 MILLION DOLLARS) OF U.S. CAPITAL GOODS EXPORTS WERE DESTINED FOR THE DEVELOPING WORLD.

THE UNITED STATES IS NOW SO TIED TO THE REST OF THE WORLD THAT SLOW GROWTH IN THE DEVELOPING COUNTRIES HAS BECOME DANGEROUS TO OUR OWN DOMESTIC ECONOMIC HEALTH. AMERICA HAS LONG RESPONDED TO THE PLIGHT OF THE WORLD'S POOR WITH GENEROSITY AND DETERMINATION. THE MORE RECENT EMERGENCE OF THE DEVELOPING COUNTRIES AS A CRITICAL EXPORT MARKET ADDS TO THE IMPORTANCE OF A SUCCESSFUL U.S. INTERNATIONAL DEVELOPMENT STRATEGY.

AFTER THE FIRST OIL PRICE SHOCK IN THE EARLY 1970'S, MANY OF THE MIDDLE-INCOME COUNTRIES WERE ABLE TO MAINTAIN THEIR GROWTH PLANS BY BORROWING HEAVILY IN INTERNATIONAL CAPITAL MARKETS. THE LATEST JUMP IN WORLD ENERGY PRICES, HOWEVER, HAS SERIOUSLY IMPERILED THE ECONOMIC PROSPECTS OF NON-OIL PRODUCING MEMBERS OF THE MIDDLE-INCOME GROUP. THE EXISTING DEBT BURDEN AND THE GROWING RELUCTANCE OF INTERNATIONAL BANKS TO INCREASE THEIR LENDING TO THE DEVELOPING WORLD WILL MAKE IT MORE DIFFICULT TO FINANCE CURRENT ACCOUNT DEFICITS.

MOST OF THE MIDDLE-INCOME COUNTRIES ARE GRADUALLY ADAPTING TO HIGHER ENERGY PRICES. THERE HAS BEEN AN ACCELERATION IN THE SEARCH FOR NEW SOURCES OF ENERGY AND AN ATTEMPT TO MEET MORE OF THE OIL BURDEN THROUGH AGGRESSIVE EXPORTING. A SEVERE CUTBACK IN THE RATE OF ECONOMIC GROWTH COULD SHARPLY REDUCE THE DEMAND FOR CAPITAL EQUIPMENT WITH ONLY MODEST SAVINGS IN ENERGY. WITH SOME INTERNATIONAL BANKS APPROACHING THEIR STATUTORY LENDING LIMITS AND MANY CHANNELING THEIR FUNDS TO DIFFERENT MARKETS, THE MIDDLE-INCOME COUNTRIES WILL HAVE TO TURN TO THE MULTILATERAL DEVELOPMENT BANKS AND MORE IMPORTANTLY TO THE INTERNATIONAL MONETARY FUND. BOTH THE WORLD BANK AND THE IMF HAVE SOUGHT TO ADAPT THEMSELVES TO THE NEW PROBLEM OF LONG-TERM STRUCTURAL PAYMENTS IMBALANCES THAT HAVE BEEN A BY-PRODUCT OF HIGHER ENERGY PRICES. THE WORLD BANK IS INCREASING ITS EMPHASIS ON PROGRAM RATHER THAN PROJECT LENDING AND AT THE SAME TIME IS MOVING TO AID COUNTRIES IN PLANNING FOR LONG-TERM STRUCTURAL ADJUSTMENT.

RECOMMENDATION NO. 32: REPLENISH IDA

WORLD BANK LENDING TO LOWER INCOME DEVELOPING COUNTRIES HAS PLAYED A VITAL ROLE IN FURTHERING INTERNATIONAL DEVELOPMENT. AT THE SAME TIME, IT PRESERVES A WESTERN PRESENCE IN MANY PARTS OF THE WORLD AND HELPS BUILD THE EXPORT MARKETS OF THE NEXT DECADE. THE CONGRESS SHOULD ACT FAVORABLY ON THE SIXTH REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION.

FOR THE OPEC OR NON-OIL PRODUCING MIDDLE-INCOME COUNTRIES, THE ECONOMIC FUTURE DEPENDS UPON PUTTING NEW RESOURCES TO EFFICIENT USE OR OBTAINING FOREIGN CAPITAL TO MAINTAIN DOMESTIC GROWTH RATES. THE OUTLOOK FOR THE LOWER INCOME DEVELOPING COUNTRIES IS CONSIDERABLY LESS BRIGHT.

DURING THE 1970'S, THE PER CAPITA GROWTH RATES OF THE LOWER INCOME COUNTRIES (1.6 PERCENT PER YEAR) LAGGED WELL BEHIND THE ECONOMIC PERFORMANCE OF THE MIDDLE-INCOME GROUP. THE LIKELIHOOD OF ADDITIONAL INCREASES IN THE REAL PRICE OF OIL COUPLED WITH STAGNANT WORLD DEMAND FOR THEIR EXPORTS WILL ONLY COMPOUND THEIR DIFFICULTIES.

FOR THE MOST PART, LOWER INCOME DEVELOPING COUNTRIES DO NOT HAVE READY ACCESS TO INTERNATIONAL CAPITAL MARKETS AND OFTEN FIND EVEN FULL COST WORLD BANK LOANS BEYOND THEIR MEANS. BILATERAL FOREIGN ASSISTANCE PROGRAMS OF THE INDUSTRIAL COUNTRIES AND OPEC REMAIN VALUABLE SOURCES OF FOREIGN EXCHANGE. IN MANY CASES, HOWEVER, BILATERAL ASSISTANCE FUNDS HAVE NOT KEPT PACE WITH INFLATION.

CONCESSIONAL LOANS FROM THE WORLD BANK AND OTHER MULTILATERAL DEVELOPMENT INSTITUTIONS HAVE ALSO BECOME IMPORTANT TO MANY LOWER INCOME COUNTRIES. THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA), THE SOFT LOAN AFFILIATE OF THE WORLD BANK, LENT SOME 1,400 MILLION DOLLARS IN FISCAL YEAR 1980.

WITHOUT A NEW INFUSION OF CAPITAL, IDA WILL EXHAUST ITS CURRENT RESOURCES IN MARCH OF 1981. THE WORLD BANK IS SEEKING TO AUGMENT IDA'S LENDING CAPACITY BUT CANNOT ACT WITHOUT U.S. CONCURRENCE. LEGISLATION AUTHORIZING U.S. PARTICIPATION IN THE SIXTH IDA REPLENISHMENT PASSED THE SENATE LAST SUMMER AND SHOULD RECEIVE FAVORABLE CONSIDERATION BY CONGRESS THIS YEAR. (END EXCERPTS)

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