The Economic Club of New York

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The Honorable G. William Miller
U.S. Secretary of the Treasury

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Questioners: Alan Greenspan, President
Townsend, Greenspan and Company

Edward L. Palmer, Chairman
Executive Committee, Citibank

Introduction

Chairman Edmund T. Pratt, Jr.

Good evening ladies and gentlemen, and welcome to the 290th dinner meeting of the Economic Club of New York. I'm Ed Pratt, your chairman for this season. This is our first dinner meeting in the 1980-'81 season of the Economic Club. I hope you've all had a pleasant summer. As you've heard me say over recent dinners, we do have a unique club which has grown over the past 73 years by presenting to the New York business community the views of American and world leaders from many fields. We can all be proud of the Club's reputation as one of the world's major speaking forums.

Now it's not in my script here, he didn't put it in, but since it is the beginning of another season which I'm sure will be a worthwhile one for all of us New Yorkers, I'd like to ask the man who makes it all come together meeting after meeting to stand up and take a bow, the President of the Economic Club, Eddie Locke. Eddie, thanks for all you do for us. (Applause) If you think these things just happen, that's not the case.

You will be happy to know that the Club's membership continues to grow. I hope that you will continue to encourage other executives in your companies to become members. As you know, membership is by individual and not by company. May I suggest that you propose or second for membership others in your organization so that they can enjoy the opportunity of hearing

national and world leaders discuss the key issues of our times. And let me also suggest that some of you might want to bring your spouses as guests. Treat them to a fine dinner and a stimulating discussion.

We are privileged to have as our speaker tonight the Secretary of the Treasury, the Honorable G. William Miller. As questioners representing you, the audience, we are fortunate to have two outstanding men who are also members of the Economic Club of New York. For our first questioner, we will have Alan Greenspan, President, Townsend, Greenspan and Company, New York City. Our second questioner will be Edward L. Palmer, Chairman of the Executive Committee of Citibank, New York, City.

Many in our audience know our speaker personally. Many of us have worked with him during these past two and a half years. We've worked with Bill Miller first as Chairman of the Federal Reserve Board of the United States starting in March, 1978, then during this last year, since last August, as the president's chief financial officer. We have looked to him for guidance and advice on the major economic and policy matters facing the country. And many of us have sought also to offer him our own views on these subjects. I'm sure we will see the fruits of these discussions in the implementation of the president's new economic package.

Even before this period, however, many of us knew the Secretary as a leader of the national business community. Under his direction, first as chief executive officer of Textron from 1968

and from 1974 as its board chairman as well, the company grew to one of the country's largest and most successful conglomerates. At the same time, his management of the internal affairs of the company was bearing fruit. He was lending his talents also to external affairs. He served as the Director of the Federal Reserve Bank of Boston, a member of the Business Council, the Business Roundtable, the National Alliance of Businessmen, and I'm sure many of you remember him as I do, as Chairman of the Conference Board.

Throughout his distinguished career which began not in business, but in the law firm of Cravath, Swaine & Moore in 1952 here in New York City, Bill has been active in public service. His particular concern with the areas of full employment and non-discrimination made him an obvious choice during President Johnson's administration to serve as Chairman of the Industry Advisory Council of the President's Committee on Equal Employment and Opportunity from 1963 to '65. More recently, he was Chairman of the President's Committee on HIRE concerned with employment of veterans. There's much more but there's hardly time. Let me rather express our pleasure in having our guest with us and introduce to you the 65th Secretary of the Treasury, the Honorable G. William Miller. (Applause)

The Honorable G. William Miller
U.S. Secretary of the Treasury

Thank you very much Ed. Distinguished members of the Economic Club of New York, and your

guests, I consider it a particular privilege and a pleasure to open your 1981, ‘80 - ‘81 season. I hope that the subject will be not too heavy, but I consider it a privilege and a pleasure because I think this is the ideal audience for discussing a very serious matter which I think needs immediate and widespread interest. And that is the United States’ participation in the international financial institutions, that is the International Monetary Fund and the World Bank Group and the Regional Development Banks.

The Americans and leaders of other nations who negotiated the Bretton Woods agreement and the successor agreements for the Regional Banks were people of vision who anticipated a world of interdependence and of change and laid down the foundation for a series of institutions that would be able to play a key role in assuring economic progress and order in the world. In the 1980s, we will face a great economic challenge and an opportunity as well, both for our nation and for the world. If we meet the challenge in a forthright and courageous way, we can ascend to even greater levels of world prosperity. If we do not, we will slip into a steady decline to economic mediocrity.

The program announced by President Carter on August 28 will help put us on a course to revitalize our economy through increased investment and higher productivity. We are also taking strong steps to increase U.S. competitiveness in world trade. But equally important to achievement of our domestic economic objectives is action to assure maintenance of the expanding and open world economy.

The dependence of the United States upon world trade and financial flows has become enormous. The share of United States output devoted to exports has almost doubled over the past decade, from 6.4% in 1970 to over 12% in the first half of this year. Today, one of out every seven U.S. manufacturing jobs produces for export. One out of every three acres of U.S. farmland produces for export. Imported goods including essential raw materials are thoroughly enmeshed in all phases of U.S. economic activity. International investment has become a major factor in U.S. production. Thirty percent of U.S. corporate profits come from international activities. The U.S. and international capital markets are highly integrated and the dollar serves as the principal vehicle for trade and finance, both internationally and domestically.

The international financial institutions are at the core of the effort to maintain a strong and growing world economy. Yet at a time of acute need for leadership in this important effort, this country has fallen behind in its financial support for these institutions. To allow the situation to persist would be shortsighted and seriously damage U.S. self-interest, the interest in foreign policy, economic policy, and our humanitarian commitments.

This audience, more than any single group that could be assembled anywhere in this country, is attuned to the importance of a strong and cooperative world economy. The world economy faces challenges of financing huge payments deficits and promoting fundamental adjustment to the changed world energy situation which is at the very heart of the current global economic difficulties. The International Monetary Fund and the Development Banks are leading the

international communities' efforts to meet these challenges. Whether these institutions succeed in restoring a strong and stable global economy has a critical and a direct bearing on the economic well-being of the United States.

The health of the world economy directly affects markets for the production of our farms and our factories and the employment of our labor. In difficult times such as we are now experiencing, there's always a temptation to retrench, to cut back on our support for international organizations that seem to have no domestic constituency. It would be a tragic mistake to do so now. Our stake in a healthy world economy is far too large for us to be shortsighted in this endeavor, and our stake is growing larger every day.

Unfortunately, international tensions – political and economic – pose serious threats to the global economy. The disruption in Iran and the Soviet aggression in Afghanistan make us acutely aware of the vulnerability of the world's major oil-producing region to both internal instability and external conflict. The turmoil in southwest Asia has contributed to further uncertainty about oil supplies at a time when the world economy already faces extremely difficult problems. The dramatic oil price increases since the end of 1968 have caused a slowdown in the world economic growth, a surge in inflation, and a sharp increase in balance of payments deficits in the oil-importing world. Today's world economic environment is likely to make it not only more difficult for nations to obtain needed financing, but also more difficult for them to make the economic adjustments required by these changing external circumstances.

Let me just be a bit more specific. First, economic growth has slowed to a bare 1% in real terms in the industrial nations of the world and to only 4.5 - 5% in the non-oil developing countries. Unemployment is increasing in virtually all countries, compounding the difficulties of adjustment. Second, inflation rates have surged to double digit levels in many of the OECD nations and to an average of 35 - 40% in the developing world. Third, OPEC's current account surplus is rising sharply to a range somewhere in the $110-$120 billion level with a corresponding deterioration of the same amount in the current account positions of the oil-importing world. These are enormous changes.

As growth slows, as unemployment rises, as balance of payment deficits widen, countries will inevitably face increasing internal pressures for restrictive trade actions, unfair or inappropriate exchange rate policies, or other beggar thy nation policies, beggar thy neighbor policies. But such an inward turn by this country or by any other country is not an appropriate response to the world's economic problems. History has demonstrated forcefully that efforts by individual countries to deal with their internal problems through such devices cannot succeed and in the end only worsen the situation for everyone.

The need is for a coordinated and cooperative international response to the problems of the world economy. This need is recognized by the international community. The IMF and the Development Banks are at the forefront of efforts to carry out a coordinated approach. They are the natural vehicles to spearhead the collective effort. These institutions have the experience, the

expertise, and the proven track record and they are moving rapidly to adapt their policies to meet the needs for balance of payments financing, for structural adjustment, and for expanded energy production that will be imperative in the period ahead.

The so-called recycling problem has in general been handled satisfactorily so far. Markets have worked relatively well. But success so far is not the reason for complacency. Commercial banks are scrutinizing loan requests more carefully. Individual countries are beginning to encounter financial difficulties. Some, fortunately as yet only a few, appear to be approaching limits of their borrowing capacity and are facing growing pressures to adjust their economies. Adjustment is needed, of course. The question is whether it will be carried out smoothly and responsibly, in a manner that benefits both the individual national economy and the world economy generally.

Recourse to the IMF has accelerated sharply this year and the Fund is positioning itself to meet major demands for balance of payment financing and to assist countries in undertaking longer term programs to revitalize their economies. An IMF quota increase is in process and the Fund is exploring the possibilities of borrowing additional funds from major surplus countries.

Four other important steps have already been taken or are in process. First, countries will be able to borrow substantially more from the IMF, enabling them to sustain positive growth rates and thus sustain world growth, and at the same time maintain the needed imports while they take the adjustment measures to bring their economy into balance. Second, the period for implementing

IMF adjustment programs is being lengthened in recognition of the time required to accomplish the structural changes that are needed in this complicated world. Third, the maturities of some of the IMF credits have been lengthened, again in recognition of the structural nature of some of the economic changes that are required. Fourth, greater emphasis is being placed on stimulation of productive investment and enhanced supply to enable countries to maintain living standards while the basic adjustments, particularly in the energy area, are undertaken.

These efforts by the IMF closely parallel a major initiative being undertaken by the World Bank to promote structural adjustment in the developing nations. The Bank has initiated a new program of non-project lending in the form of sequential loan agreements over a medium-term period of five to seven years. This is a new program with only a few loans so far. Disbursement of the loan segments and decisions on subsequent loans in the sequence are conditioned on various identified micro and macroeconomic policy changes by the borrowing country which are designed to affect the structural economic adjustment especially in response to the changing energy situation.

The United States strongly supports this bank initiative as an important and a necessary complement to its regular practice of project lending and its focus on energy development. By cooperating closely in implementing these programs, the Fund and the Bank can support efforts of their member countries to undertake difficult adjustments which necessarily have a medium-term horizon while simultaneously addressing their shorter-term external financing needs. At the

same time, it is essential that flows of development assistance, both bilateral and through the Development Banks, be sustained in order to permit the development process to continue during this very difficult period.

Major steps are underway to strengthen the resources of both the IMF and the Development Banks to enable them to carry out these tasks. It is in the national interest of the United States to participate fully in these efforts. And let me discuss these just briefly in turn. First, the International Monetary Fund, the purpose of the Fund is to maintain a strong and orderly international monetary system. It is a revolving fund from which all participants benefit directly. It is not foreign aid. It is not a commodity financing resource. It is a unique, not like any other institution in which the United States participates.

The IMF has two basic functions. The first is general guidance over the operations and evolution of the international monetary system itself. The second, which is closely related, is provision of temporary financing in support of adjustment programs by IMF members who face balance of payments problems. The IMF is a source of funds provided by all the member nations and available to all of them through their assigned quotas for supporting countries in their efforts to overcome balance of payments difficulties. A 50% overall expansion of quotas is now being proposed and has been agreed upon. This is an expansion from SDR $40 billion to SDR $60 billion or in dollar terms from $50 billion to $75 billion. The IMF has periodically required increases of its resources in response to the rapid growth of world economic activity and the

international and financial trade transactions.

Today, at a time when world payments and balances and demands on the IMF are rising sharply, the quotas represent only 4% of world trade as compared to 12 -14% during the 1960s. So to maintain a strong IMF capable of encouraging needed adjustment and providing for temporary financing, we must assure that its resources are adequate to meet these potential needs. Quotas are the key to the IMF operations. They are its permanent resources. They determine the amounts of financing which countries can draw in time of need. They determine the distribution of SDR allocations. They determine voting power.

Because of these advantages, nations compete for increases in IMF quotas rather than trying to reduce their shares as they do in many other financial institutions. The United States has, by far, the largest IMF quota, the largest share of votes, and the largest potential access to IMF resources. Over the years, the United States has drawn about $7.5 billion in foreign currencies from the IMF, second only to the drawings by the United Kingdom. The last time we drew was in November 1978, when we took down $3 billion equivalent of German Marks and Japanese yen to counter the speculation against the dollar. And without those resources, we would not have been so successful as we were.

In support of the general IMF quota increase, the administration has requested Congress' approval of a 50% increase in our U.S. quota, amounting to SDR $4.2 billion or about $5.5

billion. It is proposed that we increase our quota by the 50% so that we can maintain our 21.5% share in the IMF and thus preserve our voting position and our ability to influence key IMF decisions on the nature and operation of the international financial system which is critical to stability in the world.

Second, the World Bank and the Regional Development Banks, the Development Banks have received strong sustained U.S. support throughout their history. Active, undiminished support during the 1980s will be critical to fundamental U.S. economic, political, and security interests. Loan commitments by these banks represent by far the largest official source of external capital for the developing world, equivalent to about $14 billion in 1979. These loans contribute in a major way to the economic growth and stability in the developing countries.

Economic growth in the developing countries is an important U.S. objective, both in terms of basic humanitarian concerns and as a source of strength to the global economy as a whole. The developing nations today at a time of general slowdown in the world economy are the main area of world economic growth. They are the world engine of expansion. Growth generates increased demands for imports in these countries. And the non-oil developing countries take 20% of total U.S. exports. They receive 25% of our exports of manufactured goods and they support over 500,000 U.S. manufacturing jobs directly, not counting the ones that are generated by the economic activity that's associated. They are our most dynamic export market, so it's in our interest to see that they continue to grow and prosper.

In providing policy advice, preparing development projects based on objective economic criteria, and serving as a financial catalyst, the Development Banks are an important and respected force for the development of an efficient, responsive international market economy. They play a key role in the transfer of technology and in human capital formation which represents the greatest contribution to long-term development.

The Banks also provide an important forum for cooperative efforts among developed and developing countries to respond rapidly to critical world needs. Most recently, this has produced initiatives in two key areas, in addition to the area of structural adjustment which I've already mentioned. First, the United States has actively supported a shift in the allocation of lending by the Development Banks away from infrastructure projects – dams and electrification and whatnot – toward agricultural and rural development and subsequently, toward education, health, and population projects, as the banks increasingly have adopted a basic human needs strategy to target their project benefits directly to poor people.

The World Bank is far and away the largest single source of external funding for agricultural and food production providing over 40% of all official commitments to agriculture in the developing world. Over the five years ending in '79, total lending commitments for these projects were $11.5 billion representing one-third of all total lending. The World Bank expects to finance projects which will contribute on the order of one-fifth of the increase in annual food production

in the developing member countries in the 1980s.

Second, with strong support from the United States the World Bank is moving to intensify its program for energy exploration and development. It has already programmed financing for oil and gas projects which combined with other official and private financing will total more than $33 billion over the next five years. This effort should ultimately yield an additional 2.5 million barrels of oil equivalent per day. By increasing the world energy supplies, this will help reduce pressures on world oil prices as well as to deal directly with one of the most critical bottlenecks to development for these countries.

So we can see that the international financial institutions, the two kinds – the monetary type and the development type – with strong U.S. leadership, are moving forcefully in directions that are essential to maintenance of a strong and stable world economy and are directly in the U.S. interests. But there is at least potentially a critical weakness in this approach. And that is the fact that the United States, whose full participation above all is needed for these institutions to carry out their task, the United States is falling seriously behind in providing financial support. U.S. arrearages to the multinational Development Banks have been increasing in recent years and now exceed $1.3 billion.

We are the only major contributor that is behind in our commitments. We are behind because we've not been able to obtain the full and timely Congressional approval for our requests. For

example, the legislation authorizing U.S. participation in providing additional funds for the Inter-American Development Bank, western hemisphere only, was needed to implement an agreement among all the donor nations for increased funding. It's an agreement among nations. It takes all of them appropriating the money for the money to come in. And so although this legislation was submitted to Congress in January 1979, there were lengthy delays and the bill was not signed into law until 18 months later.

As a direct result of the U.S. delays, the Bank was forced to suspend all new lending operations for about eight months. And that suspension affected every developing country in this hemisphere including such key nations as Brazil and Mexico and posed particularly severe problems at a time when we had many, many problems for the smaller countries of Central America and the Caribbean. No wonder that other kinds of ideologies make inroads when our support is unsure, interrupted, and can't be counted on.

Similar delays in passing authorization legislation for the Asian Development Fund halted the concessional lending by that institution to some of the poorest countries in the world such as Pakistan, Nepal, and Bangladesh and interrupted lending programs for key U.S. allies such as Thailand and the Philippines. Indeed, at the very time the West was trying to respond to the Russian invasion of Afghanistan, all Asian Development Fund lending to Pakistan was being held up by our legislative delays blocking more than $250 million of aid that was in the pipeline – while we were struggling to find another $100 million we were holding up $250 million.

As of June 30 this year, the midpoint of the year for the Asian Development Fund, they had only been able to make loan commitments that represented less than 8% of their program for their entire year. Six months into the year, only 8% committed because of the holdup. Legislative approval for our contribution to the sixth replenishment of the International Development Association, which is the World Bank's concessional lending window, is now needed in order for that entire replenishment agreement to take effect. And if it doesn't take effect, that means that the World Bank will be suspending its loans to the most critical countries.

The Congress is now considering major legislation to increase the U.S. quota in the IMF, to authorize the U.S. participation in the sixth replenishment of IDA which I just mentioned, and to fund this year's contributions to the multilateral development banks. Failure by the United States to participate fully and promptly in these funding programs would not only jeopardize their lending operations, it would disrupt our own strategy to deal with the most serious world economic crisis of the post-World War II period.

The fact is that this country has come to take for granted a world economy hospitable to its own interests. To be sure, there have been economic tensions and instability in the past. Yet, because it has been handled with relative ease and efficiency, we have tended to assume that stability and order were the natural state of affairs. We have allowed our support to the institutions designed to assure that stability and order to erode. We can no longer afford this assumption and this

neglect. We must recognize our own strong self-interests in actively provided needed financial support to the institutions as they confront the problems of the 1980s.

In doing this, we might bear in mind two additional points. First, participation in these institutions is of minimal cost to the United States. The monetary character of our transactions with the IMF assures that for every dollar we transfer to the IMF under our quota, we receive an automatically available interest, automatically available, an interest-bearing reserve claim on which we can draw foreign exchange. So consequently, the U.S. transfers to the IMF under our quota have no effect on our budget expenditures or the federal budget deficit. We just have an asset in the IMF. We merely make that asset available to use in the IMF and to draw on ourselves.

U.S. payments to the Development Banks likewise have little budgetary cost. Financial responsibility for the banks is shared broadly with many other countries – developed and developing alike. And the banks raise the largest part of their resources through the private capital markets. This cost sharing principle and reliance on private markets together, those two operating together, allow major Development Bank lending at very small cost to the U.S. taxpayer.

For example, the World Bank lends about $50 for every dollar paid in by the United States. For the banks as a whole, lending from the very beginning of their inception has financed about $11

billion of exports in U.S. goods and services. That is direct projects financed by these banks, not the indirect effects. And we've only contributed $7 billion. Let me repeat that. From the very inception of the banks, we have contributed $7 billion and we have generated $11 billion in U.S. exports. And these purchases of U.S. goods and services have major beneficial effect on U.S. employment and profits. And as they work through our economy and with their multiplier effect, they yield $3 of GNP for every dollar we pay into the banks. And this, in turn, leads to higher incomes and higher tax receipts. So ultimately, the net budgetary cost to the United States is very minimal.

A second major point, our participation in the institutions provides major leverage for obtaining financing by other countries and assuring a fair and effective burden sharing with other nations. The United States over the years has consistently sought a more equitable sharing of international assistance provided through the Development Banks as a fair assumption of increased responsibility by other nations in today's pluralistic world economy. At the beginning we carried a big load. We've been trying to get a fairer share from other countries. This effort has been highly successful and the U.S. share is declining in every Development Bank in which we participate.

For example, we've been able to reduce our share in the World Bank from 35% in 1945 when we started the World Bank to 22% today. And our share in IDA from 43% when the IDA Fund was started to 27% under our current proposal. But we must be careful not to travel down that path

too far. The United States must continue to play a substantial role in the banks, not only because of the broad benefits we derive from having the projects draw on U.S. exports and create activity here, but in order to retain our influence and therefore to gain a measure of cooperation in the world. It is axiomatic that if we do not support other nations in achieving their legitimate economic objectives, we cannot expect their cooperation in achieving ours. And I might say that if we leave competition in the world only to the military option, we will cut ourselves very short. We should have the option of being economic partners to gain a consistent path toward policies that support peace and prosperity.

Let me sum up some of these complicated thoughts by saying simply that the international economy is in a critically difficult period – easily as dangerous as any since the Second World War. Success in overcoming global difficulties is essential to success in dealing with the problems confronting our own nation. The international financial institutions with strong U.S. support and leadership are positioned to guide the international effort. But a potentially major threat to this effort is our own failure, a failure to recognize our own self-interest, to provide full and timely financial support for these institutions. This must be corrected. The world community has charged these institutions with enormous responsibilities. They must have the resources to do the job. The costs to us are minimal, the potential benefits are enormous.

These issues and concerns are not esoteric debating points to be thrashed out solely by government officials in Washington. Leaders of the business and financial community in this

country, many, perhaps most of whom are here tonight, must assume part of the responsibility for making the American people aware of the benefits of strong U.S. leadership in the international financial institutions. Once the facts are known, then I am confident the American people and the political process will respond with the necessary support that is so clearly in our national self-interest and so clearly in the interest of peace and prosperity in the world. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN EDMUND. T. PRATT, JR.: One of the fascinating things about the Economic Club is its variety. Some of our speakers amuse us and some merely entertain us and some challenge us. I think it is a tribute to this Club and to this audience that the senior financial officer of our nation would ask to bring to us, to bring before us these significant and complex and difficult problems that our government feels are significant to our future in the years ahead. Thank you Mr. Secretary. (Applause) Now as is the tradition in our Club, the Secretary is now fair game for our two questioners. It is, I assure you, a mere coincidence that both happen to be Republicans. We couldn't find any Democrats. That's a joke. The first, as the traditional way for asking questions, the two questioners will alternate questions and they are not just limited, of course, to the subject of the speech, but any questions that they believe will bring out information of interest to our audience. The first question will be asked by Mr. Greenspan followed by Ed Palmer.

ALAN GREENSPAN: Mr. Secretary, I'll get to Republican-type questions a bit later, but first let me ask you a nonpartisan question.

THE HONORABLE G. WILLIAM MILLER: Thank goodness because I was planning to charge this transportation to the Treasury Department. (Laughter)

ALAN GREENSPAN: If it's going to be pro-rated, it won't help that much. You point out, Bill, that the oil importers are already beginning to run up against their borrowing capacity. And I think a number of us see this in a lot of different countries. If so, are we wrong in projecting continued real increases in world oil prices over the next ten years? How can the implied deficits be financed, especially the size and the numbers that you've been coming out with in recent months?

THE HONORABLE G. WILLIAM MILLER: Alan, in the short term, as we all know, these deficits fall in various ways. We could estimate that the deficit this year will aggregate about $110 - $120 billion, being the surpluses on the oil exporting side. My estimate would be about $70 billion of that will fall on the developed nations. We're seeing countries like Germany that have always had surpluses for 20 years going into deficit, Japan in a serious deficit, and many European countries. And those nations have reserves and resources and will be able to handle it. The $50 billion that falls on the developing countries, short-term some of that is with the

advanced developing countries, some that have fairly good positions and credit ratings and can handle it, a number of which do not. Short-term I think the financing can be handled within the traditional system. But one of the reasons that we're talking about the need for beefing up the financial, the international financial institutions, is to create a longer term process of adjustment and greater resources so that we can continue to see the world progress economically while we try to reduce this imbalance in the world. Now we cannot do that by just waiting for the absorption capacity of the oil exporters. We've got to have a concerted effort throughout the world to reduce the need and use of oil itself and thereby bring about pressures which will avoid the ten-year increase in the real price of oil which will make the problem perhaps insurmountable. It's for that reason that the U.S. has hammered out over the last few years a national energy policy with great difficulty, but it's beginning to pay off. We're beginning, we're now importing 20% less oil than we did in 1977. It's for this reason that the Venice Summit included a commitment of the developed nations to break the linkage between economic growth and the growth of the use of energy and to generate by 1990 the equivalent of 15 million barrels of oil a day in alternate energy sources. It's for this reason that the World Bank is not only carrying out the oil development program that I mentioned, energy development program – oil and gas to start with – but it's planning to expand that so that as we finance the intermediate term problems, we go at the root cause of the problem by reducing the amount of imported oil needed by these developing nations and thereby giving them the prospect for continuing their growth without facing this kind of difficulty. It all means that international cooperation and effort is essential. And it means that we cannot predict with certainty as to success but we certainly do

know for sure that it will be necessary to change the equation of use of oil and the sourcing of oil and the price pressures on oil if we're to handle the problem over the decade.

EDWARD L. PALMER: Mr. Secretary, to turn for a minute to the domestic side, to the best of my knowledge, you're the only man in history who has had the distinction of being Chairman of the Federal Reserve Board and then Secretary of the Treasury. And this gives you an unusual perspective in which to view the problems affecting, or regulating the growth in the money supply from both the inside and the outside. And I wondered if you could share with us some of the problems that you see having had this double vision on the subject.

THE HONORABLE G. WILLIAM MILLER: Well, I was the fifth Chairman of the Federal Reserve and the 65th Secretary of the Treasury. You see how I've aged. But I could spend the evening sharing these thoughts with you. It's absolutely essential if we are to wring inflation out of our system that we have a disciplined monetary policy. The difficulty, Ed, as you know, is that the character of money is very flexible and there's tremendous innovation and development in the world and the creation of credit and the equivalent has been so rapid that it's been very hard for the Central Bank to always keep track. Its statutory powers were inadequate for example. And as you know, we fought very hard and finally succeeded with the whole financial community in support I think in the end of creating a major revision of the monetary laws so that for the first time in the history of the republic we will have a Central Bank that will have responsibility for all depository institutions and that is a major reform. It was signed into law in

March. That came out of my experience at the Federal Reserve where I saw that we couldn't solve the problem of dealing with monetary control with a Federal Reserve that a few years ago had a responsibility and had monetary control over institutions with 85% of the deposits suddenly drifting down to 50% and going lower. And at the time when you needed more ability to operate the lever of monetary control, the lever was becoming very, very inaccurate. And frankly, we're going to suffer for a few years until the transition into the new system is completed. And I think we're still going to see gaps. But as we have found, the market system is a powerful force. And at times that monetary or political authorities have tried to interfere with the market system, there's usually been an invention of a new technique and this has made it necessary recently to redefine the monetary aggregates to make sure that we are identifying what it is that grows and what it is that creates inflation or power. And those reforms were also important. So I think we have, and we have now the problem of lag reserves and coincident reserves. We have a whole series of technical problems. Fundamental to it, I believe is the absolute good faith and desire of everyone I know at the Federal Reserve to do a conscientious job to find out how to reform the technical side and how to exercise the power of the Federal Reserve to control the rate of growth of money and credit to be consistent with price stability over time. We cannot do that from an 8 or 9% basic inflation rate to zero overnight. But we must have a constant path toward bringing that down. I think that is the objective and I think the reforms have come slowly. There was great resistance in the monetary authority, for example, to disclosing its targets for growth. Everyone said that would be terrible. In retrospect, I think disclosing the targets has made it possible to enforce a discipline because it's possible for you to

measure whether the Federal Reserve is doing what it says it's going to do and therefore to criticize it or to bring pressure. It's an issue that is essential to our long-term objectives and very complicated. And I don't believe we've done all the reforms we need, but I think we're well on the way with some major ones.

ALAN GREENSPAN: Last week President Carter advocated that an Industrial Development Authority be set up to attract pension fund money to industries "in areas affected by economic dislocation." I read that as pension funds being pushed into risky investments. Will the U.S. Treasury guarantee such investments? And if not, who will bear the loss?

THE HONORABLE G. WILLIAM MILLER: Well, I knew we'd get to these questions. (Laughter) What the president said, and very wisely said...(Laughter)...was that he would appoint an Economic Revitalization Board of outstanding Americans from business, labor, and the public – an outstanding economist could be a possible candidate – (Laughter) to give advice on the broad range of issues dealing with the revitalization of our economy. We will face the problems of technology, of productivity, of export, of positive adjustment for displaced workers, of all of the issues of economic policy that need inputs from those who operate in the economy and understand it. And he charged the board also to give advice on the possible establishment of an Industrial Development Authority that would seek ways to carry out development in the areas impacted by economic dislocation and to consider ways in which private capital markets and pension funds could be utilized in that process. He didn't single out pension funds. But let me

say that we now have in the federal government, for a long time, a number of activities, a number of agencies that are involved in regional development. We have the Economic Development Administration in the Commerce Department. We have the Urban Development Action Grants in HUD. We have activities in the Agricultural Department strangely enough. We have the Small Business Administration. We have a whole series of such things adding up to a number of billions of dollars. A few years ago the administration proposed that some of these activities be consolidated so that instead of a series of complicated different agencies all trying to do the same thing, in some ways that they might be coordinated. And a possibility is that that would be one direction. We don't know whether the Board would recommend that or what. But we are now doing this sort of thing and it would be a mistake for anyone to assume we're not. It's been there for a long, long time. It isn't the generation of this administration. It goes back for some time. And therefore, should it be reorganized? Should it be done a better way? Presently, these programs, EDA, UDAG, make project financing only when they're coupled with private capital. So they're already doing this. The question is, is it being done right? Should it be done in a different way? Can it be more effective? And I think the president and the administration is absolutely open-minded and will listen to what wisdom can be brought by wise people as to how to do the job better and how to do it effectively and whether it needs to be done solely by the government or whether there needs to be a joint operation and I think we approach it completely open-minded.

EDWARD L. PALMER: Mr. Secretary, in examining the ways to stimulate exports, if you had

your choice, what would be two or three changes that you would like to see made in our tax laws to improve our international competitiveness?

THE HONORABLE G. WILLIAM MILLER: Well, Mr. Palmer, I thought you were going to question tonight, but that sounds like Reg Jones has made the question. And as Chairman of the President's Export Council, I will of course answer. The things I would like to do are the recommendations of the President's Export Council with Mr. Jones here and they are very wise. The tax laws, the thing that is highest priority I think on the list of those who studied it is tax relief for Americans overseas in areas where we need Americans if we are going to sell and service American products. In many of the areas of the world that are developing with large projects, large activities, if American taxation is so onerous that American companies must make up the tax burden and the cost per employee becomes so high that the American company can't compete for the project, then we lose the business, we lose the opportunity. On the other hand, if the American company says, well, I can't afford to send Americans but I'll hire some Frenchmen, some Englishmen, then he gets those into a country and they start working on the project. And what they think of is ordering the electric motors from their home country because that's what they know. And they've been taught as engineers or as designers to call on the specs that they know. And what happens then is they get the job done and the American company may be the project manager, but we don't get any American products sold. And the president has proposed that he will send up in January some changes in this direction. That's the first thing. I think beyond that I'm not sure that the tax laws are the place where the problems reside. I think

the Export-Import Bank is important. Its resources are important. I think that the trading, the Export Trading Company that has been developed through the Export Council is a new idea which just passed the Senate 77-0. It's another important initiative in which banks might become involved in using their network of knowledge in the world to help smaller and medium-sized companies who can't afford to staff themselves all over the world to find markets. And by joining them together and giving some exemptions from antitrust laws and allowing them to be packaged up – big companies can do this, but the medium-sized, smaller companies can't. And what we're going to create from that, I think, over time is an awareness of the value of exports. The American market has been so big and so lucrative and so much in one language and one set of standards that it's been a great barrier for smaller companies particularly to translate their product into new specs, new advertising, new brochures, new writing, new standards. And it's so expensive that they won't do it. But if someone else has that knowledge and can help them, I think we can gain in that area. And the foreign tax credit regulations which, I don't say that that has to change because the tax laws probably may need some reform in the future, but the Secretary of the Treasury has developed some regulations for foreign tax credits that are so sensational that that problem will be solved before the end of the year. (Laughter) And, of course, I don't want to tell you about them right now. But all you bankers can relax. Thank you.

ALAN GREENSPAN: Mr. Secretary, the heavy indebtedness of certain governments to Euro currency banks raises the possibility of significant defaults. Should such defaults threaten the solvency of one or more American banks, is the Treasury and the Fed prepared to step in to give

unlimited support or are there limits?

THE HONORABLE G. WILLIAM MILLER: Alan, would you...I'm sorry, I really just didn't hear the first part of that, would you just repeat the first part?

ALAN GREENSPAN: I was saying that at the moment there's considerable concern about the heavy indebtedness of certain governments to the Euro currency banks.

THE HONORABLE G. WILLIAM MILLER: Governments, okay, I just didn't hear the word government. The answer is a complicated one because this problem goes back for some time and in the Council of Central Banks generally, and particularly working through the Bank of International Settlements where the G-10 nations, the largest ten nations in the world meet monthly – their central bankers meet monthly – there's been an effort to not wait for the failure of the bank but to begin to address the problem earlier and avoid it so that you don't have to answer your question. Because if we can avoid major failures, then we avoid the question of whether unlimited resources are necessary. But the problem is first, the very nature of Xenocurrency markets. I say Xenocurrency because Euro currencies, you know, are no longer the situs. We have Hong Kong. We have Singapore. We have Cayman Islands. We have this all over the world and so we have to look at the world as the problem. And several approaches have been taken. The first was to do a considerable amount of work on country risk and therefore begin through the supervision technique to make sure that banks didn't get overexposed. Second,

to exercise more prudential guidance and particularly a number of countries are beginning to move toward supervising their banks on a consolidated basis which some major countries are not yet doing. So that the activities of banks in Germany operating through subsidiaries in Luxembourg have been hit because the German authorities could not deal with the Luxembourg activities. And the risk is enormous that an overexposure in lending through Luxembourg could topple a German bank and topple the whole structure. The Germans are moving to deal with this issue. There was talk and study of whether a uniform system of controls would be necessary, but on all of these fronts there has been substantial progress and a sense of, I think, and a growing sense of urgency and importance to deal with it. Now having said that, and therefore, having assumed that the Central Banks are doing a much better job, then we minimize the risk. If the risk is fulfilled, and some mistake, and some failure anyway, I believe that we have to use enormous resources to prevent a serious disruption of the financial system of the world. And I think we have to be willing to face that up. Now there is talk, and particularly by Mr. Gerth, the head of Deutsche Bank, of some joint bank system of a safety net where the banking system itself would have a pool of funds of large amounts to step in. Whether or not that's needed or not is still to be studied, but it again is part of the thinking that's going on as to how we anticipate and deal with a failure. But in my talks, when I was at the Federal Reserve, with major other central banks, we had a gentleman's agreement that if a problem came we would go in together and therefore be able to share the burden and avoid the serious disruption. Whether that still exists, I don't know.

EDWARD L. PALMER: I'd like to try one that's on a similar topic. I think there are some people who sense that there is growing view among government officials around the world that floating exchange rates have not worked very well. Do you view the European Monetary System as a step towards removing exchange rates from the marketplace? And what, for example, are your views in general on the advisability of greater official control of exchange rates?

THE HONORABLE G. WILLIAM MILLER: Well, Ed, in the first place I've always viewed the EMS, the European Monetary System, as a courageous step in the right direction because we have favored for a generation the concept of economic integration in Europe. And if you believe that, then it follows as the night to the day you must believe in monetary integration because one must, I cannot imagine the United States of America with 50 currencies. And if Europe really intends to have an economic community, then it must work toward a European currency. So that's a step in the right direction. It was criticized by some people as perhaps falsely thinking it was an attack on the dollar. I think it was a step in the right direction. It took courage because for the nations that have low inflation and strong currencies it runs the risk that in trying to accommodate and compromise, you may have inflation leak into your system if you're not able to get the discipline in the nations with higher inflation rates. So those with low inflation and strong currencies ran a risk. But the system is experimental. It's worked fairly well. But it is not rigid. As you know, they've already had two major adjustments to take care of letting off the steam because if they merely had to force the currencies into a rigid pattern forever, something has to give and that giving might be too disruptive. So the process is working well. It creates a

zone of stability that can relate to the dollar which must be a western hemisphere and world currency. And I think you must consider the yen as the other link in it. And the more that we can simplify the relationships between major currency units that are used in international trade and commerce, the more we facilitate some system toward a more orderly adjustment between currencies. I think we'll always have to have adjustment between currencies. We had them in the fixed exchange rate system. We did it through official devaluations or revaluations. Now we do it through the marketplace and we've learned that we cannot have a dirty float or a free float. We have to have a managed responsible float. We've learned to do it better. And I think as these zones develop and as we develop perhaps an international reserve asset through the IMF at some point, I think we are working slowly toward a more orderly system that is quite promising. Certainly for two years now, the dollar has not been a problem, and we've gotten past the difficulties that we originally had and we've learned to live within and I think do a good job. And that's it.

CHAIRMAN EDMUND T. PRATT, JR.: We've got to let the Secretary get back down to the Potomac so I'd like to ask for just one more question from each questioner. So you can pick out the best one you have left. And before we do that, Economic Club dinners by their nature have forever attracted outstanding public and private leaders to our dais and to our audience. And it has not been a practice normally to recognize those, but I think tonight we'll make one exception in that we recently had join us a public figure who has been a critical part of the New York scene for many, many years. And it is our pleasure and privilege to have with us the Senior Senator

from New York, Senator Jack Javits. Jack, it's nice to have you here, (Applause) who strained himself coming from a late vote in Washington to at least be with us briefly tonight. Thank you Jack. And your last question, Alan.

THE HONORABLE G. WILLIAM MILLER: Before you ask the question, I might say I'm delighted to see Senator Javits here. He's a tremendous supporter for the international financial institutions and so he's at the right meeting.

ALAN GREENSPAN: Bill, on a more serious vein (Laughter), whatever happened to the three-martini lunch in tax reform? (Laughter and Applause)

THE HONORABLE G. WILLIAM MILLER: When I came to the Treasury 13 months ago, I was cleaning out the wastepaper basket and I found it there, and left it. (Laughter and Applause)

EDWARD L. PALMER: Bill, this is a question that Senator Javits will find dear to his heart. The United States has typically championed the cause of free trade among nations, but I think over the past year or so, we see increasing calls for protection that come from various sectors of the domestic economy. And I just thought in a word as you go that you might give us your view on how we ought to be responding to these calls?

THE HONORABLE G. WILLIAM MILLER: Well, fundamentally as I've said this evening, it is

in our interest to maintain the freest possible trade relations in the world, the most open economies, the greatest degree of openness for trade and for capital flows. That's the ultimate objective. In the process of economic evolution, there are times and periods, no doubt, when we will continue to have under our existing laws cases where international changes, trade, are deemed to be predatory, unfair, and which we will have to have a mechanism for testing that in a fair way. I think the codes that have been developed through the MTN negotiations are endeavoring to establish not only openness but to be sure that the ground rules are such that there is a responsible and fair system for all participants. And to the degree that we can get those codes adopted widely and adhered to widely, and we can thereby avoid the subsidies that create unfair and predatory practices and the more that we can create a system in which the marketplace operates on true costs and true competition, the better off we are. We can't expect that perfect world overnight so we'll continue to have instances where we will have private parties take actions under codes or laws and nations take actions under codes and laws. And I think we'll just have to deal with those on an individual basis, keeping constantly before ourselves the principle that we must work toward openness and freedom of competition. And while we are tempted from time to time to think that we can solve our domestic problems by some precipitous change, we could be disillusioned because quite often the problems get deeper and require us to readjust our own longer term thinking. The theme that we pursue of trying to create economic revitalization which I think is a common interest of all Americans is the recognition that our productivity has declined and our own competitiveness has declined. We can't solve that by asking other people to forego for the market. We can only solve it by doing the job ourselves. So while we deal with

the individual problems, we shouldn't be tempted to have our own shortcomings as an excuse for action that we'll regret. Instead, we should put ourselves to the task which I think we're highly capable of, of showing the innovation, the drive, the will, the determination to re-establish Americans as the preeminent producers, the most effective, highly technical, successful productive units of the world which has always been our theme. And that's the course we must follow to solve the problems rather than some sort of shortsighted protectionism. Thank you all very much. (Applause)

CHAIRMAN EDMUND T. PRATT, JR.: I can think of no better way to have started the 73rd year of the Economic Club of New York than to have before us our fine Secretary of the Treasury. Bill, thank you for being with us. (Applause) And now finally, this lovely article I have here is a Steuben apple which, it won't take you too long to figure out, is representative of the Big Apple and is a souvenir of appearing before our Club. Take it with our thanks, and once again thank you for being with us. (Applause)