WHORM Subject File Code: IT023 (International Bank for Reconstruction + Development)
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IT023

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

INCOMING -NHSD

DATE RECEIVED: JANUARY 14, 1986

NAME OF CORRESPONDENT: THE HONORABLE ROBERT W. KASTEN JR.

SUBJECT: HE HOPES THAT IN SELECTING A NEW U.S. WORLD BANK EXECUTIVE DIRECTOR THAT HE HAVE THE ABILITY TO SUPPORT THE POSITION OF THE ADMINISTRATION ON RESOURCE PROTECTION

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION: ACT CODE	ACTION: DATE YY/MM/DD	DISPOSITION: TYPE RESP	DISPOSITION: C D	DISPOSITION: COMPLETED YY/MM/DD
M. ~~B.~~ OGLESBY	ORG	86/01/14	MO	A	86/01/15 TR
REFERRAL NOTE:					
PP Bull	A	86/01/17	TR	C	86/01/21 AB
REFERRAL NOTE:					
PP Waldman	A	86/01/21		C	86/02/05 AB
REFERRAL NOTE:					
~~PP Sullivan~~		/ /			/ /
REFERRAL NOTE:					
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COMMENTS:

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES: 1220

__ MAIL USER CODES: (A)__________ (B)__________ (C)__________

*ACTION CODES:	*DISPOSITION	*OUTGOING CORRESPONDENCE:
*A-APPROPRIATE ACTION	*A-ANSWERED	*TYPE RESP=INITIALS OF SIGNER
*C-COMMENT/RECOM	*B-NON-SPEC-REFERRAL	CODE = A
*D-DRAFT RESPONSE	*C-COMPLETED	*COMPLETED = DATE OF OUTGOING
*F-FURNISH FACT SHEET	*S-SUSPENDED	
*I-INFO COPY/NO ACT NEC		
*R-DIRECT REPLY W/COPY		
*S-FOR-SIGNATURE		
*X-INTERIM REPLY		

REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE (ROOM 75,OEOB) EXT-2590
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS MANAGEMENT.

January 15, 1986

Dear Senator Kasten:

Thank you for your January 10 letter expressing your concerns about the performance of the Multilateral Development Banks, and recommending that the position of United States Executive Director for the World Bank be held by an individual who gives primary concern to resource protection.

We appreciated your outlining the particular reasons behind your recommendation. We will be pleased to share your comments with the appropriate people here.

With best wishes,

Sincerely,

M. B. Oglesby, Jr.
Assistant to the President

The Honorable Robert W. Kasten, Jr.
United States Senate
Washington, D.C. 20510

MBO:KRJ:JID:jid

cc: w/copy of inc to Katja Bullock - for appropriate action
cc: w/copy of inc to Bob Tuttle - FYI

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Rec 365748

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510

January 10, 1986

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As Chairman of the Foreign Operations Subcommittee of the Senate Appropriations Committee, I have become deeply concerned about the performance of the Multilateral Development Banks. A major portion of this effort has centered on the unacceptable environmental consequences of loans made by the World Bank.

As work progresses in selecting a new U.S. Executive Director for the World Bank I hope considerable attention will be focused on the ability of that person to support the position your Administration and I have taken on resource protection. I believe it is essential that the United States continue to be the world leader in promoting resource and environmental protection in conjunction with economic development projects. Without a strong U.S. position I believe that the Multilateral Development Banks will continue to finance projects that lead to the collapse of essential resource bases in developing nations and subsequently cause widespread human and environmental suffering.

Many thanks for your help on this.

Respectfully,

Bob Kasten

Robert W. Kasten, Jr.

RWK:gae

cc: Robert Tuttle

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NOTED BY DTR

IT023

THE WHITE HOUSE

WASHINGTON

December 5, 1985

PERSONAL

MEMORANDUM FOR DONALD T. REGAN

FROM: ALFRED H. KINGON AK

SUBJECT: World Bank Candidates

As promised, here are some names for consideration for the head of the World Bank. I will give you an Agriculture list next week.

1. John Whitehead. An obvious candidate with all the right credentials, temperament, etc. However, I know from private lunches with him that he is very happy at State and would be reluctant to leave.

2. Bill Haynes. Retired Chairman of Chevron. From California. Early retirement at age 55. Known to the California crowd. Experience overseas, especially in the Mideast. Was recommended by Walt Wriston, who says he is "the smartest businessman he has ever met".

   Haynes is a businessman and would not have the potential conflicts that either a commercial banker or an investment banker might have.

3. Jim Robinson. Chairman of AMEX. Robinson is also a businessman with great international experience. I do not know whether he is interested. His reputation up on the Street is one of high competence. Many of his company's divisions are international in scope.

4. Looking into the banking area, Bobby Stewart, who is 60, and was the former head of InterFirst in Dallas. They had a problem some years ago with one of their two banks and Stewart came out of retirement and solved the problem. He is well thought of both in New York and Texas banking groups.

5. Richard Debs, 55, is a managing director of Morgan Stanley. Has great experience in management and administration. He put many reforms in place for the New York Fed and then spearheaded management reforms throughout the Fed System. He has had much experience internationally. Is good in international thinking. And, is very much pro-Reagan.

6. Ambassador Bill Middendorf, whom you know. Also has the right credentials in banking and international experience as Ambassador to the EC. As you related to me, he left a "clean" bank and could be counted on to keep a proper perspective on the again weakening LDC debt situation.

7. Richard Schmeilk. Sixty years old. At Salomon Brothers. He is not a world class name but has vast international investment experience. Is very smart and would like to come into the public sector. He has the strong endorsement of Walt Wriston if we choose someone in the banking sector.

* * * *

Another name that has been suggested is Nick Brady, who has the credentials and has proven himself adept at politics and could be counted upon to be a team player. However, he is very much a part of the Vice President's political apparatus and I do not know whether he is interested. Additionally, as I previously reported to you, friends of Bill Simon have put his name in to me for consideration by you. Subsequently, Simon called me giving me an unclear picture of whether he was really interested or not. Some other friends have insisted that he is not interested.

will go substantially beyond the real value of IDA's resources of the Fourth Replenishment. And despite our own economic difficulties we are prepared to maintain our existing share of resources to be contributed by the traditional donors. But we hope and expect that there will be new donors also. The oil-rich countries are already channelling substantial amounts of capital to developing countries through various mechanisms, and I salute their magnanimity. IDA is one of the most effective forms of development assistance, and we hope and believe that more of the wealthy OPEC countries will play their full part in this essential means of bettering the life of the millions who live in abject and squalid poverty.

One immediate task is to surmount the difficulty of effecting the transition from the Fourth to the Fifth Replenishment of IDA. To bring this about, we wish to see early discussions on means of avoiding a gap in commitment authority next year.

The United Kingdom believes that it is also of great importance that the IBRD should be financially strong enough to be able to borrow increasing amounts of capital on acceptable terms on the world's capital markets. We must not sacrifice the prospects of future growth, which will depend on the Bank's financial strength, by mistaken policies in the field of interest rates and lending terms, policies which would lead us to a drying up of the flow of money into the developing world. The suggestions from some quarters that the Bank should become more of an aid agency and less of a development finance institution are short-sighted. They would mean that the Bank would be less sure of access to the world's capital markets from which much larger amounts of capital are likely to be available than through governmental aid channels.

But it is the role of government to provide the Bank with the capital base which it needs as a foundation for sound and orthodox borrowing. We cannot for long tolerate a situation in which the growth of the Bank's lending program is halted by an inadequacy of capital and reserves. We agree with Mr. McNamara that means should be explored of enabling the Bank to avoid a fall in real terms in its new commitments in the financial year 1978; but what is of much greater importance is the need to embark soon on a discussion of a further increase in the capital of the Bank, and a much larger increase than the last one, one which should give the Bank room for maneuver for a good many years to come. We should aim to get agreement on this to come into effect not later than the financial year which begins in mid-1978.

But important as the enlargement of the Bank's capital is, the critically urgent task is to proceed rapidly with the replenishment of IDA, and we hope that this message will emerge as the clear view of this Annual Meeting.

UNITED STATES: WILLIAM E. SIMON

1976

Governor of the Bank and Fund

Once again, it is a distinct honor for me to address this distinguished body. We are fortunate to meet in this beautiful land, a nation known for

its traditions of warm hospitality and a nation with which the United States has long maintained the strongest of ties and the warmest of friendships.

There is an old Chinese saying, eloquent in its simplicity, which merely says: "May you live in interesting times." Without a doubt, we who are gathered here today have lived through some very interesting times together. The period since I joined the U.S. Treasury nearly four years ago has been one of extreme tension, even danger, in international economic affairs. Repeated shocks threatened the traditions of cooperation that are the foundation of world trade and investment, as well as general monetary stability. Differences among nations over principles and objectives brought into question our ability to preserve a free and open international trade and investment system.

We have witnessed the development of an inflationary virus stubbornly resistant to our attempted remedies; we have experienced an oil embargo and price increases that disrupted the world economy; and we have lived through the deepest international recession of the postwar era.

We have done much to meet these challenges—but even more remains to be done. Today I would like to discuss both the progress we have made and the challenges we still face.

One of the characteristics that marked this troubled period was a growing recognition of our mutual interdependence. More than ever before, people around the world began to understand that the economy is at the heart of the body politic and that every shock it receives will ultimately be felt in terms of social and political—as well as economic—instability. The result of this new understanding has been that, despite all of the divisive economic pressures unleashed on the international scene in the last four years, international cooperation has not broken down and indeed, in one important area, major reform has been achieved—the first comprehensive reform of the international monetary system since Bretton Woods.

The international economic system is now truly universal, involving all countries, large and small. Between 1950 and 1975, the level of trade among market economies increased from $50 billion to $800 billion. This dramatic expansion of the world economy has coincided with the creation of scores of new nations and new centers of economic power. The price and supply of energy, the conditions of trade and investment, the expansion of world food production, the technological base for economic development are today the shared concern of every nation. And it is clear to me that we will either move forward with trust and cooperation or we face the dangers of retreating into economic instability and nationalistic conflict.

So far, we have followed the correct course of cooperation. And much of our progress is the result of the efforts of the men and women gathered here today. Speaking for myself, I am grateful for the chance that has been mine to serve with you—on behalf of my Government but also on behalf of the ideals we all share—during this period of reexamination and searching. I am also grateful for the education afforded me over the past four years—for both the many lessons learned willingly and the few learned not so willingly. But, above all, I am thankful for the high rewards of personal contact and friendship with you, my colleagues, and for the sense of genuine accomplishment that has grown out of our work together.

This brings me to the work that remains to be done, the task before us is a fourfold one:

—we must restore and maintain economic stability in our domestic economies;
—we must make the reformed international monetary system work;
—we must tackle with increased courage and understanding the difficult problems of development; and
—we must continue to work for a free and open world trade and investment order that is essential to a shared prosperity to all.

As we work together to achieve international economic progress each nation must follow responsible domestic policies to avoid disrupting both its own economy and inevitably those of other countries. Because of its size, this is particularly true of the U.S. economy. Following the most severe economic recession of the postwar era, the United States is now 1 1/2 years into a healthy and balanced economic expansion. If erratic shifts and excesses of government actions are avoided, this expansion will continue well beyond 1976, although the rate of growth will naturally tend to moderate.

The strength of the current expansion that began in the spring of 1975 is indicated by the increase in real output of goods and services which has averaged 7 per cent during the last four quarters. The rate of inflation, as measured by the GNP price deflator, has dropped from a peak of over 12 per cent in 1974 to the 5 to 6 per cent zone throughout 1976. Employment is at a record level of 88 million workers and 4 million new jobs have been created since the upturn in the economy, although the unemployment rate remains far too high reflecting the lagged effect of the recession and the extraordinary surge of new workers into the labor force. Despite the wide fluctuations in quarterly statistics, it is clear that a healthy expansion can be continued if policies focus on the longer-term goals of reducing both inflation and unemployment.

As expected, personal consumption has provided the basic thrust for the growth throughout the current recovery. Business spending did not accelerate as quickly as originally anticipated, but outlays for plant and equipment now appear to be improving and inventory buying is up to expectations. Government spending at all levels seems to be better controlled, and the strength of export sales has continued, although imports are now rising more rapidly. This has resulted in a swing in our balance of trade from a massive surplus in 1975 to a substantial deficit in 1976. The United States views this shift with equanimity because we recognize that it reflects the sharp increase in imports that has occurred as our economy has moved from recession to expansion. This adjustment is a proper reaction to changing economic conditions that the international monetary system can handle well if we do not seek to offset the effect of natural market forces.

The recovery to date has remained well balanced. It was never anticipated that specific sectors of the economy—such as automobiles or housing—would dominate the recovery, although sales of domestic cars have been somewhat stronger than expected, which partly explains the accelerated pace of spending early in the year. Nor have widespread capacity constraints or severe raw material shortages appeared at this stage of the recovery.

Best of all, fiscal and monetary policies have been carefully monitored to prevent the excesses that led to renewed overheating of the economy following the temporary benefits of faster growth.

While many called for more government spending and significantly faster expansion of the money supply in 1975 and even this year, the President strongly resisted. As a result, the recovery has proceeded to this point without building up excessive demand pressures for increased output or fiscal and monetary policies which would lead inevitably to a repetition of the familiar boom-and-recession sequence. This unfortunate pattern could be repeated, of course, if unwise policy adjustments are made to turn the economy toward excessive near-term growth. But this negative result can be avoided if responsible policies are followed. We fully intend to guard against a return to the stop-and-go policies that have disrupted the U.S. economy in the past.

Looking to the future, we expect the economic expansion in the United States will continue in 1977, but at a somewhat reduced pace. This is a proper pattern because continuation of the rate of output gains in the 6 to 7 per cent zone over an extended period of time would inevitably overheat the U.S. economy, once again leading to a new round of inflation, followed soon afterwards by recession and unemployment. Output gains in 1977 should be in the 5 to 6 per cent zone as output of the economy gradually returns to its long-term rate of growth.

Personal consumption will continue to be the basic strength of the U.S. economy, since it comprises two thirds of the total GNP, but the rate of increase in this sector will undoubtedly slow down. Business investment and continued modest gains in housing construction will provide most of next year's thrust for additional growth.

We expect inflation to remain at the 5 per cent to 6 per cent zone. This is a most unsatisfactory level of price increase and our nation must not and will not accept it. Employment growth should continue, although not as rapidly as during the last eighteen months, and the unemployment rate will continue to decline, particularly as the extraordinary growth in the labor force slows down.

In summary, while there are several worrisome problems to contend with, the likely overall course for the U.S. economy is favorable, assuming fiscal and monetary policies remain responsible. The key to achieving this relatively optimistic goal will be how well inflation is controlled. A resurgence of inflation would quickly erode both consumer confidence and actual purchasing power, which would restrict the personal spending that creates the driving force for the entire economy. In turn, business firms would curtail their spending plans which would erode current economic growth and delay the capital investment necessary for achieving our national goals, particularly the creation of new jobs.

In short, we must guard against a resurgence of inflation if we are to avoid a premature disruption of the economic expansion. This fundamental approach is not based on any obsession with a particular goal but is a realistic recognition that inflation destroys economic stability and leads to recession and unemployment. There never was and is not now a choice between inflation and unemployment. That concept is a fallacy. The real choice is between making steady progress on both inflation and unemployment or of returning to the stop-and-go economic policies that have failed to provide the needed stability in the past. Every nation faces this same problem and we must all strive for more responsible solutions. . . .

Development

. . . Our approach to the international monetary system has placed responsibility for the achievement of international monetary stability on the domestic policies pursued in each country. Our approach to economic development also places primary emphasis on the policies and efforts of each individual developing country.

At the heart of our policy is the concept of shared prosperity. This concept involves a mutually beneficial approach to development in today's interdependent world. In application, this approach means not only direct aid but, most importantly, a liberal trading and investment system.

We do not regard indirect resource transfer schemes—such as generalized debt rescheduling, price indexing, and commodity funds—as the best means to provide resources to the developing world. To the contrary, such proposals are likely to lead to inefficiencies and distortions which will make most, if not all, worse off.

I have already commented on the likely adverse impact of broad debt rescheduling schemes. With respect to commodity policy, we have stated on many occasions that we favor a case-by-case approach to the problems of individual commodities, and in particular a careful examination of the applicability of the buffer stock approach. Specifically we must ascertain whether the operation of a buffer stock is likely to lead to improved market operations or to a structurally higher level of prices for the commodity involved.

If it leads to structurally higher prices it helps a few countries, including those developed countries that are producers, but it hurts the larger numbers of consuming countries, both developed and developing. Even in the case of developing countries that produce the commodity, the "help" provided has a high cost. Funds used to finance the build-up in inventories could have been used for development purposes. To the degree that an artificial price level results, incentives to develop and use substitutes increase. Perhaps most important, the producing country allocates labor and capital to production on the basis of an artificially high and unsustainable price.

In the area of direct resource transfers, the United States has long been in the forefront of those assisting in the economic and social progress of the developing world. Much of what we have done has been governmental—through our bilateral as well as multilateral aid programs such as IDA.

I can assure you that the United States will continue its leadership in this area. Not only will we continue, but we will strengthen our bilateral aid programs, and we will continue our strong support for the international development banks. Our commitment to IDA and to a financially strong IBRD cannot be questioned. With respect to the regional banks, I am pleased that we have just received funds from the Congress to join the African Development Fund. We are now participating in a major new replenishment in the IDB. Here in Manila—the home of the Asian Development Bank—it is particularly gratifying to reiterate U.S. support for that institution. I was pleased to note, in a recent Development Committee report, that loan commitments in all these banks will increase from $8.3 billion to about $12.6 billion for 1975-1980, or 50 per cent, with the concessional share of the total increasing.

The American partnership with developing countries and development prospects of all countries depends even more importantly on our trade and investment links. The world-wide demands for capital in the period ahead will be massive and the competition fierce. Countries which wish to attract investment capital will find that establishing the proper domestic climate is essential. Countries which raise impediments to capital flows will simply not be able to meet the competition. The experience of many countries illustrates how this can properly be done. Countries and peoples as varied as the Taiwanese, the Brazilians and the South Koreans have dramatically raised their living standards and expanded their economic base. They have done so not only because of the amount of help they received, but because of the care and self-discipline they used in putting that help to work. Others can do the same, but only with the realization that developmental help involves a partnership and—like all partnerships—requires the best intentions and the best efforts of both partners in order to succeed.

We must all recognize that individual national economies can best achieve the goal of sustained noninflationary growth in a free and open international trading system. We need an open world market to allocate raw material and capital resources efficiently in order to supply abundant goods and services to all of our people at noninflationary prices. All the aid we can give will not help if it does not foster a prosperity shared by all. Achieving such a prosperity will require the close cooperation of both industrial and developing nations. We must, therefore, join together aggressively in the multilateral trade negotiations to take concrete and significant steps to eliminate tariff and nontariff barriers to trade.

As these areas for cooperation between developed and developing countries evolve toward greater mutual advantage, we must preserve the fundamental principles—such as reliance on market forces and the private sector—on which our common prosperity depends. Solutions must be dynamic and have widespread benefits. Thus, we must seek increased production and improved efficiency, not just transfer of wealth. Development assistance should be thought of, not as an international welfare program to redistribute the world's wealth, but as an important element of an international investment program to increase the rate of economic growth in developing nations and to provide higher living standards for the people of every nation.

In a sense this can be thought of as a process by which developed countries devote a portion of their savings to developing countries. The impact of this type of direct transfer depends on the amounts involved, the uses to which these funds are put, and the effectiveness with which the recipient countries implement development efforts. If these funds are devoted to financing a higher level of consumption than a given country can earn, it means only a short-lived improvement in living standards; if these funds are devoted to investment, the result will be a permanent gain in well-being. This is especially the case in a system which allocates financial resources to areas of maximum benefit.

More specifically, in considering how the present system might be improved to the mutual benefit of all nations, we should be guided by the folliwng principles:

—Development by definition is a long-term process; increased productivity, stemming from capital formation and technological advance, is the basis of development, not transfers of wealth which can only be one time in nature. Foreign aid can help, but such aid can only complement and supplement those policies developing countries adopt, which in the end will be decisive.

—The role of the private sector is critical. There is no substitute for a vigorous private sector mobilizing the resources and energies of the people of the developing countries.

—A market-oriented system is not perfect, but it is better than any alternative system. In general the effort should be to improve conditions for the developing countries—both internally and externally—by removing unnecessary and burdensome government controls, not by imposing additional barriers and impediments to market forces.

—A basic focus must be on increasing savings and making the institutional and policy improvements which will enable the financial markets to channel those savings into activities that enhance the opportunities for people to live better lives.

The World Bank Group

With these principles in mind, let me turn now to issues concerning the World Bank Group. These institutions play a central role in international cooperative efforts to promote economic progress and development. While their role as suppliers of development capital is a very important one, their contribution to the development process itself is equally important. Economic policies in developing countries—with widely different economic regimes— have greatly benefited not only from the financial support but also from the advice, encouragement and technical expertise of the World Bank Group. To the degree that these institutions are successful in helping to bring about sounder, more consistent, and more

effective domestic policies in countries to which they are lending, they multiply their effectiveness as development organizations. Strong and clear U.S. support exists for the institutions which comprise the World Bank Group not only because their objectives are laudable, but also because they have proven themselves to be effective agents of policy improvement in the countries in which they work.

In looking at recent developments among the member institutions of the Group, I am greatly pleased by the agreement providing for a capital increase for the International Finance Corporation. The key role of the private sector in the developing countries underscores the importance of this proposal. As President McNamara pointed out yesterday, the poorest countries of the world have financed almost 90 per cent of their development investments out of their own meager incomes. The capital increase will enable the IFC to expand greatly its ability to encourage private capital flows in these poor countries. As we all know, IFC's participation in projects has a considerable multiplier effect—$4 for every $1 of its own—through the associated private investment. The capital increase implies about $5 billion in cumulative commitments over the next ten years in the private sectors of the developing world. I hope that the IFC capital increase can be formally ratified by the Board of Governors quickly to permit this expansion to begin.

I am pleased also by the agreement reached on a selective capital increase for the World Bank. The Bank is a unique financial institution—publicly capitalized but privately financed for the major portion of its lending operations. While the paid-in and callable capital from its member governments are important assurances of solvency to its creditors, the Bank is able to operate actively and extensively on its own footing. In our view, the excellent reputation of the Bank and its sound financial condition give it the capacity to raise very substantial sums in private capital markets for relending to its borrowers. We are pleased that, in the course of the negotiations on a selective capital increase, agreements were reached on the lending program and the lending rate which I believe will continue to strengthen the financial position of the Bank.

During those negotiations, it was agreed that Bank commitments would not be increased above the level which could be sustained indefinitely without a further capital increase. I do not believe that this important principle should now be redefined.

With regard to the lending rate formula, I realize the temptation that exists to hold rates and charges on Bank loans to a minimum, but in the long run neither the interests of the Bank nor those of its borrowers would be well served by such a policy. Continued sound financial practices by the Bank are the best guarantee that it will maintain the reputation which gives it the very favorable access to capital markets that it enjoys. Thus, the Bank will remain in a position to be responsive to its clients' needs tomorrow. Also, as Bank reserves continue to grow, the time will certainly come when increased transfers of its earnings can, and should, be made through IDA for the benefit of its poorer member countries.

I should note at this point that we remain very interested in the Bank's continued study of the lending formula. While we believe the current formula is sound, we are prepared to consider an improved version. I might add that the United States supports the use of the lending rate formula, not only in the World Bank, but in the regional banks as well. The Inter-American Development Bank recently approved a similar mechanism; and the Asian Development Bank has taken an interim step leading toward a final decision early next year.

I would like to turn now to the question of the futre of the Bank, which I believe quite properly is now on the international agenda. In thinking about the future of the Bank as a development institution, the continued strength of the Bank as a financial institution must be given paramount importance. The Bank is now entering a new financial era as its disbursed loans outstanding have begun to reflect the rapid growth in commitments since 1969. The financial consequences of an expansion of annual loan commitments from less than $1 billion in 1968 to this year's $5.8 billion are substantial. Even holding that commitment level constant indefinitely, loans disbursed and outstanding will grow from $13.6 billion on July 1 of this year, to some $26 billion in 1980 and to over $40 billion by 1985. To finance this expanded portfolio, the funded debt of the Bank must grow accordingly. This is the financial challenge the Bank faces. I know how demanding this challenge will prove as the Bank continues its pre-eminent position in the world's capital markets.

The Bank has in the past made an invaluable contribution to qualitative improvements in the development efforts of its borrowers. Key development problems—restraining population growth, improving the efficiency and equity of domestic tax collections, bringing small farms more fully into the growth process, and others—remain unsolved in many countries. The success of the Bank in encouraging policy improvements in such areas will have a substantial impact on the productivity of Bank lending. The Bank needs to monitor its own policy and practices to make sure that its effectiveness in this objective is maintained.

The current situation also presents an excellent opportunity for the Bank to expand its role in generating complementary financing for its projects. In the future the Bank might well play a role of decisive importance by helping to mobilize substantially increased long-term development credits from the private sector. I see untapped potential for the Bank in this direction and I would urge that intensified work on this issue be promptly initiated.

The United States in no sense envisages a static role for the Bank, which we believe can and should remain the leading development institution in the world. We are prepared to take an active and constructive part in a frank dialogue on the future role of the Bank. I would urge that in considering the Bank's place in a world that is changing rapidly, our intellectual net be cast wide enough to capture significant new directions of Bank activity. In this process, we are committed to doing everything we can to assure that the Bank meets the challenges of today and tomorrow. I am confident that by addressing the important questions forthrightly, the

Bank can assure itself for many years to come of a continuation of the leading role in the international cooperative effort to promote growth and progress in developing nations.

Also, the future of the International Development Association is of critical importance. Now that our Congress has acted favorably on our fiscal 1977 appropriation request for IDA, the United States is in a position to participate actively in negotiating an IDA-V agreement. I am confident that with good will and understanding these negotiations can be successfully concluded during this next year and I am fully confident that my Government will be a generous participant in any arrangements agreed upon.

We recognize the urgency of the IDA problem, and our commitment to IDA can't be called into question. Certainly the replenishment of IDA funds, which support the poorest nations, remains a priority concern of my Government. Of special concern to us is the fact that IDA's commitment authority will end after June 30, 1977.

While progress has been made in international discussions, we have not reached an agreement on an IDA-V package, including magnitude, shares, voting rights, and sign-up procedures. Reaching such international agreement will take time. Moreover, the United States is not alone in having legislative procedures for subsequently ratifying such international agreements that will also take time.

While it is important to push forward on these negotiations of IDA-V—and we intend to intensify our negotiating efforts—we must recognize that the completion of these negotiations and the necessary legislative action in all our countries by July 1, 1977 cannot be assured. Therefore, in order to avoid a gap in IDA's commitment authority next year, and to inject some momentum into the IDA negotiations, I would propose that not later than January, we negotiate a bridge agreement which may be considered a precommitment to IDA-V, and I would hope that prospective new members of IDA will voluntarily make contributions to this bridge agreement. In my view, this should be a primary subject of discussion at the Kyoto meeting of IDA deputies next week so that IDA does not run out of money next June.

Conclusion

In meetings such as this we naturally and inevitably concentrate our attention on international issues of great significance—providing for a reformed international monetary system, or determining future policies of important institutions such as the IMF and the World Bank. In the final analysis, however, what really counts for each of our countries and for the world economy is how efficiently we all manage our own domestic affairs. International cooperation provides a framework of opportunity; individual countries in various ways and to varying degrees seize that opportunity. In all countries—developed and developing, industrial and agricultural, oil-rich and resource-poor—economic policymakers are confronted with many similar kinds of issues and dilemmas. A country's performance is not predetermined by its levels of income or stage of development alone. Just as pertinent is how the tough issues of economic policy that we all face are resolved.

Unfortunately, good economics is not always perceived to be good politics. My experience has been that politics is an art with high rate of discount. And while the payoff to good economics is real, it takes time. This lag, as the economists call it, is a politician's nightmare. Fortunately, I think that more and more people now understand that this is the case—and I sense growing suspicion of the proposed instant solution, the quick fix. In a world of unlimited demands and limited resources, finance ministers not only are inevitably unpopular, but indeed cannot afford to be popular. We are frequently required to be the bearers of bad tidings to our political masters—to reiterate the unpleasant but inescapable fact that resources are scarce while wants are limitless. It is our lot, whatever our country's economic system and whatever its circumstances, to speak out for financial responsibility—to call for prudence in an age of fiscal adventure.

Announcement of dramatic new programs is greeted with great fanfare; the management of sustained, stable growth is a bit like watching the grass grow. Yet, in the end, it is sustained, stable growth that does the most good.

To be sure, for a time an increased inflow of real resources from abroad may enable a country to postpone the hard choices among competing domestic claims, in the process running down assets and/or accumulating debts abroad. But sooner or later, the bills come due—the adjustment I have spoken of earlier has to be made. There simply is no substitute for the hard decisions and the careful husbanding or resources that finance ministries traditionally espouse.

As we meet today we can point to tangible evidence that we have been more than nay-sayers over this past year and more. In the monetary area, through our collective efforts, we have put into plaçe a new structure for the international monetary system, one with the flexibility to accommodate rather than impede the efficient working of the international economy so that trade and capital can serve their full role as engines of economic growth and progress. In trade we have made progress in the multilateral trade negotiations to reduce barriers and ensure fair and orderly rules for the international trading system. In energy, the industrial countries have joined together to coordinate efforts to reduce our dependence on imported oil. We have also established a framework of cooperation with the oil producing countries. In the relations between developed and developing countries, we are fashioning positive cooperation that will further strengthen the world economy. Finally, we have all avoided restrictions on the free flow of capital at a time when pressures existed to create impediments.

In my stay at Treasury, I have seen the world economy pass through some extremely rough weather. Our management, though imperfect, has enabled us to survive—and a bit more.

We survived in the sense that our economies did not collapse, markets continued to function, and we avoided a wave of restrictions on flows of

goods and capital among nations. This achievement in itself was considerable. But beyond that, the foundation we have laid can lead to a great deal more—if we do the right things from here on.

We all know that the present situation has both risk and opporutnity. We should not fear the risk and we must not fail to grasp the opportunity. Much has been accomplished—much remains to be accomplished. With determination, we can now strengthen the foundation of individual economic stability. With courage, we can eliminate restrictions on trade and investment, in recognittion of our interdependence. With patience, we can work together and find the proper balance of opportunity and responsibility for rich and poor alike that is essential in today's world.

Let us commit ourselves here in Manila to this effort. As we do, I believe we can all look to the future—a future of shared prosperity for all—with confidence.

VIET NAM: TRAN DUONG

Governor of the Fund

This is the first time that unified Viet Nam has participated in the Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank.

Upon this occasion, on behalf of the Government of the Socialist Republic of Viet Nam, our Delegation extends its most cordial greetings to the delegates of the member countries, to the Government of the Philippines, to the Minister of Finance and the Governor of the Central Bank of the Philippines, and to all the participants in these meetings. We thank the staff of the International Monetary Fund and the World Bank for their assistance in setting up these meetings.

We deeply appreciate the objectivity and good will manifested by virtually all the Executive Directors in the recent decision of the International Monetary Fund and the World Bank recognizing the membership of the Socialist Republic of Viet Nam.

The Annual Reports have provided us with a summary of the efforts of the Fund and the Bank to stabilize international monetary relations and to expand sources of financing for the benefit of the developing countries. On the subject of Fund and Bank resources, we are pleased to note the rise in the quotas of a number of developing countries, which could help strengthen opportunities for stimulating the positive activities of the Fund and the Bank. It is the hope of our Delegation that these activities, especially those aimed at creating new facilities such as the Trust Fund and the Third Window, will be given effect more vigorously and speedily so as to provide more effective assistance to the developing countries.

The unification of our country was achieved on July 2, 1976; the Vietnamese people now enter the most glorious period of their history, which already spans several thousand years.

As is well known, a war of aggression and destruction was imposed upon us over the last decades, causing much devastation in our country from north to south, and all kinds of consequences remain visible both in

U.S. Securities and Exchange Commission
Washington, D.C. 20549 (tel: 202-272-2000)

John Shad

John Shad was appointed the 22nd Chairman of the SEC by President Reagan in 1981. He has served in that capacity longer than any other Chairman. During his tenure:

- investor protections and corporations' financing flexibility have been increased;
- paperwork and other expenses, ultimately borne by investors, have been reduced by over a billion dollars per annum;
- through automation, paperwork reduction and other improvements, each SEC Division has achieved record results, or the highest levels in years, with 2% to 5% less personnel;
- and fees have significantly exceeded the SEC's budget in each of the last three years, which has happened only once before in the past 51 years.

Mr. Shad is a graduate of the University of Southern California, the Harvard Business School and the New York University Law School, and he taught Investment Banking at the NYU Graduate Business School.

He was born in Utah, worked his way through college and served in the Pacific and China as a naval officer during World War II. After graduating from the Harvard Business School in 1949, he went to work in New York City as a securities analyst and became a well known investment banker. He received the Investment Banker of the Year (1972) and other awards; served on the boards of 17 publicly-owned corporations; and consummated billions of dollars of corporate financings, mergers and acquisitions. In 1980, he also served as the Chairman of the Reagan New York State Finance Committee.

To join the SEC, he resigned as the vice chairman of a major investment banking and brokerage firm and from the boards of seven New York Stock Exchange listed corporations, and placed his holdings in a blind trust.

- o -

11/85

During John Shad's tenure as Chairman of the SEC:

Integration of corporations' registration and reporting requirements and the shelf registration rule have reduced corporations' paperwork, underwriting and interest costs, ultimately borne by shareholders, by over a billion dollars per annum, without compromising public disclosures.

Expansion of the institutional electronic book-entry delivery system, in lieu of the physical delivery of securities, has reduced expenses, ultimately borne by investors, by over $300 million per annum.

Over $45 billion of securities are being offered annually to institutional, accredited and other investors, under new private placement and small business exemptions from SEC registration requirements, at savings of hundreds of millions of dollars per annum to issuers for the benefit of investors.

Updating brokers' clearinghouse deposit and net capital requirements has freed-up over a billion dollars of industry capital and helped investment firms finance the record volume of trading and financings.

Despite a 33% increase in the SEC's budget, fees have exceeded the $90 to $106 million budget in the last three fiscal years by over $70 million, which has happened only once before in the past 51 years. The 1986 surplus is expected to exceed $25 million.

Through automation, paperwork reduction and other improvements, each SEC Division has achieved record results, or the highest levels in years, with 2% to 5% less personnel.

Enforcement actions have been increased by over 35% per annum; broker oversight examinations by over 50%; corporate filings reviewed by over 60%; and investment company and adviser inspected by over 100%.

Initiation and enactment of the Insider Trading Sanctions Act now permits fines up to three times such illegal profits.

The SEC/Swiss Accord has removed the haven of the Swiss secrecy laws from tender offer inside traders.

Initiation of the electronic intermarket stock and options surveillance system and transaction audit trails have improved detection of market manipulators and inside traders, and reduced transaction reconciliation costs, ultimately borne by investors.

Resolution of the 7-year turf battle with the Commodity Futures Trading Commission has permitted authorization of new options and futures that permit the hedging of stock market, foreign currency and other risks at a fraction of the prior costs of hedging or reducing such risks, and has increased the breadth and liquidity of these markets.

Simplification and improvement of proxy statements and prospectuses has reduced their cost and increased their utility to investors.

Competition among marketmakers has been increased by permitting stock exchanges to grant unlisted trading privileges in over-the-counter stocks and make markets in OTC options.

The supervision of over 600 over-the-counter brokers has been consolidated within the NASD, under the SEC's oversight.

Shareholder communications will be improved by requiring brokers in 1986 to provide companies with the identity of non-objecting shareholders.

The electronic disclosure system, known as Edgar, has been initiated to increase the efficiency and fairness of the securities markets by accelerating dramatically the filing, processing, dissemination and analysis of corporate information.

Programs have been initiated to accelerate the immobilization of securities certificates, through central depositories and electronic book-entry systems, to save hundreds of millions of dollars per annum of expenses ultimately borne by investors, and reduce future paperwork and other problems.

Programs have been initiated to facilitate the international mobility of capital and improve the surveillance of these growing markets.

In Congressional testimony, speeches and meetings with members of the Cabinet and Congress, he has also proposed regulation of financial services by functional activities, instead of by outmoded industry classifications; consolidation of overlapping and duplicative regulatory activities; and other concepts. To implement such concepts, he proposed and participated in Vice President Bush's Task Group on Regulation of Financial Services, which unanimously recommended legislation to achieve such results.

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11/85

ADDENDUM

Shad, John S.R., Chrmn. SEC; b. Brigham City, Utah, June 27, 1923; son of John Sigsbee and Lillian (Rees) Shad. Graveyard shift riveter, Lockheed Aircraft while attending college, 1941-43. Apprentice Seaman to Lt. (j.g.) USNR, served in the Pacific and China, 1943-46. BS, cum laude, Univ. of Southern Calif., 1947; MBA, Harvard, 1949; LLB, NYU, 1959; faculty, NYU Grad. Bus. Sch., 1961; m. Patricia Pratt, 1952; children: Leslie, Rees.

Securities analyst, instl. acct. exec., corp. finance assoc., 1949-56; partner, Shearson, Hammill & Co., 1957-62; vice pres. to vice chrmn. bd., mem. exec. com., chrmn. acquisition and underwriting committees., E.F. Hutton & Co. and E.F. Hutton Group, 1963-81. Dir., 17 publicly owned corps., 1955-81. Chrmn., Reagan NY State Finance Com., 1980. To join SEC, resigned as vice chrmn of Hutton and dir. of 7 NYSE listed corps.: Figgie Intl., E.F. Hutton Group, Katy Industries, Kaufman & Broad, Scudder DuoVest, Sheller-Globe, Triangle-Pacific, others.

Awards: Investment Banker of the Year, Finance Mag. (1972); Brotherhood, Natl. Conf. Christians and Jews (1981); Distinguished Leadership, Girls Club of NY (1982); Alumni Achievement, Univ. of Southern Calif. (1983); Distinguished Service, Natl. Assn. of Investment Clubs (1983); Alumni Achievement, Harvard Bus. Sch. (1985); Founders', NY Arthritis Fdn. (1985); others.

Speaker, writer: "Financial Realties of Mergers", Harvard Bus. Rev., 1969; "Stock Reacquisition Programs", NY Law J., 1975; "Leveraging of America", Wall St. J., 1984; "New Rules Should be Cost-Effective", NY Times, 1985; "Securities Industry and Markets - Past, Present and Future", Natl. Press Club, 1985; others.

Chrmn., US Securities and Exch. Comm., 1981-. Advisory bds: SEC and Finl. Rptg. Inst., Univ. of Southern Calif., 1982-; Securities Regulation Inst., Univ. of Calif., 1983-; Natl. Center on Finl. Services, Univ. of Calif., 1984-.

Mem., Navy League, Beta Gamma Sigma, Phi Kappa Phi, Alpha Kappa Psi. Wash. clubs: Metropolitan, Chevy Chase Country, Capitol Hill, Harvard Bus. Sch. NYC clubs: University, India House, Harvard Bus. Sch.; Greenwich Country. Office: SEC, 450 5th St., N.W., Wash., D.C. 20549.

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EF

369487
IT023

THE WHITE HOUSE

WASHINGTON

WS

December 9, 1985

MEMORANDUM FOR DONALD T. REGAN

FROM: ALFRED H. KINGON

SUBJECT: World Bank Candidates

In addition to the first memo I sent to you and the Rotberg summary, two other names have been suggested to me from the political sphere.

1. Don Rumsfeld. I have no idea as to his international experience but there is no question that politically he is able. How he would get along as a team player is an unknown to me.

2. Frank Zarb. Zarb is now with Lazard Freres and does now have the international experience. I only worked peripherally with him on Wall Street. I do not know whether he has the capacity or interest.

C.F.
383366
WS IT023

THE WHITE HOUSE

WASHINGTON

March 1, 1986

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: PAT BUCHANAN

The other evening I had dinner with your old frined, Richard Whelan; and from him I detected a real interest in the World Bank job, if there would be any interest over here. As you know, he is a tough-minded, intelligent and savvy fellow.

Any thoughts?

Administratively Confidential

MEMORANDUM TO the CHIEF OF STAFF

From Pat Buchanan

The other evening I had dinner with your old friend, Richard Whelan; and from him I detected a real interest in the World Bank job, if there would be any interest over here. As you know, he is a tough-minded, intelligent and savvy fellow.

Any thoughts?

JV

395624

ID # IT053

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING

☐ H - INTERNAL

☐ I - INCOMING
Date Correspondence Received (YY/MM/DD) 86,03,12

Name of Correspondent: John Warner

☐ **MI Mail Report** **User Codes:** (A) ______ (B) ______ (C) ______

Subject: Urge the appointment of Bill Middendorf as President of the World Bank

ROUTE TO: **ACTION** **DISPOSITION**

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
LABALL	ORIGINATOR	86,03,13 PY	WB	A	86,03,20 CJ
Referral Note:					
		/ /			/ /
Referral Note:					
		/ /			/ /
Referral Note:					
		/ /			/ /
Referral Note:					
		/ /			/ /
Referral Note:					

ACTION CODES:
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- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
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DISPOSITION CODES:
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- C - Completed
- S - Suspended

FOR OUTGOING CORRESPONDENCE:
Type of Response = Initials of Signer
Code = "A"
Completion Date = Date of Outgoing

CJ

Comments: letter sent to all

Keep this worksheet attached to the original incoming letter.
Send all routing updates to Central Reference (Room 75, OEOB).
Always return completed correspondence record to Central Files.
Refer questions about the correspondence tracking system to Central Reference, ext. 2590.

5/81

March 27, 1986

Dear Senator Helms:

Thank you for your March 5 letter to President Reagan, cosigned by 13 of your Senate colleagues, urging the President to appoint Ambassador J. William Middendorf to the position of President of the World Bank.

We appreciated being advised of your confidence in Ambassador Middendorf and his qualifications for this position. However, as you may know, on March 13 the White House announced the selection of former Congressman Barber B. Conable as the United States' choice for this position.

With best wishes,

Sincerely,

William L. Ball, III
Assistant to the President

The Honorable Jesse Helms
United States Senate
Washington, D.C. 20510

WB/KRJ/JID/jz (3WBG)
cc: w/copy of inc to Katja Bullock - FYI

United States Senate
WASHINGTON, D.C. 20510

March 5, 1986

395624

Honorable Ronald Reagan
President of the United States
The White House
Washington, D. C. 20500

Dear Mr. President:

We urge your appointment of Ambassador Bill Middendorf as President of the World Bank. Because of the international debt crises, the importance of our relations with the Third World, the central role to be played by the bank in the Baker Initiative concerning debt currency alignments, and the high priority of economic growth in the less developed nations, we think that Bill's appointment is vitally important.

Few have Ambassador Middendorf's financial experience which includes serving as the CEO of a multi-state bank, owner of an insurance investment group and an investment bank that dealt with third world businesses. In addition, he has a longstanding record of service to his nation as Secretary of the Navy, Ambassador of the Hague, Ambassador to the Organization of American States, as well as Ambassador to the European Community.

Ambassador Middendorf has an impeccable history of loyal service to you and your Administration. In 1980, he served as Finance Chairman of the Reagan Campaign; in 1981, he was Treasurer of the Presidential Inaugural Committee, and later served as the head of the Intelligence Transition Team. In addition to his duties in Brussels, he is currently the Chairman of the Presidential Task Force for Economic Justice, which extends your philosophy of private initiative to a vexing problem.

Ambassador Middendorf is genuinely committed to utilizing the resources of the World Bank to encourage private entrepreneurial, non-governmental development. He has written extensively of the need for the World Bank and other international economic institutions to adhere to the fundamental principle that private enterprise creates more lasting economic progress than government directed development projects.

21

The World Bank is an organization that can be of great aid to the United States and all free nations, but it has not been utilized to its fullest potential in promoting worldwide free enterprise and economic growth.

The future of the World Bank and the U.S. participation therein would best be served by the appointment of someone who understands the essential need for a reordering of its priorities in a way that creates real, lasting, private sector opportunities in developing countries. Ambassador Middendorf meets this need. We urge you put his considerable knowledge and skill to work for the World Bank.

Respectfully,

48	Jesse Helms	John Warner	97
29	John P. East	Chic Hecht	45
94	Strom Thurmond	Steve Symms	93
66	James A. McClure	Jim Abdnor	1
65	Mack Mattingly	Pete Wilson	99
14	John H. Chafee	Al Simpson	88
3	Bill Armstrong	Lowell Weicker	98

P.S.

396515

ID # IT023

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING

☐ H - INTERNAL

☒ I - INCOMING

Date Correspondence Received (YY/MM/DD) 86 3 19

Name of Correspondent: Congressman Daniel A. Mica

☐ **MI Mail Report** **User Codes:** (A) ______ (B) ______ (C) ______

Subject: Letter of recommendation for J. William Middendorf.

ROUTE TO: Office/Agency (Staff Name)	ACTION: Action Code	Tracking Date YY/MM/DD	DISPOSITION: Type of Response	Code	Completion Date YY/MM/DD
OCS / NOLAN	ORIGINATOR	86,3,19 TR		C	86,3,19 TR
	Referral Note:				
Leg. Aff / Jaffke	A	86,03,20 TR	WB	A	86,03,25 AB
	Referral Note:				
		/ /			/ /
	Referral Note:				
		/ /			/ /
	Referral Note:				
		/ /			/ /
	Referral Note:				

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- C - Comment/Recommendation
- D - Draft Response
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- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:
- A - Answered
- B - Non-Special Referral
- C - Completed
- S - Suspended

FOR OUTGOING CORRESPONDENCE:
- Type of Response = Initials of Signer
- Code = "A"
- Completion Date = Date of Outgoing

Comments: ______

Keep this worksheet attached to the original incoming letter.
Send all routing updates to Central Reference (Room 75, OEOB).
Always return completed correspondence record to Central Files.
Refer questions about the correspondence tracking system to Central Reference, ext. 2590.

5/81

March 25, 1986

Dear Dan:

Don Regan has asked me to thank you for your March 12 letter urging the consideration of Ambassador J. William Middendorf for the position of President of the World Bank.

We appreciated being advised of your confidence in Ambassador Middendorf and his qualifications for this position. However, as you know, on March 13 the White House announced the election of former Congressman Barber B. Conable as the United States' choice for this position.

With best wishes,

Sincerely,

William L. Ball, III
Assistant to the President

The Honorable Daniel A. Mica
House of Representatives
Washington, D.C. 20515

WLB:KRJ:JID:jid
cc: w/copy of inc to Katja Bullock - FYI
cc: w/copy of inc to Don Regan - FYI

CANNON HOUSE OFFICE BUILDING
ROOM 131
WASHINGTON, DC 20515

ADMINISTRATIVE ASSISTANT
SUZANNE STOLL

Rec

396515

DANIEL A. MICA
14TH DISTRICT, FLORIDA

FOREIGN AFFAIRS

VETERANS' AFFAIRS

SELECT COMMITTEE ON
AGING

Congress of the United States
House of Representatives
Washington, DC 20515

March 12, 1986

Mr. Donald T. Regan
Chief of Staff to the President
1600 Pennsylvania Ave. N.W.
Washington, D.C. 20500

Dear Mr. Regan:

As the Administration proceeds towards a choice of its nominee for President of the World Bank, I strongly urge you to favorably consider the credentials of Ambassador J. William Middendorf.

During the next several years, the World Bank will play a pivotol role in the economic future of many developing nations. It will address difficult questions of international indebtedness, and can help move emerging economies towards a free market orientation. As President of the World Bank, Ambassador Middendorf would advance the fundamental principle that state oriented economies must move towards the free market if they are to achieve real economic growth and reduce their long term indebtedness.

The nation is fortunate to have had a man of Ambassador Middendorf's calibre in its service in a number of sensitive diplomatic positions over the past decade. The exceptional combination of diplomatic, financial, and political skills he would bring to the World Bank makes Ambassador Middendorf an excellent choice for its President.

With best regards,

Sincerely yours,

Dan Mica

DANIEL A. MICA, M.C.

DM:ns

Dan

14

PLEASE REPLY:
☐ CANNON HOUSE OFFICE BUILDING
ROOM 131
WASHINGTON, DC 20515

☐ 639 EAST OCEAN AVENUE
SUITE 303
BOYNTON BEACH, FL 33435

T.S.

396516

ID # IT023

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING

☐ H - INTERNAL

☒ I - INCOMING

Date Correspondence Received (YY/MM/DD) 86 3 18

Name of Correspondent: Congressman Gus YATRON

☐ **MI Mail Report** **User Codes:** (A) ______ (B) ______ (C) ______

Subject: letter of recommendation for J. William Middendorf.

ROUTE TO: **ACTION** **DISPOSITION**

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
OCS / NOLAN	ORIGINATOR	86 3 19 TR		C	86 3 19 TR
	Referral Note:				
Legis. Aff / Jatkie	A	86 03 20 TR	WB	A	86 04 02 AB
	Referral Note:				
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	Referral Note:				
		/ /			/ /
	Referral Note:				

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C - Comment/Recommendation
D - Draft Response
F - Furnish Fact Sheet to be used as Enclosure
I - Info Copy Only/No Action Necessary
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S - For Signature
X - Interim Reply

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Type of Response = Initials of Signer
Code = "A"
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Comments:

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Send all routing updates to Central Reference (Room 75, OEOB).
Always return completed correspondence record to Central Files.
Refer questions about the correspondence tracking system to Central Reference, ext. 2590.

5/81

April 2, 1986

Dear Mr. Yatron:

Don Regan has asked me to thank you for your March 10 letter urging the consideration of Ambassador J. William Middendorf for the position of President of the World Bank.

We appreciated being advised of your confidence in Ambassador Middendorf and his qualifications for this position. However, as you know, on March 13 the White House announced the selection of former Congressman Barber B. Conable as the United States' choice for this position.

With best wishes,

Sincerely,

William L. Ball, III
Assistant to the President

The Honorable Gus Yatron
Chairman
Subcommittee on Human Rights and
International Organizations
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

WLB:KRJ:JID:jid
cc: w/copy of inc to Katja Bullock - FYI
cc: w/copy of inc to Don Regan - FYI

396516

Congress of the United States
Committee on Foreign Affairs
House of Representatives
Washington, DC 20515

March 10, 1986

The Honorable Donald T. Regan
Chief of Staff
The White House
Washington, D.C. 20500

Dear Mr. Regan:

As the Administration proceeds towards a choice of its nominee for President of the World Bank, I strongly urge you to favorably consider the credentials of Ambassador J. William Middendorf.

During the next several years, the World Bank will play a pivotal role in the economic future of many developing nations. It will address difficult questions of international indebtedness, and can help move emerging economies towards a free market orientation. As U.S. Permanent Representative to the Organization of American States, and lately as U.S. Representative to the European Communities, Ambassador Middendorf has spoken out forcefully on behalf of the private enterprise model. As President of the World Bank, he would advance the fundamental principle that state-oriented economies must move towards the free market if they are to achieve real economic growth and reduce their long term indebtedness.

The nation is fortunate to have had a man of Ambassador Middendorf's calibre in its service in a number of sensitive diplomatic positions over the past decade. He is highly regarded in the diplomatic community and has demonstrated unquestioned loyalty to the President and his policies. The exceptional combination of diplomatic, financial, and political skills he would bring to the World Bank makes Ambassador Middendorf an excellent choice for its President. He has wholehearted support on behalf of the Republican National Committee.

Thank you for taking my views into account in this most important matter.

Very truly yours,

Gus Yatron

Gus Yatron
Chairman
Subcommittee on Human Rights
and International Organizations

14

The World Bank
Washington, D.C. 20433
U.S.A.

NOTED BY DTR

EUGENE H. ROTBERG
Vice President & Treasurer

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FG006-01

March 31, 1986

Mr. Donald Regan
The White House
1600 Pennsylvania Avenue
Washington D.C.

Dear Don:

I know you are busy with other things, but if you had a moment, perhaps you might find the attached speech interesting. The subjects are: (a) What caused the debt crisis? (b) What do the commercial banks want? (c) What might be expected of the World Bank? and (d) What should we not do?

Kindest regards.

Gene

A summary of recent remarks: "Financing Development: The Real World"

EUGENE H. ROTBERG

Vice President and Treasurer

The World Bank

A SUMMARY OF RECENT REMARKS: "FINANCING DEVELOPMENT: THE REAL WORLD"

February/March 1986

I. COMMERCIAL BANK LENDING IN THE 1970s/EARLY 80s: THE ENVIRONMENT

(a) Governments were pressuring, or at least encouraging, banks to recycle OPEC financial surpluses.

(b) There was divided responsibility: London v. New York.

(c) What else to do with OPEC deposits? Buy US Treasury obligations at 2% less than LIBOR?

(d) There had been little previous pain. All "foreign" debts in recent memory were serviced.

(e) Herd instinct -- market share; Japanese banks were moving to London.

(f) Excellent rewards. "Locked in" spreads over the highest marginal cost debt.

(g) Present pleasure vs. future potential pain. And on shrinking capital bases.

(h) Spin off risk. Syndicate loans to others -- compete with investment banks.

(i) The dread factor -- the loss potential was so severe, (nothing could go "wrong") given the magnitude of the lending. All countries were deemed creditworthy -- whatever the exposure and irrespective of the economic plan of the borrower.

(j) Central banks would always be there as a lender of last resort.

II. WHAT NOW ARE THE PROSPECTS FOR HEAVILY INDEBTED LDCs?

1. Most will not repay principal -- and it really is of no great moment so long as all interest payments are serviced. The difference between repaying and not repaying principal over 40-50 years, assuming interest is paid, is but a few basis points.

2. Virtually all principal falling due over this decade will be rescheduled or refinanced.

3. Over the next several years, the amount of increased exposure of commercial banks, official institutions, including governments will not likely exceed, at the most, the interest payments due to those institutions;

4. There will be, at times, selective rescheduling of interest, a reduction of interest rates, and prepayment by industrialized countries for major LDC exports, while at the same time there will be pressures to reduce the lending of export credit agencies -- particularly to countries in default.

5. Securitization is not likely to be a meaningful solution. It is a <u>technique</u> used to implement a solution -- not a solution itself.

III. WHAT DOES SECRETARY BAKER SUGGEST BE DONE?

It is not at all clear whether the suggested $20 billion increased lending by banks to LDCs, over three years, was intended as a maximum or minimum. It certainly was not a firm target and was not country specific.

For example:

- Was $20 billion over three years preferred over a higher amount because of concern over the exposure of commercial banks?

- Or, conversely, was the $20 billion a minimum -- indispensible.

- Or was it all the banks could be "asked" for with a straight face?

- In any event, the U.S. has not agreed to provide any protection, or guarantees in respect of increased bank exposure -- whatever the increased exposure. The initiative contemplated a rather low increase in exposure -- 2.4% increased exposure a year -- I suspect it probably unwisely increased the commercial banks sense of leverage. 2.4% is but a fraction of the increased lending, annually, in the 1980s. It was, from a negotiators tactic, I think, taken as a signal to be cautious. If it were felt it was necessary from a political and financial point of view that banks "should" lend more then it was too low as an exhortation. The fact that it equalled only one quarter of the interest payments flowing to the banks was not lost on the LDCs. The banks breathed a sigh of great relief -- the LDCs simply caught their breath.

- But most important, the initiative sent a signal that the U.S. government was concerned -- but responding to a number of constituencies --

concerned about political instability in the highly indebted LDCs, concerned about financial instability in major money center banks if they lent more (or did not lend), and also concerned about the reaction of the U.S. Congress to the proposal that the World Bank lend more might be read as if we were about to bail out commercial banks with increased U.S. guarantee capital behind it. That, in turn, led to considerable rhetoric about LDCs getting their houses in order, privatization, incentive economics etc.. There were enough concerns for everyone, the commercial banks, the LDCs, the money center banks, the Congress -- a designed mixed signal. The fact is commercial banks had expected -- pre-Baker -- to have to lend, in their own self interest, considerably more than Secretary Baker asked. The lower level, therefore, has been read primarily as a signal that the major U.S. concern was about the exposure of the banks, particularly when read in the context of the political commentary that the LDCs had to shape up, and at best, an ambivalent regulatory posture. And therefore, it was not surprising that the banks were and are emboldened to take a wait and see attitude -- what might be guaranteed or offered to them by way of protection. That is not a posture for a government to get into with commercial banks. But governments, as we know, are not easily boxed into providing protection for commercial banks. We then were looked to as the only game in town.

IV. WHAT DO THE COMMERCIAL BANKS WANT?

- They want out. To keep as low an exposure as possible; to get paid, to have someone else take over their loans. They look at least to a nod to some creative accounting and a relaxation of regulatory pressures. Basically, they want leverage but they do not yet have it. They may, however, get it from the recent rapid reduction of the LDC exposure to their capital -- as yet a mostly unpublicized development -- or from the fact that some have already provisioned against the loans. They cannot get leverage from the World Bank because we do not have it to give away even if we wanted to -- which we do not.

- At an earlier stage, as recently as several months ago, banks expected the World Bank to join with them in what they described as a partnership -- a partnership which would guarantee their new loans, reschedule our loans, cross default link our new lending to the maintenance of debt servicing on theirs, share pro rata all payments received by us, subordinate our claims and disburse -- quickly. In a classic example of denial, they preferred to view our rather negative reaction to such proposals as the result of bureaucratic red tape and managerial ineffectiveness.

V. WHAT WILL THE WORLD BANK DO AND WHAT WON'T WE DO?

- Our guarantees will be quite limited and, even then, made only on a selective basis. We will, in short, not take out the Banks or broadly guarantee their increased exposure. We are not like the IMF. We don't make BOP loans. We are not likely, consciously, to jeopardize our preferred creditor status.

- WHAT WILL WE DO? Mostly give good economic development advice.

- We will also monitor performance. But the "monitoring" will be based on economic criteria which will be highly subjective. We are not likely, through a monitoring process, to call a loan in default because a failure to meet a subjective economic test -- particularly where the "default" is fairly attributed to factors outside the control of country. And, I suspect, we are even less likely to call a default if our loans are being serviced and a failure to meet economic tests would also trigger a halt in commercial bank flows. Our intellectual integrity will be sorely tested if we get into this monitoring business.

- With respect to our lending, it is highly unlikely that given the quality of the Bank staff, we will operate like automatic teller machines or printing presses. The Bank staff has generally insisted on market based economies, an absence of subsidies, or a plan which can support savings, investment, export and growth with meticulous attention to incentives and priorities. And those values, though not publicized, have always been what the Bank has been all about. In short, Bank staff are simply not likely to provide cash resources to LDCs so the indebted countries can service their private debt to banks.

VI. HOW MUCH WILL WE LEND?

- We will lend and disburse over the next three years, about 50% more than we did over the last three years. That figure, however, is about what we anticipated disbursing a year ago, pre-Baker. I would be most surprised if the commitments or disbursements made by the World Bank over the next three years varied by as much as $1 or $2 billion dollars from the $37 billion over the next three years that we projected to disburse 12 months ago. The reason we do not disburse faster is not because of bureaucracy, but because we choose not to do so or because borrowers are not able or prepared to take on additional debt (or supply their share of the local cost financing) -- and that in turn reflects our judgement and theirs on the usefulness of the lending for productive purposes.

- The new loan commitments, nonetheless, are likely to equal, over the next three years, 40% of the commitments made in the 39 year history of the Bank.

- The projected next three year disbursements are likely to exceed 50% of our cumulative gross disbursements made over our history till now. That is a substantial response.

What is our role, then, in the process? The Bank has developed credibility -- great expertise, in the appraisal, supervision of projects and the quality of the development dialogue, -- areas hardly touched by the private sector. We will use our legal power to increase our lending by providing resources and advice, and not provide a comfortable exit for others who would like to constrain their lending, or even to satisfy pressures within governments to move to a "new stage" in the debt crisis.

There are no new stages. There has been progress based on cooperation and effort of all the parties involved. And fatigue is not a reason to move backwards. In short, World Bank balance of payments loans, unaccompanied by a strict and verifiable medium/long term development program, and without a meaningful increase in commercial bank exposure, is not in the cards. It would not be an efficient use of our capacity, skill and expertise. Nor would it be supported by governments, and in any event, would be a response of superficial convenience and one which the markets in which we borrow money would not find appropriate or acceptable.

VII. WHY DON'T WE DO EVEN MORE?

The code words are catalyst, lynch pin, "the only game in town", flexibility and innovative. The code words, however, are rarely linked to the comparative advantage of the institution. Rarer still is a technical knowledge of the financial structure of our institution, an assessment of risks and benefits and the implications for a particular initiative. In short, the <u>method</u> by which we are asked to respond sometimes gets lost in the rounding and obscured in the reaction to implicit adverse criticism; e.g., "what is the Bank doing?" "Why don't we do more?"

- Not because we are bureaucratic, not because we are bound in red tape, not because we have committees, clearances and reports, not because the decision making process is slow. Because development programs, let alone fundamental structural changes in the economic practices, typically involve basic political and social changes in a society. The changes are not easy to measure; they are difficult to implement, difficult to monitor -- particularly, in countries which have diverse political and social structures, inadequate controls, weak long term planning capacity, fragile democracies, even weak dictatorships. In many cases, there are core differences within the society as to the nature of the compact between government and the citizen, in the distribution of wealth and power, and all this while the country is under great pressures -- from factors outside their control. Weather; Western protectionism; recession; falling oil prices.

- The World Bank, the rhetoric from within and outside the Bank, notwithstanding, does not have the power, wisdom or leverage to solve those problems. The developing country must have the will and the capacity. And it is a most naive understanding of the way the world works to attribute the failure to solve problems attributed to a complex set of political, social and financial relationships -- to our clearance procedures. The programs and adjustments that need to be implemented are particularly tricky to sustain, let alone guarantee over the decade that is needed to get results. And the Bank staff will not settle for a quick fix by writing out checks which have little prospect of being used for wise and productive purposes. And which, I might note, would get lost in the magnitude of the financial flows that are needed to pay interest to the private sector, let alone sustain growth. And the fact is, governments, including the U.S., know it and would not have it otherwise. Only banks, not unexpectedly, given their past experience, seem to believe they truly know how to distribute hundreds of billions without economic programs in place.

- And the financialmarkets demand that we conduct our operations with attention to the quality of the countries performance. We have borrowed almost $100 billion in 18 different currencies. Publicly and privately, at marketrates from retail accounts, from huge institutional investors. We have borrowed long term, at fixed rates and variable rates, in capital, not money, markets. We do not have a natural deposit base or a lender of last resort. We borrow once every two days, every day of the year, somewhere in the world. We borrow $10-12 billion a year to finance an expanding lending program. We earn over $1 billion profit a year; we have reduced our lending charges to a few basis points over cost; and with one minor exception, borrowers are servicing their debt. We do not reschedule or restructure loans. We are a highly leveraged institution. Over the last 18 years our paid-in capital has risen by only $1.4 billion of which the United States supplied about $500 million. Our loan commitments in that period rose by over $100 billion -- all financed in the market place.

Basically, the financial market support comes from a recognition of the quality of the Bank's lending activities -- projects, structural adjustment lending and sectoral lending; from a recognition of the objectivity of the Bank and from a recognition of the quality of the development dialogue between the Bank and its borrowers. It comes from a recognition that we target resources in a "non-political" way. And it comes from an awareness of the care and attention given to appraisal and supervision of loans. And from a recognition of the importance of a wide variety of financial, technical and advisory interventions by the Bank.

- The buyers of our obligations trust us with their money; and so do the governments who own our stock and stand with the institution. In the real world, insurance companies, pension funds, holders of savings, support our lending operations. They do not look upon our mandate or capacity, with their money, to save the world's financial system. And the U.S. government also knows that if we were to loose the confidence of that market by providing transfer payments -- to pay commercial bank interest -- it would assuredly mean that we could not obtain the funds necessary to finance the lending in the first place. No government, particularly the U.S., given their very substantial liability in the form of callable capital -- which can only be called if we act imprudently and cannot obtain market support, wants to bail out the World Bank because we bailed out commercial banks. They will not do indirectly, what they are not prepared to do directly.

VI. LET ME CONCLUDE:

- First -- the underlying premise of my remarks: Not all problems can be solved painlessly. Particularly if the definition of what is the problem is not agreed to by the parties in contention. The parties, in this case, do not have the same interests. Not governments, not LDCs, not commercial banks, not multinational banks, not the private financial markets.

- We all know that there will be increased poverty and political instability if countries tighten too much in order to service their debt. We also know there will be financial problems of considerable magnitude if banks are not paid interest. Governments too will feel great pressure in industrialized countries if they have to support their financial systems and so will stockholders of financial institutions. There are significant geopolitical considerations for many countries implicit on both paying banks and not paying them. Each party is now jockeying to reduce pain. Just like politics -- but in politics often there are no events. There is language, posturing, warnings which admittedly on some occasions, cause events to occur -- or prevent them. In the world of finance, however, an event occurs every six months. Predictably. Interest must be paid. Money must be transferred. Politicians, indeed statesmen, typically use rhetoric because that is what they are familiar with and, often it provides a sense of comfort, of dominion, of control. It won't work here. Events are triggered by contract.

- The better part of wisdom is, first, admit that there are inconsistent objectives, next admit that there will be pain and it will be shared in different ways in each country; third, realize that no one party can ex ante predict or control who will have to bear the most pain; fourth, understand that no one party has the power to determine who "should" bear it. Finally, governments should take care about this business of leverage and confidence. For the leverage that is gained only will harden and weaken the other player. That is a dangerous game when interest is due every six months.