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MONETARY AND FINANCE

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MONETARY AND FINANCE

MAIN OBJECTIVES

1. Present the US approach to economic growth and development: sound domestic economic policies, along with trade, private investment, and commercial capital flows are seen as much more important than foreign assistance to long-term economic growth in most developing countries.

2. Indicate that multilateral development banks must support sound economic policies and catalyze private resources for development; our bilateral assistance will concentrate on (a) countries mobilizing their resources and promoting private sector growth and (b) food, energy, and population, with emphasis on institution building and technology transfer.

3. point out clearly that private markets must play the primary role in recyling funds from surplus to deficit countries. The International Monetary Fund's role is to promote sound programs of economic adjustment.

4. Emphasize that combating inflation should be the number one economic priority and that short-term costs, such as high interest rates, are for outweighed by the longer term benefits. Premature reflation would reduce growth.

BEAR IN MIND

1. Other countries think the United States is abandoning its development assistance responsibilities.

2. Developing countries have called for increased resource transfers, and for changes in international economic insitutions that would give them increased control.

3. High US interest rates are perceived as postponing global recovery and raising developing countries' borrowing costs.

CHECKLIST

1. Stress that private financial markets, with supplemental efforts of existing internation al institutions, are handling the process of financing payments deficits.

2. Stress that developing countries need to adopt rational economic plicies and maintain a favorable investment climate.

3. Emphasize that the interantional financial insitutions must be allowed to operate in accordance with economic criteria if they are to continue to enjoy international support.

4. Point out that Congress has authorized payments to fulfill US contributions to multilateral development banks.

5. Note that high interest rates reflect inflationary expectations, and are not Administration policy. Interest rates will recede as inflation is lowered.

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CONTEXT

The budget restrictions in the Administration's Economic Recovery Program have attracted much internetional publicity and given rise to misimpressions that the US is abandoning its global 'responsibilities,' especially in providing economic assistance to developing countries. Moreover, apprehensions have been generated by our internal review of US participation in the multilateral development banks (MDBs) and the strong position taken favoring more rigorous conditions for countries receiving loans from the International Monetary Fund.

Developing countries have for years assiduously sought additional financial assistance -- throught bilateral and multilateral channels -- by proposing specific numerical targets for aid levels, and by seeking changes in international institutions to ease developing countries' access to their financial resources. Recent economic conditions (petroleum price increases, inflation, rising debt burdens) have created problems for many developing countries and have spurred their efforts as they attempt to finance huge current account deficits (projected to be $97 billion in 1981 by the IMF) in order to maintain their growth rates or facilitate adjustment to these new conditions.

Certain major donors (Canada, France and Japan), have pledged to increase their economic assistance and have accepted (but few have met) the UN-sponsored aid target of 0.7 percent of their Gross National Product. They have also supported additional funding for certain international institutions (the International Development Association and IBRD) and the creation of an energy affiliate for the World Bank to expand its lending in this area.

The United States has not accepted the concept of numerical aid targets since they are not indicative of specific country needs or capabilities to absorb additional funding. Industrialized countries' official development assistance averaged 0.3 percent of their GNP in 1980, compared to 0.27 percent of the United States. The United States, however, continues to be the largest single donor in absolute terms ($7.1 billion in 1980; Germany was second at $4.0 billion).

The Administration has begun to refocus the development assistance issue by placing increased emphasis on the fact that economic development and growth are fundamentally dependent on the adoption of sound domestic economic policies which promote savings and investment, maximize efficient utilization of scarce resources, and achieve effective balance of payments adjustment.

International trade, investment and commercial capital flows of the private sector, are substantially more important for most developing countries than foreign assistance to long-term, non-inflationary economic growth. The U.S. performance in this area is excellent. Our capital markets are more open than others and U.S. banks are heavily involved in loans to developing countries. Earnings of developing countries from exports to the United States alone amount to double the foreign aid from all industrial countries and the United States accounted for over half of industrialized countries' investment in developing countries over the past 10 years.

We continue to recognize that official economic assistance has an important role to play, especially for poorer countries. You joined in the Ottawa Summit Communique commiting Summit countries "to maintaining substantial and, in many cases, growing levels of Official Development Assitance" and to "direct the major portion of our aid to poorer countries." Contrary to misimpressions, your proposed budget for foreign assistance, even as just revised, actually increased this year, and Congress has authorized fulfillment of U.S. pledged contributions and subscriptions to multilateral development banks, including the International Development Association. We will focus our bilateral assistance on the vital development constraints of food production, energy and population. In addition, special emphasis will be placed in institution building, technology transfer and increasing the role of the private sector in development.

Developing countries must recognize that borrowing should be used to facilitate--not simply postpone--needed adjustments. To adjust to new economic conditions, compete in world markets, and attract private investment and capital flows, they must make greater efforts themselves to adopt appropriate economic policies and maintain a favorable investment climate. We will seek to channel and to those countries adopting hospitable policy frameworks which mobilize their domestic resources and promote healthy private sector growth. Furthermore, our internal assessment of the multilateral development banks (MDBs) concludes that the MDBs can also play an important role in advising developing countries on such policies, as well as using resources available to them to attract additional private funds for development projects.

Developing countries have sought a restructuring of the international monetary system focusing on measures to: (1) ease macroeconomic policy conditions the International Monetary Fund attaches to its loans; (2) create additional international liquidity through substantial creation of Special Drawing Rights linked to development criteria; (3) increase their role in international monetary decisions; and (4) cancel debt as a means of "resource transfer". Developing countries have long argued that the international monetary system in general, and decisions of the IMF in particular, are unfairly dominated by the major industrial countries. Industrialized countries as a whole share our interest in maintaining a stable international monetary system, but often seem more willing to accommodate changes sought by developing countries (e.g. France on SDR creation linked to development).

Private financial markets have demonstrated a remarkable capacity to meet the financing needs of borrowers and lenders, and will continue to have the primary role in recycling funds from surplus to deficit countries. The supplementary role of the IMF is to use its resources to promote sound programs of economic adjustment. The success of the IMF's efforts to maintain a stable monetary system depends on ensuring that the policy conditions associated with its loans require appropriate economic adjustments and policy responses in borrowing countries. The IMF has adapted in a number of important ways to meet the changing economic circumstances and needs of its members. We welcome further adaptation to reflect changes in the relative economic positions of the Fund's members as long as the changes continue to be based on economic criteria. We have viewed efforts to radically restructure the decision-making process of the IMF, as misguided since they are likely to undermine international confidence in its ability to foster a stable monetary system.

High U.S. interest rates are perceived as postponing global economic recovery and raising developing countries' borrowing costs. Our monetary policy, of course, is not one of high interest rates but is designed to ease inflation which adversely effects the U.S. and the world economy. We have embraced the fight against inflation as the highest priority of the international community, as noted in the Ottawa Summit Communique. As inflation subsides, so too will interest rates. U.S. pursuit of domestic policies to ensure a strong U.S. economy, and hence a healthy international one, will contribute much more than development assistance measures to long-term, sustainable economic growth in the developing countries.

Key Points to Make

-- Sound domestic economic policies and the external factors of trade, private investment, and commercial capital flows are more important for most developing countries than assistance measures for achieving long-term economic growth.

-- Developing countries need to make greater efforts to adopt rational economic policies and maintain a favorable investment climate.

-- Multilateral development banks and other foreign assistance can play an important role in promoting sound national policies and attracting private financial resources for development.

-- Private financial markets are managing the recycling of surplus funds; existing international institutions play a supplemental role.

-- International financial institutions must be allowed to operate in accordance with economic criteria if they are to continue to enjoy wide international support.

-- Combating inflation should be the number one economic priority of the international community.

-- Our bilateral assistance will concentrate on the vital development areas of food, energy and population, with special emphasis in institution building, technology transfer and increasing the private sector role.

MONETARY AND FINANCE

RECOGNITION OF GREATER ECONOMIC INTERDEPENDENCE AMONG NATIONS PLACES A PREMIUM ON ALL NATIONS WORKING TOGETHER TO ACHIEVE GREATER PROSPERITY. HOWEVER, WE CANNOT LOSE SIGHT OF THE FACT THAT ECONOMIC DEVELOPMENT IS FUNDAMENTALLY DEPENDENT ON EACH OF OUR OWN NATIONAL ECONOMIC POLICIES AND THE STRENGTH OF THE PRIVATE SECTOR. EQUALLY IMPORTANT, WE MUST APPRECIATE THAT THE EXTERNAL CONTRIBUTIONS OF TRADE, PRIVATE INVESTMENT AND COMMERCIAL CAPITAL FLOWS RESPONDING TO INCENTIVES OF THE MARKET PLACE ARE ESSENTIAL INGREDIENTS TO ACHIEVE LONG-TERM, NON-INFLATIONARY ECONOMIC GROWTH AND DEVELOPMENT.

FOREIGN ASSISTANCE AND INTERNATIONAL DEVELOPMENT AND FINANCIAL INSTITUTIONS CAN PLAY AN IMPORTANT ROLE IN REINFORCING AND SUPPORTING DEVELOPMENT EFFORTS. BUT ASSISTANCE CANNOT--NOR CAN WE PRESUME THAT IT SHOULD--DISPLACE OR SUBSTITUTE FOR THESE ESSENTIAL INGREDIENTS. WE RECOGNIZE THAT FOREIGN ASSISTANCE WILL BE OF PARTICULAR IMPORTANCE TO POORER COUNTRIES, AND WE WILL CONTINUE TO SUPORT THE EFFORTS OF ALL DEVELOPING COUNTRIES TO ADDRESS THE PROBLEMS THEY FACE AND UNDERTAKE ADJUSTMENTS. WE WILL CONCENTRATE OUR EFFORTS ON ALLEVIATING CONSTRAINTS IN THE VITAL AREAS OF FOOD, POPULATION, AND ENERGY, WITH EMPHASIS ON INSTITUTION BUILDING, TECHNOLOGY TRANSFER AND INCREASING THE ROLE OF THE PRIVATE SECTOR.

ADJUSTMENT OF ECONOMIC POLICIES TO NEW ECONOMIC CONDITIONS IS A NECESSITY. IT IS IMPORTANT THAT BORROWING BE USED TO FACILITATE--NOT SIMPLY POSTPONE--NEEDED ADJUSTMENTS. WE WILL SEEK TO GIVE PRIORITY IN OUR BILATERAL ASSISTANCE TO THOSE COUNTRIES WHICH DEMONSTRATE A SERIOUSNESS OF PURPOSE IN MOBILIZING THEIR OWN RESOURCES AND PROMOTING HEALTHY PRIVATE SECTOR GROWTH.

THE UNITED STATES WILL HONOR RECENT INTERNATIONALLY NEGOTIATED AGREEMENTS RELATED TO REPLENISHING THE RESOURCES OF THE MULTILATERAL DEVELOPMENT BANKS. THEY CAN AND SHOULD ACTIVELY PROMOTE SOUND ECONOMIC POLICIES AND ATTRACT PRIVATE FINANCIAL RESOURCES FOR GROWTH AND DEVELOPMENT OBJECTIVES.

A SMOOTHLY FUNCTIONING INTERNATIONAL MONETARY SYSTEM IS ESSENTIAL TO A PROSPEROUS WORLD ECONOMY. PRIVATE FINANCIAL MARKETS, SUPPLEMENTED BY EFFORTS OF EXISTING INTERNATIONAL INSTITUTIONS, ARE HANDLING THE PROCESS OF FINANCING PAYMENTS DEFICITS. THE DEMONSTRATED CAPABILITY OF THE INTERNATIONAL MONETARY FUND TO EVOLVE AND ADAPT TO CHANGES IN THE WORLD ECONOMY AND TO THE NEEDS OF ALL ITS MEMBERS IS A CORNERSTONE OF STABILITY IN THE INTERNATIONAL ECONOMY SYSTEM. HOWEVER, THE SUCCESS OF IMF'S EFFORTS TO MAINTAIN A STABLE MONETARY SYSTEM DEPENDS ON ENSURING THAT THE POLICY CONDITIONS ASSOCIATED WITH ITS LOANS REQUIRE THE APPROPRIATE ECONOMIC ADJUSTMENTS IN BORROWING COUNTRIES.

THE FIGHT AGAINST INFLATION MUST BE THE HIGHEST PRIORITY OF THE INTERNATIONAL COMMUNITY. HIGH INTEREST RATES ARE PAINFUL FOR ALL OF US, BUT WE MUST NOT EVADE OUR RESPONSIBILITY TO ATTAIN LOWER INTEREST RATES ON A LASTING BASIS. THIS WILL NOT COME THROUGH SHORT-TERM MEASURES, WHICH WOULD INEVITABLY THWART OUR EFFORTS AGAINST INFLATION. BY STEADFAST PURSUIT OF OUR DOMESTIC POLICIES WE WILL, IN THE LONGER TERM, ACHIEVE LOWER INTEREST RATES, STRENGTHEN THE U.S. ECONOMY AND CONTRIBUTE TO A HEALTHY, LESS-INFLATIONARY WORLD ECONOMY.

IMF Financing and Conditionality

Criticism: The developing countries claim that the amount of financing available from the IMF is inadequate to deal with their balance of payments needs and that the economic policy conditions associated with IMF financing are excessively harsh and damaging to their development efforts.

Response:

1. With re-emergence of large balance of payments deficits and financing needs over the past few years, the IMF has moved dramatically to increase its resources and expand members' access to those resources.

2. Consequently, recourse to the IMF's financing has increased rapidly.

3. The need now is to assure that the substantial resources available to the IMF are used prudently in support of soundly designed and effectively implemented programs of economic adjustment. This is critically important for the IMF as an institution, to individual borrowing countries, and to the world in general.

Facts: The IMF is the principal source of official financing for countries experiencing temporary balance of payments difficulties. The availabiltiy of IMF financing is conditioned upon the borrower adopting economic adjustment policies that will correct its balance of payments problem and place its external position on a sustainable basis that can be financed from non-IMF sources, primarily private markets. In recent years, the IMF has substantially expanded its resources available for balance of payments financing and members access to those resources. Quotas have been doubled since 1977 (to a total of about $69 billion) and the IMF has borrowed significant amounts (includiow a recent $9 billion loan from Saudi Arabia and $2 billion from other countries). A member's access to IMF resources is now multiple of its quota. Consequently, the IMF's financing commitments have increased sharply and in 1981 (through July) loans are being made at an annual rate of $16 billion, more than double the pace set last year.

The US and other major countries have become increasingly concerned that IMF supported adjustment programs have not been adequately implemented despite the substantial commitment of IMF resources. The effectiveness of the IMF's efforts to promote sound economic policies in borrowing countries is critical to the achievement of a more stable world economy and maintenance of the financial integrity of the institution. We are working with IMF management and other countries to improve IMF conditionality.

Developing countries and smaller developed countries are also pressing to accelerate the quota review, pointing to the current rapid utilization of IMF resources. The US has firmly opposed any acceleration in light of the IMF's storng financial position and concern about Congressional reaction to further requests for IMF funding at a time of budgetary stringency.

IMF Quotas and Voting Shares

Criticism: IMF quotas do not adequately reflect the role of developing countries in the world economy. The quota (and voting) share of developing countries should be substantially increased and the deadline for completing the quota review be advanced.

Response:

1. The general review of quotas which is now underway will be long, complex, and difficult. We believe that the current schedule, calling for completing the review in late 1983 is reasonable and appropiate.

2. The effectiveness of the IMF in promoting adjustment and the evolving world payments situation will have and important bearing on the demand for IMF resources and the need for a quota increase. It would be premature to reach decisions on the size and distribution of a quota increase before assessing developments in those areas.

3. The US approach to the quota review is based on the view that the IMF must remain a monetary institution which serves as a backstop for the international monetary system. The US opposes any "bloc" approach to the determination of quota shares, believing individual country quotas should reflect the member's relative position in and responsibility for the world economy.

Facts: Quota subscriptions constitute the IMF's permanent financial resources and determine the amounts of financing a country can obtain when in balance of payments need. Quotas also determine voting power in the IMF. Quotas are calculated on the basis of economic criteria and are reviewed periodically. In December 1980 a major 50 percent increase in quotas became effective, raising total IMF quotas to roughly $69 billion.

A review of quotas is underway and is scheduled to be completed in late 1983. The review will examine the interrelated questions of the criteria and procedures for quota calculations, the appropriate distribution of quotas, and the overall size of the IMF. The developing countries are pressing for a larger quota (and voting) share in an effort to push through changes in IMF lending practices favorable to them, even though many developing countries already have quota shares that are unjust- ifiably high. A number of industrial countries are also seeking share increases. THe US will have to contend with strong pressure to reduce its own share. We have traditionally resisted reductions in the US share (at 20 percent the largest of any member) below a level substanially above the veto point (15 percent) for major IMF decisions.

Developing Country Debt Burden

Criticism: The growing level of international debt owed by developing countries is threatening the stability of the international financial system and may impede the growth and development prospects of developing countries.

Response:

1. The US does not believe that there is a generalized developing country debt problem. Our view was supported by a recent study by the IMF staff which conluded that the international financial system could adequately meet developing country financing needs over the next years without jeopadizing the stability of that system.

2. Despite the large nominal incrase in developing country debt over the last decade, when measured against the size of developing country economies and/or the level of their exports, the capability of developing countries as a group to meet this increased level of debt has changed little during the period.

3. The US recognizes that individual developing countries are experiencing debt servicing difficulties. In these isolated cases, there are well-tested multilateral mechanisms for addressing such problems in a manner which protects the stability of the system and helps the individual debtor countries to maintain progress toward their development objectives.

Facts: At the end of 1980, total publicized medium and long-term public debt of the non-oil producing developing countries was estimated at $280 billion, of which approximately $32 billion is owed to the US Government. In nominal terms this represents a significant increase over the 1973 level of roughly $86 billion. However, once these figures are adjusted for inflation and measured against relevant factors such as GNP growth and exports, the developing country debt situation changed very little in real terms during the 1970s. For this reason, the USG does not believe that a generalized debt problem exists for developing countries as a group. Moreover, we believe that the international financial system will be able to provide adequate resources to meet developing country financing needs in the coming years.

Clearly some countries will experience debt servicing difficulties in the coming yeaers. However, these will be isolated cases, resulting most often from the inability of debtors to adjust rapidly enough to the changing international economic environment. In these cases, there are established international procedures to handle the problem while preserving the stability of the international financial system.

U.S. Bilateral Economic Assistance Program

Criticism: The United States is failing to meet its responsibilities in providing economic assistance. The US ranked 13th among the seventeen members of the OECD in terms of the percentage of GNP allocated to official development assistance (ODA).

Response:

1. The United States will provide the largest single amount of economic assistance of any country in the world.

2. It is true that budget stringencies and economic problems at home will limit the growth of US assistance over the near term.

3. Therefore, we will concentrate our efforts on making our aid more effective.

4. This will be accomplished in several ways:

   a) Concentrating assistance in those countries that adopt a policy framework appropriate to domestic resources mobilization and healthy private sector growth.

   b) Emphasizing a blend of technical assistance and resource transfer that will promote the strengthening of public and private institutions in the developing countries so as to ensure self-sustaining growth.

   c) Using bilateral aid as a tool to increase private capital flows, thus augmenting total resource flows.

Facts: The US has several major budgetary instruments to support our assistance objectives and strategy: the Development Assistance accounts ($1.9 billion requested for FY 82); the Economic Support Fund (ESF) ($2.6 billion requested for FY 82); and PL 480 food aid ($1.6 billion programmed for FY 82). The FY 82 budget request calls for a 16 percent increase in foreign assistance.

In 1980, estimated US ODA was over seven billion dollars, over 26 percent of all the assistance provided by the OECD. US ODA in 1980 was greater than all the assistance provided by all members of OPEC combined.

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U.S. Contributions to the Multilateral Development Banks (MDBs)

Criticism: The U.S. is backing away from its support of the MDBs.

Response:

1. This Administration is continuing effective U.S. participation in the multilateral development banks. We have made a firm commitment to take action to provide our share of resources under the MDB agreements which were already negotiated when we came into office.

2. A great deal has already been accomplished. Authorization legislation has been obtained for the full amount of our $12.8 billion request for U.S. subscriptions and contributions to the MDBs.

3. FY 1981 supplemental appropriations have also been obtained for the first U.S. installments to IDA VI and African Development Bank capital and work is now proceeding in Congress on the Administration's request for other necessary appropriations for fiscal year 1982.

4. We continue to see a major role for the banks. We think they can help promote even greater economic and social progress, based on market-oriented principles, and contribute to a more stable and productive economic system which will benefit all countries.

Facts: Authorization. Legislation has been enacted authorizing the full amount of $12.8 billion requested by the Administration for U.S. subscriptions and contributions to the MDBs. This total includes $3.24 billion for IDA VI; $8.8 billion for the World Bank General Capital Increase (GCI); $360 million for shortfalls in authorizations previously approved for the Inter-American Development Bank (IDB) ($345 million) and the Asian Development Fund (ADF) ($67 million). The authorization was included in the Omnibus Budget Reconciliation bill.

Appropriation. Congress aproved an FY 1981 supplemental appropriation of $500 million for the first installment of the U.S. contribution to IDA VI in June. Following approval of the authorization legisltion in August, the U.S. Government was able to agree to contribute and to make available the first installment of its contribution to IDA VI, thereby permitting the replenishment agreement to come into effect. The supplemental appropriation also contained $18 million for the first of five annual installments of U.S. capital subscriptions to the African Development Bank (AFDB); however, those funds cannot be used until the regional members of the bank complete their ratification of non-regional membership which is not expected to take place in the near future.

The FY 1982 Foreign Assistance Appropriations Bill was reported out of Committee in the House of Representatives on September 17, with the Committee approving the Subcommitee on Foreign Operations' recommendation of the requested levels for IDA VI and the African Development Fund (AFDF), no funding for the African Development Bank (AFDB), and 10 percent reductions from the requested levels for the other banks.

Although the scheduling of House debate on the bill has not been settled, there are indications that amendments for additional reductions will be proposed from the floor. On the Senate side the Foreign Operations Subcommittee of the Senate Appropriations Committee, has deferred consideration of the bill originally scheduled for September 17, in order to learn more details of the Administration's current budget proposals. The Chairman of that Subcommittee has indicated his intention to set lower levels for the banks, including $530 million for the second installment to IDA VI.

On September 14, the House of Representatives adopted a continuing resolution for FY 1982, providing for funding of MDB programs at the level of last year's appropriations. The Senate is expected to act on the continuing resolution in the next few days.

In a letter to Secretary Regan, The Chairman and Ranking Minority Member of the House Appropriations Subcommittee on Foreign Operations noted that the continuing resolution (H.J. Res. 325) would be operative for a period of only one month and asked that no U.S. funding be provided to IDA under the terms of the resolution. There is a strong possibility, however, that another continuing resolution may be passed at the end of the one month period. This would be the third consecutive year for funding the banks under continuing resolutions.

SDR Allocations and the SDR-AID Link

Criticism: The developing countries argue that current international financial arrangements do not provide them with adequate reserves to meet their balance of payments needs. They are seeking a further allocation of Special Drawing Rights (SDRs) and a change in the basis for distributing SDRs to provide developing countries with a larger share.

Response:

1. An allocation of SDRs at a time of abundant global liquidity and high inflation would represent an unwarranted and undesirable weakening of the commitment to bring the present ruinous world inflation under control.

2. Current economic problems cannot be solved simply by printing more money. Each country must pursue sound economic policies to get its own house in order.

3. A change in the basis for distributing SDRs -- i.e., creation of an SDR aid link -- would damage the monetary character of the SDR and undermine efforts to make the SDR an important monetary asset.

Facts: The Special Drawing Right (SDR) is an international reserve asset created by the IMF and distributed to member countries in proportion to their IMF quotas to supplement existing reserve assets. Since the inception of the SDR in 1969, 21.4 billion SDRs have been allocated to members, including SDR 4.9 billion to the United States. The IMF is currently considering a further allocation of SDRs, beginning in January 1982.

Developing countries, and some smaller industrial countries, have been pressing for annual allocations of anywhere between SDR 4-18 billion. Developing countries have also sought a change in the distribution formula to provide them with a larger share (presently about 28 percent) of the allocations (the so-called SDR aid link).

Opponents of an allocation -- including the United States -- argue that there is adequate, indeed excessive, global liquidity and that further allocations would contribute to inflationary expectations, ease balance of payments discipline on some countries, and undermine the credibility of the IMF as a monetary institution. The US has also consistently opposed the "link" on ground that it would undermine the SDR as a monetary asset and create pressures for excessive allocations on non-monetary grounds.

ADDITIONAL POINT PAPERS

Implication of the U.S. Economic Recovery Program for Developing Countries

Argument: The budgetary implications of the President's economic program imply further reductions in U.S. foreign assistance and the resulting high U.S. interest rates disrupt exchange markets making private borrowing too costly for many developing countries.

Response:

1. We have stated that we will stand behind U.S. multilateral commitments and we will preserve our bilateral programs, especially for the poor countries.

2. The economic program is designed to reestablish the sort of vigorous, non-inflationary growth in the U.S. economy that is a critical element in the environment for healthy, world economic development.

3. Economic progress is principally determined by each country's own economic policy and the health and dynamism of its private sector -- not by official assistance.

4. High U.S. interest rates do pose a particular, if temporary, problem for some developing country borrowers. This problem will diminish as U.S. inflation itself moderates, reducing the inflation premium now embedded in our interest rates.

Facts: The Economic Recovery Program is made up of four mutually reinforcing, interdependent elements -- consistently restrained monetary growth, curbed government spending, tax reduction and regulatory relief. Together these will restore strong, non-inflationary growth to the U.S. economy.

The general importance of improved U.S. economic performance for the rest of the world's economy is well known. It has specific relevance to the developing countries. As that program succeeds, demand for developing countries' exports will substantially increase. Moreover, our own protectionist pressures, which could otherwise harm developing country export receipts, will be defused as employment and investment opportunities in the U.S. expand.

A strong, non-inflationary U.S. economy however does not, nor can it, in itself assure sustained economic progress in the developing world. Nor do ever-increasing official income transfers for development. What is critical in determining development progress is the set of national policies each country adopts so as to make its own best use of a strengthened world economy and such official resources as may be available.

Importance of National Policies

Argument: A developing country's own economic and social policies are a critical factor in economic development.

Responses:

1. Any country's economic performance is primarily a function of its own economic policies and actions. In order to achieve their developing potential and increase the economic well-being of their people, we believe that developing countries need to adopt and pursue rational, market-oriented, economic policies.

2. Policies cannot avoid needed adjustments or put short-term political objectives ahead of economic efficiency or the long-run economic development performance of the country.

3. We allocate our aid in an effort to reinforce sound national policies.

Facts: Many developing countries will have pursued economic policies which ignore or distorted market forces and deterred domestic as well as foreign investment. These policies include such things as price controls on energy, or food. The former has led to excessive demand while reducing or eliminating incentives for domestic agricultural production, thereby contributing to the world hunger problem. Controls and nationalization policies have also often discouraged investment and capital accumulation and have often been biased away from small producers and towards capital intensive investment.

Developing countries have therefore often been reluctant to undertake needed adjustments because such change risks political disruption. There is, however, an increased acceptance by the developing countries of the view that long-term success in development and political stability requires the adoption of rational, market-oriented economic policies but reinforce sound programs.

Role of the Private Sector

Argument: The private sector should be the primary force in economic development. We are relying domestically on our own private sector to bring about more vigorous economic growth. We believe that many developing country economies can benefit from policies that give the private sector a greater role.

Response:

1) Private sector participation provides economic incentives to work and invest while decentralizing economic decision making to the production unit. In the United States we are moving to revitalize our economy by eliminating excessive regulations and government intervention.

2) The US will support policies in developing countries to expand private sector involvement by working to eliminate USG disincentives to US private sector involvement in developing countries; exploring new ways to create a more open climate for trade, investment and capital flows; increasing AID's private sector orientation (creating a special Private Sector Bureau); improving other US programs that support the private sector in developing countries; supporting efforts of individual developing countries to create a more favorable internal climate for foreign and domestic private sector activity; strengthening the role of the multilateral institutions in their support of developing country private enterprise; increasing the involvement of individual US firms and private business associations in providing management and technical training for developing country personnel; and seeking more effective ways to bring together developing country enterprises and US suppliers of appropriate technology.

Facts:

The role of private enterprise in developing countries is almost totally dependent on their own national policies. Key is the climate for investment - both domistic and foreign.

Net new US direct investment in developing countries in 1980 is estimated at $8 billion. This includes transfers of significant amounts of technology and training.

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cultural production, increased energy supplies...
trade, the report also calls for some political...
impossible ideas (massive transfers to the South,...
or very poor areas (SDR-AID Link) in the structure...
of the world economic system.

4. Nevertheless, the report is useful in focusing global...
attention on these important development issues before...
the world community.

Facts: The Report of the Independent Commission on International Development Issues, chaired by Willy Brandt, was issued in February 1980. It's alarming description of the economic state of most developing countries is essentially correct, if perhaps overstated. However, many of the report's proposals for remedies to the developing countries' problems are neither new nor realistic.

We recognize the important role which the international community can play in assisting the developing countries' own development efforts. However, economic performace of the developing countries is primarily a function of their own actions and policies. Uneconomic pricing policies for food, other agricultural products, and other domestically produced or imported products or services have often been the source of poor economic performance. Similarly, protect-

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Differentiation vs. Universality

Argument: Policies and actions to promote development in developing countries should be tailored to the needs of individual countries or groups of countries.

Responses:

1. The international community should recognize the diversity of the developing countries and differing needs of countries at different levels of development and in varying circumstances.

2. Treating developing countries as a monolithic bloc makes it more difficult for developed countries to respond to legitimate developing countries needs.

3. Differentiating among developing countries is not an effort to break developing countries unity, but is an attempt to address development problems more realistically.

Facts: Developing countries are an extremely diverse group. Their resource endowments, population structures, and state of economic development vary dramatically. The appropriate international support for development efforts varies accordingly. The problems of each country or group of countries are best addressed by policies specifically designed to their circumstances or regions. Universal measures applied to all developing countries can lead to a misalloction of resources. Developing countries resist a differentiated approach, especially in international economic negotiations.

Since 1973-74, when they saw the power of the OPEC cartel to raise oil prices, the developing countries have sought to force concessions from the industrial countries by maintaining a united front, especially with the OPEC countries. This approach leads to a proliferation of demands. Every country's needs or wants, no matter how irrelevant or even contradictory to other countries, must be included to maintain unity. For the same reason, the demands cannot be given any order of priority. The net result is a "take it or leave it" package of radical reforms affecting the entire international economic system.

Economic Cooperation Among Developing Countries

Criticism: The U.S. opposes meetings within the UN system designed to promote Economic Cooperation Among Developing Countries (ECDC).

Response:

1. The U.S. supports the ECDC concept because it is a recognition by developing countries that they themselves are primarily responsible for their own development.

2. Unfortunately, in the UN the value of the ECDC concept has been overshadowed by the insistence of the Group of 77 developing countries that UN-sponsored ECDC meetings be limited to only developing country members of the G-77 but paid for by all mlembers through the assessed budget.

3. The U.S. believes that ECDC meetings within the UN system must respect basic UN principles of sovereign equality of states and universality and, accordingly, must be open to all UN members, both developed and developing countries.

Facts: In 1979 UNCTAD V passed a consensus resolution authorizing three exclusive meetings of Government Experts of Developing Countries on ECDC, and, subsequently, UNCTAD's trade and Development Board authorized two additional meetings over the negative votes of the developed countries. These UNCTAD ECDC meetings were open only to members of the Group of 77 and documentation was not distributed to non-G-77 UN members. The problem of G-77 meetings in the UN system was compounded by SYG Waldheim's approval of the use of un facilities for exclusive ministerial-level conference in Carabellada, Venezuela.

Although the USG and the developed countries have protested the use of UN facilities for exclusive G-77 meetings to the UN Secretariat and to UNCTAD, it canbe expected that the G-77 will continue to press for exclusive use of UN facilities.

The U.S. pays 25 percent of the assessed budget of the United Nations.

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UN Conference on Least Developed Countries (LLDCs)

Criticism: The US joined the consensus to adopt the Program of Action for the 1980's for the LLDCs, but the US statement of interpretation which among other things rejected specific aid targets implies US unresponsiveness to the needs of the LLDCs.

Response:

1. The US recognizes the importance of external assistance for the least developed countries, the US, in principle, does not accept aid targets, including those based on a percentage of GNP. We think the external assistance requirements of the developing rountries should be based on a realistic assisment of the individual country.s economic situation and policy framework including their ability to effectively utilize external funds for development purposes.

2. The US is sympathetic to the needs of the LLDCs and has adopted policies and programs which respond to their specifi needs and circumstances. Our opening conference statement laid out a constructive approach to their problems including foreign assistance.

2. A principal value of the Conference was to focus international attention on the economic and social problems of these countries. The Program of Action is useful, particualrly in that it recognizes the complementarity between domestic and international measures to achieve development objectives.

3. The Program of Action specifically recognizes that the least developed countries bear the primary responsibility for their own development. This includes setting objectives and priorities and implementing development plans, programs and projects.

Fact: The UN Conference held in Paris, September 1-14,1981, was the first UN conference focussed exclusively on the LLDCs. The Conference arose from deliberations at UNCTAD V in Manila in 1979 The Conference proceeded in a non-confrontational atmosphere and the Program of Action that was adopted sets out useful guidelines both fo the LLDCs and donors.

At the Conference, the OECD countries were successful in achieving a substantial degree of balance in the Program of Action including highlighting the important role which sound domestic policy measures for the agricultural, energy and population sectors can play in LLDC development. Although the language of the Program of Action was moderated in many places, the US did make a statement o interpretation on a number of matters such as aid targets, automatic resource transfers, transportation, IMF, and commodities.

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. Regionalization

Argument: Cooperative regional approaches to economic issues should be thoroughly explored and implemented where appropriate.

Responses:

1. The regional approach enables developing countries, donors, and international institutions to coordinate activities to allow for greater impact of development efforts through reinforcing national efforts.

2. The regional approach can take advantage of expertise already developed by some countries in a region to assist other countries with similar problems.

3. Cooperation among nations of a particular region on trade and other economic issues can often provide far greater economies of scale and more efficient resource allocation than a strictly national approach.

4. Regional development programs reinforce the UN objective of economic cooperation among developing countries (ECDC).

Facts:

The US is currently involved in several regional efforts to coordinate development.

Caribbean Basin Initiative: The US proposed the CBI as a program to coordinate actions by the Caribbean nations, donor countries, and international financial institutions in the areas of trade, investment and foreign assistance to complement the region's own development efforts.

ASEAN: We are committed to a close working relationship with the Association of Southeast Asian Nations (ASEAN). We have benefitted considerably from a better understanding of ASEAN's views on multilateral issues and ways to strengthen our bilateral commercial ties.

ECOWAS: The United States already works closely with the Economic Community of West African States (ECOWAS) as it strengthens economic ties among the countries of West Africa. We consult closely on trade and investment issues and look forward to increasing cooperation.

Population

Argument: Consistent with traditional concern for human dignity and the quality of life and in keeping with US interests, the US will continue to provide assistance for voluntary family planning and encourage all countries to give careful consideration to population issues.

Response:

1. Over the past decade, about half of all population assistance to developing countries has come from the US. The US will continue to play an active role in international population assistance progress.

2. We urge growing involvement of other donors and an increasing commitment of the developing countries themselves to voluntary family planning.

Facts: World population is likely to increase from the current 4.5 billion to over 6 billion by the year 2000, with 90 percent of this increase occurring in low income countries. This growth will seriously affect economic development aspirations, exacerabating the problems of malnutrition, overcrowded cities, unemployment, deforestation and water supply. These changes will also bring an increased potential for social unrest, urban crime and mass migration.

Increasing numbers of developing country leaders, including Lopez Portillo, Gandhi, Moi and Suharto, have spoken out in support of voluntary family planning programs. They and others, including representatives from Austria, Japan and China, may use the occassion of the Cancun meeting to urge higher levels of international assistance for population programs.

Population and family planning program assistance has been highly successful. In recent years, some thirty developing countries, including China, Indonesia, Tunisia, Thailand, Columbia and Mexico have brought down birth rates significantly through concerted national efforts. However, at present no more than one-third of all couples in developing countries have access to basic family planning information and services, and shortage of funds is now the most serious constraint to further progress in population and family planning. Further fertility reduction in most countries will require considerably greater efforts in motivation and expansion of family planning services.

Human Resource Development

Argument: Developing country efforts to expand basic education, train key personnel and strengthen local training and research capacities are essential to sustained economic growth and social improvement. Increased international support for these efforts is recommended.

Response:

1. The US offers valuable education and training expertise and experience in support of developing country efforts. However, strong and sustained local leadership is needed to make necessary investments, initiate needed reforms and insure that trained people can employ their talents and skills.

2. The US views as mutually advantageous the transfer of technology through training, professional exchanges and cooperation between US industry, universities, other public and private insitutions and their developing country counterparts.

3. US development assistance programs will continue to support two human resource objectives: expansion of basic education opportunties to include women and the rural poor, and strengthening the technical, scientific and managerial leadership of developing country insitutions.

Facts: Six hundred million adults in the developing countries cannot read or do simple calculations. The poorest and most rural developing countries enroll as few as 20 percent of their children. Such low levels of education constrain productivity, social and economic participation, and new technologic, fertility and health practices. Strong and consistent empirical evidence supports basic education as one of the best economic as well as social investments a developing country can make.

Some 300,000 foreign student currently study in the US, most are from developing countries. About 7,000 are US-sponsored, the remainder are sponsored privately or by their own governments. Most government-sponsored students return home on schedule. US bilateral development assistance for education/human resources is $110 million (8 percent of total); $30 million supports basic education. Training in agriculture, health and other fields is $80-100 million.

Natural Resource Development

Criticism: The U.S. and other industrialized nations are consuming a disproportionate share of the world's natural resources at the expense of economic growth in the Third World.

Response:

1. There is a correlation between economic growth and resource consumption. We, however, reject the notion that "excessive" resource demand by any country or group of countries is a constraint on the economic development of others.

2. Our collective concern should rather be on how to increase and sustain resource availability over the long term in view of continuing population growth and industrialization. This has been relatively neglected by economic and development planners...and significant progress is possible.

3. Excellent opportunities for expanding resource availability exist through improved planning, better management, conservation and technological innovation. The U.S. is now making substantial reductions in energy and raw materials usage through a combination of these measures. This is a profitable area for increased international collaboration, and we stand ready to share our experience and knowledge.

Facts: There is no evidence that reduced resource consumption by the U.S. would stimulate greater economic growth in the developing countries. A much stronger argument can be made that U.S. economic prosperity has historically had a significant, positive impact on developing country economic and social development.

Future worldwide economic growth will depend on both expanding supplies of minerals and energy, and on maintaining the productive capacity of water resources, forests and soils. However, many poor nations are now finding their development programs being undercut by the degradation of their natural resource base on which food production and industrialization critically depend.

Rich and poor nations thus have shared interest in finding and exploiting new sources of energy and minerals, reducing waste and inefficiencies in use, and improving the management of renewable resources. The U.S., as a world leader in resource management and conservation, is in a strong position to engage the developing countries in effective cooperation in this area, and to change the tone of the recent North-South dialogue on resource development issues.

Development-Oriented Science and Technology

Argument: International cooperatiove research combined with strengthened science and technology institutional capacities in developing countries can yield a high return from the resources available.

Response:

1. Science and technology can play a major role in the continuing development of all nations, particularly of developing countries. Pay off from the new high-yielding varieties of wheat andf rice now range from $4-6 billion annually.

2. Strengthening the capacities of developing countries in science and technnology, given funds avaliable, can best be accomplished through better utilization of existing resources to reinforce domestic programs in both public and private sectors.

3. We are examining ways in which US development assistance programs can be made more responsive to science and technology objectives of developing countries.

4. We are hopeful that our continued cooperation and that of other nations, particularly oil-exporting nations, will help accelerate the scientific and technological growth of these countries.

Facts: At the 1979 UN Conference on Science and Technology for Development (UNCSTD), the international community was called upon to assist developing countries in strengthening their capacities in science and technology. Since then, science and technology issues have arisen as a discrete subject in a number of international meetings. One result of UNCSTD was a UN resolution calling for long-term financing of science and technology activities. A controversial proposal for a global fund is now under discussion within the UN.

The US and most other developed countries are opposed to the creation of new special funds. The US supported creation of an initial two-year interim fund (1980-1982), but remains under political criticism for failure to meet our $10M FY 81 pledge to that fund and our lack of support for a long-term fund.

An independent mission by a group of developing country Ministers visited several OPEC countries in June and reportedly succeeded in obtaining Arab support for science and technology activities, including the potential for major funding. The Ministers plan to visit leading developed countries and visited the United States on September 15, 1981.

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Election of UN Secretary General

Criticism: Foreign Minister Salim A. Salim of Tanzania is challenging incumbent Kurt Waldheim for the position of UN Secretary General (SYG), a race which will be decided in the Security Council most probably in November. The US should take a position.

Response:

1. Though we have high regard for Secretary General Waldheim and Foreign Minister Salim, we have not taken a position on any of the known or potential candidates for UNSYG.

2. The election will not take place until later in the session, and we will defer any commitment on the SYG election until it is clear who all the candidates are.

Facts: Waldheim's term expires on December 31. He has announced his candidacy for an unprecedented third five-year term. His only announced challenger, Salim, is considered a strong opponent, having won the endorsement of the Organization of African Unity in June. The Tanzanian campaign for Salim, stagemanaged by President Nyerere, has stepped up in recent weeks in an attempt to nail down non-aligned and regional group support.

There is a possibility that a Latin American may enter the race. The names most frequently rumored now are Organization of American States Secretary General Alejandro Orfila and Waldheim's Personal Representative on Afghanistan, Perez de Cuellar of Peru.

The UN Charter states that the General Assembly, upon the recommendation of the Security Council, appoints the Secretary General. Because the veto applies in the election of a Secretary General, all five permanent members of the Council must agree, or, at the minimum, not cast a negative vote. The Security Council will probably begin to meet informally in November to lay out the groundwork for the voting, e.g. set the method of balloting, and to determine who the candidates are. Subsequent to these preliminaries, the actual balloting will take place in the fifteen-member Council. Although other permanent members of the Security Council have not revealed their positions, we believe UK, France, and USSR are leaning to Waldheim while China prefers Salim.

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Nuclear Cooperation

Criticism: The U.S. discriminates against developing countries through unilateral nuclear export policies, and has not fulfilled its obligations to reduce its nuclear arsenal.

Response:

1. We recognize that nuclear energy offers the prospect and promise of helping many nations achieve greater energy abundance and security. We are determined to strengthen the United States as a reliable supplier of nuclear equipment, fuel services and technology to other countries under appropriate safeguards and controls.

2. We are committed to strong support of the International Atomic Energy Agency and to active international cooperation in the civil nuclear field.

3. At the same time tht we work together to avoid the spread of nuclear explosives we will also work toward verifiable and equitable nuclear arms control to reduce the chances of nuclear war. In particular, we recently agreed to begin discussions with the Soviet Union on reducing theater nuclear forces.

Facts: Following the 1974 Indian nuclear explosion, the Nuclear Suppliers Group (NSG) was formed to tighten controls on international nuclear exports. The new controls were widely resented by developing countries as an effort to deny them nuclear technology and to impose new obligations without their consent.

In 1978, the Nuclear Non-Proliferation Act was enacted, which, inter alia, called for the U.S. to seek renegotiation of our existing nuclear agreements to include more stringent controls and for retroactive application of full-scope safeguards (FSS) on nuclear export commitments. Some developing countries have strongly criticized the law. The FSS requirement resulted in a virtual halt in nuclear cooperation with India, Brazil and Argentina.

RGD

THE WHITE HOUSE

WASHINGTON

October 7, 1981

MEMORANDUM FOR ED MEESE
JIM BAKER
MIKE DEAVER
DICK ALLEN

FROM: MARTIN ANDERSON MCA

SUBJECT: New Policy Proposals for Cancum Summit

At the risk of being labeled a "nitpicking bureaucrat" I'd like to point out a few aspects of the policy proposals submitted by State that the President should be aware of.

1) Multilateral Investment Insurance.

This plan has been kicking around in the bureaucracy for years. Now, under certain circumstances the U.S. insures the loss of a U.S. Company by expropriation.

Under the proposed multilateral scheme, the U.S. would be committed to pay a substantial part of the losses suffered by a foreign company. For example: An Italian company enters into a high-risk energy venture in Tanzania. Tanzania seizes the assets of the company there. U.S. taxpayers would pick up probably about 25% of the Italian company's loss.

It is also true that if a U.S. company, say Exxon, suffered expropriation losses, the other countries who are parties to the agreement would have to pay their share.

Anyway:

a) It is a major departure from U.S. policy of insuring U.S. companies from political risk, to insuring foreign companies with U.S. taxpayers' dollars.
b) It could cost as much as $100 million to start, although you might pay for it by transferring funds out of OPIC.
c) It is an increase in foreign aid to LDC's at a time when 84% of the American public wants to cut aid.
d) It establishes a new multi-lateral organization just when we seemed to be moving toward more bi-lateral aid.

2) Incentives under Bilateral Tax Agreements.

It is impossible to get a precise estimate of what this would cost, but you can get an idea of the outer limit on the cost. A 10% investment tax credit could result in a revenue loss of $1 billion a year. (See attached OMB analysis)

Furthermore, the tax impact of such a policy would be uneven, and its magnitude would be effectively under the control of other countries.

3) Foreign Assistance Proposals.

The Agriculture, Energy and Private Sector proposals could total $250 million, and it would be important to clearly state whether this is to be new funding, or is to come out of existing allocations.

Given the difficulty of estimating costs of fuzzy, open-ended programs like these, it does not seem unreasonable to suggest that this offering could add about $1 billion a year to the foreign aid budget of the U.S.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

'81 OCT -7 P12:53
October 7, 1981

MEMORANDUM FOR: MARTIN ANDERSON

FROM: William Schneider, Jr. Philip A DuSault for

SUBJECT: Budget Costs of Cancun Proposals

In response to your questions at yesterday's meeting, we have attempted to determine the cost of each of the proposed initiatives.

1. Multilateral Investment Insurance. As the proposal indicates, a sound facility would require reserves, funded by paid-in capital. If one assumes an initial multi-year program of $1 billion, of which 40% would be backed by paid-in capital, and a 25% U.S. share, a payment of $100 million from this country would be required. Our bilateral investment insurance program, OPIC, currently has total reserves of $714 million (of which $106 million was paid in by the U.S. Government and the balance is retained earnings). The $100 million U.S. subscription could be transferred from OPIC's reserves, so that new government financing from general revenues would not be required. The payment to the facility would, however, result in outlays of $100 million, directly affecting the budget deficit. A frequent criticism of the proposed facility is that U.S. funds would be used to finance insurance payments to foreign companies. The problem was reduced in designing a similar plan in the late 1960's by requiring that the first 25% of each insurance claim be paid by the government of the affected firm's home country (e.g., France would pay the first quarter of each claim made by a French company). The remainder would be financed from the pool.

2. Tax Incentives. The U.S. has historically maintained a policy of investment and tax neutrality, which would be undercut by tax options. In addition, past congressional resistance to similar proposals reflects the adverse domestic political implications of a proposal that may be seen as subsidizing run-away jobs. The cost of tax incentives provided through treaty is impossible to estimate since it would depend on specific terms and the number of treaties negotiated. However, it is possible to gauge the order of magnitude of the investment tax credit option, thus setting an outer limit on the cost of providing tax sparing through treaties. U.S. investment in developing countries increased by $8.2 billion in 1980. If a 10% investment tax credit applying to all developing countries had been in effect, tax revenues would have been reduced by $820 million. The revenue loss would increase to the extent that the credit induced additional investment. Increases in U.S. investment flows to developing countries since 1980 would likely put the current cost of the investment tax credit in excess of $1 billion.

providing generalized tax sparing is clearly the most expensive option, but the cost cannot be estimated since it is uncontrollable. U.S. revenue losses would be determined by the magnitude of tax holidays provided by developing countries.

3. Trade Proposals. The cost to the United States (and the benefits to developing countries) of the trade proposals cannot be easily quantified, but meaninful steps toward free trade would be to the long-term benefit of both. None of the proposals in this area would cause significant budget expenses, but none represents a substantial immediate benefit to the developing countries.

There would seem little reason for the President to pledge at this time to seek extension of GSP, which does not terminate until 1985. That decision should be made in the light of conditions three years hence.

4. Foreign Assistance Proposals. These proposals fall into the areas of Agriculture, Energy and the Private Sector, and could total $250 million. The time-frame for funding the programs is not specififed, but we assume that they represent annual program levels which would begin in 1983. We recommend that if the proposals are accepted, it be with the explicit understanding that they will be carried out within existing foreign aid budget ceilings. This would involve displacing other programs which are of lower priority, which might create bilateral problems.

Agriculture. An earlier draft of the paper on agriculture estimated the cost of science and technology and policy assistance at $100 million, most of which would be obtained from reallocations from other programs of lower priority. The President in March requested $728 million for bilateral agriculture, rural development and nutrition programs in 1982. That amount has been reduced in the latest budget cutbacks, and additional reductions are scheduled for 1983 and 1984. The new program initiatives would thus replace existing programs in a lower overall funding level. The administering agencies should insure that the new proposals are of sufficient priority, substantively and politically, to warrant doing so.

Energy. AID has costed out the energy proposals at three "levels of effort," ranging from about $10 million to $144 million. We assume a significant energy initiative would cost about $100 million. AID believes that most costs would be incremental to existing energy programs, so that funds would need to be reallocated from other sectors (e.g. health or education). The 1982 AID energy program request totalled $108 million, so that the proposal would be roughly a doubling of the current proposed effort. As in the agriculture sector, AID's ability to affect LDC energy capabilities with this type of program should be carefully assessed. In this regard, we question the importance of strong support for the "program of action" of the U.N. Conference on New and Renewable Energy, which would be about a third of the total program. Some elements of the UN program, such as LDC energy assessments, have been tried bilaterally by the U.S. government and have been found ineffective.

Private Sector. The proposals listed would cost about $40 million, consisting of a $25 million co-financing fund, $5-$10 million for advisory services with the IFC and $7 million for management and technical training. Private sector initiatives will be a new program in 1983, so resources would need to be reallocated from other sectors within the tight overall budget. These programs represent an important administration initiative but elements of them, such as the co-financing fund, need to be developed more fully before their effectiveness can be judged.