December 8, 1983

SECRETARY'S CIRCULAR NO. 83/129

To: Members of the Executive Board

From: The Secretary

Subject: Report on Seminar for Non-Officials in Austria

There is attached for the information of the Executive Directors a report on a seminar conducted jointly by the Fund's External Relations Department and the Austrian National Bank, held in Baden, Austria, October 11-14, 1983.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Report on Seminar for Non-Officials in Austria
October 11-14, 1983

Prepared by the External Relations Department

Approved by A. F. Mohammed

December 7, 1983

1. Introduction

A seminar on the theme of "Monetary Stability and Economic Growth" was organized by the External Relations Department in cooperation with the Austrian National Bank. It was held in Baden, Austria, from October 11 through 14, 1983. It was the Fund's seventh seminar for non-officials and the first conducted in German. 1/ Of the 33 outside participants from Austria, the Federal Republic of Germany and Switzerland, eleven were university professors or associated with economic research institutes, ten represented commercial banks, nine were from the co-sponsoring institution and the other two central banks of participating countries, two were journalists, and there was one participant each from the BIS and GATT secretariats. The moderator of the seminar was Professor Hans Seidel, former Under Secretary of Finance of Austria and at one time Director of the Austrian Institute for Economic Research. Five members of the Fund staff attended (Attachment I).

The seminar was divided into six sessions during which nine papers were presented, five commissioned from outsiders among the participants and four prepared by Fund staff members (Attachment II). As papers were distributed to participants in advance of the seminar, the authors made brief opening statements, followed by comments of preselected discussants and a general discussion.

2. The proceedings

The first day of the seminar was devoted to the question of how economic growth can resume in a world marked with large-scale disequilibria. Professor Jürgen Pahlke of the University of Bochum, in his introductory paper, analyzed "The role of monetary and fiscal policy in the adjustment process" and concluded that among the major goals of economic policy, monetary stability, growth, and full employment,

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1/ Previous seminars in this series were held in Croydon, England, October 16-18, 1981 (in English); Paris, November 23-25, 1981 (French); Nairobi, March 2-5, 1982 (English); Washington, D.C., August 31, 1982 (English); Beijing, October 20-28 (Chinese); Viña del Mar, Chile, April 5-8, 1983 (Spanish).

the last-mentioned was clearly the most neglected one at the present time. While participants agreed that the magnitude of the present problem was partly the result of prevailing monetary policies, none called for radical policy changes, nor was there support for exceptional stimulatory fiscal measures which were seen as promising short-term relief at best.

In his paper on "The role of incomes policy in the adjustment process", Dr. Helmut Kramer, Director of the Austrian Institute for Economic Research, discussed how incomes policies in Austria have helped to reduce inflation without negative effects on the rest of the economy. He analyzed the limits of incomes policy and certain adverse side effects. During the ensuing discussion, participants wondered whether the Austrian experience was "exportable" to other countries. The answer was in the negative, given the uniqueness of the social consensus prevailing in Austria, although there was some mention of similar features in Germany and Switzerland, where trade unions have traditionally played a moderating role, and in Japan, where the system of "life-time employment" has had similar effects.

The rise of protectionism was the focus of discussion following a presentation by Mr. Hans W. Gerhard (ETR) on "The role of foreign trade policy in the adjustment process". Protection against competition from abroad in various forms, including the maintenance of a protective exchange system, was viewed by participants as an effort by countries to export unemployment to neighboring countries. Most participants thought that close collaboration between the Fund and the GATT was useful and that a narrow jurisdictional interpretation of their responsibilities should be avoided. They noted that the Fund regularly paid attention to both exchange and trade matters in the discussions of members' adjustment policies within the framework of Article IV consultations and especially in the context of Fund arrangements designed to support adjustment programs of member countries. There were some participants who criticized free trade policy as such from both academic and practical points of view, and questioned what they saw as the Fund's too dogmatic advocacy of such principles. Other participants, however, emphasized the advantages of liberal trade arrangements for the international community as a whole and the necessity of averting a vicious spiral of protectionism.

The second day's discussion focused on the exchange rate regime. Professor Jürg Niehans of the University of Bern examined the question of how well flexible exchange rates have served the world economy. Mr. Horst Ungerer (EUR) reviewed the experience with the European Monetary System and posed the question whether or not the EMS can be seen as a model for a world-wide exchange rate system. Dr. Adam Zwass of the Austrian National Bank gave a report on the role of exchange rate policies in centrally planned economies.

Mr. Niehans opened the discussion by saying that for a world subject to "Phillips-illusion", i.e., a world characterized by the belief that a permanent increase in employment can be achieved at the cost of a relatively moderate increase in the rate of inflation, flexible exchange rates have stood the test; the maintainance of fixed rates under circumstances which produce inflation at differential rates in various countries would be impossible without pervasive exchange controls. In a world without such illusion, however, fixed exchange rates would be optimal: under such circumstances, a system of the Bretton Woods type could be possible. In comparing flexible and fixed systems, Mr. Niehans concluded that a fixed rate system would be preferable to one based on inflation and flexible rates, basically because both monetary policy and the allocation of resources work more reliably in a fixed rate system, whereas in a flexible system exchange rates inevitably overshoot. A flexible exchange rate system in his view can, therefore, only be a second-best solution.

Turning to current conditions, Professor Niehans suggested that following two decades of inflation, the industrial countries now have a chance to return to price stability. If they succeed, a monetary zone with fixed rates can emerge with the U.S. dollar at its center. Mr. Niehans warned that it would be a mistake to preempt or impede this process with international conferences, agreements, or institutions. If the United States holds for several years to a course of price stability with satisfactory levels of employment, a dollar area will emerge all by itself. In his commentary, Mr. Robert Heller of the Bank of America pointed out that flexible exchange rates have not reduced economic growth, increased inflation, depressed exports, or reduced capital movements; if anything, the opposite is the case.

In evaluating the EMS, Mr. Ungerer said that the experience has been more favorable than was expected by critics, although the performance of the system had fallen short of expectations of its most forceful advocates. While the EMS had contributed to exchange stability among its members, more recently, it has also led to some convergence of economic policies within participating countries. Mr. Ungerer, however, expressed reservations about the idea that the EMS could serve as a model for a world-wide exchange rate system. To the extent the EMS had been successful, this was in large part due to special conditions, in particular the commitment of participants to a European integration policy. Worldwide, a better coordination of exchange market intervention would be helpful. However, to obtain a higher degree of exchange rate stability, greater efforts toward compatibility of policies, in particular between EMS countries and the United States, would be essential; the more recent convergence of inflation rates among major industrial countries was clearly not sufficient.

The discussion of Mr. Zwass' analysis of exchange rate policies in centrally planned economies proved how difficult it is to evaluate those economies from a market-oriented point of view, as economic processes are determined far less through the prices of goods and money than through administrative acts. Also, exchange rates generally play a subordinate role and there is a low degree of integration of economic mechanisms operating within the central plan with world markets. For this reason, the author argued, conditions imposed on these countries by the Fund involving exchange rates or pricing policies are often of questionable value.

The third day was devoted to a discussion of balance of payments financing and the system of international reserves. Mr. Rudolf R. Rhomberg (RES) presented a paper on "Balance of payments financing and reserve creation" discussing various reserve systems including a pure SDR standard and demonstrating the far-reaching consequences of the choice of assets that may be used for the accumulation of international purchasing power in the form of official reserves. Mr. Walter O. Habermeier (TRE) analyzed "The role of private markets in balance of payments financing", and Dr. Gunter D. Baer of the BIS addressed "The role of official lenders in financing and adjustment", focusing mainly on the BIS and the Fund in the management of countries' debt situations.

In Mr. Habermeier's view private markets have, and will continue to have, the dominant role in international financial flows. It is their function to allocate capital. The countries that demonstrably make productive use of capital and offer relative security, stability and prospect of return, will receive it and those that do not will not. From this point of view, Mr. Habermeier suggested, the role of official agencies is important but largely supportive and catalytic. Of equal, or indeed greater, importance is the Fund's judgment, signaled to the financial community at large, that the policies being pursued by the country concerned are appropriate and adequate to correct its problem.

The ensuing discussion focused mainly on various aspects of the financing problems of highly indebted LDCs. It was generally recognized that the way in which the crisis was handled jointly by the BIS, its member central banks, and the Fund was appropriate under the circumstances, but that this joint action in no way constituted a permanent solution of the debt problem. The situation was still full of risks and dangers, which at least partially resulted from the rescue operations themselves. In particular, questions were raised whether countries agreeing to harsh adjustment measures would find it politically feasible to adhere to such programs for any length of time. As no one can ultimately guarantee that all measures considered necessary would be carried out, it could not be excluded that in some cases there would be a reversion to the policies that caused the problem in the first place. To use financing intended to support adjustment programs for the maintainance of excessive consumption would be an unproductive use of part of the savings of the creditor countries and amount to a waste of resources. Only one of the discussants--Professor Jürgen Schröder of the University of Mannheim--suggested that in such a situation it might be better to declare the default of a country with all its negative implications for the international financial system than to keep a situation alive through successive debt rescheduling operations and prolongation of maturities. The losses arising from such a default would have to be borne by banks, Professor Schröder suggested, whereas the socialization of losses would give the wrong signal for the future: banks could interpret such action as a guarantee that no matter how high the risk in international lending, banks would ultimately be bailed out by the authorities.

In this connection, participants rejected proposals to institutionalize the roles that the BIS and the Fund presently play, as this again would be construed as creating an international lender of last resort.

While participants expressed concern about the magnitude of the debt problem, there was also some cautious optimism. Ultimately, participants agreed, the problems could be solved provided that five conditions are met: Fund resources are enlarged, banks provide additional new funds, rescheduling of debt is successful, adjustment in both debtor and creditor countries takes place, and the world economy grows at a sufficient pace.

It is planned to publish the proceedings of the seminar in German.

Attachments

MONETARY STABILITY AND ECONOMIC GROWTH

Seminar organized by the International Monetary Fund
in cooperation with the Austrian National Bank

Moderator: Prof. Dr. Hans Seidel, Vienna

Hotel Gutenbrunn
Baden, Austria
October 11-14, 1983

List of Participants

1. Gunter D. BAER	Sub-Manager, Monetary and Economic Department, Bank for International Settlements, Basel
2. M. BALTENSPERGER	Direktor, Bankwirtschaftliche Abteilung, Swiss National Bank, Zürich
3. J.-P. BEGUELIN	Vizedirektor, Volkswirtschaftliche Abteilung, Swiss National Bank, Zürich
4. Jean-Pierre BLANCPAIN	Neue Zürcher Zeitung, Zürich
5. Anton M. BURGHARDT	Senior Vice President, International Banking Division, Die Erste Österreichische Spar-Casse, Vienna
6. John-ren CHEN	Institut für Wirtschaftstheorie und Wirtschaftspolitik, University of Innsbruck
7. Fritz DIWOK	Secretary General, Verband Österreichischer Banken und Bankiers, Vienna
8. Helmut FRISCH	Technische Universität, Vienna
9. Bruno GEHRIG	Stellvertretender Direktor, Schweizerische Bankgesellschaft, Zürich
10. Beat GERBER	Secretary General, Schweizerische Volksbank, Bern
11. Hans W. GERHARD	Assistant Director, Exchange and Trade Relations Department, IMF
12. Walter O. HABERMEIER	Counsellor and Treasurer, IMF

13. Hans HAUMER	President, Die Erste Osterreichische Spar-Casse, Vienna
14. Robert HELLER	Vice President for International Economics, Bank of America, San Francisco
15. Martin HUFNER	Stellvertretender Direktor, Deutsche Bank AG, Frankfurt
16. Friedhelm JOST	Executive Vice President, Commerzbank AG, Frankfurt
17. Klaus KAUTZOR-SCHRODER	Director, Tariff Division, GATT, Geneva
18. Horst KNAPP	Publisher and Editor, Finanznachrichten, Vienna
19. Helmut KRAMER	Director, Österreichisches Institut für Wirtschaftsforschung, Vienna
20. Thomas LACHS	Director, Oesterreichische Nationalbank, Vienna
21. Theodor LEUENBERGER	Hochschule St. Gallen für Wirtschafts- und Sozialwissenschaften, St. Gallen
22. Helga MRAMOR	Stellvertretende Leiterin, Auslandsbüro, Oesterreichische Nationalbank, Vienna
23. Klaus MUNDL	Director, Oesterreichische Nationalbank, Vienna
24. Jürg NIEHANS	University of Bern
25. Ewald NOWOTNY	Institut für Volkswirtschaftstheorie und -Politik, Wirtschaftsuniversität, Vienna
26. Jürgen PAHLKE	Ruhr-Universität, Bochum
27. Rudolf R. RHOMBERG	Deputy Director, Research Department, IMF
28. Wolfgang RIEKE	Department Head, Deutsche Bundesbank, Frankfurt
29. Jürgen ROHWEDDER	Christian-Albrechts Universität, Kiel
30. Jürgen SCHRODER	University of Mannheim
31. Aloys SCHWIETERT	Stellvertretender Direktor, Schweizerischer Bankverein, Basel

32. Reinhold STOSSEL	Director, Dresdner Bank AG, Frankfurt
33. Horst UNGERER	Advisor, European Department, IMF
34. Peter ZDRAHAL	Director, Oesterreichische Nationalbank, Vienna
35. Adam ZWASS	Dozent, Oesterreichische Nationalbank, Vienna

SEMINAR MODERATOR

36. Hans SEIDEL	Vienna

SEMINAR COORDINATORS

37. Hellmut HARTMANN	Chief Information Officer, External Relations Department, IMF
38. Peter JILKE	Vorstand, Internationales Büro, Oesterreichische Nationalbank, Vienna

MONETARY STABILITY AND ECONOMIC GROWTH

Seminar organized by the International Monetary Fund
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Moderator: Prof. Dr. Hans Seidel

Hotel Gutenbrunn
Baden, Austria
October 11-14, 1983

Program

Tuesday, October 11

7:00 p.m. — Reception for seminar participants hosted by Prof. Dr. Stephan Koren, Governor, Austrian National Bank

Wednesday, October 12 — How can economic growth be resumed in a world of pressing adjustment problems?

9:30 a.m.

1. Monetary and fiscal policy issues in the adjustment process.
   Author: Prof. Dr. Jürgen Pahlke, Bochum
   Discussant: Prof. Dr. Horst Knapp, Finanznachrichten, Vienna

2. The role of incomes policy in the adjustment process.
   Author: Dr. Helmut Kramer, Vienna
   Discussant: Prof. Dr. Wilhelm Seuss, Frankfurter Allgemeine Zeitung, Frankfurt

3:00 p.m.

3. The role of commercial policy in the adjustment process.
   Author: Dr. Hans Gerhard, IMF
   Discussant: Prof. Dr. Ewald Nowotny, Vienna

Thursday, October 13 — The exchange rate system in a world of disequilibria.

9:30 a.m.

1. Have flexible exchange rates stood the test?
   Author: Prof. Dr. Jürg Niehans, Bern
   Discussant: Dr. H. Robert Heller, San Francisco

Thursday, October 13 (continued)

2. The European Monetary System and the international exchange rate system.
   Author: Dr. Horst Ungerer, IMF
   Discussant: Dr. Beat Gerber, Schweizerische Volksbank, Bern

3:00 p.m.

3. The role for exchange rate policies in centrally planned economies.
   Author: Dozent Dr. Adam Zwass, Austrian National Bank, Vienna
   Discussant: Prof. Dr. John-ren Chen, Innsbruck

Friday, October 14

Balance of payments financing and the international reserves system.

9:00 a.m.

1. Balance of payments financing and reserve creation.
   Author: Dr. Rudolf Rhomberg, IMF
   Discussant: Prof. Dr. Jürgen Rohwedder, Kiel

2. The role of private markets in balance of payments financing.
   Author: Dr. Walter Habermeier, IMF
   Discussant: Dr. Bruno Gehrig, Schweizerische Bankgesellschaft, Zürich

3. The role of official lenders in financing and adjustment.
   Author: Dr. Gunter D. Baer, BIS
   Discussant: Prof. Dr. Jürgen Schröder, Mannheim

3:00 p.m.

Summary of seminar proceedings and concluding remarks.
Prof. Dr. Hans Seidel, Vienna