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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/94

3:00 p.m., June 29, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	L. K. Doe, Temporary
	L. E. J. Coene, Temporary
	A. Le Lorier
	M. Teijeiro
	T. A. Connors, Temporary
M. Finaish	
	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	
	H. Arias, Temporary
G. Laske	
G. Lovato	
	C. J. Batliwalla, Temporary
	J. E. Suraisry
	J. Schuijer, Temporary
	K. G. Morrell
G. Salehkhou	O. Kabbaj
	S. M. Hassan, Temporary
M. A. Senior	
	A. Lindø
N. Wicks	
Zhang Z.	Wang E.

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present

C. F. Schwartz, Special Consultant. African Department: O. B. Makalou, Deputy Director. Asian Department: S. Kashiwagi. Central Banking Department: L. M. Koenig, Deputy Director. European Department: L. A. Whittome, Counsellor and Director; P. B. de Fontenay, P. Gotur. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director. External Relations Department: N. K. Humphreys. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: G. P. Nicoletopoulos, Director. Middle Eastern Department: G. Tomasson. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; J. Artus, C. P. Blackwell, J. E. Blalock, M. C. Deppler, D. J. Goldsbrough, M. D. Knight, C.-Y. Lin, A. K. McGuirk, W. H. White, E. Y. P. Tung. Treasurer's Department: T. B. C. Leddy. Office in Europe: J. K. Rosenblatt. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: A. A. Agah, P. D. Péroz. Assistants to Executive Directors: R. Bernardo, J. Bulloch, M. Camara, M. Hull, H. Kobayashi, M. J. Kooymans, Y. Okubo, J. G. Pedersen, G. W. K. Pickering, E. Portas, M. Z. M. Qureshi, J. Reddy, Wang C. Y.

1. REPORT BY MANAGING DIRECTOR

The Managing Director informed Executive Directors that he had had most useful meetings in London, at the Treasury, where he had met the new Chancellor of the Exchequer, Mr. Nigel Lawson, and at the Bank of England, where he had met the new Governor, Mr. Robert Leigh-Pemberton. He had explained at length the liquidity problems of the Fund, in his ongoing effort to bring about a better understanding of the Fund's medium-term borrowing needs. While in London, he had also met Mr. Fritz Leutwiler, President of the Bank for International Settlements, Basle, with whom he would shortly be having conversations, which, it was agreed, should also lead to progress on the same question.

Finally, the Managing Director mentioned that he had attended a most enjoyable dinner, given by the Prime Minister, Mrs. Margaret Thatcher, in honor of Lord Richardson, who was leaving his post as Governor of the Bank of England.

2. WORLD ECONOMIC OUTLOOK - MAIN ISSUES

The Executive Directors resumed from the previous meeting their discussion of a staff paper focusing on the main issues raised by the world economic situation (ID/83/4, 6/13/83). They also had before them as background material the published World Economic Outlook Report (Occasional Paper No. 21, May 1983).

The Chairman regretted that he had not been present at the previous session. Although he had been looking at a summary of the essential points made, the Deputy Managing Director would sum up the discussion. Were Executive Directors willing to meet on Thursday morning to permit the Deputy Managing Director, who would be obliged to leave the present meeting early, to sum up, and the staff to respond to questions?

The Executive Directors accepted the Chairman's proposal.

Mr. Zhang remarked that all could agree that renewed economic growth should be the main policy objective at the present juncture. Of course, that did not mean that excessively rapid expansion should be pursued even at the obvious risk of quickly reigniting rapid inflation. But neither did it mean that all the emphasis should be put on sustainable growth in a search to solve the inflation problem that might occur if a higher level of activity were restored. Growth had to start before it could be sustained.

It was possible to disagree with the staff's contention that the achievement of renewed economic growth was in fact the main policy goal of industrial countries at present, Mr. Zhang commented. The staff itself had been chary of making that claim in the published World Economic Outlook Report, where it contended that the achievement of sustainable growth was the central objective of policy in present circumstances. Could a course be steered by setting a central destination and then by veering off in other directions? The impression left by the staff paper and the Report was that faster progress against inflation in industrial countries was the desired direction of policy as far as the Fund staff was concerned, and that policymakers should avoid measures to promote recovery that might possibly generate harmful expectations concerning future inflation. He also had the impression that the staff considered that structural problems in the private economy consisted mainly of labor market rigidities: profits were low because wages were too high.

It was quite unrealistic, Mr. Zhang considered, to think that by means of current policies, renewed growth could be combined with ensuring a longer-term solution to the problem of achieving sustainable noninflationary growth for a period of years to come. The "...endeavor to complete the transition to a disinflationary economy and thereby to improve the basis for sustainable growth of output and employment," mentioned on page 11 of the Report, seemed difficult to realize. Incidentally, was it the intention to refer to a disinflationary rather than to a noninflationary economy? If such a transition was to be effected, it would be necessary, for instance, to deal not only with labor market rigidities by lessening the power of unions, but also to dismantle the outdated fabric of large-scale industry and possibly of other institutions in the industrial world. The risk of inflation was endemic in modern societies, and it might not be realistic to believe that correct policies at present could somehow guarantee noninflationary growth for several years to come. The attempt to realize that goal might simply entail a longer period of growth to reach a level of real income and employment that could be reached by an earlier recovery of real output and investment. Under those circumstances, some forms of inflationary pressure, notably the bargaining power of unions, might be lessened by further prolonged unemployment. But it did not follow that the risks of shifting to excessively expansionary policies, with the inflationary fears that such a course would entail, would be allayed by delaying the recovery.

In sum, Mr. Zhang said, he was convinced that a strategy of achieving stronger economic growth by lowering rates of inflation, and so securing confident business expectations, would become realistic only when major countries had demonstrated their willingness to take drastic steps to cut inflation.

As for the problem of tackling structural fiscal deficits, to which the staff attached great importance, Mr. Zhang continued, a justification for its view seemed to rest on the assumption, mentioned on page 15 of the Report, that "a durable recovery would involve rising private demands for credit, and these could be met only if Governments were to reduce their own demands on the pool of available savings." Presumably, that statement implied an apparently fixed pool of savings. Was that a correct assumption? A further question was whether it was correct to assume that deficits would not decline in many countries, even at higher levels of activity, or that governments and electorates would be willing to increase taxes if inflation rather than unemployment appeared to be the most pressing problem.

The strongly emphasized need to tackle prospective structural deficits was not indisputably a right approach, Mr. Zhang commented. It could surely not be said with any certainty that failure to achieve any meaningful reduction of actual deficits, as private demand and investment expanded, would endanger the continuance of the recovery. Stern efforts to reduce deficits while there was still heavy unemployment might abort the recovery because of the effort to hold down consumer demand.

In discussing the problems of recovery in the industrial countries, Mr. Zhang continued, the staff had left a number of issues unresolved, both in its paper and in the Report. Such issues included the reasons for the high prevailing rates of interest; whether low interest rates would be both a necessary and sufficient condition to promote increased private investment; and whether lowering real wages and reducing social security benefits--holding down the growth in real personal income and presumably real consumption demand--were the prerequisites for greater productive investment by enterprises that supplied goods and services.

The issue of exchange rate adjustment seemed to have been discussed in an extraordinarily tentative way in the staff reports, Mr. Zhang observed. The impact of the financial policy mix upon exchange rates did not seem to have been considered fully; consequently, no really adequate account had been given of the basic issues concerning the coordination or harmonization of national policies, which Executive Directors had been asked to discuss.

A need for compatible policies in closely integrated economies had been discussed in the section of the staff paper on international cooperation and the role of the Fund, Mr. Zhang noted. The recent experience of European countries clearly suggested that the maintenance of fixed exchange rates or stable rates by a group of countries with closely integrated markets for goods and services, as well as for capital, necessitated the implementation of similar or compatible economic policies. Effective policy coordination was a necessary condition for the survival of the integrated system and the maintenance of stable exchange rates. Failing an acceptable compromise between the divergent wishes of national electorates, the integrated system would inevitably collapse with the erection of trade barriers and the development of an unstable system of erratically changing exchange rates.

Finally, Mr. Zhang remarked, the staff's repeated references to embedded inflationary expectations suggested that bringing down inflation was predominantly a matter of changing the expectations of individual economic entities about how prices would move in the future. Yet many countries had long-established systems of explicit or implicit price indexation. Thus, an expectation that price increases would cease would not be all that would be required to persuade groups of income earners to give up systems of indexation that provided them with protection against the real wage cuts currently being advocated.

Mr. Jaafar said that he welcomed the emergence of low inflation rates and economic recovery in the major industrial countries. He was however concerned that the pace of that recovery was not sufficiently strong to have a significant impact on employment and output in the developing countries. The expected rate of growth for those countries was hardly a match for the growth in their population. Like Mr. Schneider, he found that the unemployment problem and the policies for alleviating it had not been sufficiently covered in the staff papers. The containment of inflation in industrial countries had laid the basis for expansionary policies. He would add to the two countries mentioned by Mr. Wicks as having room for expansion at present--the Federal Republic of Germany and Japan--the United Kingdom itself and to some extent the United States. In addition, he fully shared Mr. Lindå's view that the conditions in which the global recovery was taking place were unlikely to contribute to inflationary expectations.

He agreed with the staff's assessment that the present economic recovery in the United States might be short lived, Mr. Jaafar continued. Interest rates in the United States might move upward again and hamper investment activity and economic recovery. The U.S. financial markets were concerned about the kind and the prospective size of the budget deficit and about the expected recovery in private demand for credit. A low level of savings in the United States would contribute to higher interest rates. Thus, a concerted effort should be made to reduce the size of the fiscal deficit and to bring about a better balance in the use of monetary and fiscal policies.

Exchange rate stability was an important and desirable objective in promoting world trade, Mr. Jaafar considered. Under the present exchange rate regime, solutions to the problem of the instability of exchange rates would have to be largely theoretical, as long as there were divergences in the economic fundamentals of different countries. The idea of harmonizing ecomomic policies was useful in order to reduce exchange rate instability, but, as a practical matter, it could not be easily implemented, given the number of sovereign countries, each having different objectives and operating under varying social and political conditions.

The strength of the U.S. dollar was a matter of concern to many countries, Mr. Jaafar remarked. He shared that concern and found the strengthening of the dollar somewhat surprising at a time when the U.S. current account deficit was large. The prospects for a decline in the value of the U.S. dollar would remain bleak as long as the present and the prospective size of the budget deficit remained large, and as long as the prospects for lower interest rates in the United States remained slim.

For the well-being of the developing countries, Mr. Jaafar noted, certain developments would be crucial. First, the resumption of growth in industrial countries was vital in order to improve the growth and balance of payments prospects of developing countries. Therefore he welcomed the recent economic trends in major industrial countries; those trends should be sustained and more emphasis given to the promotion of growth. The call for a strategy of moderate growth in the major economies had been made in apparent disregard for the plight of the developing countries. Recovery in terms of growth, economic development, and employment were being sacrificed in pursuit of the objective of eliminating inflation. Like Mr. Lindå, he was not convinced that a brisker pace of growth in the major economies would rekindle inflationary expectations. In his view, the Fund had overplayed the whole concept of expectations, and had provided no hard evidence to support its assumptions.

A second crucial development would be market access in industrial countries for the goods and services of developing countries, Mr. Jaafar went on. There had been a tendency, even among countries with a tradition of liberal trading policies, to adopt protectionist measures. Free market access for developing countries thus assumed even greater importance. In that connection, he supported Mr. Hirao's call for freer trade, particularly in primary commodities and the exports of manufactures of developing countries. Another disturbing aspect of protectionism was emerging in the capital markets. Bank supervisory agencies in some countries were inclined to restrict bank lending to developing countries. He hoped that those agencies would tread cautiously and would not impose rules that would unnecessarily curtail the flow of capital to developing countries.

A third major problem of developing countries that had to be addressed with sympathy and understanding was that of debt and debt rescheduling, Mr. Jaafar said. The prolonged recession in the world economy, together with high rates of interest in the world's major capital markets, had been the prime factors leading to the accumulation of debt and to the difficulties in servicing that debt. The problem would have to be tackled by the international community, and its solution might require some major initiatives in changing the maturity structure of debt. In that context, he supported Mr. Finaish's comment that banks should not indiscriminately cut the flow of credit to developing economies in general because of the difficulties experienced recently in a few countries.

Fourth, Mr. Jaafar expressed concern about the recent trend in the flow of foreign assistance to developing countries. Each year, the target of 0.7 percent of GNP for overseas development assistance was receding further and further into the distance. In many countries, particularly in Africa, foreign assistance would have to play a major role in alleviating human suffering. Famine had already hit several African countries, and the Food and Agriculture Organization had portrayed a dismal future for many countries on the African continent. He urged the more prosperous nations to increase the flow of nonmilitary aid to the needy countries.

Finally, Mr. Jaafar referred to the policies that the developing countries themselves had pursued. A number of countries in the developing world had already undertaken strong adjustment measures. There were some countries that could do much more. But for most of the developing countries, in the kind of world economic environment of the past few years, the limits of tolerance were being reached. Any attempts to impose additional austerity measures in those countries, where per capita incomes were already low, would only lead to social and political instabilities. The Fund had to take those factors into account in formulating programs with those countries.

On the subject of international cooperation, his chair endorsed the staff's views on economic interdependence among countries, Mr. Jaafar observed. The subject was not new, but it had only lately been receiving more attention in official circles and the media. He too emphasized the need for a country to take into account the impact of its policies on other countries. That was particularily true for the major industrial economies; for instance, the large U.S. budget deficit and high interest rates could threaten the sustainability of the economic recovery and the success of global debt rescheduling. The mismatch of policies among the different major countries had also played havoc in foreign exchange markets. Because of the impact of the policies of those countries on the rest of the world, he warmly supported the call for closer cooperation among them. He concurred with the view that coordination in the formulation and conduct of policies would be too rigid and impractical, but he endorsed the staff's view on the need for harmonization of policies.

The concept of harmonization seemed attractive, Mr. Jaafar said, because it provided greater flexibility and freedom for countries to carry out their own policies, subject to international assessment and discussion. If the new approach led to recognition of the impact of domestic policies abroad, and if account were actually taken of that impact in the process of formulating policy, a milestone in international cooperation would have been passed. But he was skeptical about the outcome, and feared that a policy of harmonization would lead only to a greater awareness of interdependence of economic forces, and nothing more concrete. After all, major economies were already aware of the fact but almost invariably ignored it if it did not serve their domestic interest. The strength of the U.S. dollar and the weakness of the yen, barriers to imports by the European Community, and high interest rates had all been debated in various forums, without significant results so far. A call for harmonization of policies would be wishful thinking unless there was a mechanism by which it could be assessed, discussed, and enforced. The Fund, owing to its unique position, was suited for the role: it already had the mechanism, in surveillance, for monitoring the policies of those countries. So far, the Fund had carried out that exercise through the regular Article IV consultations, special consultations, and reviews of the World Economic Outlook. Those discussions could be extended to deal specifically with issues relating to harmonization, giving due emphasis to surveillance of the major industrial economies, whose actions had a far-reaching impact on others. He nevertheless doubted whether even the Fund had the necessary clout to enforce its findings on those economies.

Mr. Suraisry noted that the new analysis of the World Economic Outlook by the staff projected a gradual but steady improvement in the world economy in 1983 and 1984. The projections for real growth, world trade, and commodity prices, together with a continued decline in inflation rates, were more encouraging than for some time past. It was up to Fund members to ensure that those projections materialized. The policies of major industrial countries were particularly important in that respect. The staff had emphasized the risks of rekindling inflation and the limited room for manuever in some of those countries; it had also stressed the importance of structural adjustment policies to deal with rigidities in those economies.

In general, Mr. Suraisry remarked, he agreed with the staff's analysis. There was no doubt that there had been a strong inflationary bias in the 1970s, and that budget deficits--present and prospective--had created and were still creating problems. Nevertheless, it was indispensable to promote growth of the world economy: without it, debt servicing would become unmanageable, and unemployment would be at socially unacceptable levels, posing a greater threat to the stability of the world economic and financial system.

Thus, the challenge facing the industrial countries was how to promote growth without jeopardizing the gains already made, Mr. Suraisry continued. The issue was particularly relevant in these countries that had already succeeded in achieving relatively low inflation rates, namely, the United States, the United Kingdom, the Federal Republic of Germany, and Japan. He agreed with the staff that the economic situation was by no means the same in those countries: in Germany and Japan, inflationary expectations had been brought firmly under control, and there might be some scope for a relaxation of policies. In the United States and the United Kingdom, by contrast, the room for maneuver appeared more limited since inflationary expectations had not been brought fully under control. As far as specific policies were concerned, an important task in the United States was to reduce the structural component of the fiscal deficit over the medium term, so as to prevent a possible crowding out of private investment. Unless the industrial countries acted to reduce their fiscal deficits, set long-term real interest rates on a downward trend, and promoted a more stable environment in foreign exchange markets, the prospects of sustained growth in the world economy could be jeopardized. Greater exchange rate stability was of crucial importance to all countries.

Referring to the issues of adjustment and growth in the developing countries, Mr. Suraisry mentioned that the financial situation of the group of oil exporting developing countries had weakened considerably in 1982, and was expected to weaken still further in 1983, owing to the decline in the international demand for oil. Despite the strong adjustment efforts made by those countries, their combined current account position was projected to show a deficit of $27 billion in 1983, compared with a surplus of $65 billion in 1981. Some of those countries had faced difficulties in obtaining sufficient external financing, and had had to draw down their reserves considerably. A decline in reserves and thus in the ability of those countries to assist the non-oil developing countries, combined with the more cautious approach of commercial banks, raised the question, as Mr. Lovato had already mentioned, of whether the current level of international liquidity was sufficient to promote the hoped for recovery. He would welcome the staff's comments on that point.

As for the progress made by non-oil developing countries in adjusting their economies in the recent past, Mr. Suraisry noted, the essence of the staff's analysis was that while adjustment in 1982 had taken place mainly through the compression of imports, adjustment over the few years to come should be export oriented. The current strategy of adjustment in the developing countries, relying mainly on import contraction, was of a short-term nature and had been adopted because of the urgency of the situation: it could not be maintained over the medium term. However, it should be emphasized that the success of any export-led strategy would depend crucially not only on the achievement of significant or sustained economic growth in the industrial countries, but also on a more liberal attitude by those countries toward imports from developing countries. Protectionist pressures had to be resisted and a liberal trading system had to prevail if the problems faced by all countries were to be corrected.

Finally, Mr. Suraisry said, he agreed with the staff on the need for greater international economic cooperation. He also agreed that the most realistic way to achieve it would be through the closer harmonization of policies. The Fund provided an important forum for pursuing such harmonization, and the surveillance function of the Fund should be continuously strengthened.

Mr. Morrell remarked that the World Economic Outlook and the staff's main policy prescriptions had changed little from when the Executive Board had discussed the subject in February 1983. To an extent, the expectations at that time had been validated by the events of the intervening months. For instance, in the United States there had been some modest but promising growth of output, together with a widening current account deficit and continued high real interest rates, reflecting in part expectations about the continuation of large fiscal deficits. In a number of countries, inflation had been lowered and the preconditions for recovery established in varying degrees.

He could generally go along with the staff's analysis and main conclusions, Mr. Morrell continued; in particular, he accepted the need to achieve the resumption of growth, activity, and employment aimed at securing a durable recovery without a resurgence of inflationary pressures. The staff had noted on page 7 of ID/83/4 that the key question facing policymakers was how to achieve economic growth on a sustainable basis. He would certainly agree that policies in individual countries needed to be tailored to their particular circumstances, and that there was little room for relaxing the overall anti-inflationary stance in places where inflation remained high. He wholeheartedly endorsed the staff's conclusion that there was no satisfactory alternative to a medium-term strategy that sought to strengthen economic growth by convincingly lowering inflation and inflationary expectations and by tackling structural imbalances and rigidities.

There was a significant risk, Mr. Morrell considered, that the present narrowly based recovery in the industrial economies would prove shortlived. As the staff recognized, it was premature to regard the fight against inflation as having been won. Only in a relatively few countries had inflation subsided to an acceptable level, and inflationary expectations in the United States and the United Kingdom did not appear to have fully adjusted to recent price performance. Thus, there remained a possibility that inflationary pressures could be quickly reignited during the recovery, particularly if appropriate macroeconomic policies were not in place. In that context, the extent to which macroeconomic policy had become more expansionary over the past 12 months or so had been insufficiently appreciated. Fiscal deficits remained large--and were still growing in a number of countries, including the United States and Canada--and monetary conditions appeared to have eased significantly in most major countries. Even allowing for the difficulties in measuring the structural component of fiscal deficits and interpreting changes in the growth of monetary aggregates--and he welcomed the analysis in Appendix A2--present policy stances did not seem adequate to "...consolidate and extend the progress already made in bringing down inflation and inflationary expectations," as stated on pages 5-6 of the staff paper. The persistence of large fiscal deficits as the recovery took hold could, through crowding-out effects and heightened inflationary expectations, sustain interest rates at levels likely to discourage investment and productivity and thus to jeopardize recovery.

He also supported the staff's emphasis on measures of structural adjustment in order to diminish labor market rigidities, improve profit margins, and reduce trade barriers and other government assistance to inefficient industries, Mr. Morrell stated. If the full benefit of those policies was to be obtained, it was important for national authorities to begin to implement them before the recovery was too far advanced. It was essential that market indicators be made to work more effectively, enabling private decision makers to channel investments to the most appropriate areas of growth during the recovery.

Domestic policy imbalances were also contributing to an alignment of currencies that did not appear to accord with underlying cost and price trends, Mr. Morrell noted. The resultant accentuation of frictions between the major trading blocs was a cause for concern to smaller countries, such as all the members of his constituency. Special deals like those in the meat and coal trade, subsidized trade, especially in agriculture, and discriminatory protective measures had seriously damaged the trade prospects of smaller countries. Early action to correct the underlying factors that were intensifying those trade problems was essential if a longer-term misallocation of resources was to be avoided.

As the staff had noted, some non-oil developing countries had made significant progress in redressing their current account imbalances, Mr. Morrell continued, although much of the improvement would appear to have been achieved by restricting imports, a trend that might not be sustainable in the longer run. In a number of cases, countries had been assisted by debt reschedulings and new loans. However, as the staff acknowledged, those financing packages could only provide breathing space to enable the country to undertake effective adjustment measures.

He endorsed the staff's prescriptions for developing countries, in particular the suggestions that they should reassess government expenditures, reduce consumption, reallocate resources to the export sector, and increase price incentives.

While adequate official financing, where accompanied by Fund programs and official development assistance, would be required to assist the adjustment process, Mr. Morrell observed, the Fund would need to be vigilant to ensure that the degree of financing arranged did not delay adoption of the necessary adjustment decisions. It would be unwise to presume that official financing would permanently provide the basis for longer-run growth. It was essential for developing economies to adopt policies that would restore a viable financial position as soon as possible, so that the private sector would be encouraged to resume its primary financial role.

Clearly, developing countries had to participate in the world economic recovery, partly because their demand for industrial country exports was an important part of overall export demand, Mr. Morrell remarked, but, more importantly, because of their need for higher living standards. However, if developing countries were to avoid a further compression of imports, they would not only have to pursue appropriate pricing and exchange rate policies to promote exports, but also have to have adequate access to markets for those exports. As the staff had noted on page 17 of ID/83/4, reduced levels of protection in the industrial world could do much to help developing countries carry through their adjustment tasks. However, it was essential that such action be taken in a multilateral framework: ad hoc concessions to certain high-debt countries could be damaging to the international allocation of resources, especially if the concessions were at the expense of other efficient lower cost producers.

A necessary accompaniment of recovery would be an improvement in the prices for world market products, some signs of which were beginning to be seen, Mr. Morrell went on. Tentative projections put the overall increase in non-oil primary commodity prices at a modest 5 percent in 1983 and at 11 percent in 1984.

He agreed with the staff, Mr. Morrell said, that a successful resolution of the debt problem would depend on the achievement of a moderate world recovery, continued and in some cases intensified adjustment efforts by debtor countries--both to reduce the size of imbalances and to restore external confidence in flows of new financing--as well as no undue reduction in private bank loans to developing countries. On that basis, debt service payments should be manageable in the period ahead, assisted in appropriate cases by rescheduling and refinancing. He fully supported the key role played by the Fund in that area.

Finally, Mr. Morrell commented, international harmonization of countries' independent policies was certainly an objective worth pursuing. The Fund could have an important role, which would include discussions in the Board, in promoting internationally consistent national policies.

Mr. Arias said that most of the observations made by his chair during a previous discussion of the World Economic Outlook were still relevant. The staff had specifically requested comments on two issues: the assessment of balance of payments and exchange rate developments in the context of national economic policies, and international cooperation and the role of the Fund.

As to the former, Mr. Arias observed, it was clear that contrary to what had been expected after the collapse of the Bretton Woods system, generalized floating had not re-established the policy autonomy of governments, because exchange rate movements were influenced not only by the current account but also by the capital account, and therefore by changes in expectations. Thus, even in countries where the success of anti-inflationary policies had created some room for maneuver in the direction of expansionary monetary policies, expansion had tended to be quickly interrupted as it led to excessive currency depreciation, which was fed back in the form of inflation to the economies concerned. Stimulatory fiscal policies were preferable, provided that fiscal deficits could easily be financed: even when they led to capital inflows and exchange depreciation, the effects of fiscal deficits might be tolerable, especially if a country had been relying excessively on export growth to promote recovery. Experience thus suggested that, since floating did not establish policy autonomy, there was a need for the international concertation of monetary and fiscal policies, and a system of more viscous exchange rates.

A major problem standing in the way of sustained noninflationary recovery in the industrial countries was the current high level of real interest rates, Mr. Arias remarked. The expectation of high real interest rates hindered the real recovery of business investment and future growth, although it did not exclude the recovery of GNP for a time, based on an increase in consumption and change in inventories. High interest rates had their origin in U.S. fiscal deficits, which were expected to remain high for a few years to come. Those deficits were particularly high in relation to private savings. Although deficits were tolerable when an economy was in a depressed stage, they were likely to absorb more resources than would probably be available at an early stage of recovery, unless the increase in real interest rates was resumed. Attempts to lower interest rates by monetary policy were bound to fail in the early phase of the recovery because, to date, the credibility of anti-inflationary policy had not been re-established. He agreed fully with the statement in the 1983 Annual Report of the BIS that "the excessive burden borne by monetary policy made the stagnation more protracted than it would otherwise have been."

The outlook for recovery would be greatly improved, Mr. Arias considered, if energetic action were taken to reduce the large fiscal deficits expected in the future in the United States. The question was how long the world could survive a period of low growth if U.S. fiscal policy did not change. The choice might then be between monetary stimulation at the risk of an early need to return to a restrictive policy--a "go-stop" scenario--or not even a temporary recovery--a "stop-stop" scenario--and the latter might be worse.

As for the assessment of balance of payments positions, Mr. Arias said that the emphasis on debt service ratios was overdone. The ratio of interest payments to GDP was probably more significant as it measured the effort that a country had to make to pay for the use of another country's capital. The debt service ratio was excessively influenced by changes in the average maturity of loans, which were particularly strong during the present time of changing expectations and changing economic conditions.

It was a fact that the unavoidable ad hoc nature of much of recent international cooperation--grateful as he was for the results--suggested the need not only for an increase in the resources of the Fund, as the central organ of the world's financial system, but also possibly for the institutionalization of procedures for the provision of bridging credit by the Fund, Mr. Arias stated. The requirement for such credit was particularly great at present because the only other candidate for that function, the BIS, had reiterated that it did not intend to accept the role. In addition, the nature of recent cooperative efforts supported the argument for reconsidering the need for SDR allocations, at a time when global reserves were falling and uncertainties were growing. He fully agreed with the statement in the latest Annual Report of the BIS that "the main function of international liquidity is to enable countries to bridge temporary external payments shortfalls, without having to subject their economies to excessively onerous adjustment policies."

The recent activities of the Fund in promoting the solution of major debt problems had led to a more intimate and delicate relationship between the institution and international banks, Mr. Arias noted. It was obvious that the Fund could not speak to all banks concerned; consequently, out of fairness to the banking community, it should safeguard the confidentiality of information supplied to it until the member country itself released it.

Realism called for an awareness that the era of independent national policies was over, Mr. Arias considered. Even though most countries still believed that they were pursuing independent policies, they were at least assessing the international impact of those policies and whether or not they were consistent with those of their major partners. That was interdependence in a broad sense. He would suggest that the Fund staff examine the ex ante fiscal policies of the major industrial countries to determine whether or not there were inconsistencies among them. Then, in a second exercise, the Fund could compare the ex post with ex ante fiscal policies to trace the influence of international events. He did not preclude the need for quarterly meetings among the fiscal experts and policymakers of the major industrial countries as a pragmatic way of enabling each side to know how things were moving.

There was an overwhelming need for at least a standstill to protectionism, Mr. Arias stated, and, if at all possible, a return to liberal trading policies, for the benefit both of the developing countries and of the industrial countries themselves. Protectionism was assuming particularly vicious forms. The General System of Preferences, never very important, was being weakened progressively. In addition to duties and quotas, the developing countries were the victims of so-called voluntary export restraint agreements, which were steadily becoming more limiting, and particularly of antidumping, countervailing duties, licensing and certification procedures. Under the guise of the latter, the concept of "countertrade" or reciprocal trade was being increasingly imposed upon the developing countries, pushing the world back not just to bilateralism but to bilateralism by categories and subcategories of merchandise, something that had not existed during the immediate postwar period, or even during the 1930s. The structure of tariffs was also converting low nominal duties into effectivly prohibitive ones.

The developed countries could not expect to maintain outmoded industrial structures in the face of changes in comparative advantage, Mr. Arias observed. What those countries saved by protection, they would unavoidably lose by their inability to export to countries that they were preventing from earning their way. Beyond their immediate and direct cost, protectionist policies would threaten to damage, for a long time to come, and to the detriment of all countries, the helpful features of the trading system so painfully constructed over the postwar period.

Finally, Mr. Arias commented, it was appropriate to stress the dramatic change in the operations of the Fund in assisting developing countries to adjust their balances of payments in extremely difficult financial conditions while avoiding--so far--an international financial collapse. Thanks were due to the Managing Director and the staff for the unprecedented role that they had had the decisiveness and courage to assume.

Mr. Teijeiro said that he was in broad agreement with the staff's projections and policy recommendations. In particular, he agreed that fiscal deficits posed a threat to the continuation of the recovery--especially the U.S. fiscal deficit--as did the structural problems reflected in excessively high real wages and inadequate profit margins. The stabilization effort made during recent years had affected profits to a much larger extent than wage income. That factor, coupled with the increase in fiscal deficits, was helping to maintain real interest rates above normal levels. Thus, in order to avoid a lopsided and short-lived recovery, it was crucial for the current upturn in economic activity to proceed in a context of wage moderation and for measures to be taken to reduce fiscal deficits, particularly by freezing expenditures and increasing taxes on consumption.

He also shared the staff's view that it was difficult to interpret the current stance of monetary policy, above all U.S. monetary policy, Mr. Teijeiro remarked. Attention should be paid to that issue in the forthcoming Article IV consultation with the United States. He had the impression that the current monetary policy was less expansionary than the generally accepted views seemed to indicate. First, the evolution of M-1 was to an important extent demand determined; the Government had direct control over the monetary base and indirectly, through other parameters, over the definition of broad money. But movements of M-1, a narrow definition of money, could be greatly influenced by portfolio shifts on the part of the public, as seemed to have occurred following the removal of institutional restrictions by the end of 1982. Second, it could be observed from the monetary figures that the annual rate of increase of the monetary base had been slightly above 2 percent from December 1981 to March 1983. Third, after the debt crisis of August 1982, there had been a shift of dollar deposits from offshore markets to the continental United States, indicating that the dollar money supply, under its comprehensive definition, might not actually be growing at a faster rate than usual.

The issue should not be discussed merely to assess whether or not a relaxation of U.S monetary policy was a called for, Mr. Teijeiro considered. In fact, what was important was to reduce the degree of uncertainty about the current stance of U.S. monetary policy. Significant discrepancies between actual monetary policy and general expectations about it might be helping to maintain interest rates at abnormal levels.

Finally, referring to the debt problem, Mr. Teijeiro said that it would be difficult to imagine a more difficult world context in which to carry out adjustment programs. The combination of anti-inflationary monetary policies with huge fiscal deficits, structural problems with real wages and profits--all factors that helped to increase real interest rates--together with growing protectionism, reduction in bank exposure, and an increase in lending spreads were all leading to adjustments of unprecedented magnitude. In his view, the staff had failed fully to reflect the fact that for the time being most of the burden had to be borne by adjustment programs. In that sense, it was especially important to recognize that net bank lending to the highly indebted countries might have fallen, on a disbursement basis, in the first half of 1983. Moreover, the sharp increase in banking spreads was a worrying element for the current account prospects of those countries.

Clearly, new developments worsening the debt problem were the reluctance of banks to increase their exposure, and the increase in spreads, Mr. Teijeiro concluded. The current recovery had brought little relief so far in terms of lower interest rates or higher commodities prices. Thus, a reversal of protectionist policies, and an immediate improvement of the fiscal deficit of the United States, were becoming increasingly necessary from the viewpoint of the indebted countries.

Miss Batliwalla noted that although the staff paper helped to focus attention on the main issues pertinent to the world economic situation, it had proved somewhat disappointing to her authorities. They had found it to lean on the optimistic side, and to contain hardly any new message, at a time when the emerging situation called for fresh and innovative approaches. Furthermore, they could not share the staff's views on some crucial policy issues and thus on some of the policy recommendations offered to member countries to help solve their problems.

First, Miss Batliwalla commented, because of the serious imbalances in the world economy, both the industrial and the developing countries needed to recognize the strong interdependence of the world economy, a point not sufficiently brought out in the Report. While it was true, as the staff had maintained, that prospects for adjustment in non-oil developing countries were closely related to the prospects and growth of industrial countries, the reverse was equally true. There was a close interrelation between the economic situation prevailing in the industrial world and the difficulties experienced by a large and growing number of debtor countries in servicing their debt. Debt servicing problems would not have taken on their present proportions and affected so many large and small developing countries, had there not been a dramatic deterioration in those countries' terms of trade, shrinking export markets, a sharp cutback in concessional flows of resources, and, above all, an unprecedented escalation in interest rates.

Looking ahead, Miss Batliwalla continued, it was difficult to predict confidently a broad-based recovery, unless and until the problem of debt overhang was satisfactorily resolved. Thus, it had to be recognized that if developing countries were to be able to implement corrective adjustment measures, the policies of industrial countries--fiscal, monetary, trade, and aid--were of special interest and relevance. Those policies had to be supportive of the adjustment process in the developing world, as the industrial world had everything to gain from economic growth in the developing world. But, as the staff had pointed out, industrial countries appeared to be guided primarily by rather narrow domestic considerations, and the difficulties of a coordinated policy approach were immense. The staff had suggested the harmonization or concertation of policies. Her chair strongly endorsed that approach, and looked forward to the Fund's exercising firm and effective surveillance over industrial countries' policies on exchange rates, trade, and flows of official development assistance. The role of the Fund in terms of surveillance and Article IV consultations with members was vitally relevant for an open and liberal trading system.

Her second somewhat critical comment related to the staff's observation that delay in the moderate recovery that had been expected to take hold in industrial countries in the second half of 1982 had been due to weakness in fixed investment, continued rapid liquidation of business inventories, and weakness in the developing world's demand for imports, Miss Batliwalla said. All that might have been true, but it should be simultaneously emphasized that those features had stemmed from deliberate policy measures adopted by the industrial countries themselves when they had given priority to domestic demand management, often at the expense of their international obligations. Thus, weak fixed investment and the rundown of business inventories had been in large measure due to the high level of nominal and real interest rates resulting from some countries' tight monetary and loose fiscal policies. Without prospects of growth, and so long as real interest rates remained relatively high, the corporate sector had little incentive to undertake capital investment. Needless to say, the weakness of import demand from the developing countries had almost been forced on them by the sharp reduction in their export receipts, largely due to a deterioration in their terms of trade and other financing constraints. The real cause was, in fact, the recession in industrial countries, which had resulted in an intensification of protectionist measures.

The sharp increase in debt service payments had had a devastating effect on the current accounts of all those developing countries that had in the past financed the growth of their economies by borrowing, Miss Batliwalla went on. A decline in the flow of overseas development assistance, and the tardiness and reluctance of industrial countries to fund multilateral and regional institutions adequately, had been further factors contributing to the compression in import demand of developing countries. In that context, she could not agree more with the warning signal hoisted by the staff, following a review of developments in trade policy, stating that it could not be stressed too emphatically that protectionist pressures were severe, and that yielding to them could have serious consequences for the growth of world trade. Her chair hoped that the staff's call would be heeded.

Her third point was that the sort of economic recovery needed in the the present environment would come from a revival of demand in those countries that had been successful in grappling with inflation, Miss Batliwalla said. In discussing policies to promote economic recovery, the staff had underlined the need for industrial countries to continue with policies of monetary restraint, reinforced by compatible and supportive fiscal policies. But it was necessary to recall that the instrument for fighting inflation--namely, restrictive monetary policies--had been blunted by the persistence of large fiscal deficits in some industrial countries, often due to structural rigidities. The staff had taken the line that an expansionary monetary policy at present would rekindle inflation and could in the long run prove counterproductive. In the view of her chair, monetary restraint had been pursued for a considerable time, and a sufficient measure of success had been achieved in containing inflation in four major economies: the United States, the United Kingdom, the Federal Republic of Germany, and Japan. There was welcome evidence of a significant slowdown in the crucial area of wage inflation. What was more, the recent decline in oil prices could further improve the price performance of all four countries, as well as the current payments postion of three of those countries.

With relatively few exceptions, Miss Batliwalla observed, the rest of the world was running current account deficits and was in no position to contribute to the growth in world trade. Owing to the prolonged period of low economic activity in the world, countries that had succeeded in reducing inflation substantially were in a better position to shift emphasis from monetary to fiscal restraint to promote economic growth with price stability, and thereby help to increase the growth of world output and trade. Such a shift would necessitate a concerted attempt to attack the structural rigidities in those economies, together with a strong commitment to enhancing world trade. It had to be conceded that a number of non-oil developing countries were compelled by the force of events to follow policies of domestic restraint. If their efforts at adjustment were to meet with success, some upturn in foreign demand for their products was absolutely necessary. She agreed with the BIS analysis that a debt-ridden world needed not only "lenders of last resort" but also "buyers of last resort." Therefore, industrial countries, which had greater room for maneuver, should act rapidly to remove the rigidities in their economies and thus achieve faster growth without reigniting inflation; and they should pursue that path vigorously, or they would only defeat their purpose.

According to the staff's analysis, Miss Batliwalla commented, recovery had already started in major industrial countries and was likely to gain momentum in the second half of 1983. The data however indicated that although the U.S., Canadian, and perhaps the U.K. economies were growing, growth rates in Japan and continental Europe were still flat. Even in the United States, the listlessness of consumer expenditures, poor export performance, a deteriorating current account position, and a huge budgetary deficit were casting shadows of doubt on the strength of the recovery. Those developments, together with high real interest rates, did not augur well for the world economy. As the recent OECD review of trends in financial markets had pointed out, the factors working in the direction of a further interest rate decline had lost momentum. If recent trends were any guide, interest rates were again showing signs of inching up in the United States. In that respect, she had concerns similar to those expressed by Mr. Laske. Continued high real interest rates in the face of a slowdown in inflation would harm domestic recovery, and the international impact would be even more deleterious. The dollar would remain artificially overvalued, U.S. current account deficits would be enlarged, and protectionist pressures in the United States would be strengthened. The effects on already debt-ridden countries would be devastating. In passing, she noticed that the staff had discussed, at length, developments in the exchange rates of major currencies, but had not covered the impact of the volatility of the exchange rate markets on the economies of developing countries.

It was essential to recognize that non-oil developing countries were facing acute payments problems, Miss Batliwalla stated. Many were suffocating in a debt trap. What they needed was some lowering of interest rates and a relatively freer trading environment. It was estimated that each percentage point decline in interest rates reduced the annual interest cost of the ten largest non-oil developing country borrowers by as much as $4 billion, or roughly 3 percent of the value of their exports. If the industrial countries would reduce trade barriers just enough to allow for the expansion of developing countries' exports by another 3 percent, those countries' financial health would be considerably improved. The importance of export growth in reducing current account balances was well recognized by non-oil developing countries. However, for their exports to grow, the developed world would have to absorb more of their products; industrial countries would therefore have to recognize the need to encourage imports from non-oil developing countries. Furthermore, to improve their current account positions, developing countries needed to increase the value, and not just the volume, of their exports; it would therefore be inappropriate under all circumstances for them to adjust their exchange rates because the adjustment might in fact worsen the balance of payments situation as a result of the consequent deterioration in the terms of trade.

The per capita income of non-oil developing countries might fall in 1983 for the third year in a row, Miss Batliwalla noted. For the staff to suggest that those countries should reduce consumption further, in order to increase investment and exports, would be advocating additional and intolerable reductions in living standards, and would be tantamount to saying that the main burden of world adjustment should be borne by the poor millions of the developing world. Developing countries already suffered from low levels of consumption, and it was socially and politically not feasible to restrict public expenditure on the vulnerable sections of society. The low income levels of many developing countries meant that a deceleration of growth was harder to cope with, both socially and politically. The staff had rightly recommended that greater official development assistance be extended to low-income countries, thus avoiding the need to reduce consumption levels further, but the call had not evoked a very favorable response so far. Nevertheless, it had to be borne in mind that as the recovery period was likely to be long, it was also likely to be costly. The financial implications of the structural adjustments to be undertaken by non-oil developing countries would have to be recognized, and adequate financial assistance on concessional terms would need to be forthcoming in order to sustain the efforts of the developing countries to manage the supply side of their economies.

As the success of economic recovery would depend on the maintenance of financing flows, Miss Batliwalla added, there was a greater need to strengthen the liquidity base of multilateral financial institutions. Allocations of SDRs and the norms for access to the Fund's resources were particularly relevant. The financing of current account deficits of non-oil developing countries reflected a sharp decline in foreign borrowing. Reduced access to markets had led to a rundown of reserves and a buildup of arrears. A further shrinkage of capital markets was foreseen with the disappearance of OPEC surpluses. There was thus a real danger that severe financial constraints could act as a limitation on world economic growth, and thus there was a need to examine whether or not international liquidity was adequate.

One scenario for 1984 was indicated in the tables in the staff paper without much comment, Miss Batliwalla observed. While she recognized that the picture was highly tentative, it was noteworthy that that scenario envisaged no improvement was projected in the balance of payments of non-oil developing countries, despite their efforts at adjustment and the expected recovery of the world economy. Such a forecast should be a warning not to be lulled into any sense of complacency that world recovery was just around the corner. Unless more meaningful steps were taken to induce recovery in the industrial countries, and to increase trade and capital flows, the world economic situation in 1984 would be even more difficult. It also called for an expanded and more dynamic role for the Fund in coming years, not a reduced role, as some countries advocated.

Mr. Salehkhou noted that the staff had described the problems and issues and their policy implications in an objective, succinct, and persuasive way. However, such descriptions failed adequately to tackle the uncertainties surrounding the present imbalances in the global economy.

Referring to the economic trends in non-oil developing countries, Mr. Salehkhou noted that 1982 had been marked, inter alia, by global debt and liquidity pressures, continued unfavorable trends in international commodity markets, low growth rates, and renewed waves of protectionism in industrial countries, the latter effectively curtailing developing countries' access to their markets. In fact, a significant and tangible problem until recently had been the falling trend in the prices of primary commodities, which had sunk to their lowest point in almost 30 years. It was encouraging to note that there had been an upward surge in commodity prices in the past few months, although for some commodities there had not yet been any sign of improvement. The problem of commodity prices deserved to be singled out for special treatment, Mr. Salehkhou considered. In his view, it had been the single most important root cause of the difficulties with which developing countries were confronted at present, with detrimental consequences extending well into the future. Indeed, the real disturbance in the primary commodities markets, which had started in 1977, had contributed to the adverse current balance positions over the past few years that had led more recently to untenable and precarious debt servicing problems. The total debt burden of the developing countries currently stood at the high figure of $600 billion to $700 billion. Excluding a few major borrowers, more than 90 percent of all developing countries had suffered greatly from declining export revenues. As falling commodity prices had forced them to make structural changes in the key patterns of their economic structures, any subsequent revival of commodity prices would not restore the status quo, and some of the changes made had already left an ineradicable imprint.

The prospects for the immediate and short-term future were mixed, Mr. Salehkhou commented. There were encouraging signs that a gradual revival had begun and that recovery could gain momentum if certain conditions were met, namely, the projected pickup in the economies in the industrial countries, which some believed might lead to a recovery in the demand for some primary commodities and hence to greater export revenues for developing countries. However, there were many imponderables that might nullify any of the projected beneficial effects for developing countries. Among such factors could be mentioned the resurgence of inflationary expectations, continued instability in the exchange markets, high interest rates, and sizable budget deficits. Moreover, continued protectionist trade policies on the part of industrial countries could also adversely affect prospects.

For the immediate future, Mr. Salehkhou remarked, the truly needy countries would have to receive much assistance in order to endure the hardships that an adverse external environment had imposed upon them. It was encouraging to note that, perhaps thanks to the credit crisis of 1982, the Fund had been assigned a critical role in the international monetary system. The Fund had played a vital role in the interim resolution of the problem, or, to take a more pessimistic view, in postponing the crisis. The main beneficiaries, if that was the term, had so far been for the most part the major borrowers and the commercial banks.

The Fund should assume a similar role with respect to the great majority of developing countries, especially the low-income and middle-income countries and the major oil importers, Mr. Salehkhou proposed. To do so, the Fund would have to assume an active role in international capital markets in order to ensure that financial resources were channeled to places where they were needed most. Such "recycling" would ensure that surplus countries placed financial resources, under the direct or indirect auspices of the Fund, at the disposal of needy members. Some such arrangement was required even more urgently than it had been in 1975, when the surplus countries had been the OPEC members. In hindsight, it was clear that OPEC members had carried out the process of recycling smoothly. No such smoothness was guaranteed now that the surplus countries were about to be the main industrial nations. In fact, the events of the past two years had amply demonstrated that commercial banks in the industrial countries had been unable to look beyond short-term profit considerations to pay attention to the basic needs and characteristics of the international financial system.

He agreed with the staff in suggesting austerity and demand management measures, together with considerations of efficiency and productivity, for the developing nations, Mr. Salehkhou said. Indeed, it was within that framework that the Fund should assume a leading role. However, international order and a spirit of global cooperation were also needed to safeguard the interests of all Fund members.

The oil producing countries had been adversely affected by the continual fall in oil prices, which had affected not only their current account balances, but also their budgetary positions, Mr. Salehkhou stated. In the past two years, oil exporting countries had embarked on serious austerity programs, which had resulted in a curtailment of imports and widescale cuts in investment programs. Oil reserves, which would be depleted eventually, were the only source of foreign exchange revenue and hence of investment for many oil producers. In the quest for diversification, oil producers had relied on their earnings from oil not only to invest in projects that could produce foreign exchange once oil was no longer a source of revenue, but also to service the debt that they had contracted to implement the strategy of diversification. Further declines in oil prices, and the continued erosion of the purchasing power and the true value of oil, would severely undermine the development efforts of oil producing countries.

The failure of oil prices to keep up with rising rates of inflation and to reflect its opportunity cost would not prove an unmitigated blessing either to industrial countries or to non-oil developing countries, Mr. Salehkhou considered. Not only would capital markets be undermined, but waste and uneconomic use of oil in industrial countries would be encouraged, and long-term structural inefficiencies would be the result for other developing countries. Any benefits would be short lived and illusory.

One word of caution to the oil producers from the staff had his full agreement, Mr. Salehkhou said. The pattern of energy demand had been altered so greatly that some of the changes would not in all likelihood be reversed. Therefore, despite the projections of higher oil demand in 1984, it would not be good judgment to project a significant rise in oil revenues in the medium term. Oil producers should therefore continue their restrictive policies. It would also be imperative for them to pare their use of international capital markets to a minimum, relying instead on bilateral official loans, trade credits, and other flows with a larger concessional element. High interest rates, and other severe conditions and exorbitant terms, meant that oil producers would be better off if they avoided borrowing in the market. They should be encouraged to be self-reliant and seek self-sufficiency in savings, thus making more effective use of their available reserves.

He could also agree with the staff's recommendation that increased attention be given to measures aimed at promoting self-sustaining economic growth in the private sectors of oil exporting countries, Mr. Salehkhou commented. The efficient mobilization of private savings and the channeling of those savings to productive uses would be necessary. However, it was in the public sectors of those countries that the greatest efforts aimed at efficiency and a self-sustaining strategy should be made.

In the Islamic Republic of Iran, Mr. Salehkhou observed, attempts had been made to pursue such a policy with respect to foreign debts, economic growth, and self-reliance. The policy of curtailing oil production and oil exports after the 1979 Islamic Revolution had been based on a recognition of the depletable nature of oil reserves and the fact that the needs of the country dictated a lower level of oil production. The authorities had also believed that a fundamental pricing strategy for oil should reflect its replacement cost. Following the initial phases of the postrevolutionary period, the fall in oil production and exports in the Islamic Republic of Iran had been due to exogenous rather than to voluntary causes. Far from being intentional, the decline had reflected the prevailing conditions, which had included economic sanctions, war, and the ensuing internal and external instability, which had affected foreign exchange reserves.

Finally, Mr. Salehkhou stated, added emphasis should be given to the principle of international cooperation, based on equal partnership and necessitated by global and economic and social interdependence. The least developed countries needed and deserved urgent help, help that should be extended not as a matter of charity, but because they were fundamentally entitled to resources.

The Executive Directors agreed to resume their discussion of the World Economic Outlook the following morning.

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LEO VAN HOUTVEN
Secretary