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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/95

10:00 a.m., June 30, 1983

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

Executive Directors	Alternate Executive Directors
	M. K. Diallo, Temporary
	H. G. Schneider
	P. D. Péroz, Temporary
A. Donoso	
	T. A. Connors, Temporary
M. Finaish	
	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	
	C. Robalino
G. Laske	
G. Lovato	
	A. S. Jayawardena
	J. E. Suraisry
J. J. Polak	
A. R. G. Prowse	
G. Salehkhou	O. Kabbaj
F. Sangare	
M. A. Senior	
	A. Lindå
N. Wicks	
Zhang Z.	Wang E.

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

Also Present

C. F. Schwartz, Special Consultant. African Department: J. B. Zulu, Director; A. B. Diao. 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: D. K. Palmer, Associate Director; S. Mookerjee, Deputy Director; G. G. Johnson, S. Kanesa-Thasan. External Relations Department: A. F. Mohammed, Director; H. P. G. Handy, N. K. Humphreys. Fiscal Affairs Department: V. Tanzi, Director; P. S. Heller. Middle Eastern Department: G. Tomasson. Research Department: A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; J. Artus, C. P. Blackwell, J. E. Blalock, D. J. Goldsbrough, M. D. Knight, C.-Y. Lin, A. K. McGuirk, E. Y. P. Tung. Treasurer's Department: T. B. C. Leddy. Western Hemisphere Department: S. T. Beza, Associate Director; J. Férran. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: A. A. Agah, C. J. Batliwalla, S. M. Hassan, P. Kohnert. Assistants to Executive Directors: H. Arias, R. Bernardo, M. Camara, L. E. J. Coene, A. Halevi, M. Hull, H. Kobayashi, M. J. Kooymans, V. K. S. Nair, Y. Okubo, J. G. Pedersen, G. W. K. Pickering, M. Z. M. Qureshi, J. Reddy, J. Schuijer, Wang C. Y.

1. WORLD ECONOMIC OUTLOOK - MAIN ISSUES

The Executive Directors resumed from the previous meeting (EBM/83/94, 6/29/83) their consideration of a staff paper focusing on the main issues relating to the World Economic Outlook (ID/83/4, 6/13/83). They also had before them as background the published World Economic Outlook Report (Occasional Paper No. 21, May 1983).

Mr. Schwartz, Special Consultant, and, formerly, the Director of Adjustment Studies, responding to the questions raised by Executive Directors, referred first to Mr. Wicks's request for the staff's view of the transmission mechanism of the recovery under way. As Mr. Wicks had suggested, the main factors contributing to the recovery would probably be personal consumption, residential construction, and stockbuilding. Personal consumption would be favorably affected by the impact of declining inflation on real incomes, of lower interest rates on the cost of financing consumer durables, and of the wealth effect of buoyant equity markets in a number of countries. Consumer confidence had also increased markedly in several countries, and saving rates were expected to decline in some. Residential construction was responding mainly to lower interest rates and to the existence of substantial pent-up demand. Stockbuilding was also being affected by lower interest rates and carrying costs, as well as by the better outlook for final sales. The impetus provided to recovery by personal consumption, residential construction, and stockbuilding could be expected to increase and to lead in due course to a revival in business fixed investment. The transmission mechanism of recovery would differ considerably among the major industrial countries; changes in real GNP and components of aggregate real demand on a semi-annual basis for 1982 and 1983 for the seven industrial countries as a group were however summarized in Table III-1 on page 30 of the World Economic Outlook Report.

A further question by Mr. Wicks was whether the increase in the money supply for countries like the United States, the Federal Republic of Germany, and the United Kingdom had implications for inflation 18 months or so into the future, Mr. Schwartz continued. The development flagged by Mr. Wicks was indeed significant and should be watched carefully, and doubtless would be discussed in the forthcoming Article IV consultations with the United States and Germany. The staff's concern about the recent rapid increase of M-1 in the United States had been mentioned on page 3 of ID 83/4, where attention had also been called to the difficulty of interpreting the growth in the U.S. monetary aggregates and to the resulting uncertainty about the stance of U.S. monetary policy.

Sufficient account had been taken by the staff of the reduction in net bank lending to non-oil developing countries in 1983, Mr. Schwartz considered, even though the estimates were necessarily difficult to make and uncertain. The projected rate of increase in net bank lending during 1983 was at a sharply reduced level, and the increase over 1982 would be just 5 percent, or only about one fifth of the average annual rate of increase during 1975-81. There was some discussion of the matter on page 65 of the World Economic Outlook Report, and Table 25 in Appendix B gave all relevant figures.

The answer to Mr. Schneider's question about the conditions that would be required to promote the rate of growth illustrated in Scenario C, Mr. Schwartz remarked, was to be found on page 8 of ID/83/4, where it was stated that much higher growth rates than those to be expected in Scenario A would require major steps to deal with rigidities and structural imbalances. As an example, the staff had cited the need for some European countries to make substantial progress toward re-establishing real wage rates consistent with an adequate rate of return on capacity-expanding investments. The staff's view was that Scenario C was unfortunately too optimistic, and he believed that that had also been the general view of the Executive Board when it was presented in 1981 and 1982. Events in the interim had done nothing to strengthen the conviction that the industrial countries were tackling the rigidities and structural imbalances in their economies, together with structural budget deficits. That was unfortunate because, as Mr. Schneider's question implied, the world economy needed a better outcome than the one depicted in Scenario A, one more along the lines of Scenario C.

Certainly, as Mr. Schneider had said, the scenarios were an important tool of analysis, Mr. Schwartz went on. He felt that enough attention had been given to the scenarios, which had been extensively used in the analysis in ID/83/4 on pages 8-9 and on pages 17-18, as well as in the published Report, which also contained three statistical tables on Scenario A. Because the essence of the more pessimistic Scenario B could be given in the text--with respect to both the industrial and the non-oil developing countries--without any need for supporting statistical calculations, and because Scenario C had become too optimistic, those two scenarios had not been covered in the statistical tables in Appendix B. Nevertheless, Executive Directors should rest assured that the staff continued to attach importance to the scenarios.

The seriousness of the structural unemployment problem had been noted by Mr. Schneider and others, Mr. Schwartz recalled. Unemployment in the major industrial countries had been referred to on page 4 of Chapter II in the Report, and had been dealt with at some length in a separate section of Chapter III. Further, incomes policy had been mentioned, in line with the position that the staff had often taken throughout the years, as an instrument of policy that could be useful in certain circumstances, and that should be tried in the right climate but not as an alternative to monetary and fiscal restraint. Thus, reference had been made to the three countries--Canada, France, and Italy--where, if successful, the various forms of incomes policy that had been implemented would mitigate the cost of restrictive financial policies in terms of output and employment.

He could readily confirm Mr. Finaish's understanding of the staff's views of the policy issues and stances in the main industrial countries, Mr. Schwartz said. In brief, the staff saw a need to differentiate among Canada, France, and Italy, the 14 smaller industrial countries, and the 4 major industrial countries that had made the greatest progress against inflation--Japan, the Federal Republic of Germany, the United States, and the United Kingdom. In sum, there appeared to the staff to be no really satisfactory alternative to the established general strategy that sought to strengthen economic growth by lowering inflation and inflationary expectations convincingly, and by tackling structural imbalances and rigidities, including structural fiscal deficits.

As to whether the views expressed in the 1983 Annual Report of the Bank for International Settlements were consistent with those of the staff with respect to the feasibility and desirability of some stimulation in the four larger industrial countries, the two institutions did hold broadly similar views, Mr. Schwartz considered. Parts of the BIS Annual Report had lent themselves to the interpretation that the BIS favored active expansion, but Mr. Schleiminger, the General Manager, had taken pains at a press conference to stress that the intention had not been to encourage anything resembling traditional programs of stimulation. Mr. Schleiminger had observed that the United Kingdom had a structural budget surplus and that some fiscal relaxation would work to attain stability, but that the extraordinary high U.S. budget deficit, with its effect of maintaining high interest rates, would rule out fiscal stimulus there and in Germany and Japan for some time. The BIS stance, Mr. Schleiminger had added, was based on two premises: that the major countries would not embrace expansionary monetary policies, and that the world economy would recover slowly in the medium term.

Reference had also been made by Mr. Finaish to the staff's recollection, on page 9 of ID/83/4, of the resurgence of inflationary pressures following the relaxation of financial restraint during recovery periods in the 1970s; Mr. Finaish had wondered whether it was relevant to draw an unqualified comparison with the current situation, Mr. Schwartz remarked. It was true that there was at present a greater degree of underutilization of capacity, but, at the same time, a long period of high rates of inflation had led to deeply entrenched inflationary expectations, and the credibility of government policies had suffered seriously. In addition, structural rigidities had increased, and, as Mr. Hirao had pointed out, business confidence in national fiscal policies had clearly deteriorated. For those and other reasons, the staff would not wish to qualify the implicit advice with respect to the inadvisability of the expansionary policies illustrated in Scenario B, as noted on pages 8 and 9 of ID/83/4.

As for the significance that the staff attached to faster growth of output in the United States in the second quarter of 1983, more specifically with respect to the forecast in the World Economic Outlook, Mr. Schwartz noted that the recent "flash" report by the U.S. authorities on the growth of real GNP in the second quarter showed an increase at an annual rate of 6.6 percent over the first quarter. That development, together with the generally strong evidence of an economic pickup in the United States, had caused U.S. officials to raise their projection of output for 1983 as a whole. In the report of the Council of Economic Advisers in January, the projected increase from the fourth quarter of 1982 to the fourth quarter of 1983 had been set at 3.1 percent; in April it had been raised to 4.7 percent; and the figure announced by President Reagan on June 27 was 5.5 percent, implying that an annual rate of increase of about 6.5 percent would also be maintained in each of the last two quarters of the year. The staff had already begun to review its forecasts, in preparation for the World Economic Outlook exercise to take place preceding the 1983 Annual Meeting. In addition, the Executive Board would shortly be discussing the staff report for the Article IV consultation with the United States, when some revised estimates might be available. As he recalled, the staff had been estimating an increase in real GNP of 4 percent from the fourth quarter of 1982 to the fourth quarter of 1983, so that the current projection of the U.S. Administration was higher by 1.5 percentage points. The difference was considerable and placed the U.S. forecast at the upper end of the range of estimates made by others, including private forecasters and international agencies, whereas at the beginning of the year, the U.S. projection had been at the lower end of that range.

In response to Mr. Finaish's comment about the shift toward restraint in the policies of the oil exporting countries after the 1979/80 increase in oil prices, Mr. Schwartz recalled that the staff had analyzed that shift in several reports on the World Economic Outlook, including the one recently published, and had noted it with approval. Others might have urged or favored expansionary policies by the oil exporting countries in the interest of the international adjustment process, but not the Fund staff.

It would be difficult to answer Mr. Finaish's question about the degree to which the substantial reduction in the demand for oil could be attributed to the recession or to conservation, Mr. Schwartz noted. That question was very conjectural. Certainly, the recession had had a large effect; at the same time, it had sharply reduced productive investment and the consumption of durable goods and had thus slowed down the replacement of energy-inefficient equipment. Once the older automobiles were replaced by smaller, more energy-efficient ones, demand for oil might fall even further.

In commenting on the note in Appendix A.8 on the world oil situation, and with specific reference to the economic effects of declining oil prices, Mr. Finaish had noted that one issue was the "right price" of oil, Mr. Schwartz remarked. It was true that a major decline in the price of oil--perhaps to $15 or $20 a barrel--could have detrimental longer-run effects on the world economy because it could lead to a new period of shortages and sharply rising prices at some time in the future. He recalled that he had mentioned such a consideration in his statement on oil prices when the Executive Board had discussed the World Economic Outlook at the beginning of the year (EBM/83/24, 2/2/83). The staff had not entered into the longer-run considerations that he had attempted to cover at that time, and to which Mr. Finaish had alluded in his statement, because it was unlikely that the 10 percent decline of oil prices assumed by the staff in ID/83/4 would have marked longer-run effects.

As for the effect of growth rates in the industrial countries on non-oil developing countries, Mr. Schwartz said, in response to Mr. Finaish, that there was no inconsistency between the estimates in ID/83/1 (1/17/83) and ID/83/4 (6/13/83). The staff noted on page 17 of the latter paper that an increase of 1 percentage point in the average annual rate of economic growth of industrial countries over the period 1984-86 could lead to an increase of about 3.5 percentage points in the average annual rate of growth in export earnings of non-oil developing countries. In the earlier paper, the larger effect of a similar change of 1 percent a year in the average annual growth of industrial countries pertained to the sum of the three years, and not to the average annual rate.

Like Mr. Laske, the staff would be watching interest rate developments in the United States with some concern, Mr. Schwartz observed, if the recent rather sharp rise in those rates were to continue. However, some increase in interest rates in the period ahead might be necessary in the prevailing circumstances of strong growth of activity and the probable need for the Federal Reserve Board to apply somewhat greater restraint. Certainly the level of interest rates was important because it bore heavily on projections of output for the United States. Only that day, he had read a press account of the concern about the recent increase in interest rates expressed by the Chairman of the Council of Economic Advisers, who saw the possibility of a downside risk to the Administration's latest forecast of higher growth rates--which he otherwise accepted with confidence--because of the negative effects of higher interest rates on some interest-sensitive components of GNP.

The principal differences between the projections of current account balances by the staff and the OECD Secretariat related to the United States, Mr. Schwartz remarked. In its projections, the Fund staff had estimated a current account deficit of $25 billion for the United States in 1983, and one of $45 billion in 1984, or substantially larger deficits than those projected by the OECD Secretariat. The U.S. authorities were generally expecting an even more pronounced swing into deficit than did the staff. The reasons for the differences between the OECD and IMF projections were complex, and were not primarily a matter of assumptions relating to growth rates, oil prices, or exchange rates. Rather, the differences resulted from the way in which the two organizations interpreted the extent to which the U.S. current account balance would be affected by the appreciation of the U.S. dollar, the extent to which oil imports would rebound with the recovery, and the extent to which U.S. exports would be constrained by the adjustment efforts of developing countries in the Western Hemisphere. More generally, projections of current account balances were difficult and subject to considerable error. While the differences to which Mr. Laske had referred were significant and bore analysis, they were not large in relation to GNP and other aggregates.

In reply to Mr. Lindø, Mr. Schwartz mentioned that the staff projections of unemployment went through 1983 only. The difficulty with projecting unemployment was that it depended not only on uncertain and differing relationships among countries with respect to changes in real

GNP, but also on demographic factors. However, it had been noted in connection with Scenario A that little if any reduction in unemployment could be expected for the industrial countries as a group over the medium term through 1986.

As for Miss Le Lorier's query about the effect of a depreciation of, say, 10 percent in the U.S. dollar, Mr. Schwartz explained that the staff generally did not make such estimates. However, it could be said in general terms that, if there were no changes in U.S. policy, such a depreciation might reduce the U.S. current account deficit by some $20 billion in 1984/85. The result would of course be an expansionary effect in the United States and a contractionary effect in Japan and Europe, although the effect in question would be only a small fraction of 1 percent, which could be offset, perhaps particularly in Japan, by the adoption of more expansionary policies. The major impact of a depreciation of the U.S. dollar of, say, as much as 10 percent would be the distinctly beneficial effects it would have on the non-oil developing countries. The real debt burden of those countries would be reduced because most of their debt was denominated in U.S. dollars. Similarly, if the price of oil remained unchanged while the dollar depreciated by some 10 percent, the real price of oil would fall. The whole issue was extremely complex, and the effects of a depreciation of the dollar could not be considered, much less estimated, without making assumptions about policies and policy reactions.

As projected in Scenario A and discussed on page 17 of ID/83/4, Mr. Schwartz observed, the aggregate current account deficit of the non-oil developing countries was expected by the staff to settle in the neighborhood of 14 percent of their exports of goods and services in 1984-86, and to rise in nominal terms from $87 billion in 1982 to $93 billion in 1986. But Mr. Polak had drawn attention to the apparent different conclusions of two outside experts--Morgan Guaranty Trust, in the June issue of World Financial Markets, and William Cline of the Institute of International Economics--both of whom considered the solution to the debt problem to lie in a further contraction of current account deficits of the non-oil developing countries. First of all, it should be noted that the Morgan Guaranty analysis covered 21 countries and the Cline study 19 countries, whereas the World Economic Outlook Report covered 110 to 115 non-oil developing countries. It was therefore not possible to make a detailed comparative analysis, although enough could be said to show that the two studies cited by Mr. Polak were broadly in line with the staff's own analysis.

If two categories of developing countries covered in Table 36 of Appendix B of the World Economic Outlook Report were taken together--net oil exporters and major exporters of manufactures--the result would be a group of countries roughly comparable to those covered in the Morgan Guaranty and Cline studies, Mr. Schwartz noted. In the staff's analysis, the current account deficit for those two groups of countries taken together as a proportion of exports of goods and services, and suitably weighted, would fall from about 18-19 percent in 1982 to about 9-10 percent in 1986. A comparable figure in the Morgan Guaranty study showed a decline from 22 percent in 1982 to 8 percent in 1985. Although he felt sure that, on the basis of data already available to the staff, the Morgan Guaranty estimate of the current account deficit of 22 percent of exports of goods and services in 1982 was too high, it was obvious that a substantial reduction in current account deficits was projected both by the Fund staff and by Morgan Guaranty. If the concurrence was not complete, it was because the staff was a little more optimistic about nonbank sources of financing than was the Morgan Guaranty Trust; for bank lending, the assumption made by Morgan Guaranty was exactly the same as the staff's, namely, net bank claims were assumed to grow by about 7 percent a year from 1984 to 1986. If the problem was viewed from the standpoint of trade transactions rather than from that of current account financing, Morgan Guaranty was perhaps more optimistic about the export prospects of the major developing country debtors, because it was projecting a growth rate in volume terms of 7 percent in both 1984 and 1985, whereas the staff's estimate, as shown in Table 38 of Appendix B, was an annual rate of 6 percent for 1984-86.

It was more difficult to compare the Cline study with the analysis in the World Economic Outlook Report, Mr. Schwartz remarked. However, if the growth rate of 3 percent implied in Scenario A was assumed for the 19 major debtor countries covered by the Cline study, the current account deficit for those countries would fall from $56 billion in 1982 to $53 billion in 1986. The combined current account deficit for the two groups of non-oil developing countries in the staff's analysis--net oil exporters and major exporters of manufactures--was shown in Table 36 as declining from $50 billion to $44 billion. Again, there was a broad concurrence between the two analyses when the similar groups of countries were considered. The staff's scenarios were valuable in that type of analysis, since they were based on uniform assumptions and a comprehensive, integrated approach drawing on the expertise of the area departments, as well as of the Research Department and other functional departments.

As for the statistical asymmetry in global current account balances, Mr. Schwartz said that, like Mr. Polak, the staff regarded it as a serious problem, as had been made clear on several occasions in the past. Furthermore, the considerable work that had gone into the note in Appendix A.11 also indicated the staff's concern; the finding of some reassuring elements from the standpoint of the analytical significance of the asymmetry was by no means meant to suggest that the issue was closed. It was essential for the staff to do all that it could to analyze and understand that asymmetry. He had every confidence that the Research Department and the Bureau of Statistics would focus intensively on the problem in the period ahead. Nevertheless, the basic problem lay in the various national capitals of member countries throughout the world, where the statistical data causing the asymmetry were prepared. As Mr. Polak had suggested, area departments could no doubt help to keep the issue alive by discussing it during Article IV consultations with member countries. However, he had doubts about the feasibility of allocating the $80 billion to $90 billion asymmetry to individual countries, even on a rough basis. For instance, the causes of the large discrepancy in the U.S. balance of payments were unknown; on a number of occasions, the staff had discussed how much of the $42 billion in the item for errors and omissions in 1982 might be attributable to the U.S. current account, thereby reducing the deficit, but had not reached any agreement. No doubt the problem would be mentioned when the staff report for the 1983 Article IV consultation with the United States was discussed in the Executive Board.

Mr. Schneider remarked that he had been seeking an explanation of structural unemployment going beyond the conventional economic arguments. The secular rise in unemployment was a fairly new phenomenon that could be explained, in his view, only partly by poor economic performance and structural rigidities; it seemed also to have to do with rapid technological progress and the subsequent replacement of manpower by highly sophisticated machinery.

Although Scenario C was too optimistic, Mr. Schneider considered that it would still be useful to demonstrate what countries should do in order to achieve the outcome depicted in that scenario.

Mr. Suraisry noted that the staff's projection of a larger shift from surplus to deficit for the oil exporting developing countries was of great relevance in an examination of global liquidity. The oil exporting countries had after all been a major source of liquidity in the past for non-oil developing countries. The reduction in the exposure of commercial banks as far as those countries were concerned had additional implications for the access of non-oil developing countries to liquidity. He was aware that a staff paper bearing on the problem of international liquidity was under preparation, but he considered that the issue was also relevant to a discussion of the World Economic Outlook.

Mr. Schwartz agreed that international liquidity was an important issue, and that, like a great many issues, it could certainly be encompassed in a review of the World Economic Outlook. There were a number of tables in the World Economic Outlook Report bearing on international liquidity, but the subject had not been considered in depth, nor indeed had the need for SDR allocations. The latter issue would shortly be discussed by the Executive Board.

The Chairman noted that international liquidity was indeed an important issue, which would have to be reviewed by the Executive Board as part of its consideration of a possible allocation of SDRs.

A staff representative from the Research Department, in response to a question by the Chairman, explained that the paper relating to a possible proposal for an allocation of SDRs in the current basic period was in the final stages of preparation.

The Secretary noted that the work program indicated that the paper on considerations relating to a possible proposal for an allocation of SDRs would be taken up in the second half of July. No firm date had been set for the discussion, and it might be easier to schedule it in the first week of August, immediately preceding the Informal Recess.

Mr. Finaish said that it should be clear from his statement that he had been referring to the staff's advice to oil exporting countries in its work in general, including staff reports for Article IV consultations, and that he had been referring to a longer period and not only to the years from 1979 onward. It was correct that the staff had advised some slowdown in expenditure growth in recent years, but it had placed the emphasis mainly on the reduced availability of revenue, paying insufficient attention to the other considerations that he had mentioned in his statement, such as promoting greater efficiency in resource use through more careful scrutiny over expenditures.

Mr. Schwartz remarked that he had wished to prevent any possible misunderstanding by emphasizing that the policies of restraint followed by the oil exporting countries in the late 1970s and in 1980 had been reported in some detail, and with satisfaction, in the World Economic Outlook Reports. There had been no suggestion that oil exporting countries should maintain relatively expansionary policies in the interest of international adjustment.

The Deputy Managing Director commented that a point that might perhaps be discussed bilaterally with the staff was whether or not, over the years, a sufficient degree of attention had been focused on the inefficiency of investment as opposed to broader macroeconomic considerations, especially for individual countries.

Mr. Polak noted his interest in the regrouping of existing groups of countries covered in the World Economic Outlook in order to make possible an analysis of the situation of the major debtors. It would be helpful if a list could be provided in the introduction to the statistical tables in Appendix B of the "other" net oil importers, which were described only in general terms but were nowhere listed.

Mr. Schwartz replied that the net oil importers were of course a residual and were many in number, but consideration could be given to listing them in future reports.

The Chairman remarked that it was the last occasion on which Mr. Schwartz would present the World Economic Outlook, a difficult exercise that had developed under his leadership in close contact with the area departments. The value of the World Economic Outlook exercise undertaken by the Fund was that it had its roots in the country desks and drew on the expertise and knowledge of the staff and of the Executive Board about individual countries. The intertwining of the work of area departments in a macroeconomic conceptual framework was fundamental to the World Economic Outlook project, a key element of the surveillance process. The deep understanding of those complex relationships shown by Mr. Schwartz as the Director of Adjustment Studies had made his contribution invaluable.

Mr. Schwartz expressed his gratitude for the widespread support of departments throughout the Fund, of the Executive Board, and especially the management, in what was indeed a truly cooperative Fund-wide project that had its roots in the intensive work in the area departments, and in the effective contributions of other departments, including the Exchange and Trade Relations Department and the Fiscal Affairs Department.

The Deputy Managing Director made the following summing up:

Directors considered the timing of the present discussion of the World Economic Outlook to be useful in the light of the coming consideration by the Board of a series of important policy questions on the role and work of the Fund. Most Directors organized their remarks around the four sections of the staff paper, and this summing up is similarly constructed.

1. Pace and Durability of the Projected Recovery

Directors observed that the recovery was much more firmly established than when the Board last discussed the World Economic Outlook in February. Moreover, Directors noted that the most recent indicators in the United States, and perhaps also in Japan and Canada, might well justify an assessment of greater short-term strength in the recovery than is contained in the latest staff projections. However, confirmed signs of strength were still largely lacking in continental Europe, and the developing countries were facing a third year of low growth, with a number of them seeing falling per capita incomes.

There were three particular areas of concern about the present situation. First, unemployment remained very high and was not likely to fall much in the near future; second, the situation of the developing countries as a group was particularly difficult; third, and perhaps most important, interest rates had recently crept up once again, and there was a danger that in due course high real rates could choke off sustained growth.

As to the main policy questions, there was no dissent from the view that it was essential to hold inflation and inflationary expectations in check, that monetary growth had to be moderate (while recognizing the present difficulty in interpreting the monetary aggregates), and that there was a major requirement in all groups of countries for the effective pursuit of structural adjustment.

Many Directors, as in the past, emphasized the importance for the sustainability of the recovery of early action to reduce the U.S. fiscal deficit in future years. As one Director put it, the near-monopolization of U.S. net private saving by the U.S. Government was a matter of great international concern. Early action on this issue was strongly urged.

Several Directors felt there might be some room for maneuver in regard to policy on the part of countries that had brought inflation under control: the United States, Japan, the Federal Republic of Germany, and the United Kingdom. But this was not the general view, and the Directors for those countries in particular did not concur, noting, along with others, the still appreciable risks of rekindling inflationary expectations.

Overall, the thrust of the Board's discussion was to confirm that the strategy that had been in place for several years remained the right one and that it was being applied with the necessary flexibility where appropriate.

2. External Adjustment in Industrial Countries

On this topic, the main concern was the large and growing U.S. current account deficit, which was thought to derive in part from a very strong dollar, and which may carry implications for the future, including the possibility of exchange rate pressures and volatility and of further pressures toward protectionism. Moreover, the current account deficit was linked to the U.S. fiscal deficit and the associated high real interest rates, and involved a large-scale absorption of savings from the rest of the world, a situation viewed by several Directors as undesirable for a major industrial country.

It was here, however, that Mr. Polak's interesting and important observations about the policy significance of the enormous statistical asymmetry had their main application. The question was: did we know with any confidence the current account positions of important countries, in particular the United States?

Nonetheless, as to policies in that area, the emphasis was broadly on the need for convergence and concertation of macroeconomic policies and, in particular again, on the series of actions required for the United States to reduce the fiscal deficit, bring real interest rates durably down to more normal levels, and thereby establish a more appropriate current account position. Several Directors pointed to the utility of a more active policy of exchange market intervention, but this was not widely pursued.

3. Adjustment and Growth in Developing Countries

Under this heading there was broad concern about low growth, adverse external factors, and whether these countries, individually and as a group, would be able in the near future to achieve a satisfactory and sustainable growth and balance of payments position. Stress was also placed on the considerably changed position of major oil exporting countries, some of which were encountering substantial external difficulties.

There was virtually no dissent from the view that an essential requirement for developing countries having payments difficulties was strong adjustment policies with an adequate structural element. In conjunction with such policies, however, much stress was laid on three further necessities: first, adequate recovery in the industrial world; second, adequate access of those countries to markets abroad; and third, adequate balance of payments financing, from both private sources, including the banks, and public sources, in particular the Fund.

4. International Cooperation and the Role of the Fund

Directors focused their remarks on several topics, namely, exchange rate management and surveillance, countering protectionism, and the provision through the Fund of an appropriate supply of conditional and unconditional liquidity. In addition, a number of general remarks were made on interdependence and cooperation.

An intensification of surveillance by the Fund was urged and endorsed. Symmetry in the exercise of surveillance was stressed by many Directors. The new emphasis on trade issues and debt matters in consultation papers was strongly endorsed, as was the Managing Director's active participation in discussions among the Group of Five countries. In this connection, many Directors endorsed the need for a convergence and concertation of policy among the major countries. One Director suggested that a separate section be contained in Article IV consultation papers analyzing the effects on other countries of that country's policies.

All Directors urged, in the strongest possible terms, action on protectionism, with the hope of turning it around. The Fund's intention to work more closely with GATT received broad endorsement, as did the greater focus on trade problems in consultations. At least one Director pointed out that protectionism was a problem in and for both the North and the South, and he further warned that pressures for protectionism would not recede as the recovery proceeded. Thus, strong commitment and vigilance would be required.

Many Directors strongly endorsed the view that the Fund had to be supplied with adequate liquidity for the essential task that it was carrying out. One Director observed that it might be difficult for the Fund to succeed in persuading banks to increase their exposure in certain countries if the Fund itself were forced to cut back on its own.

Several Directors took occasion to express positive views, in connection with the Board's coming examination of the situation, with respect to international liquidity and possible SDR allocations.

Many Directors fully endorsed the management's role in relation to banks and official creditors in the difficult circumstances that had emerged since August 1982. In this connection, one Director observed that the possibility of a threat to the international financial system was still not over.

Finally, I would like to mention two broad statements about interdependence and cooperation made by two Directors that I felt were particularly pertinent. First, Mr. Finaish said, in effect, that it was the translation of the concept of cooperation into effective action where the greatest problem occurs. Second, Mr. Hirao said that governments everywhere were under pressure; cooperative endeavors could help them to make the right choices.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/94 (6/29/83) and EBM/83/95 (6/30/83).

2. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director and an Advisor to an Executive Director, as set forth in EBAP/83/169 (6/28/83), is approved.

APPROVED: December 2, 1983

LEO VAN HOUTVEN
Secretary