December 6, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Seminars 82/3 and 82/4

The following correction has been made in the minutes of Executive Board Seminars 82/3 and 82/4 (6/25/82):

Page 23, last para., line 10: for "possibilities as the"
read "possibilities are the"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

Mr. Barbone made the following statement:

Like other speakers, I welcome the opportunity to discuss this long awaited set of papers on Fund policies with respect to planned economies. The need for a comprehensive review of policies toward nonmarket economies has been judged compelling for quite some time. We are grateful to the staff for its work on the subject, which constitutes a first step in the formulation of appropriate policies in this field.

It is apparent from the discussion contained in the two papers that this is no easy task and that we are still at an early stage. The tradition of the Fund, and the array of policies incorporated in the typical package accompanying use of Fund resources, lose much of their effectiveness in an economy that does not respond to market stimuli. On the other hand, the centralized and direct nature of the economic process in these countries permits great effectiveness in implementing the adjustment process.

The relevant question, therefore, seems to be how to identify the sources of disequilibrium and with what instruments to tackle them. On this point, I share the views expressed by other speakers on the difficulties in generalizing, or, as Mr. Polak put it, in applying to socialist systems a general theory of efficiency that still does not exist. The staff papers seem to be aiming at a stereotyped description of a planned economy at a relatively high stage of development and with a rather large industrial sector. While this description is certainly relevant for many Eastern European countries and is therefore quite useful for our purposes, it probably does not fit well with other countries that are centrally planned but that may also be classified as LDCs, as was pointed out by Mr. Taylor. In these countries, the larger share of agriculture in GDP, as well as greater rigidities in capital stock allocation, probably add other dimensions to adjustment problems. Further studies in this specific area will be necessary in the future.

I agree with the statement in SM/82/82 that, as in market economies, external problems in centrally planned economies derive from imbalances between income and expenditure that reflect basic imbalances between the demand for and the supply of goods and services. A first interesting analytical point emerges from this consideration, which must be thoroughly examined as suggested by Mr. de Groote. While it is naturally possible to envisage situations in which external events like changes in terms of trade, adverse weather conditions, or a sudden drying-up of external financing possibilities are the cause for a worsening of the external accounts, the a priori expectation would be that external deficits do in fact constitute part of the plan itself.

The question then naturally arises of the speed at which adjustment programs should require the achievement of a sustainable external deficit. The principle of equal treatment among members would suggest that the considerations that apply to external deficits generated by the implementation of development plans, and for which the aspect of adjustment has been strongly emphasized, should be addressed to such situations. To put it in another way, while each member country is free to choose the economic setting that it desires, once Fund resources have been requested for balance of payments support, we should be in a position to express our judgment on the feasibility of the plan being implemented that is therefore at the root the external problems. On this issue, the staff seems to have a mixed position. On the one hand, it correctly argues that, in exercising surveillance, the Fund should not limit itself to analyzing external policies, but should instead judge the whole structure of economic policy in the light of its consistency with broad objectives of sustained growth in an orderly environment. On the other hand, however, where it comes to indicating instruments for adjustment, the staff shows a reluctance to enter into the details of the central plan, or at least of some broad aspects of it. This reluctance is probably due to the desire not to interfere in specific policy on countries coming for help, and Mr. Zhang has just explained how direct intervention in the plan might be unwelcome. However, for all its validity, this objection fails to deal with the inability of traditional condition clauses to influence activity in centrally planned economies to the same extent as in market economies. The staff has explained quite clearly why classical financial programming may not work. There is no evidence of stable demand for money on the part of the public, and credit flows to enterprises have only, or mostly, a bookkeeping role. Changes in demand for goods that are produced by price changes do not generate matching changes in the quantity supplies; external trade flows are only marginally responsive to variations in exchange rates. Thus, traditional stabilization measures centering on credit flows and interest rate policies are ineffective, since they have influence only on the small-market aspects of nonmarket economies.

By contrast, conditions on the trade balance and the level of reserves can be quite effective, as the Fund's recent experience with Romania has shown. However, while an external balance can be quickly restored, we cannot have any assurance that a more viable internal equilibrium has been established. A judgment on this can be reached only if the internal consistency of the plan at the new external equilibrium is evaluated. But this points forcefully to the need to examine and, therefore, to make recommendations on the contents of the plan. It is certainly true that the Fund is not at present equipped to deal with these matters in such detail. However, this handicap could and should be overcome by an increased study effort. Serious thought should be given to the idea of