Remarks by Michel Camdessus
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before the
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It is a great pleasure to welcome you to this Joint IMF-World Bank Symposium on "Growth-Oriented Adjustment Programs." I am delighted that we were able to attract such a distinguished and experienced group of participants, and I am looking forward to a stimulating exchange of ideas. I hope that all participants will feel free to speak candidly about existing or emerging policy problems and about possible solutions. Indeed, it was to assure the right atmosphere for such a frank dialogue that we decided against asking representatives from the financial press to join us.

I would put the key issue facing the symposium as follows: how can we help the developing countries to achieve balance of payments viability and a return to normal debtor-creditor relationships in a way that promotes sustainable economic growth, open and growing international trade, and international monetary cooperation? During the next days, we shall be discussing the "lessons" that seem to emerge from earlier adjustment strategies; the combination of macroeconomic and structural policies that offers the best prospect of combining adjustment with durable growth; and the roles that a healthy global environment and adequate external financing need to play in a growth-oriented adjustment strategy. I am here to benefit from your diagnoses and prescriptions. They are of critical importance for me at the beginning of my mandate in the Fund. I am here to learn from you. Nevertheless, perhaps I can at least get our discussion started by sharing a few thoughts with you on these issues.

My first point is that in analyzing the relationship between adjustment and growth, we should reject two--let us say--simplistic arguments. One is that there is an inherent conflict between adjustment and growth. The other is that growth follows automatically from adjustment. Allow me to elaborate.

Economies that suffer from rampant inflation, large budget deficits, pervasive trade restrictions, misaligned exchange rates, unrealistic interest rates, heavy external debt, and repeated bouts of capital flight just cannot and do not grow rapidly for any sustained period of time. Put in other words, you cannot maintain good growth performance by attempting to avoid adjustment. Equally, we should recognize that when adjustment is delayed to the point at which a country's reserves and creditworthiness are depleted, it is likely to involve excessive cuts in investment, in imports, and in other productive expenditures. Such chaotic or "anarchic" adjustment can mortgage future growth.

I would propose an alternative hypothesis: the extent to which adjustment is conducive to growth depends in good measure on the quality of adjustment. Specifically, growth can best be combined with adjustment if adjustment takes the form of increases in export capacity, in savings, and in economic efficiency, and if high-quality investment projects are allowed to survive. Look at the experience of the past four years. The indebted developing countries have achieved an enormous improvement in their current account position--their combined deficit had fallen from roughly 18 percent of exports in 1982 to about 4 percent in 1984, before rising somewhat under the pressure of falling commodity prices to almost 5 percent last year. What is noteworthy is that the countries that were best able to protect growth during this difficult adjustment period were those that maintained strong export performance, that kept domestic savings and investment rates from falling sharply, and that shared the adjustment burden between increased aggregate supply and reduced aggregate demand.

The right kind of adjustment will not, of course, take place by chance. It requires that developing countries put in place a set of macroeconomic and structural policies that encourages exporting, saving, sound investment decisions, and cost-saving techniques, and that establishes an environment of overall financial stability. It also requires that creditors assist this effort by providing adequate financing, by maintaining an open and growing market for developing-country exports, and by fostering an appropriate structure of exchange rates and interest rates. The important thing is that we have the capacity collectively to manage the adjustment process in a way that gives growth the consideration it deserves. But the reality is that we have not yet consistently done so. Perhaps this symposium can help us identify how we can more successfully mobilize the major parties into action.

Let me now turn to my second main point: the characteristics of a successful growth-oriented adjustment program. I would lay particular stress on three features: the need for country-specific program design, for a comprehensive medium-term framework, and for popular support.

Developing countries are too diverse--in economic structure, in the size of existing debt burdens, in their relations with creditors, in political sensitivities, and in the nature of existing imbalances--to allow a "standard" policy package to be effective. In some cases, the first order of business may be fiscal strengthening paired with exchange rate action and deindexation. In other cases, the pressing need may be for trade liberalization, reform of tax systems, overhaul of public enterprises, relaxation of price controls, and financial-sector reform. And in yet others, increases in producer prices, export diversification, and efforts to unlock more concessional finance may take priority. The case-by-case approach is not a slogan. It is merely sensible program design. I know that some observers see the Fund as seeking to impose a uniform, mechanistic approach to adjustment on all its member countries. I must tell you that in my few weeks in the Fund I have searched carefully through the cupboards for such a policy straitjacket. I have not found it. And if I had found it, I would have destroyed it.

The underlying conditions for durable growth can rarely be achieved in the short run. This is especially the case where the state's role in the economy has been allowed to become overextended during a period of decades and where the structure of goods, labor, and financial markets is in need of alteration. Such structural reforms often require far-reaching preparation and take time to realize their intended effects. Yet little is to be gained from delay. Recourse to on-again, off-again demand-management programs within an outmoded and uncompetitive structure of production is hardly an attractive alternative. Wanting to grow faster is not enough. It has to be backed up by an integrated program of macroeconomic and structural policies implemented with perseverance over the medium term. I might add that poor countries, despite their difficult circumstances, cannot be exempt from such policy reforms. Indeed, it is precisely because their living standards are so low that they can least afford to tolerate weak policies. More and more, leaders in poor countries understand this and we are strongly committed to cooperate with them.

No program can succeed without the support of governments and of public opinion. Yet this support will be progressively harder to maintain the longer adjustment continues without growth. That is why the 4 percent average growth performance of the indebted countries in 1984-86 is welcome. Even so, and reflecting the slow growth of the 1981-83 period, it is striking that real per capita gross domestic product in the indebted countries as a group has risen on average by only about 1 percent a year since 1980--a far cry from the 3 percent average annual rate of increase of the 1960s and 1970s. If one uses real national income per capita as the relevant indicator, the picture is still worse. The period ahead is thus likely to be one where growth is just as necessary to sustain adjustment as adjustment is to sustain growth.

Effective policies in the developing countries--central as they are to a successful growth-oriented adjustment program--are not sufficient. This is my third point. Industrial countries can and should provide crucial support by following sound monetary and fiscal policies that are compatible with healthy, noninflationary growth of world demand, lower international interest rates, and an appropriate pattern of exchange rates; by rolling back protectionism; and by providing increased official development assistance and adequate official export credit. Clearly, it will be more difficult to make progress in reducing debt burdens if the real interest rate on debt exceeds the growth rate of developing-country exports, and if the incentives to adopt more "outward-looking" policy reforms are sapped by protectionist barriers. To work well, the adjustment process must be symmetric. We cannot have two standards of adjustment--one for industrial countries and the other for developing countries.

Banks too need to play their part. They are fully justified in asking their developing-country clients to undertake genuine policy reform so as to underpin any new net lending. This attitude on their part is much sounder than that which prevailed during the 1973-81 period when private lending expanded at an unsustainable rate. But we have to be careful not to now overdo things in the opposite direction. Major changes are taking place in the developing countries. But this progress is put at risk when there is inadequate support and understanding from creditors--to say nothing about endangering their own claims on these countries. Commercial banks cannot do the job alone. Other creditors and investors have to be brought more squarely into the action, and we must make full use of the considerable inventiveness of financial markets to design financial instruments that meet the needs of lenders and borrowers.

Finally, I come to the role of the Fund. Working in close collaboration with our colleagues in the World Bank, the Fund will continue to cooperate with countries in designing growth-oriented adjustment programs and in mobilizing the finances needed, including our own, to carry them out. I chose the word "cooperate" carefully. The Fund can help members to make better-informed decisions about the balance of payments, growth, and inflation implications of their policy choices. But the final choices must rest with the country itself. The Fund is also continuing its efforts to improve the effectiveness of multilateral surveillance, with particular emphasis on strengthening economic policy coordination among the largest industrial countries. The developing countries--no less than the industrial ones--have a vital interest in the outcome of those efforts.

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Adjustment for durable growth in our membership is a central mission of the Fund. No one, I think, still challenges the precept that effective adjustment and sound finance are the allies--not the enemies--of growth and development. I hope that your suggestions will help us in the Fund and the Bank to adjust our own policies and procedures so as to serve better the evolving needs of our membership. After all, institutions, much like countries, cannot be static if they are to thrive. Just as countries sometimes need external expertise and support to help them adjust, we in the Bretton Woods Institutions welcome your ideas in helping us to adjust.