Remarks by M. Camdessus
Managing Director of the International Monetary Fund
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It is a privilege to participate in the General Debate today. My predecessors greatly valued their attendance at these gatherings, and I am delighted both to maintain the tradition and to have the opportunity to share a few thoughts with you on the challenge of development and of improving social conditions in the developing world.

In recent years, this challenge has become decidedly tougher. Primary commodity prices have weakened considerably, with non-oil commodity prices falling to their lowest level in real terms in the postwar period; the availability of new bank credit to developing countries as a group has tapered off; and some countries have had difficulty in sustaining the policies of restraint which unfortunately were required. Two major consequences have ensued. First, the external position of developing countries has weakened anew. This was reflected last year in a doubling of their aggregate current account deficit and in a further perceptible increase in the burden of their external debt. Second, in the face of a substantial deterioration in their terms of trade, many countries have had no alternative but to channel a very significant proportion of their output gains into preventing a larger worsening in their balance of payments. Correspondingly, the resources remaining for basic domestic needs have been even more meager than the moderate recorded increase in per capita GDP would imply. Indeed, in many countries standards of living and expenditures devoted to developing human capital have continued to decline, and investment ratios--after falling back earlier in the decade following the emergence of the debt crisis--have remained at levels barely sufficient to keep the physical capital stock from falling.

During the last few months, commodity prices in U.S. dollar terms have turned upward. But there has also been an increase in interest rates on U.S. dollar instruments, and the rate of growth of industrial countries--markets for developing countries--has declined markedly. The external economic environment is therefore difficult, and concern is growing.

This morning, I would thus like to address candidly the central question. Faced with the present situation, what is the Fund's strategy? What is its objective? And if that objective is growth, what does it propose should be done to achieve it?

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What are we seeking? Growth.

Sustainable growth, this is our aim. But we know that it cannot be obtained without effort: adjustment is essential for it. Indeed, growth and adjustment go hand in hand. There are two sides to the coin. One is well known: if a country's balance of payments position is unsustainable, it will not be able to restore and maintain a satisfactory rate of economic growth unless it adjusts. The other is less well known: an appropriate balance of payments position is likely to prove sustainable only if it is attained in the context of durable expansion. Growth is thus as necessary for adjustment as adjustment is for growth. Two far-reaching conclusions follow.

First, there can be no relaxation of current efforts by countries in difficulties to bring the balance between demand and supply into a more sustainable pattern. On the contrary, these efforts need to be strengthened--and strengthened considerably in a good many countries. But such efforts need to be accompanied by measures that will promote the expansion of supply, lessen any inescapable impact on output of measures that aim at restraining demand, and thereby create a fertile ground for tomorrow's growth. This said, the specific content of programs will inevitably vary, for all economies have features that are unique to themselves, and their adjustment needs will differ.

All this is to my mind axiomatic and lies at the core of the Fund's approach. Yet there exists a perception in some quarters that the Fund follows a standard model that rests on one or two policy instruments; that this model is heavily biased toward demand restraint; and that it is inimical to growth and the improvement of social conditions. Uniformity of programs; primary emphasis on demand restraint; insensitivity to social realities. Let me respond to these charges.

Uniformity? On the contrary, Fund-supported programs are diversified packages of policy measures, tailored by each country to its own particular circumstances. True, some of the same policy measures feature in a good number of programs. But their relative importance differs widely from one program to another. There is no one recipe, no simple manual for Fund missions. A case-by-case approach, believe me, is the only possible strategy.

Primacy of emphasis on restricting demand? While demand restraint is often an unavoidable element in adjustment programs, it has never been the exclusive element. Regenerating supply and freeing economies to fulfill their growth potential has long been recognized as essential. Today, as structural impediments serve more and more to constrict countries in their adjustment efforts, the focus in stand-by arrangements on supply policies aimed at reducing such obstacles increases still further. This is also precisely the spirit behind the new lending window--the Structural Adjustment Facility--which was created last year with a view specifically to supporting structural policy changes undertaken by low-income countries with protracted payments problems. I shall return to this later.

There should, though, be no illusions. Policies oriented in this way to growth are not easier to implement than simple policies of demand restraint. On the contrary, they require considerable political commitment.

Consider, for example, efforts to reduce budget expenditures. Deciding where the cuts should fall is difficult in any country. In low-income countries it can be very difficult. Or consider efforts to remove price distortions--efforts, for instance, to increase incentives for agricultural production and to improve food self-sufficiency. These efforts invariably imply higher prices. As such, they may run counter to other objectives, especially when the prices being raised are for basic consumption goods. Indeed, the very fact that supply-side policies generally result in changes in relative prices means that the distribution of income within an economy will be affected. This raises issues that go to the heart of national politics. Political problems are also frequently raised by measures of structural adjustment, which--by their nature--threaten entrenched interests and often collide with an ingrained aversion to change.

All these are matters for sovereign decision. An institution like the Fund must respect a member government's judgment of priorities and of domestic political constraints. It is thus for each government to adopt the strategy of its choice, provided, of course, that the strategy offers a realistic prospect of restoring a sustainable payments situation.

The Fund can and must, however, shed light on the alternative policy choices, for the stakes are high. Bad economic policy must not be allowed to add to the miseries of the world. No country today can afford a poor economic policy, or one which is complacent with respect to sources of inefficiency. None. And especially not the poorest. Everywhere, structural obstacles to development must be fought--all the things that prevent savings from being channeled toward productive investment; all the things, in short, that make the struggle against poverty more difficult. But all this has a price.

Too often, in recent years, it is the poorest segments of the population that have carried the heaviest burden of economic adjustment. Hence has emerged the notion of an IMF which is insensitive, or which ignores the social aspects of economic policies. Here, too, the reality is different. Within its mandate and its possibilities, the Fund has given steadily greater attention to such aspects in recent years. The institution has expanded its contacts with UN-related agencies that are expert in social policies, in order to sharpen its appreciation of the issues. We will continue to do so. Furthermore, as my predecessor made very clear at this assembly a year ago, Fund missions are willing--when preparing stand-by programs, and when requested by a member country--to consider with the authorities the implications of alternative approaches to adjustment for the distribution of income, with a view in particular to sheltering the poorest.

I should like today to reaffirm that willingness and, in so doing, to express two convictions. The first is that adjustment does not have to lower basic human standards. In this context, the efforts of fellow agencies of the U.N. family both to protect social programs in the face of unavoidable budget cuts and to make such programs more efficient--delivering better services at less cost--exemplify the types of things that are essential. My second conviction is that the more adjustment efforts give proper weight to social realities--especially the implications for the poorest--the more successful are they likely to be.

But allow me again to make the point that adjustment programs are not Fund programs, only Fund-supported programs. Within an agreed overall framework, the final choice in the specification of policies bearing on income distribution and resource allocation must rest with the country itself.

The success of such programs depends crucially upon public acceptance of their necessity and usefulness. Governments must therefore recognize such choices as their own, explain them, and implement them with resolve. If governments do not live up to their responsibilities, but instead attribute the adoption of corrective measures to external forces rather than to the country's own needs and its own initiative, the prospects for success will be jeopardized.

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Here, the second major issue arises. In the face of concern in the world about the weakness of so many indices, what is it that the Fund proposes should be done to strengthen growth?

The courageous implementation of adjustment programs, in fact, is not enough. Two other conditions must be met: growth-oriented adjustment must be pursued universally, and adjustment efforts must receive more effective financial support.

When I say that adjustment and growth must be universal, what I mean is that it is not only countries which request the Fund's support that must make an effort. All countries must do so--and in particular those which, by their sheer size, determine the level of growth in the world.

Robust growth of demand in the industrial countries, together with improved access by developing countries to industrial country markets, is therefore essential. As far as trade is concerned, governments in the industrial countries must not only resist the current tide of protectionist pressures; they must also seize the opportunity afforded by the Uruguay Round to lessen barriers to trade and to reduce the competitive subsidization of their agricultural exports.

In addition, concerted action will need to be taken to prevent growth in the industrial world from faltering as the delicate maneuver of bringing payments imbalances among the major countries into a more sustainable pattern proceeds. Implementation of an effective growth strategy for the industrial economies is crucial if there is to be a prospect of export-led expansion for the indebted countries. Therefore, not only is it important that industrial countries utilize whatever room exists for financial policies to support the orderly growth of demand; they must also press ahead more vigorously to implement structural policy changes supportive of a more robust world economy. Some industrial countries do not have room for maneuver in their financial policies; they must intensify their structural reform efforts, for this is where the keys to tomorrow's growth are to be found.

The efforts already under way among the major industrial countries to strengthen the coordination of their economic policies have been reinforced by the accord reached at the Venice summit. This accord reaffirms the arrangements already agreed and welcomes the results obtained in stabilizing exchange rates around current levels. This is clearly an important step forward from which the world economy can only benefit. The accord also provides for a coherent system of surveillance and policy coordination. The Fund has an important role to play in it. It will evaluate the mutual consistency of national policies with medium-term objectives for the group of countries as a whole. It will also develop the use of indicators to review and assess current trends and to identify the need for a discussion of individual countries' policies. The role envisaged for the Fund is an outgrowth of its traditional Article IV consultation work and of its responsibility in the multilateral surveillance exercise. This enhancement of the process of surveillance responds to a need; and we will endeavor to the best of our ability to discharge the responsibilities that it entails. The present situation warrants special vigilance. We will exercise it, keeping particularly in mind the declaration of the Heads of State or Governments of the seven leading industrial countries that if in the future world economic growth proved insufficient, additional actions would be required to achieve their objective of maintaining orderly growth.

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I mentioned a second condition as being needed for a more satisfactory and more sustainable rate of growth in the developing world. This is <u>adequate financing</u>, in timely fashion and on appropriate terms, if countries embark on adjustment programs. Adequate financing means financing that takes into account two realities: first, the substantial magnitude of the structural adjustment task facing many countries; and second, the time lags that are necessary before structural policy action registers its effect--which are longer than those associated with adjustment based only on demand restraint. These two realities will have to be reflected in the amount of financial assistance and its maturity period. This is necessary to facilitate a more orderly adjustment process and to encourage reluctant governments to implement essential programs of structural improvement without further delay.

This said, financing needs are not uniform and, given the scarcity of resources--and in particular public resources--it is necessary to allocate those that are available as effectively as possible. A distinction needs to be drawn between two broad groups of borrowers. One group consists of middle-income countries that are unable over the short run to meet their debt-servicing obligations but could, under certain conditions, manage to do so over the longer term. For countries in this group that are prepared to undertake strong reform programs, it is the support of multilateral financial institutions and the timely provision of additional credit by banks that is most needed. It is my firm view that the latter is in the interests of the banks themselves.

The second group consists of countries with low per capita incomes, large liabilities to official creditors, and limited scope in the foreseeable future for meeting their debt-servicing obligations. These are, in general, the poorest countries. Since assuming my present position, I have been struck not only by the efforts that many of these countries have been seeking to make to adjust their economies, but also by the truly daunting task that they face. Deeply depressed prices for their exports and the slow rate of growth in their external markets--coming on top of their structural handicaps--are now leading governments in these countries to doubt the possibility of reversing negative trends and making them increasingly reluctant to embark on forceful adjustment programs oriented to growth.

Yet such programs are essential. It is therefore imperative that the international community give renewed hope to these countries and show its willingness to provide increased aid and exceptional financial help in support of their adjustment efforts.

The adoption by the Paris Club of proposals to ease their debt-servicing burden is a very welcome move in this direction. I welcome, for example, the agreement that was just concluded for Mozambique, which provides for a rescheduling of debt over 20 years, with 10 years of grace. This will help underpin a courageous program supported by a Structural Adjustment Facility (SAF) arrangement. But more is needed. Our brief experience with the SAF--which was put in place last year--has shown that, thanks particularly to a rate of interest of only 1/2 of 1 percent a year and a relatively long repayment period of 5 1/2-10 years, it has the potential to be a very good instrument for supporting programs of adjustment and structural reform. Fourteen countries are already availing themselves of the facility, and discussions are in various stages of advancement with a significant proportion of the 46 other countries that are eligible. Unfortunately, the financial assistance that the facility can provide at present--about US$3 1/2 billion--is totally insufficient for it to be able really to play the role of mobilizing other financing that it otherwise could.

Our estimates show that--even on the assumption of generous Paris Club reschedulings, a continuation of growing bilateral aid flows, and a rapid completion of the IDA VIII replenishment--a tripling of the resources available is needed. I therefore requested this tripling of resources--to SDR 9 billion from SDR 3 billion--on the occasion of the summit of the Heads of State or Governments of the seven major industrial countries in Venice earlier this month. I have also submitted this request to all countries--even middle-income countries--that are in a position to contribute. I have been greatly encouraged by the welcome that my proposal received from the summit. I am also gratified that a number of middle-income countries have already stated that they, too, could contribute and thus show their solidarity with countries poorer than themselves. My hope is that <u>all</u> countries that are in a position to do so will follow this example. For, then, we would be able to offer the instruments of a renewed and reinforced strategy for growth-oriented adjustment to low-income countries. Such a strategy would have three elements: first, a program of lasting adjustment--designed with the assistance of the Fund and the World Bank--which would be aimed at rebuilding the foundations for sound growth, which would be the country's own program, and to which each government would be fully committed; second, a rescheduling of debt within the framework of the Paris Club on much more favorable terms than those granted until now, following approval of an SAF arrangement; and third, much better adapted balance of payments financing, thanks to the availability of additional resources--on concessional terms and with long maturities--under the umbrella of the SAF arrangement. In this latter regard, we could in fact count on the resources coming from the tripling of the SAF, on those that bilateral donors would provide concomitantly, and also on those that the International Development Association--whose eighth replenishment in an amount of US$12.4 billion, has been agreed--will be able to devote to structural adjustment efforts. It goes without saying that we will ensure that countries that have already embarked on programs of this type will also be able to benefit from this reinforced strategy.

Commercial banks have only a limited share in total credit outstanding to these countries, whereas they are the main actors in the financing of middle-income countries. It is very much my hope that, in low-income countries, too, they will agree to assume their share of responsibilities, among other ways by rescheduling debt on generous terms.

The renewed strategy will thus aim at providing a solution to the problems of balance of payments financing, for which the IMF has a particular responsibility. Once this has been done, it will remain to improve the long-term financing of development. I hope that an increase in the capital of the World Bank in the near future can make a strong contribution to this end. On our part, the plan is to press rapidly ahead in our conversations with possible contributors, with a view to putting the enlarged SAF into operation by the beginning of next year. The Venice summit requested that the necessary decisions be taken by the end of 1987. The urgency of the problems facing the poorest countries requires no less.

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Mr. Chairman, the task of restoring a satisfactory pace of growth and improvements in social conditions in the developing world is a vital, if formidable, one. I have had much to say this morning about what the international community can do. But there should be no illusion as to where the primary responsibility lies. Experience has shown that the countries which have been successful in restoring durable growth have been those that have made genuinely major efforts themselves to address their problems. Such efforts on the part of countries themselves remain the key ingredient. We know what sacrifices they entail and the support that they deserve from the international community. If growth-oriented adjustment is not to be merely a slogan, <u>all</u> parties--governments, multilateral financial institutions, commercial banks--must recognize their responsibilities. You may be assured that the Fund is committed to playing its part to the fullest, with all the resources that governments put at its disposal and, above all--if I may say--by drawing on the wealth of intelligence, devotion and goodwill of its personnel.