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Remarks by M. Camdessus
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It is a great pleasure to participate in this, the seventh, session of UNCTAD, all the more so since the underlying theme of this Conference--reinforcing international cooperation with a view to promoting development, growth and international trade--is fully consonant with the objectives that have been assigned to the Fund by its founders and that, through so many changes in economic conditions, have remained firmly at the core of the Fund's endeavors.

They do so today, more than ever. After encouraging progress in the years immediately following the onset of the debt crisis, the growth of world output and of world trade are decelerating and the external position of developing countries and, with it, their development prospects are weakening. This is giving rise to new tensions--to the risk of additional protectionist pressures, to the risk of a proliferation of unilateral actions, both in the North and in the South. It prompts a renewed focus on our part on a multilateral growth and debt strategy.

It is a matter of urgency to revitalize growth in the world; we must work to ease all obstacles to it, beginning with the unavoidable problem of foreign debt. This problem presents a task that will face us for many years to come: to restore indebted countries' creditworthiness. If we fail to do this, we will find ourselves at an impasse, as these countries will not grow at an adequate pace without reasonable inflows of external savings--the amount of which will, of course, vary from country to country.

Given this, what must be done?

- We must have, in each country, growth-oriented structural adjustment programs.

- We must have financing appropriate to the situation of overindebtedness.

- We must have a universal growth-oriented adjustment effort.

Let us look at the contribution that the Fund can make to these ends.

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I. We must have growth-oriented structural adjustment programs, particularly in the heavily indebted developing countries. The Fund helps to design such programs. Indeed, restoring the basis for durable expansion by correcting balance of payments disequilibria at the least cost in terms of output forgone is the whole purpose of the Fund in the field of adjustment. Let there be no misunderstanding about that. I know that there are questions in this regard. Let me address them.

A notion persists that our programs have, at best, done little to promote growth and are, at worst, inimical to development. This notion will not withstand a closer look. In supporting adjustment efforts by its members, the Fund between 1982 and 1986 provided over $40 billion of its own resources, helped to mobilize commitments of an almost equivalent sum in new lending from commercial banks, and facilitated the restructuring of some $45 billion of debt due to official creditors. That is, about $125 billion in all, even without taking into account the restructuring of debt due to private creditors. Who could maintain seriously that in the absence of this support, imports, investment, output and employment in those countries would have reached the levels actually attained--too low though these levels have clearly been?

The fact is that economic activity in countries implementing Fund-supported adjustment programs has been maintained at a higher level than would otherwise have been feasible: first, as suggested by the figures, because the financial support that has been linked to those programs, both directly and indirectly, has added to the <u>amount</u> of resources at the disposal of the countries undertaking adjustment; and second, because those programs have helped to improve the <u>efficiency</u> with which existing resources are used.

How could I fail, in this context, to stress the important contribution that UNCTAD made--in the late 1970s and early 1980s, just prior to the eruption of the debt crisis--to discussions concerning the operations of the two creditor clubs? Having had the honor, in an earlier capacity, to sign with Mr. Gamani Corea the exchange of letters leading to your organization's being represented at the Paris Club, to participate in the preparation of the "Features," and then to apply them conscientiously as chairman of the Paris Club, I cannot but pay tribute to the work of the Secretariat General, salute its contribution to the quality of the dialogue between debtors and creditors, and emphasize the importance of the rescheduling effort carried out in close collaboration with the IMF.

In spite of these inter-linked efforts, the growth attained by countries implementing Fund-supported programs has not always matched our expectations, particularly in the past few years. In some cases there have been slippages in policy implementation. In some others, external conditions did not develop as foreseen. We must ask ourselves about these shortcomings, or even failures. Indeed, the Fund's Executive Board is currently engaged in a thorough review of adjustment programs in order to ensure that they remain appropriate in the current circumstances and that they take into account the wisest suggestions that may be put to us.

Many suggestions quite properly deal with growth and with what we could do to promote it further. One suggestion that has been made--both by the deputies of the G-24 and in the excellent report of the Secretary-General--is that such programs should place more emphasis on growth and investment targets as major objectives.

We are studying the various suggestions thoroughly by taking into account what the most successful experiences of recent years have taught us about growth. There should be no misunderstanding about growth and what it requires. If we simply wish for it, we run the risk--like the wise Penelope who was unsure as to whether she would recognize Ulysses after having waited for him for 20 years--of forgetting its true features. Let me list a few of these features.

First, the growth that we seek must be durable. Just as the pursuit of a stronger balance of payments position today should not--through its impact on the level of activity--jeopardize the balance of payments position in the future, so the pursuit of a growth target today should not--through its impact on the balance of payments--jeopardize growth tomorrow.

Growth requires structural adjustment. This means that it requires time and also financing that takes into account two realities: first, the substantial magnitude of the effort that many countries will need to make; 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.

Growth will not come about in response to incantations. It requires difficult decisions--more difficult than those needed for simple operations to restrain domestic demand. It requires, in fact, a deep and lasting political commitment.

Growth results from a complex interplay of forces. Whereas the policy instruments that governments have at their disposal can be utilized to affect nominal variables--such as incomes and expenditures--with a reasonable degree of certainty, the impact of these instruments on real aggregates--such as output, and therefore growth--is far more difficult to predict. In everyday terms, I would say that a rate of growth cannot be decreed in the way that tax schedules or public expenditure levels are decreed. Thus, it is less susceptible to formal targeting than other objectives.

Growth requires adequate resource mobilization, but the efficiency with which resources are used matters as much as, if not more than, the amount of resources. To be sure, in many developing countries investment ratios now stand at levels that impinge severely on development prospects. They need to be raised, but it is necessary at the same time to ensure that the resources devoted to investment are used more efficiently. Otherwise--as the experience of the late 1970s and early 1980s has demonstrated all too painfully--the resources needed for servicing the additional debt would not be generated and growth in the future, far from being enhanced, would only be set back further.

Growth requires the mobilization of people, a task that can be appreciably enhanced by careful attention to reducing the social costs of adjustment. Growth-oriented adjustment does not have to lower basic human standards. Indeed, I would go so far as to say that the more programs give proper weight to social realities--especially their implications for the poorest--the more successful are they likely to be.

Growth, finally, is either universal or it will remain precarious. I shall return, toward the end of my remarks, to the obligations that this last, but essential, feature entail for us.

It is with these seven features of growth in mind that the Fund assists the countries that turn to it for help in designing policies to restore viability to their balance of payments. The orientation of our approach to growth is not, of course, new. But with the faltering pace of economic development in recent years and the increased importance, in the analysis of the problems of developing countries, of structural impediments in relation to excesses in demand, there is necessarily a sharpening in the focus of Fund-supported adjustment programs on supply-enhancing measures--measures that promote savings, increase export capacity, and improve efficiency in resource use. This orientation is clearly the most sensible one, and a good number of positive experiences have shown us that it leads to real--and sometimes dramatic--progress in the countries that adopt it. It is very clear also that it is not compatible with any relaxation of efforts on the part of the indebted countries or, as far as the Fund is concerned, with any complacency in the management of the conditionality associated with its assistance.

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II. Growth-oriented adjustment programs must therefore be designed. And these programs must be financed--in countries where domestic savings are insufficient because so much is absorbed by debt service; in countries where commercial banks, having encountered payments uncertainties, are reluctant to increase their exposure; and in circumstances in which creditor governments have budgetary constraints on increasing official development assistance. This is why for years now we have been studying with the utmost care every proposal, every idea that could lead to mitigating the debt burden.

Provided that all the parties involved--debtor countries, creditor countries, multilateral institutions, and commercial banks--fully assume their share of the effort--not only in a spirit of co-responsibility and solidarity, but also in their own best interest--much can be done to strengthen the indebted countries' ability to undertake productive investment, to exploit more fully their undoubted economic potential, and to grow out of their debt-servicing burdens. What is needed is a strategy which concentrates the limited public resources that are available on those cases where there is no alternative financing instrument--a strategy also in which increased efforts on the one side will be matched by stronger support from the other. Such an approach would best meet the interests of both debtors and creditors--by progressively restoring creditworthiness and promoting sustained economic development for the former; and by steadily strengthening the value of loan claims and restoring a normal environment for future activities for the latter.

A strategy of this kind must, of course, be diversified and take into account the nature of individual countries' debts and their economic situations.

In the case of middle-income countries, the bulk of debt is owed to commercial banks, and it is essential--once the IMF, the World Bank and other institutions have made their full contribution--that countries pursuing strong adjustment programs should be able to count on the timely provision of adequate financing from the commercial banks. To this end, all the potential for flexibility and creativity of the capital markets must be brought into play. Arrangements based on a "menu" approach that allow banks a wider range of financing options should expedite the mobilization of financial support and help lead the way toward a normalization of creditor-debtor relations. These arrangements can also demonstrate the debtor country's willingness to welcome foreign direct investment or to facilitate a return of flight capital. I note that there have been a number of judicious innovations in this area, for example in the most recent financing package for Argentina, the speedy completion of which attests to what can be done.

For low-income countries, the challenge that we face takes a different form. Their standard of living is incomparably lower and their savings capacity is very limited. Most of their debt is to official creditors, and thus the final decision on any lightening of their debt burdens rests in the hands of creditor governments. What is needed here--and needed urgently--is a clear signal from the international community of its willingness to respond with increased assistance to major efforts by these countries to strengthen their economies.

The exceptional difficulties faced by low-income countries and the inadequacy of the financial assistance currently available to them have led me, as you know, to seek a tripling of the resources that can be made available under the umbrella of the Fund's Structural Adjustment Facility (SAF) over the three years from January 1, 1988. I have been much heartened by the welcome that my proposal received at the Venice summit. I am also gratified that a number of middle-income countries have stated that they, too, are considering contributing. My hope is that all countries that are in position to do so will follow this route. For then we would be able to offer, to low-income countries that undertake strong programs of adjustment, financial support that is adequate, concessional and appropriately long in maturity--the only financing, in fact, that is suitable to the situation facing these countries.

The tripling of the SAF that is being sought seems to me to be the minimum required, and it remains important that efforts to mobilize other kinds of assistance continue to be pursued with vigor. In this context, I very much hope that governments can soon come to an agreement to lower interest rates on the debt of heavily indebted low-income countries that they reschedule within the framework of the Paris Club.

If all these initiatives bear fruit, we would be able, starting at the beginning of next year, to offer the instruments of a renewed 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--following approval of an SAF arrangement--on much more favorable terms than those granted hitherto; and third, better adapted 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 and on those that bilateral donors would provide concomitantly. To these would also be added the resources that the International Development Association--whose eighth replenishment has been agreed--will be able to devote to structural adjustment efforts.

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, though, 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 provide a solution to the problems of balance of payments financing, for which the IMF has a particular responsibility. Once this has been done, the task 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.

The expansion of the Fund's activities in the direction of the poorest countries under the SAF will, of course, not detract from its more traditional activities. I know that, among these, particular concern has been expressed about the decline in lending under the Compensatory Financing Facility in recent years. Is the Fund withdrawing from the financing of temporary shortfalls in exports? Not at all. True, the conditionality associated with the use of the CFF was effectively tightened in 1983. This was a prudential move, designed to protect the revolving character of the Fund's resources. But the real reason for the lower level of use of the facility since 1983 is that during the first part of this period the value of exports of most of the countries concerned strengthened, along with world economic activity. Now, following the weak performance of exports in 1986 and the particularly depressed prices of many commodities, this type of financing has regained its importance. Indeed, disbursements over the first months of this year are already double their level in the whole of 1986. Let there be no question: compensating members for temporary shortfalls in exports remains an essential activity of the Fund.

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III. I have spoken thus far about the role that the Fund can play in promoting growth with adjustment in the developing world. But it has an equally important role to play--serving the same end--in the industrial world. This role has two aspects: promoting growth-oriented adjustment in these countries, too; and helping to open their markets. The fact is that adjustment and growth must be universal. By this I mean 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.

There is clearly an important need to foster a robust growth of demand in the industrial countries, together with improved access by developing countries to their markets. As far as trade is concerned, governments in the industrial countries can do more to open their markets to developing countries and to reduce their competitive subsidization of agricultural exports. The Secretary-General's report to the Conference eloquently brings out the pernicious consequences of restraints on trade and the pressing need to reverse the current tide of protectionism. It is imperative that sectoral interests be overridden and that the opportunity afforded by the Uruguay Round to usher in a more genuinely open system of international trade be fully seized so as to enhance the welfare of all.

Pressures for protection, of course, are largely symptoms of deficiencies and problems in nontrade areas, such as slow growth, inappropriate exchange rates, domestic and external imbalances--in short, inadequate structural adjustment nearly everywhere. Unless these issues are addressed, the problem of protectionism will persist. And it is precisely by helping countries not to neglect these issues, but to act resolutely to deal with them, that the Fund can best complement the work of the GATT. This explains why we are giving added emphasis to trade policy issues in our discussions with member countries.

But the major contribution that the Fund can make to a more hospitable trading environment--and thereby to the prospects for export-led expansion in the indebted countries--is to promote the effective coordination of policies among the major industrial countries. Such coordination is essential if a satisfactory rate of growth is to be protected in the industrial world while payments imbalances among the major countries are brought into a more sustainable pattern.

The efforts already under way to coordinate policies have, as you know, been reinforced by the agreement reached by the leaders of the seven major industrial countries at the Venice Summit to strengthen, with the assistance of the Fund, the surveillance of their economies. This accord entails important new responsibilities for the Fund in two areas: helping to evaluate the consistency of the policies of the seven countries with medium-term objectives for the group as a whole; and, through the use of quantified indicators, reviewing and assessing current trends and determining whether there are significant deviations from an intended course that require consideration of remedial action.

The approach envisaged is an outgrowth of the Fund's traditional multilateral surveillance work, in that it rests on persuasion rather than on any built-in triggering process. The essence of the Fund's role thus continues to be to analyze, to inform, and to counsel. In fulfilling this role, we shall continue to have three goals in mind: to provide the countries in question with an objective and frank evaluation of their policies; to focus the attention of each country on the consequences of their actions for the others; and to ensure that the interests and aspirations of the rest of the world are considered. In all this, our watchword will be growth--orderly growth--and we will be particularly mindful of the declaration in Venice that additional action will be required if, in the near future, this should prove insufficient.

Maintaining stable conditions in exchange markets will, of course, be extremely important if we are sustain adequate growth in the industrial world. Much is already being achieved here. The Plaza and Louvre accords attest to the importance that major countries attach to greater stability in currency relationships, and the Venice summit could not have been more explicit in its support for this objective. As we look ahead, exchange rates are precisely one of the performance indicators on which our surveillance work is to be focused. It goes without saying that we will not fail to take into account the important contribution that their stability and--when necessary--their orderly adjustment can make to growth and to world economic balance.

In the final analysis, the effectiveness of surveillance is, of course, a matter of political will. But rules and procedures can be important, in that they provide a structure for common thought and action by sovereign governments, which know that none of them can solve its present difficulties by itself, which agree to comply with the judgment of its partners, and which recognize that solutions to problems that are beyond the reach of any one of them must be sought jointly by all. It is in this sense that the practical application of the indicators approach promises to go far beyond a narrowly technical exercise. By giving a sharper focus to the analysis and providing a benchmark against which policy recommendations can be made more compelling, indicators enhance multilateral surveillance and can promote the kind of conditions in the industrial countries that are of benefit to all and conducive to more durable growth in the developing world.

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These are, Mr. Chairman, our objectives, our priorities and the principles which guide us. I would hope that I have convinced you that, with this approach, the Fund best serves the objectives that you have assigned to the seventh session of the United Nations Conference on Trade and Development.