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Statement of the Fund's Representative
to the 36th Session of the
UNCTAD Trade and Development Board

October 10, 1989

Thank you, Mr. President. The Managing Director of the Fund already has extended his warmest wishes to you upon your election and to UNCTAD upon its 25th Anniversary. I am honored to be able to join in these wishes and to contribute to the debate during this Anniversary meeting of the Board. Mr. President, this decade, and particularly the past couple of years, show a remarkable record: we have seen not only an extended period of growth in large parts of the world, coupled with a strong expansion of international trade, but also a convergence of policy thinking among countries that has been unparalleled during the existence of this Board. Policy makers around the globe increasingly are seeking to solve economic problems by unharnessing their greatest resource: the energies and ingenuity of their populations. Thus, it will not surprise you that during the Annual Meetings of the Bank and the Fund, which closed only ten days ago, there was unanimous acceptance that sustained progress in economic well-being requires an incentive structure that promotes the willingness to work, to invest, and to save.

This does not mean that such an economic environment is a sufficient condition for growth--but it is important that it has been accepted as a necessary condition. As noted in the latest Trade and Development Report, some of the serious problems that beset a large number of developing countries result from the fact that they have not fully shared in the benefits of the sustained expansion of world trade.

In an increasingly interdependent world, economic dislocations anywhere present a global challenge that can be met only through the joint efforts of all: developing and developed countries, public and private sectors, and the international institutions.

Let me turn to the developing countries.

First, their experience shows that it is a mistake to attempt to solve problems associated with the structure of incentives in an economy by higher levels of spending. Strategies based on spending one's way out of economic dislocation, or on further distortion of the incentive structure to maintain costly activities, have proven to be a recipe for yet more serious misallocation of resources and are undoubtedly one of the roots of the difficult debt situation of many countries.

A second point, and here we must take issue with the authors of the Trade and Development Report, is that there is no alternative to policies that aim to eliminate internal imbalances. The argument that such policies tend to be counterproductive in the absence of up front provision of



additional foreign resources and significant debt reduction is not supported by experience--it rests upon a confusion of the effects of the illness with those of the remedies. Any adjustment effort--as those of us who had the misfortune of needing physical therapy ourselves know only too well--is painful, the more so the longer therapy has been postponed and the more the process has been interrupted. The experience of many countries clearly shows the dangers of failure to address imbalances--the costs in terms of lower growth, rising inflation, and severe balance of payments problems tend to increase progressively the longer imbalances are allowed to persist. Thus, in assessing the record of experience, we must look beyond the problems that remain and look at what would have occurred in the absence of corrective efforts.

Third, the need to address internal imbalances does not mean that policies necessarily must concentrate solely--or even primarily--on demand restraint. Again the experience of countries that have been successful in achieving steady and adequate economic growth with financial stability points to the need for policies that are broad in scope and adequately balanced. While this generally requires strong monetary, fiscal, and exchange rate policies to ensure macroeconomic stability, such policies cannot be successful without carefully targeted structural measures that improve the response mechanism of the economy.

While the resumption of growth in the developing countries depends on the implementation of sound adjustment programs, such programs can bear fruit fully only if they are accompanied by adequate support from the international community at large.

Let me elaborate somewhat on this point.

First, the availability of sufficient external resources is essential, especially in the initial stage of adjustment, when countries frequently have little room to maneuver. In this context, the Fund has moved quickly to support the reduction of the debt burden for those countries where the debt overhang threatens to interfere with the success of adjustment policies. But debt reduction is only one element in the effort to bring about financial stability in debt-burdened developing countries. It needs to be used with care, so as not to become self-defeating: it must be sufficient to open the way to restoration of creditworthiness, but not be such as to turn off the resumption of essential spontaneous flows of new money. Even with continued high levels of official flows, adequate financing of growth and economic reform in indebted countries depends largely on the provision of savings by the private sector--foreign and domestic.

A second condition for the success of adjustment programs is access to overseas markets. The extended economic expansion in industrial countries, accompanied by a significant reduction in unemployment, should

have removed the main impediments to a freer trading system. However, it appears that the opposite has occurred as nontariff measures of all kinds actually have proliferated. I am sure that there has not been a single intervention at this meeting that has failed to bemoan the ill effects of protectionism both on the countries that impose restrictions and on those against which they are aimed. However, such words must be translated into actions--there is no room for complacency--lack of action will erode the adjustment efforts of debt-distressed countries, hollow out the incentive system of those countries that practice restrictions and in the end produce a "green house effect" in the international atmosphere that may prove to be virtually irreversible. Governments, therefore, must seize the historic opportunity offered by the Uruguay Round of multilateral trade negotiations, bring the Round to a successful conclusion by the end of 1990, and accompany these efforts by domestic policies that remove the rigidities that are the breeding ground for protectionist pressures.

A third condition for restoration of growth in the developing countries is continued, but better balanced, growth in industrial countries. This requires first continued vigilance to contain price pressures as capacity utilization is reaching, or already has reached, high levels. Therefore, until there is further evidence that inflation is abating, monetary policy must remain tilted toward restraint. Second, sound monetary policies must be supported by decisive fiscal actions. While many countries have obtained a better fiscal balance, deficits remain too large in a number of industrial countries, particularly in the United States. This is the more worrisome as slow progress in reducing public dissaving often also tends to erode the propensity to save in the private sector. National savings need to rise in most industrial countries, if they are to meet the challenges of the remainder of the century, which include marshalling resources to deal with the progressive aging of their populations and the protection of the environment. Obviously, this is the more urgent in those countries that already today lay a disproportionate claim on foreign savings. For them, fiscal consolidation is essential. Third, even with sound fiscal and monetary policies, growth will remain disappointing if resources are not used efficiently. This means that governments must reduce the jungle of controls and restrictions that distort private decisions, limit competition, and undermine the incentives to work, save, and invest.

For its part the Fund intends to continue to play a key role in helping the international community to reach its collective goals. As the Managing Director stressed in his message to you, we do this best when we agree not only on the nature of the problems that beset us, but also on the remedies. Thank you, Mr. President.

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