

MINISTER CALLS FOR INTERNATIONAL ACTION ON THIRD WORLD CAPITAL REQUIREMENTS

R.J.G. de Mel

Minister of Finance and Planning

(Excerpts from an address at the Commonwealth Finance Ministers meeting in Male, in October).

I have been asked today to lead the discussion on IMF and World Bank issues, issues which are crucial to developing countries, indeed to all countries, developed and developing.

Have the IMF and the World Bank fulfilled the aspirations of the founding fathers? Have the IMF and the World Bank fulfilled the aspirations of the developing countries which did not exist - which were not even conceived of when the founding fathers created these two institutions? These are difficult questions to answer without deep thought and deep consideration, and clear, unbiased and objective assessment.

My remarks today will be guided by the need to keep the torch of understanding, of co-operation and compromise aflame at a time when there is an increasing tendency towards what I may call a neo-mercantilist attitude, undermining the very spirit of multi-lateral issues we all desire, and I hope Commonwealth Finance Ministers give a lead in helping to resolve some of the very difficult problems that confront the international economy today. They cannot be solved without fully recognising the mutual interdependence that increasingly characterises the modern world.

The very idea of mutual interdependence calls for reciprocal adjustment of economies of both industrial and developing countries.

It cannot be a one way street, but the task of adjustment you all know has often been thrust only upon the developing countries. There are those who say adjustment policies are designed to bring about expenditure switching from consumption to investment. Hence, it is argued that if appropriate policies are in place, developing countries will generate more savings of their own. There are those who ask why should developing countries be given access to foreign savings? Our countries are desperately poor and income levels are deplorably low. The international economy still reflects the very pattern of economic relations that existed in the colonial era, for the most part with few changes. Whatever surpluses are generated in our countries are siphoned out through unequal trade. We do not receive remunerative prices for our exports. Tea prices, for example, are $\frac{1}{2}$ what they were six months ago. Coconut prices are $\frac{1}{3}$ or even $\frac{1}{4}$ of those of six months ago. Rubber prices have been down for two years. You can imagine what this means to countries like Sri Lanka whose major export is tea. Out efforts to bring about diversification are being stifled by increasing protectionism. In such a context unless there are mechanisms to bring about an adequate North-South transfer of resources on concessional terms, the peace and stability that has been the the very basis for post-war prosperity will be seriously threatened. Social and political instability will increase and the number of flash points that threaten world peace are likely to multiply. Apart from this, as you all know there are also very strong economic arguments, based on the enlightened self-interest of all, which favour an adequate transfer of resources. These are so well known that I will not dwell upon them.

The case for the maintenance and strengthening of the positive aspects of the internationalism that underpinned the period of sustained growth in both developing and developed countries for

three decades after World War II, is very strong indeed.

The post-war period has indeed seen prosperity unprecedented in the annals of human history. Some important questions may be raised about the distribution of this prosperity. However, we have all benefitted, albeit in varying ways. This prosperity is now under threat. Some countries have experienced a decline in real per capita living standards in recent years and serious financial imbalances threaten to destabilise even some of the strongest economies. My own view is that our response to these major problems has been inadequate. In our increasingly interdependent world you will agree that it is surely necessary for remedial measures to be collective in nature. Multilateral institutions like the World Bank and the IMF must be strengthened to cope with the new challenges and they must be given the teeth to ensure that the burden of adjustment is shared equitably, but recent experience has been quite the contrary. Developing countries have found it increasingly difficult to gain access to resources. Almost all developing countries recognise the importance of adjustment; adjustment is difficult, if not impossible, unless it is supported with adequate financing. In a context of poverty, adjustment without adequate financing often means a deepening of poverty, an increase of malnutrition and even starvation, spreading of easily preventable diseases, decline in literacy levels - I can go on almost indefinitely.

Therefore, I think it is important for us to consider the issues related to the IMF and the World Bank in this perspective. We must ask ourselves the question whether these institutions are adequately creating the conditions that facilitate orderly adjustment in a context of growth and development. While appreciating their role in promoting global development, I wish to express some serious reservations about their approach towards solving the problems of instability in the Interna-

tional Monetary System and the disparities in the International Economic System. In this context it would be very important to tackle first some of the specific issues that have arisen in regard to the Fund and the Bank. This does not mean, however, that we should ignore the need for more fundamental reform of the entire International Monetary and Financial system.

IMF Issues

I wish to focus your attention on a number of specific issues related to the fund, namely access limits, prolonged use of fund resources, arrears, special facilities, surveillance and SDRs.

At a time when other sources of financing have become more constrained, the Fund's commitments under standby-by and extended arrangements fell from an annual average of SDR 7.9 billion for the period 1980-83 to SDR 0.6 billion in 1984. It is true that this decline has taken place against a background of large reductions in the Current Account deficits of developing countries. However, I wish to point out three things:

(1) Fund support has declined more sharply than the deficits.

(2) There have been no alternative sources of finance to compensate for this adverse trend.

(3) The trend in the first half of 1985 suggests further decline in commitments.

The decrease in Fund support for developing countries seems to stem from increasing emphasis on the 'Monetary' character of the Fund, and on the 'Temporary' nature of its support for balance of payments adjustments. Our discussion today must surely consider whether this is appropriate. Such an orientation would limit the Fund's role in a host of developing countries where the balance of payments problems are of a structural nature and remedial measures a medium-term outlook. Does the Fund not wish to continue to support the very brave and politically very risky adjustment policies that have been initia-

ted by a number of developing countries?

Should the Fund limit the support it offers to adjustment policies in developing countries at a time when it could accommodate a much larger use of its resources by its members over the next year or two without being subject to resource constraints of its own?

These are important questions.

Access Limits

In this connection, it is important for us to discuss the whole question of access limits. There are those who argue that as quotas have been expanded and current account deficits reduced, access limits should also be decreased further. It is also pointed out that net drawings for most countries are well below the current access limits.

The question, however, is really whether access limits should be reduced because demand for fund resources has fallen? Surely we cannot ignore the harsh reality that confronts many developing countries today.

Many developing countries have experienced a prolonged period of exceptionally severe austerity and falling living standards. Despite severe socio-political pressures, many countries are making considerable efforts to continue to adjust their economies. Our discussions today will I hope consider ways and means of encouraging this adjustment through a judicious infusion of financing. The Fund has a central role to play in this. In the current external environment adjustment is a difficult process. There must therefore be an appropriate blend of adjustment and financing.

A reduction in Fund access limits at the present time could also give wrong signals to commercial markets thereby curtailing Bank lending further. In addition, there are a number of trends in the World economy which makes it necessary for the Fund to have

sufficient flexibility to deal with a situation that is still fraught with danger. We are not over the hump yet. For instance, even Mexico, which was considered a success story is now running into great difficulties. The growing momentum of protectionist pressures in the US is another source of uncertainty. It is noteworthy that the Managing Director of the Fund himself is of the view that the current access limits should be maintained for the Fund to have sufficient flexibility.

Prolonged Use of Resources

On the question of prolonged use of the Fund's resources we need to address the question whether it is advisable to make the Fund increasingly irrelevant to a major part of its membership, by giving undue emphasis to the short-term nature of the Fund's support.

Arrears

Many countries have been facing persistent balance of payments problems. Some countries have fallen into arrears. In such cases the volume of debt owed to the Fund and the severity of debt servicing problems have rendered inadequate the usual 90 day reprieve. Our deliberations must seek to identify more substantial relief. The option of suspending further use of fund credit would be counter-productive. It would simply aggravate problems and reduce further the capacity to repay debt, including that owing to the Fund. A pragmatic and responsive approach must be taken to the question of arrears. In my opinion an immediate step would be to stretch repayments over a much longer period.

CFF/EFF/Trust Fund

I hope our discussions will focus on how the CFF, EFF and the Trust Fund can be used to expand Fund support for adjustment in developing countries.