

# **COMMITTEE FOR DEVELOPMENT PLANNING**

## **REPORT ON THE TWENTIETH SESSION**

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STATEMENT OF THE COMMITTEE FOR DEVELOPMENT PLANNING  
AT THE CONCLUSION OF ITS TWENTIETH SESSION

As the Committee concludes its twentieth session, its members underline the deep concerns for international economic co-operation, and more especially for development, that have prevailed throughout their meeting. They do so with particular awareness of the urgent need for leadership in the international community on these matters that touch the lives of several hundreds of millions of the world's people.

Particular attention is drawn to three areas of need which the international community must urgently address and, by its responses, give hope of practical fulfilment. They are as follows:

1. There have been calls from many quarters for reform of the international monetary and financial system; but with the international community failing to respond in any significant way, that need has grown steadily more acute.

It is now 40 years since the "Bretton Woods" system provided a framework for international economic relationships in the post-war world and nearly a decade since that framework ceased to function on the premises on which it was established. During that time nations have groped towards new approaches, but without success; and no self-correcting mechanisms offer solutions. Today, there is disorder verging on chaos in several areas critical to the economic life of all nations: in currency and capital markets, in international debt and international trade, in the funding of international institutions, in international financial flows. The effect is devastating for many economies, but the heaviest burdens are falling on the weakest and poorest economies and therefore on the people within human society least able to bear that burden. The Committee does not believe that any country or group of countries is free from blame; but major industrialized countries have a special capacity to take the lead in initiating a process of change. The Committee does not attempt to offer a blueprint; there are many paths to reform. But it does urge that there is now a quite desperate need to devise a process of dialogue and negotiation along practical and manageable lines through which the interests of all concerned can be pursued and the necessary reforms agreed upon and initiated.

2. Longer-term reforms will by their nature take time, even if a beginning is made now on devising and negotiating them. However, some elements of the crisis demand immediate attention. The current situation with regard to international debt threatens the world economy and many elements within it at a level of gravity not experienced since the 1930s. The Committee does not believe that ad hoc responses on a case-by-case basis will suffice for much longer. Prevailing high interest rates are clearly one of the factors contributing to the present crisis. The Committee does not choose between the many proposals being put forward, but it urges international action which faces the generalized problem that now exists in the area of international debt and, with the involvement of all concerned, produces agreement upon equitable solutions.

3. It is within the poorest countries that human suffering is greatest. At a time of world-wide economic uncertainty and recession their plight is correspondingly, even disproportionately, enlarged. Sustained concessional

flows to the poorest countries, therefore, assume an even greater importance than usual; it is little short of an international scandal that those flows have declined in real terms and now face special jeopardy. The Committee urges the donor countries to agree upon arrangements, whether by way of supplementary funding or otherwise, for the effective replenishment of IDA VII at a level not below \$12 billion. It urges, as well, that despite economic stringencies everywhere, official development assistance, particularly to the poorest countries, should not be diminished but moved steadily towards the established targets. It is convinced that not only in the long run but in short, such assistance is not a mere act of charity but in the interest of the world community as a whole. The Committee urges the major industrialized countries to give the lead in this matter which only the world's strongest economies can provide.

The members of the Committee for Development Planning believe that without action now in at least these key areas of international economic arrangements, the present crisis will deepen rapidly and bring incalculable suffering in human and national terms. They believe also that these consequences will bring with them their quota of political instability and upheaval. The end cost, even in money terms, will far exceed what is now involved by way of enlightened response.

## I. CRISIS OR REFORM: BREAKING THE BARRIERS TO DEVELOPMENT

### A. Summary

1. While optimism may have returned in some capitals of industrial countries, the stark fact is that many countries in the developing world are struggling to contain social disintegration and potential political turmoil as living conditions deteriorate. Here are summarized a number of concrete measures which would not only be in the interest of developing countries, but safeguard the world economy and the world community as a whole.

\* \* \*

2. A strategy must be found to deal with the debt problem. The debt crises are too numerous to be dismissed as isolated accidents. The impact of the recession of 1980-1982, with its unprecedentedly high interest rates, the second oil-price shock, the slump in raw materials prices, and the mounting protectionism in industrial countries put debtor countries of all descriptions under great strain. The subsequent fall in oil prices added many of the oil-exporting countries to the list.

3. With only very limited resources at its disposal, the IMF has pursued a policy of adjustment on a case-by-case basis, making its support conditional on measures that largely restrict demand. But at present, the contractions in many third-world countries involve excessive social and human costs, often with serious repercussions for nutrition, health, and basic education. Contraction and adjustment tend, if anything, to be opposites, as contraction reduces the incentive to invest which is indispensable to structural adaptation. Moreover, import restrictions reduce demand and production in other countries, and simultaneous curtailment of imports in a great many countries goes a long way towards explaining why the present recovery is not spreading as might otherwise have been expected.

4. When approval of adjustment programmes by the International Monetary Fund (IMF) is the prerequisite for World Bank finance and for loans in the private market, the Fund's insistence on extreme austerity, which secures foreign exchange at the expense of profits, investment and growth, is misplaced. An important part of the solution lies in a new and significant increase in Fund quotas designed to restore the Fund's resources in relation to world trade to the level of the 1960s. An enlargement of the Compensatory Fund Facility and a reformulation of its criteria may be the most appropriate measure to improve the liquidity situation of the poorest countries.

5. As for the World Bank, there is need for substantial increase in the annual lending programme and hence in its net transfer. This can be achieved in any one of several different ways, none of which would lead to substantial burdens on the taxpayers of the developed countries.

6. Clearly, it is highly desirable that interest rates should be much lower. But the controversies surrounding the monetary policy of the United States of America are well known. An easing of the monetary policy is not likely to be contemplated unless the structural deficit in the United States government budget can be reduced.

7. Debt relief can take many forms. A number of proposals have been put forward, most recently that of capping interest payments, for example, setting an upper limit on them and adding unpaid interest to principal, perhaps also extending maturities; they all deserve careful attention.

8. If adjustment is to be achieved by export expansion, surplus countries must allow their imports to increase. In the North, Governments should mobilize more effectively political constituencies (e.g., consumers, exporters, international bankers) in support of open trade. They need to promote a new round of North-South trade negotiations that will, in particular, settle the unresolved "safeguards" issue left over from the previous round and subject quotas and other non-tariff barriers to far more effective international discipline.

9. The IMF is already following the rise of trade barriers with close attention. It would be a logical extension to introduce in its conditionality principles some attention to import restrictions of other countries which impair the export prospects of the country with which the Fund negotiates a programme.

10. The resolution of the problems created by the debt overhang is a prerequisite for any resumption of large-scale bank lending, just as the latter is indispensable to a smooth absorption of the problems raised by the existing debts.

\* \* \*

11. In addition to the need for external financing of structural adjustment and development projects there is also a need to restore the reserves of developing countries which have fallen to dangerously low levels. We believe that the time has come for a substantial new allocation of special drawing rights (SDRs). It would seem less inflationary than other ways to increase reserves, as it increases the reserves of central banks without increasing the money assets of the private sector. To alleviate lingering fears of this kind and to assure that SDR allocations will be held as reserves rather than used for regular loan finance, consideration might be given to reintroduction of the reconstitution provision, though over a longer term than in the past.

\* \* \*

12. Development assistance on concessional terms to the least developed and other low-income countries from all groups of donors have virtually stagnated, while needs have increased and alternative sources diminished. The current situation of the International Development Association (IDA), the world's largest programme directed to the needs of low-income countries, is particularly alarming. Although there is ample evidence of the capacity of IDA to use its resources effectively, the agency has been forced to contend with delays and reductions of previously pledged contributions. The special effort now under way among most IDA donors to bring the total resources of a seventh three-year replenishment closer to \$12 billion is critically necessary. It should proceed with or without the support of the United States.

13. In assessing foreign aid projects financed by official development assistance, it should be recognized that most projects are in fact designed and managed by private companies and consulting firms contracted by official aid agencies. This



is, in fact, an additional channel for the transfer of technology and the involvement of the private sector.

\* \* \*

14. Special attention should be given to the serious position of sub-Saharan Africa. Incomes in most countries have been falling steadily for a decade now: in many they have dropped below the levels of the mid-1960s. Severe financial difficulties have been compounded by crippling droughts and have contributed to political instability. Starvation is already widespread and the food crisis afflicting more than 20 countries is diverting 25 per cent of concessional aid into food imports. Unless agricultural productivity can be increased substantially, this share will rise in 10 years, to 60-70 per cent.

15. It would be a mistake to see Africa's problems as merely the result of weaknesses of development policy or action within Africa itself. Market access and, in particular, mitigation of the devastating fluctuations in commodity prices and/or better compensatory cushioning of commodity earnings are important. More flexible, structural-adjustment-oriented IMF conditionality could be of crucial help. More abundant and more flexible official development assistance (ODA) is essential in the near and medium terms. Surely the world needs, without delay, to get on with this component of its agenda.

\* \* \*

16. Specific measures in these four areas need to be taken in the context of the general demands for policy change which global recovery calls for in the difficult times ahead. The loss of the broad consensus on macro-economic policies which used to prevail among major industrial countries has been detrimental to the whole world economy. These policies must not be inconsistent with accepted common objectives nor have negative repercussions on other countries.

17. Improvements in economic management that most developing countries need concern the efficiency with which they use resources, whether the latter are internally or externally supplied. Here there is great scope for more, and better targeted, policy effort. Some problems can be solved more quickly than others, but all of them deserve priority attention by Governments bent upon recovery and development.

18. It is already widely recognized that the international monetary and financial system is not working satisfactorily. Some would even say that it is in the deep crisis. There are many paths to reform. The Committee believes, however, that the goal of reform must be accepted and that the journey towards it must begin in a systematic way, bearing in mind the needs in the interrelated areas of money, finance and trade.

19. Most pressing of all is the need for a preparatory process - small and manageable, yet representative of all interests - that will begin an effective dialogue and prepare the way for negotiation and action. The best must not be made the enemy of the good, either in the area of substantive change or that of the procedures by which it may be agreed. The alternative to genuine compromise is stalemate and the still further deferment of reform. That deferment is too high a price for the world's people to pay, and they are the ones who ultimately pay in human terms.

## B. The state of the world economy

### 1. A lopsided recovery

20. Despite a measure of recovery in some industrial countries, a deep malaise persists in the world economy as a whole. The upturn came first in the United States where it has also been the strongest, but it has been felt in other parts of the world economy too (see table below). Some developing countries in southern and eastern Asia have resumed growth in 1983 at rates allowing for significant increases in per capita output. The centrally planned economies, where the slow-down was never as deep as elsewhere, continued to record more rapid growth (in material output) than other groups of countries.

World production: annual change from 1976 to 1983, by country group  
(Percentage)

	1976-1980	1981	1982	1983 <u>a/</u>
<u>Gross domestic product</u>				
World	3.9	1.7	0.8	2.2
Developing countries	5.2	1.6	0.5	0.0
Developed market economies	3.5	1.5	-0.2	2.0
Centrally planned economies <u>b/</u>	4.3	2.4	3.7	4.3

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

a/ Preliminary estimates.

b/ Net material product; including China.

21. But in most countries recovery remained weak or absent. In Western Europe, output in 1983 was barely 1 per cent higher than in 1982, and in the developing countries of Africa and Latin America only population continued to grow, while output was stagnant in Africa and declined in Latin America.

22. In the past, higher rates of growth of world output have been accompanied by even greater increases in the growth of world trade, but after contracting in 1982, world trade improved only slightly in 1983. This was due mainly to the uneven pattern of the recovery, as imports rose only where the recovery was marked, but were stagnant or fell elsewhere.

23. There were many reasons why growth did not reach out as in the past. In the case of the developing countries, however, the fundamental barriers to their participation in international recovery were simple:

(a) The export earnings of heavily indebted countries were drained off into greatly increased debt service payments. Flows of new lending from financial markets fell off sharply and those of concessional aid declined as well;

(b) Protectionist obstructions reduced their export earnings;

(c) In order to honour debt service obligations, imports in many countries were cut with unprecedented severity, though at heavy costs in living standards, employment, output and public services. This, in turn, has hit back at exports from industrial countries and weakened the recovery there.

24. While optimism may have returned in the capitals of some industrial countries, the stark fact is that many countries in the developing world are struggling to contain social disintegration and potential political turmoil as living conditions deteriorate.

25. Our report will explain these barriers to world development in greater detail and propose a number of concrete measures which would not only be in the interest of the developing countries but safeguard the world economy and the world community as a whole.

## 2. The policy mix in developed countries

26. It has been an achievement of the major industrial countries to curb inflation, especially in the United States, the United Kingdom of Great Britain and Northern Ireland, the Federal Republic of Germany and Japan, where it was below 5 per cent in 1983; but unemployment has remained high, and so far, except in the United States, the signs of improvement are still weak.

27. Nominal interest rates have declined, but not as fast as inflation. The exceptionally high real rates of interest are a cause of widespread concern. They retard investment and contribute to the structural deficits in government budgets that trouble most industrial countries and raise the question of how they will meet the next cyclical downturn.

28. Although all Governments in developed countries are committed to tight monetary and fiscal policies and declare themselves anxious to reduce government deficits, the mix of monetary and fiscal restraint varies from country to country.

29. In recession, government deficits have two components. One is due to the recession itself, which reduces revenues; it also sets in motion government spending to relieve the distress of unemployment. It is cyclical and vanishes when the economy turns up. The other component is structural: it measures the deficit which existing tax and spending statutes would produce under conditions of full employment.

30. In the United States at present, about half of the government deficit may be termed cyclical. It serves to stabilize the economy of the United States and the world. But the rest is structural, and according to current projections it is growing rapidly.

31. The integration of international capital markets is such that interest rates in the United States have a decisive influence on the whole world economy, and the

monetary and fiscal policies of the United States are therefore matters of world concern.

32. In contrast to the United States, most western European countries pursue tight fiscal policies. Moreover, the present cyclical recovery will not by itself resolve the many structural crises besetting many basic industries in western European countries.

33. The economic relations among developed countries have also been severely troubled by the failure of the international monetary system to resolve economic conflicts among them. The exchange rates of major currencies have been unstable and misaligned, and the climate of international currency uncertainty has discouraged investment.

### 3. Development deadlocked

34. In developing countries both the current situation and the outlook for the rest of the decade are profoundly alarming. With few exceptions, development has come to a halt or gone into reverse. The financial contraction, high interest rates, depressed commodity prices, and weak export demand has meant lower living standards, massive unemployment and political destabilization.

35. Most Latin American countries are caught in a debt trap. Incomes have been cut sharply in order to reduce demand and meet greatly enlarged debt service payments. Non-oil imports have been cut down by 50 per cent and more and the balance of trade has swung into substantial export surplus, but this is more than offset by rising interest obligations. The import cuts have reduced employment and output, and since 1980 standards of living have slipped back towards those of 1970. In Brazil, for example, average incomes fell by 17 per cent between 1980 and 1983; to restore the 1980 levels by the end of the decade would, in view of the growth of population, require 6.5 per cent growth in gross national product (GNP) between 1984 and 1990. The devaluation-inflation spiral has pushed inflation in some countries into three digits. Elsewhere relative price stability has been attained but accompanied by mass unemployment.

36. In Africa, severe financial difficulties have been compounded by crippling droughts and have contributed to political instability. Incomes in most countries in Africa south of the Sahara have been falling steadily for a decade now: in many countries they have dropped below the levels of the mid-1960s. The food crisis afflicting more than 20 countries is diverting 25 per cent of concessional aid into food imports. Unless agricultural productivity can be increased substantially, this share will in 10 years be raised to 60-70 per cent. Commodity prices, which are of decisive importance to most African economies, have picked up slightly from their trough but remain, in real terms, below the levels of the late 1960s and are not likely to improve very much in the foreseeable future.

37. South Asian countries are not saddled with large short- and medium-term debts and have not been so severely hit by the recent financial and monetary upheavals in the world economy. However, they still contain the largest number of people in absolute poverty in the world economy, and development assistance resources to them have been curtailed in real terms. The rapidly industrializing countries in eastern Asia have had their exports slowed by the recession and tightening protectionism in industrial countries.

38. Falling oil prices have given some relief to oil importers in the developing world as well as to industrial countries, but in some oil-exporting countries they have triggered severe financial crises and in all of them they have led to deep import cuts. Between 1982 and 1983, imports were reduced by as much as 50 per cent in Mexico, Nigeria and Venezuela, and by 25 per cent in Cameroon and Ecuador.

39. Although many developing countries have suffered from inadequacies and mistakes in their management and economic policies, their present difficulties are largely the result of unforeseen external developments beyond their control. At present, the severity of their adjustment burden outweighs any impulses to recovery that they receive from the North.

40. The economic contraction in developing countries also strikes back at the industrial countries. Largely due to it, the United States alone lost \$18 billion of exports to developing countries between 1980 and 1982, which, according to the Overseas Development Council, eliminated approximately 600,000 jobs. Between 1982 and 1983, imports of developing countries from industrial ones were cut by \$43 billion. It is estimated that growth rates in developed countries would have been .50 per cent higher in 1983 if those exports had remained at their 1982 levels.

#### C. The outlook under existing policies

41. The numerous projections of world economic prospects that have been produced by international organizations in recent months show great convergence. They all agree that in spite of the upswing in the industrial countries, the prospects for developing countries are bleak, and in some cases ominous, unless some serious hindrances to the resumption of expansion in the world economy are removed.

42. The recovery in the United States is quite brisk. Its spread to investment was slowed by high interest rates and by the slack in the United States export and import competing industries to which the overvaluation of the dollar (itself partly induced by high interest rates) is heavily contributing. Meanwhile the spread of the recovery in western Europe remains uneven. The fiscal policies resorted to in western Europe in order to contain inflation and to reduce the large deficits in public finance and foreign payments retard the recovery, and - as in the United States - there are fears that growth might lead to overheating and renewed inflation. The Japanese economy, though in better shape, is still well below its historical norm of growth. In addition, the co-ordination of macro-economic policies that could enhance the prospects for coherent growth among the member countries of the Organisation for Economic Co-operation and Development (OECD) is severely hampered by the volatile swings of exchange rates, especially of the dollar, that have characterized the past several years and appear likely to continue.

43. On a more fundamental level, it seems likely that the unprecedented OECD growth of the 1950s and 1960s was an exceptional phenomenon rather than a new norm. <sup>1/</sup> The western European economies have an accumulation of institutional inflexibilities and needs for structural adjustment. Since the mid-1970s they have tended toward low investment and low productivity gains.

44. The spread of OECD recovery to the third world also appears less reliable this time than during the past two or three decades. The forces of protectionism have been stronger and, as a consequence, developing country exports to the North have

not responded to the present upturn as in the past. The uncertain scenario for northern recovery includes no assurances of a significant drop in real interest rates, and lacking this - or more explicit forms of debt relief - debt servicing will, in many developing countries, consume most of whatever new external resources come to hand.

45. What is in store for the developing countries for which the trends are most unfavourable is not a slow-down of growth nor a brief bout of austerity. They have already been through wrenching reductions in living standards, losses of jobs, increasing malnutrition and an adjustment process that for many takes place at the margin of life and death. On the assumption of present policies, they can expect little relief, and at worst further deterioration.

46. In financial terms, the situation is most dramatic in the debt-ridden Latin American countries, and this implies a deterioration in social conditions which could not fail to have regrettable political consequences. In sub-Saharan Africa, the threats to human survival are even greater: starvation is already widespread and would threaten to get worse in many countries. The outlook is not much better in the poorest Asian countries.

47. The outlook for most of the countries of eastern Asia and South-East Asia has a number of more promising features. But present prospects for development assistance totals and allocations (including those between bilateral and multilateral modes of aid) will leave the two most populous countries of Asia, India and China, comparatively bereft of concessional flows, despite the strength of their low-income case for such transfers and their ability to use them efficiently. Development assistance prospects are also limited and debt and trade prospects difficult for the other South Asian countries. And the oil exporters, too, especially the more populous ones, face a relatively adverse medium-term outlook.

48. Taken as a whole, the world economic outlook for the balance of the decade is thus thoroughly unacceptable. The prospects are for worsening economic conditions for a large part of the world and a great deal of turbulence and insecurity. We urgently need a programme of feasible policy changes to reverse this trend.

#### D. Needed changes in national and international policies

##### 1. Introduction

49. The deep recession of the last few years already seems to mark the end of an era of international economic co-operation and the beginning of another. The economic interdependence of all countries in the world economy is closer and more compelling than ever, but political forces, partly due to the recession itself, seem to pull them apart in spite of their joint interest in maintaining a stable and dynamic world economy.

50. In this and the following sections we shall examine some general demands for policy change which global recovery calls for in the difficult times ahead and make recommendations for measures of high and immediate priority.

## 2. Economic policies in the developed countries

51. Only a few years ago, discussions of international development strategy tended to focus only on third world development, and sometimes it was even suggested that it might be desirable to slow down the growth of the industrialized economies in order to retard the depletion of the planet's non-renewable resources.

52. However, the intervening experience with adverse North-South interdependence has demonstrated how decisively northern contraction can pull down the South and how unlikely a satisfactory resumption of southern expansion would be without substantial recovery in the North. Northern stabilization and growth efforts, therefore, have become integral components of any persuasive global development strategy.

53. Recovery is now under way, although Governments are still refraining from any measures that might rekindle inflation. Severe imbalances prevail in international payments and major exchange rates remain misaligned. Two needs stand out. First, international co-ordination of macro-economic policies must be improved so as to make it possible to shift towards more expansionary policies when the present upswing begins to flag. The loss of the broad consensus on macro-economic policies which used to prevail among major industrial countries has been detrimental to the whole world economy. Second, there is an urgent need to reduce real interest rates in major industrial countries and thus in the international economy generally. At the moment the outlook is rather for the opposite. In the spring of 1984, United States interest rates have again moved up. Yet, as we argue more fully in the next section, without a reduction in interest rates the third world debt problem will become even more intractable.

54. What is at issue is the mix of fiscal and monetary and trade policies. Present rates of interest are way out of line with historical experience and render international debt situations unmanageable. A reduction of United States interest rates would greatly improve the prospects of the world economy, but this is not likely to occur unless the Government of the United States takes measures to deal with its growing structural fiscal deficit.

55. The trade policies of developed countries are also crucial to world recovery, particularly at a time when developing countries have to expand their exports to meet their debt obligations and restore their creditworthiness. Protectionism in developed countries not only undermines the momentum of recovery, but also makes it more difficult for developing countries to undertake the structural adjustments necessary to overcome their present imbalances.

## 3. Economic management in the developing countries

56. There are a number of cases where developing countries need to reduce unsustainable payments deficits externally and achieve greater fiscal and monetary discipline internally. Yet sheer austerity cannot be the objective of developing countries' economic management. In the past three or four years the oil-importing developing countries have made strenuous adjustment efforts, pushing up the volume of their exports to the OECD countries despite the recessionary conditions in the latter, and sharply reducing their imports. Their efforts to reduce external deficits have been frustrated by the erosion of their terms of trade as well as by ballooning debt service and the impact of OECD recession and protection on the

volumes of their exports. Many developing countries can now ill afford the social strains and deepening of poverty that would result from further contraction of demand. Nor will further contractionary demand adjustments be helpful world-wide in view of their negative repercussions on global recovery. If such contractions are to be avoided, it will of course require additional flows of external finance.

57. Instead, the improvements in economic management that most developing countries need concern the efficiency with which they use resources, whether the latter are internally or externally supplied. Here there is great scope for more, and better targeted, policy effort, whether the developing country is large or small, less poor or very poor, and whether it leans toward private, public or mixed patterns of enterprise. Shortages of managerial and other skilled manpower reduce the effectiveness with which large ventures, whether public, parastatal or private, are operated. Some of these problems can be solved more quickly than others, but all of them deserve priority attention by Governments bent upon recovery and development.

#### 4. The system of international co-operation in money, finance and trade

58. It is already widely recognized that the international monetary and financial system is not working satisfactorily. Some would even say that it is in deep crisis. Yet there is little agreement on the nature of the reform that should be sought or on the ways to achieve it. Some think of a "new Bretton Woods", although only as the culmination of a long and arduous process of preparation and negotiation; others find gradualism and piecemeal change the only feasible approach. A few even conclude that the qualitative differences between developed and developing economies are too great for a global system and therefore urge the "delinking" of developing countries.

59. Although we make some concrete proposals for change in the next section, we offer no single blueprint. There are many paths to reform. We believe, however, that the goal of reform must be accepted and that the journey towards it must begin in a systematical way. Some work is being done. The study and re-examination of the monetary system with a view to its improvement is under way in different unco-ordinated quarters, including the Interim Committee of the IMF, the Group of Ten and the Intergovernmental Group of Twenty-four on International Monetary Affairs, as well as the Consultative Group on International Economic and Monetary Affairs (Group of Thirty). In addition, the Commonwealth has created a capital Group of Eight and, following the New Delhi Conference, 2/ the Movement of Non-Aligned Countries have created a Group of Five. But these separate efforts are not a substitute for collective action.

60. We do feel concerned, moreover, about the present separation between issues of trade, on the one hand, and international monetary and financial matters on the other. They are closely linked, and the World Bank and the IMF are giving increasing attention to trade policies and the spread of protectionism. Yet, the principal discussions and negotiations take place in different forums. Proposals have been made for the creation of an international body where these interrelated issues could be dealt with simultaneously.

61. We feel that there is a need to harmonize this sprawling process of re-examination of the international economic system and to bear in mind simultaneously the needs in the interrelated areas of money, finance and trade.



Most pressing of all is the need for a preparatory process - small and manageable, yet representative of all interests - that will begin an effective dialogue and prepare the way for negotiation and action. The best must not be made the enemy of the good, either in the area of substantive change or that of the procedures by which it may be agreed. The alternative to genuine compromise is stalemate and the still further deferment of reform. That deferment is too high a price for the world's people to pay, and they are the ones who ultimately pay in human terms.

#### E. The debt crisis and development finance

##### 1. The debt overhang

62. For many years, the guardians of the international financial system have been insisting there was no general debt crisis but only a number of individual country situations, each different, but all liable to improvement when the world economy revived.

63. There has also been a widespread inclination to ascribe the present difficulties of debtor countries to their lack of prudence or inadequate economic policies. The banks are also being blamed for the folly of lending vast amounts to countries which now find it difficult or impossible to honour their obligations.

64. It should by now be very clear that such views of the problem are grossly misleading. The debt crises are too numerous to be dismissed as isolated accidents, or as involving only a few major debtor countries in Latin America. In 1983, there was a wave of restructuring involving 30 countries' commercial debts and 17 countries' official debts. Altogether some \$70 billion of debt service was rescheduled in 1983, which was 10 times as much as in 1981 and 1982 combined. Of the 22 largest developing country debtors, 10 are Latin American, but 7 are African, and 5 Asian.

65. The universality of the debt crisis is not difficult to understand. While there have been, in many or even most countries, developed as well as developing, mistakes and errors of judgement in their management and economic policies which are at least readily detected in the light of hindsight, the present difficulties of the indebted countries in the developing world are indisputably largely the result of unforeseen external developments, which were beyond their control and which were not anticipated by their creditors either. The combined impact of the recession of 1980-1982, with its unprecedentedly high interest rates, the second oil-price shock, the slump in raw materials prices, and the mounting protectionism in industrial countries put debtor countries of all descriptions under great strain. The subsequent fall in oil prices added many of the oil-exporting countries to the list.

##### (a) The adjustment process

66. Many debtor countries have made great efforts to increase their exports, but this is not easily done quickly, so the brunt of the adjustment has been import cuts, both by the restriction of demand and by devaluation and controls of imports and foreign exchange.

67. Such efforts to restore the balance of payments are often referred to as adjustment, but this is a misnomer. All too often it amounts to a mere suppression of growth which damages future development prospects more than it promotes them.

68. Moreover, import restrictions reduce demand and production on other countries, and simultaneous curtailment of imports in a great many countries goes a long way towards explaining why the present recovery is not spreading, as might otherwise have been expected.

69. There is undoubtedly much scope for measures to achieve economy and efficiency in both public and private sectors, and such opportunities should of course be taken. But at present, the contractions in many third-world countries involve excessive social and human costs, often with serious repercussions for nutrition, health and basic education. Genuine adjustment to a new international economic situation must involve structural change over a number of years. Contraction and adjustment tend, if anything, to be opposites as contraction reduces the incentive to invest which is indispensable to structural adaptation. If adjustment is to be achieved by export expansion, surplus countries must allow their imports to increase.

70. One of the purposes of the IMF, enshrined in its Articles of Agreement, is to mitigate world depression and enable member States to ride it out without excessive suffering. Today the Fund's resources have been eroded in relation to the growth of world trade and capital movements, leaving it unable to perform more than a part of its task.

71. With only very limited resources at its disposal, the IMF has pursued a policy of adjustment on a case-by-case basis, making its support conditional upon measures that largely restrict demand. While this would be appropriate for individual countries whose difficulties are primarily due to excessive domestic demand, it is inappropriate at a time of disequilibrium and general recession, when a concerted reduction of import demand is bound to be prejudicial to the world economy as a whole.

72. When IMF approval of adjustment programmes is the prerequisite for World Bank finance and for loans in the private market, the Fund's insistence on extreme austerity, which secures foreign exchange at the expense of profits, investment and growth, is misplaced. The logic of the IMF's global task should instead imply an increase in the facilities of the Fund to meet needs arising where a country goes into deficit for reasons beyond its own control.

73. Adjustment, as frequently recognized by the Fund itself, calls for longer-term financing than normal Fund programmes and for more quickly disbursing funds than normal World Bank projects. Both these institutions have moved in the direction required to meet the needs, but their resources are inadequate.

74. An important part of the solution lies in a new and significant increase in Fund quotas, designed to restore the Fund's resources in relation to world trade, to the level of the 1960s. Until the Fund's quota resources are sufficient to meet its obligations under the Articles of Agreement, it should be permitted to borrow from Governments and, if necessary, from private markets.

75. An enlargement of the Compensatory Fund Facility and a reformulation of its criteria may be the most appropriate measures to improve the liquidity situation of the poorest countries. The inadequacy of the present system is apparent - in 1982, net drawings from the Compensatory Fund Facility, limited by quotas and the criteria for eligible shortfalls, were less than one-tenth of the shortfall of those countries.

76. As for the World Bank, it has responded to the need for structural adjustment lending, and more than 40 per cent of its lending is of a non-traditional character. But the need is for additional amounts of medium- and long-term financing. With a gross disbursement of non-concessional flows of \$12 billion the World Bank today achieves a net transfer of only \$1 billion. On present trends it would in a few years be a net recipient, which is not an appropriate role for it. There is need for substantial increase in the Bank's annual lending programme and hence in its net transfer. This can be achieved in any one of several different ways, none of which would lead to substantial burdens on the taxpayers of the developed countries.

(b) Debt relief and the interest rate

77. The interest rate and the growth of export earnings determine whether a debt situation will be sustainable or not in the long run. If export earnings increase rapidly, interest charges will not impede import growth and there may be room for new net borrowing. But if export earnings do not grow fast enough, interest payments will cut into import potential and further borrowing to maintain import levels will rapidly escalate the debt service burden beyond control.

78. Many scenarios have been analysed by the IMF and others to assess whether the debt burdens will be sustainable and whether they will permit renewed growth. If growth in industrial countries rises in the remaining years of the 1980s, if interest rates fall steadily, if protectionism does not get worse, and if flows of capital to developing countries from all sources - bank loans, direct investment - resume adequately, the debt could be carried, and growth in developing countries would not have to be cut back below that of the last decade, or 4.5 per cent. Few of these premises are very likely to be met without a radical shift in industrial country policies.

79. The most important element is the interest rate. At the moment, however, the expectation seems to be that United States interest rates will not come down quickly but may, at least in the near future, continue to rise, perhaps even sharply. Between February and May the increase has been such that, were it to be sustained it would add over \$4 billion to their annual debt service charges.

80. Clearly, it is highly desirable that interest rates should be much lower. But the controversies surrounding United States monetary policy are well known. An easing of United States monetary policy is not likely to be contemplated unless the structural deficit in the United States government budget can be reduced. One can only welcome the decision to open up the Japanese capital market. A greater flow of funds from the yen market, and from other hard currency markets, will make flows of finance available at somewhat lower interest.

81. None the less, there is a need for debt relief that must be faced. The debt rescheduling exercises of the last few years, which reschedule debt service on an annual basis, seem increasingly inadequate to meet a problem that will be with us until ways are found to consolidate much of the present debts on a long-term basis.

82. Debt relief can take many forms. A number of proposals have been put forward, most recently that of capping interest payments, for example, setting an upper limit on them and adding unpaid interest to principal, perhaps also extending maturities; they all deserve careful attention.

83. Whatever form debt relief takes, it must contribute to restoring conditions in which commercial lending can be restored at appropriate levels.

84. The difficulties of organizing debt relief on the necessary scale are evident. It is to be welcomed that central banks, together with the international financial organizations and creditor banks, are now exploring the possibilities. The IMF, the World Bank and the Bank for International Settlements should take the lead in assuring that such discussions continue. Debtor countries are similarly discussing possibilities of joint action. The joint declaration on the problem of external debt by the Presidents of Argentina, Brazil, Colombia and Mexico, issued on 19 May when this report was being concluded, speaks authentically of the gravity of the debt situation. Their collective voices demand attention.

85. Unless progress is soon made on this issue, there is a great risk that turbulence and uncertainty will impair all prospects of renewed growth for a long time to come.

(c) The need to restore the flow of new funds

86. Underlying the acute distress of the countries which now live in lasting debt crisis is the sudden drying up of funds from commercial banks. The banks rushed into development finance in the middle of the 1970s when it was attractive; many of them are trying to withdraw now that there is trouble. Such lending as is still going on is for the most part involuntary. Interest and repayment in 1983 exceeded new medium- and long-term loans from such sources by about \$21 billion.

87. Whether a resumption of flows of bank loans on a significant scale is likely for some time to come is an open question of immense consequence. Whether it is desirable to rely on as large a component of bank loans is yet another question.

88. The resolution of the problems created by the overhang is a prerequisite for any resumption of large-scale bank lending, just as the latter is indispensable to a smooth absorption of the problems raised by the existing debts.

(d) Trade policies

89. Far more than routine effort will be needed to reverse the inroads on the openness of the international markets that protectionism has made during the post-1979 recession. In many labour, industrial, and political circles in the North, trade restraints have acquired new respectability. Non-tariff barriers have proliferated. There has been no net improvement in the openness of agricultural trade. The GATT Ministerial Conference of November 1982 was disappointing; it never went sufficiently beyond intra-OECD disputes to give much attention to North-South issues. For their part, the developing countries collectively were inactive and ineffective in pressing their cases and they have made little progress in sorting out trade policy issues among themselves.

90. In the North, Governments which recognize that access to OECD markets is indispensable for many developing countries seeking to resume their growth and service their debts, and which, at the same time, recognize that revival of exports to the third world is important for recovery in the OECD itself, should resist all further encrustations of trade obstacles. They should also mobilize more effectively political constituencies (e.g. consumers, exporters, international bankers) in support of open trade. Reaching across the conventional cleavage

between the groups of countries, they need to make common cause with interested developing countries to promote a new round of North-South trade negotiations that will, in particular, settle the unresolved "safeguards" issue left over from the previous round and subject quotas and other non-tariff barriers to far more effective international discipline.

91. The IMF is already following the rise of trade barriers with close attention. It would be a logical extension to introduce in its conditionality principles some attention to import restrictions of other countries which impair the export prospects of the country with which the Fund negotiates a programme.

## 2. A new issue of special drawing rights

92. In addition to the need for external financing of structural adjustment and development projects there is also a need to restore the reserves of developing countries which have fallen to dangerously low levels. The Committee believes that the time has come for a substantial new allocation of SDRs. A principal reason for this is that it would allow developing countries to restore their reserves without having to achieve even larger payments surpluses. Larger reserves would increase their creditworthiness and facilitate the attraction of new capital.

93. The purpose for which the SDRs were intended was precisely to be held as reserves, rather than to spend. Article XVIII states that allocations of special drawing rights by the IMF should

"seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world".

94. Objections to a new SDR allocation have long been based on the fear that it might be inflationary. However, there is not much reason to believe that an SDR allocation could be inflationary, provided that it does not exceed the demand to hold reserves. It would rather seem less inflationary than other ways to increase reserves, as it increases the reserves of central banks without increasing the money assets of the private sector. To alleviate lingering fears of this kind and to assure that SDR allocations will be held as reserves rather than used for regular loan finance, consideration might be given to reintroduction of the reconstitution provision, though over a longer term than in the past.

95. A new allocation of SDRs would thus serve to increase reserves in a large part of the world without the need to transfer resources or borrow.

## F. The least developed and other low-income countries

### 1. Official development assistance

96. The poorest countries are feeling the full brunt of the world economic downturn, often compounded by natural disaster. In recent years, they have suffered from falling commodity earnings, dramatic terms of trade declines, massive unemployment and a declining quality of life (from an already low base) as measured by almost every index. Although the debt situation of the low-income countries is

overshadowed by that of the middle-income countries, many of them have been exposed to similar devastating increases in debt-servicing obligations in relation to their capacities.

97. The response, or lack of it, to the new and acute hardships of the low-income countries has been distressing. Overall volumes of official development assistance (ODA) from all groups of donors have virtually stagnated, while needs have increased and alternative sources diminished. While the United States is the largest donor, the share of aid in GNP is only .27 per cent, well below the average for OECD as a whole which was .38 per cent in 1982.

98. The policy need is, first, for a greatly increased volume of concessional flows to the least developed and other low-income countries which have little sustained access to alternative sources of net external resources. This expanded volume for the poorer countries could be provided in part by reallocations of ODA away from those middle-income and better off developing countries which still receive substantial concessional flows from various bilateral donors. In practice the political resistance to such reallocation may be so strong as to make the enlargement of total aid volume an easier alternative.

99. Secondly, the contractionary crisis into which the world has descended has placed an increased premium on the usefulness of such more flexible forms of assistance as non-project, programme, sector, and commodity aid and local-cost financing. At this juncture, additional assistance in the traditional project form, to which nearly all donors have been wedded, may accomplish little because of the inability of recipients to meet bottle-neck and maintenance needs or to cover either the recurrent costs of existing projects or the needed complementary local source inputs for new projects. A shift toward more flexible forms of aid would be conducive to recovery, but the rules of the multilateral institutions inhibit it, and a number of the bilateral donors resist it. More donors can and should seek means for increasing flexibility without sacrificing either effectiveness or accountability.

100. The current situation of the International Development Association (IDA), the world's largest programme directed to the needs of low-income countries, is particularly alarming. Although there is ample evidence of the capacity of IDA to use its resources effectively, the agency has been forced to contend with delays and reductions of previously pledged contributions and, as a result of unilateral action by the United States, with the prospect of a seventh three-year replenishment at the level of \$9 billion. In real terms this means a major decline in IDA's programmes, and a virtual halving of the thoroughly-documented request for a \$16 billion replenishment.

101. This massive shortfall is a dangerous failure by the donor community and an erosion of one of the key pillars of the system of international co-operation. The special effort now under way among most IDA donors to bring the total resources closer to \$12 billion is critically necessary. It should proceed with or without the support of the United States.

102. The under-funding of IDA and of other multilateral institutions for development finance and technical co-operation (notably the United Nations Development Programme (UNDP) and the International Fund for Agricultural Development (IFAD)) is reflected in an overall reduction in the multilateral share of total ODA flows. Analyses of the effectiveness of bilateral and multilateral

ODA provide no justification for a trend toward bilateralization. The evidence rather supports the need for more efficient, effective and co-ordinated action by all agencies and host Governments, with the most proven of the multilateral channels being the best ODA investment. Multilateral assistance, not least from the multilateral development banks, has had a particularly impressive record in the poorer countries, in such key sectors as agriculture, in the overall efficiency of implementation and in the capacity to "dialogue" effectively with recipient Governments about policy improvements.

103. The trend toward bilateralization of ODA is intimately linked to two other worrying tendencies - the increasing politicization and commercialization of aid. Here again, the available evidence questions the wisdom of such practices from the perspective of the bilateral donors' own longer-term interests; moreover, such political and commercial tying of ODA undermines its developmental effectiveness.

104. In assessing foreign aid projects financed by official development assistance one should recognize that most projects are in fact designed and managed by private companies and consulting firms contracted by official aid agencies. This is, in fact, an additional channel for the transfer of technology and the involvement of the private sector.

## 2. Focus on sub-Saharan Africa

105. By 1980 the world was coming to realize that the development needs of the low-income countries of Africa south of the Sahara were in a class of their own. Since 1980 the special position of sub-Saharan Africa has become unmistakable.

106. Africa today is in crisis, although there is of course great diversity among the many countries of the continent. The economic and social situation is in many places in a process of rapid degradation. Drought and epidemics have in the last year compounded the difficulties already caused by world recession, low export prices and rising debt. Agricultural production per capita is in many countries lower than 10 or, in some cases, 20 years ago. About half of the African labour force is unemployed or underemployed. In many countries economic difficulties have fed and in turn been fed by political instability, often involving outside forces.

107. Another important change since 1980 is that collective attention by responsible authorities has been stepped up by African Governments themselves, pursuing the initiative begun in 1980, in the Lagos Plan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa (A/S-11/14, annex I), by multilateral development agencies, as for example, in the World Bank's special reports on sub-Saharan African development of 1981 and 1983, and by a number of bilateral donors. The Secretary-General of the United Nations has launched an appeal for international support of the many African countries whose economic survival is at stake. The new world awareness of the African crisis holds hopes for additional practical support.

108. It would be a mistake to assume that there is a single cause of Africa's problems, or that the causes are the same for all countries. Nor is it adequate to see Africa's problems as merely the result of weaknesses of development policy or action within Africa itself.

109. But most analyses agree on the need for priority attention to agriculture. Food production, the most serious dimension of African malperformance during the past 15 years, has become critically inadequate. Per capita food output fell off at an average annual rate of 0.9 per cent during the whole period of 1967-1982. In the past year there was severe drought over wide portions of the region. Almost half of the countries in sub-Saharan Africa face a food shortage which threatens some 150 million people with hunger and malnutrition.

110. The immediate answer to the drought has to be food. The Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP) have initiated a programme responding to the need, but with limitations imposed by inadequate pledged resources.

111. In the longer run, what is called for are supply-side measures, in which the building up of agricultural and industrial infrastructures and a skilled labour force will be decisive. Agriculture must be given the place it deserves in planning for long-term development and economic diversification. In the spirit of the Lagos Plan of Action, the expansion of education, health, electricity and transport facilities to meet rural needs should be a vital part of every plan.

112. Many African Governments need to restructure their policies so as to improve incentives for farmers and other producers, encourage exports and import substitution, and let self-adjusting market processes in selected sectors lighten the burdens of bureaucrats while protecting the welfare of the poor.

113. Many African Governments also need to increase the effectiveness of the public sector. In many African countries, increasing demands have been made on Governments to reduce vulnerability to future crises and at the same time to deal with the day-to-day demands of the immediate crises. Meanwhile, the resources available have been shrinking. The result has been a decline in administrative effectiveness. Lack of resources has caused breakdowns in communications, or failure to provide health and education services, salaries, inputs, market outlets, conservation and storage facilities for agricultural products, and so on. In many countries, imported resources, such as fuel, vehicles, books and paper, drugs, agricultural implements and fertilizer are so scarce that government services are breaking down in rural areas. To make the public sector effective, there is need for at least a minimum of imported inputs as well as for training of government personnel.

114. Forestalling a virtual breakdown of national economic systems in many African countries also requires an immediate improvement in the external environment. Market access and, in particular, mitigation of the devastating fluctuations in commodity prices and/or better compensatory cushioning of commodity earnings are important. More flexible, structural-adjustment-oriented IMF conditionality could be of crucial help. More abundant and more flexible ODA is essential in the near and medium terms.

115. There is considerable agreement, also, on the underlying difficulties and constraints that African development must overcome. Many African Governments - although by no means all - recognize that the region's high rate of population growth constitutes a heavy drag on development.



116. The importance of this point cannot be overstated. Demographic projections show that, unless presently foreseeable trends in mortality and fertility change, the population of the continent as a whole would grow from 479 million in 1980 to 1.6 billion by 2025, and level off at the end of the next century at 2.9 billion. Clearly this will not come to pass, but the figures bear out the explosive potential of population growth in the region. As yet there is little sign of a demographic transition in Africa.

117. African Governments as well as aid donors also recognize the crucial contributions that better trained and healthier personnel across a whole spectrum of skilled and semi-skilled occupations can make toward releasing constraints on regional growth. Similarly, most official actors are aware of the complexities that the exceptional multiplicity of African nation States, and the very small size of so many of them, inject into the problems of development promotion in the region. They thus recognize the need for increased subregional and regional co-operation in trade and production. They also recognize that a premium must be placed on improved co-ordination of foreign aid flows and programmes, both among donors and among groups of contiguous recipients.

118. In brief, the recovery and development needs of sub-Saharan Africa for the balance of the 1980s are extremely urgent. They are reasonably well and commonly understood. And while they cannot be solved quickly and easily, it is quite within the capacity of the international community to address them seriously. Surely the world needs, without delay, to get on with this component of its agenda.

## II. ARRANGEMENTS FOR FUTURE WORK

119. In order to improve the effectiveness of its work the Committee proposes to meet twice a year, over sessions of three days each, for a total of six days instead of the presently allocated 10 days. Present arrangements do not permit time for a careful preparation of the report and the evolution of thinking necessary to reach meaningful consensus.

120. The first session, to be scheduled in the last quarter of the year would identify the critical issues, allow for a preliminary exchange of views on the recommendations the Committee is prepared to support, and decide on the structure and main elements of the Committee's report. The Rapporteur would undertake to prepare a draft report based on the guidelines provided by the Committee at its first session. The draft report would be submitted to Committee members well in advance of the second session, to be scheduled in the first quarter of the following year. That session would permit a full-fledged discussion of the report and incorporate any new elements of the current situation which might have emerged in the intervening period.

121. The Committee hopes that the savings achieved through a shorter overall session would more than offset the additional travel cost. In order to keep this cost to a minimum the Committee proposes to schedule one of the two annual sessions in Europe, which would shorten the travel distance of most members and thus result in lower travel cost.

122. As to the future work programme the Committee has agreed on three subjects and proposes to entrust the preparatory work on them to three working groups. As in the past, the Chairman will constitute the groups and approve the experts who will assist them. The subjects are as follows:

1. North-South interdependence and multilateralism. Multilateral co-operation has made a substantial contribution to economic and social development in the post-war period. Our discussion indicates that many of the present problems in the world economy arise from the failure of multilateralism to respond to growing interdependence and changes in world economic circumstances. Additionally, multilateral co-operation for development is under threat. A recommitment to multilateralism is clearly required if multilateral development institutions are to receive the support they require to realize their full potential to assist economic and social development.

This is a broad subject that cannot be adequately covered in one working group meeting. As a first step, however, a working group will focus on critical current North-South issues, such as debt, trade and financial flows, and practical ways for improving the machinery of multilateral co-operation to deal with these issues swiftly and effectively.

2. Domestic economic policies of developed and developing countries: Their impact on development in the context of economic change. Quite apart from international co-operation for development, the domestic policies of developed and developing countries can have a critical bearing on development. Over time these policies must be adapted to meet changing economic circumstances and development needs. In its very first report the Committee for Development Planning recognized that "the economic progress of

developing countries has been retarded by a number of factors, both international and internal ...". 3/ That analysis holds. Domestic policies of developing countries are a major factor in advancing or retarding development even when constraints on policy options imposed by external factors are taken into account. The record needs to be examined in its own right.

An examination of the role of domestic policies cannot be complete and balanced if it leaves out the impact of the domestic policies of the developed countries on development and even on the domestic policies of developing countries; protectionism and interest rates are cases in point.

An issue which received much attention in our discussions is the asymmetry in international surveillance as it applies to the domestic policies of the developed and developing countries. This is an aspect which clearly requires more attention and more detailed technical work. It would be accomplished within this general subject.

This subject will also be assigned to a working group. The group may wish to focus its work on one of the three areas or assign each of the areas to smaller teams within the group.

3. Constraints on South-South co-operation. There is clear need for technical work in this area. But such work is not required, however, in relation to either the case for South-South co-operation, which has been accepted by the international community (see, for example, ECDC and TCDC programmes) and by the Group of 77 (see the Caracas Programme of Action (A/36/33 and Corr.1, annex)). Nor is work required on the principal measures or instruments of co-operation (e.g. a "Third World Secretariat", a "South Bank" etc.). What is needed is a dispassionate examination of the factors inhibiting South-South co-operation.

What are the constraints on more effective co-operation? What is delaying it on the part of developing countries themselves, and what, if any, impediments to it exist within international institutions or are created by industrialized countries? These matters are not being addressed in North-South forums. Nor are they being candidly or comprehensively addressed by developing countries at the intergovernmental level.

A working group of the Committee will deal with this subject. The Committee has already (see its reports on the last four sessions) acknowledged the importance of South-South co-operation to development and as an element of wider international economic co-operation. It has even suggested some directions that South-South co-operation might take. The working group should take as a starting point the work already done, not only by the Committee itself, but also by the regional commissions, the United Nations Conference on Trade and Development (UNCTAD), UNDP, the Group of 77 and other organizations. Building upon their work, the group should undertake a frank examination of the constraints to more effective South-South co-operation and specify measures to overcome them.

123. In connection with its work for the coming year, the Committee requests the Secretariat to commission three substantive studies on the following subjects:

(a) North-South interdependence and multilateralism;

(b) Requirements for an effective surveillance system, including sanctions and incentives necessary to influence major sovereign States;

(c) Capital needs of developing countries up to the year 2000. The structure and trend of financial flows and their improvement.

In addition, the Committee invites the Economic Commission for Africa to prepare a study on sub-Saharan Africa, its longer-term problems and needs, and the role of development assistance, and requests the Secretariat to develop the subject further, as necessary. The Committee also requests the Secretariat to commission from a professional consultant a study on how to maximize the impact of the Committee's report and improve the effectiveness of its work.

124. The Committee feels that the present circulation of its report is not sufficient to bring it to the attention of the world community. Accordingly, the Committee requests the Secretariat to make arrangements for a substantial increase in the circulation of the report. In addition, and following past practice, the Committee requests the Secretariat to make arrangements for the presentation of the report to the Economic and Social Council by the Chairman, and for a two-day meeting of the Bureau of the Committee and other members proposed by the Chairman to consider the implementation of the work programme, the composition of the working groups and the broad outlines of the studies to be undertaken by the Secretariat and by consultants for the forthcoming meetings of the Committee and its working groups. In order to minimize costs, and in the light of the Chairman's time constraints, the meeting should be scheduled for the first half of July at Geneva on the occasion of the presentation by the Chairman to the Council of the Committee's report.

125. The Committee calls attention to the need to strengthen the various units of the Secretariat servicing the Committee in order to enable it to cope with the additional workload arising from its decisions on the work programme for the following year.

126. The Committee has always considered the Journal of Development Planning to be an integral part of its work programme, wherein studies emanating from the work of the Committee members, consultants or the Secretariat are published. The Bureau of the Committee therefore expresses its deep concern regarding the substantive editing of the views of Committee members and experts who publish in the Journal in their own names. The Bureau also expresses its concern about the rigid rules on attribution of authorship to United Nations staff members and request the Secretariat to consider ways and means by which such problems could be overcome, including undertaking an overall review of administrative rules on attribution of authorship and exempting the Journal from such rules that compromise its integrity and independence.

127. The Committee proposes to hold its first session of three days during the first week of November 1984 in London, and its second session in early April 1985 in New York.

### III. ORGANIZATION OF THE SESSION

128. The Committee for Development Planning held its twentieth session at United Nations Headquarters from 17 to 21 May 1984. Eighteen members of the Committee attended the session: Ismail-Sabri ABDALLA, Gerasimos D. ARSENIS, Bernard CHIDZERO, Jean Pierre COT, Hernando de SOTO, Celso FURTADO, Armin GUTOWSKI, Xiang HUAN, Shinichi ICHIMURA, Robert S. McNAMARA, Joseph Elenqa NGAMPORO, Goran OHLIN, Jozef PAJESTKA, Shridath S. RAMPHAL, Luis ROJO, Mohammad SADLI, Rehman SOBHAN and Janez STANOVNIK. Six members were unable to attend: Abdulatif Y. AL-HAMAD, Kenneth BERRILL, Gerald K. HELLEINER, V. N. KIRICHENKO, G. O. NWANKWO and I. G. PATEL.\*

129. The following co-opted experts assisted the Committee in its deliberations: Sidney DELL, Carlos MASSAD, Robert NEILD, K. N. RAJ, Carlos TELLO and Bernard WOOD.

130. The session was opened by the Director-General for Development and International Economic Co-operation who conducted the election of the officers of the Committee. The officers, elected at the twentieth session for the term ending on 31 December 1986, are:

Chairman: Shridath S. RAMPHAL  
Vice-Chairman: Jozef PAJESTKA  
Rapporteur: Goran OHLIN

131. The Committee was addressed by the Secretary-General of the United Nations who thanked the retiring members of the Committee, in particular the retiring Chairman, William DEMAS, for their valuable service to the Committee, welcomed the members of the Committee and made a statement. The statement of the Secretary-General is appended to the present report as annex I.

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\* Substantive services for the session were provided by the Department of International Economic and Social Affairs of the United Nations Secretariat. The Committee was also assisted by representatives of the Office of the Director-General for Development and International Economic Co-operation, the Department of Technical Co-operation for Development, the United Nations Centre on Transnational Corporations, the United Nations Centre for Science and Technology for Development, the Economic Commission for Europe, the Economic Commission for Asia and the Pacific, the Economic Commission for Latin America, the Economic Commission for Africa, the Economic Commission for Western Asia, the World Food Council, the United Nations Conference on Trade and Development, the United Nations Industrial Development Organization, the United Nations Children's Fund, the United Nations Development Programme, the International Labour Organisation, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization, the World Bank, the International Monetary Fund, the International Atomic Energy Agency, the Organization for Economic Co-operation for Development, the Commission of the European Communities, the Group of 77 in New York, the Commonwealth Secretariat, the Latin American Economic System, the African Development Bank, the Inter-American Development Bank, the United Nations Research Institute for Social Development.

132. Prior to opening the session for discussion, the new Chairman of the Committee made a statement which is appended to the report as annex II.

133. The Committee's deliberations were facilitated by the report of its Working Group which met in New York from 13 to 20 December 1983. The Working Group consisted of two parts. One focused on development prospects and policies for the remainder of the 1980s; it was chaired by William DEMAS and was composed of Committee members: J. PAJESTKA (Vice-Chairman), J. LEWIS (Rapporteur), H. BOS, S. ICHIMURA, Li ZONG, G. OHLIN and invited experts: Aldo FERRER, K. N. RAJ, F. SAGASTI, Frances STEWART and A. B. TAYLOR. The other focused on international monetary and financial issues; it was chaired by I. G. PATEL and was composed of Committee members G. OHLIN (Rapporteur), A. Y. AL-HAMAD, W. G. DEMAS, S. ICHIMURA, and J. PAJESTKA and invited experts W. BRANSON, Sidney DELL, Aldo FERRER, G. K. HELLEINER, P. P. KUCZYNSKI, C. MASSAD, K. N. RAJ, H. SCHULMAN, R. SOLOMON, A. B. TAYLOR and J. WILLIAMSON. Johannes WITTEVEEN attended as a special guest of the Group. 4/ A synthesis of the results of the two-part meeting as well as a separate report on the international monetary and financial system were placed before the Committee.

134. On the occasion of its twentieth session, the Committee decided to send a message of appreciation to its first chairman, Jan TINBERGEN and to include a list of the members of the Committee, past and present, in the printed version of this report.

135. Identification of the least developed among the developing countries. The General Assembly, at its thirty-eighth session, in resolution 38/218 of 20 December 1983, requested the Committee for Development Planning to give due consideration to the eligibility of Vanuatu for inclusion in the list of the least developed countries. Subsequently in May 1984, the Mission of Vanuatu to the United Nations informed the Secretariat that the Secretary-General's Office was preparing a mission to Vanuatu and requested the Committee to postpone action on the aforementioned resolution of the General Assembly until next year. 5/

#### Notes

1/ Numerous studies of European growth prospects have drawn attention to the stimulus to growth from post-war reconstruction, the adoption of United States technology and durable consumer goods, trade liberalization etc.

2/ The Seventh Conference of Heads of State or Government of Non-Aligned Countries took place at New Delhi from 7 to 12 March 1983. The final documents are contained in A/38/132-S/15675 and Corr.1 and 2, annex.

3/ Official Records of the Economic and Social Council, Forty-first Session, Supplement No. 14 (E/4207/Rev.1), para. 8.

4/ Substantive services for the meetings of the Working Group were provided by the Department of International Economic and Social Affairs. The Group was assisted by representatives of the Director-General for Development and International Economic Co-operation, United Nations Conference on Trade and Development, United Nations Development Programme, the World Bank and International Monetary Fund. In the first part of the meeting, the Group was also assisted by representatives of the Department for Disarmament Affairs, United Nations Centre

Notes (continued)

for Science and Technology for Development, Economic Commission for Africa, World Food Council, United Nations Industrial Development Organization, United Nations Children's Fund, United Nations Fund for Population Activities, International Labour Organisation, World Health Organization and the United Nations Educational, Scientific and Cultural Organization. In addition, the representatives of the Inter-American Development Bank and the Commonwealth Secretariat participated in the second part of the meeting.

5/ Letter dated 1 May 1984 from the Permanent Representative of Vanuatu addressed to the Secretary of the Committee for Development Planning.

## Annex 1

### OPENING STATEMENT BY THE SECRETARY-GENERAL TO THE COMMITTEE FOR DEVELOPMENT PLANNING AT ITS TWENTIETH SESSION

I take pleasure in addressing the twentieth session of the Committee for Development Planning. I should like, first of all, to thank the retiring members of the Committee, in particular the Chairman, Mr. William Demas, for having rendered a most valuable service to the Committee over the past years. I wish also to congratulate the new Chairman, my friend Sir Shirdath Ramphal, on his election. I should like to extend a warm welcome to the members of the Committee and to express my gratitude, on behalf of the Organization, that you have accepted to serve as members of this Committee. Your presence here is, I know, a reaffirmation of your continuing interest in, and commitment to the United Nations. I have great expectations about the contribution this Committee can make to the cause of international co-operation. This is why I am fully committed to support your work.

This Committee is in many ways unique. It may well be regarded as a committee of economic advisers to the international community. Its mandate encompasses the full range of economic and social development issues, both at the domestic and international levels. Its size is limited, yet it is fully representative of the global community.

The contributions of the Committee in the past have been impressive. Ever since its establishment, under the leadership of Professor Tinbergen, it has been innovative in its proposals, many of which have now become common currency in the development literature. Two years ago, when policy-makers were groping for solutions to cope with stagflation in the world economy, the Committee proposed a programme of world economic recovery. Not only has the Committee been innovative and bold in making proposals, its reports have consistently been clear, concise and action-oriented.

The current world economic situation continues to give cause for concern. No doubt the confirmation of an economic recovery in a large number of industrial countries with relatively low inflation is a positive element. As feared, however, the recovery in the industrial countries is yet to be felt in a significant way in most developing countries. After three consecutive years of declining overall per capita incomes, developing countries will in 1984 experience only modest gains. The same is likely next year, by which time growth in industrial countries may have already slowed down compared to 1984.

In many parts of the developing world the economic and social situation has reached crisis proportions characterized by widespread misery and suffering. The linkage between economic and social factors is often neglected, in part because it cannot be readily quantified. Today this linkage cannot be ignored. The number of civil and political disturbances engendered by the current retrenchment can be counted and are daily documented in the press. At this juncture, the international community cannot afford to stand by and watch the setbacks developing countries are going through, and with them the legitimate aspirations of millions in the world.

In many encounters with leaders from many parts of the developing world I have noticed a mood of despondency and a sense of helplessness. The confidence they exuded not too long ago in their endeavour to better the conditions of life of



their peoples seems to have dissipated. Their common concerns and anxieties translate themselves into such questions as:

- How to meet their debt obligations to the advanced countries when their exports are shunned by these countries;
- How to cope with debt service payments when mere increases in the rate of interest swell their payment obligations on past debts; and
- Where to find investment resources to maintain their development efforts and provide employment to their ever-growing labour force.

In the course of your discussions you will make an assessment of the prospects of the world economy. To me it seems that the kind of sustained high growth in the 1960s and 1970s, together with the buoyant international trade and finance that accompanied it, is not attainable in the near future. In the meantime, while interdependence has increased quite sharply both among northern countries and between the North and the South, we do not yet seem to have learned how to manage this interdependence.

I have had occasion to point out my belief that Member Governments are not making the best use of this Organization in the political field. Unfortunately, this under-utilization is not restricted to that field, for the Organization is not being used to the fullest in the economic arena either.

Nevertheless, the United Nations can play an instrumental role in generating new ideas in formulating negotiable proposals. At a time when Governments are preoccupied mainly with internal issues and have resorted increasingly to a bilateral approach in some of their external economic relations, let us not forget the impressive achievements of international economic co-operation over the last three decades. We must seek to preserve these achievements. Indeed, we must build further upon them. The will to co-operate cannot be allowed to falter precisely at the time when the shared need and scope for it have increased. More than ever before, there is a need for collective policies and reform of established rules of conduct in international economic relations. The contribution of such a distinguished body as the Committee for Development Planning to the efforts of the United Nations to reawaken the spirit of international co-operation can be an extremely important one.

I therefore wish you every success in your deliberations and look forward to your recommendations.

Annex II

STATEMENT BY THE CHAIRMAN OF THE COMMITTEE FOR  
DEVELOPMENT PLANNING AT THE OPENING MEETING

17 May 1984

My colleagues have honoured me by making me their Chairman; an intimidating honour, since I am not an economist, let alone one of such eminence as past Chairmen of this Committee. In following them, I cannot but be conscious of the distinguished lineage of which I must strive to be worthy.

That lineage was specially impressed on me two days ago in Geneva when Saburo Okita was recalling to me his membership of the Committee for Development Planning from its very inception in 1965 and through a period of some 15 years. He asked me to bring you all his greetings and good wishes. It was important, I felt, that after such long and close acquaintance with the Committee for Development Planning, Saburo Okita retained faith in its potential which he urges us to fulfil. Most of all, however, I take heart from the knowledge that I have the support of such truly distinguished group of colleagues as is assembled here.

As the Secretary-General has said, this Committee has a long record of achievement. Its technical reports have deservedly been acclaimed for their high quality. Its contributions to the International Development Strategy and its role in securing greater attention to the needs and problems of the poorest countries are in keeping with the high position accorded to it within the United Nations system. The presence of the Secretary-General, to open our proceedings as well as the nature of his remarks are indicative of the significance he attaches to the role of the Committee.

The Committee for Development Planning is unusual, if not unique, in the United Nations system in addressing development issues not on an intergovernmental but of an inter-personal basis: addressing them through persons as persons who know about development in technical and professional terms and who care about it in human terms. That, as I see it, is the main justification for believing that we can contribute in some measure to the great developmental needs that so many other efforts and processes have responded to and sometimes left unmet.

That means, of course, that we must above all be true to ourselves as members of this Committee - even if being dispassionate runs counter to national, regional or group positions with which in other contexts we might be expected to identify. Internationalism can be served - perhaps needs to be served - in many different ways. Individual service through the Committee for Development Planning is one such way. We all feel privileged, Secretary-General, to be invited to share in it.

But it is a sense of privilege tempered by consciousness of the Real-politik of our time which forces internationalism into retreat and puts even the humanitarian ethic onto the defensive. It is a bad time for international co-operation - co-operation for development or for anything else. Yet, manifestly, it is a time of need for such co-operation, since never before has humanity in all its diversity been more aware of its mutual needs, of what we call, somewhat glibly, "interdependence". But between such awareness and our response falls shadows from the past: shadows of narrow nationalisms, of sovereignty unrelieved, of an adversary system of international relations.

Great acts of political vision and courage and wisdom are needed to lift those shadows. Technical competence alone will not achieve it. But, even a modest offering of intellectual leadership moulded by such competence might help the world to edge away from the darkness. We can hope to do no more; we cannot be a substitute for political imagination and political will; but I am sure, Secretary-General, that my colleagues wish me to assure you that we are resolved to do no less. If by putting down even a few intellectual markers we can help internationalism to survive and the prospects for development to improve, you can be certain that we will use every endeavour to put them down.

Over time, the work of this Committee has evolved to take into account the changing needs and circumstances of the world economy. Its terms of reference have allowed that flexibility. We will need to ensure that that process of securing relevance through adaptation continues uninterrupted.

In the past, in spite of an environment that could not be deemed favourable to international co-operation for development, the United Nations has been able to make a notable contribution in the economic sphere. Some of the most valuable advances in multilateral co-operation for development have had their origin in ideas nurtured in the United Nations system. It is a part of our task to help the United Nations to further this contribution; helping by urging it, whenever we can properly do so, to do even better - for the United Nations is assuredly more than the sum total of its membership.

The state of the world economy and its quite devastating impact on developing countries underline the heavy responsibility which falls on this Committee. There are many tasks before us. Some are urgent. A more vigorous recovery which embraces developing countries fully in its benefits, a larger IDA through supplementary funding, the restoration of reserves through, perhaps, a substantial SDR contribution, the special problems of sub-Saharan Africa, the debt overhang and the severe problems it poses for all countries, these all are among our immediate challenges.

But ours is a standing Committee, with continuity in individual membership over at least three years, and our concerns must also extend to longer time and more fundamental problems - the challenge, no less, of matching our organization of human society to our perception of human interdependence; the challenge of moving away from a world of several disparate worlds to the one world we know we are; the challenge of making development the shared endeavour of a human community rather than the struggle of the weak and disadvantaged against the fearful odds of otherness; the challenge of closing the gap in development planning between expectation and reality.

As we turn to face those challenges we can take heart from the encouragement of the Secretary-General and promise him our support. And we can take confidence from the variety and level of expertise which this Committee assembles and of our ability to enlist the help of working groups and other invited experts. And we have the comfort of knowing that we have a continuing base of support of the United Nations Secretariat and, rather specially, in the Committee's own secretariat. We accept the challenge, therefore, of rising to the tasks ahead. I do believe that in the very composition of this Committee is a guarantee that we can and a promise that we will.

Annex III

AGENDA

Opening statement by the Secretary-General.

1. Election of officers.
2. Adoption of the agenda and organization of work.
3. World economic situation and prospects.
4. Priorities and policies for development for the remainder of the 1980s.
5. The international monetary and financial system.
6. Future programme of work.
7. Adoption of the report of the Committee.

Annex IV

LIST OF DOCUMENTS

<u>Document Symbol</u>	<u>Agenda item</u>	<u>Title</u>
<u>Documents of the Committee</u>		
E/AC.54/1984/2	3	"Uneven recovery in world output", <u>World Economic Survey, 1984</u> , chap. I
E/AC.54/1984/3	4	Priorities and policies for development for the remainder of the 1980s: report of a working group of the Committee for Development Planning
E/AC.54/1984/4	5	The international monetary and financial system: report of a working group of the Committee for Development Planning
<u>Policy paper prepared by the UNCTAD secretariat</u>		
TD/B/981	4	Protectionism and structural adjustment, parts I and II
<u>Policy paper prepared by the UNIDO secretariat</u>		
ID/CONF.5/3	4	"World industrial restructuring and redeployment", background paper for the Fourth General Conference of UNIDO, Vienna, January 1984
<u>Policy paper prepared by the secretariat of ECLA</u>		
E/CEPAL/G.1299 E/CEPAL/SES.20/G.17	5	"Adjustment policies and the renegotiation of the external debt", Santiago, February 1984

Document SymbolAgenda itemTitle

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"Renegotiation of Latin America's external debt: proposals for the implementation of the Quito declaration and plan of action" (Caracas, Permanent Secretariat, Latin American Economic System (SELA), 1984