

# **VIENNA STATEMENT**

**on**  
**World Monetary, Financial**  
**and**  
**Human Resource Development Issues**  
**Vienna, September 10-12, 1984**



**UNDP DEVELOPMENT STUDY**  
**PROGRAMME**

## **PREFACE**

The third session of the Roundtable on world monetary, financial and human resource development issues was held in Vienna, Austria, on September 10-12, 1984 under the joint sponsorship of the North South Roundtable and the UNDP Development Study Programme. The main themes of the session were the issues of debt renegotiations, linkage of the resolution of debt problems with freer and expanding world trade and the continuing impact of the debt crisis on human conditions and human resource building in developing countries.

The session was attended by thirty-seven leading monetary, financial and trade analysts, development professionals, private bankers and national and international policy makers from countries of the North and South (a list of participants is appended to this Statement). All participants attended in their personal capacities. This Statement reflects the ideas and concerns expressed by the participants without presuming to

present a consensus on each and every proposal.

September 20, 1984

## **VIENNA STATEMENT**

**on**

### **World Monetary, Financial and Human Resource Development Issues**

#### **VIENNA STATEMENT**

Without new initiatives to resolve the most pressing problems confronting the world economy, there is a danger that the debt situation will lead to catastrophe and a near certainty that many debtor countries will remain subject to devastating human and economic costs.

The Vienna Roundtable, which was convened to examine the debt crisis, reviewed recent experience and evaluated new proposals. The Roundtable recognized that the pursuit of ad hoc policies had been successful in buying time, but urged that the success in averting a collapse of the international financial system should not engender complacency. It noted, in particular, that current projections envisage a continuing decline in per capita income in sub-Saharan Africa and a recovery in Latin America so slow that the per capita income of 1980 would be regained only in 1990. The situation would be even worse if real interest rates continue to remain high rather than fall, as these projections assume. The perpetuation of the debt problem will act as a drag on the recovery in the industrial countries as well as weaken the impulses for the world economic recovery. The Roundtable affirmed its belief that these dismal prospects could be transformed by appropriate policy initiatives at the country and global levels.

#### **Origins of the Debt Crisis**

The debt crisis arose during 1981-82 when many developing countries lost their previous access to financial markets. Such access was essential to the maintenance of debt service payments, particularly during a global recession.

The loss of creditworthiness suffered by many, although by no means all, developing countries can be traced to both external and domestic causes. The shocks in the external environment included abrupt changes in oil prices, the most severe global recession for half a century, very low commodity prices and the highest real interest rates in recorded history. A number of countries pursued excessively expansionary policies, failed to make productive use of borrowed funds, allowed their key prices to become unrealistic, or neglected to develop or mobilize their abundant human resources.

A number of developing countries which had already restructured their economies or which had borrowed relatively little, succeeded in riding out the crisis, although often at the cost of a setback to their growth. But many countries in Africa and Latin America, in addition to a few in other regions, found that they were unable to service their debt.

#### **Response to the Debt Crisis**

The international community responded to the debt crisis with a series of ad hoc measures. In some cases, bridging finance was provided to enable countries to maintain a flow of

essential imports and' to limit arrears while an adjustment programme with the Fund was being negotiated. Successful negotiation of such a programme yielded a Fund loan and debt rescheduling, together with a limited injection of new money from the commercial banks. The IMF played a critical and innovative role in inducing the banks to roll over maturing debts and inject new money to provide the minimal inflow of external resources needed to finance projected current account deficits.

The modalities of the adjustment process were debated at the Santiago Roundtable. The Roundtable agreed that the rapid adjustment already evident was being achieved at an inordinate cost in terms of the economic and human development of the debtor countries. It affirmed emphatically that adjustment should be designed to expand exports and the efficient production of import substitutes, rather than to suppress imports through policies of austerity. Policy measures for adjustment should be expansionary and not concretionary. Human resource development should not be sacrificed for short-lived gains in material production. It recognized that an increased emphasis on such expenditure switching, rather than on expenditure reduction, would require increased lending by creditors during the adjustment process. A number of proposals were made to that end. It called on the IMF to give substance to the right of borrowing countries to design their own adjustment programmes reflecting their own priorities, while recognizing that the Fund needs to satisfy itself that the policies will indeed achieve adjustment.

The Vienna Roundtable concluded that recent experience reinforced this critique. Several countries, notably Brazil and Mexico, have made spectacular improvement in their trade balance, including in recent months export expansion. The costs have nevertheless been high, particularly in terms of loss of productivity and employment and a sharp deterioration in the living conditions of the poorest people, because the peremptory character of the adjustment that was dictated by the shortage of external finance required savage cuts in imports before export expansion began to materialize, and because there were delays in moulding programmes to changing country circumstances. Moreover, a significant part of the export expansion that was achieved has been swallowed up by the recent increase in interest rates. The unparalleled height of current real dollar interest rates is a continuing threat to sustained recovery and a constant temptation to consider default.

The lengthy debate between the proponents of a country-by-country approach to the debt problem and the advocates of generalized solutions should now be concluded with an honourable compromise. There is indeed a need for agreement on general principles and guidelines, and for a consistent revision of past practices that have ceased to be appropriate. But these general principles need to be applied flexibly on a case-by-case basis to take account of the particular circumstances of individual countries.

### **The Debt Crisis and Trade**

One of the key characteristics of the successful Asian economies, which have managed to adjust much better to adverse international circumstances, is their orientation to external trade. They have for some years exploited, not combated, their comparative advantage in producing labour-intensive manufactured goods. The result has been a dynamic growth of exports that has enabled them to sustain their debt-service obligations while simultaneously financing the rising imports required for economic growth.

The Roundtable concluded that it was important to analyze the experience of the more successful countries to see whether other countries in similar circumstances could benefit from such experience. There is, however, some danger that widespread emulation of the strategy of export-led growth may, in the short run, depress the terms of trade of the developing countries.

The prospects for successful export expansion would be immensely strengthened by a reversal of the protectionist trend in the developed countries, as well as by a strengthening of the economic recovery currently in progress. There is also an established need for a sufficient flow of trade finance, especially for South-South trade.

The Roundtable noted with great concern the current trend towards bilateralism in trade which can be reversed not only through an early resumption of comprehensive new multilateral trade negotiations, but also through the implementation of the already existing commitments.

It was also suggested that the North-South Roundtable should consider organizing a series of dialogues specifically on the trade issue in view of its tremendous importance for world recovery and growth.

### **The Debt Crisis and Human Resources**

The Roundtable noted the strong evidence that investment in human resources has a particularly high yield in the process, of economic growth in the longer term, as well as being a key determinant of improvements in the human condition. The experience of the successful Asian countries, which have for some years accorded a high priority to human resource development, reinforces this evidence. Despite this, the priority accorded to human resource development had been declining in many countries even prior to the debt crisis.

The lack of attention to human resource development and the lack of mobilization of available human resources through appropriate motivation have exacerbated to the indebtedness of many countries. The inevitable cutbacks in government expenditure caused by the debt crisis have, in many instances, fallen disproportionately on education, health, family planning, and other forms of human resource building. These areas deserve to receive an immediate increase in expenditure, even before general expansion becomes feasible.

Greater attention must be given to issues of employment, income distribution and people participation.

### **Proposals for Action**

The Roundtable achieved a significant measure of consensus on the steps needed to resolve the debt crisis. The fragile recovery in the developed countries must be sustained and extended to the developing world. A number of policy changes are needed in both developed and developing countries, reinforced by several new initiatives at the international level. Specifically, the Roundtable called for urgent pursuit of the following proposals:

(1) The biggest single threat to the maintenance of expansion in the North and to a successful outcome to the adjustment policies that have been adopted in the South is posed by the unparalleled level of real interest rates. These interest rates reflect the particular mix of macroeconomic policies chosen by the major countries, and in particular the combination of an expansionary fiscal policy with a rigorous monetary policy in the United States. A phased reduction in the structural budget deficit of the United States, synchronized with a relaxation of monetary policy to sustain aggregate demand without reviving inflation, is urgently needed to correct the excessive level of interest rates.

(2) The Roundtable is convinced of the need for long-term debt rescheduling, and accordingly welcomed the recent preliminary reports of a comprehensive rescheduling arrangement between Mexico and the commercial banks involving some easing in financial charges and major extensions in the repayment period. While recognizing that further study is needed before final conclusions can be drawn, it is hoped that this arrangement may provide a precedent for the banks to reschedule the debts of other debtor countries that respect their adjustment responsibilities. The Roundtable further recommended that the creditor countries should encourage further adjustments in bank lending terms along the following two lines:

(a) Capping of interest rates, with capitalization of interest in excess of some agreed levels, and/or of interest charges in excess of a specified proportion of exports;

(b) A measure of commercial debt forgiveness for the poorest countries, in cases where there have been important adverse external shocks and where the government is committed to a long-run programme of structural adjustment.

(3) With respect to the least-developed countries, the Roundtable believed that a strong case existed for cancellation of all official debts.

(4) The Roundtable agreed that serious consideration should be given to the proposal for setting up an IMF Debt Refinancing Subsidiary, perhaps jointly with the World Bank. The basic task of this IMF subsidiary would be to find a country-by-country settlement within the framework of some generalized principles for debt rescheduling. These principles should combine internal adjustments in indebted developing countries with efforts to modify some of the external conditions to ease the burden of adjustment. Any viable solution may include stretching out of short-term maturities, capping of interest rates, guarantees of new lending levels, some effort to restore the resource transfers from North to South and to enlarge trade possibilities of developing countries in collaboration with other international institutions and equitable sharing of adjustment costs. The Roundtable recognized that the proposal for an IMF subsidiary is still in a preliminary stage but it urged that an institutional response must be designed soon to resolve the debt crisis within an enlightened framework without endangering the health and viability of the indebted nations or of the international financial system.

(5) A new round of multilateral trade negotiations, with a principal objective of increasing market access for the exports of developing countries, should be launched promptly. These trade negotiations must cover all items, i.e. agricultural commodities, manufactured goods and services.

(6) Many developing countries need to rethink their development strategies so as to give a higher priority to human resource development and mobilization and to exploit more fully the potential benefits of international trade. Such policies are a vital part of a solution to the debt crisis and not a luxury that can be postponed until the crisis is resolved. It would also be most desirable that concerned international institutions should undertake the preparation of an annual comprehensive study on the state of the human condition to focus national and international attention on people-oriented development strategies. The Roundtable is strongly convinced that there is an urgent need for a serious and in-depth consideration by the international community of the important and decisive role of human resource building in the development process.

(7) In order to design such new development strategies and to ensure the necessary resources for their implementation, the developing countries may find it useful to build a consensus through a series of "Country Assessment and Resources Committees" composed of independent experts who are sensitive to the objectives of the countries involved.

(8) At its two previous meetings, the North-South Roundtable on World Monetary, Financial and Human Resource Development Issues has advanced a number of suggestions for augmenting the flow of financial resources to the South. The Vienna Roundtable noted with deep regret the failure to replenish IDA VII at an adequate level or to provide a supplementary facility as called for at the Santiago Roundtable. It noted that the question of a new SDR allocation would be discussed again shortly and strongly reaffirmed its support for a substantial allocation.

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