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Volcker tells debtors: Don't plan on growth

The following are excerpts of the statement by Federal Reserve Chairman Paul A. Volcker at the July 30 session of the House Banking Committee's Subcommittee on International Development Institutions. The essence of the statement, stripped of technocratic verbiage, is that IMF "adjustment" programs which eliminate imports, development projects, currency values, and terms of trade, and thereby the very capacity of debtor nations to keep their populations alive, must continue indefinitely, and World Bank policy will be strictly coordinated with these IMF crimes against humanity.

Over the years I have had some opportunity to observe the Bretton Woods institutions—the International Monetary Fund and the World Bank. . . .

In the initial stages of the international debt crisis, the Fund played an essential and, in key respects, an innovative role. It worked with the borrowing countries to develop strong adjustment programs. . . . Concurrently, it helped coordinate an unprecedented international cooperative effort to provide sufficient external funds to meet immediate needs and to support the countries' adjustment efforts.

With its traditional emphasis on investment planning and project lending, the World Bank was not in a position to react as quickly as the IMF to the immediate adjustment needs of the major borrowing countries. Nor were borrowing countries—faced with overwhelming short-term needs to cut back on budget deficits, to bring monetary expansion under control, and to adjust exchange rates—able to give priority attention to long-term development and investment programs. Instead, cutbacks in overall investment and consumption expenditures . . . became unavoidable. In these circumstances, both existing and new investment projects assisted by the World Bank and other donors tended to slow down rather than increase.

In advising countries about "adjustment" programs, the Fund is always concerned with measures that should help promote economic efficiency and long-term development. . . .

The efforts of the Bank overlap with those of the Fund in two respects. The quick-disbursing Bank loans help provide the necessary external financing for the borrowing countries. And . . . the policies supported by the Bank should reinforce . . . the efforts of the Fund to promote economic efficiency and competitiveness.

The recent efforts by the Fund and the Bank in Colombia exemplify these relationships, and could have implications for future cooperation. While that country has not requested or received IMF financial assistance, it has kept the Fund fully informed in developing its economic program. Just last Friday, the Fund, in turn, agreed to monitor progress in implementing the economic adjustment program, which, in the judgment of the Fund, is broadly appropriate to the needs of Colombia. Meanwhile, the World Bank is a major lender to the country, both for specific projects and for sectoral adjustment. The size of that lending program has been facilitated by the efforts of Colombia to implement suitable adjustment measures. The staffs of both institutions will work together in assessing Colombia's progress. . . .

Internal reform is critical in circumstances in which access to new foreign bank and trade credits seems bound to remain limited for the time being. The hope occasionally expressed for really major increases in long-term official lending on concessional terms to the middle-income developing countries does not appear politically realistic. Moreover, I doubt that industrial countries are prepared to ease substantially debt burdens by taking over and writing off existing debt to private lenders. Nor do such approaches seem to me essential if well-conceived adjustment efforts are maintained.

In time, renewed confidence could end capital flight and induce repatriation of capital by the citizens of the borrowing countries themselves as well as fresh flows from abroad. That process would be immensely helpful and the best possible evidence of success. But it is, of course, dependent upon a sense of sustained economic performance.

The implication of these conditions is that it is too early for the major borrowers to *plan* on significant net private inflows of capital. Imports will not be able to grow over time at a rate substantially exceeding the growth in exports. But that is *not* a recipe for stagnation, so long as exports in fact grow. . . .

That in turn may require import liberalization so that companies that have high export potential can in fact make use of the most rational and efficient production techniques. Much of this seems to be recognized, for instance, in the latest steps announced by Mexico only last week, in conjunction with actions to reinforce budgetary discipline and to adjust exchange rates. . . .

The [World Bank's] inherent discipline in project lending—the need to relate a loan to tangible projected returns—is important. But it also is quite possible that, as a matter of relative priority, heavily capital-intensive, long lead-time projects, with returns deferred far into the future, could give way to areas where more effective use of the existing capital stock is emphasized, with quicker and more evident returns. . . .

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