



***INTER ACTION COUNCIL***

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**InterAction Council**  
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1. The InterAction Council is gravely concerned about a number of issues affecting world peace and development. This concern, already expressed at the Council's first session in Vienna in November 1983, has been deepened by the events and trends of the past six months.
2. A vacuum has emerged at the international level with a virtual absence of meaningful contacts between the two superpowers, increasing the danger of nuclear confrontation with unimaginable destructive consequences. An escalating arms race and conflicts among developing countries drain large amounts of resources urgently required for development. A vacuum has also developed in relations between developing and developed countries, endangering the prospects for prosperity and development.
3. The stability of worldwide monetary and financial arrangements is now in question, particularly in view of the heavy debt burden of developing countries which is exacerbated by high deficits in industrial countries, leading to high interest rates. At the same time, trade arrangements are increasingly afflicted by protectionism. This situation is, in the Council's view, unsustainable. Decisive and imaginative leadership is required from the Governments of all countries, from international groups and organizations, from the private sector and from individuals. All must recognise that they must accept some measure of sacrifice to achieve constructive solutions which are indeed feasible and which will be in the vital interests of all.
4. A special effort is required, based on international solidarity and common human interest, to increase the assistance provided to the least developed countries. These countries, already underdeveloped, have suffered acutely from the turmoil of the international economic system, and now are facing natural disasters as well.
5. The Council reaffirmed its conviction that the United Nations Organization should play a critically important role in the examination and solution of the major issues confronting humanity - peace, disarmament and world development.
6. Current problems of peace and development cannot be solved simply by ad hoc measures in response to crises as they emerge. Based on the recommendations by a group of financial experts<sup>1</sup> chaired by Mr. Helmut Schmidt, the Council reviewed possibilities for realistic action in the critical areas of money, finance and debt. The Council affirms that restoration of world prosperity on a sustainable basis will require responsible and concerted action by all: North and South, market and socialist economies, oil-exporting and oil-importing countries, debtor and creditor countries, least developed and other developing countries, government, international organizations and private sector, banks in particular

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<sup>1</sup> In addition to Mr. Schmidt, the following experts participated:  
Aldo Ferrer (Argentina), Milton W. Hudson (United States), Fritz Leutwiler (Switzerland), Michiya Matsukawa (Japan), Abdul Aziz al-Quraishi (Saudi Arabia), I.G. Patel (India), Mamoudou Touré (Senegal) and John Williamson (United Kingdom).

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7. A number of important principles must be respected:
- Economic policies should be guided not just by short-term concerns but also by their long-term consequences;
  - The institutions of international economic, financial and monetary co-operation should be reinforced and sustained, and adapted to present and future needs of the world economy and development;
  - The economic waste involved in current global levels of military expenditure which is a significant causal factor in the economic difficulties confronted by the world community must be diminished;
  - Human resource development - improving the skills and management abilities of developing countries - is a prerequisite for economic and social progress and should be accelerated;
  - The ominous long-term economic implications posed by the depletion of natural resources and by ecological deterioration should be given serious attention; and
  - The ultimate aims of economic activity should be an enhancement of welfare and the respect of human rights and of cultural values, in order to benefit the individual.

### **I. Debt crisis and Debt Management**

8. The debt problem was jointly created by the actions of all parties. It is therefore the joint responsibility of all to seek solutions. The world must not repeat the disasters that flowed from the demands for unrealistic resource transfers in connection with reparations and interallied war debt during the interwar years. Co-operation among central banks and the skillful responses of the Bank for International Settlements and the International Monetary Fund (IMF) have succeeded in containing thus far the debt crisis. Govern the gravity of the economic situation of developing countries and of a number of commercial banks in the developed countries, it is clear that special emphasis needs to be given to proposals for practical action to manage development and debt problems rather than to react to them. There is now an urgent need for a comprehensive solution to the debtor-creditor problem. This statement spells out some of the principles that should apply in working for such a solution. This task is of paramount importance if a major international crisis is to be averted.
9. Debtor countries should pursue realistic adjustment programmes agreed in good time with the IMF, as they pursue development programmes with the World Bank. Such programmes need to combine a sustained improvement in the balance of payments with a resumption of economic growth and development. At present, the essential, even if unpopular, role of the IMF is that of negotiating adjustment programmes with countries confronting balance of payment or debt-servicing problems. There must be conditionality, otherwise fresh credits will not flow. This conditionality must take into account the interests of debtors and creditors alike and the social and political situations of the countries concerned. The conditions applied in the future should not so seriously affect the economic, social and political fabric of the country, the living conditions of its people, or the availability of critical development inputs, that they call in question the possibility of a resumption of growth and continuing economic and social progress.
10. Countries should create favourable conditions for the return of flight capital, which has reached substantial dimensions in a number of countries in recent years and which contributes significantly to the debt problem. Likewise they should try to attract more direct private investment. This above all, entails realistic exchange rate policies, the avoidance of

artificialities in domestic pricing and the removal of bureaucratic restrictions on foreign investment, which must, however, reflect the concerns and interests of both the investors and the recipient countries.

11. Given the economic situation faced by debtor countries, an element of austerity is inevitable in effective adjustment programmes but austerity should not be pushed beyond the level essential for successful medium-term adjustment. Adjustment programmes should encourage the transformation of productive structure, stabilisation and increased capital formation, so that countries can adapt to the changing conditions of the world economy.
12. On the other hand it is politically intolerable that as a result of fluctuations in interest and exchange rates, debtor countries can not predict the maximum debt service payments that they will have to make in dollars for the year ahead. This uncertainty has a devastating effect on national planning and development. Measures to increase predictability are needed to provide some degree of protection against such fluctuating rates.
13. The contribution of the commercial banks should be to provide fresh money and interest relief in instances where a debtor country is making a good-faith commitment to adhere to an IMF programme, and to devise mechanisms that will cap the debt service payments that countries have to transfer. Measures will need to be tailored to meet the situation of individual debtor countries while taking into account the concerns of the creditors. To contain annual debt repayments where they become excessive such measures may include:
  - the restriction of annual debt service payments of a debtor country to an agreed maximum;
  - the consolidation of short-term debts to medium-term fixed interest bonds;
  - Multi-year rescheduling instead of the current shortest term practice;
  - capitalization of interest; and
  - additional special measures, as may be required, for developing countries on case by case basis.
14. The poorest developed countries, in comparison with other groups of countries, have been forced into excessively harsh adjustment measures, partly in response to changes in their terms of trade, as a result of declining prices for their primary products coupled with dramatic increase in oil prices. The scale of indebtedness of these countries in world terms is not substantial and particular measures should therefore be taken to bring the terms of debt repayment for these countries into line with their longer term capacity to pay, while upholding the basic principle that obligations should be honoured.
15. The governments of creditor countries should support the establishment of the mechanisms such as the Paris Club. They should take account of the vital interests of debtor countries, in particular, in a lowering of world interest rates and in trade expansion when they formulate their macro-economic policies. Stability and confidence would be greatly enhanced if governments of the Organization of Petroleum Exporting Countries (OPEC), other governments and central banks would agree to consolidate a larger part of their deposits into medium term bonds.

16. The international financial institutions must be furnished with a level of financial resources commensurate to their tasks. Banking legislation should be harmonized, particularly with regard to reserve requirements among the major creditor countries. Governments of creditor countries must also anticipate lower tax revenues due to the losses of commercial banks.
17. It is important to work towards international understanding on a coherent set of measures along the lines set out above, constituting in effect, a General Agreement to Lend.

## **II Development**

18. Policies to promote the development of developing countries should take into account the economic situations and objectives of individual countries and strive for appropriate conditions for intensive international co-operation for development. There are no easy, general solutions: progress can only be made step by step.
19. While the debt crisis is the main cause of the recent setback to development in the middle income countries, the deterioration of the terms of trade has also been critical, particularly to many low income countries. Natural disaster and catastrophic climatological conditions have further aggravated the desperate situation of many developing countries. The continuing excessive population growth in many areas implies that per capita income has been falling in many places. A resumption of development will again demand contributions from all the parties involved: from the developing countries themselves, whose own efforts contribute most, from the western developed countries, and from the centrally planned economies.
20. Developed countries, of both East and West, have a singular responsibility to increase trade and aid and to encourage the transfer of technology which is essential to modernisation and adjustment, and thus to exports and the servicing of debt. Recent measures that have curtailed the magnitude of contributions by multilateral organizations to the cause of development are misguided and run counter to the very interests of developed countries. The replenishment of the International Development Association (IDA) should be concluded rapidly and at the level proposed by the World Bank management. This should be done, whether or not all countries are prepared to contribute their previously agreed shares.
21. Initiatives by the management of the World Bank Group to strengthen and enlarge its operations should be strongly supported. In particular, there should be a substantial increase in World Bank capital. The United Nations Development Programme (UNDP), as the central agency for multilateral technical assistance, must have significantly increased support in view of its critical role in assisting developing countries in heightening human skills which is the foundation of effective and sustainable economic development.
22. The developing countries at all levels of development have the principal responsibility for their own development. The experience of a number of East Asian countries has demonstrated the beneficial effects of policies emphasizing human resource development, population planning, exploitation of the possibilities offered by international trade, and encouraging direct private investment, which is the most efficient way of transferring technology, compatible with the objectives, values and conditions of each country. In addition, developing countries stand to gain substantial dividends from helping each other in a more systematic way, through regional co-operation, and economic and technical co-operation among themselves.

23. The particular problems of the least developed countries require urgent and sustained attention through intensified assistance from the wider world community. There is an urgent need for a rapid increase in concessional assistance to these countries, together with measures in the field of trade and technical co-operation to increase their earnings and strengthen their domestic capabilities.
24. In order to promote a dramatic increase in resources for the deprived peoples of these countries, the InterAction Council intends to launch an extensive campaign so as to mobilise public opinion throughout the world, together with private sector organizations, in particular, corporations and banks.

### **III Trade and Protectionism**

25. The resolution of the debt crisis, and restoration of sustained global economic growth depend directly upon the trade policies of governments. A large and growing share of world trade, already more than half of all trade, is restricted by protectionist measures or distorted by subsidies. The trend towards protectionism and deterioration of trade relations among nations must be arrested and reversed.
26. Towards this end, determined efforts must be made to restore the effectiveness of the General Agreement on Tariffs and Trade (GATT) and to bring governments back under the multilateral discipline of mutual rights and obligations embodied in the GATT.
27. As a first step, efforts should be intensified to implement already agreed obligations to pursue the work programme of GATT. A new round of trade negotiations could be initiated with the aim of liberalizing world markets, arresting the spread of economic nationalism and protectionism. Such a new round could contribute to restoring confidence in the multilateral approach to the management of trade relations. Until the time, however, that its results can come into effect, other actions with greater immediacy are also needed.
28. As an additional step, the major trading nations should commit themselves to bring all of their import restrictive actions, both formal and informal, into the GATT framework for multilateral scrutiny. They should refrain from any new safeguards or restrictive actions outside the rules of GATT, arresting the present erosion in international discipline and the rule of law, and opening the way for a mutually agreed process of rolling back present restrictions.
29. Developed countries should reduce tariff and non-tariff trade restrictions, particularly on exports from developing countries, and should do so on a non-discriminatory basis. In addition, they should reduce overproduction in certain sectors, such as agriculture, textiles and steel, and refrain from engaging in barter trade. To counter the disruptions in export earnings that periodically occur for those countries dependent on one or few commodity exports, international schemes such as a widened STABEX type arrangement should be developed.
30. If there is significant resistance by some governments to such liberalisation, then an effort could be made, among those countries willing to do so, to explore the outlines of a more co-operative and liberal trading relationship based on agreement among them on a code of liberalisation. Such a code would include commitments that members would not increase protection against other members, that they would eliminate illegal forms of protection, and that they would seek to liberalise all existing restrictions. Such a code would be open to the accession of other states in due course.

31. Consideration could also be given to the negotiation of regional or more broadly based free trade arrangements to reduce gradually the inhibiting effects of protectionism to open the way for trade expansion among them.

#### **IV Co-ordination of Policy and Institutions**

32. The beneficial effects, especially to developed countries, of the recent economic recovery in the United States are fully recognized, particularly in terms of increased exports to the United States by other countries and the resulting export-led growth. Such recovery has, however, severe disadvantages and is in any event unsustainable in the longer run. Extremely high real interest rates magnify the debt problem and restrain productive investment and thereby employment around the world. They induce a large net capital inflow to the largest national economy in the world, which is not tolerable on the present scale over extended periods.
33. There is an ever present danger that a loss of confidence in the dollar will precipitate a depreciation that would oblige the Federal Reserve Board to raise interest rates further, risking renewed deep depression. Prompt action to reduce the US budget deficit substantially is therefore imperative for sustainable revitalization of the world economy.
34. Present mechanisms for effective coordination of the economic policies of the major industrialized countries, including summit meetings have recently proved ineffective. Clearly, there is an urgent need to achieve more reliable and responsive inter-governmental co-ordination of economic policies. To help accomplish this goal, the InterAction Council will seek to convey to present government leaders the merits and urgency of such systematic co-ordination and especially the prompt adoption of responsible fiscal policies by all major powers.
35. International co-operation is also frustrated by institutional rigidities. For example, while there is an intimate interaction between the world trade and financial problems, there is little serious effort to deal with the totality of the present crisis in a comprehensive manner.
36. The fundamental split in economic powers and responsibilities in capitals is reflected in the differences among the multilateral economic institutions. The IMF is focused almost entirely on short-term financial and macro-economic difficulties; the multilateral development banks are primarily concerned with supporting new projects for agriculture, industry, or social and economic infrastructure; the GATT has concentrated its energies on sector-by-sector trade disputes, and on periodic renewal of world-scale efforts to liberalize movements of goods, without regard to capital flows and exchange rates.
37. It is essential to improve co-operation among the major multilateral economic institutions and within the Development Committee of the World Bank. Also, co-operation between GATT and the United Nations Conference on Trade and Development (UNCTAD) should be intensified. The InterAction Council intends to promote support for such co-operation.

## **V International Monetary Reform**

38. Present monetary arrangements, embodying as they do volatile relationships, have not proved generally satisfactory. Discussions of reform are in progress in many fora and no one at present has an overview of the thrust of all these discussions. There is as yet, no sign of the emergence of a new consensus among the major economic powers. The InterAction Council will continue to work for a consensus on monetary reform.
39. The InterAction Council, while continuing to review these issues further, at this stage stresses the following particular issues in the field of monetary reform:
  - The need for greater stability between the dollar, ECU and yen, without a freezing of their exchange rates. This must, however, not be achieved at the cost of unsatisfactory domestic performance in the countries involved;
  - The need for an annual allocation of a limited quantity of Special Drawing Rights for several years;
  - The need to provide for a future increase in IMF resources which might be achieved by arrangements for increased borrowing from governments, so as to allow the financing of medium-term adjustment programmes.
40. Finally, the InterAction Council is fully aware of the importance attached by many concerned parties to the convening of an international conference on monetary, financial and debt issues. It recognizes, as stated above, the need for both immediate measures in response to the present crisis, and for fundamental measures to re-establish the world systems of money and finance on a sound basis, sustainable over the long term. Short-term and long-term measures must, of course, be mutually reinforcing.
41. The InterAction Council stresses the clear need for a continuing study of all the issues so as to clarify the possibilities for constructive changes and for international agreement on interim and longer term measures. The Council intends to review this matter thoroughly at its next session. In the long run, a greater degree of stability of exchange rates and much greater discipline of governments in orienting their monetary and fiscal policies in relation to their balance of payment situation is clearly indispensable.

## **VI Peace, Security and Disarmament**

42. The complete breakdown of contacts at the top level between the United States and the Soviet Union has led to a dangerous deterioration in the relationship between the two superpowers, aggravating local instability and diminishing the capacity of either country to play a constructive role in regional conflicts.
43. The Council urges the leaders of both countries to re-establish a personal dialogue at the earliest possible date and invites the leaders of other concerned countries to lend their weight to achieve this goal. Even if no result is achieved other than the fact that the leaders of the two superpowers will be getting to know each other, a summit of this kind would serve an important purpose. Communications must be maintained among all governments, regardless of political ideology. The Council believes that proposals to reduce tensions should not be

made public before they have been presented to a negotiating partner as this will very likely result in a negative response.

44. An increasing number of developing countries are now diverted by conflict from the essential task of advancing their development. Every effort must therefore be made to avoid an extension of the East-West confrontation to the developing world. Regional efforts towards peace should be encouraged and strengthened, such as those by the Contadora Group in Central America and the Association of South-East Asian Nations (ASEAN) in South-East Asia. The Council expresses its strong support for such efforts, which will not only promote peace and development, but also enhance democratic structures in the countries concerned.

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