

The Double-Bind of Oil and Aid - A Way Out

In the search for a solution of the present oil problem very little attention is apparently being paid by the developed nations to the plight of the non-oil producing developing countries (LDCs). In fact the emphasis in the analysis so far has tended to be concentrated primarily on (i) the effects of the increased cost of oil imports on the balance of payments of the industrial Western World, specifically the member countries of the Organisation for Economic Cooperation and Development (OECD), and (ii) what will the Arab oil producing states do with the huge surpluses accruing to them, or more significantly, how will the recycling of these surplus funds affect proposals for reconstituting the international monetary system. These are of course, extremely important aspects of the problem. There is a danger though, that by concentrating on them one could quite easily miss what to a number of people is an equally crucial consideration, namely the fact that the non-oil producing LDCs are the ones who will suffer most from the present oil crisis.

Firstly, the « openness » of their economies makes them extremely vulnerable to any major shifts in output and income taking place in the developed countries. Secondly, their basic lack of resilience suggests that their economies will only be able to readjust to the rapidly changing world situation at great economic and social cost domestically. Thirdly, their record in the field of international cooperation is far from encouraging. What has now come to be recognised by the developed countries as a *sine qua non* for effective action could very well prove to be the major stumbling block as far as these countries are concerned. As a matter of fact, given their past history one would expect the present brittle basis of cooperation and unity between them to disintegrate, if the crisis were to deepen.

The purpose of this article is therefore, first of all, to call atten-

tion to the particular predicament which the present oil crisis poses for these countries, and to show that given their fragile economic structures, their limited range of options and scope for effective action, they are in fact its real casualties. Secondly, and on a more positive note, it suggests a possible way out of what, for the majority of them, can only be described as a veritable double-bind. It cannot, however, be too strongly stressed that in the present atmosphere of uncertainty which overhangs the whole international scene any plan or proposal which one puts forward at this stage must perforce be both tentative and unsophisticated. New developments are taking place almost daily, and the situation itself is constantly changing. No one knows when or what the next major breakthrough will be, and one's analysis can quite easily be overtaken by events. These two elements of uncertainty and constant change must therefore necessarily counsel caution in the analysis and relevance of existing data, but more particularly, the vigour and conviction with which one puts forward any set of proposals.

Having said that, perhaps the best way to begin is by sketching out the broad dimensions of the problem, and its likely effects upon the non-oil producing LDCs. The basic causes are by now familiar enough. On 17th October last year, the Arab Gulf oil producing States raised the posted price of light crude oil by approximately 70%. This move was subsequently followed in varying degrees and forms by the other members of the Oil Producing and Exporting Countries (OPEC). The price of Arabian light crude was again increased to about \$ 11.65 per barrel on January 1st of this year. Since then there have been some minor reductions and fluctuations, but generally speaking, the price of crude oil has tended to settle around about the \$ 10.00 per barrel mark (1).

Whether or not the price of oil will stay at this level is very much an open question, depending as it does, upon a number of imponderables, for example, the outcome of the wider world energy crisis, of which oil is itself an integral and very significant part.

(1) In actual fact there are two quotations for oil prices. The first, posted prices, are basically bookkeeping prices, and are used as a basis for the calculation of tax and royalty payments. The second, market or world prices cover that part of production which is not disposed of by the major oil companies. At the present time, the world price of crude is about \$9 to \$10 per barrel, while the average North American posted price is about \$7.00 per barrel.

Obviously, developments taking place in the former are bound to affect the outcome of the latter, and vice versa. More importantly though, the policy of the Arab oil producing States will inevitably be one of the major deciding factors in what happens next. At the moment there is no agreed policy regarding the long-term optimum supply and rate of exploitation of their oil reserves (2).

The immediate effect of quadrupling the price of oil is shown in table 1. The «guesstimates» are based on the following main

TABLE I
THE CURRENT ACCOUNT ARITHMETIC
(\$ billion)

	1973 Outturn (est.)	1974 Guesstimates			Reserve Holdings end - 1973
		Pre-oil crisis forecast	Addi- tional oil bills (inc. = -)	Post-oil crisis forecast	
United States	+ 1.5	+ 7	- 10½	- ½ to - 3	14.4
Canada	- 0.6	- ¼	—	—	5.8
Japan	—	+ 1½	- 9½	- 7½	12.2
Britain	- 3.7	- 3½	- 4½	- 7½ to - 9	6.5
France	+ 0.4	+ 1	- 5	- 3½	8.5
Germany	+ 3.8	+ 4	- 5½	nil to - 1	33.1
Italy	- 2.2	- 1	- 4¼	- 5 to - 6	6.4
Other Industrial Countries .	+ 4.6	+ 1¼	- 12	- 8 to - 11	52.9
Industrial World	+ 3.8	+ 10	- 51	- 33 to - 40	139.8
LDCs oil Importers	n.a.	- 15	- 9	- 15 to - 22	29.4
OPEC Countries	n.a.	+ 5	+ 60	+ 55	11.3

Source: « Figuring Out the Oil Crisis », *The Economist*, March 23, 1974, Survey p. 8.

(2) Basic differences of approach still have to be reconciled. Saudi Arabia, the largest producer with the largest reserves, is on record as favouring an overall reduction in posted prices to about \$7.00 per barrel. Iran, on the other hand, with its larger population and broader industrial and techno-structure, is anxious to exploit its oil resources over a much shorter time period. Consequently, her policy is aimed at maximising government "take", i.e. revenue taxes and royalty payments. It is of course too early to say what the final outcome will be. Broadly speaking though, Saudi Arabia's policy is consistent with the express wishes of OECD member countries, to try to secure a landed price of between \$ 6 and \$ 8 per barrel. It is reasonable to assume therefore, that there will in fact, eventually be some rolling back of present prices, though when and to what extent are again anyone's guess.

assumptions: (i) posted prices will hold throughout the year as at today's (i.e. March 23) level, (ii) actual oil supplies will not fall short of «normal» demand at current prices. In other words rationing on political grounds will disappear, and (iii) the oil producing countries will increase the level of their imports from the oil consuming countries, particularly the industrialised nations.

The absolute range of the figures in table 1 succeeds in capturing the real and immediate impact of the crisis insofar as the OECD and OPEC countries are concerned. They show the former group of countries plunging into a massive deficit, at the same time as the latter emerges with untold new wealth (3). But this is only a limited reading of the true picture. There are a number of factors which are expected to cushion the fall of the OECD countries' deficit. For example, the Arab oil producing countries are expected to spend some of their surplus revenues on exports from them. Estimates put this figure at between \$ 7 and \$ 10 billion. Arab surplus funds also will no doubt be invested in the developed countries. Then there is the substantial reserve holdings of the group, currently standing at \$ 139.8 billion which can be drawn on, as and when the need arises. Notwithstanding these counter-vailing factors, the amount of funds changing hands, so to speak, will still be very substantial and liable to cause considerable disruption to the international payments system, if not handled properly.

The figures do not however do full justice to the non-oil producing LDCs, whose combined oil bill is shown as rising by \$ 9 billion for 1974 alone. Of course this figure is substantial enough as it stands, but in order to get a clearer idea of its real burden and what it means to these countries, it must be seen first of all against the background of longer-term trends of world payments.

In fact, over the last three years the deficit of these countries has been averaging about \$ 15 billion annually. The slight improvement registered in 1972 was due mainly to the buoyancy of commodity prices in world markets. Although these prices have continued to hold, the most they can even hope to achieve is a temporary respite. They are unlikely to shift the underlying downward long-term trend. In other words, even without the oil crisis these

(3) The surplus of \$ 50 billion is just one of many estimates currently making the rounds. Collectively these range from about \$ 40 to \$ 80 billion. As things become clearer, those nearer the lower end of the scale seem closer the mark, \$ 50 billion may not therefore be an altogether unrealistic figure.

countries would have experienced a substantial deficit on their current account as in previous years, and all that the increased cost of oil has done for them is to make bad matters worse.

The trends for the OECD countries, on the other hand, are more volatile and clearly reflect a crisis situation from which these countries can and probably will quickly recover, given the resilience and basic economic strength of their economies. The picture for the non-oil producing LDCs is altogether different. There is a sort of inexorable downward march of events. The crisis for them is not temporary, but permanent and pervasive. It has not been caused by the quadrupling of oil prices, though the consequences of that particular event hang heavy on them.

Just what it means to these countries can be estimated by relating the additional oil bill of \$ 9 billion to their slender reserve holdings, which according to the final column of table 1, stood at \$ 29.4 billion at the end of 1973. Extra oil costs in 1974 will run to something like one third of their reserve holdings for 1973. Perhaps a more meaningful indication of the real burden of the oil crisis can be obtained by comparing the extra oil costs with the gains from the commodities boom which these countries are presently enjoying and which would just about cover the extra cost of oil. Having to pay the bill in full means in effect that they will be handing over virtually all the gains from the boom in commodity prices to the oil producing countries.

Much the same thing would happen if the effects of the increased cost of oil were compared to the amount of aid received, a rather more permanent form of government supplementation and probably a better basis for comparison. At the moment the non-oil producing LDCs receive about \$ 9 billion annually in aid. If the oil crisis were to continue for any length of time, they could quite conceivably find themselves having to utilise valuable development aid funds for paying for imports of oil and oil related products. It is really not necessary to spell out what this would mean for them economically as well as socially. On one hand they have to forgo the gains from booming commodity prices in order to cushion the immediate impact of the crisis, and on the other, if it persists, they will either have to dip into their reserves, or utilise their aid receipts.

It can of course be argued that the overall impact may in fact be a great deal less for two main reasons. Firstly, it now seems likely that there will be a rolling back of oil prices before long,

partly as a result of Arab policy, and partly because of the cuts in consumption due to consumer government measures, and also by the economic slowdown now spreading throughout the world. Secondly, the Arab oil producing countries can be expected to invest some of their surplus funds in the non-oil producing LDCs. Both of these are indeed real possibilities, and to the extent that they do happen, they will lead to a downward revision of the estimates of the deficit on current account of both the OECD and the non-oil producing countries. Table 2 gives some indication of how this can be expected to turn out. The figures used here do not correspond exactly to those shown in table 1, but as no definitive statistics are as yet available and the situation itself is still very fluid, no great injustice will in fact be done to the analysis.

Table 2 is based on the assumption that the potential rise in surplus funds for the OPEC countries will be \$ 60 billion, of which \$ 50 billion will come from the OECD countries and the other \$ 10 billion from the non-OECD countries (the non-oil producing LDCs, that is). It then assumes that there will be a reduction of \$ 10 billion due to the fall in demand brought about by the high price of oil, made up of \$ 8 billion from OECD and \$ 2 billion from non-OECD countries. A further reduction of \$ 10 billion is also assumed to take place due to a reduction of \$ 2 per barrel in the price of oil as from June this year. The same pattern of distribution is assumed to hold, and the overall effect would be

TABLE 2

THE OPEC COUNTRIES BANK ROLL: HOW MUCH WILL IT GROW IN 1974?
(\$ billion)

	From OECD countries	From Non - OECD countries
Potential rise in receipts	50	10
Fall in demand due to high prices	- 8	- 2
Assumed \$2 price cut in June 1974	- 8	- 2
Actual increase in receipts	34	6
Amount spent on imports	- 8	- 2
Available for investment	26	4

Source: *Monthly Economic Letter*, First National City Bank, New York, February 1974, p. 4.

to reduce the surplus to \$ 40 billion (\$ 34 billion from OECD and \$ 6 billion from non-OECD). If the OPEC countries spend another \$ 10 billion of this amount on inputs as shown in the table, this would leave \$ 30 billion available for investment, of which \$ 26 billion would find its way to the OECD countries, and the other \$ 4 billion to the non-oil producing countries.

Of course, if things were to work out as neatly as this, a lot of bother would be saved. The non-oil producing LDCs, for example, would profit immensely from an immediate injection of \$ 4 billion. The possibility of this happening is unfortunately rather remote. First of all, the assumptions in respect of these countries are overtly over-optimistic. It is doubtful whether they can reduce their expenditure on oil imports by \$ 4 billion. Not only would such a reduction imply that they have considerable room for effecting substantial economies of consumption, but also that their economies possess a degree of resilience which enables them to respond and readjust readily to major shifts in world prices. Both of these assumptions do not accord with known facts about their structural rigidities and market imperfections.

Similarly, it is over-optimistic to assume that the Arabs will spend another \$ 2 billion on imports from the non-oil producing countries. They do not have the exports which the Arabs need, and in sufficient quantities. There will, of course, be some increase, and although most of them would hope to benefit as much as possible from the oil boom, there is not much possibility of them significantly increasing their exports to the Arabs in the immediate future. Finally, the figure of \$ 4 billion shown as available for investment is probably the furthest off the mark. Not because these countries cannot absorb this amount of investment, but because in the nature of the exercise, most of the recycled Arab surplus funds will find their way back to the OECD countries, or be invested in the Euro-currency markets, with their higher rates of return. Further, the table suggests that investment in both sets of countries will be kept separate with each receiving a share of the total investible funds proportionate to its collective deficit. However, in the absence of a specific discriminatory policy by the Arabs in favour of the non-OECD countries, this is unlikely to happen. The lion's share will go to the OECD countries, and a marginal amount, variously estimated at between \$ 1.5 to \$ 2 billion, will probably be invested in the non-oil producing countries.

What this amounts to is that the figures wildly exaggerate the extent to which the non-OECD countries can adjust to the rapidly changing international situation. The real situation facing them is made even more depressing by at least two other disturbing trends. Firstly, the steep rise in oil prices not only increases their deficits on current account, it will probably also reduce their aid receipts, which are financed from the joint surpluses of the OECD countries. With the donor countries themselves now experiencing unprecedented deficits they are unlikely to maintain existing levels of aid. In fact there is really no doubt that aid flows will be one of the first items to be cut back if the price of oil stays at its present level. Even if it is reduced by \$ 2 per barrel as suggested in the table, this is still likely to cause a reduction in aid disbursements. The recent vote of the American Congress to cut off the U.S. Government subscription to the International Development Association (IDA) is indicative of the sort of thing that one can expect.

Secondly, the general slowing down of the level of economic activity which most of the developed countries are experiencing at the moment will inevitably spill over into the non-oil producing developing countries, resulting, among other things, in a fall in demand for their exports. Obviously, if the developed countries can avoid a recession and maintain even a modest rate of growth, then the non-oil producing LDCs stand a better chance of maintaining their present levels of foreign exchange earnings, and also of meeting part of the increased cost of their oil imports.

The general picture which emerges from this brief analysis is that of a group of countries which appears to be very firmly locked in a double-bind of mounting oil bills and growing deficits on the one hand, and falling export earnings and falling aid receipts on the other. These two gaps, which reinforce each other, are expected to grow over time, and will lead ultimately to an increase in the amount of indebtedness incurred by these countries. Higher oil bills mean a crippling and ever-widening deficit which will have to be bridged either by reserve depletion or ultimately getting deeper into debt.

Although their reserves can theoretically provide some sort of a cushion, the extent to which these can be run down is very limited for a number of reasons: (i) reserves are not evenly distributed, (ii) some countries have built up their reserves by borrowing, (iii) others use them as reserve backing for borrowing purposes, and to run them down would seriously impair their creditworthiness in the world's

capital markets. Given these different considerations therefore, and also the fact that a reasonable amount must be held for purposes of financing trade, meeting future contingencies, and so on, it would seem reasonable to assume that not more than about 20% of their collective reserve holdings will be used for meeting higher oil bills in 1974 and 1975, conceivably the period of the immediate crisis.

This leaves borrowing as the next alternative for raising additional funds. Before looking at the prospects here, a few brief words are necessary about the dimensions of the gap to be financed. This is given in table 3 for a group of 32 non-oil producing LDCs for 1974 and 1975. It assumes a price of oil of \$8.65 per barrel, and the countries are divided into three groups. The high income countries are those with an income of \$340 per capita, the middle income ones between \$200 and \$340 per capita and the low less than \$200 per capita (1971).

Assuming that the high income countries can finance about 80% of the net additional finance required from their reserves and/or by

TABLE 3
ESTIMATES OF 1974 AND 1975 BALANCE OF PAYMENTS DEFICITS,
POSSIBLE SOURCES OF FINANCING FOR SUCH DEFICITS AND
REMAINING GAP TO BE FINANCED (Figures in U.S. \$ million)

	Current Est. of Resource Gap		Est. Inc. in Net Capital Transfers Available to Meet Resource Gap *		Net Add. Financing Required		Potential Use of Reserves and IMF Facilities		Gap to be Financed	
	Inc. in 1974 over 1973	Inc. in 1975 over 1973	Inc. in 1974 over 1973	Inc. in 1975 over 1973	1974	1975	1974	1975	1974	1975
	High Income countries	3010	4161	10	-445	3000	4606	2382	2570	618
Middle Income countries	1710	2571	2	227	1708	2344	835	725	873	1746
Low Income Countries .	1388	1960	-17	2	1405	1962	762	299	653	1751
Total All Countries . .	6108	8692	-5	-216	6113	8898	3979	3594	2144	5773

Source: *Additional External Capital Requirements of Developing Countries*, An Analysis by the Staff of the World Bank Group. Washington, March 1974, Table 8 (as amended).

* Includes net transfer of public and long-term capital, net direct foreign investment, public and private transfers, and workers remittances. Excludes autonomous private flows, reserve changes, short-term capital, and private long-term borrowing.

taking advantage of the proposed IMF facilities, this would leave a gap of about \$618 million for 1974. This is expected to grow to \$2276 million in 1975. It is assumed that the other two groups can only manage to finance about 50% in 1974. In 1975 the figure is expected to be even less. In the case of the middle income countries it falls from \$835 million to \$725 million, and for the low income ones the contribution runs to less than 40% of the 1974 figure. On the basis of these figures the gap to be financed will almost treble over the next two years. Although by far the greatest proportion of this amount will have to be met by the high income countries, they are unlikely to be the ones most severely hit by the crisis. Most of them will probably be able to raise additional funds on the world's capital markets without unduly impairing their international creditworthiness. Even then there will exist a substantial gap to be filled.

The question which obviously springs to mind at this point is how will this gap be financed? There are at the moment a number of proposals for making available more funds to the non-oil producing LDCs on concessionary terms. The Arab Oil States are reported as being prepared to establish a fund of some \$200 million through the Organisation for African Unity (OAU) to provide loans at 1% repayable in 5 years after a grace period of 3 years, mainly for the benefit of those African States which have supported them in the present Arab Israeli conflict. Libya has proposed a three-tiered oil pricing system. At the top of the tier would be the Islamic countries who would receive most favoured nation treatment, followed by the other developing countries. The industrialised countries would come at the bottom, though special reductions would be given to those countries supplying Libya with technical assistance and arms.

The most recent issue of Arab Oil and Gas reports that « Several OPEC member countries have undertaken to put at the disposal of the International Monetary Fund (IMF) amounts totalling \$3.2 billion to aid the poor countries affected by the oil price increase. These commitments include 1 billion Special Drawing Rights (or about \$1.2 billion) from Saudi Arabia, 600 million SDR (\$720 million) from Iran, 450 million SDR (\$540 million) from Venezuela and the rest, or 700 million SDR (\$840 million) from other OPEC countries » (4).

(4) *Arab Oil and Gas*, published by the Arab Petroleum Research Center, Vol. III, No. 64, 16th May, 1974, p. 22.

The World Bank Group is also discussing with the Arabs ways and means by which its expertise and facilities can be utilised for channelling more funds to the developing countries. The replenishment of I.D.A. through increased Arab contribution is an obvious candidate for more concessionary funds. In addition, there are a growing number of regional schemes. There is therefore no dearth of proposals for recycling Arab surplus funds to the non-oil producing countries.

Commendable though these are, they all point, in the final analysis to one single inescapable fact, namely that they will inevitably increase the burden of international indebtedness falling on these countries. While this is not altogether unexpected, it is nevertheless, unfortunate, and also highly undesirable for at least two reasons. Firstly, the developing countries are already heavily overburdened with international debts. Any more debts which they are forced to contract at this time will not only cripple their economies and retard their development, but more significantly, affect their creditworthiness and ability to raise funds on the open market now and for the foreseeable future. At the moment they are being increasingly forced to enter the Euro-currency markets in order to get a share of the Arab surplus funds which are being recycled there. If present trends continue, it will obviously become more difficult for them to get any of these funds, since as they accumulate more debts they automatically become bad risks.

Secondly, and this is really an extension of the first point, increased indebtedness will defeat the whole point of the exercise, which is not only to help them to get over the immediate crisis, but also from the longer-term point of view, to enable them to cope with the almost perennial state of crisis in which many of them find themselves. What they want in the present situation is not more but less debt. They are very much in a Catch-22 situation. To get out of the double-bind of oil and aid, they require more aid. But to get more aid they will have to get deeper in debt, and if they get deeper in debt they cannot get more aid. If they cannot get more aid, they cannot possibly get out of the double-bind. What is more, they are doubly indebted; to the industrialised developed nations and to the Arabs.

This Catch-22 situation suggests that the problem has been approached from the wrong angle. Too much attention has been concentrated on the immediate effects of the crisis to the almost total

exclusion of its longer-term effects. Although this is understandable, it is nevertheless very regrettable since increased oil prices is only one of the many crises which the developing countries face, and are likely to face in their long uphill struggle for development and social change. In fact viewed in their proper longer-term perspective, the problems brought about by the oil crisis are neither the most urgent nor the most onerous ones facing these countries. Their most urgent and intractable problem is, and has been for a number of years now, the mounting burden of international indebtedness. The oil crisis has of course, contributed to it, but it is by no means its primary cause. What the oil crisis has done is to call attention to the basic weakness and the extreme susceptibility of these countries' economies to international crises. It has also highlighted once again the need to deal urgently and constructively with the deeper and more enduring problem of international indebtedness.

In the light of these considerations, a possible way out of the present double-bind is to use the oil crisis as a catalyst for further and fresh initiatives for reducing the level of international indebtedness. I have already argued the case for debt relief so it is not necessary for me to repeat myself here (5). Nevertheless, the present oil crisis affords a very good opportunity for returning to this particular theme, and for concentrating afresh on the positive and beneficial effects of debt relief to the international community as a whole. In fact it provides the ideal conditions for debt relief to take place expeditiously and relatively painlessly. A brief rundown of the circumstances of the case will show this to be so. (i) The non-oil producing LDCs are the real victims of the oil crisis, (ii) they are already heavily indebted, and can not possibly incur any more debts, either to the OECD or the Arab oil producing countries, (iii) the OECD countries are themselves heavily indebted to the Arabs, (iv) the Arabs in turn need an outlet for their surplus funds, (v) at the same time they have a vested and a growing interest in the smooth and efficient functioning of the international monetary system, (vi) they need the friendship, understanding and support of the international community in their continuing struggle with Israel, (vii) finally, as the principal beneficiaries of the boom in oil prices, they will be expected to give tangible expression to the principles of international cooperation and shared development.

(5) See my article "Aid and Indebtedness - A Proposal", *Westminster National Bank Review*, May 1972, pp. 55-67.

The economic and financial circumstances of the respective partners are therefore right for debt relief negotiations to take place. So, too, are the overall background conditions. The creditor countries, for example, have always insisted that debt relief should essentially be an ad hoc arrangement brought about by a crisis. The present one can thus be used to advantage. In fact it has all the attributes of a classical case for multilateral debt renegotiation. All that is needed is for representatives from the three groups (i.e. the non-oil producing LDCs, the OECD and OPEC countries) to get together under the aegis of an international institution such as the World Bank or the IMF, and to hold discussions on the desirability and/or feasibility of utilising some of the surplus oil funds to relieve the growing burden of international indebtedness firstly as an end in itself, but more importantly, as an essential prerequisite for a concerted and cooperative attack on the wider problem of international stability and the need for an equitable and efficient international monetary system.

This is not going to be an easy task, but given a certain amount of goodwill which apparently does exist at the moment, it should at least be possible for the three groups to reach agreement in principle on these matters. Once this has been achieved a number of smaller technical groups and committees can then set to work on the details of whatever broad proposals have been agreed. Obviously for any scheme to have a chance of being accepted internationally, it must satisfy a number of conditions. Three of these come readily to mind. Firstly, it must ensure that there are certain basic minimum objective criteria for qualifying for consideration for debt relief, a sort of index of relief. The need of this is clear enough since all the non-oil producing LDCs are not affected in the same manner and to the same extent, and simply to offer across-the-board relief may well jeopardise the scheme. On the other hand, if relief is afforded on a selective ad hoc basis this could lead to a number of malpractices and injustices that could equally frustrate the scheme. Some way must therefore be found to combine the particular virtues of these two methods. One possible way is, of course, to make the actual amount of debt remitted additionally dependent on a number of « local » factors affecting the particular country concerned, bearing in mind at the same time wider international issues and considerations.

Secondly, there would have to be adequate safeguards and sanctions against abuse, malpractices, inefficiency, and so on. These, among other things, would entail international surveillance at all stages of

the exercise, up to and including whatever follow-up exercises were agreed upon. Debtor countries would, of course, have « to open their books » to international scrutiny and criticism. This will obviously not go down well with a number of them who will see it as either unnecessary external interference or an attempt to determine domestic policies and priorities and to compromise their newly-won independence and sovereignty. To the extent though that they are unwilling to allow any form of international inspection or evaluation of their debt policies and performance, or otherwise fall down on agreed criteria and commitments, they would forfeit some proportion of the debt to be remitted.

Thirdly, an acceptable formula for the equitable distribution of the costs and burden of the scheme would have to be devised. This is perhaps, the most difficult part of the exercise since it is beset with a number of conceptual and practical problems which will require not only a sound analysis and examination of the issues involved, but also a lot of tact and patient negotiation. It could in fact, well prove the rock on which the scheme founders. But while the risks are great, the pay-off in terms of guidelines and practical experience will undoubtedly prove invaluable for other exercises, for example, in devising the broad outline of a comprehensive stabilisation policy. Other criteria will no doubt come to light once the various specialist committees get down to work out the details.

This part of the exercise should not take longer than two years to be completed since there already exists a substantial body of statistical information and analytical studies on the problem of international indebtedness. To a large extent therefore it would simply be a matter of collecting and comparing existing data, checking hypotheses, assumptions, methodology, techniques of analysis, and so on, and finally coming up with a set of proposals which are likely to command support for moving on to the other part of the exercise. As a corollary it would be necessary for the creditor countries, principally the developed countries, to declare a moratorium over the same period (i.e. two years) on the repayment of all forms of official and officially guaranteed debts, interest as well as capital repayments. The purpose of this provision is twofold. First of all it provides a necessary breathing space for a cool and dispassionate analysis to take place. Secondly, it gives the whole exercise a sense of urgency for effective action to follow.

The discussion so far has been conducted in general terms on the principle of using some of the substantial resources « changing hands » due to the oil crisis to help to relieve the growing burden of international indebtedness. One possible way of doing this is for the Arabs to agree to institute a system of capital grants (as distinct from loans) for development purposes in consideration for the developed countries in turn agreeing to write-off some of their long-standing and very dubious development debts. The way in which this scheme would operate is as follows:

The Arabs would establish a Development Fund to be financed from oil revenues. The exact size of this Fund will depend on a number of factors, but one of the most important would be the extent to which the developed creditor countries would be prepared to match it by « writing off » some of the development debts owed to them. The basis of the matching principle will have to be worked out, but the broad principle should be « the more debts remitted, the larger the size of the Fund ».

Once the Fund is established the non-oil producing LDCs, the debtor countries that is, would then be invited to submit applications for grant aid for the purpose of financing various development projects. The amount of grant aid approved would be subject to two major considerations, (i) they must be spent on imports of machinery, equipment and other capital goods from the developed countries and (ii) they must be considered essential to the development effort, and procured on a competitive basis. Obviously those countries whose export prices are more competitive and who are in a stronger balance of payments position will succeed in capturing a longer share of the additional export orders which the scheme will set in train. This is not necessarily a bad thing. In fact it is very desirable since it will among other things facilitate the transfer of resources to be shifted about. But if for any reason it were deemed undesirable special provisions favouring particular policies and country cases could be written into the agreement.

By making it a condition of assistance that the grants be spent in the developed countries on a competitive basis the scheme ensures that all the parties will benefit. The non-oil producing LDCs will be relieved of part of their debt burdens twice over. Once as a condition of the institution of the scheme, and again when they receive grants instead of loans. This double relief (debt relief plus grants) provides more funds for development purposes (i.e. imports of capital goods),

and it decreases the level of their indebtedness. Most of the present proposals emphasise the increased use of loans which will eventually increase the level of indebtedness. Grants will achieve precisely the opposite effect, they will also help to promote development.

The developed creditor countries for their part will forfeit a part of their future stream of overseas income to the extent that they agree to write-off any development debts owing to them. Against this though they will be able to increase their exports of machinery, capital goods, and so on, thereby earning more foreign exchange. This in turn will enable them to pay for their oil imports, and at the same time relieve the pressure on their balance of payments. It will also stimulate domestic investment and the level of economic activity and help to get them out of the downturn which many of them are presently experiencing.

The Arabs will benefit from the scheme as well. By matching capital grants to debt relief they can bring pressure on the developed creditor countries to reduce the debt burden of the developing countries, while they themselves are doing something positive to promote the development of these countries. This will not only earn them the goodwill, understanding and international support which they so badly need, but probably of more direct importance to them, it will ensure that the price of oil stays at, or close to its present level. It is pretty well agreed that the pre October 1973 price of oil was inordinately cheap. By the same token it would appear that the present high prices are due for a roll back. By shifting the spotlight away from the immediate crisis, the scheme ensures that whatever price is finally agreed will reflect the real economic cost of oil. On a broader plane, the Arabs have a very strongly vested and continuing interest in the stability of the international monetary system. It is essential to them, with their new-found wealth, that the system functions smoothly and efficiently, and that the recycling of the massive sums involved cause as little disruption and dismay as possible. Other proposals, by and large, either ignore or marginalise the role and function of the developing countries in the stability of the international monetary system. This one seeks to involve them; obviously it is still somewhat rough around the edges, but the central arguments are strong enough to bear serious consideration.

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