The Pakistan Development Review
Vol. XVIII, No. 3 (Autumn 1979)

Some Observations on the Geographical Structure of International Deficits and their Financing

ROBERT TRIFFIN*

1. DEFECTS IN THE ESTIMATES

I should note at the outset that many defects exist in the statistical estimates that are used in the field under discussion. The estimates most often cited come from the OECD, which purport to show, for December 1977, a discrepancy of more than $88 billion over the years 1974–1977 ($22 billion a year) between the current account surpluses of the OPEC countries ($175 billion) and the accumulated deficits of the rest of the world ($264 billion) [4, p. 64]. This discrepancy is almost equal to the total deficits of the OECD countries during that period ($98 billion). There appear to be discrepancies of the same order of magnitude in the estimates of the transfers of capital and monetary reserves between various countries.

I must ask you, therefore, to take the following observations with several grains – rather several bags – of salt, the more so since they are based on estimates from different sources which are not completely comparable. Undoubtedly the services of the World Bank – considerably more substantial than those of a professor on sabbatical leave – could make a significant improvement in the observations.

2. GEOGRAPHICAL STRUCTURE OF THE IMBALANCES OF CURRENT ACCOUNT

My only observation is that the geographical structure of the deficits on current account is the worst imaginable from the human and economic standpoints. The richest and most capitalized countries in the world should normally have large surpluses on their current accounts (1 percent of their GNP, according to the pious wishes constantly reiterated at the United Nations) allowing them to finance, in real terms, an acceleration of investment for development in the poorest and least capital-

*The author is Professor of Economics at the Yale University. This paper was originally published in French in the *Revue Economique*, Vol. 29, No. 6 (November 1978). It was kindly rendered into English for this journal by Dr. Robert D'Arcy Shaw, Representative of the Ford Foundation at Islamabad.

ized countries of the Third World. The situation today is exactly the opposite, and promises to remain so in the foreseeable future also.

The OECD countries have accumulated, over the last four years, net deficits totalling nearly $100 billion, that is to say about $25 billion a year on average. Four years after the oil price explosion, they incurred in 1977 a record deficit of about $32 billion, comprising $18 billion in surpluses for Japan ($10 billion) and a handful of European countries ($8 billion) against $50 billion of deficits, including $18 billion for the United States and $13 billion for three of the other richest countries in the world – Canada, Norway and Sweden.

The energy crisis is undoubtedly one of the explanations of this unacceptable paradox, but it is disconcerting to note that not only there has been no improvement in the situation even after four years, but the situation has actually worsened. Indeed, both economists and politicians apparently view with equanimity the persistence of such deficits; they even recommend it as the best available solution to the present recession.

The financing of these deficits surely implies that the developed countries are, and will remain, the principal importers of capital which should normally be directed mainly to those countries that are the least developed and the most short of capital.

3. FINANCING BY MONETARY AUTHORITIES

The national and international monetary institutions have certainly not set a good example in this field. They have permitted or facilitated an inflationary quadrupling of the world monetary reserves, which rose from $79 billion at the end of 1969 to $317 billion at the end of 1977. This means that in eight years the volume of reserves has increased by three times the level achieved in all previous history. But of this total increase of $238 billion, less than 3 percent ($7 billion) has been invested in the developing countries and nearly 94 percent ($223 billion) in the developed countries.[1] This is above all due to the fact that the principal source of increase in global gross reserves (88 percent) has come from the accumulation of *national* currencies by central banks as *international* reserves. The ownership of these kinds of reserves has increased more than six times in eight years, but they are invested almost exclusively in the currencies of a small number of the richest countries in the world: more than 81 percent in dollars and Euro-dollars, 7 percent

[1]The remaining 3 percent is the result of the revaluation from $35 to $42.22 an ounce of the global gold reserves, whose volume has remained essentially unchanged at 40.5 billion SDRs valued at 35 SDRs per ounce in 1977 as in 1969. The market value of this gold has increased nearly 5 times, but this has not yet been registered in the official statistics. In any event, the gold holdings of the developing countries (OPEC and others) is insignificant: less than 3.1 million SDRs at the end of 1977.

in German marks, 1½ percent in sterling, and the rest in other currencies, principally Swiss francs, Dutch guilders and French francs, at the end of 1977 [2, p. 155].[2]

One can conclude from these IMF estimates that the developed countries have incurred in the last six years global deficits (on current account plus net exports of capital) of $98 billion ($17 billion in the period 1970–1973, and $80 billion in the 1974–1977 period). At the same time, the gross reserves of these countries have increased by $126 billion as a result of the $223 billion of monetary reserves invested in their markets.

On the other hand, the oil-exporting countries, having received none of these investments, have increased their net reserves by the same amount as their gross reserves, i.e. by $71 billion, including $10 billion in the period 1970–1973 and $61 billion in the 1974–1977 period. Their reserves have grown nineteen times in eight years, from $4 billion in 1969 to $75 billion in 1977. The net reserve position of the other developing countries has itself more than quadrupled, rising from $11 billion in 1969 to $26 billion in 1973 and to $45 billion in 1977 Undoubtedly, this growth is explained in part by the deposits maintained by the monetary authorities with commercial banks as a condition for a substantial increase in loans by these latter banks to the developing countries (see section 5 below).

4. OFFICIAL FINANCING OF DEVELOPMENT

Based on the OECD statistics, the official aid and other official capital flows not classified as "aid" constituted, during the years 1970–1973, the principal source of global financing of the Third World (excluding OPEC) deficits on current account. These official flows amounted to $41 billion or 79 percent of the current account deficits of $52 billion excluding free transfers. However, in the following four years, official flows constituted no more than 57 percent ($88 billion out of $154 billion) of the deficit financing required.

It will be noted that these official capital exports by the developed countries to the developing countries have, over the last eight years, constituted no more than 58 percent ($129 billion) of the capital received by the former countries in the form of investments of monetary reserves in their capital markets: in the case of the United States, it was only 30 percent.[3]

5. PRIVATE FINANCING

According to the same OECD statistics, the financing of the Third World by the private sector – measured in dollars whose purchasing power has unfortunately been decreasing – has tripled from 1970–1973 to 1974–1977, while financing by

[2]The role of the mark has grown from 2.1 percent in 1970 to 6.9 percent in 1977, while that of the sterling has declined from 9 percent to 1.5 percent over the same period.

[3]$41 billion in external assistance, against $118 billion of monetary reserve investments in the U. S. and in foreign branches of American banks ($26 billion) and $28 billion of SDR allocation.

the public sector has only doubled over the same period. Direct investments have doubled, portfolio investments tripled, and medium-term Euro-credits have increased fivefold, this last category alone financing about 23 percent of the current account deficits in the period 1974–1978, and as much as 30 percent in 1977.

At the end of 1977, short-term and medium-term Euro-credits recorded by the Bank for International Settlements totalled \$657 billion, of which \$92 billion (14 percent) were to the non-oil-exporting developing countries [1], in contrast to \$442 billion and \$63 billion (also 14 percent) respectively at the end of 1975.

This growing role of the private bank credits in the financing of the Third World development, however encouraging it may be, still causes some uneasiness:

(a) On the global scene, the sixfold growth of the Euro-currency market over seven years is in marked contrast to the paralysis of the international capital markets which characterized the great recession in the Thirties, but it is also undoubtedly one of the principal causes of the inflation in which we are currently engulfed. The simultaneous struggle against inflation and recession should be reinforced by an orientation of international credits to those investments that are most likely to cure shortages of production materials that are most essential and cause most inflation, and also to the worst pockets of recession and unemployment. That would require an official effort to direct private capital movements which are today largely uncontrolled. Most particularly, it would require control of offshore operations, which have grown many times in size since 1969 particularly through branches of American banks, and whose extraordinary growth is explained above all by the desire to avoid national regulations and taxes. One can only be surprised that the numerous discussions between monetary authorities have barely touched on this problem.

(b) Concerning the financing of the developing countries, one must ask if this source of credit is likely to continue at the rate of recent years, and also what the impact of a substantial retrenchment would be on the liquidity or even on the solvency of the borrowers. Besides the apprehensions raised in this regard by the excessive indebtedness of certain countries, such a slowing could be brought about also by the success of efforts to stimulate economic activity in the developed countries. In effect, one of the incentives for bank loans to the Third World has been the diminution of credit demands by nationals of the developed countries which have been in recession and which have received an influx of investments to their banking systems from the OPEC countries.

(c) One final point, already forcefully underlined by Mr. MacNamara, deserves to be reiterated. More than 96 percent of the private sector loans have been made to middle-income countries, while less than 4 percent (in contrast to the 32 percent of official loans) have gone to the poorest countries, i.e. those with per capita incomes of less than \$265 in 1975. These poorest countries comprise a total population of 1,132 million, compared with 799 million in the other developing countries [6, pp. 2 and 111(81 countries)].

6. CONCLUSIONS

These few remarks are so brief that they could easily forgo conclusions. I will content myself with a dual observation that is more political than economic.

We should applaud the demonstrated capacity of the private market – most notably the Euro-currency market – to assume a major role in the recycling of surpluses of the oil producers, and to direct a growing, though still modest, part of these surpluses towards the developing countries.

But one can only deplore the inability of the official sector to remedy the fundamental, though universally recognised, weaknesses of the international monetary system, which is now verging on chaos. The official sector has also been unable to provide the direction that is essential to the proper functioning of the operations of the private sector. Our host during this conference, the World Bank, provides an exception to these comments which deserves encouragement and congratulations.

Appendix

Table 1

Global Structure of Current Account Balance of Payments (after transfers): 1970–73 and 1974–77
(billions of dollars)

Countries/Organizations	Total 1970–73	Total 1974–77	Annual Averages 1970–73	Annual Averages 1974–77	Annual 1977 (est.)	Annual 1978 (forecast)
I. OPEC	**16**	**175**	**4**	**44**	**40**	**35**
II. OECD	**18**	**−98**	**–**	**−24**	**−32**	**−23**
U. S. A.	−15	−10	−4	−3	−18	−19
Japan	14	8	4	2	10	10
Germany	7	19	2	5	2	3
Switzerland	1	10	–	2	3	4
Benelux	3	6	1	2	1	2
Others	7	−130	2	−32	−30	−22
III. Non-oil-exporting developing countries	**−31**	**−114**	**−8**	**−28**	**−23**	**−34**
IV. Other countries	**−12**	**−52**	**−3**	**−13**	**−11**	**−12**
V. Total = Errors and Omissions	*−9*	*−89*	*−2*	*−22*	*−26*	*−33*

Source: [4, pp. 64, 65 and 126]

Appendix

Table 2

International Monetary Reserves and Distribution of their Investment by Geographical Area: 1969–77
(billions of dollars)

	Year-end 1969	Year-end 1973	Year-end 1977	Changes 1970–73	Changes 1974–77	Changes Total 1970–77
I. Cross reserves of (=II+III+IV)	**79**	**184**	**317**	**105**	**133**	**238**
Developed countries	63	140	189	77	49	126
Oil-exporters	4	15	75	10	61	71
Other countries	12	30	53	18	23	41
II. Foreign currency						
Owed by the developed countries	**33**	**123**	**242**	**90**	**119**	**209**
III. SDR allocations and IMF credits	**5**	**13**	**27**	**7**	**15**	**22**
Developed countries	4	9	18	5	10	14
Oil-exporters	–	–	–	–	–	–
Other countries	1	4	8	2	5	7
IV. Net Reserves [1] of (=I–II–III)	**41**	**49**	**48**	**8**	**−1**	**7**
Developed countries	26	8	−72	−17	−80	−98
Oil-exporters	4	14	75	10	61	71
Other countries	11	26	45	15	19	34

Source: Derived from "International Reserve Estimates" in [3, pp. 20–25].

[1] For the world this equals the global stock of monetary gold, valued at the last official price of $42.22 per ounce: for each country or group of countries, it equals their global balance of payments.

Appendix

Table 3

Balance of Payments of Non-OPEC Developing Countries: 1970–77
(billions of dollars)

	1970–73	1974	Total 1970–77
I. Current account balance (excluding official transfers)	**–52**	**–154**	**–206**
II. External financing	**67**	**170**	**237**
A. Official	*41*	*88*	*129*
1. Grants	21	41	62
2. Aid loans	13	29	42
3. Other	8	18	26
B. Private	*26*	*82*	*108*
1. Direct investments	9	17	26
2. Portfolio investments	6	17	23
3. Medium-term Euro-credits	7	36	43
4. Commercial credits, repayment of Euro-credits, errors and omissions	4	12	16
III. Net monetary reserves (I-II)	**15**	**16**	**31**
A. Indebtedness (–)	–2	–6	–8
B. Gross reserves	17	21	39

Source: [4, p. 121]

Appendix

Table 4

Foreign Credits and Debts through Commercial Banks at end – 1977
(billions of dollars)

Countries/Organizations	Credits	Debts (–)	Net Positions
I. Net Creditor Countries	**540**	**–433**	**107**
European Group-of-Ten	290	–240	50
Oil-exporters	78	–35	42
USA (including offshore)	145	–137	8
International institutions and non-allocated residual	14	–9	5
Canada	13	–12	1
II. Net Debtor Countries	**119**	**–224**	**–106**
Non-oil-exporting developing countries	63	–92	–29
Other developed countries	41	–70	–29
Eastern Europe		–33	–24
Japan	7	–29	–22
III. Total	*658*	*–657*	*1*

Source: [1, Table 6: External position, in domestic and foreign currencies, of the banks of the Group-of-Ten countries and Switzerland and the offshore branches of American banks]

Appendix

Table 5

Foreign Indebtedness of Developing Countries at the end of 1969, 1973 & 1976
(billions of dollars)

Year-end	Total	Official or guaranteed	Private Unguaranteed
1969	48	43	5
1973	95	79	16
1976	*203*	*157*	*46*
Poorest countries	46	44	2
Other countries	157	113	44

Sources and Notes:

1. 1969–1973: [6, pp. 110 and 111]. Includes 81 developing countries other than the net creditor oil-exporting countries: Kuwait, Libya, Qatar, Saudi Arabia, and the United Arab Emirates.

The poor countries comprise a population of 1132 million with an average per capita income of $265 in 1975, while the other countries have a population of 799 million with an average per capita income above $265. See [6, p. 2].

Excludes from total indebtedness ($224 billion at the end of 1976) the compensatory and oil facilities of the IMF ($5 billion) and loans with a maturity of less than one year ($50 billion) of which $6 billion is in the public sector while the rest is in the private sector. See [6, p. 64].

Credits from American banks and their branches to the non-oil-exporting developing countries were estimated to be $52 billion at the end of 1976, while credits to other countries were estimated at $174 billion. See [6, p. 102].

2. 1976: [5]. Includes all debts with maturities greater than one year for 85 developing countries.

The poor countries are defined as those with per capita income less than $280 at the end of 1976.

3. Regulatory agencies in the United States estimated that the credits from 124 major banking organizations in the U. S. carrying the greatest risks (loans from the banking organization in one country to a borrower in another country in a currency other than that of the borrower) to be $184 billion at the end of 1977, of which $45 billion was to the non-oil-exporting developing countries.

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