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Inflation of Funds

It is indisputable that the developing countries increasingly require foreign exchange. More recently this demand has become more urgent even. The President of the World Bank, Robert S. McNamara, referred to this subject at the annual meeting of the World Bank Group and the IMF. The main reasons for this situation are that the developing countries' growth prospects are threatened above all by four interlocked factors – the persistent worldwide inflation, the mineral oil prices, the deterioration of their terms of trade and the continuous recession in the OECD-countries. These factors did not fail to influence the industrial countries, too. Although the inherent problems were or are not of such a vital importance to them as to many developing countries they are serious enough to make them look for external aid and financial resources.

One consequence of this development was and is the creation of more and more aid mechanisms for special handicaps and bottlenecks of the involved economies. A genuine inflation of various funds set in and at the annual meeting in Washington it was not only not checked but even further promoted. It is just this creation of more and more funds within the framework of the IMF that will not remain without consequences. There are the General Account, the Special Drawing Rights Account, the Oil Facility including the Subsidy Fund, the Buffer Stock Facility, the Compensatory Financing Facility, the extended Medium-term Facility and the planned Trust Fund. Besides the increase of fund quotas (not the change in structure that is due!) and the link between SDRs and development financing, whose introduction is only a matter of time after the majority of industrial countries abandoned their intransigent attitude, belong to this enumeration.

Welcome as it is – and this should be pointed out once more – that the attempt is made to explore all possible avenues and to develop new sources for the development of the so-called Third and particularly the Fourth World, it remains to be seen if this is the right course. For this course reveals only the inclination to solve national and global monetary problems by another inflation of international liquidity. No wonder therefore that at the annual meeting of the IMF the problem of an effective control of international liquidity was not discussed. In view of the alarming worldwide

unemployment and largely idle capacities this is certainly not the most burning of present problems. This, however, is a very short-term aspect and it is not improbable that the funds so generously distributed today will be devoured by inflation tomorrow.

Above all it is precarious that no instruments are to be discovered that could stop such a development since also institutional changes seem to accompany this trend. Just think of it that only a short time ago (only two years have passed since in Nairobi the Outline of a Reform was passed) it was contemplated to further develop the IMF towards an international monetary authority with substantial rights to exercise control and initiatives including sanctions. Instead, the IMF now threatens to grow exuberantly into a gigantic finance pool. This is not only indicated by the untold funds within the Fund but also and particularly by the endeavour to make access to the individual funds easier. (To use an overstatement – the impression is possible that it is only a matter of time when individual countries' special problems will justify special funds). This may not only result easily in the permanent financing of national as well as international imbalances and structural distortions without initiating their elimination, but the IMF will increasingly compete with the World Bank in the financing of development. And thirdly there is a risk that internationally important monetary decisions or measures are not taken at all, or at least less than hitherto, by the IMF. Think of the discussions about the EC-Fund, the Kissinger Fund, etc.

From this point of view it should be taken into consideration if a new and better organisation of institutions should not be envisaged more than hitherto. This, however, does not mean an adaptation of some regulation or agreement to more or less completed developments. What is meant are institutions that can perform their special functions consistently without formal or *de facto* overlaps in competences and objectives. Only thus the actual conflicts between the individual objectives and functions, which will always exist, can be made visible and may have a chance to be discussed and settled openly and not to be obscured in the short term by a flourishing liquidity.

Otto G. Mayer