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Illusions and Disillusionment in Manila

At the recent joint annual meeting of the International Monetary Fund (IMF) and the World Bank in Manila, it became apparent that more and more industrial countries have realised why the reformed Bretton Woods system allowing for freely fluctuating exchange rates is imperfect. The opinion is constantly gaining ground that the true cause of this malfunctioning is inflation. Without an appropriate stabilisation policy it will be impossible to wipe out either balance-of-payments deficits or unemployment. This is why at the Manila meeting this year, in contrast with previous annual conferences, the discussions centred not so much on how to finance balance-of-payments deficits as on ways of eliminating these deficits. It remains to be seen, however, what conclusions will be drawn from these findings by Great Britain and Italy, the two countries with the most pressing balance-of-payments problems.

The lessons learnt by the developing countries from these discussions are totally different. Of course, in the opinion of the Group of 24 — the executive committee of the Group of 77 — they too have reason to be concerned about their balance-of-payments deficits and their very high foreign indebtedness. But, in contrast to the industrial countries, they see the solution of these problems in additional concessional credits rather than in stabilisation measures.

The catalogue of claims put forward by the developing countries was long. First of all, the Group of 77 urged the industrial countries to place at the long last the desired 0.7 p.c. of their national product at the disposal of the developing countries. They further asked for the removal of trade barriers in the industrial countries, the stabilisation of raw material prices, the establishment of target values for the international exchange rates to do away with floating, and for a greater say for the developing countries in the International Monetary Fund.

Then there was the list of demands for more cash in one way or another including requests for: increased voluntary contributions to the so-called Trust Fund — the fund into which flow the additional proceeds from the International Monetary

Fund's gold auctions; alimentionation of the Interest Subsidy Fund; additional cash to the tune of \$ 9 bn for IDA, and finally, for the "link" — i.e. a direct nexus between Special Drawing Rights and development aid.

The only item that was absent from the list of wishes was a moratorium on the developing countries' external debts, although several of the members of the Group of 24 had repeatedly spoken in favour of such a moratorium. In the end, the developing countries dropped some of the more extreme requests such as the one for the link. But enough remained to confirm the critics in their view that the International Monetary Fund has for some time now been perverted into an additional source of finance for the countries of the Third World.

What the developing countries tend to overlook in making their requests which in essence amount to the creation of a good deal of additional liquidity, is that their realization would be of little use. There is even the likelihood that in present circumstances the extra liquidity would be harmful rather than beneficial. For this extra liquidity may jeopardize necessary stabilising efforts. The result would be rising prices which would be especially painful for the developing countries in their role as importers. Whether in the end anything at all would remain in real terms of the additional liquidity is doubtful.

Besides, since as a result of this extra liquidity which runs counter to any stabilisation measures, it would hardly be possible to reduce unemployment in the Western industrial countries significantly, further unfavourable effects on the developing countries would have to be anticipated. Above all, in such circumstances it should be impossible to obtain from the Western states the desired 0.7 p.c. of their Gross National Product.

The industrial countries have recognised that the foremost need of the moment is for stability. The developing countries for their part should recognise that their interests and desires have the best chance of being realised in a world that is economically stable.

Klaus Kwasniewski