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The IMF's Adjustment Concept

A Strategy for a Permanent Solution to the Debt Crisis?

by Veronika Büttner, Ebenhausen*

Both creditor and debtor countries ascribe an important medium-term role to the International Monetary Fund in tackling the debt problem. What possibilities are there for the IMF to exert influence and what use does it make of them?

The growing balance of payments problems of Third World countries have increased the importance of the IMF. This can be seen in the massive expansion in IMF loans to developing countries; more important, however, is the Fund's role as crisis manager and co-ordinator between debtor countries and private and public creditors in negotiating debt rescheduling agreements. The IMF exerts considerable influence on the economic policy of the debtor countries, as strict conditions apply to a growing proportion of its loans and other creditors have increasingly made their willingness to grant new loans and reschedule existing debts subject to the "seal of approval" of an adjustment programme supported by the IMF. Since mid 1982 sixty-six member countries have carried out adjustment programmes of this kind, more than half the developing countries belonging to the IMF.¹

The IMF, official circles in Western industrialised countries and, to a lesser extent, international banks are "cautiously optimistic" at present about the debt problem. It is assumed that the international financial crisis has now entered its "third stage", in which more lasting stabilisation of the debtor countries' balance of payments situation will be possible, thanks to the adjustment measures taken by the most heavily indebted countries under the auspices of the IMF and the economic upturn in the industrialised countries.² However, there are substantial differences in the way in which creditor and debtor countries assess the present situation, medium-term expectations regarding debt problems and hence also the economic action and co-operation that is required.³

The debt problem and the Third World countries' difficulties in adjusting their foreign trade were set in

their longer-term context and discussed by reference to the world economic environment at the 1985 spring meeting of the IMF Interim Committee and of the Development Committee of the IMF and World Bank. Both country groups ascribe an important medium-term role to the IMF in tackling the debt problem.

The IMF as a Direct Lender

The diversification and expansion of IMF facilities in the seventies and early eighties, which was important primarily in meeting the Third World countries' financing needs, also made the IMF a significant direct lender by comparison with other bilateral and multilateral sources of finance for developing countries.⁴ The non-oil developing countries' rapidly growing external financing requirement as a result of the second oil price increase, the worldwide recession and increases in interest rates led to greater recourse to IMF loans from 1979 onwards, a trend that was substantially reinforced from 1982 onwards by the sharp fall in the banks' willingness to lend. The contribution of IMF loans to balance of payments financing in the non-oil developing countries rose from 1.7 % in 1980 to 19.6 % in 1983. The IMF anticipates a reduction to about 11 % in 1984.⁵ The proportion of loans subject to strict conditions rose from

¹ Margaret Garritsen de Vries, in: IMF Survey, 7th January 1985, pp. 2-5.

² Wall Street Journal, 1st October 1984, pp. 15 and 23.

³ See the position expounded at the 1984 Annual Meeting of the IMF and World Bank, in: IMF Survey, 15th and 29th October 1984.

⁴ In the remarks that follow, cf. Veronika Büttner: Die Auflagenpolitik des Internationalen Währungsfonds im Kontext der internationalen Schuldenkrise, in: Udo E. Simonis (ed.): Externe Verschuldung – interne Anpassung, Berlin 1984, pp. 69-101.

⁵ IMF: Annual Report 1983, pp. 33 and 84 ff.; IMF: World Economic Outlook 1984, Washington 1984, p. 197; IMF Survey, 21st January 1985, p. 19 and 4th February 1985, pp. 33 and 45 ff.

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just under 50 % in 1979 to 88 % in 1984, and it should also be noted that loans under the compensatory facility have also been tied more closely to economic policy conditions of late.⁶ Now that negotiations with Argentina and the Philippines have been concluded, practically all the major debtors with acute balance of payments problems are committed to IMF adjustment programmes (see Table 1).

Crisis Manager and "Financial Catalyst"

The IMF's considerable influence does not stem simply from its function as a direct lender but chiefly from the fact that since mid 1982 it has become the central manager of the international financial crisis and therefore a growing proportion of the transfer of financial resources to Third World countries is granted under IMF adjustment programmes. Within the framework of its "co-operative strategy", "financing/adjustment packages" are worked out with debtor countries, banks and, in some instances, the governments of industrialised countries and the Bank for International Settlements, with the IMF departing from its practice of previous years by making its lending dependent on the willingness of the other lenders to reschedule debts and grant fresh money. It is estimated that in 1983 more than half of net bank lending to developing countries was granted as a result of IMF pressure in the context of rescheduling packages.⁷ Official lenders are also viewing IMF adjustment programmes increasingly as a condition for rescheduling and also as the basis for efficient development aid.⁸

The heightened influence of the IMF in the North-South context can be traced back to the interdependence that developed as a result of the rapid increase in trading and financial integration in the seventies. The activities of the IMF meet part of the need for economic policy co-operation, which increased abruptly against the background of the debt crisis. The onset of the crisis brought to an end the laissez-faire attitude that was characteristic of the international financial markets in the seventies and initiated a process of "politicisation" and "cartelisation" of creditors and, in embryonic form, debtors, with the IMF playing a prominent role as coordinator.⁹ The industrialised countries, the Third World and the banks therefore have a general "common interest" in the system-stabilising function of the Fund; however, there is also a conflict of interests with regard to the distribution of the burden of adjustment arising from the

debt crisis, so that the scale of IMF lending and the type and severity of economic policy conditions are a source of disagreement among the various groups. Within this web of interests, the IMF management has some freedom of action in the actual handling of adjustment programmes. The decision-making practices in the Executive Board and the framework of conditions established by the Articles of Agreement, the 1979 guidelines on conditionality and the purposes for which Extended Arrangements may be used leave the management a degree of latitude in this regard.

The IMF Adjustment Concept

The aim of the policy of conditionality is "... to restore viability of the balance of payments in a context of price stability and sustained economic growth, without resort to measures that impair the freedom of trade and payments".¹⁰ In practice, however, it has emerged that the central and over-riding objective of IMF adjustment programmes is to achieve a sustainable balance of payments position in the medium term, with secondary importance being attached to objectives in respect of inflation, growth, employment and so on.¹¹ The concept of a "viable balance of payments position" means a current account deficit – and hence growth in borrowing – that is compatible with the country's debt service capacity and can also be financed without resort to special forms of financing (IMF loans, payment arrears, rescheduling, extraordinary bilateral government loans) and without administrative interference with trade and payments.¹²

The background to this concept is the optimistic assumption that after a transitional phase of a few years the debtor countries can return to a growth path with current account deficits financed by "normal" means. Growth in the industrialised countries, a decline in dollar exchange rates and real interest rates over the medium term and a halt to the increasing protectionism of recent years would permit the transition from the "import

⁷ Margaret Garritsen de Vries, op. cit.; William R. Cline: *International Debt: Systemic Risk and Policy Response*, Washington 1984, pp. 29 ff.

⁸ Cf. for example OECD: *Development Co-operation 1984 Review*, Paris 1984, pp. 39 ff.; Robert E. Wood: *The Debt Crisis and North-South Relations*, in: *Third World Quarterly*, Vol. 6, No. 3, July 1984, pp. 703-716.

⁹ Carlos Díaz Alejandro: *International Markets in the 1980s*, in: *Journal of International Affairs*, Vol. 38, No. 1, Summer 1984, pp. 11-20.

¹⁰ Manuel Guitián: *Fund Conditionality. Evolution of Principles and Practices*, Washington 1981, p. 3.

¹¹ Tony Killick: *IMF Stabilization Programmes*, in: Tony Killick (ed.), op. cit., pp. 185 ff.

¹² Manuel Guitián, op. cit.; Mark Allen: *Recent Experience with Fund-Supported Adjustment Programs*, in: Udo E. Simonis, op. cit., pp. 55-68.

⁶ Tony Killick: *An Introduction to the IMF*, in: Tony Killick (ed.): *The Quest for Economic Stabilization. The IMF and the Third World*, London 1984, pp. 133 ff.

squeeze phase" of 1982 and 1983 to an "export expansion phase".¹³ Universal debt alleviation is regarded as superfluous and counterproductive; the IMF advocates an "adjustment/financing mix" worked out individually for each country, with longer-term rescheduling on the most favourable terms possible along the lines of the Mexican model being recommended to bolster a successful adjustment policy.

The IMF's adjustment concept accords closely with its view of the causes of the debt problems. Although even studies by the IMF itself show that the developing countries' present balance of payments problems stem generally from a combination of external shocks,

structural constraints on adjustment and inadequate economic policies, the IMF's explanatory model attaches only secondary importance to exogenous factors and the constraints on countries' adjustment ability in discussing conditionality. In the majority of cases, the causes of balance of payments problems are identified as errors in domestic economic policy; besides inadequate demand management (excessive budget deficits and excessive credit expansion), emphasis is laid on distortions in the structure of costs

¹³ Margaret Garritsen de Vries in: IMF Survey, 21st January 1985, pp. 17 ff.

¹⁴ Cf. the analyses in World Economic Outlook and in the Annual Report of the IMF.

Table 1
Stand-by and Extended Arrangements as of December 31, 1984
(thousand SDRs)

Member	Date of Arrangement	Expiration Date	Total Amount Agreed	Undrawn Balance
Stand-by Arrangements			6,673,735	3,557,067
Argentina	Dec. 28, 1984	March 27, 1986	1,419,000	1,419,000
Belize	Dec. 3, 1984	March 31, 1986	7,125	5,925
Central African Republic	July 6, 1984	July 5, 1985	15,000	10,000
Chile	Jan. 10, 1983	Jan. 9, 1985	500,000	—
Dominica	July 18, 1984	July 17, 1985	1,400	430
Gambia, The	April 23, 1984	July 22, 1985	12,830	10,200
Ghana	Aug. 27, 1984	Dec. 31, 1985	180,000	120,000
Haiti	Nov. 7, 1983	Sept. 30, 1985	60,000	39,000
Hungary	Jan. 13, 1984	Jan. 12, 1985	425,000	—
Ivory Coast	Aug. 3, 1984	Aug. 2, 1985	82,750	41,370
Jamaica	June 22, 1984	June 21, 1985	64,000	36,000
Korea	July 8, 1983	March 31, 1985	575,775	95,925
Liberia	Dec. 7, 1984	June 6, 1986	42,780	34,280
Madagascar	April 10, 1984	March 31, 1985	33,000	6,000
Mali	Dec. 9, 1983	May 31, 1985	40,500	6,500
Morocco	Sept. 16, 1983	March 15, 1985	300,000	90,000
Niger	Dec. 5, 1984	Dec. 4, 1985	16,000	12,800
Peru	April 26, 1984	July 31, 1985	250,000	220,000
Philippines	Dec. 14, 1984	Dec. 13, 1986	615,000	530,000
Portugal	Oct. 7, 1983	Feb. 28, 1985	445,000	185,700
Sierra Leone	Feb. 3, 1984	Feb. 2, 1985	50,200	31,200
Sudan	June 25, 1984	June 24, 1985	90,000	70,000
Togo	May 7, 1984	May 6, 1985	19,000	3,000
Turkey	April 4, 1984	April 3, 1985	225,000	56,250
Uruguay	April 22, 1983	April 21, 1985	378,000	226,800
Western Samoa	July 9, 1984	July 8, 1985	3,375	1,687
Yugoslavia	April 18, 1984	April 17, 1985	370,000	90,000
Zaire	Dec. 27, 1983	March 26, 1985	228,000	70,000
Zambia	July 26, 1984	April 30, 1986	225,000	145,000
Extended Arrangements			8,121,250	3,013,495
Brazil	March 1, 1983	Feb. 28, 1986	4,239,375	1,496,250
Dominican Republic	Jan. 21, 1983	Jan. 20, 1986	371,250	247,500
Malawi	Sept. 19, 1983	Sept. 18, 1986	100,000	66,000
Mexico	Jan. 1, 1983	Dec. 31, 1985	3,410,625	1,203,745
Totals			14,794,985	6,570,562

Source: IMF Survey, 4. 2. 1985, p. 46.

and prices (overvalued currencies, negative or inadequate real interest rates, excessive real wages, inadequate prices in agriculture and public enterprises) and shortcomings in debt management. The main cause of the Latin American debt crisis, in particular, is considered to be excessive budget deficits and government expenditure.¹⁴

Besides an adequate stabilisation policy and adjustment of the exchange rate, a strengthening of free market mechanisms in the domestic economy and the liberalisation of foreign trade are considered to be essential means of achieving a viable long-term balance of payments position; these measures should improve the debtor countries' international competitiveness, mobilise domestic saving and enhance the country's international credit standing to encourage a return of flight capital and attract long-term foreign capital.

Besides recommending its classical armoury of restrictive credit and fiscal policies in combination with currency devaluations, the IMF recently began to stress supply-side measures, which relate mainly to liberalisation of the credit markets and the reduction of price distortions in the agricultural sector and in public enterprises.¹⁵

The increasing importance of the IMF as a direct lender and catalyst for a growing proportion of the transfer of financial resources to the debtor countries of the Third World has led in recent years to an intensified debate about its policy of conditionality and the underlying concept of an adequate "adjustment/financing mix" for countries with balance of payments problems.¹⁶

There is growing agreement that, given the structural conditions prevailing in developing countries and the kind of external imbalance to which they are subject, an adjustment strategy based solely on restrictive monetary and fiscal policies combined with exchange rate changes entails excessively high costs in the form of lost growth and employment and often also has adverse structural and distribution effects. This supposition carries all the more weight if a country has little scope for structural adjustment, which in turn

depends on the degree of diversification and integration of the productive sector, in particular the proportion of total production consisting of marketable goods, and on the degree of differentiation in the credit markets, labour mobility and the structure of the tax system. A further "disturbing influence" in this context is the high degree of monopoly in many markets, owing to the activities of multinational corporations and the public sector.

In these circumstances, structural change calls for a longer adjustment period, as it is usually impossible without restructuring investment, and requires micro-economic measures to supplement the macro-economic instruments. However, there is no agreement as to the nature of such structural change or adequate measures to achieve it.

Given the great uncertainty about the future world economic environment, the wide differences in the causes of balance of payments problems and differing adjustment strategies, it is virtually impossible to formulate a simple, universally applicable concept for an optimum adjustment strategy; the aim should therefore be to devise a flexible, country-specific approach leading to the maximum degree of expansionary stabilisation within the given structural and financial constraints. Furthermore, successful adjustment programmes call for a realistic assessment of the social and domestic policy scope available to governments so that stop-go policies that are costly to both lending and borrowing countries are avoided. The internal distribution of the burden of adjustment is therefore a crucial aspect of the programmes.

As more than half of the developing countries belonging to the IMF have now carried out or introduced adjustment programmes as a result of the debt crisis, the question again arises as to the effectiveness and international repercussions of adjustment programmes if a worldwide recession gives rise to a "downward adjustment competition" because a number of debtor countries simultaneously try to reduce their deficits, as happened in the recent past.

Shortcomings of the Concept

Studies to date have revealed a number of shortcomings in the conception and actual configuration of IMF adjustment programmes.

Confining the objectives of adjustment programmes to the restoration of balance of payments equilibrium means that insufficient attention is paid to the true rationale of conditionality, that is to say the development of adjustment strategies entailing the minimum national or international social cost.

¹⁵ Cf. William R. Cline: *Economic Stabilization in Developing Countries: Theory and Stylized Facts*, in: John Williamson (ed.): *IMF Conditionality*, Washington 1983, pp. 175 ff.

¹⁶ Cf. the detailed treatment in the essay collections edited by Williamson, op. cit. and Killick, op. cit.; Karl Wohlmuth: *Konditionierte externe Entwicklungsfinanzierung und interne Strukturanpassung in den Entwicklungsländern*, in: Udo E. Simonis (ed.): *Entwicklungsländer in der Finanzkrise*, Berlin 1983; Heiko Körner: *Auslandsverschuldung der Entwicklungsländer und interne Anpassungsprozesse. Strategien, Lastenverteilung, Interessen*, in: Udo E. Simonis (ed.): *Externe Verschuldung etc.*, op. cit., pp. 13 ff.

Given the unavoidable losses of real income in the current world economic environment, particular attention should be paid to such a strategy of minimising costs by means of expansionary stabilisation. However, the Fund promotes the idea of working towards medium-term growth through a combination of rigorous fiscal and monetary policies and supply-side measures, accepting income losses over the short term as "unavoidable".¹⁷

Moreover, the excessive emphasis laid on errors of economic policy as a cause of debt problems means that structural constraints on adjustment in many countries, particularly those in the low income bracket, are paid insufficient heed, thereby leading to strong criticism of the appropriateness of IMF programmes in the light of the experiences of African countries, for example.¹⁸

Although increasing weight has been attached to supply-side elements in the IMF adjustment concept, in practice the policy of conditionality is still dominated by an insufficiently flexible combination of restrictive credit and fiscal policies with devaluations, oriented too strongly towards the short term and associated with severe curtailment of growth. At the height of the world recession in 1981-1982 there was even a pro-cyclical hardening of conditionality.¹⁹ Up to now, structural measures have had an ad hoc character and the IMF's increasing tendency to recommend supply-side remedies in this area should be regarded with scepticism from the point of view of longer-term development. The Fund's preference for free market mechanisms can certainly lead to sensible liberalisation in certain cases, but it is often inappropriate to the structural and institutional circumstances of developing countries. The fact that state intervention in Third World countries is often inefficient and that bureaucracies look after their own privileges does not mean that a greater reliance on market forces would be a better solution. Different cultural backgrounds to those in industrialised countries, deficiencies in the legal systems, marked inequalities in the distribution of income and wealth and a high degree of structural heterogeneity often cause market processes to have undesirable effects from the

point of view of development.²⁰ The history of economically successful countries such as Japan and South Korea is marked by the close interdependence of state and private enterprise, with the state playing a central stimulatory role. This applies not only to the classical area of infrastructure but also, and above all, to the strategy of development and industrialisation both during the period of concentration on the domestic market and that of industrial policy oriented towards the world market.²¹

The Fund adopts the position that distributional objectives should not form part of IMF conditions, as the internal distribution of the burden of the programme is a matter for the government concerned. Experience has shown, however, that the IMF is drawn into detailed negotiations on the policy mix of adjustment programmes and therefore directly or indirectly makes recommendations that do affect the distribution. It should therefore make the issue of the internal distribution of the burden of adjustment an explicit part of conditionality and give preference to options conducive to the desired distribution.²²

Stabilisation programmes usually contain a series of measures with adverse distributional effects on the urban lower and middle classes, including small enterprises: devaluations, increases in farm prices, reductions in food subsidies, price increases by public enterprises, regressive tax increases, wage restrictions and dismissals in the public sector and general credit restrictions can have very far-reaching distributional effects, at least in the short and medium term, as has been seen in a number of Latin American countries.²³ Other examples from certain Asian countries show, however, that there is some scope for cushioning the social effects of successful adjustment programmes, although in many cases this probably requires a stronger commitment on the part of the IMF to a tolerable internal distribution of the burden of

¹⁷ Cf. for example Jacques de Larosière in: IMF Survey, 9th January 1984, pp. 2 ff.; C. David Finch: Adjustment Policies and Conditionality, in: John Williamson (ed.), op. cit., p. 78.

¹⁸ Gerald K. Helleiner: The IMF and Africa in the 1980s, in: Canadian Journal of African Studies, Vol. 17, No. 1, 1983, pp. 23 ff.; Pierre Jaquemot: Le F.M.I. et l'Afrique Subsaharienne, in: Le Mois en Afrique, Nos. 211-212, Aug.-Sept. 1983, pp. 107-120; Ajit Singh: The Continuing Crisis of the Tanzanian Economy: The Political Economy of Alternative Policy Options, University of Cambridge, January 1984.

¹⁹ John Williamson: The Lending Policies of the International Monetary Fund, Washington 1982, pp. 43 ff.

²⁰ Hermann Sautter: Socio-Cultural Aspects of Supply-Side Economics for Developing Countries, in: INTERECONOMICS, Nov.-Dec. 1983, pp. 278-285; Hartmut Elsenhans: Abhängiger Kapitalismus oder bürokratische Entwicklungsgesellschaft, Frankfurt and New York 1981.

²¹ Klaus Esser, Ansgar Eussner, Wolfgang Hillebrand, Thomas Kampffmeyer, Jürgen Wiemann: Weltwirtschaftliche Veränderungen – Implikationen für Lateinamerika, Berlin 1984, pp. 64 ff.; Peter Körner, Gero Maaß, Thomas Siebold, Rainer Tetzlaff: Im Teufelskreis der Verschuldung. Der Internationale Währungsfonds und die Dritte Welt, Hamburg 1984, pp. 165 ff.

²² Tony Killick: IMF Stabilization Programmes, op. cit., pp. 187 ff.; William R. Cline: Economic Stabilization etc., op. cit., pp. 175 ff.

²³ William R. Cline, ibid.; Peter Körner et al., op. cit., pp. 165 ff.

adjustment programmes, especially limitation of the adverse effects on low-income groups in the population. A stabilisation policy that is tolerable from the distributional point of view – and can therefore be sustained longer – is in the interests of creditor countries not only economically, as it would secure the country's long-term solvency, but also politically: the combination of economic stagnation and social mobilisation that typifies emerging democracies is a particularly volatile mixture which can lead to the rise of repressive authoritarian regimes. On the other hand, the experiences of recent years have shown that even the ability of authoritarian regimes to enforce measures was limited in view of the scale of the crisis.²⁴

Long-term Viability

The international debt crisis has stimulated a series of studies on the conditions required for a longer-term solution.²⁵ They range from optimistic forecasts, such as those advocated by the IMF, to Doomsday scenarios, though the latter command less respect in the present context of worldwide economic expansion than at the outbreak of the wave of payments crises in 1982. The optimistic forecasts are based on the assumption that the debt crisis is a liquidity problem, not a solvency crisis. It is assumed that internally acceptable growth rates in the debtor countries coupled with financeable deficits, falling debt burden indicators but negative medium-term net transfers from the major debtor countries can be achieved without the need for the cancellation of debt.²⁶

The strategic variables for the various debt scenarios are:

- the world economic climate, with the scope for exports and the interest burden on debtor countries being determined by economic growth in the industrialised countries, the trend of real interest rates, the dollar exchange rate, oil and raw material prices as well as the development of measures in restraint of trade;
- the willingness of public and private creditors to lend new funds and reschedule existing debt;
- the success of debtor countries in achieving expansionary stabilisation and structural adjustment to changed world economic conditions.

The optimistic scenarios' assumptions about the development of key world economic variables are subject to great uncertainty and are regarded as controversial even within the industrialised countries.²⁷ This is true of economic growth in the OECD countries, the assumption of falling real interest rates and a falling dollar and the forecast export opportunities for developing countries in the industrialised world. According to IMF studies, the expansion in the developing countries' exports to the industrialised world since 1984 is entirely the result of the cyclical recovery, with the United States' appetite for imports being of prime importance for Latin America.²⁸ It is doubtful whether the opportunities for penetrating export markets that were open to the more highly industrialised Third World countries in the second half of the seventies will continue to be available, given the persistent high unemployment in the industrialised countries and the protectionist tendencies this fuels.

Forecasts of this kind are made more difficult by the technological developments that have occurred in the large Western industrialised countries since the end of the seventies in micro-electronics, but also in genetics and in the development of new materials and sources of energy.²⁹ They impede Third World exports in two ways; first, they erode the comparative cost advantages of low-wage countries and tend to make more efficient use of raw materials, and secondly, they reinforce protectionist tendencies in the industrialised countries because of their effects on employment. Current predictions are that some countries in East Asia, India and possibly Brazil and Mexico have a chance of benefiting from these new technological opportunities and of being internationally competitive in certain areas, but the same cannot be said of the bulk of the Third World. Moreover, these developments imply greater investment opportunities in the industrialised countries, which would also reduce the flow of capital to developing countries.

²⁴ Alejandro Foxley, Laurence Whitehead: Economic Stabilization in Latin America: Political Dimensions – Editors' Introduction, in: *World Development*, Vol. 8, No. 11, 1980, pp. 823 ff.; Hartmut Eisenhans: Thoughts on an Economically and Sociologically Dependable Risk Analysis for the Western Partners of Developing Countries, in: *Vierteljahresberichte der FES*, No. 96, June 1984, pp. 119-139.

²⁵ IMF: *World Economic Outlook 1984*, Washington 1984, pp. 59 ff.; overviews are also to be found in William R. Cline: *International Debt etc.*, op. cit., pp. 169 ff. and Commonwealth Group of Experts: *The Debt Crisis and the World Economy*, London 1984, pp. 67 ff.

²⁶ William R. Cline, *International Debt etc.*, op. cit., pp. 39 ff.

²⁷ Report on the annual conference of the American Economic Association, in: *IMF Survey*, 7th January 1985, pp. 1 and 11 ff.; Rüdiger Dornbusch: On the Consequences of Muddling through the Debt Crisis, in: *The World Economy*, Vol. 7, No. 2, 1984, pp. 145 ff.

²⁸ Deutsche Bundesbank, *Auszüge aus Presseartikeln*, No. 16, 27th February 1985; Margaret Garritsen de Vries, op. cit.

²⁹ Klaus Esser et al., op. cit., pp. 28 ff.; Gerd Junne: *Automation in the North: Consequences for Newly Industrializing Countries*, Amsterdam 1984.

There is also controversy about the IMF's positive assessment of the adjustment made so far, particularly by the major Latin American debtors Mexico and Brazil, and their longer-term prospects for growth and exports.³⁰ It is true that these countries recorded trade surpluses and achieved positive rates of GNP growth again in 1984, but this progress should be seen in relation to the very deep recession of 1982-83, which was associated with the policy of austerity. Sceptics also point to the still unsolved structural problems in the Mexican farm sector, Brazil's continuing inflation problem and the far less favourable situation of other Latin American countries.

These considerations demonstrate that the solution of the debt crisis through expansionary stabilisation is

fraught with great uncertainty. It is not difficult to imagine situations in which the debt problems of a number of countries would become solvency crises that would make partial debt cancellation unavoidable. Against a background such as that, the IMF adjustment concept would have to be revised fundamentally, as it is based on the notion that after a transitional period the debtor countries would be able to return to a growth path with highly integrated trade and credit relations with the industrialised countries and would continue to be net importers of capital over the longer term.³¹

³⁰ Cf. Financial Times, 1st March 1985, p. 6; Klaus Esser et al., op. cit., pp. 105 ff.

³¹ With regard to such "alternative" adjustment concepts, cf. Peter Körner et al., op. cit., pp. 214 ff.; Karl Wohlmuth: IMF and World Bank Structural Adjustment Policies: Cooperation or Conflict? in: INTERECONOMICS, Sept.-Oct. 1984, pp. 226 ff.

IMF

The Lending Policy of the International Monetary Fund

by Wolfgang Wetter, Hamburg*

In the worldwide economic and debt crisis of the eighties the International Monetary Fund increasingly became the "lender of last resort" for a great many Third World countries. With world trade weak and interest rates high, a considerable number of developing countries got into serious balance-of-payments difficulties. The demand for stand-by and extended arrangements with the Fund rose dramatically. The conditions or adjustment programmes linked to this lending not infrequently led to serious social and political tensions in the countries concerned. The term "IMF riots" was coined, and the conditionality of credit again became the subject of political and academic debate.

The word "conditionality" in the sense under discussion here appears in neither the original Bretton Woods Agreement nor the First and Second Amendments to the IMF Articles of Agreement.¹ Nonetheless, ever since the first Amendment at the very latest, there has been no doubt as to the legal admissibility of conditionality. Article V states: "A member's use of the resources of the Fund shall be in accordance with the purpose of the Fund. The Fund shall adopt policies on the use of its resources that will assist members to solve their balance of payments

problems in a manner consistent with the purposes of the Fund and *that will establish adequate safeguards for the temporary use of its resources.*" (Italics by the author.)

As in the past, the justification for conditionality lies in protecting the revolving nature of (special) IMF resources.² That IMF resources must be repaid is not in dispute. The IMF was not founded to make gifts of international liquidity. However, it is debatable whether conditionality guarantees repayment. Some authors consider that repayment is assured solely by the fact that no country can afford deliberately to withhold

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