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Otto G. Mayer*

Policy Dialogue between Multilateral Institutions and Developing Countries

The lending criteria applied by the IMF and the World Bank have been converging for some time. Considering also that since the floating of exchange rates in the early seventies the IMF seems to have lost in importance as a monetary institution, debate is growing on the question of whether the Fund needs to correct its policy course, to be assigned new tasks by its member countries or even to be amalgamated with the World Bank into one efficient development aid institution.

Without question, among the key institutions of international economic cooperation are the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) – World Bank for short.¹ Since their inception 45 years ago, both institutions have undergone great changes, both in terms of the focus their of activities and the related policy instruments.

Originally conceived solely as an agent of international monetary policy, the IMF's task was to be confined to financing balance of payments deficits of its members seen as temporary from the outset or in conjunction with the implementation of adjustment measures.² The World Bank, in contrast, is traditionally an institution for the long-term funding of projects to promote the economic development of the poorer countries. Since the outbreak of the debt crisis at the latest, however, the IMF was faced with the problem that the balance of payments deficits of the developing countries were primarily due to structural, i.e. longer term, problems. The World bank in turn had to acknowledge that balance of payments disequilibria stemming more from macroeconomic than structural problems placed heavy constraints on development.

This has resulted in an increasingly closer alignment between the World Bank and IMF as regards their lending criteria. Considering also that since the floating of exchange rates at the beginning of the seventies the IMF would seem to have forfeited a part of its role, it is hardly surprising that debate is growing on the question

of whether the Fund needs to correct its policy course, to receive a fresh mandate from its members or even to be amalgamated with the World Bank into one efficient development aid organization.³

Demarcation of Tasks

At their institution by the Bretton Woods Monetary and Financial Conference of the United Nations in 1944, the tasks of the IMF and World Bank and their allocation were still clearly demarcated.⁴ Based on American and British plans (White and Keynes), the delegations from 45 nations approved the Articles of Agreement founding the International Monetary Fund. The monetary system outlined in this agreement and implemented in the post-war era, is commonly called the Bretton Woods system or the parity system in reference to the key role of the parities for each currency agreed on with the IMF. The IMF Articles of Agreement entered into force on 27 December 1945. By subjecting their exchange rate and

¹ The World Bank group also comprises the affiliates: (1) International Development Association (IDA) – the "window for soft credit" of the World Bank for the poorer developing countries. The funds deployed by the IDA stem in the main from capital subscriptions, general replenishment rounds by the industrialized countries and profit margins of the IBRD; (2) the International Finance Corporation (IFC), which mobilizes domestic and foreign capital to promote the private sector in the developing countries; (3) the Multilateral Investment Guarantee Agency (MIGA) founded in 1988, whose special task is to promote direct investments in developing countries by removing non-commercial investment constraints (e.g. the lack of investment guarantees for capital investment). A review of the history and tasks of the IMF and the World Bank is provided in the special publication of the Deutsche Bundesbank No. 3: Internationale Organisationen und Abkommen im Bereich von Währung und Wirtschaft, Frankfurt/M. 1986. Specifically for the function and credit policy of the World Bank, see Bettina Hürni: Die Weltbank. Funktion und Kreditvergabepolitik nach 1970, Diessenhofen 1980. On the problem of multilateral warranty for capital investments, cf. Manfred Holthus, Dietrich Kobschull, Karl-Wolfgang Menck: Multilateral Investment Insurance and Private Investment in the Third World, Hamburg 1984.

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foreign-exchange control policy to the international supervision of the IMF, its members officially recognized that their exchange rates and their regulations for external payments transactions also affected the interests of other countries. This recognition of the interdependence of national economies still forms the basis for a major function of the IMF, the "surveillance" of exchange-rate policy and regular consultation amongst the members on matters relating to economic policy. This is also the basis of the recently increased efforts of the IMF to press for a more concerted economic, monetary and financial policy amongst the major industrialized countries.⁵

The Articles of Agreement of the IBRD also came into force in December 1945. The Bank was created with a view to meeting the expected extensive need for long-term capital to rebuild and develop the economies of its member states after the war. Thanks to the cover or warranty through the member governments, which are the owners of the bank, and its prudent or conservative borrowing and lending policy, it achieved excellent standing or ranking on the capital markets in a relatively brief period. This enabled it to obtain capital on the markets more cheaply than some of the member states could do on their own and, despite its own "surcharges", to offer credit on more favourable conditions than commercial institutions, either by offering longer loan maturities and interest respites or even keeping interest below the private rates.⁶

In line with its reconstruction role, during the first years of its existence, the Bank's major borrowers were the European countries: the first loans for reconstruction were granted to France, the Netherlands and Denmark. After the American European Recovery Programme (ERP) was launched on the basis of the Marshall Plan in the spring of 1948, the IBRD turned its main attention to promoting the developing countries. The beginning of

the process of decolonisation in the mid 50s and the founding of its affiliates, the International Finance Corporation (IFC) in 1956 and the International Development Association (IDA) in 1960, marked the watershed from funding reconstruction to financing development.

In conjunction with the General Agreement on Tariffs and Trade (GATT), signed in 1947 in Geneva and in effect as of 1948, the IMF and the World Bank are often called the "cornerstone" of the "liberal international economic order"⁷ as it had emerged in the early 50s and survived at least until the beginning of the 70s, i.e. until the collapse of the parity system and the transition to more or less flexible exchange rate regimes.

This view is correct in as far as all three institutions are committed to the same overall goal (the promotion of prosperity world-wide). In line with its Articles, it is the IMF's task, today as much as then, "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members..." (Art. 1 of the IMF Articles of Agreement). According to the preamble to GATT, the trading and economic relations amongst the member states should be geared to raising the living standards, ensuring full employment, a high and increasing level of real income and demand, developing the world's resources to the full and expanding production and trade. The World Bank's task is to raise the living standard and employment in the poorer member states and thus promote the global economy as a whole by rechanneling capital from the wealthier countries.

Establishment of Rules

The IMF and the GATT still differ from the World Bank in that they are a means of institutionalizing rules to govern the behaviour of the member countries for the good of all. This set of regulations is based on the experience of the 30s, during which international economic relations had increasingly disintegrated, barriers to international trade and payments transactions grown and a trend towards a "beggar my neighbour" policy (i.e. action to the detriment of other

² See the statement by Manfred Holthus for the Hamburg Institute for Economic Research (HWWA) in the public hearing of experts on: Einfluß der von der Weltbank und dem Internationalen Währungsfonds geforderten Anpassungsprogramme auf die entwicklungspolitische Zusammenarbeit, Deutscher Bundestag, 10. Wahlperiode, Protokoll der 78. Sitzung des Ausschusses für wirtschaftliche Zusammenarbeit vom 5. Nov. 1986, -714-2450-, p. 73.

³ On these questions cf. George M. von Fürstenburg: Die zänkischen Schwestern, in: FAZ of 23 Sept. 1989, No. 221, p. 13; Catherine Gwin, Richard E. Feinberg et al.: Pulling Together: The International Monetary Fund in a Multipolar World, Overseas Development Council, 1989. The IMF Survey of 25 Sept. 1989 provides a summary on p. 277 ff. ("Fund Needs New Mandate From Members..."). A critical view is put forward by the Managing Director of the IMF, Michel Camdessus, in a paper dated 14 Sept. 1989, published *ibid.*, p. 274 ff.

⁴ On the original mandate see the series of articles in Finance & Development (1984 in all four issues) on the occasion of the 40th anniversary on these institutions.

⁵ See: International Monetary Fund and Hamburg Institute for Economic Research (HWWA): Economic Policy Coordination. Proceedings of an international seminar held in Hamburg, moderated by Wilfried Guth, Washington D.C. 1988.

⁶ Cf. Bettina Hürni, *op. cit.* (Note 1), p. 19.

⁷ For example in: The realities of interdependence, in: Finance & Development, March 1984, p. 28.

countries) had developed and the overall economic conditions had become unstable and unreliable. An added factor were the numerous constraints on international trade and payments transactions imposed during the war. All this had spun a net of various constrictions on world trade and payments transactions by the end of the Second World War in which the world economy was caught. For most countries, trade was confined to vital commodities. Trade and payments transactions were usually conducted bilaterally; capital movements were stringently controlled; the national economies were heavily protected from one another.

Premised on the favourable effect of free trade in goods and the free movement of capital on economic prosperity, the GATT principles of most favoured nation treatment and reciprocity were to serve the integration of the world economy in the field of trade policy. Another of GATT's duties is to promote world trade by dismantling customs barriers and abolishing quantitative restrictions as well as non-tariff barriers.

The IMF, on the other hand, is an international organization, whose members have entered a contractual agreement to adhere to common rules and cooperate closely in matters of international monetary policy and international payments transactions. The ultimate intent of regulating exchange rate policy in the member states and the demand for an appropriately coordinated economic policy as well as the commitment to a liberal order for payments transactions is to prevent the recurrence of the behaviour patterns prevalent at the end of the 20s and in the 30s. This is also the idea of the members' commitment to help each other to finance balance of payments deficits. This balance of payments support, i.e. a temporary financing until the situation returns to "normal", should prevent the individual governments from imposing restrictions on foreign trade and capital movements or resorting to massive devaluation of their currencies instead of implementing appropriate domestic adjustment measures. For such restrictions would have an adverse impact on the stipulated goals of furthering trade, raising employment and achieving an optimal allocation of the world's resources.

Irrespective of how a system is judged in the individual case and the related or derived rules assessed, the establishment of a set of regulations for all parties to the system and the mechanisms designed to assure adherence to them constitute a form of public good (as for example the law within nations). This code of conduct is all the more effective the better the "free rider" and "moral hazard" problems can be avoided, or

put more simply: when conforming with the system is of greater advantage to all parties than, even temporary, contraventions of the rules. In this sense, the creation of the international monetary order, for which the IMF stood, and still stands, can be viewed as the production of an international public good. In ensuring that the rules are kept to and also in issuing credit, then, the IMF performs an international public task. This role of the IMF, to coerce members to obey the rules, while allowing to a lesser or greater degree for the internal political problems of the given country, is obviously a potential source of conflict.

Modest Success of Development Policy

In comparison, the World Bank's activities cannot quite as unequivocally be described as a "genuinely international public task". To the extent that this task concerns the diversion of capital from the richer to the poorer nations, one would have to presuppose the failure of the capital markets to justify this function of the World Bank. After all, in the final analysis, why should money for viable projects (assuming of course stable overall conditions and an economic policy conducive to investment) not be made available via the market? If there was no market failure, the World Bank would be an institution that shielded the developing countries from the mechanism of the market.⁸ This would not only impair the efficiency of resource allocation, but would also condemn the recipient countries to future debt service problems.

In view of the low capital stock common to most developing countries, it may be assumed that the productivity of capital is normally sufficient to trigger capital transfers to them without the mediation of an organization of international aid. Such intervention is warranted only if potential investors are inadequately informed about the existing project possibilities and/or the costs for acquiring information turn out to be so high that fewer projects can be implemented than would be otherwise feasible as regards the other economic conditions. A legitimate task to be entrusted to the World Bank is thus the gathering and dissemination of information, in other words: project identification and appraisal.

The World Bank's participation in funding projects, though, can only be justified by two arguments: its so-called "catalyst function" in mobilizing loans from

⁸ As for example Roland Vaubel: Von der normativen zu einer positiven Theorie der internationalen Organisation, in: Herbert Giersch: Probleme und Perspektiven der weltwirtschaftlichen Entwicklung, Schriften des Vereins für Socialpolitik, NF, Vol. 148, Berlin 1985, p. 414.

commercial banks, which, however, ultimately entails the World Bank attempting to prove that the credit risk is lower than that estimated by the commercial banks. Logically, the World Bank would then have to abstain from its demand that the repayment of its loans be granted precedence by its borrowers.

The second argument that can be adduced is the politically motivated intention of channelling more capital more quickly to the poorer countries than would otherwise be the case.⁹ As mentioned above, this only makes economic sense if there actually exists a larger potential of viable projects and the overall economic conditions enable this potential to be fully tapped. Owing, however, to the fungibility of capital, the prospective profitability of projects alone is not enough. Assuming that the projects implemented with World Bank participation are essential for the development of the borrower country and would have been implemented anyway, the Bank's support for such projects then affords it greater scope for applying its own resources elsewhere, although, as experience has shown, these are not necessarily put to use in viable projects that promote development. Considering that bilateral aid is also often granted more for political than purely economic reasons, one cannot discard the possibility that World Bank loans, too, have contributed to balance of payments problems for some developing countries, which have then called on the IMF for help. The IMF in turn has had to play the part of the "villain" by imposing stabilization programmes for the inevitable curtailment of absorption on the part of the country in question, while the World Bank has been able to uphold its reputation as the "kind helper", to oversimplify somewhat.¹⁰

The need to attend not only to the question of project viability but also to the macroeconomic setting is evidenced by the long-suffering record of development policy since the Second World War. It is no secret that,

on average, development efforts have achieved only modest success. The main share of responsibility for this cannot of course be placed on the World Bank's doorstep. Nevertheless, it is surprising that in its capacity as a key agent of international development assistance, the World Bank has suffered virtually no damage to its reputation on this point, either.

A more than peripheral contributory factor to the comparative failure of development policy must surely be the repeated discarding of development models as a result of changes in development theory in rapid cycles of five to six years over the last few decades, of which the World Bank was a major instigator.¹¹ If in the beginning it was the industrialization strategies of the "big push", be it in the form of "balanced" or "unbalanced" growth, after that the preference was for the theory of rural development or the development of regional growth poles. Later, the proponents of import substitution did battle with, and were in part ousted by, the advocates of export promotion and after this strategy, too, foundered, particularly in the least developed countries, the basic needs strategists stepped onto the scene.

Looking back over the last decades, a picture emerges of concepts being abandoned whenever mistakes or adverse developments were clearly registered.

The Policy Dialogue

For some time another approach has been gaining ground, the so-called "policy dialogue".¹² It is apparently dawning on many policymakers that the power of governments to steer the economy and economic developments is not as great or effective as had been previously thought. The view is gaining acceptance that even the most generous, efficient and sensible projects hardly contribute at all to a satisfactory economic growth and the hoped-for increase in earnings, where the economic policy of the recipient countries and their actions and selective interventions keep obstructing the forces for growth in the private sector or even stifle them from the outset. This should of course not be misunderstood as implying that all a developing country need do is to chart the right course as far as its overall economic system is concerned, but this and the setting

⁹ This would be a kind of "meritorious" rationale for the "production" of additional capital transfer. This desire for an intermediary is grounded on political and economic considerations: the governments in the industrialized countries are more than willing to relinquish thankless duties, that is, as Vaubel (Note 8) puts it, to hand over the dirty work to international organizations. In so doing, the governments do not appear to be interfering in the politics of the recipient countries and they are not held responsible for individual loans and projects and the negative impacts when these miscarry. Also, development aid is easier to mobilize at home than is perhaps otherwise the case where political hostilities with a given recipient country are magnified in public discussion. In addition, demands for delivery ties, etc. are easier to counter.

¹⁰ The possible adverse impacts of heavily project-oriented loans are on the one hand mitigated and on the other exacerbated through the politico-economic yardsticks applied by the World Bank, as a bureaucratic organization, for the granting of loans, which reflect a low-risk policy, but also political criteria of the donor countries. Cf. Bruno S. Frey: *Internationale Politische Ökonomie*, Munich 1985, p. 140 ff.

¹¹ Cf. Otto G. Mayer: *Development without Miracles: The World Bank after Forty Years*, in: *INTERECONOMICS*, Vol. 19 (1984), No. 4, p. 167 ff.

¹² See Manfred Feldsieper: *Entwicklungstheorie, Entwicklungspolitik und Politikdialog – Einige Anmerkungen zu den Auswirkungen einer dreißigjährigen Politikver(w)irrung*, in: Hans-Rimbert Hemmer, Jürgen Schröder: *Außenwirtschaft, Festschrift Klaus Rose zum 60. Geburtstag*, Göttingen 1988, p. 274 ff.

up of an appropriate institutional framework are nonetheless necessary conditions for successful economic development.

An obvious task of policy dialogue must then be to point out to developing countries the shortcomings of their economic policies with a view to the economic system and thus the growth prospects and to provide assistance in improving the conditions for growth by means of appropriate economic policies. In view of the division of labour so far between the World Bank (microeconomic and structural problems) and the IMF (overall macroeconomic conditions), this might be a promising field for collaboration between the two.

Disparate Areas of Expertise

Experience over recent years has also shown that differences in the programmes of the IMF and the World Bank are now less attributable to matters of principle than to disparate areas of expertise that have developed in the course of the histories of the two institutions.¹³ A conspicuous example is the Fund's relatively modest application of the Extended Facility. This is presumably because the countries in question were not prepared, or for institutional or administrative reasons not able, to develop medium-term, coherent and effective adjustment programmes with the accent on the structural component, i.e. the supply side. This also indicates, however, that the consultative capabilities of the Fund were not adequate to help a large number of countries with the development of such programmes. Evidently the Fund's answer to this problem was first to start with stand-by credits focusing on demand and then extend these by sequel agreements on supply-side measures. On the other hand, it is also a fact that whenever a curtailment of the investment programmes seemed inevitable, the IMF sought the opinion of World Bank experts.

The World Bank's lead does in fact appear to lie in the devising of development programmes. Its expert personnel are obviously more adept at identifying sectoral and investment priorities and drafting institutional reforms, at the lower levels as well. World Bank staff are less experienced in macroeconomic demand management.

These experiences would argue for a closer cooperation between the two institutions in adjustment programmes. The intensification of cooperation was discussed and adopted by the Executive Directors of the Bank in 1985. It was required that the Fund be instructed of the opinion of the Bank as to the impacts of alternative

stabilization packages on growth in the medium term at an early stage in the planning of adjustment programmes. Also stressed was the need for greater understanding on the part of the Bank's staff for the basics of Fund conditionality.

Collaboration has, however, clearly only been officially institutionalized in one special case. In March 1976, the Executive Board of the IMF approved the creation of a structural adjustment facility (SAF) to be made up of recoveries from credits from the trust fund (created via gold sales by the IMF). All IMF members entitled to draw on International Development Association (IDA) funds and suffering persistent balance of payments difficulties have access to this facility. The Executive Directors of the World Bank agreed separately to a basic innovation linked to this facility: close cooperation between the Bank and the IMF. A condition for drawing on the SAF is a basic paper drafted by the member country in close cooperation with the IMF and the World Bank specifying the guidelines for a three-year macroeconomic and structural adjustment policy. Annual programmes define this policy in detail by stipulating the targets to be achieved and the measures to be conducted. The subsequent annual programmes also serve to review and update the basic paper.

This mode of cooperation between the World Bank and the IMF should be generally adopted when the intention is to help developing countries with structural adjustment measures. In 1985, for example, the Fund approved stand-by credits or loans under the Extended Facility for nearly fifty member states. For some three-quarters of these countries structural or sectoral adjustment loans were also granted or considered by the World Bank. Nevertheless, in these cases, too – as far as is known – a collaboration of the two Bretton Woods institutions as described above in the case of the SAF has not been institutionalized. On both sides the fear of forfeiting autonomy seems to outweigh the perceived need for concerted action.

IMF Role in Dispute

Such cooperation would undoubtedly be facilitated if both organizations occupied equally powerful institutional positions. As mentioned, however, the function and role of the IMF is at present in dispute.

Large changes in the seventies and eighties heavily affected the tasks and functions of the IMF.¹⁴ In the first two decades of the Fund's existence, the "world economy" was largely identical with the industrialized

¹³ The following is taken from excerpts from the text of the hearing of Manfred Holthus, *op. cit.* (Note 2), p. 76 ff.

¹⁴ Cf. Peter B. Kenen: *The Use of IMF Credit*, Reprints in international Finance, No. 25, December 1989, p. 69 ff.

nations of the North. It is thus hardly surprising that the IMF's job was originally to ensure orderly monetary relations amongst these countries. The problems of the IMF were of a more technical nature, the major concerns being the "correct" exchange rate and the optimum liquidity of the overall system. In the following two decades the IMF was increasingly confronted with the problems of the developing countries. In the eighties, they were the only countries to resort to Fund credits.

This shift was brought about by a number of interrelated events. Of crucial importance was the transition in most countries to more or less floating exchange rates in 1973. Here is not the place to analyse the reasons for the collapse of the Bretton Woods system. Basically, the system could not be saved after the "hegemonial power", the USA, no longer kept, or could no longer keep, to the rules of the system and the other countries were not prepared to make internal adjustments to fit in with American economic policy, i.e. through inflation, for the sake of preserving the system.

The floating of exchange rates, however, weakened the obligations of the major industrialized countries to the Fund and reduced their need for Fund money. Finally, the IMF's role in relation to the industrialized

nations was reduced to the surveillance of exchange-rate policy. So as to avoid misunderstandings, let it be clearly stated that this is an important task. The annual consultations between the IMF and the national administrations help a great deal towards a better understanding of the given economic policy and generally towards improving the exchange of information amongst IMF members. In a sense, the surveillance by the IMF is an aid for each country to assess its own chances and constraints more rationally against the backdrop of developments abroad or in the world economy and above all a means of preventing countries from reverting to a "beggar my neighbour" policy.

It is also undeniable though, that the surveillance by the IMF has not been able to preempt the large balance of payments disequilibria between the industrialized countries and the attendant pronounced fluctuations in exchange rates. The IMF seems to have forfeited a part of its role as an instrument of cooperation and policy coordination. Debate on economic policy would in part appear to have shifted from the IMF to the Groups of Three, Five, Seven and Ten (G 3 – G 10). This has engendered a further problem: adjustment problems in the world economy, if we look at the world economic

PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG

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INTERESSENGRUPPEN UND ANPASSUNGSKONFLIKTE IN ENTWICKLUNGSLÄNDERN

Fallstudie III Jamaika

At the HWWA-Institute case studies are being conducted within the framework of a research project supported by the Deutsche Forschungsgemeinschaft (DFG), which are intended to enable statements based on empirical data to be made regarding the extent to which the conception and implementation of adjustment programmes tends to reduce or sharpen conflicts.

The studies are based on the assumption that the success or failure of the adjustment programmes is determined decisively by the activities of interest groups. This third case study deals with Jamaica, which as a small island economy is particularly suited for an exemplary examination of the usual arguments regarding the conflict potential of adjustment policies. (Only available in German.)

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summits, are also being combined illegitimately with the adjustment and distribution problems of other burdens, such as defence, for example.

Leaving aside the question of whether and how the IMF, in particular in the light of the growing indebtedness of the USA to the possible long-term detriment of the world economy, should or can again be assigned a more significant role amongst the industrialized countries (with a corresponding increase in resources),¹⁵ one thing is clear: this development has prompted the developing countries to charge the IMF with biased treatment of its member states. A major share of the problems that led to the debt crisis at the start of the 80s were caused by the stabilization policies of the industrialized nations with their high rates of real interest at the end of the seventies and the beginning of the eighties, problems that the developing countries were left to cope with via stabilization programmes.

Changing Tasks of the Fund

The oil price shocks of the seventies, the rapid growth of lending by private banks (recycling) and the debt crisis of the early eighties have also affected the tasks of the Fund in another way. As long as it was more or less the institution of a purely monetary union, one of its tasks was to act as the institution of a kind of "credit union":¹⁶ each member country contributed to the Fund's resources and could resort to these funds in the case of balance of payments problems. Amidst the large demand for balance of payments assistance in the wake of the two oil price shocks and the even greater requirements at the outbreak of the debt crisis, the Fund took on the function of a financial intermediary: it raised funds from one group of countries to meet the needs of another group. To pick up on the formulation used above to describe the tasks of the World Bank, the IMF also rechannelled funds from the richer to the poorer countries. Apart from this financing role, however, the IMF is obliged – at least to an equal degree – to see to it that the developing countries implement adjustment measures. In other words: the IMF is also required to maintain or restore the creditworthiness of the countries in question.

After the onset of the debt crisis, the IMF also got drawn into debt management, since the development problems behind indebtedness were of course reflected

in payments difficulties, for which the IMF saw itself responsible, especially as the international financial system was threatening to collapse. On the other hand the Fund is now being subjected to criticism by the developing countries that it largely defends the interests of the creditors and that in the trade-off between financing and adjustment it places the emphasis on stabilization via adjustment. It is not the author's intent to pursue the critique of the conditionality policy of the IMF, let alone add to it.¹⁷ In the author's view, Richard Cooper's argument in a summary on the findings of a symposium on this topic that the programmes devised by any given group of economists to help a country out of its balance of payments difficulties would not deviate that much from a typical IMF programme, is difficult to refute.¹⁸ Another consideration is that political tensions between developing countries and the IMF are unavoidable. As an institution that can only cushion the process of adjustment and restructuring to a limited degree via financing, the IMF is bound to be at the centre of development policy controversy.

Another point that cannot be overlooked here is of course that individual governments in developing countries often place the blame for unpleasant austerity measures on IMF conditionality.¹⁹ It is worth registering that relations between the IMF and the authorities in the countries concerned are often better than publicly conceded.

In many countries, though, the IMF is so closely identified with creditor interests that some governments have great difficulty in working more closely with it. In the author's opinion, a major problem is that payments difficulties and political tensions are a reflection of the pressure emanating from the launching of programmes before the political conditions have been created for their efficient implementation.

Participation of Interest Groups

Economic policy, not only in the developing countries, is the product of a balancing out of the interests of different socio-economic groupings and in particular in many developing countries of different ethnic groups at a given point in time.²⁰ The practical result is crucially

¹⁵ On this see C. David Finch: The IMF: The Record and the Prospect, Essays in International Finance, No. 175, September 1989, p. 21 ff.

¹⁶ According to Peter B. Kenen, op. cit. (Note 14), p. 69.

¹⁷ On the critique see, for instance Helmut Walter: Die Auflagenpolitik des Internationalen Währungsfonds, in: Hans-Rimbert Hemmer, Jürgen Schröder: Außenwirtschaft, op. cit. (Note 12), p. 245 ff.; and Harald Sander: Neostukturalistische Makroökonomik für halb-industrialisierte Entwicklungsländer. Kritik der IWF Stabilisierungstheorie, in: Jahrbuch für Sozialwissenschaft, Vol. 40 (1989), No. 2, p. 202 ff.

¹⁸ Mentioned in John Williamson (ed.): IMF Conditionality, Washington 1983, pp. 59-77.

¹⁹ Cf. Otto G. Mayer: Sündenbock IWF, in: Wirtschaftsdienst, Vol. 68 (1988), No. 9, p. 440.

dependent on the power of individual groups. For the implementation of an adjustment scheme, then, the prevalent coalition of interests is of vital importance. As a rule a coalition consists of interest groups that have benefitted from and been consolidated by the development model so far applied. Acute balance of payments difficulties that call for adjustments, however, jeopardize this constellation of interests.

This also explains why many developing countries avoid approaching the IMF for as long as possible and, as in the seventies, prefer to borrow without IMF participation. It is also another reason why the World Bank enjoys a more favourable reputation: in its project work it is able by means of appropriate project planning to cater more easily for additional interest groups. Also, the benefits and the ultimate adverse impacts of the project usually affect different groups.

To take the above line of thinking one step further, we may infer that the more severe the economic crisis is, the greater is the loss of authority of the ruling constellation and the greater is the resultant political crisis. This crisis, in turn, disrupts the established balance of interests and provides the opportunity for the formation of new configurations that may be able to offer a remedy to the crisis. In short: when the IMF steps onto the scene, it encounters difficult political conditions from the outset that cannot be simply tackled by a standard package of measures. Nevertheless, as everyone knows, even in the IMF the term "standard package" is common currency. What is the explanation for this discrepancy between theory and practice?²¹

Theoretically, in an economic crisis the IMF should work out an adjustment programme together with the responsible bodies of the country concerned to restore its creditworthiness, in other words, a sustainable balance of payments situation that not only ensures that the commercial banks receive interest and amortization on old and fresh money, but also that debt service on the IMF's additional lending can be paid. In theory, it is the prerogative of the developing country to specify the time span and schedule of the adjustment and the individual adjustment measures, with the practical advice and support of the IMF, of course. In theory, the local authorities can choose the point in time when there is sufficient political support for the adjustment measures.

In practice, though, the procedure is different: the other creditors press the IMF to act promptly to ensure as smooth a debt service as possible. The IMF draws up a programme with financial and monetary conditions, which on paper should bring about a tolerable balance of payments and a rapid recovery of growth. To solve the immediate problems, the country involved is frequently tempted to accept this programme so as to obtain funds from the IMF as well as from the other lenders. All too often, however, the administration then no longer feels responsible for carrying out the programme or simply gives up in the face of internal implementation difficulties – a sustainable balance of payments position is not achieved.

Larger "Joint Segment"?

An alternative for both the developing country and the IMF would be to wait until the time is ripe for effective action. This is only possible, however, if the IMF possesses adequate funds to implement such programmes independently of other creditors, i.e. to conduct a policy dialogue, protracted if necessary, on appropriate political and economic reforms with the developing country in question.

This dialogue would no longer centre on matters pertaining to the revolving balance of payments assistance. Ultimately, it would also and primarily be a question of medium-term to long-term supply-side and structural policies. The "joint segment" of the IMF and the World Bank with a view to necessary reforms, measures and funding of the adjustment process would be even larger. The closer cooperation between the two institutions that this would entail might be seen as a welcome development, even bearing in mind that apart from "cross conditionality"²² this could result in a certain adulteration of the areas of competence on both sides. This adulteration in turn could also mean that certain major donor countries might be tempted to make use of the greater leeway afforded by this overlapping of competence to manipulate the institutions, depending on their own influence (the IMF is traditionally headed by a European and the World Bank by an American), to their own foreign policy and economic advantage. If closer cooperation between the World Bank and IMF is nevertheless to be achieved, at some point in time a thorough demarcation of responsibilities will have to be made. It remains to be seen to what extent the involvement of both institutions in the former socialist countries of Europe will lend impetus to this process.

²⁰ On this problem, see the publications of Manfred Holthus and Rasul Shams, HWWA Institute, as part of the DFG special research field "Interessengruppen und Anpassungskonflikte in Entwicklungsländern", in particular the case studies by Rasul Shams: Türkei, Hamburg 1989; Mauritius, Hamburg 1989; and Adjustment Constraints in Developing Countries. A Comparative Study, in: INTER-ECONOMICS, Vol. 24 (1989), No. 2, p. 71 ff.

²¹ Cf. C. David Finch, op. cit. (Note 15), p. 31 ff.

²² Cf. Hiroyuki Hino: IMF-World Bank collaboration, in: Finance & Development, September 1986, p. 10 ff.