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IMF Conditionality, John Williamson (editor), Institute
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At a first glance IMF Conditionality may appear to be a rather flat, conservative and intellectually abstracted volume. Unlike the Arusha South-North Declaration of 1980 on the International Monetary System¹ it offers no sketch for radical reconstruction. Even in terms of systematic structural reform proposals within the existing IMF framework the Group of 24's Expert Group Report Low Income Countries and the International Monetary System², Brandt II (Common Crisis)³ and the Commonwealth Secretariat's Towards a New Bretton Woods⁴ are both crisper, easier to read and arguably more far reaching.

Indeed a perusal of the list of participants at the Institute for International Affairs' 1982 Conference from which the book came would suggest that - with a handful of exceptions - the Fund (which was well represented together with the Bank) was among friends and friendly critics. This was a conference of respectable establishment academicians (many with practical experience) from Western Europe and North America plus a scattering of Third World academicians by no means clearly or on average more radical.

That is, however, precisely why IMF Conditionality is important. With no populists and few radicals the majority of the papers, discussants and summaries add up to a devastating, all the more so because very largely non-ideological, criticism of the Fund at all levels from strategic models through technical estimates and target ("trigger clause" or programme suspension) level setting and seasonal phasing.

The IMF's importance as several chapters indicate goes well beyond the funds it makes available in its facilities. On the financial side it is clear that commercial banks, bilateral aid agencies and the World Bank view IMF programme agreement as a necessary condition prior to rescheduling debt and making additional credit available and/or to expanding balance of payments support loans or inaugurating Structural Adjustment Programmes. Ironically this seems to be true of national agencies (e.g. SIDA) and of the World Bank who have significant differences in perspective from the Fund; differences it is far too simple to call complementarity (even though both Vice President William Dale and Senior Advisor Stanley Please did stress that aspect of what has since become an increasingly ambiguous interaction).

On the policy side the fact that the IMF does impose conditionality means that a programme can be expected to have positive or negative results which go beyond the direct impact of the external finance secured and may in fact be greater. This point is discussed by the editor in examining ways to evaluate the overall impact of IMF programmes.

Evaluation is important because even the IMF admits that a high proportion of all programmes fail to meet one or more of their targets (especially economic growth and rates of inflation) and that many do not run their full course because binding quarterly requirements (usually ceilings on government and total domestic bank borrowing, short and medium term external debt and external arrears) known as "trigger clauses" are broken. To have most agreements fail on one or more key targets and barely half run their lives (despite the usually high cost to the borrower and the nuisance to the IMF of a breakdown) must raise questions about the appropriateness of policies, targets and trigger clauses. They cannot by themselves prove a negative as over 1979-83 few nationally set targets have been met either -

economic management has been more noted for failure than success.

But the determination of several countries - highlighted in the chapters on Brazil and Tanzania and comments of Carlos Diaz-Alejandro - to avoid going to or to negotiate at great length without reaching agreement even when this has demonstrably had high costs does raise questions about the appropriateness of the IMF's approach. Its style is termed "grandmotherly" by Sidney Dell - and not in the positive sense of that adjective. In his conclusion the editor views the problems arising from avoiding the Fund as long as possible because of disagreement with its approach as reflecting little credit on either borrowers or the Fund and as underlining the need for fuller and more open dialogue.

Programme Period

The period of IMF programmes was queried by several participants including William Klein and G. K. Helleiner as was its preference for shock treatment i.e. very large cuts in exchange rates, government deficits and real wages at the beginning of a programme. The problem in terms of length is that three years of drawings, a year of grace and five of repayment may not be adequate to allow structural adjustment especially if external shocks not likely to be reversed caused much of the imbalance and a stagnant world economy hampers building up new exports. The "front and loading" or shock approach has somewhat different problems. It may maximise initial inflation and/or make it harder to bring under control (a case assessed somewhat sceptically by Klein). It certainly makes accepting IMF programmes more difficult for representative governments to accept because they entail substantial suffering long before any gains are visible. The IMF is well aware of this - at a previous meeting a senior official remarked that few democratic governments ever adopted a really rigorous IMF programme and

none survived serious attempts to implement one. However, the IMF (in David Finch's presentation) and two academic participants Professor Mikesell from the USA and Professor Okyor from Turkey) resolutely defended shock tactics as necessary to cause a break with the past and allow a new start.

And Programme Size

There was - apart perhaps from Fund participants - fairly general agreement that IMF programmes were rarely large enough to allow major changes in policy to be implemented rapidly without high domestic costs. However, this is not per se the Fund's fault - the increases in quotas have been slower and smaller than its staff would have preferred. This point evidently interacts with the question of programme duration - the money for a maximum programme length of 5 years of drawings, 2 of grace and 8 of repayment is not available. Indeed as late 1983 events - including a Fund moratorium on new programmes - illustrated the combination of present levels of Fund resources, present depth of global recession and present levels of Third World external debt already overtaxes the resources available to the Fund.

The IMF's Causal Model and Prescription

The IMF's fairly explicit model of imbalances (domestic and external) as caused by unsustainable expansion of demand, cureable by demand cuts (especially cuts in government spending and real wages), and achievable fairly quickly and permanently by altering the use of real resources and capacity was queried. It was suggested that it did apply to several cases (e.g. Italy, UK, probably Portugal and Turkey) but less fully to a majority. The assumption of ease in shifting resources from domestic consumption to export generation was viewed as particularly questionable in the Third World. In addition, even in the industrial economy cases, a common pattern (as noted by the editor in his concluding chapter was "stabilisation without

adjustment." In these cases the symptoms of imbalance were cured by massive deflation but almost as soon as the programme ended they reemerged suggesting that there were deeper structural causes which had not been tackled.

The IMF participants, to a certain extent, agreed that many Third World external balance crises since 1973 have been caused in large part by external shocks which reduced national command over real resources and, in particular, imports. However, the case made by several authors that such an imbalance needed to be treated more by measures to enhance supply (including exports) and less by cutting demand appeared to be seen by the Fund as irrelevant. On the one hand they argued that a permanent structural imbalance - however caused - required adjustment (with which no contributor would seem to have disagreed) and on the other that supply enhancement was the Bank's worry not the Fund's. This represents a hardening of position since 1973-74 when in the wake of the first "oil shock" a special low conditionality Oil Facility was created and access to the Compensatory Finance Facility (to offset export shortfalls) significantly eased. No similar measures followed the 1979-80 "second oil shock." Since the IMF has increasingly stressed the need for trade led recovery, there would appear to be a contradiction with its imposition of import cuts in a substantial number of programmes and with its reducing net drawings in 1982 as the recession reached its trough.

A Marriage of Inconvenience?

While the Fund-Bank (especially Structural Adjustment Programmes) relationship was described as a marriage of macro fiscal and monetary control to real output oriented sectoral policy and management, the union appeared problematic to some participants. The Bank's supply enhancing approach

seemed to require a longer time span, less disruptive initial shocks and a rather less macro monetary focus of attention than the Fund programmes usually provided for - albeit in one case the Bank refused a SAP because it felt the Fund's requirements of Tanzania had been too lenient and in another India appeared to have drawn on the Fund for purposes which related more to a SAP model than to any urgent need for short term imbalance reduction. Since 1982 - especially in relation to Sub Saharan Africa - the Bank appears to have had increasing doubts about some Fund prescriptions (including massive initial versus phased devaluations) and has viewed raising imports to levels consistent with more adequate maintenance and utilisation of existing capacity as a key element in stabilisation and structural adjustment whereas the Fund still treats import levels as a residual.

What Conditions?

No contributor argues against there being some conditions. Nor does any believe that these should not include targets related to reducing external imbalance. Beyond that there is very considerable disagreement. Some - in general liberal - participants argued for additional IMF conditions in respect to growth and income distribution. The evident purpose of such conditions would be to bind the IMF (as well as the borrower) to limit demand cutting and to protect weaker social and economic sub-classes. More conservative participants tended to believe IMF conditions were about right in type but perhaps not strict enough. Several liberals and radicals (including Professors Helleiner, Bergsten, Williamson and Diaz-Alejandro) wanted less conditions in the sense that the IMF should normally set only external balance recovery targets and not additional domestic targets limiting the means the borrowing country used to achieve the external balance improvement requirements.

Projections and Trigger Clauses: Blind Marksmanship

The technical side of programme drafting came under attack from a surprisingly wide range of participants including neo-liberal monetarists (e.g. Professor Harberger) as well as centrists and liberals (e.g. Professors Klein, Williamson, Helleiner). Fund projections, especially in poor countries and during periods of global economic uncertainty, are subject to a wide margin of error. This is doubly true when programmes included major initial "shock" elements. Single point projections for inflation, terms of trade, export volume, government revenue and bank borrowing are unlikely to be accurate. Under existing conditions this is inevitable - albeit, as Professor Helleiner has argued more forcefully elsewhere, the quality of Fund personnel and analysis deployed in Sub-Saharan Africa often compounds the inevitable levels of imprecision and inaccuracy.

The problem is that Fund programmes include fixed quarterly targets breaking which normally terminates the programme. (A majority of the Third World cases presented include at least one "busted" programme.) Because they are quarterly the uncertainty problem is compounded - in some case programmes that arguably would have been on target at the end of the year collapsed because seasonal or stochastic quarterly savings broke an earlier ceiling.

The consensus (as expressed in the closing panel and the editor's concluding chapter) among non-IMF participants was for a different approach to target fixing in three senses. First, where possible ranges rather than single points might be set. Second, the assumptions underlying the targets should be spelled out along with simple formulas for adjusting ceilings if - for reasons wholly or largely beyond the borrowers control - the ex ante assumptions proved significantly divergent from ex post reality. Third, there should be more flexibility on the IMF side in agreeing to

waive ceilings when significant progress had been achieved and the borrower was demonstrably making major efforts to achieve adjustment. Unfortunately, judging by subsequent IMF performance, even this non-ideological set of proposals based on a demonstrable set of technical problems fall on deaf ears.

This is not a comfortable book. While the IMF certainly changed its posture by taking part in such an intellectual forum (it does not appear actually to have engaged in dialogue, whereas Bank participants did), one wonders why. Each of the criticisms made - all by serious practitioners and/or academicians who neither reject conditionality as such nor disagree that imbalances must be cured within a finite time period - remains valid today. Indeed the situation has worsened. But the IMF has not taken any of the criticisms or suggestions on board; it apparently remains convinced (at least at operational level) that distaste for approaching it, disagreement with its analysis and conditions and failed programmes are wholly the result of the errors of others (or of unpleasant, unalterable economic conditions) and not at all the result of mistakes or rigidities within the IMF.

Notes

1. In "The International Monetary System and the New International Order", Development Dialogue 1980(2), Dag Hammarskjold Foundation, Uppsala.
2. Group of 24, January 1983.
3. Pan, London, 1983.
4. Commonwealth Secretariat, London, 1983.