The Quest for Economic Stabilisation: The IMF and the World, Vol I.

The IMF Stabilisation; Developing country Experiences, Vol II edited by Tony Killick
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The International Monetary Fund, its influence brought to a peak by the Third World debt crisis, is facing the most serious assault so far on its role, objectives methods and much of its intellectual underpinning.

A group of western economists has now built a powerful case to support the frequent demands issuing from the developing world for change in the IMF.

A collection of studies, edited by Tony Killick of the UK's Overseas Development Institute, argues that the IMF has a poor record in achieving its goals, even by its own standards. The Killick group want the IMF to abandon the stringent conditions it imposes on its lending - usually a deflationary programme involving currency devaluations, higher interest rates and government spending cuts. They argue that borrowing countries should be allowed to adopt an "adjustment with growth" formula, shifting the emphasis from policy constraints on demand to specific measures to stimulate productivity and output.

The attack could not come at a more crucial moment. The IMF is the centrepiece in the effort to contain the Third World debt problem and to restore economic stability to much of the world. Its financial resources may have declined over the years, relative to international trade, but its position is pivotal. The industrialised and developing countries continue to struggle fiercely over IMF control

The events of recent years have conspired to increase the power it wields. A combination of world recession and the debt crisis has forced a record number of countries into its embrace. The big banks are coerced into making loans, often against their commercial judgement, to countries the IMF deems worthy. Even US President Reagan, who once appeared determined to cut the Fund down to size, was obliged to make a humiliating about-turn when only the IMF seemed to stand between the banks and a breakdown of the international financial system.

The Killick group does not set out to dislodge the IMF from its pivotal position: they are reformists not revolutionaries. They want to redirect its energies and reduce the economic and social costs associated with IMF programmes of adjustment. The und provides loans on condition that the country carries out a programme of stabilisation and adjustment, involving reductions in demand - consumption and investment to reduce imports and bring the economy back into equilibrium.

Specific stabilisation measures include devaluation of the currency, increases in taxes and interest rates, liberalisation of trade, credit ceilings, cuts in government spending, wage limits and changes in the pricing of public services. This frequently deflationary programme referred to as "conditionality" has to be pushed through quickly - usually within 12 months - and often involves a loss of output and income.

The Killick group want the IMF to move away from this approach, towards a cost-minimising strategy, combining "adjustment with growth". This means lengthening the period of adjustment to around five years and shifting the emphasis away from limiting demand towards supplyside measures designed to promote the production of experts and import substitutes. They argue that, as this approach gives greater emphasis to growth, employment and income distribution, it would reduce the conflict between adjustment and other government objectives, for development and poverty alleviation.

The Killick formula is closer to the IMF Articles of Agreement, which define its purpose as "the promotion and maintenance of high levels of employment and real income and...the development of the productive resources of all members as primiary objectives of economic policy." The present adjustment formula, with its deflationary twist and harsh terms, is a far cry from the original brief: to correct maladjustments in the balance of payments without resorting to measures destructive of national or international prosperity.

The new blueprint could also have a better success rate than the present IMF policy. Many programme agreements break down, often because countries fail to implement them. An unpublished staff assessment in 1982 conceded. "The Fund cannot be complacent about a situation in which almost half of the cases have not shown any progress towards balance of payments viability. This may be no worse a record than in earlier years...there is a clear need to improve the success rate."

Under the new "real economy' approach of the Killick group, conditionality would go out of the window, to be replaced by "review indicators." Programmes would be carried out in cooperation with Third World governments, not imposed on them. New lending procedures would resemble World Bank structural adjustment loans, which have proved generally successful.

But there is no guarantee any new IMF scheme will be well received, especially by the borrowing countries themselves. They already resent IMF interference in economic policies and the longer-term IMF control envisaged by Killick - involving economic planning at every level - may be unacceptable. This objection was voiced by Bahram Nowzad, former head of the IMF external finance division.

The new plan will also be resisted strongly by the IMF - which cooperated closely with the Killick group - and many western governments. In the late 1970s and early 1980s, the IMF tried to reduce the severity of loan conditions, as a response to oil shocks and changing economic conditions. It increased its lending power, created new types of loans, softened its conditionality and made more use of the Extended Facility which provided for longer-term loans and incorporated a few features of the supplyside approach. But after less than two years, in mid-1981, a coalition of the Reagan administration and hardline European governments put paid to the experiment. The IMF returned with renewed vigour to its insistence on devaluation and credit ceilings; and the Extended Facility was virtually suspended. Yet, three-quarters of the countries receiving "high conditionality" loans are low-income or lower-middle income countries, with populations hardly able to accept additional burdens.

If the new intellectual assault were to succeed, the IMF could undergo changes which, in the words of one senior official, "alter the very nature of the beast." The IMF, according to critics of Killick, would then become too much like a development agency, requiring more money. But with its insider's analysis of IMF shortcomings, the Killick study will be hard to ignore. Unlike other critiques, it is not just an exercise in fund-bashing: it is a case that the IMF should be compelled to answer.

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