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THE IMF AND AFRICA IN THE 1980s

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INTERNATIONAL FINANCE SECTION

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FRITZ MACHLUP
1902-1983

Fritz Machlup was Walker Professor of Economics and International Finance and Director of the International Finance Section from 1960 to 1971. His death on January 30, 1983, following a heart attack, took from us a great scholar, dedicated teacher, and uncompromising advocate of personal and academic freedom.

Fritz Machlup was born near Vienna in 1902. He received his doctorate from the University of Vienna in 1923. His dissertation, on monetary theory and the gold-exchange standard, was the first of many contributions that he made to international monetary economics. Unfortunately, it is not available in English, and Machlup told us why in the first of the two articles on his own work published in the *Quarterly Review* of the Banca Nazionale del Lavoro:

> Rereading now my theoretical analysis of my student days I regret that it has never been translated into English; but when I tried . . . to translate some particularly "foresightful" statements, I saw that my German style of 1923 is almost untranslatable. I had written the dissertation with a view to its acceptance by Professor Othmar Spann, who was officially the chairman of my dissertation committee (because Professor Mises, my teacher and adviser, was only *professor extraordinarius*). Spann had a very idiosyncratic style, with many words of his own coinage. Since my views on economic and monetary matters were totally different from his, indeed, antagonistic to his, I thought I should make up for my dissidence by adopting as many of his terms and expressions as I could. This strategy worked—he accepted my dissertation—but it had the unfortunate result that some of my best sentences are less than plain in German and untranslatable into any other language, except by very free rendition.

For the next ten years, Machlup combined a career in business—he was a partner in a paper-manufacturing firm—with teaching and writing, and he continued to work on international monetary problems. He contributed to the great debate on the transfer problem and to the theory of capital movements.

In 1933, Fritz Machlup came to the United States as a Rockefeller Fellow and lectured at Columbia, Harvard, Chicago, and Stanford. Thereafter, he taught at the University of Buffalo and the Johns Hopkins University, and he came to Princeton in 1960. He retired from the Walker Professorship in 1971 but moved at once to New York University, where he continued to teach and write until his death.

His productivity was awesome and his standards extraordinary. He wrote books and papers on price theory, monopoly and industrial organization, the stock market, the patent system, economic methodology and semantics, and the economics of knowledge. In 1962, he published his pathbreaking book, *The Production and Distribution of Knowledge in the United States*; in 1979, at the age of 77, he began work on a ten-volume study of *Knowledge: Its Creation, Distribution, and Economic Significance* and completed three of them before his death. He came back repeatedly, however, to international monetary matters.

In 1939 and 1940, he published two celebrated articles in *Economica* on "The Theory of Foreign Exchange," and his book on *International Trade and the National Income Multiplier* appeared in 1943. In the 1950s, he was inspired—or provoked—by the debate about the "dollar shortage" to publish a series of important papers, including "Elasticity Pessimism in International Trade," in *Economia Internazionale* (1950) and "Three Concepts of the Balance of Payments and the So-Called Dollar Shortage," in the *Economic Journal* (1950), and he made major contributions to exchange-rate theory in articles on "Relative Prices and Aggregate Spending in the Analysis of Devaluation" in the *American Economic Review* (1955) and "The Terms-of-Trade Effects of Devaluation upon Real Income and the Balance of Payments" in *Kyklos* (1956).

In the 1960s, he wrote many papers on international liquidity and related issues, including a monograph on *Plans for Reform of the International Monetary System* published by the International Finance Section in 1964, "The Need for Monetary Reserves," which appeared in the *Quarterly Review* of the Banca Nazionale del Lavoro (1966), and a series of papers on credit creation in the Eurocurrency market. And he was one of the founders of the "Bellagio Group," which met frequently for more than a decade to examine international monetary issues. In its first incarnation, the Group consisted of academic economists. Machlup described its origins:

> At the Annual Meeting of the International Monetary Fund in Washington, on October 2, 1963, Mr. Douglas Dillon, Secretary of the Treasury of the United States and a Governor of the Fund, announced to a press conference the launching of two studies on "the outlook for the functioning of the international monetary system." . . .
>
> It was apparent that both studies were to be made by government economists only. . . . Noting this fact, a reporter at the press conference asked Secretary Dillon whether the Group of Ten intended to hold hearings, particularly whether individual economists outside the government would be heard. The reply was in the negative. A later explanation of the negative answer was to the effect that the academic economists "have had their say." In the words of a representative of a national monetary authority, the nongovernmental economists had for years been busy spawning plans and proposals, they had not come up with any new and practical ideas, and their views were so much in disagreement with one another that their advice was practically useless to those in charge of decision-making.
>
> Three academic economists (of mutually contradictory persuasions), who were attending the Fund meeting as guests and listening to these announcements and explanations, found their professional pride challenged. On the spot, they de-

> cided to embark on a study of their own—a study by a representative group of nongovernmental economists from several countries—designed to interpret their disagreements in a form potentially useful to decision-makers. . . .

The report of the academic economists (from which this quotation comes) was published in 1964 and bore Fritz Machlup's stamp, stressing the need for clarity in thought and language, and the importance of disentangling disagreements about factual matters from disagreements about policy goals.

In its second incarnation, the Bellagio Group became a forum for academics and officials in which issues were examined frankly and freely. Machlup organized most of its meetings and chaired many of its sessions—with a combination of courtesy and firmness that kept the academics from delivering lectures and the officials from making speeches.

Fritz Machlup was President of the American Economic Association in 1966, of the International Economic Association from 1971 to 1974, and of the American Association of University Professors from 1962 to 1964. In these and other roles, he fought vigorously for academic freedom and integrity. He was very busy, but never too busy for sport—he was a fencer and a skier—and never too busy for music or friendship. He kept an office at Princeton after his retirement, at the top of the tower of Firestone Library, came by my office frequently, and usually dropped in to chat. I will always treasure those conversations. My favorite, however, took place elsewhere—at an Annual Meeting of the IMF. Fritz was sitting in the lobby of the Park-Sheraton Hotel, frowning at a document. I sat down next to him.

"This communiqué is terribly unclear," he said. "Can't they say what they mean?"

"Yes, Fritz," I said, "but if they did, they might not be able to agree. Ambiguity is vital."

"I know," he answered firmly, "but that does not excuse it."

PETER B. KENEN

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The IMF and Africa in the 1980s

The International Monetary Fund has never been popular in the developing countries. In Latin America, in particular, the IMF has for years been seen as the villain in innumerable disputes between nationalist or populist governments and the "forces of Western reaction." The stabilization programs associated with IMF lending impose real burdens on individuals and groups whose incomes or spending authorizations are curtailed. When harsh realities must be faced, there is always a temptation to blame the messenger, and the IMF has frequently played that role. Governments have often welcomed the opportunity to blame external influences when severe austerity is required, and the IMF has willingly served as a "lightning rod" for domestic political heat.

There have also been substantive and analytical reasons for concern about the rôle of the IMF in the developing countries, especially in Latin America. No matter how vigorously the IMF now defends its pragmatism and flexibility, its missions have not always been above analytical approach. Stabilization programs have been imposed on member countries with rather more confidence in their efficacy than subsequent events or the limitations of economic science could justify. The conditionality of much IMF lending has given the IMF an opportunity to promote its staff's own point of view. In particular, the IMF has been attacked for its overemphasis on demand management, blunt monetary-policy instruments, and "shock" treatment to reduce or eliminate inflation and balance-of-payments disequilibria; its relative neglect of supply-side policies, longer-term development, and income distribution; and its traditional aversion to controls, selective policy instruments, and "gradualist" approaches (Dell, 1981; Nowzad, 1981; Williamson, 1982). Moreover, "because the Fund's largest members provide the bulk of its re-

An earlier version of this essay, which was presented at the November 1982 annual meeting of the African Studies Association in Washington and drew heavily upon notes for a lecture to the Canadian Association of African Studies at the University of Toronto in May 1982, was published in the *Canadian Journal of African Studies*, March 1983. I am grateful to John Williamson for comments on the earlier paper.

sources and thus have a majority of the voting power, there is no question that they exert considerable influence on the direction, policies, and practices of the Fund" (Nowzad, 1981, p. 9). In the 1970s the IMF's image and reputation were sufficiently daunting to lead many countries to seek credit from commercial sources when that option was available to them rather than submit to the IMF's expected terms.

Until quite recently, the IMF has been much less visible and controversial in sub-Saharan Africa. But times have changed. Anti-IMF demonstrations have taken place in Tanzania, and riots associated with IMF programs have occurred in the Sudan. Fear of similar popular reactions lies behind the frequent reluctance or inability of African governments to implement policies recommended by the IMF. In 1982, for the first time, the *New York Times* and the London *Financial Times* ran major articles on the tensions between Africa and the Fund. In a *New York Times* story on "The IMF's Imbroglio in Africa," the Fund's representatives at a seminar in Africa were reported to be " 'taken aback' by the degree of hostility they encountered" (March 14, 1982). The *Financial Times*, reporting a dramatic increase in the Fund's importance in Africa, commented that "African resentment of the Fund seems to have risen in proportion to its role" (April 1, 1982). A 1980 special issue of the Dag Hammarskjöld Foundation's widely circulated *Development Dialogue* contains vigorous attacks upon the IMF and the international monetary system, the product of an international conference on the subject held in Tanzania. "IMF prescriptions" are denounced from this African base as unscientific and lacking either objectivity as between members or neutrality as between alternative policy possibilities. "The IMF has proved to be a basically political institution. . . . The Fund's policies, conceived to achieve 'stabilization,' have in fact contributed to destabilization and to the limitation of democratic processes" (1980, p. 14).

The 1980s will inevitably see increasing friction between the IMF and African governments as both struggle with the problem of macroeconomic management in a much more unstable and uncertain global environment. This essay attempts to explain the reasons for this impending conflict and offers some modest suggestions for easing its pains.

African Macroeconomic Performance and Prospects

It is important, first of all, to recognize the macroeconomic context within which sub-Saharan African policy debates are now conducted. If over the last decade macroeconomic performance has been fairly generally disappointing, for the past four years it has been absolutely catastrophic. While some few sub-Saharan African countries had fairly good rates of economic growth until 1979—the terminal year for the data recorded in the World Bank's much-quoted "Berg Report" (World Bank, 1981b)—all of them are now in very serious macroeconomic trouble.

The quality of macroeconomic data is notoriously poor in Africa. For what the data are worth, however, they indicate that 15 of the 45 sub-Saharan African countries experienced declining per capita income between 1970 and 1979. Another 19 registered per capita income growth of under 1 per cent per year during this period. On average, according to the World Bank (1981a, p. 3), per capita income in Africa declined by 0.4 per cent per year in the 1970s. The volume of agricultural exports fell over the decade by 20 per cent, and estimated food production per capita also fell. This weak performance was the result of varied influences, including governmental inefficiency, pervasive mismanagement, and difficult external circumstances. Even before the second oil price shock (1979-80) and the current recession, the problems in this laggard region of the world were already very great, great enough to have elicited widespread international concern and widespread suggestions for priority attention to Africa (see, e.g., OECD, 1980, pp. 29-50). The Berg Report was a product of this rising concern.

The terms-of-trade shock inflicted upon tropical Africa (and other parts of the developing world) since 1979 has been, in the words of the IMF itself, "brutal." In Africa, the damage to the terms of trade has been done not so much by increases in oil prices, since oil is not as important in the poorest countries, as by subsequent collapses in prices of primary commodities. The purchasing power of African primary exports, already weakened in 1978-80, fell sharply through 1981 and the first half of 1982 (IMF, 1982b, pp. 22, 29). The terms of trade of African countries exporting primary products were worse in 1982 than at any time since their independence, or since the Second

World War, or even since the Great Depression. These terms-of-trade data are *exclusive* of the substantially increased cost of borrowed capital in these years, not just capital borrowed from banks and suppliers, many of whom in recent years have added significant surcharges to payments that have lately fallen into arrears, but capital borrowed from the IMF and the World Bank as well. Surcharges have also been applied to the prices of goods sold to African countries on credit, and those are not included in these terms-of-trade data either. The dimensions of the export collapse may be gauged by the fact that the signatories to the Lomé Convention, who were mainly African, submitted claims for compensation—grants for the poorest and credit for the better-off—that were double the available budgeted resources in 1980 and four times these resources in 1981. The treaty's Stabex support scheme for export earnings was widely seen as imperfect and inadequate even before the current disaster because of the tightly limited conditions under which support would be provided and the fact that it offered no compensation for the effects of increases in import prices.

In consequence, average per capita income in tropical Africa fell even further in the past four years. The balance-of-payments situation is universally disastrous. In many countries, inflation is reaching Latin-American proportions. At the same time, official development assistance is being cut: it fell by 4 per cent in real terms overall in 1981. The International Development Association, which directs about 30 per cent of its credit to Africa, has been forced by U.S. cutbacks in contributions to reduce its activities significantly, though less in Africa so far than in Asia. While other countries debate whether they may go into a depression, tropical African states have already got one.

The World Bank's projections of macroeconomic performance for the 1980s do not offer much room for optimism about the immediate future. In its "high case," it projects per capita annual income growth in sub-Saharan Africa of 0.1 per cent. The "high case" assumes resumption of growth in world output in the second half of the 1980s at the 4 per cent rate enjoyed from 1960 to 1979 and a resumption of growth in world trade, rising from an assumed 5 per cent per year in 1980-85 to 5.7 per cent thereafter. It also assumes for Africa a higher domestic savings rate, a greater share of total official development assistance, a higher domestic value-added share of gross export value, and a higher return on investment. Readers may assess for themselves whether this "high case" is very likely. The World Bank's scenario for an alternative "low case" forecasts per capita income growth of *minus* 1 per cent annually for the decade.

In sub-Saharan Africa, stagnation or decline over the medium run and immediate macroeconomic "crisis" have become the norms. The shocks of 1979-83 have brought the weakest to a state of near collapse and even the strongest into major economic and political difficulties.

External Finance and the Role of the IMF

In the analysis of developing countries, macroeconomic and financial questions are usually separated into two categories. *Development finance* involves mobilizing capital for longer-term investment in projects and for overall progress. External sources of development finance include official development assistance from foreign governments and funds obtained from bond markets, transnational corporations, suppliers' credits, longer-term lending by commercial banks, and the World Bank. *Balance-of-payments finance*, by contrast, involves the provision of liquidity—short-run, temporary finance to "tide countries over" their temporary shortfalls in earnings and to permit them to maintain the flow of imports that would otherwise have to be temporarily interrupted. Liquidity of this kind is usually provided by a country's own gold or foreign-exchange reserves as well as by access to short-term and medium-term credit from foreign monetary authorities, commercial banks, sometimes official development assistance, and the IMF.

In the 1970s and early 1980s, it has become increasingly difficult to distinguish the need for development finance from the need for balance-of-payments finance. Very large increases in prices for key imports, such as oil, and extended recessions are longer-term shocks to the balance of payments than were hitherto the norm. It is no longer entirely clear how much of the consequent financing requirements should be regarded as needed for long-term development and how much should be regarded as short-term. The longer the time horizon being considered, the greater the room for supply-side changes and therefore the greater the role for "development" finance. In any case, the most significant fact of the current difficult period is that the ability to pay for crucial imports has been *severely* interrupted. In the absence of adequate finance to maintain import flows at required levels, development itself must be interrupted, and it may even prove impossible to preserve previous levels of income and consumption. To hard-pressed African Ministries of Finance, it is of little consequence whether lenders regard their loans as developmental in character or of the shorter-term balance-of-payments variety; in either case, they must serve the same purpose of financing urgently required imports.

In the absence of the necessary finance, there have been massive cutbacks in the volume of imports. At a time of rising import prices, import values fell on average by 7 per cent in Africa in 1981. In Madagascar they fell by 40 per cent, in Sierra Leone by 36 per cent, in Ghana by 29 per cent, in Zambia by 20 per cent, and in Tanzania by 12 per cent (IMF, 1982a, p. 97). They continued to fall in 1982. Such belt tightening involves major reductions in both public and private consumption and investment and inevitable conflict over whose real income will be cut the most or the least. The "import strangulation" associated with terms-of-trade deteriorations of 25 per cent and more in recent years has created substantial underutilization and depreciation in existing capacity. Without crucial imported inputs and spare parts, much of the capital stock—in transport, industry, agriculture, and even social infrastructure such as schools and hospitals—cannot function adequately. The result is often physical deterioration, which is accelerated in tropical conditions. In some instances, the unavailability of fuel, inputs, and spare parts has severely reduced the capacity to move export products to the ports.

Governments have typically been unable to cut expenditures as quickly as their revenues have fallen; this leads to unplanned and excessive monetary expansion. Monetary expansion in combination with scarcities inevitably breeds inflation. Attempts to deal with price increases by means of price controls have led to the spread of black markets and corruption, a retreat from legal activities, and a comcomitant depressing effect on morale. Delays in required adjustments of exchange rates have led to further tightening of import and foreign-exchange controls and to the growth of smuggling. Real (inflation-adjusted) exchange rates in Africa have appreciated enormously in the past three years—the opposite of what was probably required for adjustment over the longer run (IMF, 1982a, p. 122; 1982b, p. 54). The longer the necessary exchange-rate changes are delayed, the greater the "shocks" eventually required to bring them back in line. Distorted incentive structures and a breakdown in the effectiveness of governmental controls and regulations have generated increasing political disaffection, even in countries where the regime has long enjoyed broad respect and support.

One way that external credit has been obtained is by running up arrears on external payments. These have been piling up as more and more countries have found themselves unable to pay their bills. Whereas in 1974 the IMF reported only 3 countries in arrears on external payments, by the end of 1981 there were a reported 32, of which the majority (20) were African (IMF, 1982c, p. 28). When suppliers are forced to extend credit, they charge high interest rates. And the next time, they demand payment in cash. There are therefore early limits to the amount that can be "borrowed" in this manner.

Debt rescheduling has also relieved some of the payments pressures on creditors. Though African reschedulings via the "Paris Club" of official creditors were not the biggest rescheduling operations of the past few years, they were the most numerous. In 1979, African countries accounted for 3 out of 4 official reschedulings (Togo, Sudan, Zaire); in 1980, 2 out of 3 (Sierra Leone and Liberia); and in 1981, 6 out of 7 (Madagascar, Togo, Zaire, Uganda, Senegal, Liberia). Since the Toronto meetings of the IMF, there have been 6 more African meetings of the Club, rescheduling the official debts of Senegal, Uganda, Malawi, Sudan, Togo, and Zambia.

Foreign-exchange reserves in Africa fell in 1982 to unprecedented levels, averaging 7.4 per cent of annual imports, or twenty-seven days worth of imports. Reserves were less than half their 1973-74 levels and less than half the estimated 1982 average for all oil-importing developing countries (IMF, 1982a, p. 169). The IMF projects that by the end of 1983 reserves will average 5.3 per cent, or nineteen days worth, of still further reduced imports.

One of the purposes for which the IMF was created was to provide balance-of-payments finance for members experiencing temporary difficulties. The provision of such finance, it was assumed, would reduce the risk that imports would be cut in circumstances where they need not and should not be cut, and would thus contribute to the maintenance of both domestic and global employment and income. Although it was not seen as an important element in the Bretton Woods system at its inception, private banking has emerged as an important source of balance-of-payments financing today. Countries with established creditworthiness can meet unexpected balance-of-payments shocks by borrowing from commercial banks, which moved back into international lending in a major way in the 1970s and until recently usually imposed far less onerous conditions on their borrowers than did the IMF. But most African countries can qualify for only very limited finance from this source. The exceptions have been Zaire, Gabon, and Nigeria and, to a lesser extent, Ivory Coast, Kenya, Sudan, Cameroun, and Malawi. African countries are therefore led at an early stage to seek credit from the IMF.

As a result, there has been a marked acceleration in IMF activity in Africa in the past three years. In 1978 the IMF signed 2 new conditional credit agreements with African countries, in 1979 it signed 9, in 1980 it signed 12, and in 1981 it signed 21. In 1978-79 the IMF took more in total repayments from Africa and other developing areas than it lent. But by 1981-82 it was generating an annual net flow of medium-term credit for sub-Saharan Africa that was much larger than that being supplied, albeit at somewhat longer term, by the World Bank and the IDA combined (see the table below). The 1.7 billion SDRs of credit supplied by the IMF in 1981-82 still fell far short of total official development assistance to Africa, which in 1980 made up $9.9 billion (or 7.7 billion SDRs) from all sources, of which $6.8 billion (or 5.3 billion SDRs) was from the OECD countries (OECD, 1981, pp. 207-209).

NET FLOWS OF WORLD BANK/IDA/IMF CREDIT TO SUB-SAHARAN AFRICA, 1978-79 TO 1981-82
(in millions of SDRs)

Source of Credit	*1978-79*	*1979-80*	*1980-81*	*1981-82*
World Bank[a]	355	285	−239	236
IDA[a]	230	304	227	614
IMF[b]	−131	350	591	1,667

[a]Difference between disbursed loans outstanding at year-ends (June 30). The original source records these data in terms of U.S. dollars. The conversion to SDRs employed the average of the SDR/dollar exchange rates at the beginning and end of the financial year.

[b]Purchases less repurchases from the IMF, excluding SDRs, at year-ends (April 30).

SOURCES: Annual Reports of the World Bank and the IMF.

The World Bank has also been taking a keen interest in the structural-adjustment needs of countries experiencing medium-term balance-of-payments difficulties. For this purpose, it has developed a new "structural adjustment loan" that involves IMF-style macroeconomic conditionality. In fact, these World Bank loans have involved more conditions than most IMF loans, because countries typically do not qualify for them until they have first come to an accommodation with the IMF. In Africa, the Bank has so far made such loans to Kenya, Malawi, Ivory Coast, and Senegal. It has also embarked upon far closer cooperation and coordination with the IMF in its approaches to member countries than was usual in earlier times.

With the few exceptions noted above, the IMF "seal of approval" on an African government's macroeconomic program cannot usually be expected to generate as much increased commercial-bank credit as it is said, not entirely accurately, to do in middle-income countries. The IMF's role may nevertheless be considerable among governments granting bilateral aid. Like the commercial banks, donor governments often lack the assessment capacity, the access, and the influence either to come to informed judgments on their own or to offer policy advice to individual developing countries. The continuation or expansion of bilateral official development assistance may thus become increasingly dependent, as World Bank/IDA lending and official debt rescheduling already are, upon countries working out agreements with the IMF as to the conduct of macroeconomic policy. As commercial banks reduce their lending in the 1980s to "marginally creditworthy" borrowers, some of which are in Africa, this IMF role vis-à-vis other sources of credit may become important to more African countries than it is today.

Unfortunately, the IMF is ill equipped at present to offer advice on adjustment and development programs to countries of the African type. Until recently, it has not been very active in Africa. Its professional staff in 1982 of 1,525, very few of whom live overseas, was far smaller than the World Bank's staff of 2,689 (IMF, 1982b, p. 97; World Bank, 1982, p. 10). Its experience with longer-term supply-side policies is so limited that members of its staff have admitted that they must rely upon the Bank for informed assessments of issues other than the short-term and aggregative fiscal-monetary ones in which they have traditionally specialized. Unfortunately, they do not always do so.

With the certainty of macroeconomic crisis conditions in the 1980s—rampant inflation, severe balance-of-payments difficulties, and slow (if any) growth—and an emerging heavy dependence upon the IMF not only for credit but also for assessments upon which other possible donors or lenders will rely, the stage is set for a decade full of battles between African governments and the IMF. There will undoubtedly be mutual exasperation and fatigue, with charges of foreign interference in domestic affairs on the one hand and countercharges of policy "slippage," "indiscipline," and failure to abide by agreements on the other.

The literature on IMF struggles with local governments and on alternative approaches to macroeconomic stabilization has so far been overwhelmingly Latin-American in orientation and coverage. But there are many structural differences between African and Latin-American economies. The typical African economy is smaller, poorer, more trade-dependent, less urbanized, and less socially stratified than its Latin-American counterpart. Its agricultural sector weighs more heavily in overall output and is based much more upon small-holder production; the urban work force is not only relatively smaller and politically weaker but also usually enjoys closer links to rural families. Its financial institutions are weaker and more rudimentary. Despite the dramatic acceleration of education programs in the post-independence period, levels of literacy and educational achievement are still relatively low in Africa. The ability to govern is limited by severe shortages of appropriate skills, not least in the area of economic analysis. These intercontinental differences play upon the politics and economics of alternative stabilization or adjustment programs in ways that are more complex than this essay can explore. It should suffice here simply to underline the fact of their existence.

In any case, much of the Latin-American literature relates to the experiences of the 1950s and 1960s. The external environment at that time was characterized by buoyant primary-export markets, rising flows of official development assistance, and reasonable prospects for increasing private direct foreign investment. That environment has been replaced by a much more somber and uncertain one. The prospect that "improved" policies will generate a rapid turnaround of balance-of-payments problems, through either increased export earnings or induced capital inflows, must now be shakier than it generally was in the 1950s and 1960s. It is certainly not obvious that the Latin experience of the 1950s and 1960s is entirely relevant to the African prospect for the 1980s.

Issues of IMF Policy: Liquidity and Conditionality

It is important to be clear as to what the fighting *is* and *is not* about. To the extent that the external circumstances are given—the worsened terms of trade, some part of which is permanent, not temporary, the prospect of reduced long-term capital flows, etc., circumstances that we should obviously seek to improve where possible—countries will somehow have to adjust to them. At the broadest level, the only choice is between planned adjustment and chaotic adjustment. The question is not *whether* there should be a difficult and painful adjustment, on both the demand and the supply side, but *how* it should be undertaken. With what assistance? Over what time horizon? With the burden distributed how? With what mix of policies and what sequencing? With what terms for foreign borrowing?

Nor does anyone question the right and the need of the IMF or the World Bank to place conditions upon their lending. These institutions must be assured of getting their money back when they lend, and they have a responsibility as well to pursue their members' financial interests, somehow defined, which is bound to lead them to condition *some* of their lending on their vision of "appropriate" remedies for members' problems. Rather, the questions are: What forms of conditionality are appropriate for what circumstances? How much low-conditionality finance is appropriate for particular circumstances? How much leverage is appropriate and effective? What rates of interest are to be paid by which types of borrower?

The charge against the IMF is not that it imposes conditionality per se. The charge is that it is either unfair in its application and imposition of cost, or faulty in its advice, or both.

Inequity in the Expansion of Liquidity

The means by which the international monetary system has been expanding the liquidity of national governments are totally different from those envisaged by the founders of the Bretton Woods institutions. They differ as well, if one believes the pronouncements of the time, from those decided upon much later by the IMF member governments and embodied in the Jamaica Agreement of 1976, which led to the second amendment of the IMF's Articles of Agreement. One of the original purposes of the IMF was to provide short-term finance, or liquidity, for all its members, in order to allow them to ride out temporary balance-of-payments difficulties or to adjust more smoothly to permanent or fundamental changes. In the 1970s, however, the IMF became a relatively insignificant source of such short-term finance, even in the developing countries, as the commercial banks took over the bulk of this financing. At the same time, increases in the price of gold generated large increases in the value of the reserves of all the countries that still held gold, primarily the industrialized ones, in spite of the fact that the Jamaica Agreement called for phasing out gold as an international reserve asset. According to the Jamaica Agreement, the SDR was to become the principal reserve asset of the international monetary system. In fact, because of the vast expansion of liquidity created for some countries by the growth of international commercial-bank lending and the increase in the price of gold, it was possible for these countries to argue that there was little need for further SDR allocations and only limited need for increases in IMF quotas. Thus, the only countries which did not get adequately increasing access to low-conditionality/short-term finance were those which neither had access to the banks nor held gold. These "uncreditworthy" poorest countries were fully dependent upon the IMF for their liquidity.

Despite some innovations, such as the liberalization of the compensatory financing facility, which has provided low-conditionality credit up to certain limits when export earnings fell below their trend, IMF low-conditionality finance has not grown nearly as quickly as has the value of these countries' trade. Between 1971 and 1981, imports grew by 341 per cent and exports by 183 per cent in the "least developed countries" (a UN category containing 32 countries, of which 20 are in tropical Africa), and imports grew by 426 per cent and exports by 399 per cent in countries with per capita income of under $500. Since 1971, maximum annual access to low-conditionality IMF credit has grown by only about 120 per cent. To make matters even worse, in the 1970s the least developed countries also experienced higher levels of instability in the terms of trade, purchasing power of exports, and import volume than did other countries (Helleiner, 1983). In fact, the IMF's compensatory financing facility supplied only about 4 per cent of the finance that would have been required to offset the impact of the deterioration of sub-Saharan African terms of trade in 1980-81 (Williamson, 1982, p. 14).

In recent years, the IMF has been expanding its lending only through high-conditionality lending "windows" and credit tranches. Its reliance on borrowed resources and a policy of "enlarged access" rather than on quota expansion and SDR allocations generated the result, no doubt intentionally, that about 80 per cent of its lending in the 1981-82 period was accompanied by stringent conditions, because countries drawing on the Fund found themselves moving rapidly into the upper credit tranches, where stiff conditions must be met. By contrast, during 1974-75, the last period of major net lending activity, the IMF imposed a similar degree of conditionality on only one-third of its lending.

Furthermore, from late 1981, shortly after the Reagan administration's arrival, the IMF significantly tightened the terms of its high-conditionality lending by reducing the number of loans, curtailing lending periods, and making tougher demands on its borrowers (Williamson, 1982). So "tough" did the IMF become that in the first six months of 1982 it canceled agreements, many of them in Africa, of greater value than its gross new commitments, on the grounds that members had failed to meet strict performance targets. In consequence, its net new commitments were actually negative (IMF, 1982d)—during the worst recession since the 1930s! Even its gross commitments during this period were only one-fifth the value of those in the equivalent period of the previous year.

There have been no SDR allocations since January 1, 1981, and there are few signs of further allocations in the near future. Even if they are made, they will be too late to be of maximum benefit to the countries that are experiencing the worst liquidity problems in 1982-83, and total allocations are likely to be small. Low-conditionality lending by the Trust Fund has stopped because the funds—the proceeds of the IMF's sale of about a third of its gold following the Jamaica Agreement—have now been exhausted. There is no IMF discussion of further sales of its remaining 100 million ounces of gold (worth about $40 billion at current prices, and probably soon to be worth still more). Further IMF quota expansion will not take effect before 1984, and when it comes the increased low-conditionality credit that it brings will be less than is required to make up for the expansion in the value of trade in the poorest countries. In the meantime, the IMF's acknowledged need for more resources will be met by borrowing, and borrowing implies continued expansion of high-conditionality lending only.

The IMF's shift toward the imposition of more and tougher conditions upon its lending has been accompanied by a hardening of the terms. Interest rates charged on IMF credit have been rising relative to market rates. IMF lending that is financed by borrowing rather than by agreed quota expansion must earn interest rates adequate to service the IMF's resulting debt. The failure to increase IMF quotas rapidly enough to meet demands for IMF credit thus implied the imposition of commercial rates of interest on its loans. In the case of drawings of borrowed IMF resources by the poorest countries, these interest rates were only partially offset by interest subsidies financed by voluntary contributions. The interest rate levied on the use of SDRs, which was originally only a nominal 1½ per cent, has also been raised to commercial levels in order to increase the attractiveness of the SDR as a reserve asset.

There is a clear case on equity grounds for charging lower interest rates on IMF credit to the poorest members. There are precedents for such reductions not only in the practices of the International Development Association, the Stabex scheme in the Lomé Convention, and bilateral suppliers of balance-of-payments assistance but even in those of the Trust Fund and "Subsidy Account" of the IMF itself. Interest-subsidy arrangements should be improved and systematized; they should not remain vulnerable to the whims of voluntary donors.

If the original aspirations for an efficient and equitable international monetary system are to begin to be realized, there must be increased provision of low-conditionality balance-of-payments finance by the IMF to the countries that have not benefited from liquidity expansion from other sources. Increased balance-of-payments instability, global inflation, and the expansion of trade volumes in the 1970s and 1980s all have increased liquidity requirements in the poorest countries well beyond currently available levels. There are many possible ways to provide more liquidity, such as adequate quota expansion, SDR allocations, or further liberalization of the compensatory financing facility. None of these need detract in the slightest from the continuing requirement that conditionality be attached to IMF credit when it rises beyond certain agreed limits that have been set in terms of basic need for liquidity. High-conditionality IMF finance, it must be recognized, does not provide true liquidity. The essence of liquidity is that it must be available quickly and relatively costlessly when the need arises. The haggling over preconditions and performance targets takes considerable time and energy, usually from the scarcest and most talented personnel. The opportunity cost of these inputs is probably a good deal higher in skill-scarce sub-Saharan Africa than anywhere else in the world.

Analytical Inadequacies in the Application of Conditionality

The current heavy reliance by the IMF on high-conditionality lending, however one views its appropriate role, demands a close assessment of the conditions themselves. Faulty or inadequate economic analysis can do very great damage when it generates actual policies for credit-hungry African governments.

One must tread very carefully when offering generalizations in this area, more carefully than do many IMF missions when they put their conditions to local policy-makers. The experience and sensitivity of an IMF mission chief may be the most crucial elements in the prospect for accommodation between a country and the IMF. The mission may have considerable freedom from managerial direction during the discussion of "preconditions" for IMF lending, and its report to the IMF Executive Board is likely to be highly influential. At a time when both professionals and policy-makers are experiencing difficulties in the analysis and management of macroeconomic issues even in their own countries, missions that arrive with prejudged and seemingly doctrinaire positions based upon their experiences in other countries are likely to be counterproductive. Other things being equal, a mission is most likely to be successful when its leader is known and trusted within the policy-making circles of the country to which it is sent. Recently, the World Bank financed a small team of advisors, each of whom had considerable Tanzanian experience, to assist the Tanzanian government over a period of eight months in the preparation of its *own* adjustment program. (Accommodation with the IMF has not yet been reached.) Happily, there are instances where IMF missions have also genuinely helped governments to develop stabilization programs that are then regarded as "their own." Unhappily, there are also many instances in which faulty analysis, inadequate experience or sensitivity, or arrogance on the part of IMF missions contributed to disagreements, both local and international, and actually delayed the stabilization or adjustment process.

It is fundamental to understand that balance-of-payments maladjustments can arise from various sources and are therefore likely to require different kinds of policy solutions. In the 1970s, the IMF began to recognize, at least in principle and in staff papers, the need for more emphasis on supply-side policies and for longer periods of adjustment. It began to see that adjustment policies did not necessarily have to depend so heavily on the rapid limitation of demand, which was usually achieved by means of restrictions on monetary and credit expansion.

The developing countries have strenuously argued that traditional "demand shock" policies and other conditions should not be imposed when their balance-of-payments difficulties are the product of external disturbances rather than domestic mismanagement. In a more decent world such arguments would be listened to, as they are within many national economies, and better insurance schemes would be created for the defense of the most vulnerable against shocks that are not of their own making. In the world we have, however, the IMF has labeled this distinction irrelevant to the "real" question: Are the external (or other) changes permanent, in which case the country must adjust, or are they only temporary, in which case the country is eligible for relatively liberal credit arrangements? This "real" distinction cannot explain IMF behavior in 1981-83 toward the developing countries that are exporting primary commodities. They did not obtain anything like the amount of low-conditionality finance to which the collapse of real commodity prices ought on this logic to have entitled them, since by far the largest proportion of this collapse was surely temporary. Rather, the IMF seems to have used the extreme pressures created by the temporary crisis to push on the reluctant low-income countries the same policies it and the World Bank (as summarized in the Berg Report, World Bank, 1981b) had recommended before. Even if it were good economics, which is at least arguable, this behavior has proven to be very bad politics.

When it comes to developing policies for balance-of-payments adjustment, the truth is that we have only a limited understanding of the links between monetary and real (i.e., supply-side) variables or of the dynamics of adjustment. Macroeconomic theorizing is adept at comparing situations of equilibrium with one another, but it has always found it more difficult to model paths of adjustment between them. Where psychology, expectations, and the political power of various groups are all important in determining reactions to major policy changes, it becomes much more difficult to predict their eventual outcome. Cumulative processes can be set in motion that lead economic events in perverse and unexpected directions. There is also usually room for disagreement as to the values of even the more conventional key variables, notably elasticities of supply over various time periods. The only possible professional stance in these circumstances is one of considerable humility and caution in the dispensing of advice. At least one recently published IMF staff paper (Khan and Knight, 1981) has modeled adjustment paths in such a way as to generate results that call traditional IMF policy advice into serious question. The authors conclude that the relationship between domestic credit creation and external positions is extremely complex, and "policymakers cannot 'fine tune' domestic credit ceilings from quarter to quarter or even year to year without having much more comprehensive information about the structure of the economy than they can reasonably be expected to possess" (p. 43). When Khan and Knight compare simulations of a standard one-year adjustment program and an extended five-year program, the former is shown to have significant and undesirable effects upon output, employment, and factor incomes. The design of an effective stabilization or adjustment program in Africa—even more than elsewhere—requires "judgment calls" rather than technical virtuosity.

As soon as the IMF enters the realm of supply-side policies, it is inevitably treading on the "development" turf of the World Bank. Similarly, as the World Bank began its program of "structural adjustment lending," its activities began to overlap with those of the IMF. Both institutions recognize this overlap. They now coordinate their policy advice to a greater degree than they used to and even send staff members on one another's country missions. Both the Bank and the Fund have a built-in preference for supply-side or development policies that utilize the market rather than the power and apparatus of the state. They also prefer open, liberal external exchange and trading systems over inward-oriented development strategies and controlled relations with the rest of the world. Where they have the opportunity, they will push these approaches—in the sincere belief, for which there is considerable Western professional support, that they are productive. (They do not always insist on them. The IMF, after all, includes many socialist states among its membership.) Nevertheless, there are many examples of countries, though not in Africa, that have done well—at least in particular periods—with substantial state direction and with more inward-oriented and protectionist development strategies. And few would argue that state-directed credit or import controls are always deleterious in their effects. The "market bias" of the IMF and the Bank may therefore at particular times and places lead to mistaken, or at least questionable, policy advice.

The IMF has also consistently been accused of inadequate concern in its adjustment programs for questions of income distribution and allocation of burdens. In recent years, the IMF research staff has become interested in distributional issues, as the World Bank staff had done much earlier (see, for instance, Johnson and Salop, 1980). But at the level of IMF–member relations and the provision of advice on stabilization and adjustment programs, sensitivity to questions of income distribution is still absent. For instance, for allocative and budgetary reasons, missions commonly insist on the abolition of food subsidies, apparently unconcerned with the judgment by Washington's own major food-policy research institution that such subsidies are an almost inevitable component of poverty-alleviation programs in low-income countries (IFPRI, 1981, pp. 9-11).

The allocation of adjustment burdens and income distributional issues are crucial components of any politically defensible and workable set of policies. Technically oriented IMF missions will only mislead or obfuscate if they pretend otherwise. At present, IMF advice purports to be distributionally neutral but it usually is not. There is a great need not only for careful analysis of the distributional implications of alternative programs but also for the designing of macroeconomic policies that take equity objectives explicitly into account. Such approaches are especially important for "populist" governments that are more sensitive to these issues. The abysmal record of such governments in macroeconomic management in recent years indicates the extent of the need. It is doubtful that the IMF will be the source of much analysis of this kind, given its traditions. Such analysis is more likely to come from academic and other sources, including, perhaps, the remnants of McNamara's distribution-oriented World Bank.

In stressing the importance of income-distributional considerations in the analysis and design of adjustment programs, I am not suggesting that the IMF should impose distributional conditions on its lending. Borrowing countries generally seek fewer rather than more conditions from external sources of finance. There has therefore not been much third-world enthusiasm, even on the part of governments that place heavy emphasis on equitable income distribution within their own countries, for proposals to encourage the IMF to insist upon stabilization policies that protect the poorest. Nevertheless, there is no reason for the IMF not to be more supportive of and responsive to alternative stabilization packages in which distribution *is* explicitly accorded an important weight. The IMF might even take a more activist role by explicitly analyzing the distributional effects of its own or alternative programs in the normal course of its missions' activities. No doubt some governments will welcome such efforts more than others!

But the most important limitation of IMF analytical approaches to African and other low-income countries' macroeconomic problems is probably neither its "market bias" nor its unconcern with the politically crucial distributional questions. Rather, it is its inadequate consideration of these countries' limited capacity to adjust. The traditional "blunt instruments" of IMF macroeconomic stabilization recommendations—money and credit restraint, devaluations, and liberalization, all pursued within a fairly short period—cannot be expected to be as effective in the typical African country as elsewhere. In Africa, capacity for short-term adjustment is constrained by:

- Limited economic flexibility and limited short-term responsiveness to price incentives.
- Low and—recently—falling levels of per capita income and urban real wages.
- Limited technical and administrative proficiency within governmental economic policy-making institutions.
- Fragile political support for many of today's governments.

With exports of a limited number of commodities, most of which are not consumed locally, very slim possibilities for deflecting articles of local consumption into exporting, and imports already pared well below "minimum essential" requirements, there is precious little room in Africa for either supply or demand adjustments in the short term. With real incomes, particularly urban ones, already low and having fallen so far, and with the political fragility characteristic of most African states, there is not much political room for further sharp cutbacks in levels of consumption, employment, or the provision of services. At the same time, data limitations and inadequate staffing usually mean longer lags between the arrival of problems and their recognition, and between recognition and the development of appropriate responses. The enormity of the maladjustments now facing some African countries, including their typically substantially overvalued currencies, is in large part the result of the inability of the policy-making machinery to respond quickly to unprecedented shocks in the external environment.

Rapid results are most likely to be achieved by offering special incentives to key economic actors and breaking specific bottlenecks rather than by applying fairly blunt instruments across the board to fairly rigid economic systems. In sub-Saharan Africa, the most effective way to achieve short-term improvements in the balance of payments is often to provide adequate transport, credit, and supplies of real inputs and consumer goods, as well as adequate prices, to producers in key parts of the agricultural sector. Where urban populations comprise a smaller share of the population and receive proportionately less income, such rural-oriented changes may demand larger short-term sacrifices on the part of urban dwellers. It is important to keep these sacrifices as low as possible by targeting the reallocation of scarce resources more selectively. In general, the more effective such "fine tuning" of incentive structure and bottleneck breaking, the less macroeconomic restraint is required for short-term adjustment.

Some of the adjustment problems peculiar to economies of the African type are recognized in the 1982 Annual Report of the IMF:

> For many countries, especially low-income countries with a narrow range of exportable products, the process of adjustment is a long and difficult one, requiring substantial external financing (p. 39).
>
> Adjustment of the balance of payments of these countries is often not easy to achieve at the outset because price elasticities of demand for and supply of their export goods are generally quite low in the short run . . . (p. 55).
>
> In the short run, additional concessional financing from abroad will be needed to support these adjustment policies (p. 55).

Why are IMF lending conditions not adapted more to the structural adjustment *capacities* of the poorest countries? Why, at least, is there not more research on possible *alternative* stabilization and adjustment programs that would take structural and distributional problems more fully into account?

Prospects and Conclusions

The stage is thus set in Africa in the 1980s for an internal struggle over macroeconomic management and an external struggle between local governments and the major international financial institutions. Yet the absence of preparation for these struggles is striking. There is very little African literature on such topics as macroeconomic management, the effects of different types of stabilization programs, or the effects of inflation and slowdown. Indeed, the data with which such analyses might be conducted are often limited and inadequate. Most of the literature on these matters relates to Latin America and, to a lesser degree, Asia. But one cannot simply transfer old monetarist *vs.* structuralist debates from other locations to the African scene without carefully considering the implications of the differences between Latin America and Africa in such factors as economic structure and political characteristics.

Nor has there yet developed the analytical capacity for the consideration of these questions within Africa. Governments and universities have typically had distressingly little experience in macroeconomic research. This can lend a comic-opera character to some of the "international" squabbling, wherein virtually all the local memoranda are in fact drafted by foreign advisors. This weakness has also generated lucrative business for foreign merchant banks offering advisory services to African governments. The best known of such private advisors are the "troika" of Lazard Frères (Paris), Lehman Brothers Kuhn Loeb (New York), and S. G. Warburg (London), which have been advising several francophone West African governments and their joint central bank, BCEAO, and Morgan Grenfell, which has been advising the governments of Sudan, Uganda, and Zimbabwe, among others. Are these commercial enterprises likely to be the best sources of sensitive and socially responsible advice on the complex problems of African macroeconomic management?

Unfortunately, when it comes to Africa, macroeconomic analytical skills within the IMF and the World Bank have not been too high either. Until quite recently, career prospects for those dealing with Africa were considered to be lower, as were the opportunities for demonstrating potential. As a result, not only did Africa receive relatively limited research attention but it also frequently had to depend upon multilateral-institution staff with less experience or ability. This is of no small consequence, because these institutions remain major sources of influence. Their technical assistance, the advice proffered by their missions, and their country studies and research activities often enter a virtual analytical vacuum. This may be starting to change, however, as members of the professional staff gravitate toward or are pushed into areas that are emerging as probable "hot spots."

Apart from a few such hopeful signs, the prospect is rather alarming: badly prepared antagonists of modest ability employing data of dubious quality and entering upon a series of battles over very complex policy questions. Both sides bring to these encounters a baggage of ideology and commitment from other places. Each is already "digging in" to entrenched positions on such matters as exchange-rate and interest-rate policies, while the necessary study, research, and technical development remain limited.

Although the data, the literature, and the experience in respect of African–IMF relationships and, more generally, African stabilization and adjustment are still woefully limited, certain conclusions can already be drawn:

1. There is a pressing need for more low-conditionality temporary balance-of-payments finance for the poorest countries in Africa and elsewhere. The system by which liquidity is now acquired by the member countries in the IMF is inadequate and inequitable. For the poorest, there should also be virtually automatic provision for interest subsidies on the use of SDRs and other IMF credit. The market rates now demanded on SDRs and some other IMF credit are higher than these countries should be made to pay for stabilization loans.

2. IMF conditional credit arrangements should be made more flexible in terms of both performance criteria and repayment obligations by appropriate adaptations and the introduction of contingency clauses to the relevant agreements. The need to take account clearly and openly of unexpected events like changes in world markets or accelerated inflation rates has been recognized by all shades of opinion. The introduction of such arrangements would increase the IMF's credibility and the respect accorded its agreements.

3. There is also now a pressing need for more flexibility on the part of aid donors in respect of the type of aid they are able to offer. Official development assistance could and should complement other sources of balance-of-payments financing when that is what is most required. To continue to supply only project finance at times of crisis like the present is not only unhelpful but can actually be counter-productive.

4. Some careful thought should be given to possible arrangements for arbitration and conflict resolution when a dispute between the IMF and an African government has become overwhelmingly costly to the welfare and development prospects of the people of that country. The "model" presented by the advisory group in Tanzania may offer some pointers, although that particular dispute is still far from resolved.

5. There is an enormous need in tropical Africa for expanded training and for research and data collection in the field of macroeconomic and financial analysis.

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