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THE IMF AND ITS CRITICS



BAHRAM NOWZAD



INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

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The author of this Essay, Bahram Nowzad, is currently Assistant Director in charge of the External Finance Division of the Exchange and Trade Relations Department of the International Monetary Fund. He is the author of several articles and papers on aspects of international economics. The opinions expressed in this Essay are his and do not purport to reflect the views of the International Monetary Fund or its staff.

PETER B. KENEN, *Director*
International Finance Section

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INTERNATIONAL FINANCE SECTION
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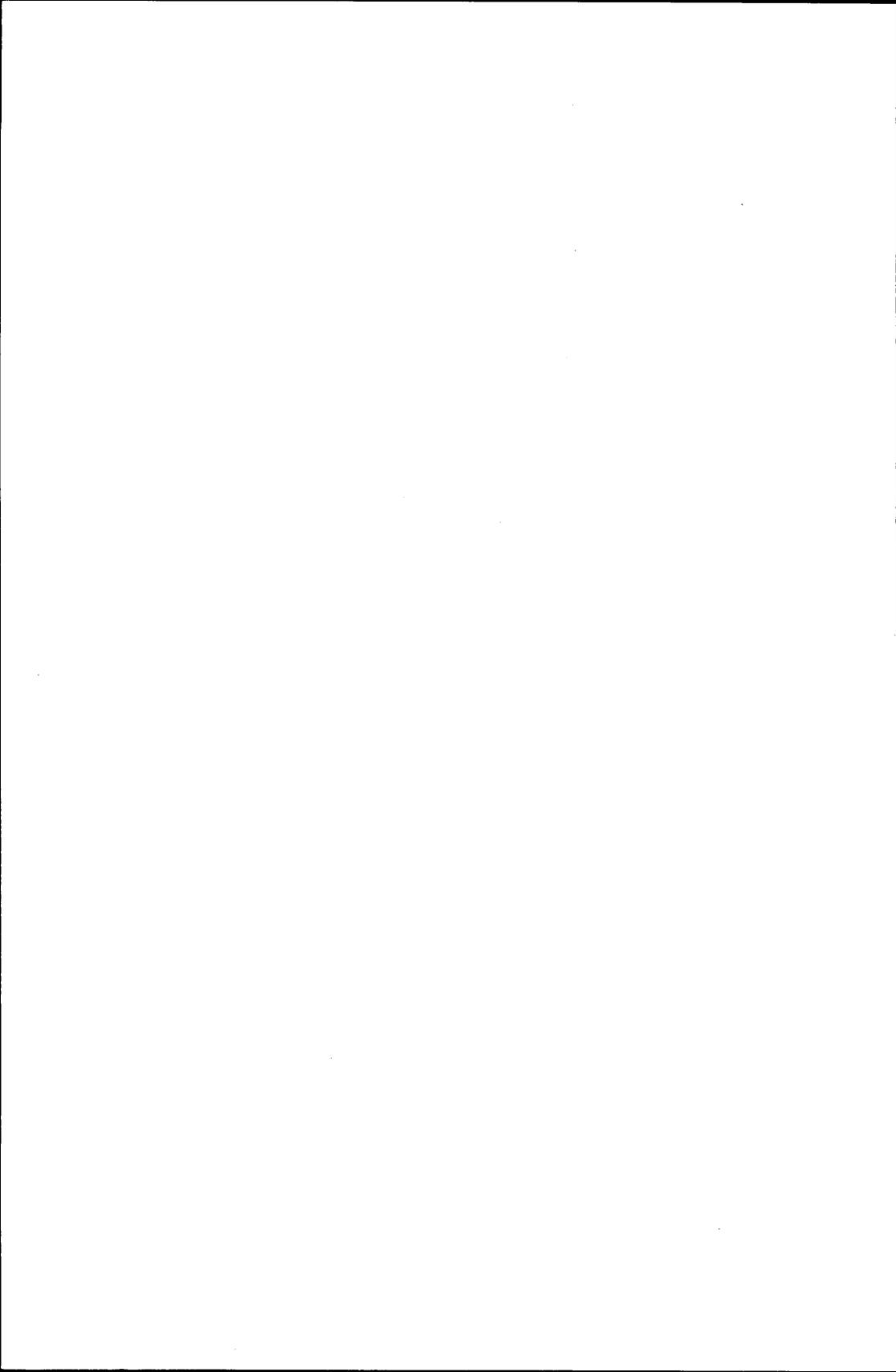
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The IMF and Its Critics

1 Introduction

The role of the International Monetary Fund in developing countries has not enjoyed a good press. Public comment has frequently been hostile and at times abusive. Criticism of the Fund's role in developing countries has come mostly from those countries themselves, but there has been no shortage of detractors in developed countries.¹ It would be accurate to say that the most persistent and vocal critic of the Fund has been the "development community" or "development lobby," including its adherents in the developed countries and in certain international institutions.

The Fund's detractors comprise a diverse group: journalists, academics, social scientists, government officials, politicians, and even heads of governments. They have employed a variety of channels, including the print and broadcast media, political rallies, international gatherings, and books and periodicals. Commentary on the Fund has ranged from analysis and questioning of Fund policies and activities to impugning of Fund intentions and even attribution of dire motives to the Fund. The tenor of the unfavorable comment has ranged from relatively mild criticism to fairly strong accusations and occasionally even vituperative denunciations.

An attempt to collate, classify, and analyze systematically the vast amount of commentary on the Fund from this heterogeneous collection of sources would be a major undertaking of dubious value. This Essay attempts a more manageable task, and one that will perhaps be more useful: to study the broad lines of criticism that occur most frequently in appraisals of the Fund. Some of these appraisals are made by individuals, and some appear in studies and reports that are devoted wholly or mostly to the Fund. The studies and reports have the advantage of containing views and commentary on the international monetary system and the Fund that have been distilled from a large variety of sources.²

¹ Some of the criticism from developed countries is different from the criticism examined in this Essay, the principal charges being that the Fund is tending to behave like a development finance agency, that it is being lax in its lending policies, and that consequently it is failing to fulfill its proper role as the center of the world monetary system. These criticisms are not addressed in this paper. It should also be noted that criticisms of the Fund are related to its lending and policy-advice activities and do not refer to the substantial amount of technical assistance provided by the Fund.

² Among many recent or ongoing studies and reports, mention may be made of the work under way in the Overseas Development Institute (London) on *The IMF and Economic Management in LDCs*, a project sponsored by Queen Elizabeth House (Oxford) on the *Framework for International Financial Cooperation*, and the report of the Brandt Commission issued in March 1980. The *Outline for a Program of Action on International Monetary Reform* prepared

An examination of the way the role, purposes, and performance of the Fund are viewed, together with some of the changes and reforms suggested, should allow a better understanding of the reasons why the Fund has had—and continues to have—a largely hostile press. Although an attempt has been made to focus on observations and criticisms that relate specifically to the Fund, much of the commentary concerning the Fund is intermingled and interchangeable with observations relating to the international monetary system and, in this sense, criticism of the one indicts the other by association. Indeed, this tendency somewhat obscures two essentially different criticisms: first, that the international monetary system itself is unsatisfactory (or even nonexistent) and that a “better” Fund must await the creation of an appropriate system based on a different philosophy and new foundations, or, alternatively, that the Fund’s activities and approach could be improved within the framework of the existing international monetary system and Fund.

A further distinction could be drawn in principle between criticism that is *a priori* in character and inspired by a particular ideology, and criticism that reaches its conclusions *a posteriori*, after an examination of the facts as perceived by the critic. Since, this distinction is frequently blurred in practice, no attempt is made here to classify critics solely along these lines.

Finally, while this Essay does not purport to provide a point-by-point evaluation of all the various criticisms of the Fund, rejoinders are made in many instances to clarify and put in sharper focus the judgments or criticisms under discussion.

2 Perceived General Defects

Faulty Beginnings

For many observers, the problems of the Fund began at birth: Bretton Woods produced a deformed infant, and little has been done through the years to overcome the deformities. The assertion is often made that the Fund was created by and for industrial countries; that those responsible for drawing up the “blueprint” for the postwar international monetary system were almost exclusively preoccupied with the interests of developed countries; and that, consequently, economic development was not a prime consideration in the designing of the Fund.

Such statements are somewhat surprising. Unlike disagreements on matters that are genuinely susceptible to differing judgments and perceptions,

by the Group of Twenty-Four in September 1979 also contains a section highly critical of the present international monetary system. Reference to these reports is not intended to imply that their authors would endorse all the criticisms discussed in this Essay.

the list of participants in the establishment of the Fund as well as their views—in particular their views on development—are matters of record. The notion that the Fund was created by and for industrial countries does not do justice to the outstanding and substantial contributions made by the founding fathers of the Fund to raising the status and promoting the economic well-being of the countries that later came to be called “developing countries.” Moreover, of the 45 countries that participated at Bretton Woods, 28 were developing, while only 9 of the countries now regarded as industrial were present. The absentees included Austria, Germany, Italy, Japan, and Sweden, all of them now classified as “major industrial countries.” At the same time, officials from India and the Philippines were invited and took a very active part in the deliberations at Bretton Woods even though their countries were not constitutionally independent at the time. Furthermore, the considerable influence exerted by Latin American representatives is reflected in their right to two seats on the Fund’s Executive Board. All this is not to imply that justice was fully done to the aspirations of developing countries when the Fund was founded but rather to dispel the notion that these countries were excluded or were passive and ineffective.

Many commentators have also complained about the way voting power was allocated at the Fund’s inception. They say that the structure of voting has confined developing-country representatives in various bodies of the Fund to the role of silent, passive partners. The fact is that the structure of voting in the Fund reflects the realities of economic and financial power in the world: the countries with the largest economies make the greatest contribution to the financial resources of the Fund and also have the most votes. While alternative voting structures can be envisaged, the fundamental point is that a weakening of the link between financial contribution and voting power would risk inciting the stronger countries to bypass the Fund and create new organizations, an outcome that would be contrary to the interests of developing countries. Furthermore, the fact that industrial countries have a majority of voting power in the Fund does not mean that developing countries form a helpless minority. On the contrary, throughout the Fund’s history, developing-country representatives have played an important part in shaping its policies, formulating its operating guidelines, and determining its general direction. Some of the Fund’s facilities—the compensatory-financing facility and the extended Fund facility—were established in large part as a result of the pressure and influence of developing countries. The voting power of developing countries has increased over the years and, on those matters that require special majorities, the developing countries as a group have, at least in principle, enjoyed a power of veto for some time. Most significant, perhaps, there have always been eight or nine Directors from developing countries on the Executive Board (at present

eleven, counting Saudi Arabia and China). In a body that reaches most of its decisions by consensus, the importance of this must not be underestimated.

The assertion that because economic development was not one of the prime considerations in the establishment of the Fund, the Fund's main emphasis has consequently been on matters like control of inflation, to the neglect of development and social issues, gives inadequate credit to the full achievements at Bretton Woods.

First, the accusation does not take into account the fact that the World Bank was also a creation of Bretton Woods. The Bank's official title, International Bank for Reconstruction and Development, clearly implies that it was established as a development-finance institution specifically to accommodate the interests of participants from developing countries. The creation of the Bank was a response to the objections of these participants that the Fund's resources were intended for temporary use and designed to revolve, and were not to be used for development purposes. The Fund and the Bank have collaborated closely over the years, a cooperation that has recently been enhanced with the explicit aim of improving response to the longer-term structural needs of developing countries. Moreover, the distinction between the development role of the Bank and the adjustment role of the Fund has not prevented the Fund from adopting policies (both financial and regulatory) that were intended to be and have been of particular benefit to developing countries.

Second, while economic development was not a prime direct consideration in the creation of the Fund at Bretton Woods, it was (and continues to be) a prime indirect objective to be promoted by facilitating the expansion and balanced growth of international trade so as 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 ..." (Article I[ii]). In other words, it was very much in the minds of the founders of the Fund that the expansion of trade and investment would be the best way to promote economic prosperity for all countries, including developing countries. The expansion was to be achieved by removing the extensive controls and restrictions then imposed on trade and payments, establishing convertibility among currencies, and maintaining stability in exchange rates. This prescription turned out to be correct, as is readily admitted even by the critics of the Fund. No one seriously questions that the postwar economic "order," based on the twin pillars of the Fund and the GATT, succeeded in fostering an unprecedented era of expanding trade and prosperity that lasted until the breakup of the Bretton Woods system and the onset of the oil crisis.

Deficient Reforms

Many observers charge that, in addition to the deficiencies of the Fund at its inception, it has not adapted sufficiently to the needs of the developing countries since then. Over the years, the Fund *has* gone a considerable way to meet some of the concerns specific to developing countries. The Fund introduced, then broadened and deepened, its compensatory-financing facility; it introduced the buffer-stock facility and the extended Fund facility; and it recently established a "food facility" to be integrated into the compensatory facility. It gives greater emphasis to structural adjustment problems and to policies designed to enhance supply responses. As a result of all these actions, the Fund has assumed a role that is much broader than that of an international monetary authority narrowly defined, and—far from remaining aloof from development concerns—it has gone a considerable way to meet them within the confines of its Articles. Nevertheless, many observers regard these changes in the Fund as inadequate from the point of view of developing countries.

First, many have noted that Fund resources, compared with relevant magnitudes such as world trade, have declined sharply over the years. This cannot be contested: by almost any calculation, the relative size of the Fund has declined. Whether or not, seen in the context of other financial facilities, the decline in resources is warranted is a broader question that is not addressed here.

Most commentary about reforms focuses on the second amendment, since, in a sense, it legitimized the post-Bretton Woods system. When seen against the perceived need for major, comprehensive monetary reform and, in particular, against the perceived requirements of developing countries, the second amendment is frequently regarded as wholly inadequate. Its drafters are accused not only of having failed to provide a comprehensive and coherent program for dealing with the general problems facing the international monetary system, or the basis for dealing with them, but more seriously of having failed to cope with those aspects of the international monetary system of particular interest to developing countries. These perceived shortcomings of the second amendment relate to many important issues: effective control of the international reserve system and of international liquidity, convertibility of official balances and provisions for asset settlement, a symmetrical system of balance-of-payments adjustment, arrangements to promote the transfer of real resources to developing countries, and the achievement of stable exchange rates.

The most visible, and perhaps the most important, difference between the Bretton Woods and the post-Bretton Woods systems concerns the

exchange-rate regimes sanctioned by them. The variability of exchange rates under the post-Bretton Woods system is seen as a source of particular difficulty for developing countries and has elicited much comment critical of the Fund and the present international monetary system. In sharp contrast, prior to 1971 the Fund was routinely castigated for promoting a regime of exchange rates that was not flexible enough.

Many observers concerned with the problems of developing countries view the establishment of an orderly and stable system of exchange rates as the first task of the international monetary system. They argue that predictable exchange rates encourage investment and trade and promote confidence, whereas fluctuations or erratic changes in rates discourage them. Developing countries, they assert, are particularly vulnerable to uncertainty in exchange-rate movements and to fluctuations in the exchange rates of major currencies. These critics claim that the buffeting developing countries have received from violent swings in major currencies has created problems for them in regard not only to the management of their own exchange rates but also to the management of exchange reserves and external debt. In short, they see flexibility of exchange rates as having complicated the task of economic management for developing countries.

The impact of the present exchange-rate regime on developing countries is an important issue that cannot be adequately dealt with here, but a few observations are in order. Empirical studies have shown that exchange-rate instability has increased significantly for the overwhelming majority of developing countries since 1973, when floating rates became widespread. At times, exchange rates have fluctuated more than was justified by underlying market forces. This has created difficulties for developing countries, particularly as they lack adequate forward-exchange facilities and do not have easy access to the forward markets of developed countries. But it is important to consider exchange rates in a global context and not only on the basis of how they affect a group of countries. Given the differential rates of inflation that have been characteristic of the post-1973 era and the divergent policies followed in the major countries, a worldwide regime of flexible rates has been the only realistic option. Unfortunately, there seems to be no viable and generally acceptable alternative in present circumstances. And whatever the relative merits of fixed and floating rates, exchange-rate developments reflect world economic and political conditions—in particular the degree of stability in the economies of major countries—and the Fund has little influence over them.

Indeed, the Fund shares some of the concerns regarding exchange-rate developments, particularly when variations seem excessive and not related to fundamental underlying conditions, but its power to bring about greater stability is limited. The Fund is, of course, required to exercise "firm sur-

veillance" over the exchange-rate policies of its members and seeks to carry out this task, but its effectiveness depends on the cooperation of members, and some of them may resist when pressure is applied. The promotion of greater exchange-rate stability requires changes in domestic economic and financial policies to bring about greater domestic economic stability, and such changes meet resistance. Thus, the fact that the Fund makes its views known on these matters does not ensure that it will be heeded. Although the Fund is an entity legally separate from its members, the members control it. While this control strengthens the Fund, it also makes it impossible for the Fund to act against the political will of the membership.

Philosophy and Approach

The Fund's general "philosophy," or what is seen to constitute an identifiable philosophy, has been the subject of much disapproval. An institution's philosophy is bound to affect its approach to issues, and that too has been found wanting. A summary critical view of the Fund's philosophy and approach, based on comments and observations from many sources, would be as follows:

Philosophy: The Fund (as is evident from its Articles) has a market-oriented, pro-free enterprise, pro-capitalist, anti-socialist philosophy, with a pronounced bias in favor of free trade, private investment, and the price mechanism. This reflects a "vision of the world" inspired and imposed by industrial countries, in particular the United States, on debtor [implicitly, developing] countries. Many economists and politicians genuinely believe that the policies implied by this philosophy are in the best interests of developing countries. It must be recalled, however, that these officials are Western-trained and believe in the efficiency of the market. The imposition of this philosophy is facilitated by the dominant voting power of the industrial countries; in this way, the Fund serves the interests of creditor countries and helps to preserve their resources from claims by developing countries to larger resource transfers. In brief [as one head of state has put it], the Fund is "a device by which the rich countries increase their power over the poor."

Approach: The Fund's philosophy has a direct impact on its general approach to its members, its analytical approach to economic problems, its assumptions regarding causative factors, and its modus operandi. As an institution that serves to impose the vision of the world held by its more influential members on its other (and numerically more important) members, the Fund's attitude is paternalistic or "grandmotherly." The Fund tends to assume that any country that needs to borrow must have been incompetent or careless and therefore would benefit from its guidance. It

works on the assumption that all balance-of-payments problems have been caused domestically. Its rigid approach, together with its doctrinaire philosophical underpinnings, are a key element in helping to maintain an exploitative pattern of developing-country dependence on the industrial countries of the West.

The above, not atypical, characterization of the Fund's philosophy and approach by its critics may contain a small grain of truth, but it is mostly based on a fundamental misunderstanding of the Fund and how it operates.

To begin with, it should be freely admitted that the Fund *does* have a point of view ("philosophy" is too formal). For reasons in part related to the circumstances in which the Fund was established, the Fund assumes that market forces, liberalized trade and payments, and general freedom in economic matters are usually more efficient and promote greater prosperity and a better allocation of resources than a system characterized by controls and restrictions. As a result, most Fund programs can perhaps be better understood in the context of a market economy. It is also true that the Fund has a bias against policies that overcommit a country's resources. A country must over time keep its spending within the limits of what it can produce plus what it can mobilize in external loans or grants. Countries tend to overcommit their resources for a variety of reasons, which may include ideological reasons. But ideology per se is not really the relevant issue. Sooner or later, all governments have to face reality: if resources are overcommitted, either supply must be increased or demand must be reduced. These points of view were not handed down on a tablet at Bretton Woods; they have evolved gradually, shaped in part by the tasks the Fund has had to perform and in part by experience.

Having a point of view, however, is an entirely different matter from maintaining, and rigidly applying to all countries in all circumstances, a philosophy whose objective is to exploit the majority of the Fund's membership for the benefit of the major industrial shareholders. Not only is this assertion grossly askew in principle, it ignores the proven and considerable flexibility of the Fund in dealing with member countries in the context of their economies (including economies that have become more centralized *after* joining the Fund) without any request or even suggestion that they modify their socioeconomic system to fit the analytical assumptions and meet the requirements of supposedly rigid Fund programs. In recent years, these countries have included such centrally planned economies as Burma, China, Laos, Romania, and Vietnam. The Fund has accommodated its programing techniques to the special features of each country and has been able to reach a considerable measure of agreement with the country's authorities as to the appropriate adjustment policies. In many instances, the

Fund has accepted conventions and practices, such as restrictions and subsidies, that would hardly have been reconcilable with an unbending, inflexible, market-oriented approach.

Because the Fund's largest members provide the bulk of its resources 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. But the assertion that these member countries seek to impose their "vision of the world" is not borne out by the nature of the agreements reached with many countries of differing economic systems and differing visions of the world. Some critics have averred that the new surplus countries may have a less market-oriented and more control- and plan-oriented vision of the world than the old ones. This is a possibility, though there is little evidence to support it to date. And, to the extent that they become providers of resources through the Fund, the new surplus countries are likely to become more concerned about the "proper" use of those resources.

Little can be said about the charge that the Fund is "paternalistic," since this concept is not always fully explained. Furthermore, it is not clear whether it is based merely on chance encounters between the critics and particular Fund officials or is perceived as a deeper failing affecting the Fund. Fund officials who conduct negotiations with member countries are of course subject to the same failings and mistakes as other humans.

3 Fund Programs and Conditionality

No aspect of the Fund's activities has been more controversial, more persistently criticized, or more routinely misunderstood than the conditionality attaching to the use of Fund resources in the context of Fund-supported programs. As a result, conditionality has been the single most important source of friction between the Fund and some of its members.

The Fund's programing and conditionality have been reproached on many levels and for a wide variety of reasons. The principal criticisms can be summarized as follows:

It must be conceded that some degree of conditionality in the use of Fund resources is both necessary and legitimate to ensure repayment of borrowings, since Fund resources are for temporary use and are meant to revolve. However, Fund conditionality, as it is practiced, goes beyond this requirement. Fund programs have many shortcomings in terms of their analytical formulation, their application and requirements, and their consequences.

First, the underlying analysis in Fund programs is based on the assumption that balance-of-payments difficulties result from excessive domestic de-

mand and can be resolved by balancing the budget, curbing the money supply, cutting subsidies, and establishing a realistic exchange rate. This analytical approach is of doubtful relevance. Often developing countries are not in a position to shift resources and lack the flexibility to do so; in these cases, a reduction in consumption does not lead to an increase in investment.

Second, the Fund employs a "monetary approach" to balance-of-payments problems and a "monetarist" framework for economic analysis, which yield uniform and rigid conclusions regarding the content and timing of programs. In making its recommendations, the Fund has a "standard package" incorporating these elements that it applies to all countries in all circumstances. There is insufficient differentiation regarding the circumstances of different economies, and no distinction is made between internally and exogenously caused balance-of-payments problems.

Third, the Fund requires quick results. Since it is not concerned with longer-term economic developments, Fund programs and the effects of Fund policies are anti-developmental. Moreover, Fund programs do not take account of political conditions and social objectives, and Fund officials lack political savoir faire. As a result, Fund programs may have undesirable social consequences.

Fourth, the relationship between stability and development is doubtful in the circumstances facing developing countries. Although the deliberate creation of inflation is no longer proposed in developing countries, inflation may be a necessary, if inconvenient, concomitant of an adequate development effort. The benefits of stabilization policies do not justify the costs that must be borne in terms of development programs. More specifically, the foreign-exchange problems of developing countries are a function of the structures of international trade and of domestic demand and production. Exchange-rate and credit policies are either irrelevant, unsuccessful, or self-defeating.

It can be generally concluded that Fund policy conditions are "harsh," lack a clear economic rationale, and frequently are self-defeating. Because of the way conditionality is imposed, many countries do all they can to avoid having recourse to the Fund. Their reluctance is partially based on the fear that acceptance of such conditions will undermine the political base of the government and drive it from office.

These assertions and criticisms are often couched in combative, black-and-white pronouncements supported by little evidence. In general, the critics do not advance detailed, convincing alternative approaches to the adjustment problems that a Fund program typically addresses. Critical comments are frequently based on hypothetical arguments that have little

relevance to economic policy even in theory, and certainly in practice. For example, the implicit assumptions seem to be that policies apply either in the short term or the long term, are designed either to fight inflation or to foster social objectives, and seek either to establish stable conditions or to promote economic development. Without embarking on a detailed analysis of these and other assumptions that underlie many criticisms of Fund policies and conditionality, some comments are in order.

Essence of Conditionality

Conditionality is not—and cannot be—a rigid and inflexible set of operational rules; it must be adapted to changing circumstances and specific cases. The Executive Directors of the Fund have on several occasions reviewed and amended the general policies and practices relating to the conditional use of Fund resources. Apart from these periodic reviews, particular aspects of conditionality are raised and discussed frequently in connection with individual standby or extended arrangements.

Critics consider conditionality legitimate only to the extent necessary to establish adequate safeguards for the temporary use of resources. Temporary use is, of course, the principal justification for conditionality, and there would be little disagreement if “temporary” were taken to imply a degree of conditionality that would bring about the needed adjustment rapidly enough to rule out prolonged use of Fund resources. But the basis of conditionality is broader than the mere preservation of the revolving character of Fund resources. Conditionality must be viewed as reflecting the need to ensure that Fund resources are used in accordance with the general purposes of the Fund, which include assisting members to correct maladjustments in their balance of payments without resorting to restrictions. The objective of Fund-supported programs is to achieve a viable balance-of-payments position over the medium term. For countries that normally receive a net inflow of capital from external sources, this objective implies a current-account deficit that can be sustained by such an inflow. Where exchange reserves are considered too low at the beginning of the program period, an increase to the level considered adequate is an objective of the program. The concept of a “viable” balance-of-payments position has several aspects: it means that the imbalances giving rise to payments difficulties will be eliminated and not merely suppressed, that the improvement will be durable and therefore achieved not by the expedient of restrictions on trade and payments but by measures designed to correct the prevailing distortions, and that adequate attention will be paid to the size and terms of the capital flows that can be expected.

By supporting with its resources a program designed to achieve these objectives, the Fund establishes complementarity between conditionality

and the financial assistance that it provides. The provision of finance without the adoption of the policy measures embodied in conditionality would postpone necessary adjustments and run the risk of prolonging an untenable situation, while the adoption of adjustment measures without the provision of finance would render the process of adjustment unnecessarily difficult.

Content of Programs

Assertions that Fund programs are based on a "standard package" applied to all countries in all circumstances, that economic problems are analyzed according to rigid criteria, and that the Fund makes identical policy prescriptions are simply not correct.³

To the extent that the problems facing countries in balance-of-payments difficulties are similar, it should not be surprising that the adjustment programs designed to deal with them are also similar. No two cases are identical, of course. A country may face distinctive problems and be affected by particular economic circumstances, including exogenously caused difficulties. The relative weights of the elements in a balance-of-payments situation may differ from country to country. But empirical observation shows that the problems of developing countries in balance-of-payments difficulties have common and recurring elements, such as large public-sector deficits; monetary expansion to accommodate them; and reluctance on the part of the authorities (for political or other reasons) to adjust the exchange rate and producer prices, thereby inhibiting exports and encouraging imports.

A second reason for the resemblance between Fund programs is that the Fund tends to concentrate on a limited number of broad macroeconomic variables. Indeed, the Fund's membership, through the Executive Board, has enjoined the Fund staff to limit itself to broad macroeconomic policy instruments and not to become directly involved in the details of domestic policy making, which would be considered by many members as interference with sovereignty. An example that has been the source of considerable criticism involves the distributional effects of Fund-supported programs. Broadly speaking, if balance-of-payments adjustment programs are to have the desired result, income must be redistributed in favor of the traded-goods sector. But, within this broad framework, a program can affect various groups differently according to how it is implemented. To reduce government expenditures, for instance, the authorities may have a choice of cutting military procurements, investment expenditures, or social programs. The global reduction may be agreed with the Fund as part of the

³ The Fund-supported program is set forth in a "letter of intent" and must not be confused with the standby arrangement itself: standby arrangements are Fund decisions giving effect to the programs and are intentionally standardized.

program, but decisions about reducing particular expenditures, which reflect domestic, often politically determined priorities, must be made by the national authorities.

Thus it seems almost inevitable that Fund-supported programs will bear a family resemblance. Variety in Fund programs is not important, however, so long as the basic framework is flexible enough to take account of the circumstances facing particular countries. A survey of programs over time should show that, within the basic framework, they display considerable variety with regard to the policy actions involved and the emphasis placed on different elements of programs.

The "Monetary" Framework of Programs

The charge regarding the "standard" Fund package is frequently accompanied by complaints that the Fund employs a rigid monetary approach to balance-of-payments analysis and the formulation of programs. In order to appraise the validity of this criticism, a clear understanding is required of the monetary approach to the balance of payments. Over the past decade, a major development in monetary theory in the context of an open economy has been a shift in emphasis from the traditional elasticity approach, which focused on the role of relative prices in the determination of trade flows, to what has become known as the monetary approach to the balance of payments. This approach emphasizes the basic identity in which an excess supply of money is the counterpart of an excess demand for domestic goods and securities and is reflected in a deficit in the balance of payments. Although the balance of payments can be analyzed in terms of the current and capital accounts, it is more practical to use monetary accounts, because monetary data are generally more accessible and reliable. The crucial element in this approach is the stability of the demand-for-money function. When this function is stable, the amount of money demanded is largely determined by prices and output. If domestic credit is created in amounts exceeding the demand for money, it is reflected in losses of international reserves. In the short run, however, a portion of any excess supply of money is likely to be reflected in changes in domestic prices and output as well as in the balance of payments, because price rigidities and controls on trade and capital movements impede the adjustment of capital and goods markets.

The monetary approach to the balance of payments has brought into focus the importance of monetary policy in an open economy. The basic conclusion of the approach is that credit policies are directly linked to the balance-of-payments situation, and therefore that governments will be constrained in their ability to pursue highly expansionary policies unless they undertake adequate adjustment of their exchange rates. Insofar as it relies

on this framework, the Fund can be said to utilize a monetary approach in formulating adjustment programs; it places emphasis on an analysis of factors influencing the supply of and the demand for liquidity. However, this is not at all the same thing and does not imply—as the critics do—that the Fund uses a uniform, rigid framework for assessing members' macroeconomic policies. The emphasis in Fund programs varies considerably depending on the circumstances of the country in question. There is room for genuine differences of opinion and debate on the appropriateness of specific measures in particular Fund-supported programs. The Fund has never claimed that its programs are the last word in economic rehabilitation. But the complaints about the Fund's overall approach are not enlightening. The relevant issue in many cases is not the basic approach to adjustment but rather the *speed* of adjustment and the extent to which certain policy measures can be implemented given the political constraints.

In addition to being reproached for its monetary approach to the balance of payments, the Fund has been widely criticized for adopting a "monetarist" viewpoint in assessing the economies and policies of its member countries. The term "monetarism" encompasses a spectrum of views and does not represent a single cohesive set of economic propositions. Furthermore, the arguments associated with the Keynesian-monetarist controversy have exaggerated the differences in economists' views, which frequently are more apparent than real. To be sure, there is some debate in the academic literature about the effectiveness of stabilization policies and the respective roles of monetary and fiscal policies in achieving the targets of full employment and price stability. Much of this debate, however, is in the context of industrial economies and is not relevant to the formulation of stabilization programs for developing countries.

A large portion of total production in many developing countries is in agriculture, which is mainly supply determined and relatively insensitive to demand factors. In this setting, supply factors become the major source of instability in output, and demand-management policy becomes relatively ineffective in stabilizing output. Consequently, it may appear that the emphasis on the role of demand-management policies in Fund-supported programs is misplaced. Such a conclusion would, however, be misleading. The role of demand-management policies in Fund-supported programs is not so much to reduce short-term variations in output around its full-capacity level (which would require "fine tuning"), but rather to ensure that the overall level of aggregate demand is broadly in line with aggregate supply. In this context, Fund-supported programs seek to ensure that liquidity expansion is consistent with the inflation target and balance-of-payments objective and that, within the overall ceiling for credit expansion, there is adequate room for the expansion of credit to the productive sector. This framework cannot

be termed "monetarist" except in the self-evident sense that it is concerned with monetary developments.

It has also been alleged that Fund policies lack a clear economic rationale. This allegation, of course, is not consistent either with the accusation that Fund programs are excessively "monetarist" or with the criticism that excessive attention is paid to the government budget, which is to charge that Fund programs are excessively Keynesian.

This criticism is a compliment, moreover, if it alleges that the Fund is not dependent on any particular school of economic thought or economic ideology. If "economic rationale" is interpreted differently, to describe the economic basis for Fund programs, then the charge does not stand up to examination. The fundamentals of Fund programs are simple. The first stage is an analysis of the problem at hand. Normally there is little disagreement about the identification of the problem but room for disagreement as to its causes. Once the problem has been analyzed, the second stage is to determine the options that are open to the authorities. These will depend on the nature and dimensions of the problem. If the problem is expected to be transient and self-reversing, then provision of interim financing will be a realistic course. If, instead, adjustment is necessary, then the Fund has to be satisfied that the measures contemplated can be implemented by the government and are likely to be effective in correcting the balance-of-payments situation. Generally, there is a choice of measures that can be adopted in a particular situation, and it is the member country that must make the choice.

Whatever set of measures is agreed upon, there is no certainty and no easy path. Adjustment involves economic costs, and unfortunately low-income countries tend to be particularly hard hit. In such cases, more generous provision of economic assistance by developed and surplus countries is called for. Adjustment may also involve a political cost, but that cost could go higher if measures are postponed. Changes in the internal and external environment can seriously frustrate the achievement of a program's objective. The instruments used are sometimes blunt. But the logic, or economic rationale, is clear: in many situations adjustment must take place. With or without the Fund, the measures used to achieve adjustment result in real burdens.

Source of Disequilibrium

Another criticism that often accompanies complaints about the "standard" Fund package is that the Fund fails to distinguish between exogenously and endogenously caused balance-of-payments problems. The criticism relates not so much to the type of adjustment measure proposed by the Fund, which must address the nature of the problem whatever its cause, as to the

severity of the adjustment that is required. Critics propose that the severity of the adjustment measures requested of a developing country be related to the *source* of the deficit: where a deficit is due to circumstances beyond the country's control, the adjustment effort required should be smaller and, by implication, the financing available should be correspondingly larger.

Despite its intuitive appeal, this proposal essentially addresses the wrong question. The necessity for adjustment policies depends not on the geographic origin of the imbalance but rather on its nature, on whether or not the imbalance is temporary and self-reversing in a reasonable period of time. If the imbalance is not transient, then whether or not its causes were within the control of the authorities (assuming that this can even be determined with sufficient accuracy) is of secondary importance. It is neither feasible nor desirable to finance a deficit over a protracted period of time or to suppress the difficulties by restrictions. Unless adjustment takes place, the difficulties will reappear, perhaps in a more severe form, necessitating even more stringent adjustment measures at a later date. It is true that adjustment measures must be tailored to the circumstances of the country. For a country with a good track record and a basically well-managed economy, conditionality can be somewhat relaxed if the problem is of external origin. But to propose as a general principle differential conditionality according to the source of the balance-of-payments difficulty is an entirely different matter.

The proponents of linking adjustment efforts to the perceived source of difficulties often support their proposal by referring to the Fund's compensatory-financing facility. One of the basic conditions for utilizing this facility is that an export shortfall be "largely attributable to circumstances beyond the control of the member." But the decision establishing the facility also provides that it is to apply to "payments difficulties produced by *temporary export shortfalls*" (emphasis added). In other words, there must be a clear indication that the shortfall will be self-reversing; the compensatory-financing facility is not meant to deal with secular declines in exports, even if these are caused by circumstances beyond the control of the country.

Short-term Measures and Longer-term Objectives

The claim that the Fund is interested only in the short term rests on a confusion between the views and objectives of the Fund and the policy measures that must be taken in an adjustment program. The Fund's general concerns and objectives, as set forth in Article I, can hardly be considered to be of a short-term nature, but policy commitments can often be specified only for the short term. Not only are there statistical obstacles to long-term programs, but a country's authorities will be reluctant to commit themselves for more than a short period. Although traditionally Fund programs

were for a one-year period (some still are), this does not mean that the balance-of-payments turnaround was expected to occur in one year. Rather, the assumption has been that the balance of payments will improve in a three- to five-year period. Even before the establishment of the extended facility, the Fund made successive one-year standby arrangements with countries suffering from serious imbalances if they had a case for a gradual path to stabilization. The extended facility was established to overcome structural maladjustments, and its programs therefore emphasize medium-term objectives and have a ten-year repayment period. The same concept applies to the supplementary facility. More recently, longer standby arrangements and extended arrangements have emphasized structural adjustments on the supply side.

In brief, there is nothing inconsistent about a medium-term or long-term view within the context of which specific policy measures are framed for successive short periods. It has sometimes been suggested that the Fund should enter into very-long-term adjustment programs, say ten years, but there are two principle difficulties with this proposal. First, the longer the agreed period of the program, the less meaningful the program, given the likelihood that program objectives will be overtaken by events. Second, the problems encountered in reaching agreement for even a one-year program make it entirely unrealistic to expect a country's authorities to commit themselves for such a long period. The extended facility shows, however, that it is possible to have annual programs within a long-term framework.

Stability and Development

The relationship between financial stability and economic development has been the subject of debate for a long time. The diversity of experience makes it difficult to summarize succinctly the arguments and empirical evidence on this issue, but certain generalizations can be made. Some countries have achieved stability and economic growth simultaneously by pursuing prudent financial and economic policies. Other countries have combined real economic growth with high rates of inflation for fairly long periods by pursuing policies that have rapidly expanded the productive base of the economy. Many other countries have pursued policies that have resulted in inflation without the benefit of economic growth. There is thus no persuasive evidence of a universally applicable tradeoff between stability and economic growth.

One of the Fund's principal objectives is the maintenance of a stable international monetary and economic order, based on the assumption that overall stability in the international economy serves to promote the economic growth and development of *all* countries. Many critics themselves have pointed out that instability in the world economy complicates the task

of economic management in developing countries and thereby jeopardizes economic growth. The essence of Fund programs is therefore to promote conditions that will achieve the maximum steady growth consistent with external balance.

The assertion that the Fund consciously sacrifices development for stability is without foundation. Fund resources are made available to allow a gradual correction of external imbalances through the adoption of those measures that will be least harmful to national and international prosperity. The Fund recognizes that government expenditures cannot be cut sharply in some countries without affecting growth prospects and that, in the absence of adequate alternative sources of revenue, some resort to deficit financing may be unavoidable. In such cases, Fund-supported programs have allowed for some degree of inflation in the short run, depending on factors such as the institutional setting, the dominance of the public sector, and the government's ability to raise noninflationary revenues. At the same time, the Fund emphasizes the importance of appropriate exchange-rate, interest-rate, and pricing policies to offset any distortions in the economy arising from domestic price increases. Thus, in general, the Fund does not advocate a "shock treatment" approach to adjustment; it seeks to promote a gradual abatement of inflation. Where inflation is strongly entrenched, however, and where expectations and the dynamics of economic forces are such as to engender further inflation and payments problems, stronger measures may be required. In a country that has had a highly unrealistic exchange rate or unremunerative producer prices for a very long period, the implementation of such a program may result in some reduction in growth in the short run. This should be viewed as the price to be paid to effect a fundamental reorientation of policies and to establish a more solid basis for economic growth.

Many aspects of Fund-supported programs, such as the pursuit of realistic exchange-rate and interest-rate policies, are intended to improve the longer-term growth prospects of the members' economies. In recent years, in the light of the changed circumstances facing many member countries, Fund programs have sought to put greater emphasis on longer-term supply aspects of the members' economies by paying greater attention to the role of the public sector, particularly in the analysis, formulation, and evaluation of investment programs.

Programs and Politics

Several commentators have decried the alleged political consequences of Fund programs in some countries. In a few instances, demonstrations have followed the adoption of measures related to Fund-supported programs, prompting some observers to use catch phrases like "IMF riots" and "IMF

coups." But there is little hard evidence of a causal relationship between Fund-supported programs and subsequent political difficulties. With or without the Fund, countries that are in dire economic difficulty generally also face political difficulties. It would be more accurate to characterize such events as "deficit riots," "mismanagement coups," or "balance-of-payments elections." If a particular country had not approached the Fund, wouldn't a much worse coup, riot, or whatever, have taken place later, as the situation was allowed to deteriorate? In fact, it could be said that, more often than not, Fund-sponsored programs have strengthened governments, not weakened them.

4 The Character of Fund Criticism

The preceding sections have attempted to present a picture of the Fund and its role as seen through the eyes of a variety of observers. Not all the critics have set out with the aim of criticizing the Fund. Some have studied and analyzed the Fund carefully. In my view, however, much of the criticism is mere assertion, misinformation, or selective use of information. Many critics of the Fund appear to have their own perception of what the Fund *is*, what the Fund *does*, what the Fund *can* do, and—whether explicitly stated or implied—what the Fund *should* do. Particularly in regard to the first three elements—what the Fund *is*, *does*, and *can* do—commentators frequently evaluate Fund performance against their own implicit conception. It is therefore not surprising that many of the appraisals present unfavorable and unflattering pictures of the Fund. There is a tendency to ignore the reasons for establishing the Fund and the objectives it was intended to achieve. One question inescapably emerges from much of the criticism, though it is seldom—if ever—overtly stated: Why isn't the Fund a development institution? Why doesn't it subordinate its financial support for adjustment to the requirements of development?

While much unfavorable comment concerning the Fund can be ascribed to such misunderstandings of the purposes and activities of the Fund, the question is more complex. It may therefore be instructive to dwell briefly on some of the reasons why perceptions of the Fund are so frequently at variance with reality.

In a sense, the Fund's traditional stance regarding public relations is responsible for some of the misunderstandings. Until quite recently, the Fund has adopted a low profile and has not replied to unfavorable commentary. The reasons for this policy need not be analyzed here, but as a result the role and functions of the Fund are little understood, much less appreciated, by the public at large, by the media, or by influential and otherwise well-informed groups. The public perception has frequently been

based on unchallenged notions about the Fund propagated by outside sources. The Fund's policy of not provoking a break in relations and its willingness to accept the role of "scapegoat" have reinforced this process.

The very nature of the Fund and the context in which it has operated comprise one of the obstacles to better communication between the Fund and outsiders. Monetary matters are in any case more difficult to explain than matters related to, say, trade or energy. But even if the Fund could easily explain its actions, it is not permitted to do so in specific circumstances. The confidentiality of its relations with its members, on which the members insist, frequently leads to an unbalanced situation. A country not in agreement with some aspects of the Fund's proposals goes public, while the Fund is unable to tell its side of the story. Even a government that is convinced of the merits of a Fund-supported adjustment program may find it politically expedient to censure the Fund in some situations. There is also a built-in source of conflict between the Fund and its members. A member may subscribe to the general principles for which the Fund stands, such as a liberal system of trade and payments, but when it is facing acute difficulties it may be reluctant to agree to the policies flowing from these principles.

A much more serious cause of criticism is the sense of frustration and helplessness felt in many developing countries. Politicians faced with staggering domestic problems and a difficult international economic environment may, not surprisingly, turn some of their frustration into criticism of an institution with which they have regular contact and which is in a position to provide resources only under certain conditions. Such criticism must be regarded with sympathy and understanding. Many developing countries, particularly the poorer ones, are facing an extremely serious, and in some cases desperate, situation. Several face the full panoply of economic and social problems—low productivity, high population growth, very low levels of health and education, hunger, increasing urban unemployment, lack of infrastructure, sectional violence, etc. Although economic mismanagement has often been a contributing factor, most of these problems are not of an essentially economic origin. Frequently, they are the consequence of the interplay of political and social forces that create instability, economic disintegration, and an absence of effective authority. Such a sociopolitical framework is not conducive to the implementation of necessary economic reforms, even where the resources are available and the external economic environment is hospitable. Furthermore, even where the necessary cohesion and commitment exist, the solution to many of these problems can be envisaged only over the long term, in some instances perhaps over several decades.

In these circumstances, it is understandable that a Fund-supported pro-

gram may appear somewhat irrelevant if the government concerned expects it to resolve, or even to make substantial headway toward resolving, long-term and frequently sociopolitical problems. There is an escalated expectation of what the Fund can achieve, an exaggerated anticipation of what a small team of economists (albeit supported by the accumulated experience of the staff over a prolonged period), backed by limited resources, can accomplish in a short time. When a major turnaround in economic fortunes does not materialize, the Fund is castigated. But the Fund can play only a limited role. It can seek to promote policies to restore a degree of order to seriously disrupted economies, and even here some of its recommendations may involve policies that come into direct conflict with the power base of the political leaders. The Fund's role is to ensure that the resources at its disposal—resources that may be small compared with the overall, long-term development needs of the country concerned—will be usefully employed and that they will be repaid.

The phenomenon that has sometimes been described as the "crisis of rising expectations" afflicts practically all societies and complicates the task of public policy. It has an added twist as it applies to developing, especially lower-income, countries. Any suggestion by the Fund or others that these aspirations cannot be fulfilled or at least must await major changes, that a country is living beyond the means it commands or can obtain, is bound to sound especially harsh. Hence the frequent charges that the Fund is anti-development or disregards social factors. Belt tightening is difficult at low income levels.

The Fund's critics frequently ignore the circumstances under which the Fund must operate and the limits to what it can do: the Fund has been confined by its membership to a fairly narrow sphere of activity. Countries often approach the Fund at a very late date, with badly run-down economies. It is as if a patient approached a doctor with an advanced illness and critics investigated the doctor and the medicine rather than the seriousness and causes of the malady. To appreciate the Fund's task, critics should pay more attention to the difficulty the Fund faces in finding solutions, given a country's development aspirations, its political and administrative set-up, the insufficiency of its financing, and the possible reluctance or inability of its government to undertake policies that will bring about lasting results.

Finally, many aspects of the Fund that in earlier times were regarded as advantages for developing countries are now either ignored or regarded as disadvantages. For instance, the concept of uniformity of treatment, the idea that all countries, small or large, industrial or developing, were equal and were to be treated the same, was a radical invention at Bretton Woods.⁴

⁴ This concept, of course, did not preclude distinctions based on reasonable differences in circumstances to allow for special benefits for developing countries.

By the same token, the idea of decision-making by consensus rather than by voting enabled all officials to participate regardless of the size of their country. Comments portraying the Fund as an instrument in the hands of the powerful for the coercion of the weak disregard the fact that the Fund's uniform international code of conduct can be considered a protective umbrella for weaker developing countries. In the absence of such a code, stronger countries would feel freer to use any measures they construed as best serving their own purposes and objectives.

5 Alternative Visions

Although critics of the Fund offer little in the way of detailed alternatives to Fund programs or to adjustment itself, they are considerably more specific about what the Fund should become and about how the international monetary system should be reformed. Many of their proposals reflect a point of view and a philosophy regarding the shape, functions, and purposes of the international monetary system that are based on hypotheses and conceptions clearly different from those of the Fund.

The general principles underlying many of the proposals for change assert that the reform of the international monetary system should be development-oriented, that it should take place as part of the overall effort to establish the new international economic order, that it should provide for a "fully representative management of the international economic system," and that it should take note of the potential consequences of détente. (This last principle appears, for the present, to have been overtaken by events.)

Since the proposals for changes in the international monetary system and in the Fund are broad-based and cover virtually every aspect of the Fund's operations, it would be impractical to give a detailed account of them all. The following summary is intended to provide a brief outline of the thrust of the proposals advanced in the major areas. Many of these proposals, it should be noted, are also endorsed by those of us who are not critics of the Fund.

Exchange rates: Greater stability.

Reserve system: A secure system based on the SDR; promotion and improvement of the SDR as the principal reserve asset and reduction of the role of international reserve currencies, so as to bring about a broader and more equitable sharing of the benefits and costs of international reserve creation while avoiding the dangers of instability posed by a multiplicity of reserve currencies; demonetization of gold and use of the Fund's remaining gold as collateral for market borrowing.

SDR allocations: Larger and regular annual allocation of SDRs; redistri-

bution from surplus countries to developing countries; a link between SDRs and development financing; allocation of new reserves to the countries most likely to experience balance-of-payments deficits and high domestic costs of adjustment and least likely to finance them from alternative sources.

Access to markets: Access to official credit facilities on terms and conditions responsive to the nature of balance-of-payments problems and the level of development; maintenance of free and equal access to the goods and financial markets of industrial countries.

Adjustment mechanism: An effective and equitable adjustment process; equitable sharing of the burden of adjustment between developing and reserve-currency countries.

Existing Fund facilities: Liberalization of the compensatory facility, with repayments linked to the capacity to repay, to harvest failures, and to increases in import prices; establishment of a medium-term balance-of-payments facility; review of old Fund facilities to lengthen the term, modify the qualitative restrictions on drawings, and set borrowing conditions according to the sources of deficit; a subsidy account for borrowings from the supplementary facility, as well as for meeting the increasing cost of using SDRs.

Decision-making: Increase in the developing countries' role in the decision-making of the Fund so that the Fund is not administered wholly on the basis of shareholding.

National policies: Programs to curb inflation, achieve adequate growth rates, and raise employment.

Only a few comments on these proposals will be offered, since some of them have been considered at length elsewhere. Some of the proposals are fairly specific, but others amount essentially to general statements and intentions that would have to be elaborated in any reform exercise. While many of the proposals constitute eminently desirable objectives (such as a symmetrical system of adjustment), little guidance is provided as to how these objectives are to be pursued, from either a technical or a political point of view. Finally, absent from many of the proposals is any estimate of the costs involved and any indication of how these costs are to be met.

In present circumstances, a wholesale reform of the international monetary system that would satisfy the divergent interests of all parties would pose considerable difficulties. In sharp contrast to previous occasions when the system was reformed, there appears to be neither a universally perceived need for reform nor agreement on its direction. In 1944, in the shadow of the developments of the 1930s and of World War II, there was a very clearly perceived need for a system that would have as its main pillars stability and nondiscrimination. In 1971, it had become obvious to

all that the par-value system required radical reform to provide greater freedom and flexibility of exchange rates.

Even without consensus on the need for reform, some aspects of the current proposals for reform of the international monetary system are of interest. One feature that most reform proposals have in common is that they do not involve only—or perhaps even mainly—a change in the Fund that substitutes a new set of rules or a new code of conduct for the present ones. Rather, a central purpose of the modifications proposed would be the transfer of a much greater volume of resources from developed (and oil-exporting) countries to developing countries. The proposals may therefore be characterized as reform *cum* resource-transfer schemes.

The principal reform proposals can be divided into those aimed mainly at reform of the system and those aimed mainly at a greater transfer of resources. Falling in the “reform” category would be proposals for (a) a return to fixed exchange rates on the grounds that the present flexible rates are a cause of economic instability, (b) greater symmetry in adjustment, with the surplus countries carrying a “fair share” of the adjustment burden, and (c) “asset settlement.” As for (a), even though some of the earlier claims for flexible rates may have been modified, there seems little prospect under present pressures in the world economy, particularly the levels and divergencies in rates of inflation, that a return to fixed rates would be entertained. As regards (b), there is little disagreement on the desirability of symmetrical adjustment; the problem is how to achieve it, and the proposals do not tell us. With respect to (c), the proposals for “asset settlement” are somewhat vague, offering no detailed explanations of how asset settlement would be implemented in a currency-based system.

The proposals that are essentially oriented toward additional resource flows and transfers include (a) larger and more regular SDR allocations, (b) an SDR link providing additional flows for developing countries, (c) a further reduction in Fund conditionality and reduction or abrogation of quota limits on Fund borrowings, (d) the establishment of a medium-term Fund facility with minimum conditionality, (e) the provision of subsidies to poorer countries on certain Fund borrowings and to compensate for the increased cost of using SDRs, and (f) debt rescheduling and debt relief on a systematic basis. While these proposals would ease the adjustment task of developing countries (and a number of them have already been adopted), none of them would modify the present international monetary system as represented by the rules that govern it.

6 Concluding Remarks

The purpose of this Essay has been to discuss the main lines of criticism that have been directed toward the Fund. It would be an error to view all

critical comment relating to the Fund and to Fund policies as either wrong or misguided: the Fund should welcome, and can benefit from, constructive criticism. Although some observers have an axe to grind, many are open-minded and can make a contribution to the dialogue. For others, criticism of the Fund partly reflects frustration in the face of monumental problems.

Criticism cannot be considered in a vacuum. The crucial question is whether it contributes to better understanding, enhances appreciation, or leads to solutions—in short, whether it is a positive force. This has not, in my view, generally been the case with criticism of the Fund. Much of the criticism is misdirected and out of focus. What response can there be, for instance, to comments that censure the Fund essentially for what it *is*, that take it to task for its purposes, objectives, functions, and so-called “philosophy”? Such judgments are tantamount to saying that the Fund should be a different type of institution. Frequently, observers holding such views go on to suggest wholesale world monetary reform as the desired remedy. They underestimate the difficulties of negotiating international monetary arrangements in present circumstances. They also disregard the considerable flexibility that the Fund has shown in adapting to changing circumstances within the confines of its Articles. The impression frequently emerges that what the critics really want is to change the world, or at least world economic circumstances, and these are not dictated by the Fund.

Much of the criticism, on the other hand, concerns what the Fund *does*, how it fulfills its obligations. Yet it seems to be very difficult even for otherwise well-informed and objective commentators fully to appreciate the context in which the Fund operates, the situations it faces in the field, the difficulties of persuading governments of the need for adjustment, and the problems and constraints that have to be faced in formulating adjustment programs. These misconceptions are more important than the fact that the critics propose no coherent and persuasive alternatives to Fund-supported programs.

While there is room for genuine differences on many aspects of Fund activity, it is of special concern that so much of the criticism appears to be based on a misunderstanding of, or misinformation about, how the Fund operates and what it tries to achieve. In my view, the Fund itself could go some way toward correcting the situation by a more vigorous and imaginative use of the mandate set forth in its Articles to “act as a center for the collection and exchange of information on monetary and financial problems.” The establishment in 1980 of an External Relations Department is a positive step in that direction.

Some of the professional staff of the Fund maintain a dialogue with their opposite numbers in the World Bank and in other organizations, as well as with members of the academic community. This discussion, which is not

based on any specific model or perception of adjustment or growth, provides a useful vehicle for debate and the free exchange of ideas; it helps maintain a heightened and better-informed awareness of relevant issues. It is a form of communication that the Fund could promote and expand. There is, in fact, encouraging evidence that this is being done. During the autumn of 1981 alone, senior Fund staff members have taken part in no less than five major seminars devoted to some aspect of the role of the Fund in the world economy. There have also been useful proposals for greater interchange between the Fund and the international banking community. Given the enhanced role of this community in the international economy and its importance as a source of finance to developing countries, such an interchange could contribute to greater cooperation in international economic matters.

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