

ESSAYS IN INTERNATIONAL FINANCE

No. 152, July 1983

THE IMF AND AFRICA IN THE 1980s

G. K. HELLEINER



INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

PRINCETON UNIVERSITY

Princeton, New Jersey

ESSAYS IN INTERNATIONAL FINANCE

ESSAYS IN INTERNATIONAL FINANCE are published by the International Finance Section of the Department of Economics of Princeton University. The Section sponsors this series of publications, but the opinions expressed are those of the authors. The Section welcomes the submission of manuscripts for publication in this and its other series, PRINCETON STUDIES IN INTERNATIONAL FINANCE and SPECIAL PAPERS IN INTERNATIONAL ECONOMICS. See the Notice to Contributors at the back of this Essay.

The author of this Essay, G. K. Helleiner, is Professor in the Department of Economics at the University of Toronto. He has been researcher, teacher, or advisor in Tanzania, Nigeria, and Uganda and is currently Chairman of the Commonwealth study group on the international financial and trading system. Two of his most recent books are *International Economic Disorder: Essays in North-South Relations* (1981) and *For Good or Evil: Economic Theory and North-South Negotiations* (1982).

PETER B. KENEN, *Director*
International Finance Section

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.

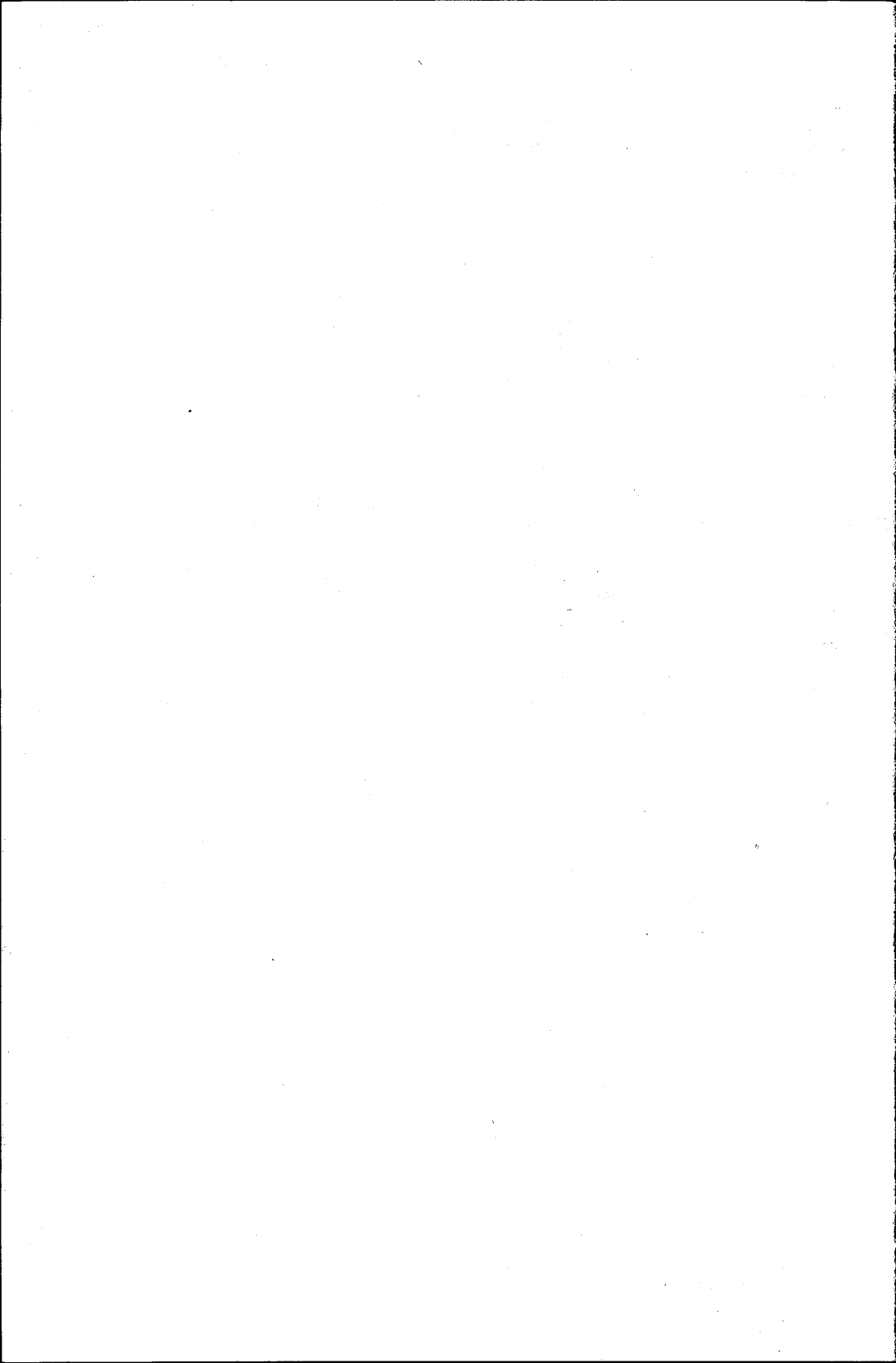
Fritz Machlup was President of the American Economic Association in 1966, of the International Economic Association from 1971 to 1974, and of the American Association of University Professors from 1962 to 1964. In these and other roles, he fought vigorously for academic freedom and integrity. He was 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



ESSAYS IN INTERNATIONAL FINANCE

No. 152, July 1983

THE IMF AND AFRICA IN THE 1980s

G. K. HELLEINER



INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

PRINCETON UNIVERSITY

Princeton, New Jersey

INTERNATIONAL FINANCE SECTION
EDITORIAL STAFF

Peter B. Kenen, *Director*
Ellen Seiler, *Editor*
Margaret Keller, *Editorial Aide*
Kaeti Isaila, *Subscriptions and Orders*

Library of Congress Cataloging in Publication Data

Helleiner, Gerald K.

The IMF and Africa in the 1980s.

(Essays in international finance, ISSN 0071-142X ; no. 152)

Originally presented at the November 1982 annual meeting of the African Studies Association in Washington and published in the Canadian journal of African studies, March 1983.

Bibliography: p.

1. International Monetary Fund. 2. Finance—Africa, Sub-Saharan.
3. Africa, Sub-Saharan—Economic conditions—1960- I. Title.

II. Title: I.M.F. and Africa in the 1980s. III. Series.

HG136.P7 no. 152 [HG3881.5.158] 332'.042s 83-10835

ISBN 0-88165-059-5

[332.1'52]

Copyright © 1983 by International Finance Section, Department of Economics, Princeton University.

All rights reserved. Except for brief quotations embodied in critical articles and reviews, no part of this publication may be reproduced in any form or by any means, including photocopy, without written permission from the publisher.

Printed in the United States of America by Princeton University Press at Princeton, New Jersey.

International Standard Serial Number: 0071-142X

International Standard Book Number: 0-88165-059-5

Library of Congress Catalog Card Number: 83-10835

CONTENTS

AFRICAN MACROECONOMIC PERFORMANCE AND PROSPECTS	3
EXTERNAL FINANCE AND THE ROLE OF THE IMF	5
ISSUES OF IMF POLICY: LIQUIDITY AND CONDITIONALITY	11
Inequity in the Expansion of Liquidity	11
Analytical Inadequacies in the Application of Conditionality	15
PROSPECTS AND CONCLUSIONS	21
REFERENCES	24



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 role 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 ex-

port 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 concomitant 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. Coun-