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Balance of Payments Adjustment and Developing Countries

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It has seemed to this writer for some time that the terms "balance of payments adjustment" and the "costs" of such adjustment have come to be used in a very loose and sometimes distorted fashion. References to adjustment and its costs abound in the recent literature but these terms are almost never defined, even though, on examination, their meaning is far from self-evident. We here attempt to respond to this deficiency before turning to discuss some problems associated with the design of adjustment programmes in developing countries and with the long-term retreat from the notion of adjustment as an international process. The paper is in the form of a series of notes, rather than a continuous argument.

I - ON THE MEANING OF ADJUSTMENT AND ITS COSTS

The locus of adjustment

The term 'adjustment' has come to be used almost entirely to refer to economic responses within national economies and, with few exceptions, to responses within deficit countries. However, this usage is more a commentary on the state of world co-operation than it is on the process of adjustment. The logic of balance of payments (BoP) accounting shows that, collectively speaking, efforts by deficit countries alone, with no associated willingness by the rest of the world to allow their surpluses to diminish and, indeed, to encourage their reduction, are bound to fail. In this sense, adjustment is necessarily an international process in which surplus countries must also share. This is a rather formal way of pointing out that in a world of large and increased economic interdependence, the actions of any one country will necessarily impinge upon the well-being of all others - although some impinge far more than others! To thrust all or most of the task of adjustment on deficit countries is to require them to pursue contractionary policies at home, and thus to impart a deflationary bias to the world economy - precisely what the Bretton Woods institutions were supposed to avoid.
International responses to global BoP instability might be thought of as falling into three categories. First, there is the creation and control of international liquidity, intended to be the task of the IMF, in an attempt to avoid the deflation or inflation that can result when the global supply of liquidity gets out of line with the demand for it. We might link with this schemes for the stabilisation of world commodity prices and export compensation schemes such as the Fund's Compensatory Financing Facility, intended to offset and diminish short-term movements in world trading conditions.

Second, there is the operation of mechanisms for recycling the excess savings of surplus countries to deficit countries. The recycling role of international banks came spectacularly to the fore in the 1970s but recycling can also occur through the mechanisms of direct investment, through concessional aid, and through international agencies like the Fund and the World Bank. The recycling of surpluses can then reinforce - but may defer - the third type of international response: adjustment on the part of both surplus and deficit countries. In the broadest terms, this requires deficit countries to achieve a relative shift of resources into the production of tradeable goods and services, and surplus countries to shift resources in the opposite direction; it requires deficit countries to reduce absorption relative to income and surplus countries to do the opposite. While it is theoretically possible for all governments to spontaneously adopt those policies that would contribute best to international adjustment, the lessons of experience indicate a need for more conscious co-ordination of national policies, through the IMF or some other means. Specifically, it requires surplus countries (and countries which can escape the disciplines imposed by BoP deficits because their currencies are accepted as international reserve assets) to accept that they too have a responsibility for adjustment.

All these, no doubt, are elementary truisms. Yet those who largely confine their advocacy of 'adjustment policies' to the national efforts of deficit countries are slipping dangerously close to acceptance of an inefficiently one-sided world economic system. While most of the rest of this paper is precisely about the policies of deficit countries, it is important that we do not lose sight of the importance of international
responses of the types just described, and the concluding section of this paper returns to the theme of international adjustment.

**Adjustment as a policy objective**

At this point, we discuss the position of a country facing a BoP deficit (which it will be convenient to leave undefined for a moment) and take the mechanisms of international trade and payments and the policies of all other countries as given. In considering the nature of adjustment as an objective, we can begin by asking, in what circumstances should adjustment policies be pursued, as against borrowing or running down reserves? At least in the period of relatively fixed exchange rates, the answer enshrined in the Articles of the Fund was that countries should adjust in cases of 'fundamental disequilibrium' in the BoP. As the Fund's official history states,

> ... fundamental disequilibrium (although it has never been formally defined) is distinguished from merely ephemeral balance of payments disequilibria, such as those associated with seasonal, speculative, or possibly even short cyclical, disturbances (de Vries, 1969, p.22).

Implicit in this view of things was the assumption that national and international policies would be such that non-fundamental disequilibria could be financed - that there would be sufficient recycling flows and holdings of international liquidity to permit purely transitory deficits to be accommodated, it not being regarded as desirable to require countries to contract absorption or shift the sectoral allocation of resources in the face of temporary imbalances. However, these assumptions no longer look secure, for reasons mentioned later in the paper. The Fund itself now prefers to talk in terms of the restoration of BoP "viability", whose meaning will be discussed in a moment.

On the present view, countries need to adjust whenever they have BoP deficits that cannot be financed on acceptable terms, whether these deficits are temporary, self-correcting or 'fundamental'. One difficulty here is that developing countries' ability to finance even temporary deficits has
diminished. Many of them suffer from much diminished access to net new commercial bank loans, static or declining real levels of aid and direct investment, often only the slimmest margins of international liquidity\(^2\), and diminished access to Fund compensatory financing and stand-by credits. There is also the prospect of reduced support from the World Bank. Adjust­ment, it seems, is coming to the short end of the market.

But what of the relationship between adjustment and what the architects of Bretton Woods described as the 'primary objectives of economic policy': full employment, economic growth and development? In the past the idea of a BoP equilibrium was regarded as conditional upon the prior or simultaneous satisfaction of other objectives. In this tradition, the present writer recently offered the following definition (Killick, 1984, p.17):

> Balance of payments equilibrium exists when, in a normal year, the basic balance (or that balance chosen as the most appropriate for the country in question) approximates zero in conditions where: there are no major unwanted restrictions on trade and payments; external debts and debt servicing are not regarded as too large; foreign exchange reserves are regarded as adequate; and the equilibrium does not depend upon the maintenance of unwantedly deflationary domestic policies.

The Fund's views on the meaning of BoP 'viability' are of considerable interest here. The first definition of which we are aware is by Manual Guitian of the Fund staff (1981, p.24):

> The concept of a viable balance of payments typically means, especially for many developing countries, a current account deficit that can be financed on a sustainable basis, by net capital inflows on terms that are compatible with the development and growth prospects of the economy.

A more recent version is taken from an article by a Fund staff member in the December 1984 issue of *Finance and Development* (Tseng, 1984, p.2):
A viable balance of payments position is normally conceived of as a current account deficit that can be financed by normal capital inflows and that can be sustained without restrictions.

In both versions BoP viability is conditional on the satisfaction of certain other goals although these are stated as growth and development in the first version and the absence of restrictions in the final version.

However, to subordinate the BoP objective to other policy goals is probably not helpful in present-day circumstances. There is precious little prospect for developing countries to satisfy the earlier description of BoP equilibrium, nor is there any prospect that many of them can achieve a sustainable BoP "without restrictions". Since in the absence of creditworthiness or surplus reserves the BoP constraint imposes itself absolutely, the position is rather that such other objectives as growth, employment-creation or liberalisation must necessarily be subordinated to the BoP. This is one of the consequences of concentrating adjustment efforts on deficit countries and of the decline over the past decades in international co-operation referred to in the previous section. If there is adequate financing then all well and good; if not, then the objectives of growth, employment, etc. must perforce take second place.

Quite apart from the question of the extent to which BoP adjustment is compatible with other objectives there are rather more technical questions about how BoP objectives are to be defined, and according to what indicators targets are to be set. The current account (often expressed as a proportion of GDP) is a popular variable and most of the specific policy measures generally built into adjustment programmes are intended primarily to influence items on the trading and invisibles accounts. On the other hand, flows on capital account are also likely to be influenced by the perceived adequacy of adjustment efforts. For one thing, the Fund has in recent years played an increasingly active role in organising supporting finance from aid donors, international banks, etc. in support of the stabilisation programmes it has succeeded in negotiating. Successful adjustment measures, particularly on the exchange rate and interest rate fronts, may also slow down,
even reverse, capital flight. Thus, the effect of adjustment programmes on the current account may be ambiguous - both tending to strengthen it and yet to permit a larger current deficit to be financed. From this point of view, the basic balance may be a preferable indicator, although one would in such cases need to pay careful attention to the debt servicing implications of borrowings on capital account.

The very severe import compression that has marked the records of many developing countries in the last few years provides a further reason for not placing too much weight upon the current account as a measure of the state of health of the BoP. While we have been brought up to think of the capital and monetary accounts as recording the manner by which any current account deficit has been financed, in contemporary conditions the size of the current deficit itself reflects policy-makers' judgements about the amount of financing that will be available. The accommodating flows have moved above the line. The volume of imports thus emerges as an indicator of crucial importance, which takes us back to the relationship between BoP and other economic objectives. For many developing countries, the extent to which they have had to cut back on imports is severely constraining their ability to satisfy other goals; and adjustment programmes may be judged according to the extent to which they permit some restoration of more normal import levels.

Given the strong influence within the Fund, as well as in the academic world, of monetary approaches to the analysis of the BoP, it is not without interest that of all the major accounting balances the overall, or monetary, balance is probably the least useful and the least used. Nevertheless, a strengthening of the monetary account may be an important objective and the IMF has to be concerned about countries' ability to repay its credits: "Adjustment means that when the Fund lends to deficit countries, it does so on the basis of policies intended to correct such deficits, so that the money is lent wisely and the beneficiary countries are in a position to reimburse the Fund, thereby allowing it to relend the money anew to other countries" (de Larosiere, 1980). However, the chief point to emerge from this discussion is that the wise policy-maker will pay attention to a range of payments indicators. The determination of adjustment objectives cannot,
therefore, readily be reduced to one or two simple statistical targets. The outcome may be quite complex, with not all indicators pointing in the same direction - which is one of the reasons why it is difficult to form an adequate assessment of the effectiveness of IMF stabilisation programmes. 3

Issues in the definition of adjustment

A search of the literature has rather remarkably led to the discovery of only three attempts to define BoP adjustment, all of them unsatisfactory, so we must start from the basics. Dictionary definitions of the word 'adjustment' refer to the effects of minor changes in the elements of a system so that the system can be rendered consistent or coherent. The emphasis is on the adaptation of one thing to another and other synonyms offered include accommodation and harmonisation. Some stress is placed on adjustment as a gradual process of minor changes.

Economic systems are, of course, constantly adjusting to a wide variety of disturbances, so BoP adjustment is simply a member of a larger family:

Adjustment is a gradual response of resource allocation to changes in taste and the pattern of demand ..., to changing technology, to changing relative costs ..., to changes in comparative advantage between countries, and to changes in the composition of the labour force (OECD, 1979, p.81).

Or more generally:

Adjustment process: the process by which an economy adjusts to a change in some economic variable and reaches a new state of balance or equilibrium. A notable example is the adjustment of an economy to a surplus or deficit on the balance of payments (Congdon and McWillaims, 1976).

Now turn to two of the definitions of BoP adjustment that we have discovered. First, an IMF formulation:

The adjustment process in the balance of payments may be defined as the correction by the authorities of an imbalance, by inducing changes in the structure of the country's external transactions in order to eliminate economic distortions and pressures (IMF, 1981).

Second, there is this account by Richard Feinberg:
The dual task of stabilisation (bringing expenditures into line with available resources) and liberalisation (freeing prices to reflect international cost structures) makes for a formidable agenda. This combination of income stabilisation and price alteration is commonly referred to as 'adjustment' (Feinberg, 1984, p.4).

There are a number of issues arising here but we may remark one or two curiosities straight away. Note first the omission in the IMF version of any reference to the restoration of a viable BoP. The objective is instead defined vaguely as the elimination of 'economic distortions and pressures'. However, even if we were to substitute 'restoration of BoP viability' the result would still be too general to be helpful. Note second Feinberg's identification of liberalisation as one of two major components of adjustment and his lack of reference to the internal reallocation of resources, as distinct from 'income stabilisation'. As a matter of actual practice, liberalisation is only sometimes regarded as an essential part of an adjustment programme - depending, no doubt, on the initial extent of price distortion - which is one of the reasons why his definition is not entirely satisfactory.

One of the other issues thrown up by comparison of the IMF and Feinberg formulations is the question, what is being adjusted? For Feinberg (and also in the general definitions by the OECD and Congdon and McWilliams) it is the domestic economy - the level of expenditures, the system of price relativities. For the IMF, on the other hand, it is apparently the BoP itself which is being adjusted, with the emphasis on adjustment 'in' the BoP and on changes in the structure of external transactions. Clearly, there could be major policy disagreements between those who would adjust the BoP to the domestic economy and those who would attempt the opposite. Indeed, this type of issue may underlie some of the disagreements that arise in stand-by negotiations between the IMF and member governments. Nevertheless, there would probably not be any large disagreement that primarily it is the BoP which is the constraint to which the domestic economy must be adjusted. Of course, there is no rigid separation: the tradeable goods sectors will be among the prime targets of adjustment measures and, if successful, adjustment will result in improvements in the BoP. Nevertheless, the primary emphasis in recent years has been upon how national economies can adjust to the external shocks which have been
such a feature of the past decade.

A further question prompted by the Feinberg definition concerns the relationship between BoP adjustment and stabilisation. In building 'income stabilisation' so prominently into his definition Feinberg was differing with those who distinguish between stabilisation and adjustment. On the face of it, this is a useful distinction, between the short-term demand management programmes associated with the IMF and the longer-term 'supply-management' (or structural adjustment) programmes of the type introduced by the World Bank. Not the least of its attractions is that it provides a framework within which it is easier to recognise the tensions that may exist between the demand and supply measures. At least in the recent past stabilisation has been associated with import compression, whereas structural adjustment is likely to require additional imports - of capital goods, intermediates - and even consumer goods, acting as 'incentive goods'. The restraint of demand in stabilisation efforts helps the BoP by reducing the demand for imports and releasing resources for exports; with structural adjustment weak domestic demand may be a hindrance to the investment and productive adaptation necessary for the longer-term strength of the BoP. IMF-type programmes are likely to place particular stress on the limitation of domestic credit - which may, however, inhibit the investments in fixed and working capital necessary for structural change. Demand management may require severe restraint of government spending, whilst supply management may necessitate an enlarged delivery of economic services and infrastructural investment by the state.

In the end, however, a usage based on a distinction between demand and supply management probably cannot be sustained because of the essential complementarity between them. While the tensions referred to above are very real, the essential fact is that success in strengthening the BoP (current account) necessitates a reduction in absorption relative to income. While the intention under the supply management route is to achieve this result principally by raising real incomes, demand management will still be necessary if absorption is not to rise at least as fast as incomes - especially if the supply-side measures require an actual increase in investment. Moreover, as it frequently protests, the Fund programmes are not
exclusively concerned with the limitation of demand, and measures such as devaluations act both to absorb excess demand and to reallocate productive resources.

We would thus not wish to exclude 'income stabilisation' from our understanding of adjustment. Perhaps a more fruitful differentiation underlying the stabilisation-adjustment distinction relates to the time horizon over which measures are intended to have their effects, to the degree of permanence of those measures. If we go back to the definitions of adjustment-in-general offered on page 7, and think of it as a gradual response of resource allocation, as a process by which an economy achieves a new state of balance, then we would want to exclude emergency measures, introduced as temporary expedients to produce quick results. Specifically, we would want to exclude measures which merely suppressed the symptoms of the BoP crisis. There would probably be general agreement that an improvement in the current account brought about, say, by the imposition of severe exchange controls is not best described as adjustment. By the same token, we would not want to include an import compression brought about by some draconian repression of aggregate demand, or attack on real wages, that could only be politically tenable for a limited period. It has nonetheless become quite common to describe the import compression of recent years in precisely these terms. Thus Managing Director de Larosiere:

The weakness in export earnings meant that the only avenue to external adjustment in the short term was through a massive cutback in imports, ... with obvious implications for domestic activity in these countries (1984, p.117).

Adjustment, then, is different from suppression. It is more permanent, built into the allocation of resources within the economy. Adjustment is 'structural'. But that does not make it synonymous with 'structural adjustment' à la the World Bank. The Bank's view of structural adjustment tends to concentrate on achieving changes in the productive system but it is desirable to take a rather broader view of economic structures. It is useful here to recall the three ways in which the GDP may be measured: by
industrial origin; by expenditures; by factor rewards. Sustainable adjustment is liable to require changes in all three aspects of the economy:

a) THE PRODUCTIVE STRUCTURE: This is the sense of structural adjustment most closely associated with the Bank. The emphasis here is on achieving a relative shift of resources from non-tradeables to tradeables\(^5\) (there are difficulties about this formulation to which we return later), although there may be related questions concerning the respective sizes of the public and private sectors.

b) THE PATTERN OF EXPENDITURES: In deficit countries faced with limited access to external financing, it is likely to be important to raise the volume of saving relative to consumption. This, in turn, may have important implications for both the revenue and expenditure sides of the government budget, for interest rates, for the socially desirable level of private sector profits, for the pricing and other policies of parastatal organisations, and so on. In many cases, however, there will be severe limits to the extent to which the savings ratio can be raised, which then shifts attention to the productivity of investment and to measures that will raise it. It is to the pattern of expenditures that the long-term policies of demand management mentioned earlier particularly relate.

c) FACTOR REWARDS: Mention under (b) of the desirability of raising the savings ratio already carries potentially large implications for the functional distribution of income, generally favouring a shift in favour of returns to capital (assumed to be associated with higher marginal propensities to save than returns to labour). Often (but not invariably) adjustment may require the pursuit of incomes policies to restrain the growth of wages, for example to reinforce the real effects of a devaluation.

We may go beyond national accounting aggregates to add a fourth dimension to our view of economic structures, to refer to the framework of laws, conventions and institutions which underpin the workings of the economy. These too may need to be changed in response to the BoP situation. Anti-usury laws, practices which restrict the mobility of capital and labour, and feudal land tenure systems fall into this category.
There remain one or two other loose ends in the definition of adjustment to which we must now turn. At this point we can introduce the third of the definitions of BoP adjustment discovered in our literature search:

Adjustment process: The generic name for the adjustment mechanisms which operate in the international economy to remove imbalances in foreign payments. The most important mechanisms which have been advanced to explain the process are the gold standard, the gold exchange standard, the foreign trade multiplier, floating exchange rates (Pearce, 1983, italics omitted).

This is interesting for two reasons. First, unlike the two earlier offerings, it takes an international rather than national view. Second and of present interest, it views adjustment processes as operating automatically, rather than by means of discretionary policy interventions. The Johnson-Mundell monetarist school takes a similar view, regarding the BoP as essentially self-correcting, if only the monetary authorities do not interfere. This way of regarding the matter certainly contrasts with the definition by the IMF on page 7, which speaks of adjustment as "the correction by the authorities" of an imbalance. This latter view is probably more in tune with general usage, for the literature on adjustment is largely about the choice of discretionary policy instruments by national governments. The point here, no doubt, is that the disequilibria and shocks of the past decade have proved too severe to be accommodated with sufficient speed by the automatic tendencies at work through the monetary system, floating exchange rates, the operation of foreign trade multipliers and the like. Policy initiatives have been needed to reinforce the automatic tendencies. In terms of our understanding of adjustment, however, we would wish to include both automatic and policy-induced responses, which implies that we should be careful to distinguish between adjustment and adjustment policies.

A closely related issue concerns the distinction between involuntary and planned adjustment. Even in the face of complete neglect by the authorities adjustment will eventually take place but in acutely uncomfortable forms, including a break-down of import supplies and a near-complete loss of creditworthiness:

Under most circumstances adjustment will take place, with or without policy actions; that is, claims on resources will eventually have to be limited to resources that are available. The issue at stake is not, therefore, whether adjustment will be carried out but whether it will be carried out efficiently, without involving
unwarranted welfare losses, so that the productive capacity of the economy and its competitiveness are brought back to their potential level (Guitian, 1980, p.24).

It is because the alternative of involuntary adjustment is potentially such a high-cost one that the appropriate design of adjustment programmes is so important.

A summary and definition

To sum up the discussion so far, we have argued that:

- adjustment is a concept that is most appropriately applied to the international economy and which should include changes in surplus countries, although it is nowadays largely used in the context of the national economies of deficit countries;

- adjustment in a deficit country is a response of the economy to an unviable BoP deficit and an attempt to reach some new equilibrium;

- adjustment is to be distinguished from the temporary suppression of the symptoms of the problem;

- it involves changes in the allocation of resources across the structure of the economy;

- it can occur automatically, eg. in response to monetary stringency or a depreciating currency, but will generally also require government intervention.

If we reluctantly accept the general usage and confine ourselves to the position of deficit countries, we can now offer the following definition:

Adjustment is a gradual, non-temporary response of the economy to the existence of an unviable balance of payments deficit, involving the reallocation of resources between sectors, between factors and between categories of expenditure (including savings). Such reallocations may occur automatically in response to changing monetary conditions and price relativities but governments will often judge it necessary to reinforce any automatic tendencies with the introduction of discretionary policy changes.
Adjustment costs

In the definition just offered we have sought to avoid the introduction of normative considerations. Hence, we have so far been silent on the costs and efficiency of adjustment processes. We turn now to a consideration of costs. Take the following account of events in Latin America during 1983:

The worst possible scenario of default by one or more countries was avoided through severe domestic adjustments that had high social costs in terms of unemployment, inflation, and overall deterioration of living conditions. These adjustments were necessary in order to quickly generate a large trade surplus ... Circumstances forced most countries ... to adopt restrictive policies that produced substantial reductions in investment and production (Inter-American Development Bank, 1984, p.183).

The authors go on to point out that during 1983 per capita incomes declined by an average of 5.3 percent, leaving average incomes nearly one-tenth lower than the 1980 level in real terms. They also show that between 1981 and 1983 the investment ratio in the Latin American region fell by almost a quarter in real terms, from nearly 26 percent of GNP to under 20 percent; and they provide data showing per capita consumption to have fallen by nearly 7 percent in real terms between 1982 and 1983 alone. On this evidence, adjustment does indeed entail heavy costs in foregone present and future economic welfare. However, the matter needs to be disentangled a little.

To begin with, we should note that many of the costs reported above were the direct result of severe short-term compression of imports and aggregate demand which we have excluded from our definition of adjustment. Economic repression gives adjustment a bad name!

Even if the losses in output, consumption, etc. had been associated with genuine adjustment policies, however, there is the further question whether these costs could most appropriately be attributed to adjustment per se. A country running an unviably large payments deficit must perforce reduce expenditures relative to incomes. In the language of the layman, it is living beyond its means. The costs of bringing it within its means are more accurately attributable to the factors which caused the unviably deficit in the first place. These could be adverse trends on world markets leading to a deterioration in the commodity terms of trade; or rising world interest rates; or harvest failures; or past policy failings; and so on.
'Costs' are implicit in the initial situation, irrespective of the adjustment path chosen.

However, some adjustment paths may be more efficient than others. Inefficient adjustment (or neglect) will add unnecessarily to those costs which are unavoidable. In such cases, it is accurate to speak of adjustment costs, referring to that excess of costs over the unavoidable minimum - if only they could be measured in some unambiguous way! Since these two types of cost cannot in fact be easily separated, as a practical solution we will refer to them both loosely as adjustment costs.

Viewed in this broad way, adjustment costs are transitional costs, because adjustment is itself a transition from an unviable to a sustainable situation. In the most general terms, such costs may be defined in terms of welfare foregone and of the government's reduced ability to satisfy the material aspirations of the citizenry. Undoubtedly, reduced levels of economic activity, of the type referred to by the Inter-American Bank above, are among the most important of these. These need to be measured relative to some trend level, or some estimate of capacity or potential. However, there may be distribu­tional costs as well, by which is meant shifts in the distribution of income and the incidence of absolute poverty associated with the adjustment process and regarded by the government, or by society at large, as undesirable. Finally, there may be less tangible - but perhaps very important - 'uncertainty costs' associated with the disruption of life and reduced economic security which is liable to accompany adjustment. It is perhaps worth elaborating a little on these three cost components.

The costs associated with reduced levels of economic activity are very familiar and only one observation needs to be made. This relates to the difficult choice to be made in the restraint of aggregate absorption between consumption and investment. In the 1983 Latin American case the brunt of the burden fell upon investment and the obvious point to be made about this is that if investment were continuously held back over a longer period it could scarcely fail to make structural adaptation more difficult to attain. Of course, not all investments are sacrosanct; some will not promote a more efficient allocation of resources. Nevertheless, there must be a presumption in favour of protecting real levels of fixed investment in the process of structural adjustment - which is where calls for improved IMF-World Bank collaboration tend to come unstuck. On the other hand, it is impossible to state a blanket preference for the brunt of demand management to fall
upon consumption levels, for in developing countries it may be practically impossible to prevent a substantial part of the burden of this from falling upon the very poor.

This brings us, then, to the distributional costs of adjustment. It is common, especially in criticisms of IMF policies, to allege that adjustment will generally increase income inequalities and absolute poverty. Our own observations, on the other hand, suggest that it is impossible to generalise in this way and that all will depend upon the structure of the economy in question and the adjustment policies chosen. What is undoubtedly the case, however, is that BoP adjustment will affect poverty and income distribution in a number of ways. Addison and Demery (1985) suggest that these will occur through three main types of mechanism: 'changes in the level and structure of output; changes brought about by income transfers; and changes in the accumulation and distribution of assets.' They add, however, that changes effected through these mechanisms are liable to pull in different directions, so that the final net outcome may be difficult to predict and complex.

One specific way in which adjustment programmes may affect poverty and inequality is through its probably negative effects on government welfare and educational programmes. This danger arises not simply out of the general budgetary stringency with which such programmes are normally associated but also because welfare services are among the least ambiguously non-tradeable activities in the economy, a point to which we return later. The World Bank's 1981 World Development Report was considerably exercised by the resulting threat to welfare programmes and pointed out that the provision of such services could be regarded as investments in future productive capacity, to be cut only at a risk to the future efficiency of the economy (p.97):

> For developing countries everywhere, the exigencies of adjustment over the next 5 to 10 years could undermine the commitment to social programs, whose full benefits are generally felt only in the long term ... /However,7 Specific health and nutrition programs can have strikingly rapid effects: a project to reduce anaemia among Indonesian workers improved their productivity within eight weeks. The effects of malaria control can also bring quick results.

As regards the third category of 'uncertainty costs' mentioned earlier, these can arise at both the personal and societal levels. At the personal level, the re-structuring of the productive system will involve the movement of workers and their dependents from one industry to another, often necessi-
tating relocation. The introduction of new technologies and shifts in the factor proportions employed will further increase uncertainties; they may bring alienation, make old skills redundant, enforce the need to learn new ones. Such changes may be inevitable and in some ways desirable - for it is labour mobility we are largely referring to - but many will regard the disruption of settled ways of life and the greater uncertainties of the future with aversion. At the level of society as a whole, there may be analogous costs: heightened class divisions, a loss of social tranquility.

At the political level, the introduction of adjustment programmes may not merely reduce the life expectancies of governments and ministers of finance. They may actually undermine existing democratic institutions, or be associated with politically repressive regimes, and we may agree with Foxley (1981, p.225) that if one prefers an open, democratic society then policies 'that require a good deal of political repression to have a reasonable chance of success are certainly not a satisfactory solution.'

This description of the various adjustment costs helps to clarify the meaning of a cost-minimising adjustment process. Such an adjustment will not be stumbled upon by good fortune nor through the unfettered operation of the market mechanism; it will need to be carefully designed so as to minimise the various costs, for example by taking a conscious view of the ways in which its policies are likely to impinge upon poverty and inequality, and by finding ways of reducing the social dislocations and uncertainties associated with re-structuring. But the key factors will almost certainly be the level of economic activity at which it is possible to achieve adjustment and the length of time available for the transition.

It is almost inevitable that a programme that has to achieve large results over a brief period will have to concentrate on the repression of demand and the compression of imports. For reasons explored earlier (p.9), these are liable to hamper the task of structural adjustment but supply-oriented measures are generally slower acting, except to the extent that it is possible to bring into utilisation excess capacity in the industrial and other sectors. Short-term measures which concentrate on reducing demand and imports represent a high-cost approach for countries faced with structural BoP problems, both as regards the level of activity and the 'uncertainty costs'. In the short term elasticity values are small; people take time to adjust and so do productive structures; the 'shocks' required to produce
quick results are therefore large. In the longer run the possibilities
are greater and the responses to a given price signal are larger; gestation
lags can be accommodated, new skills can be acquired, new technologies
embodied in the productive system.

In cost-efficiency terms, there is thus a powerful case for inflows of
international capital on a sufficient scale and for a sufficiently sustained
period to permit longer-term, more supply-oriented programmes to have their
effects, to finance the longer transition. In present circumstances, however,
few deficit developing countries have access to finance on the scale required
even though many of them face problems of a structural nature - a point to
which we return on the final pages.

A final point on cost-effectiveness. It is suggested as a basic principle
that to be cost-effective adjustment programmes must be directly related to
the causes of the BoP problem. If the source of weakness is a persistent
tendency to over-expand demand, through government deficit financing or
excessive credit to the private sector, then a programme which relies upon
the re-structuring of the productive system is unlikely to restore BoP
viability. Similarly, a large number of developing countries have been
faced with the need to re-structure their economies in the face of non-
reversible deteriorations in their terms of trade and, by the same token,
tackling these 'structural' problems principally by means of demand limi-
tation is also likely to prove both high-cost and essentially ineffective.
We have elsewhere criticised a number of Fund-supported programmes on these
grounds, although recently the Fund has built more supply-side measures
into its policy conditionality.
II - PROBLEMS IN THE ADAPTATION OF NATIONAL AND INTERNATIONAL ADJUSTMENT

On the remaining pages we take up a variety of issues relating to difficulties with the design and adaptation of national and international adjustment, commencing with the former.

Problems in the design and adaptation of national adjustment policies

a) THE CAPACITY TO ADJUST: It seems an elementary point that to be cost-effective programmes need to be adapted to the varying capacities of different practical difficulties with this principle. At the theoretical level, the notion of 'the capacity to adjust' has been little explored and remains imperfectly understood. The hypothesis suggested for future exploration is that the capacity to adjust will be a rising function of the level of economic development. In a mixed economy the capacity to adjust will be determined by the efficacy of the market mechanism, by the structure and technical characteristics of production, and by the quality of decision-making and execution in the organs of the state. It is suggested that the efficiency of the market system (and of the information flows upon which it depends) is likely to be at its lowest in the least developed countries. Poor communications and transport; low levels of education and literacy; social and other obstacles to the mobility of labour; dualistic capital markets; heavy concentrations of monopoly and monopsony power; as well as the often malign influence of state interventions all conspire to make it so. Moreover, the least developed countries are the more heavily dependent on the export of minerals and agricultural commodities, which are often subject to particularly long gestation lags. Indeed, independence on primary product exports may have a particularly strong negative influence on the capacity to adjust.

.../
In a rough and ready way, it is also plausible to think of the efficacy of the state as being positively correlated with economic development, including the government's capacity to achieve its objectives by means of the policy instruments available to it. For example, the government's ability to regulate aggregate demand is likely to be at its lowest in an economy still largely based on primary production, with a limited monetisation of economic activity, with poorly developed banking and other financial institutions, with a narrow tax base and with a probably inefficient public administration. Demand management should at least become a little less difficult as development proceeds.

One of the deficiencies of the present situation is that the practices of the agencies which provide supporting finance seem to take little heed of countries' differing capacities to adjust. This is most explicitly the case with the IMF, whose principle of uniformity of treatment amongst members has not been interpreted to mean uniformity relative to capacities. For example, the hypotheses suggested above would clearly point in favour of longer-term, more gradual programmes in most countries of Africa but, if anything, Fund programmes in that region tend to be even shorter than in other developing countries. The position of the World Bank in its Structural Adjustment Loans is less clear. It is not known to have any explicit view of countries' capacity to adjust but it probably is the case that the Bank's programmes are rather more individually tailored to country situations than the Fund has found possible.

If it is the case that the capacity to adjust is a rising function of development then the need to re-examine the lending policies of international agencies and other donors has been made more urgent by the probability that world economic trends have tended to thrust the heaviest burdens of adjustment on those countries least well able to adjust. In particular, the least developed have been hit by the collapse in world commodity prices in the early 1980s and by the slowness of these to respond as expected to the subsequent partial economic recovery in OECD countries. They have been hard hit, too, by the levelling off in real levels of bilateral aid, by the large prospective reduction in the real size of IDA resources, by the reduced size of IMF credits, and by the substantial withdrawal of commercial banks from new lending to many Third World countries. They now have extremely little financial room for manoeuvre. In fact, a recent paper by Fund staff members suggested that African countries should plan on a net outflow of capital over the next few years, given likely aid trends and the need to improve debt
ratios (Bhatia and Tahara, 1984). It seems that those least able to afford them are being forced into high-cost adjustment programmes too short-term to achieve a fundamental improvement in BoP viability.

b) THE KNOWLEDGE PROBLEM: Policy-making is, of course, always conducted in a state of imperfect knowledge but there appear to be particularly serious doubts about the state of our understanding of the connections between the policy instruments employed in adjustment and the variables they are intended to influence. There also seems to be a widening gap, in the Fund at least and as a result of political pressures, between the state of knowledge and donor practices. These general points can be illustrated by reference to the well-known 1981 article by Khan and Knight on stabilisation programmes in developing countries. In this they identify Polak-type models as having provided the broad analytical framework within which most Fund programmes have been designed, in which "there is a fairly well-defined relationship between money, the balance of payments and domestic prices in which the supply of and demand for money play a central linking role" (p.3). They then build upon the basic Polak approach to develop a more dynamic model which explores relationships between output, prices, international reserves, money and fiscal policy. They find a complex connection between domestic credit and the BoP (pp.35-6):

When a given increase in international reserves must be achieved within a specified period of time, our model yields quite a complicated path for domestic credit ceilings ... The practical implication is that policy-makers cannot 'fine-tune' domestic credit ceilings from quarter to quarter or even year to year without having much more comprehensive information about the structure of the economy than they can reasonably be expected to possess.

Since they present their model as an interpretation of "the basic theoretical paradigm underlying the financial programming exercises of the Fund ..." (p.4), the implicit criticism of the central role of domestic credit ceilings in stand-by programmes is quite serious. Their model emphasises that "programs designed to achieve quick results on the balance of payments via sharp deflation are likely to have significant and undesirable effects on output, employment and factor incomes, particularly in the short run" (p.36). In these respects they found longer-term programmes "unambiguously" superior. Work by Keller (1980) and Joyce (1981) has also pointed to more complex connections between credit, the BoP and the real economy; and Aghevli and Rodriguez (1979) developed a model which indicated a trade-off between monetary restraint and output, even in the longer term.
The point here is not that there is now some new consensus about relationships between real and monetary variables, or about the theory of BoP policy. It is rather that research has raised serious questions about the validity of past approaches at a time when the application of those approaches appears to be becoming increasingly rigid. The present uncertain state of our knowledge indicates a need both for more theoretical and empirical research (in which the differentiation of economy types may prove a useful way forward), and for a richer mix of experimentation in the adjustment programmes that must meanwhile go forward.

c) THE QUALITY OF TRADEABILITY: It has become part of the new orthodoxy that BoP adjustment necessitates relative movements of resources into the production of tradeable goods and services and out of non-tradeables. This seems to say no more than that countries with payments deficits need to produce more exports and depend less on imports, which seems obvious good sense. But what actually is this quality of 'tradeability' and what are the sectoral implications of a shift of resources into items possessing this quality? There would, we suppose, be support for the view that tradeability extends beyond those goods and services which happen actually to be traded by the country in question at any particular time. It may, for example, be self-sufficient in the production of foodstuffs and yet those commodities are capable of being traded: if there is a surplus they can be exported; when there is a shortfall the residual needs can be imported. The test which this line of reasoning suggests is whether or not the item in question is practically capable of entering into international trade.

When one looks at the matter in this way, however, the quality of non-tradeability becomes elusive, for it is actually not very easy to find items that are intrinsically incapable of being traded across national borders. Domestic water supplies? Think of Hong Kong. Roads? Well yes, except that countries can earn foreign exchange from the transhipment of goods to neighbouring landlocked countries, and tourist earnings can be affected by the adequacy of the roads system. The list seems to boil down to a rather limited number of activities, such as house-building, welfare services provided by the state and private sector consumer services such as hairdressing. Tradeability, in other words, is a quality possessed by most of the goods and services produced by man but in varying degrees. Viewed in this way, the prescription to move into the production of tradeables is to be interpreted as a move into items possessing a high degree of tradeability and out of items possessing little of this quality.
The matter becomes even less clear, however, when one takes into account the extent to which goods with a high degree of tradeability require for their production major inputs from various non-tradeables. Take an export crop like coffee. Its efficient production and delivery to the ports will depend, inter alia, on the extent and quality of government extension services, on the availability of storage facilities, on an adequate network of feeder and trunk roads - even on an efficient and honest police force. No doubt these inputs possess little of the quality of tradeability but if they provide essential inputs into the production of a major export commodity, does one really want to urge a general policy of shifting resources away from such items?

It is, however, possible to approach the matter from another direction and classify as tradeable those goods and services whose local prices will be significantly influenced by the level and direction of comparable international prices. Here again, we are essentially concerned with matters of degree, for the key word in the previous sentence was "significantly" - how do we draw the line between significance and its opposite? Nevertheless, there is a real difference between this approach and the previous one, in the extent to which it concentrates on items which are actually traded. Suppose our country decided to promote self-sufficiency in food by prohibiting both exports and imports. Assuming the authorities were able to enforce this policy, domestic food prices would be made largely independent of world food prices and by this test would become non-tradeables. A perhaps more common case is where the importation of various manufactured goods is prohibited as a way of protecting local industry. Or maybe our country is a very remote one, so that many goods are neither exported nor imported because of prohibitively high transport costs. Again, within limits, local prices will be independent of world trends.

There are at least two problems with this way of making the distinction, however. First, what is counted as tradeable is made to depend, in part, upon the specifics of government trading and protection policies, which can change at short notice. Second, it is by no means clear that BoP adjustment is fostered by a relative neglect of those items which are capable of being traded but which government regulations prevent from being traded. One only has to go back to the first example of the food self-sufficiency programme to realise that.
In the end, then, it is unclear what is actually conveyed by advocating a reallocation of resources in favour of tradeables. Various kinds of services are probably the items most placed at risk by such a recommendation, but even these can raise the productivity or economic responsiveness of workers engaged in the production of exports or import-substitutes. The point to be made about all this, then, is again to urge more research, to explicate the nature of the quality of tradeability, to explore the extent to which possession of this quality really does give various types of economic activity a deserved priority in adjustment programmes, and to explore the consequences for the productive structure and social welfare of a strategy which favours the production of tradeables.

d) PRICES AND THE SUPPLY SIDE: The types of deficit-country adjustment called for as a result of world economic trends over the past decade have necessarily thrust more importance on the adaptation of productive structures. The World Bank's Structural Adjustment initiative was, of course, an explicit response to this. As noted earlier, the Fund has been criticised for a relative neglect of the supply side but in the past year or more has laid down more supply-side measures as preconditions ('prior actions') to its stand-by programmes. What gives cause for some concern with respect to both organisations, however, is the extent to which they apparently identify the solution of supply-side deficiencies with 'getting prices right'. Take, for example, the following authoritative account of the 'sectoral and sub-sectoral concerns' that are regarded by the Bank as important to structural adjustment and development:

- the relative roles of the public and private sectors in economic activity;
- the way markets are permitted to develop or are organised by governments;
- the process and criteria by which the level and structure of agricultural prices are determined;
- the industrial policy framework within which industry operates and expands, as determined by tariffs, import licensing systems, and investment promotion schemes;
- the appropriate structure of energy pricing and taxation that will both induce an efficient supply of energy to reflect projected comparative costs of imported and domestic sources and at the same time bring about whatever level of energy conservation is considered desirable; and
- a well-formulated public expenditure program (Please, 1984a, p.84).

Only the last item is not chiefly concerned with improving price relativities.
Similarly, a recent article by a Fund staff member on adjustment recognises both excess demand and supply weaknesses as requiring policy correctives but characterises the supply problem in the following terms (Tseng, 1984, p.2):

Where the imbalances are attributable to an inadequate growth in supply because of structural weaknesses reflecting price distortions in the economy, policies would aim to improve the allocation of resources so as to strengthen the productive base of the economy.

The supply problem is thus identified with price distortions and it is therefore not surprising that the supply-side conditionality nowadays written into Fund programmes emphasise price corrections. Thus, in addition to the familiar ingredient of exchange rate depreciations, measures which have become common include interest rate reforms, the removal or reduction of consumer subsidies, and reforms in para-statal and producer pricing policies.

There are two difficulties with this way of looking at things. First, the increased importance of adjustments in the productive system over the past decade is not, it is suggested, due to some sudden deterioration in the efficiency of domestic pricing systems, however imperfect they may be: it is due to the need to shift resources in favour of tradeables (q.v.) in the face of a non-reversible deterioration in the commodity terms of trade. This need arose, irrespective of the prior existence of price distortions, although there is no doubt that reducing such distortions can greatly assist adjustment.  

The second difficulty is that, however important, improving the structure of price incentives is only part of the solution to the supply problem. Adequate structural adjustment policies are likely to require a variety of non-price measures which, however, may be neglected on present attitudes. Depending on country circumstances, these can include new investments in, and improved maintenance of infrastructural facilities; the state provision of advisory services - to farmers, small businessmen, exporters, foreign investors, etc; the provision of labour training facilities; agricultural (and perhaps other) research and development; land reforms; geological surveys (with special reference to energy sources); rural credit; export credit and insurance ... and so on.

It would be a pity if, in their efforts to adapt conditionality to changing needs, the international agencies - to say nothing of bilateral donors - were to fail to give adequate weight to such non-price components. In economies
subject to large distortions, price reforms will be a necessary but probably not sufficient condition of adjustment. And some relatively undistorted economies will still need non-price measures, or have needed them in the past.

The retreat from international adjustment

We return finally to the topic of international adjustment. It was pointed out earlier that, although adjustment is most appropriately regarded as an international process, it has come to refer largely to the national policies of deficit countries. We can now go beyond this, to refer to a series of decisions which add up to an attack on the basic philosophy and institutions of international adjustment.

Over the past three or four years the following developments have occurred, largely as a result of initiatives by the US administration but with the support of a number of other major industrial countries;

a) The decision around the middle of 1981 to put into reverse the attempted liberalisation of Fund conditionality that had gained pace during 1979-80. Among other things, this involved placing the Extended Facility into virtual suspense, apart from a small number of special cases. This Facility was, of course, set up in response to developing country complaints about the excessively short-term nature of stand-by credits. At the same time in 1981 the conditionality associated with stand-bys was made more rigorous in a number of respects.

b) The de-liberalisation during 1983 of the Compensatory Financing Facility (CFE), which one observer has now dubbed 'the fifth credit tranche'. The underlying philosophy of this Facility has always been that it is inappropriate to require countries to undertake adjustment policies in response to fluctuations in world commodity prices, or such other temporary phenomena as harvest failures. It has always been regarded as an important feature of the scheme that access to the CFF should be as near automatic as possible and access, at least to the first 'tranche' (ie. up to 50% of quota equivalent) of CFF drawings, has never in the past been subject to much more than pro forma conditionality. This is no longer the case. Increasingly countries which wish to draw even the first tranche are being denied access unless they
already have a stand-by programme in place or are willing to observe various policy conditions. Indeed, the British government is reportedly urging that the CFF be wound-up altogether.

c) The decisions in 1983 and 1984 to scale down the enlarged access policy, reducing the normal maximum size of credits that the Fund can offer to members.

d) The refusal in 1983 and 1984 to authorise a further allocation of SDRs, notwithstanding management and independent support for such a move. Notwithstanding the declaration by the Interim Committee in 1976 that members should collaborate with the Fund to make the SDR the 'principal reserve asset in the international monetary system' it has remained the small change of the system, constituting at end-1983 only 2 percent of total international liquidity - a statistic which reveals as bogus the protestations of those who have argued that an SDR allocation would increase world inflation. A probably more genuine motive was a desire to avoid the provision of more non-conditional resources to deficit countries. Given the present-day structure of international reserve assets, world liquidity is a largely uncontrolled, indeed whimsical, magnitude.

e) The effective refusal of the major surplus countries (and of the US as a major deficit country freed from resulting BoP constraints by the role of the dollar as a reserve asset) to submit to any meaningful surveillance of their exchange rate and other policies, as was referred to by the Managing Director in his address to the 1984 annual meeting.

f) The general decline in the size of the Fund's resources relative to world trade and the stated refusal of the US administration to countenance any further quota increase until 1989.

g) The seventh replenishment of IDA at $9bn, regarded by all major Bank shareholders except the US as well below the desirable level; the subsequent failure of attempts to put together a scheme of supplementary financing for IDA; and the highly uncertain future of the Bank's mooted special facility for Africa. This situation is
likely to have a serious effect on the Bank's ability to provide soft loans to low-income developing countries in support of structural adjustment.

h) The known resistance of the US and other industrial country shareholders to a General Capital Increase for the Bank, raising the prospect of a very sharp fall in net Bank lending to developing countries during the next two or three years. The lack of support for the proposal to increase the Bank's gearing ratio.

i) The declining relevance of the GATT, with only about half of world trade covered by its mfn rules and the spread of non-tariff barriers. The relative failure of the November 1982 Ministerial meeting, which was unable to agree even upon a stand-still on the imposition of new non-tariff barriers, to make effective progress on agricultural protectionism and on the inclusion of trade in services. The tendency in the US to talk of such measures as a general import surcharge and of going it alone on trade policy with like-minded states, with its grave implications for the future effectiveness of the GATT as a truly international arrangement.

Each of these items is familiar. What is important, however, is to see them in the round, as parts of what amounts to an attack on the foundations of international co-operation and adjustment. The effect of these and other policies has undoubtedly been to thrust a larger burden of adjustment - and high-cost adjustment because of the scarcities of supporting finance - onto the deficit developing countries and thereby to impose an asymmetrical deflationary bias on these countries and, to some extent, on the world economy as a whole, in stark contrast with the intentions of those who met at Bretton Woods.

Among the consequences of these actions has been the frustration of attempts by the Fund and Bank to adapt themselves to meet the changing needs of the system. This was most obviously the case with the 1981 reversal of the liberalisation of Fund conditionality. It was presumably to this that the Fund was referring in the following wistful plea in its 1982 Annual Report (p.40):
Another form of international co-operation is the support of member countries for the Fund in its continuing endeavours to adapt its policies and facilities in the light of changing circumstances so as to play an important role in promoting and assisting balance of payments adjustment.

In fact, if we consider the Fund's own statement of its principal functions as consisting of (a) the surveillance of the exchange rate system; (b) the financing and adjustment of BoP imbalances; and (c) the regulation of international liquidity then it is evident that it is today being prevented from undertaking these roles effectively.

In the light of the increased volatility in the world system of trade and payments over the last decade, the attack on the institutions of international adjustment is to be viewed with concern. It means, among other things, that the risks associated with participation in world trade and financing have grown and that countries - especially the weak and vulnerable - need increasingly to concern themselves with how to minimise these risks. Comparative advantage may no longer be an adequate guide to the efficient allocation of resources, for the theory of comparative advantage does not take risk minimisation into account. And in continuing to urge an outward-oriented approach to adjustment the Fund and Bank may be implicitly assuming the existence of an orderly and symmetrical world economic system which they are not able to deliver.
1. Director of the Overseas Development Institute, London. I should like to gratefully acknowledge the help of Jose-Miguel Albala in preparing materials for this paper.

2. At the end of 1983 reserves expressed as months of imports held by non-oil developing countries were estimated as follows:

   - Africa (excluding RSA): 1.1
   - Asia: 3.0
   - Europe: 1.5
   - Middle East: 2.5
   - Western Hemisphere: 2.2
   - All: 2.3

   (IMF, World Economic Outlook, September 1984; Washington, Occasional Paper No.32, Table 33.)

3. However, this is not at all to suggest that the attempt should be abandoned; it remains essential to form the best view that one can, notwithstanding the methodological and statistical difficulties. For recent contributions to this debate see Donovan, 1982; Killick, 1984 ch.7; Loxley, 1984.

4. See, for example, the concerns listed by Please on p.24 below. For another recent account see also Please, 1984b, ch.3.

5. It is perhaps significant that, for the purposes of statistical testing, the World Bank measured structural adjustment as "the sum of export penetration and import substitution" - see World Development Report, 1981, p.123.

6. For a fuller discussion of these trends see Inter-American Development Bank, 1984, pp.183-92.


8. Sheahan, 1980, notes an apparent correlation between stabilisation and political repression in countries of the Latin American 'Southern Cone' and argues that the socio-economic structures of those countries considerably increased the probabilities of such an association.

9. In the older industrial countries, of course, it is common to provide financial and other 'adjustment assistance' to industries suffering from declining international competitiveness, and to those who work in them, in order to reduce the felt costs of adjustment and as an alternative to a protectionism which actually impedes adjustment.

10. See Schydowsky, 1982, for a discussion of policy measures designed to mobilise surplus industrial capacity in the adjustment process.

11. This is one of the principal themes of Killick, 1984, chs.6-8.
12. See ibid, pp.286-7, for a slightly fuller treatment of this topic.

13. The average intended duration of stand-by credits commenced in each year since 1980 was as follows:

<table>
<thead>
<tr>
<th>(months)</th>
<th>Africa</th>
<th>Rest of world</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>17.8</td>
<td>18.7</td>
</tr>
<tr>
<td>1981</td>
<td>13.0</td>
<td>16.0</td>
</tr>
<tr>
<td>1982</td>
<td>12.5</td>
<td>14.8</td>
</tr>
<tr>
<td>1983</td>
<td>14.2</td>
<td>15.3</td>
</tr>
<tr>
<td>1984 (Jan-June)</td>
<td>13.6</td>
<td>12.4</td>
</tr>
</tbody>
</table>

14. Take, for example, the following figures on the average values of stand-by credits agreed with African countries (SDR mn):

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Value (SDR mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>63.5</td>
</tr>
<tr>
<td>1981</td>
<td>70.0</td>
</tr>
<tr>
<td>1982</td>
<td>87.6</td>
</tr>
<tr>
<td>1983</td>
<td>132.3</td>
</tr>
<tr>
<td>1984 (Jan-June)</td>
<td>63.6</td>
</tr>
</tbody>
</table>

15. For example, Hasan's (1984) review of adjustments in East Asian countries stresses the beneficial effects of price-correcting measures.

16. This subject is discussed in fuller detail in Killick, 1984, pp.211-12.

17. This is from Dell, 1984, who documents and discusses the changes in the CFF.

18. See Williamson, 1984, for a cogent statement of the case for an allocation.

19. The press communiqué of the Interim Committee of January 1976 included the following: "The amended Articles of Agreement should include a provision by which the members of the Fund would undertake to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets would be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system". From IMF 1976 Annual Report, p.123.

20. From data in the 1984 Fund Annual Report and valuing official gold holdings at the prevailing market price, the composition of official reserve assets at end-1983 was:

<table>
<thead>
<tr>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDRs</td>
</tr>
<tr>
<td>Other Fund-related assets</td>
</tr>
<tr>
<td>National currencies:</td>
</tr>
<tr>
<td>US dollar</td>
</tr>
<tr>
<td>other</td>
</tr>
<tr>
<td>Gold</td>
</tr>
</tbody>
</table>

21. The total value of Fund quotas relative to world trade is currently about 5 percent, against 14 percent in 1950 and 8 percent in 1971. In September 1984 Secretary Regan stated that any suggestion of another quota increase before the due date in 1989 was "not acceptable" to the US.

22. These issues are present in ODI, 1984.

23. See Diaz-Alejandro and Helleiner, 1982, for a discussion of these issues.
24. The conference was, however, given reasons for believing that the magnitude of the deflationary bias may not have been large for the world economy in recent years. This presumably reflects (a) the still limited importance of developing countries in total world economic activity; (b) the fact that at any one time there is only a limited number of IMF programmes in operation; and (c) that the effects of these are often less than intended (Killick, 1984). There may also be some problems with the methodology employed in assessing the extent of deflationary bias.


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