There is also controversy about the IMF's positive assessment of the adjustment made so far, particularly by the major Latin American debtors Mexico and Brazil, and their longer-term prospects for growth and exports. It is true that these countries recorded trade surpluses and achieved positive rates of GNP growth again in 1984, but this progress should be seen in relation to the very deep recession of 1982-83, which was associated with the policy of austerity. Sceptics also point to the still unsolved structural problems in the Mexican farm sector, Brazil's continuing inflation problem and the far less favourable situation of other Latin American countries.

These considerations demonstrate that the solution of the debt crisis through expansionary stabilisation is fraught with great uncertainty. It is not difficult to imagine situations in which the debt problems of a number of countries would become solvency crises that would make partial debt cancellation unavoidable. Against a background such as that, the IMF adjustment concept would have to be revised fundamentally, as it is based on the notion that after a transitional period the debtor countries would be able to return to a growth path with highly integrated trade and credit relations with the industrialised countries and would continue to be net importers of capital over the longer term.


The Lending Policy of the International Monetary Fund

by Wolfgang Wetter, Hamburg

In the worldwide economic and debt crisis of the eighties the International Monetary Fund increasingly became the "lender of last resort" for a great many Third World countries. With world trade weak and interest rates high, a considerable number of developing countries got into serious balance-of-payments difficulties. The demand for stand-by and extended arrangements with the Fund rose dramatically. The conditions or adjustment programmes linked to this lending not infrequently led to serious social and political tensions in the countries concerned. The term "IMF riots" was coined, and the conditionality of credit again became the subject of political and academic debate.

The word "conditionality" in the sense under discussion here appears in neither the original Bretton Woods Agreement nor the First and Second Amendments to the IMF Articles of Agreement. Nonetheless, ever since the first Amendment at the very latest, there has been no doubt as to the legal admissibility of conditionality. Article V states: "A member's use of the resources of the Fund shall be in accordance with the purpose of the Fund and that will establish adequate safeguards for the temporary use of its resources." (Italics by the author.)

As in the past, the justification for conditionality lies in protecting the revolving nature of (special) IMF resources. That IMF resources must be repaid is not in dispute. The IMF was not founded to make gifts of international liquidity. However, it is debatable whether conditionality guarantees repayment. Some authors consider that repayment is assured solely by the fact that no country can afford deliberately to withhold
The worldwide crisis of recent years provides a graphic example of this. The LDCs are undeniably facing considerable structural problems, but their balance-of-payments difficulties would have been much less serious if the structural problems in industrial countries had not led to a decline in world trade. A further significant external factor in the balance-of-payments difficulties of the LDCs is the increasing protectionism in the USA, Japan and the European Community.

By largely ignoring external factors in the assessment of balance-of-payments disequilibria, the Fund inevitably lays itself open to criticism. In this connection Edward M. Bernstein, a member of the US delegation at Bretton Woods, also points to the principles of the Fund Agreement, whereby the balance-of-payments adjustment process should be related to the causes of the problem. "If the deficit, for example, is the result of excessive demand, then the proper remedy is to restrain domestic expenditure. But if the cause of the deficit is a cyclical change in international economic conditions, then the deficit should be financed by credits until there is a recovery in the world economy." Bernstein considers that this principle is still valid today and covered by the current Agreement. Indeed, in a decision of 1979 the Executive Board of the Fund emphasised that adjustment programmes had to pay due regard to the domestic situation in member countries and the causes of their balance-of-payments problems: "In helping members to devise adjustment programs, the Fund will pay due regard to the domestic, social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems."

The worldwide crisis of recent years provides a graphic example of this. The LDCs are undeniably facing considerable structural problems, but their balance-of-payments difficulties would have been much less serious if the structural problems in industrial countries had not led to a decline in world trade. A further significant external factor in the balance-of-payments difficulties of the LDCs is the increasing protectionism in the USA, Japan and the European Community.

By largely ignoring external factors in the assessment of balance-of-payments disequilibria, the Fund inevitably lays itself open to criticism. In this connection Edward M. Bernstein, a member of the US delegation at Bretton Woods, also points to the principles of the Fund Agreement, whereby the balance-of-payments adjustment process should be related to the causes of the problem. "If the deficit, for example, is the result of excessive demand, then the proper remedy is to restrain domestic expenditure. But if the cause of the deficit is a cyclical change in international economic conditions, then the deficit should be financed by credits until there is a recovery in the world economy." Bernstein considers that this principle is still valid today and covered by the current Agreement. Indeed, in a decision of 1979 the Executive Board of the Fund emphasised that adjustment programmes had to pay due regard to the domestic situation in member countries and the causes of their balance-of-payments problems: "In helping members to devise adjustment programs, the Fund will pay due regard to the domestic, social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems."

The record of Fund adjustment programmes shows, however, that it interprets its own decisions too narrowly.

Adjustment Programmes

Criticism of conditionality intensified in the eighties, as the Fund turned increasingly to supply-side factors to overcome the structural weaknesses of many member countries. One complaint was that even the extension of financing to three years under stand-by and extended arrangements was not long enough to correct serious