

# The Bretton Woods Agreements (Special Provisions) Bill

## Debate in the National State Assembly

The Bretton Woods Agreements (Special Provisions) Bill was presented in the National State Assembly and was passed after debate in the first week of April. It was a bill "to make such legal provisions as may be necessary by way of amendment of the Bretton Woods Agreements Act and the Monetary Law Act in order to give force and effect to the decision of the Government of Sri Lanka to accept further amendments to the Articles of Agreement of the International Monetary Fund of which Sri Lanka is a member".

We reproduce below from Hansard excerpts of the official view as given by the Minister of Finance and Planning Mr. Ronnie de Mel and the opposition view as given by Mr. M. Sivasithamparam M.P. for Nallur.

### THE GOVERNMENT VIEW

Mr. R. J. G. de Mel :

This is a Bill to make such legal provision as may be necessary by way of amendment of the Bretton Woods Agreements Act and the Monetary Law Act in order to give force and effect to the decision of the Government of Sri Lanka to accept further amendments to the Articles of Agreement of the International Monetary Fund of which Sri Lanka is a member.

These are amendments to the Articles of Agreement of the International Monetary Fund which all members of the fund will subscribe to in order to continue the International Monetary Fund as an international financial and monetary institution in the world. One hundred and thirty one countries who are members of the International Monetary Fund have already accepted these amendments to the Articles of Agreement of the International Monetary Fund, and the Government of Sri Lanka being one of the members has accepted these amendments. I now introduce this Bill to make legal provision for the Government to accept these amendments to the Articles of Agreement.

The Bretton Woods Agreement, as you are aware, was the foundation of the international monetary and financial system which took effect after the Second World War, in 1945. Sri Lanka along with 131 other countries are signatories to this Agreement. This Agreement came into existence in 1945 when 45 countries originally signed the

Agreement at Bretton Woods. This Agreement also set up the International Monetary Fund as a permanent institution to enforce the Agreement. The main purpose of the Agreement was to ensure stability in the international monetary and financial system thereby increasing trade among members which in turn would promote income and employment creation within countries. Sri Lanka became a member of the Fund by accepting the Agreement in 1950. Today there are 131 members of the International Monetary Fund, including socialist countries like Yugoslavia, Vietnam and Romania.

This system based on Bretton Woods lasted for over 35 years. The first cracks in the system began to appear about ten years ago. The reform of the international monetary system has become an urgent necessity for the past seven years or so due to the cracks that have appeared in the system. The need arose principally from the fact that the Bretton Woods system which guided international economic and financial relationships since 1945 was found to be too rigid and inflexible in the face of rapidly changing circumstances in the world economy. Manifestations of this shortcoming were the periodic gold crises in the latter 1960s and up to 1971, and the instability of exchange arrangements particularly among developed countries. Although each individual crisis was met with some ad hoc arrangements or other, the breaking point for this system of financial relationships came in August 1971, when the United

States suspended convertibility of the dollar into gold. It signified formally the collapse of the Bretton Woods System as we knew it from 1945.

Since then, under the auspices of the I.M.F., which is entrusted with the responsibility for the proper functioning of the International Monetary System, an effort at the reform of the International Monetary System has been under way. The oil price rise of 1973, which occurred before the reform effort had a chance to bear fruit, had the effect of reordering the priorities in the reform exercise as well as underlining the urgency for reform. The culmination of this process is the document entitled "The Second Amendment to the Articles of Agreement of the International Monetary Fund", the text of which I am tabling. This is a text which had already been accepted by 131 countries, all members of the I.M.F.

These amendments are not a total revision of the existing Articles of Agreement of the I.M.F. which Sri Lanka has already accepted way back in 1950 when she subscribed to membership in the I.M.F. In this sense it does not constitute a new International Treaty. But as the revisions are fairly extensive and affect a number of provisions, a complete set of Articles is submitted for approval by member countries.

The principal modifications to the Articles relate to four aspects. These are — firstly, exchange arrangements among member countries; secondly reduction in the role of Gold in the International Monetary System; thirdly, simplification and modernization of operations and transactions through the General Resources Department of the I.M.F.; and fourthly, improvements in the characteristics and usability of the Special Drawing Right.

The amended Articles legalize the existing de facto situation of floating exchange rates by enabling the country to declare to the Fund any exchange arrangement of its choice with the exception of a par value expressed in terms of Gold. Within a broad commitment to assure orderly exchange arrangements, member countries are obliged to direct their economic and financial policies towards the objective of fostering orderly economic growth with

reasonable price stability and with due regard to circumstances. The Fund for its part is empowered to exercise surveillance over exchange rate policies of members — this is a function which the Fund has performed for the last 30 years — but in evolving and applying the principles, the Fund is required to respect the domestic social and political policies of members.

This is an amendment which countries like Sri Lanka insisted on. This is something which did not exist in the earlier arrangement. The Fund has now been compelled to take into account the domestic social and political policies of all its members. If international economic conditions so permit, there is provision to permit the re-establishment of exchange arrangements based on stable but adjustable per value.

The amended Articles terminate the official role of Gold in the International Monetary System and establish the Special Drawing Right as the corner-stone of the System; the value of the SDR in terms of Gold has been eliminated; instead the Fund is empowered to determine its basis of valuation. Currently this is related to 16 principal currencies. There will no longer be any obligatory payments in Gold by members of the Fund as for instance when subscription to quota increases or in paying interest and other charges.

The amended Articles also authorize the I.M.F. to dispose of one-third of its Gold stock amounting to 50 million ounces. Profits from the sale of half this amount are earmarked for distribution among low income developing countries for Balance of Payments assistance on very concessional terms. This is through what is known as the Trust Fund. The Trust Fund did not exist under the old IMF. This is a special fund created from the sales of gold to help the low-income developing countries like Sri Lanka. This is also an added advantage in the present Articles when compared with the earlier Articles which did not take into account the needs and aspirations of low-income developing countries at all. There is also provision to empower the Fund to dispose off the remainder of its gold stock in a manner it deems appropriate.

Towards the objective of making the SDR the principal re-

serve asset of the international monetary system, the characteristics of the SDR have been broadened and its usability made more flexible. It is proposed to give greater freedom to members to engage in transactions in SDRs by agreement among themselves. Unlike under the present Articles when a member using Special Drawing Rights, is expected to prove the balance of payments need, this expectation is withdrawn in respect of transactions by agreement between members. This also is a concession to the poor developing countries. Further, the use of SDRs in the Funds operations and transactions will be extended, for example, through substitution of SDRs for gold in respect of that part of the quota subscriptions hitherto payable for countries like Sri Lanka which had hitherto to pay its subscription in gold. Now it can pay the subscription in SDRs or in their own local currency. There will also be greater scope for official entities in other than Central Monetary Authorities to hold and use SDRs and they will be able to engage in a somewhat broader range of transactions than at present.

The main improvement in provisions governing the General Resources Account of the Fund, relates to the usability of the Fund's holdings of currencies in that account. Under the amendments, all member's currencies will be usable in operations and transactions of the Fund. But before the Fund decides on which currency to include, the particular members' balance of payments and reserves position and developments in the exchange markets are taken into account. The amended Articles also provide for assistance from the Fund to be obtained for a larger variety of reasons. This too helps countries like Sri Lanka. While at present such assistance depends on the balance of payments need, under the amended Articles, there is provision to obtain temporary assistance on grounds of not only Balance of Payments needs but also due to developments in Reserves or expected unfavourable developments in Reserves.

Therefore, there are several advantages to Sri Lanka in accepting the amended Articles which have already been accepted by 131 countries who are members of the IMF.

(1) Sri Lanka can pay that portion of any increase in its

quota in SDRs of currencies of another member instead of in gold as in the old system. There is even a possibility for the whole amount to be paid in Sri Lanka rupees if the Fund so decides.

This is a tremendous advantage as against the old Articles which stipulate that the contribution of the subscription be paid in gold.

(2) Sri Lanka has considerable flexibility in determining its exchange rate system.

Under the old agreement every change in our exchange rate system had to be approved by the IMF and there was no flexibility at all. There is real flexibility allowed under the present Articles of Agreement.

(3) The IMF will respect the domestic, social and political policies when reviewing the exchange system.

Under the old Articles of Agreement the IMF took no account of the domestic or internal, social and political policies of a country. In future the IMF has to take account of the domestic needs and aspirations of each country.

(4) Sri Lanka can seek Fund assistance not merely on grounds of balance of payments or reserves position, but also due to anticipated developments in its reserves; as for instance, due to a bunching of import payments.

(5) Under present rules, assistance from the IMF under its regular and other facilities has to be settled within 5 years. The amended Articles permit an extension of this limit for settlement of dues for all countries if conditions so warrant.

This is a great advantage to a country like Sri Lanka in re-paying dues to the IMF.

There is also provision for individual countries to obtain an extension of the maturity period if it is subjected to particularly difficult circumstances. This, too, helps countries like Sri Lanka.

(6) Subscribing to the amended Articles and continued membership in the Fund would qualify Sri Lanka to obtain concessional assistance from the Fund. While the monies in the existing Trust Fund

are distributable among eligible members, who were members on 31.08.75 like Sri Lanka, there are possibilities for additional such funds to be channelled to needy members as concessional aid on the sale of the balance gold left with the IMF.

The proposed Special Disbursement Account can make this possibility operational.

I might tell you, Sir, that apart from standby support which the IMF has given us and the Trust Fund support from the sales of gold, we have also been assured of considerable support from what is known as the Extended Fund Facility and from the Supplementary Fund facility which is also known as the Witteveen facility.

Therefore, the amended Articles are a great improvement on the original Articles to which we have been subscribing for the last 30 years and it is because it is a great improvement that we are subscribing to these amended Articles along with 131 other members of the IMF, including socialist countries like Vietnam, Yugoslavia and Rumania.

While there are advantages of specific interest to Sri Lanka what is of broader significance is that the IMF, once termed the rich man's club or the rich nations' club, is now steadily turning its attention to the pressing problems of poorer countries. In fact all the recent decisions which increased the variety of assistance from the IMF, the Oil facility, the Extended Fund facility and the proposed Witteveen facility, are all meant to assist poorer countries like Sri Lanka.

The amended Articles become law for all members when three-fourths of the members with four-fifths of voting power have passed the necessary legislation to accept the amended Articles in their own countries. This point is expected to be reached any moment now. Also Sri Lanka, on the basis of the 6th quota review in the IMF, is entitled, to a higher quota of SDR 119 million than the current quota of SDR 98 million. To this extent, therefore, the amount of assistance that Sri Lanka can obtain, from the IMF will also proportionately increase. The proposed new quota will apply to Sri Lanka only after Sri Lanka sub-

scribes to the second Amendment, and it is therefore essential that Sri Lanka subscribes to the second Amendment immediately.

Then, Sir, as regards the urgency of this Bill, I would like to add that the necessary legislation or not; it is binding on all members of the IMF, all 131 of them, irrespective of whether individual members pass the necessary legislation or not. It is binding on us when 80 members with 80 per cent voting power accept the amendments. This stage will be reached any moment now. If Sri Lanka has not passed the necessary legislation to accept the amended Articles within 30 days of the amended Articles becoming law in the IMF, Sri Lanka will not be eligible for the higher quota of SDR 119 million as against the present quota of SDR 98 million. The higher the quota, the higher the maximum of assistance which a country can get from the IMF. This was the reason for the urgency of the Bill.

#### THE OPPOSITION VIEW

Mr. M. Sivasithamparam:

Undoubtedly the Hon. Minister of Finance has told us that the new Articles were the product of the Committee of Twenty which had sat since 1972 and sat almost continuously for three years and brought the necessary amendments. I only want to look back a little and say that thirty years ago when the first Agreement was signed one of the aims declared by the Fund was that the thought that expansion would balance growth of international trade and this would make a contribution to the promotion of high levels of employment and real income, to the development of the production resources of all members. That was one of the solemn objectives of the Fund when the Fund was started 30 years ago. Over the last 30 years it is the sad experience of the developing countries that their rate of growth has been sluggish or slow and the International Monetary Fund contributed nothing to their growth. Furthermore, their share in the world trade decreased while the share in the world trade of the developed countries increased. That was the experience over the last 30 years of all developing countries.

As a result of membership of the Fund, when the United States took drastic steps in August 1971, the effect of those steps was felt

by almost every developing country, more so by countries which had direct trade agreements and so on with the United States. Certainly it was felt by most countries.

The experience of the last 30 years has shown us that the I.M.F. has certainly not contributed to the economic growth of developing countries, and certainly our share in the world trade has not increased as a result of this international monetary system.

The Hon. Minister of Finance seems to think that the amended rules are a little better than what the earlier rules were. Undoubtedly, there are certain improvements of course improvements, which, if I may say so, were not calculated to help the developing countries but were brought because of the change of circumstances in the developed countries, for instance, the going away from the gold standard. In 1945 the United States insisted on the gold standard because it had all the gold. Practically the entire gold of the world had gone into U.S. hands and they were anxious that they should have some control over countries which during the war were managing their economies on a managed basis and therefore they insisted on the gold standard.

At the time they insisted on the gold standard, the Dollar was almighty. It was one currency in the world which commanded respect throughout the world. Today the situation has changed. The U.S. is holding the gold reserve for different reasons. Currencies like the Yen and the Mark have become stronger than even the Dollar. Therefore, the relaxation of these rules is not so much a result of their interest in us, the developing countries, but rather as a result of changed circumstances in world trade and so on that have taken place in developed countries.

But, of course, to our advantage I must say that the going away from the gold standard is certainly an advantage to the developing countries and to that extent we certainly welcome the new rules of the Agreements that have been framed. But the Hon. Minister of Finance will appreciate that one of the difficulties that we, a developing country, faces, is to find a market for our goods. That is the principal concern of any de-

veloping country, whether we can find a market for our goods at the best possible price. Unfortunately there are no solutions that these Agreements offer to that province, while, undoubtedly, during the deliberations of this committee there have been pious hopes expressed that developing countries should have a market for their goods and so on.

Our second problem is to find capital for development. Undoubtedly there are some new rules about the tie-up or link between aid and the SDRs. This is certainly a new development as far as the new agreement is concerned, but it is not sufficient — the Hon. Minister of Finance will agree — to find the capital resources that all developing countries would require for their development.

The third problem that developing countries have had to face is the rise in the prices of petrol and other energy-producing commodities. That too was considered by the Committee of Twenty when they went into this question. They thought of ways and means of cushioning the difficulties the developing countries will naturally have to face as a result of the rise in the prices of petrol and other energy-producing commodities, but unfortunately they have not chosen to meet the situation and to find any remedy for the problems that have arisen.

So there are two or three main problems that are facing the developing countries for which no solution is available in the new agreement of the new rules that have been framed under the International Monetary Fund or other funds. Therefore, our problems are still there and a solution to those problems does not lie within the framework of the International Monetary Fund's donations or allocations even under the new rules. We must be alive to that situation.

There is a sort of a complacency that is spreading among all concerned that we can get all the money we need to finance our development projects from the International Monetary Fund or the World Bank. We speak very glibly of these matters. We say that, if we are on the good side of the I.M.F. and the World Bank, all the resources that we need for the development of our country are just there for us to take and use.

That situation is not there. Under the new rules or under any rules that situation is not there.

The other question we have always raised is that the I.M.F. imposes conditions which are not in keeping with the social and political aspirations of the recipient countries. That is one of the matters that we generally raised against the I.M.F. We have examples of this. One cannot run away from the fact that the I.M.F. is politically motivated and the United States still controls the decisions of the I.M.F., because it controls, even today, 22 per cent of the votes of the I.M.F. One of the classic examples that the I.M.F. was politically motivated occurred during the Suez crisis. During the Suez crisis England and France had almost invaded Port Said and the Suez Canal area and England wanted accommodation from the IMF in a fairly large sum of money, but the United States which was at that time on the side of Egypt, refused to give accommodation to England. At that time politically we may not have agreed with England but the point is that even England was refused accommodation that they so badly needed from the I.M.F., because of political reasons.

Since then as far as our coun-

The Minister of Finance Mr. Ronnie de Mel replying in the debate on the "Bretton Woods Agreements" Bill made the following concluding remarks:

"I agree with my hon. Friend (the Member for Nallur Mr. M. Sivasithamparam) that in the last resort, as Chairman Mao Tse-Tung said, we must rely on our own efforts. In the last resort, nobody will help us to put our house in order. We may get help from time to time for balance of payments support for some of our development schemes like the Mahawell, but in the last resort it is only the people of this country who can help themselves to better their own lot.

There are one or two other matters mentioned by my hon. Friend to which I must refer. First, about the voting strength of the I.M.F. The voting strength in the I.M.F. is no longer what it used to be in the 40s or in the 50s or in the early 60s when previous Governments both U.N.P. and S.L.F.P., were members. The present voting strength is as follows:

The United States of America, which has the largest quota, the largest subscription, controls only 19.6 per cent of the votes today. The developing countries not only have a veto power over the most important decisions of

try is concerned we have had the experience of the I.M.F. asking for conditions which are not in keeping with our social aspirations. That has been seen over and over again. Their point of view as to how social objectives should be reached is different from our ideas of how our social objectives should be reached. Therefore, as far as that question is concerned, their attitude towards certain social problems that we face has not changed although there is a change of rules. Of course, there are provisions that the Fund shall take into consideration the political, social and economic conditions of the recipient countries. All these pious hopes are there but when it comes to their actual translation one finds that they follow the same old method as far as the developing countries are concerned.

Mr. Speaker, while we well appreciate the necessity for this Bill, we only wish to strike a note of warning that we should not think that the leopard has changed its spots; that the IMF has suddenly become a benevolent association to work for developing countries; may be that some of the spots are not as clear as they used to be but still we must be careful in dealing with the leopard.

the I.M.F. but they have a combined voting strength of 35 per cent — almost double the voting strength of the U.S.A. So, the U.S.A. by itself can no longer dominate the I.M.F. Those days are over. So we need not fear that the I.M.F. is a stooge organization of the U.S.A. or a rich man's club any more. More and more account is taken of the needs of the poorer countries.

Then my hon. Friend referred to the oil price increase. I must say in fairness to the I.M.F. that the I.M.F. was one of the first institutions to respond to the acute difficulties faced by developing countries like Sri Lanka caused by the oil price increase. They instituted a special facility, which they called the Oil Facility, in 1974 to help countries like Sri Lanka whose balance of payments had been completely upset by the oil price increase. Sri Lanka has already received nearly 80 million S.D.Rs. That is about Rs. 1,600 million.

So we must accept the position that the IMF is taking more and more into account the difficulties of the poorer countries like ours.

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for a freely usable currency selected by Sri Lanka. According to the definition adopted by the Fund a currency may be treated as freely usable if (a) the currency is widely used to settle international transactions; (b) it is widely traded in principal exchange markets.

(iii) Section 8 of the Bretton Woods Agreement (Special Provisions) Law is a substitution for the Section 3 of the Monetary Law Act. Under Section 3 of the Monetary Law Act the par value of the Sri Lanka rupee is expressed in terms of gold in keeping with the original Articles of the Fund. With the termination of the role of gold as the common denominator of the international monetary system, under the Amended Articles the expression of the par value in terms of gold is no longer possible. Furthermore, under the amended Articles the maintenance of a par value system is also terminated. When the Fund determines, by an 85 per cent majority of the total voting power, on the adjustable par values, they can be expressed only in terms of either Special Drawing Rights or such other common denominator prescribed by the Fund. The common denominator will, however, not be gold or currency.

Accordingly the amendment effected to Section 3 of the Monetary Law Act empowers the Monetary Board to make a recommendation, by unanimous decision, to the Minister of Finance to desist from declaring a par value at present. However, provision is made to enable the Monetary Board to recommend to the Minister of Finance to restore the par value of the Sri Lanka rupee in accordance with the amended Articles of Agreement of the Fund.

Under the original Articles of Agreement, a change in par value was permitted only to correct a "fundamental disequilibrium" in the balance of payments of the member country; and each member was expected to maintain orderly exchange arrangements. This obligation was built into the Monetary Law Act. In terms of Section 65 of the Monetary Law Act "the Monetary Board should endeavour to maintain par value of the Ceylon rupee". As the par value system is inoperative at present under the amended Arti-

## IMF Director's Views on Welfare, Savings, Consumption

**Witteveen:** I think there should be a balance between welfare measures on the one hand and measures on the other hand to increase savings so that development can take place. It is I think too short sighted to increase welfare measures to such an extent that there is no savings so that consumption cannot be increased.

In every country a choice has to be made between present consumption and future consumption. That is really the point. Therefore, I think some balance is needed. Welfare measures are possible as far as they can be paid out of taxation. Taxation can be heavier on higher incomes, so that there is a possibility to increase welfare of the lower income classes without an unfavourable effect on development.

But of course, the hope for this is limited. To go beyond that would damage development and would be unfavourable for consumption in the future. So I think it is important because the Government is moving in that direction, to stimulate the people to save more by attractive rates of interest; that is, the possibilities to save, through Savings Banks and so on.

**SLBC:** Why has the International Monetary Fund decided to establish a permanent representative in this country and what would be his functions?

**Witteveen:** Well we have these resident representatives in a number of countries where we have rather close co-operation. This is of course on the request of the government of Sri Lanka in order to assist in the working out of these

*The final part of a radio interview conducted by the SLBC's Dayananda de Silva with IMF Managing Director, Johannes Witteveen in Colombo in February, 1978.*

cles, Section 65 of the Monetary Law Act is now repealed and substituted with a new section which states that the Monetary Board shall maintain exchange arrangements which are consistent with the underlying trends in the country. This section provides some degree of flexibility with regard to the choice of exchange arrangements by the monetary authorities.

The other amendments to the Bretton Woods Act and Monetary Law Act constitute the substitution of the term Special Drawing Right for the term gold as the



policies. This is such an important shift in policies and many points present themselves, and therefore we are ready to provide this assistance.

**SLBC:** Finally, your Excellency, are Special Drawing Rights on the way to becoming an international currency in their own right and if so how?

**Witteveen:** Well they are already an international currency. As I explained, every member government of the IMF has been provided with a certain amount of Special Drawing Rights and they can be used to make international payments, so it is international money. The demand is still rather relatively a very small part of the total of international liquidity. We have agreed in the amendments to our Articles of Agreement that the Special Drawing Rights should become in the future the principal reserve asset, the principal international money. So we have to work for that in the coming years.

common denominator of the international monetary system.

The amendments also enable Sri Lanka to legalise the current exchange practices which were not consistent with either the original Articles of the Fund or the Monetary Law Act of Sri Lanka. Now Sri Lanka is free to apply an exchange arrangement of her own choice; and in the event the Fund decides that the international economic conditions are conducive to the maintenance of a system of stable but adjustable par values, Sri Lanka can opt for the introduction of a par value for the

rupee. Moreover, when a par value system is introduced under the amended Articles. Sri Lanka can fix margins for spot exchange transactions with other currencies upto 4½ percent on either side of parity, as compared with the 1 per cent margin allowed under the previous Articles.

Another advantage in subscribing to the amended Articles is the access to the drawing facilities which are liberalised under the amended Articles. The balance of payments assistance is now extended even when a member experiences an unfavourable development in her reserve position. Further, the amended Articles have simplified the repurchase obligations of the members.

As a developing country, Sri Lanka has become eligible for assistance under distribution of profits from the gold sales conducted by Fund. These resources are held in the Trust Fund administered by the IMF, and are made available to a limited number of developing countries with low per capita income.

As a consequence of the acceptance of the amended Articles Sri Lanka is also required to fulfil certain obligations. Under the amended Articles members are obliged to inform the Fund of their current exchange arrangements and also any changes as and when introduced. Further, Sri Lanka is now expected to ensure that the balances of Sri Lanka rupees purchased by another member from the Fund are convertible into a freely usable currency. Although this is a legal requirement under the new Articles, it seems unlikely that Sri Lanka will face this obligation in the near future as her balance of payments and reserve position are yet not strong enough to reach this stage.

Further implications of this Amendment were listed in a speech by the Minister of Finance, Mr. Ronnie de Mel in the National State Assembly when the Second Amendment was debated; while, possible negative effects were highlighted by Mr. M. Sivasithamparam on behalf of the Opposition (See pages 10—13).

The IMF in the popular mind is an institution that not merely influences operation of the international monetary system but equally important is regarded as an in-

stitution that comes to the aid of countries in great financial straits. What appears to have damaged its reputation, however, is the notion that the IMF sets rigid economic conditions for granting of loans with underlying political implications.

The developing nations particularly have been pushing for years for the IMF to relax conditions it imposes on loans to them. The main grouse of the developing nations is that many of them are indiscriminately asked to reduce their growth rate so that inflationary pressures could be held in check. An argument against this policy has been that in the developing countries inflationary pressures draw strength more from commodity shortages and less from growth in money supply. Also, often these countries generally have no other alternative but to resort to deficit financing and liberal bank credit policies, considering their resource shortages in relation to the financial needs of their growth programmes. At times IMF conditions have required that the recipient country slow the growth of its economy to reduce inflation, even though it would have meant an increase in unemployment.

These conditions, however, have extended even to the developed nations that have sought assistance from the IMF, as even reports in the Western press have indicated.

For instance the US newsweekly *TIME* commenting on "IMF: THE LENDER OF LAST RESORT" in September last year stated "Ever since the explosion of oil prices in 1973-74 combined with worldwide recession, Witteveen has been like a busy fireman, damping the flames of inflation here, assisting dying economies there, and acting at times as if he were the head of a supranational central bank. Earlier this year the IMF provided a \$ 3.9 billion emergency loan to Britain, which was strapped at the time with an enormous balance of payments deficit. Then it was on to Rome to negotiate a loan of \$ 530 million to the Italian Government, which was on the verge of being overthrown because of chaotic inflation and an inability to finance oil imports. "What would have happened without the Fund", says one international banker, "is too ghastly to contemplate."

But in return for those loans the IMF prescribes the kind of medicine that most governments detest; reduction in public spending, targets for lower inflation rates, tightening of credit, in effect, a reduction in the standard of living. Witteveen, to be sure, denies that the IMF imposes its will on creditor countries; "consultation" is all that it asks, he claims. The distinction is largely semantic: the IMF may not tell a borrowing country how much to cut its budget or how much to raise taxes, ..... but it can keep refusing a loan until officials come up with budget-balancing measures that satisfy Fund directors. Says one official of the West German Finance Ministry: "Where it would be impossible for us or the Americans to bring real pressure on Italy, the IMF can do a good bit more, as an international body, without rousing patriotic fervour against us."

The IMF brand of discipline, when imposed, has helped to touch off riots in Cairo and intra-government disagreements in Peru. When the dictatorial Peruvian regime refused to impose IMF restrictions last month, both the head of the Central Bank and the Finance Minister resigned in protest. No doubt the IMF and the private banks will reach an accommodation with Peru, possibly by stretching out debt repayments."

"The IMF's stern discipline has a dark side: it could have a pernicious effect on world economic growth. When countries are required to reduce or eliminate their balance of payments deficits, there are fewer customers for the products of industrialized nations and fewer buyers of basic Third World commodities such as bauxite and copper. The end result could be a vicious cycle that would dampen investment and lower incomes."

The London *Economist* has consistently reported on what it regarded as hard conditions of the IMF in granting loans to developing countries which in turn had repercussions in the countries concerned. Referring to an IMF loan to Turkey in March this year under the caption "TAKING THE IMF'S MEDICINE, SLOWLY" the *Economist* commented —

"Mr. Bulent Ecevit's new coalition government devalued the Turkish Lira by 23 per cent this week, and has thereby taken its first step towards agreement with the IMF."

With inflation already running at 50 per cent a year, the devaluation will pose domestic political problems for Mr. Ecevit — the left wing of his party describes the IMF as “an instrument of financial imperialism” — but he got his budget through Parliament on February 28th.

The devaluation is larger than the figure that Mr. Ecevit's advisers were hoping to get away with a few weeks ago. It meets the IMF's prescription, and the next round of negotiations between Turkish experts and the IMF's representatives in Washington will start within a few days. The IMF is likely to be less happy about last month's austerity mini-measures: an attempt to discourage importers from financing their business with overseas borrowings, and a limit of one foreign holiday every two years.

The budget debate passed smoothly, largely because Mr. Ecevit's government, confirmed in power only six weeks ago, had to adopt its right-wing predecessor's fiscal framework with a few political trimmings.

All now hangs on whether there will be agreement with the IMF. Turkey is being pressed into such an agreement by America and the EEC. It might extract \$ 10 million from the IMF in two stages — not much, with foreign exchange reserves at around \$ 500 million and debts running into several billions of dollars, but a seal of approval for international bankers”.

More recently it reported as follows on an IMF loan to Peru “The monetarists in the saddle and the riot police are standing by. But the generals are retreating from the Finance Ministry. Last Sunday evening Peruvians learned in special television and radio flashes about the medicine the new government of President Francisco Morales Bermudez is doling out in a last-ditch effort to get more loans from the IMF and foreign banks, whose reluctance to lend threatens many factories with closure. The prices of basic foodstuffs are going up by 50—110% (as subsidies come off) and petrol prices will rise by two thirds.

Within the U.S. itself there have been pressures in Congress that the living standards of people in developing countries should not be affected as a result of conditions imposed by the IMF. When the bill for American participation

in the IMF's \$10 billion extended “Witteveen credit facility” came up for debate in March, Congress representative Tom Harkin from rural Iowa pushed through an amendment instructing the American executive director at the IMF to oppose loans from the Witteveen facility that would contribute to the “deprivation of basic human needs” or “the violation of basic human rights”. The executive director will also have to report to the U.S. Congress through its treasury, each year on the impact of Witteveen — facility loans on living standards (especially those of poor people) in the borrowing countries. The amendments at first tried to apply these congressional conditions to all IMF loans, but but it was re-written to apply only to the new Witteveen scheme (named after the retiring managing director of the Fund).

The socialist countries outside the membership of the IMF have always expressed stronger views on the IMF's influence over economic policies of countries to which it lends. A typical view is expressed here by Yuri Nechayev a Soviet commentator in the article “What aims does the IMF serve?” extracted from the Moscow “New Times.”