# NORTH SOUTH ROUNDTABLE

IMPACT OF IMF CONDITIONALITY

ON HUMAN CONDITIONS

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## INTRODUCTION

I am honoured by the North South Roundtable's request to present some ideas on the subject of "The Impact of IMF Conditionality on Human Conditions." The Santiago Roundtable is the second meeting held under the series of "World Monetary, Financial and Human Resource Development Issues." I am pleased to notice several new eminent participants to this meeting and would like, for their benefit, to share the findings of the Istanbul Roundtable in order to develop my subject in the right context.

At the Istanbul Roundtable there was a consensus that one of the underlying, though not visible, obstacles to economic progress is the insufficient attention given to the development of human resources. The "capacity and management gap" has not been bridged by official development assistance (ODA), which has been predominantly used for physical capital formation. Solutions which do not take the human dimension and human resource building into account will fail to provide an enduring answer to the world's financial and monetary crisis. Until human resources needed for sustained economic growth are developed, real development will remain a dream.

In the 1950s and 1960s, the development dialogue and negotiations in which the international community engaged were primarily based on the common belief that successful growth could best be ensured mainly through a massive transfer of capital resources from developed to developing countries.

In the 1970s, while recognizing the continuing need for sustained capital assistance, the international community highlighted the importance of better terms of trade and increased trade flows from developing countries. In the current decade, monetary aspects of the development process gained prominence and were added to the development formula.

These three issues, however, while highly relevant to the process, are <u>means</u> to achieve development and not the <u>objective</u> of development. The international community, in its fervent search for economic recovery, for financial, trade and monetary restructuring and for appropriate institutional responses, has frequently forgotten that individual people are at the core of all efforts at development. Discussions on the state of the world economy tended to focus almost exclusively on trade and monetary and financial matters. Such issues as the quality and level of skills in the public and private sectors, productivity, knowledge, process improvement, labour-management co-operation, community participation, the capacity to respond to changing needs and cultural aspects of growth had been regarded as "soft ware" elements and had not received the proper attention.

Experience acquired in the development process over the last 30 years, however, has shown that the transfer of financial resources for investment purposes, while important, is not a sufficient condition for achieving development.

1. Role of human resource building in development process

With shrinking external resource flows, priorities need to be re-evaluated and better management of economies is required. All this entails the effective use of human resources. Under present conditions of economic stagnation, economic growth at a reasonably acceptable rate can be sustained in most developing countries if a proper emphasis is placed on human resource development and on better management policies.

Recent upheavals in the world economy, particularly in commodities trade and in financial markets, have demonstrated the strong weakness and vulnerability of the developing countries. Thus, the need to build the required human resources and management capacity in the areas of international trade, finance and debt negotiations becomes all the more apparent. Concerned international organizations have a special responsibility to assist developing countries in strengthening their skills, bargaining capabilities and knowledge in these domains.

Human resource development is strongly related to the financial and debt situation. When foreign exchange is available and economies can develop quickly, human resource development of the poor takes place. The results of research undertaken by the World Bank on growth and equity demonstrate that when economies grow the conditions of the poor improve, albeit more slowly than those of the rich.

When there is stagnation in the economy, however, those who are wealthy and powerful manage to hold on to their gains and, in some cases, even increase them in order to offset perceived risks. The poor become poorer, not only relatively, but absolutely.

2. IMF conditionality and human capital formation

In this context, the participants emphasized that the impact of IMF conditionality could inhibit the process of human capital formation in developing countries and in so doing, damage growth and prevent the emergence of a self-reliant capacity for further development. Deflation in government expenditures is normally the main feature of the adjustment packages worked out by the IMF for debtor countries in financial difficulties. In most of the recent cases, such adjustment measures have led to very substantial cuts in real wages and social expenditures in the borrowing countries. Very serious hardships ensue, particularly for low-income groups where the margin for survival is quite small. While these cuts involve major human and social costs, they often do not bring about the necessary adjustments; instead, they create a climate for eventual political and social turmoil. There is at present a large number of countries whose political and economic systems are at their outer limits of resiliency. Every debtor country is now faced with the choice of whether to accept conditionality, with the possible price of political upheavals, or to find other ways of dealing with the debt problems.

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The austerity programmes proposed by IMF, at the implementation level, have resulted in a serious curtailment of investments in human resources. An important question to be answered is how, in the present period of recession, to protect the efforts for human capital formation from the reduction and erosion of the lender's confidence and from the social and political cost of IMF conditionality.

In the view of the participants at the Istanbul Roundtable, all policy options and measures for economic recovery, financial and monetary restructuring, all adjustment processes and institutional reforms should be judged by the same yardstick: the impact they have on improving the human condition. It should not be forgotten that people must be at the centre of all our concerns.

The participants at the Istanbul Roundtable formulated a series of measures to be taken both at national and international levels, in order to assist the development of human resources. One specific recommendation, which is very relevant to my subject, is that "IMF conditionality should be linked not only to monetary and financial measures but also to specific levels of output and employment and a set of physical quality of life indicators on which adjustments should be based."

3. Role of IMF in international financing

It is a well-known fact that the actual amount of IMF financing of the deficits of developing countries is small when viewed in the context of overall international financing. Yet the role of IMF, its conditionality requirements and the policies which govern its financing are decisively important for developing countries. An unfavorable assessment of a borrowing country's economy by the IMF or rumours to the effect that a country is having difficulty in borrowing from the Fund may dry up other private and public flows to that country. At present the continuation of flows of commercial credits as well as official aid including the World Bank's structural adjustment loans to most of indebted developing countries depends on their ability to negotiate suitable policy packages with the IMF and ensure its so-called "seal of approval".

In recent years the complementary roles of the Fund and the World Bank and the collaboration between the two sister Bretton Woods organizations in the adjustment process have acquired increased importance. The Bank's lending to countries with balance of payments difficulties become subject to their acceptance of IMF's conditionalities contained in its stabilization programmes. 1/

The use of Fund resources beyond the first credit tranche is conditional upon a country agreeing to certain adjustment policies and measures. For that purpose IMF staff and the representatives of the government requesting IMF's assistance sit down together to discuss the country's economic difficulties, while IMF advises on the causes of and the remedies for the country's balance

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of payments problems. If an agreement is reached on the diagnosis and on the terms of an appropriate "stabilization programme", then this is set out in a "letter of intent" to the Managing Director of the Fund signed by the Minister of Finance and accompanied by a "Technical Memorandum of Understanding". These documents give: (a) a description of the problems of the economy and the policies the relevant government intends to follow; (b) quantitative targets for adjustments in expenditures and savings, etc; and (c) quantitative ceilings for "performance tests" which serve as conditions for drawings on Fund resources over the duration of the stabilization programme. All these stipulations and information derive from agreements reached on the Fund's terms and reflect the Fund's philosophy.

The degree of conditionality varies according to the use of different facilities of the Fund and the size of drawings. Though all users of Fund resources <u>prima facie</u> accept the fact that the use of Fund resources will be conditional on so-called "appropriate adjustment policies" being pursued by them, there are, however, some misgivings about the <u>methodology</u>, <u>philosophy</u> and <u>procedures</u> adopted by the Fund for working out a stabilization programme, and the nature of conditionality incorporated in it.

## 4. <u>Content of the Stabilization Programme</u>

In country after country, although there may be minor variations, the conditionalities contained in the stabilization programmes worked out by IMF are falling more or less into fixed patterns. The centrepiece of such programmes is generally a devaluation of the currency to make the country's export products more competitive. This particular prescription is accompanied by measures for severe compression in demands, cuts in real wages, and measures to reduce government expenditures, particularly in the areas of human resource building and social development.

A typical Fund stabilization programme normally demands curtailment in government spendings including those for welfare services, special programmes, and subsidies such as those for food, education and health care. The policy to curtail government expenditures is also normally accompanied by policies to control the increases in wages and salaries in the public sector. The combination of these two sets of policies certainly has adverse effects, particularly on the poor segments of the population. Social tensions, strikes and riots are inevitable consequences.

Furthermore, irrespective of the causes of balance of payment problems, the Fund generally insists that countries follow deflationary policies. In the view of the Fund, countries with currency troubles have to adjust to changes in the external environment - such as a decline in the growth of world trade, increases in energy prices, the availability of concessional foreign assistance, higher interest rates on external debt, etc. - even though these changes may not be under their control or even the result of their actions. These countries have no choice but to reduce their level of economic activity. In the words of the Managing Director of IMF, such policies "will no doubt involve difficult social choices regarding education, housing, health and even public employment, but these choices have to be made." <u>2/</u>

This call to "tighten the belt" requires that all the tightening be done by the deficit countries and, within these countries, particularly by the poorest segments of the population. Cutbacks in financing human resources development and social programmes in such areas as education, vocational training, housing, health and public employment naturally mainly affect the poor, as the rich normally do not depend much on public facilities and services.

Since the net result of most of IMF's stabilization programmes and the conditionalities contained therein is the creation of imbalances in income distribution and the reduction of growth rates during the programme period mainly by means of successive devaluations of national currencies, the economic foundations and the relevance of the policies prescribed by the Fund are being questioned by many enlightened scholars and policy makers. Shouldn't the Fund, an inter-governmental international institution, become more supportive of policies to bring about structural changes for "the promotion and maintenance of high levels of employment and real income, and the development of the productive resources" stated as primary objectives in its Articles of Agreement (I.ii) ? Further reference to these primary objectives is made in Article I (v), which specifies that the correction of maladjustments in the balance of payments should be undertaken "without resorting to measures destructive of national or international prosperity". For instance, according to Sidney Dell, the IMF seems to have strayed quite far from these "primary objectives of economic policy". In a situation of increasingly inadequate effective demand, growing under-utilization of productive capacity and soaring unemployment, the pressure continues for even greater reductions of demand, which are likely to increase the volume of idle capacity and unemployment still further. The single-mindedness of the attack on inflation seems to have gone beyond the point at which trade-offs with other objectives are even considered, so that monetary restriction has almost become an end in itself. Therefore, Dell states: "This is a distortion of IMF priorities, of the priorities of Article 55 of the United Nations Charter, and of the International Development Strategy drawn up under that Charter." 3/

## 5. IMF's attitude and the end results

In a recent address on "Adjustment Programs Supported by the Fund: Their Logic, Objective and Results in Light of Recent Experience", the Managing Director of the Fund emphasized that during the past few years there has been a considerable increase in the scale of the Fund's financing in support of corrective policy measures in member countries. This has attracted greater attention than ever before to the role of the institution and has provoked a searching appraisal of the logic underlying the policies and programmes the Fund has been supporting as well as their impact. The Managing Director recognizes that the conclusions have varied widely from an endorsement of the Fund's approach to criticism that the Fund's policies are too restrictive, too standardized and inimical to growth. In his view, with "the currently supporting adjustment programmes in more than 40 member countries, never before has there been such an extensive yet convergent adjustment effort. And the results of these efforts have been remarkable... The internatonal financial community has responded to the challenges of the situation in a pragmatic way and with a high sense of responsibility." 4/

In its prescriptions of "adjustment measures", the IMF claims to be as "neutral" as possible. In its view, it is for the government concerned to decide what expenditures are to be cut. If a government decides to cut back in the area of human resources development, the impact of which is less visible and long-term in nature than that of, for instance, industrial projects, that is too bad! As a "neutral" international organization, the Fund cannot intervene in the domestic policies of member governments. It is not a development agency and is not concerned with promoting economic growth. Its main objective is to correct maladjustments in the balances of payment of its members.

A primary purpose of the Fund, as stated in Article I of the Bretton Woods Agreement, is "to contribute to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members..." It would appear that the IMF's actions depart from this objective. In the negotiation of "adjustment programmes" with member governments, the Fund's main concern seems to be to ensure "deflation" by restraining the growth of domestic expenditures and by securing a so-called "moderation" in wage increases both in the public and private sectors, and to pursue a flexible exchange rate policy by implementing successive devaluations of national currencies.

The end products of such measures in many countries are stagnation, non-growth or, even more frequently, negative growth in the economy. According to IMF's adjustment programmes, to prevent a high rate of inflation, wages and salary increases are to be under strict control and only allowed on a minimal scale. In a country, for instance, where the inflation rate averages 60 or 70 per cent per annum, the wage and salary increases are permitted to be around 10 to 20 per cent at most, which means that both blue and white collar workers are bound to get poorer. Furthermore, in order to reduce government subsidies of farm products, the IMF often recommends major increases in the price of fertilizers. Thus the urban population, normally the poorest of the poor, has to pay the biggest share of the bill of the stabilization programme.

Finally, to ensure that the country's export products can compete on the external market, frequent devaluations are also prescribed. If the rate of devaluation is higher than the rate of growth internationally, negative growth takes place, although in terms of the national currency a certain rate of development has been ensured.

## 6. An illustrative case

These analyses could be supported by illustrations from various countries. Turkey, for instance, has a long-standing history of relations and co-operation with the IMF. Lately, three separate stand-by arrangements have been concluded with the Fund in 1978, 1979 and 1980, respectively. The latter covers a period of three years. Measures for income stabilization in the structural adjustments taken since the late 1970s have brought serious hardships to the largest segment of the Turkish population. During the negotiation of stabilization programmes between the Turkish Government and the Fund in 1978 and 1979, a key issue was the raise in nominal wages. For instance, in the annual review of 1978, one of the main criticisms of the Fund staff with regard to poor performance was the negative influence of large wage settlements (between 40 and 80 per cent) obtained by the Turkish trade unions during 1978. A left-of-center government was at power at that time. The annual rate of inflation during the review time was 57 per cent. The rise in wages in 1979 continued to be in the same range, while the rate of inflation, as reflected in the wholesale price index of the Ministry of Commerce, jumped to 81 per cent. Between the period 1977-1979 the average real wage of organized workers belonging to social insurance rose by 37 per cent, while during the same time interval the average real salary of government employees fell by 26 per cent. 5/ In 1981, the new government, in accordance with IMF's stabilization programme of 1980, exercised an important moderating influence over wage settlements, in both the public and private sectors. As the result of this policy, there seems to have been an average rise of 25 per cent in nominal wages and salaries, a far cry from the annual levels of 40-70 per cent prevailing in earlier years. This meant a fall in real wages and salaries, since the inflation rate was around 40 per cent. Thus, as noted previously, the real purchasing power, as reflected in the salaries of government employees, again declined drastically in the two years period 1980-1981. At the same time, there was a total nominal increase in salaries of around 40-50 per cent while the increase in the cost of living reached around 130 per cent. According to a report to the Prime Minister from TURK-IS, the largest Turkish trade union federation, the share of national income going to wage and salary earners fell to 33.7 per cent in 1979 from 44.3 per cent in 1968. 6/ Though no new analyses are available to the author of the distribution of income for the period 1979-1983, the above-mentioned figures make it clear that the hardships and burdens on these two income categories have worsened since the late 1970s.

All the increases in wages and salaries which took place during 1978-1981 have been cited above in terms of national currency. During this period, the successive governments have implemented successive devaluations of Turkish currency in accordance with the conditionalities of IMF's stabilization programmes.

On March 1, 1978, in accordance with the stand-by arrangement with the Fund, the Turkish currency was devaluated by 23 per cent. On June 11, 1978, the value of the Turkish currency was again lowered by 43.7 per cent from

TL 26.5: US $1 to TL 47.1: US $1. In January 1980, a key measure of stabilization was a further devaluation of Turkish currency by 48 per cent, from TL 47: US $1 to TL 70: US $1. Since then, successive devaluations have taken place. At present, the value of a US dollar is around TL 325. Thus, not only has the Turkish wage and salary earners' share in the national income fallen but, on the international scale, their annual per capita income has also decreased considerably during the period under consideration.

There is no doubt that the primary responsibility for "the promotion and maintenance of high levels of employment and real income" in a given country belongs to the national government. It is equally true, however, that the priorities, policies and practices of an international organization, created specifically to assist in the achievement of these aims, should be compatible with and supportive of the efforts of the government concerned.

## 7. New guidelines

In the face of these mounting criticisms, the Executive Board of the Fund adopted in 1979 a new set of guidelines on conditionality for the use of the Fund's resources, which, inter alia, required that "in helping members to devise adjustment programmes, the Fund will pay due regard to domestic social and political objectives, the economic priorities and circumstances of its members".

According to the former General Counsel of the Fund, Joseph Gold, this language has been added to the guidelines in order to "accomodate the views of developing members". The Fund expresses its intention by saying that it will "pay due regard" to the considerations listed. In the practice of the Fund, he states "the phrase connotes something less than a direction to give decisive effect to the considerations to which the Fund must pay due regard".7/

It appears that, so far, this specific guideline has therefore not made a perceptible difference in the Fund conditionality practices. Therefore, the Fund remains the object of continuous and increasing criticism on the part of its borrowing members.

As stated by Frances Stewart in her paper before this meeting, "Alternative to Conditionality", the Fund has shown little flexibility with regard to its conditionality. Debtor countries either had to accept the conditions in toto, on the Fund's terms, as well as the Fund's philosophy for adjustment, or reject it and thus be left in the limbo of permanent crisis. There has been no serious attempt to date by both parties to work out alternative packages.

There also has been no objective and technical enquiry into the Fund's operations and conditionalities nor has there been an in-depth independent evaluation of the impact of its adjustment measures on human conditions. The examination of the Fund's operations has been carried out either by the Fund itself or by individual researchers, such as the ones around this table. The latter do not normally have adequate access to the Fund's confidential papers,

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and their findings are easily dismissed as being partial, biased or rhetorical. One possible solution to this problem may be to establish an independent commission consisting of eminent economists both from the North and South. This group would examine a sufficiently large sample of the Fund's stabilization programmes, particularly in order to determine the extent to which the Fund's policies and conditionalities have been successful in achieving the economic and social objectives of the countries concerned and at what cost these objectives have been attained in terms of human conditions, employment, real income growth and development.

8. Latin American experience

1982 was known as the year of the Argentinian and Mexican debt crisis. 1983 was the year of the Brazilian debt crisis. This year has been predicted to bring a much more serious crisis to most of the Latin American countries, to big countries such as Mexico, Argentina, Brazil, Chile and Venezuela and to small countries - Costa Rica, Honduras, Guyana, and Nicaragua. The dilemma facing Latin America is how to reconcile the stiff austerity programmes imposed by the IMF with rising demands from large segments of the population of these countries for relief from the negative economic growth which is expected to become a common pattern and bring widespread distress.

According to Dr. Paul Prebisch, the present economic crisis in Latin America has resulted from a combination of such structural factors as:

(a) A persistent external imbalance aggravated by the heavy weight of foreign debt; world recession, protectionist trade measures, a fall in commodity prices and high rates of interest in the United States;

(b) The acceleration of inflation in the region; and

(c) A very serious unemployment problem that has been superimposed on large masses of people who are left at the bottom of the social structure and denied participation in the fruits of development. 8/

For these masses of poor people, unemployment has been added to a persistent phenomenon of social marginality, which had not been solved even when Latin America witnessed a period of prosperity in the industrial centres. Many benefits of development have gone to promote the privileged consumption society. Therefore, these countries have wasted a great potential for accumulating reproductive capital to increase productivity and multiply employment. The tendency by countries to exclude large masses of the population from the benefits of growth and neglect the need to take necessary measures for the development of human resources may be the main manifestation of the social inequity of the existing political systems. In the view of Dr. Prebisch, great social disparities between different groups of the population have further aggravated the problem of inequity, by accentuating the inflationary spiral. Inevitably, signs of adverse political effects and social upheavals are emerging from this situation. The great hope for a process of democratization in these Latin American countries unfortunately could be frustrated by these conditions, and several of them may be exposed to the use of force in extreme emergency situations.

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The remedies lie in a combination of external and internal measures, both short- and long-term. In that package, a forceful equitable new income policy is needed. Austerity is not socially acceptable if the sacrifice is not equitably shared and the measure is not compensated by adequate participation in the points of reactivation. Steps to increase the rate of reproductive capital accumulation should also be an integral part of such a policy, and should be geared to a long-term development policy.

Dr. Prebisch is also convinced that the IMF may play an important role in a reactivation policy, provided that it revises its conditionality requirements, in order to make them fully compatible with development policies, which, inter-alia, will be geared to ameliorate human conditions and promote human resources building. The time has arrived, after years of experience, for a revision of the conditionality requirements of the IMF.

## 9. Declaration of Quito

The views of the economics prophet of Latin America, Dr. Prebisch, have recently been echoed in an official declaration of Latin American and Caribbean States at the Latin American Economic Conference of the Heads of State or Government of Latin America and the Caribbean which took place in Quito on 12-13 January 1984. The "Declaration and a Programme of Action", which was adopted as a Latin American and Caribbean response to the economic crisis affecting the region, states that the region is facing the most serious and intense economic and social crisis of this century. The crisis was brought on by internal and external factors. The latter, which were beyond the control of the countries of the region, included the trade, fiscal and monetary policies of certain industrialized countries. These policies have led to a constant deterioration of trade, an inordinate increase in interest rates and a sharp contraction of capital flows. The overwhelming burden of the external indebtedness forms part of this picture. The most harmful social effects of this situation have taken the form of an increase in unemployment figures unprecedented in the history of these countries, and a substantial reduction of real personal incomes and living standards, with serious and growing consequences for political and social stability. Adjustment measures taken by the countries have caused prolonged declines in production, employment and living standards. Therefore, the international community must also take adjustment measures necessary to eliminate the causes of the present situation. Within this context it is especially important to "revise IMF conditionality criteria - which, under present circumstances can endanger the stability and development - so as to give greater importance to the expansion of production and employment". Also, whenever so requested by any country or countries of the region, the appropriate international organizations, such as CEPAL, UNCTAD and UNDP, should provide technical assistance in renegotiating the external debt. 9/

Frances Stewart, in her paper on "Alternative Conditionality", brilliantly argues that the developing countries should present alternative conditionality to that of the Fund - i.e. policy packages more in line with their own objectives, philosophies and circumstances. The apparent rigidity and uniformity of Fund packages may in part be due to the failure of borrowing countries to develop and present alternatives.

Maybe one should see some hope in the Quito Declaration and Plan of Action in that it may lay the first foundation stone in working out alternatives to the conditionalities proposed by the IMF. In this context, I should like to express full agreement with both Frances Stewart and the Quito Programme of Action's recommendation that the relevant international organizations should provide necessary assistance and expert advice to the borrower countries in order to devise and negotiate alternatives to IMF's conditionality and in their debt renegotiations. I strongly believe that UNDP, as a human development agency, has a special duty and responsibility to play in this area. Specifically, UNDP could assess the impact of conditionality on human conditions and human resources development. This type of assistance should become a major new measure to be taken by this Organization in meeting the changing needs of the developing countries, as requested recently by its governing body.

## 10. Criticisms from the North

The views expressed up to this point may be qualified by some quarters as being biased, as they originate from experts of the South. It has to be emphasized, however, that these views are also widely shared by some learned people from the North.

For instance, Sally Shelton, a former US Ambassador to the Eastern Caribbean and Richard Niccio, a scholar at the Woodrow Wilson International Center, have recently written in the New York Times (January 22, 1984) that "the IMF's austerity programmes have had high domestic social costs: double-digit unemployment, reduced public spending and an absolute decline in per capita income in countries with virtually no social safety net... The harsh adjustments required by the Fund have hit all social classes: urban workers, the lower middle class, government employees, small businesses and even the newly emerging middle classes which are already slipping backward down the social and economic scale". These countries have not only been hit by the IMF's harsh conditionality but by the new US legislation which discourages overseas lending by banks, when new money - $60 billion - is desperately needed to service loans and provide new productive investments.

New York Congressman Charles Schumer, a member of the House Committee on Banking and Finance also recently published an article in the New York Times (October 24, 1983) which expressed the view that to prevent a default, the IMF often intervened to lend debtor nations some of the cash they needed to make interest payments, insisting in return that they "slash spending on vital social programmes." The article illustrated that IMF conditionality is more like a hanging rope than a life-saving buoy for the borrowing countries. In order to demonstrate the economic and social impacts on human conditions of IMF's austerity programmes, Congressman Schumer raised the question of "how Americans would react if they were forced to comply with the Fund's harsh

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adjustment requirements". He stated that "after one look at the $200 billion federal deficit and the $70 billion trade deficit, the Fund might well order Congress and the President to slash spending on all social programmes such as food stamps, Medicaid, unemployment insurance and every other safety-net program, abolish cost of living adjustments for most current contracts, military retirees, social security recipients and workers. Complying with the Fund's demands, the country's gross national product would plummet. Unemployment would rise to depression levels and the social security recipients, widows and orphans would be told to tighten their belts and allow inflation to reduce the real value of their benefits".

According to these authors, what should be done to overcome this crisis is, first of all, "to encourage the IMF to relax its stringent conditionality requirements, taking more into account the human costs of its programmes". Second, banks should be encouraged to soften their loan conditions and increase their new lending; and third, the US Government should set its own house in order to cut the Federal deficit and lower the interest rates.

There is no question that certain adjustment measures are necessary in order to solve chronic balance of payments problems of developing countries. What is questionable, however, is the costs of adjustment. According to Tony Killicks and associates of the British Overseas Development Institute, the IMF unfortunately has not set its programmes within a cost-minimizing framework. 10/ It has tended to treat the balance of payments objective as an overriding one and has been reluctant to give weight to the governments' other objectives. In their new book entitled The Quest for Economic Stabilization, these authors urge that IMF should adopt a new approach in its adjustment programmes which would emphasize measures which stimulate output and productivity stemming from two sources: (a) improved utilization of the existing productive capacity; and (b) increases in that capacity. In this context, measures for human resource building certainly acquire new dimensions. "Capacity of management" becomes an essential supporting measure to the suggested new economic supply-oriented strategy, by being an alternative to the present IMF conventional policy, a standard demand-management approach. Similarly, in the view of Tony Killicks and associates, at a minimum it is surely desirable that the Fund's policies be designed to minimize the present tendency to widen income disparities between nations and, within the nations, the adjustment process which places the greatest burdens upon those least able to bear them. It is also necessary to counteract the adverse welfare effects on those already living in poverty.

## Concluding remarks

In the light of the above analysis certain suggestions could be formulated:

- Thought should be given to the convening of an International Conference on Human Resource Development in order to discuss all dimensions of this subject and to highlight the need to assign high priority in the development process to the building of human resources.

- There should be much closer co-operation among the World Bank, UNDP, IMF and other international agencies in order to assist developing countries in their efforts for human capital formation.

- UNDP and other relevant international organizations should provide requesting developing countries with the necessary assistance and expert advice in order to devise and negotiate alternatives to IMF's conditionality, specifically in assessing the impacts of the conditionality on human conditions. Similar assistance should be provided by these organizations to requesting borrower countries to assist them in their international debt negotiations.

- An independent commission composed of eminent international economists should be established to examine a sufficiently large sample of IMF's stabilization programmes, particularly in order to determine the extent to which the Fund's policies and conditionalities have been successful in achieving the economic and social objectives of the countries concerned and at what cost these objectives have been attained in terms of human conditions, employment, real income growth and development.

- IMF conditionality should be linked not only to monetary and financial measures but also to specific levels of output, productivity, management, employment, increase in real income growth, and to a set of physical quality of life indicators on which adjustments should be based.

NOTES

1/ See: Manuel Guitian: Fund Conditionality, Evolution of Principles and Practices IMF Pamphlet Series, 1981, No.38, page 27.

2/ Mr. Larosière's Lecture to the Africa Center for Monetary Studies on 21 January 1980, IMF Survey, Jan 1980, pp. 23-28.

3/ IMF Conditionality, 1983, Institute for International Economics, Edited by John Williamson. (Chapter II by Sidney Dell, "Stabilization: the Political Economy of Overkill", pp. 17-18).

4/ See the text of the Address by J. de Larosière before the Centre d'études financières in Brussels on 6 February 1984, IMF Survey, February 6, 1984.

5/ On this subject, see: Osman Okyar "Turkey and the IMF: A Review of Relations, 1978-1982", IMF Conditionality, op. cit. pp. 533-561.

6/ Ibid., p. 558.

7/ See: Joseph Gold: Conditionality, IMF Pamphlet Series, 1979, No.31, page 22.

8/ See: South, September 1983, p. 67.

9/ Declaration of Quito and Plan of Action. Latin American Conference, Quito, 9-13 January 1984. See paras. 5-14 of the Declaration, paras. 1(b) and 3(iii) of the Plan of Action.

10/ The Quest for Economic Stabilization, 1983, pp. 271-283.