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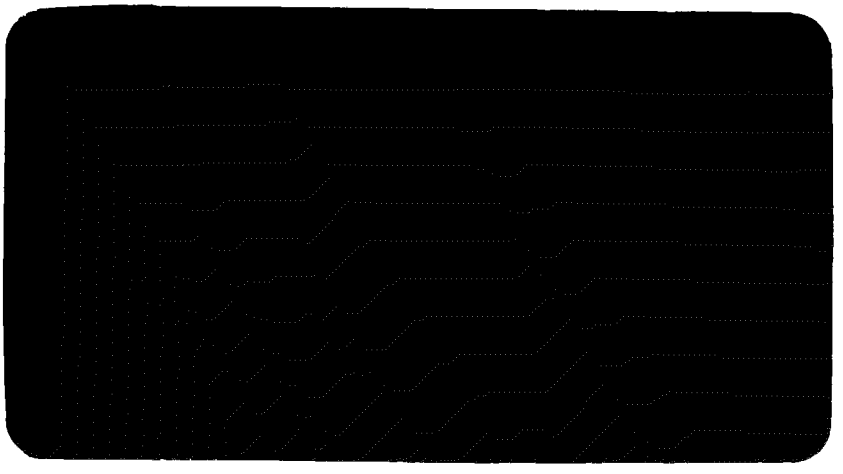

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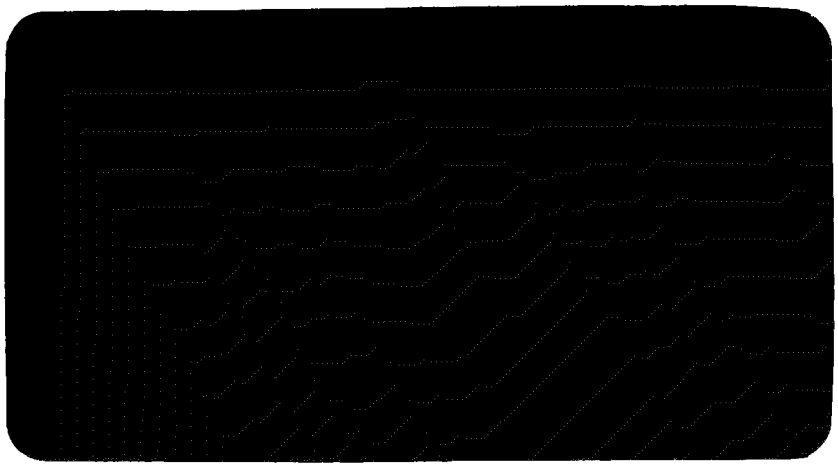

No. 7

THE IMPACT OF IMF STABILISATION PROGRAMMES IN DEVELOPING COUNTRIES

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Contents

Introduction

There seems to be agreement between the Fund's critics and defenders that its programmes have major effects on the economies concerned. The disagreement is about whether the net sum of these effects is harmful or beneficial. Such systematic evidence as exists on this topic throws doubt upon this premise, however, and the task of this chapter is to survey the evidence and explore the reasons why Fund programmes do not always achieve what they set out to do.

The task of assessing the impact of Fund programmes is by no means straightforward, however. Following Guitian (1982 pp.), we can mention at least three different kinds of test that might be applied.[1] First, actual economic performance during and immediately after the programme can be compared with performance immediately before it. This has the merits of being fairly easy to carry out and of objectivity. But since countries often go to the Fund only when they are in the direst straits, with key economic variables on rapidly deteriorating trends, it may not be realistic to expect a programme to bring about an absolute improvement in the balance of payments or other target variable: the programme may do well in the short run if it merely slows down the deterioration. Moreover, urgently needed measures to strengthen the payments position may well necessitate a trade-off in terms of output and employment foregone.

Since judgements about what can realistically be hoped for underlie the targets set by the Fund staff for its programmes, this suggests a second way of assessing the programmes, namely to compare actual results with programme targets. These do not invariably predict a reduction in payments deficits and/or higher inflation in the short term.[2] This test also has

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1 See also Williamson, 1981, for a stimulating discussion of the principles that should guide an evaluation of IMF programme performance.

2. For example, out of 21 programmes in 1978-79 11 targets envisaged more rapid inflation and a further 11 envisaged a slower rate of GDP growth.

its drawbacks, however. It introduces considerable subjectivity, with the possibility that results are affected by any systematic tendency towards over-ambition or conservatism in programme targets. More importantly to the independent researcher, it requires access to a large volume of confidential information on country programmes which the Fund is rightly unwilling to release. In any case, if Fund programmes achieved a good success rate in meeting targets which, however, envisaged little improvement in the underlying economic situation, the welfare significance of such results would be questionable and it would be a reasonable inference that the Fund was unable to offer an effective solution to payments disequilibria. A third and in principle the most attractive test, therefore, is to compare programme results with what would have occurred in the absence of the programme. The overriding difficulty with this test is its subjectivism: the many assumptions and judgements it would be necessary to make in order to set up the hypothetical 'what would have been', including judgements about what policy changes the government might decide to introduce. If it were possible to carry out such a test at all, it would have to be based upon a such an intimate knowledge of individual country circumstances, preferably expressed in a comprehensive macroeconomic simulation model, as to preclude the possibility of cross-country tests involving large numbers of observations.

In practice, the third test is impossible to apply without an unacceptable loss of objectivity and country coverage, so most of the evidence presented below relates to the other two criteria. A further complication concerns the difficulty of reducing balance of payments performance - which is invariably the prime target of IMF programmes - to a single or simple statistical indicator, a point to be taken further shortly.

The following account of the impact of Fund programmes draws upon three principal sources. First, we make extensive use of pioneering work by Connors (1979), This applied non-parametric rank methods to 31 upper credit tranche IMF stand-by programmes approved during 1973-77 to test the impact of the programmes on four variables: the GDP growth rate; the inflation rate; the current account of the balance of payments; and the size of the fiscal deficit as a percentage of GDP. Values for these variables were taken for one year each before and after approval of the programme and the sub-samples were divided according to whether or not the governments had complied with programme credit ceilings.

Second, we report the results of additional work(hereafter called 'the ODI tests') carried out in the course of the present project. Brief methodological details are provided in the appendix to this chapter and are reported more fully in Killick and Chapman (1982). This takes Connors' work as its starting point but varies it in a number of ways. It is based upon 38 programmes agreed with non-oil developing countries (only) in the post oil-crisis years, 1974-79. Variables studied include the first three of Connors' plus the basic balance of payments, changes in international reserve and changes in domestic credit and money supply. Subject to data limitations, effects are studied for both one and two years after programme inception and the sub-samples are broken down by country per capita income level. This work is supplemented by the application of regression techniques to a smaller number of cases (necessitated by data shortages) to test the extent to which the existence of a Fund programme adds to our ability to 'explain' the behaviour of the balance of payments (current account and basic balance), GDP growth and inflation.[3] In this case we tested results in the programme year and each of the following two years.

Third, we summarise the results of successive in-house IMF reviews of upper-tranche stand-bys (excluding EFFs) during 1963-79. Two of these have been published (Reichmann & Stillson , 1978; Reichmann, 1978) but the others remain unpublished and are regarded as classified materials by the IMF (but not necessarily by member-governments).[4] As will be seen, these differ from the tests already described, particularly in the use of comparisons between IMF programmes targets and actual outcomes, which its staff are uniquely able to make. It thus adds a valuable dimension to the independent tests already described, besides drawing upon a wealth of additional resources. Finally, we have made some reference to the findings of other independent researchers, although these tend to be more country-specific and less systematic.

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3 The regression analysis utilises data (a) for a 'large' sample of 13 countries and (b) for a 'small' sample of 7 countries. These were chosen on the basis of data availability, with only the small sample offering the full range of required data. Fuller details are provided in Killick and Chapman, 1982.

4 In reporting the results of Reichmann, 1978, we have made use of a fuller mimeographed version (Johnson and Reichmann, 1978). In deference to the Fund's 'confidential' classifications, we make only rather summary reference to their unpublished results and exclude all references to individual countries. These documents were obtained from non-IMF sources.

In Part I, which follows, we examine the impact of Fund programmes on the balance of payments and then in Part II look at their impact on economic growth, inflation and the distribution of income. Part III tries to explain the results obtained and Part IV offers some comments on the effects of alternatives to the IMF approach. Part V summarises the conlcusions.

I - IMPACT ON THE BALANCE OF PAYMENTS

Questions of measurement

As was explained in the previous chapter, it is towards improving the balance of payments that IMF programmes are primarily directed so it is appropriate to begin by enquiring into the effects these have on the payments situation. Expressed generally, it was shown in the previous chapter that nowadays the Fund's objective is expressed in terms of creating a "viable" payments situation which typically means "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 country". This formulation immediately intimates that assessing the success of any programme is by no means a straightforward matter, unlike some simple objective such as 'eliminating all current account deficits'.

One of the complications concerns the effect of putting a Fund programme in place upon net capital inflows from other sources. The Fund has long argued that one of the benefits which a stand-by programme can bring is that it has a catalytic effect in attracting funds from aid agencies, private banks and other sources, so that considerably more is at stake than the actual size of the Fund credit. As one of the Fund reviews puts it :

> In several cases the programs were expected to result in a restoration of confidence in the management of the economy both at home and abroad, so that other sources of balance of payments assistance would contribute to a more gradual adjustment effort, thus rendering it less severe.

To the extent that Fund programmes actually have such catalytic effects, it is clearly insufficient simply to look at changes in the current account because enlarged capital inflows will (if the terms are right) increase the size of 'viable' current deficits.

The Fund's own assessments have thus traditionally tended to focus upon the impact of its programmes on the overall balance (i.e. the balance on monetary movements with opposite sign), which incorporate all non-monetary capital flows. In what follows, use is also made of the basic balance (current account plus net long-term capital movements), which should also catch inflows induced by any confidence generated by agreement with the Fund. The current account should not be written off entirely, however, particularly in a world of high interest rates. If a large proportion of induced inflows is obtained only with high interest rates and/or medium-term maturity then these may be neither desirable nor sustainable in terms of future debt servicing capacity. This applies most obviously to borrowing from the Euromarket and other commercial bank sources. The 'viability' of current deficits is directly correlated with the proportion of long-term concessional finance in total inflows and this proportion has declined in recent years.[5] And in the end, of course, it is the current account - particularly export performance - which has the most crucial bearing upon the health of the overall payments situation. In many country circumstances a reduction in current deficits is a sine qua non of any restoration of payments equilibrium.

For reasons of this kind, therefore, the Fund is paying increased attention to the current account in evaluating its own programmes. However, it has recognised that in doing so there is a danger of over-stating the efficacy of its programmes because to a considerable extent governments have to trim the current account largely through action on imports) to whatever financing happens to be available, so that a reduced current deficit may be the result of an unforseen import compression rather than a sign of programme success:

> In several of the /1977/ programmes, the relatively rapid improvement in the balance of payments can be attributed to the implementation of corrective policies. In other cases the reduction in the external imbalance reflected limited availability of financing and scarcity of foreign exchange reserves rather than policy implementation. The improvement in these cases was more apparent than real because it did not represent that balance of payments viability was restored.

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5 Between 1973 and 1980 the share of the external debt of non-oil developing countries owed to official creditors fell from 50.4% to 42.1% and the share of private financial institutions went up from 35.5% to 48.9% (cf IMF 1981, Table 29).

There are other circumstances, however, in which results on current account may lead to an under-estimation of programme success. This is particularly likely when, as is quite often the case, the liberalisation of trade and payments is an important component of the programme.[6] In the short-run, liberalisation is more likely than not to be associated with an increased current deficit but this would be consistent with programme success if it had a longer-term strengthening effect and if it reduced distortions and inefficiencies caused by exchange controls.

A last complication to mention concerns the time span over which a programme should be evaluated. Almost all the evidence presented below examines the impact of the programmes within a year or two of their inception. This is consistent with the generally rather short-term nature of most Fund programmes and has the further advantage of minimising the influence of factors external to these programmes. On the other hand, it prevents us from answering the important question of whether they led on to any sustained improvement in the payments situation - as the notion of a viable payments balance of requires - or whether their effects were largely ephermeral. However, we are able to report some evidence on this.

To sum up on this question of measurement, three criteria of programme success are suggested:

(a) We expect some general tendency for current account deficits to diminish but subject to the qualifications that not all programmes will be expected to achieve this and that, in any case, reduced deficits may not be the result of programme policies.

(b) We can more confidently expect an improvement in the basic or overall balances, partly as a reflection of (a) and partly as a result of the inducement effects of IMF programmes on other capital inflows.

(c) We should look for a more than transitory effect, while recognising that there are many factors external to the Fund's programmes which could cause a deteriorating payments situation in the years after the expiry of a particular programme.

We now summarise the available evidence.

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6 See Krueger, 1978 passim, for an extensive discussion of this.

Effect on current account

First, we have results from the Connors and ODI tests. The former found for the cases he examined that there was some tendency for the current account to improve (in almost all cases meaning a reduced deficit) but that this tendency was not statistically significant at the 95% level. The ODI rank-test [illegible] results were similar: no statistically significant change in the deficit even with a 90% cut-off level. In the first 12 months after the inception of the programme the sign was 'wrong', i.e. there was a tendency for the deficit to increase, but this was corrected by the second year. The ODI regression tests confirmed the absence of a significant impact, although the signs were 'right'.

The in-house IMF reviews have largely concentrated on examining the overall balance and have only studied the impact on current account from the 1977 programmes onward. In these cases, and unlike the Connors/ODI work, the comparison is with the IMF programme targets. In 1977 the current account outcome was equal to or better than expected in 9 out of 11 programmes, although the interpretation of this result was qualified by the passage already quoted on page 5 . The results for the 1978-79 programmes were more mixed. The outcome was worse than programme target in 11 out of 21 programmes, although it was worse than the payments outcome in the period immediately prior to the programme in only 8 of the 21 cases, with programme targets envisaging a worsening on current account in 6 cases.[7] In 17 cases the current account moved in the intended direction. No tests of statistical significance were undertaken.

Taking all these results together, the most that can be claimed is some modest short-run tendency for the programmes to move in the desired direction but a tendency which has only low claims to statistical significance. This is perhaps a surprisingly weak result but, given the ambivalence of criterion (a) above, it would be a mistake to place much weight upon it. Considerably greater importance attaches to the results for the basic or overall balances.

The basic or overall balances

Unfortunately, Connors did not examine any payments indicators other than the current account so the only independent test is our own. The

7 In this case the current account deficit was expressed as a % of GDP rather than in absolute terms.

ODI work used a rank test for changes in the basic balance and did not find any significant change, even with a 90% confidence limit. In year 1 there was no measurable change at all but there was a (non-significant) tendency towards improvement in year 2. Rank tests for changes in international reserves showed 'wrong' signs (reserves went down) but the results were again not significant. Our regression tests provided a somewhat different picture as regards the basic balance, however. For the larger sample of 13 countries there was again no significant impact, although the signs were 'correct' in two of the three years, but for the smaller sample of the 7 countries with the most complete data there was a positive and significant effect both overall and for all three years. It is not clear why the results should differ as between the two samples and whether the discrepancy could be explained in terms of sample biases.

Turning to the IMF's own assessments, there is a rather complete set of results for all upper-tranche stand-bys during 1963-79, broken down into the following sub-periods:

1963-72 (reported in Reichmann & Stillson, 1978): An improvement over the pre-programme situation was recorded in 64% of the 75 cases examined but this was statistically significant (even at the 90% confidence level) in only 24% of the cases.[8] In terms of statistically significant results, there was no change in 71% and a deterioration in 5% of the programmes.

1973-75 (reported in Reichmann, 1978): The test applied in this (and subsequent) studies was by comparison with programme targets and the results were very mixed. Seven outcomes were better than expected, seven were worse and seven were approximately on target. Comparisons were not made with the pre-programme situation and no significance tests were employed.

1976 There were only 5 programmes in this year. Of these, results were better than expected in three cases and below target in the other two.

1977 A good year. Of the ten cases in which targets were set for the overall balance of payments, 8 programmes achieved results equal to or better than expected and only 2 were below expectations.

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8 The balance of payments indicator used in this study was changes in the net foreign assets of the banking system, which is conceptually similar to the overall balance.

1978-79: Of the 21 programmes in this period targets were set for the overall balance in 19 cases. Of these, 9 achieved results equal to or better than target, but the other ten were worse than target. However, when comparison was made with the actual pre-programme situation the result became a good deal more positive, with post-programme results equal to or better than the previous situation in 15 of the 19 cases. In other words, there was an apparent tendency for targets to be too ambitious, so that comparisons of results with targets tend to under-state programme achievements. No significant tests were undertaken.

It is extraordinarily difficult to derive any clear conclusions from this mixed bag of results, but the following generalisations are tentatively suggested:

(a) Particularly if it is true for all years from 1973 that Fund targets tend towards over-ambition, it can be inferred that there is a general tendency for programmes to reduce basic or overall account deficits.

(b) The statistical significance of this tendency is not large, however.

(c) There is no evident trend in the results over time, even though the period studied covers both pre- and post-oil crisis years.

The results just given for the basic or overall balances are a little stronger than those reported earlier on the current account, and this is consistent with claims that agreement on a stand-by or EFF programme attracts capital inflows from other sources. But such comparisons do not indicate any strong catalytic effect. In the light of the results reported in chapter 5 (pp...), we would not anticipate strong results. Commercial banks, aid agencies and other lenders have their own decision criteria and these are liable to differ between governments. Some (Brazil, Jamaica, Zaire) have in the past used access to the Euro-market to avoid going to the Fund. Others (Bangladesh, Sierra Leone) continue to be given a low credit rating by the banks even when a Fund programme is in place. The continued availability of funds from the banks is also likely to be sensitive to the extent to which a programme is being implemented and achieving desired results, not simply on whether or not a stand-by is in existence.

Aid donors are perhaps more likely to be influenced, especially given the growing collaboration between the IMF and World Bank. On the other hand, expectations of the amount of additional finance that will be triggered by agreement with the Fund are often disappointed. Our case study of Jamaica (chapter C4) provides a specific example and work by Beveridge and Kelly (1980) provides a more general illustration. They found (Table 3) that foreign lending to the government fell short of the amounts projected in 61% of 105 IMF programmes in 1969-78, although there was a marked tendency for the shortfalls to diminish over time. They nevertheless concluded (p.248) that "shortfalls in foreign financing contributed importantly to the non-observance of the fiscal subceiling /on deficit financing/ in a number of programs". On both a priori and evidential grounds, therefore, we would not expect the catalytic effect to be generally very large, although it could be so in specific circumstances, as in Chile in 1974-5 (see chapter C2) High governmental and Fund expectations are more likely than not to be disappointed; this is perhaps one of the reasons why the statistical results for the basic and overall balances are not strong. It is also a reason for programme failure and for the high perceived costs of stabilisation programmes, for the chances of success and costs are a direct function of being able to maintain import supplies (Krueger, 1978, p.224) and having a reasonable period of time over which to implement the programme.

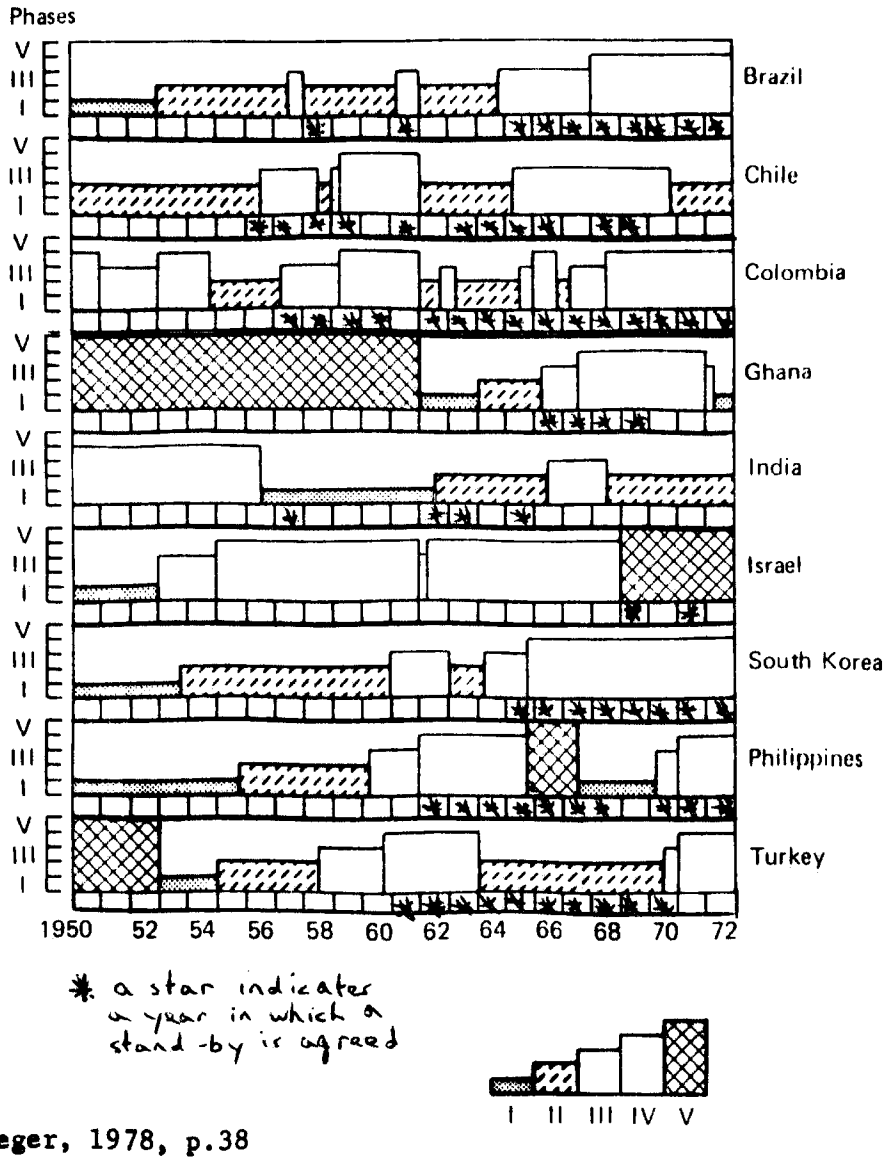
Liberalisation

As noted in chapter 5 , the Fund is required by its Articles to assist the elimination of foreign exchange restrictions. There is a standard clause in all programmes that the borrowing government will not introduce new restrictions, nor intensify existing ones, during the period of the programme; some programmes go further and include an actual liberalisation amongst their objectives. A degree of liberalisation was, for example, sought in at least 8 of the 23 stand-bys in 1978-79.

There is, unfortunately, little direct evidence on the success in achieving this objective, although the Fund's 1978-79 review recorded only 'limited' implementation under this heading. We can, however, utilise the results of an important study conducted by Bhagwati (1978), Krueger (1978) and others of foreign trade regimes and economic development to gain further insights into this. They and their collaborators studied a total of 22 attempts in 10 countries to move from a highly restrictive to

a liberalised regime of trade and payments during 1950-72 and their results are summarised in Figure 1. In their schema, 'Phase I' represents the most restrictive and 'Phase V' a fully liberalised regime, with various intermediate stages of liberalisation. An exceedingly varied picture emerges, with only a few examples of sustained liberalisation. In fact, out of 22 attempts to move from highly restrictive to liberalised regimes, they regard only 4 as having resulted in sustained liberalisation (Krueger, pp.206-7). Their study did not specifically concern itself with the impact of Fund programmes so at the foot of each country's entry in Figure 1 we have inserted a star to indicate years in which a stand-by programme was agreed. This permits a visual test of the degree of association between programmes and liberalisation.

Figure 1 : Liberalisation and the IMF; 9 countries, 1950-72[10]



Source: Krueger, 1978, p.38

(pto for footnote 10)

Only a few successes are apparent - for Colombia in 1966-72 (but not in earlier periods), for Brazil in 1964-72 (although the process was apparently commenced prior to the Fund's involvement in 1965) and in South Korea (although in this case the process was begun well before Fund involvement). For the period in question Chile, India, the Philippines and Turkey provide examples of Fund programmes which failed to achieve any lasting liberalisation or were apparently associated with a retreat into more restrictive regimes. Were a significance test possible with such information for the nine countries taken together it would surely fail to record any significant positive association. Given the large disequilibria that have marked most years since 1972, it seems improbable that a more up-to-date test would show a stronger assodation. It does not seem that the means available to, or employed by, the Fund are strong enough to secure its liberalisation objective in more than rare cases.

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10 The case of Egypt has been omitted from Figure 1 because of incomplete information. The Bhagwati-Krueger definition of the 5 phases can be summarised as follows:-

I - A period in which quantitative restrictions (QRs) are first imposed and then intensified.

II - Although QRs are still intense, some price measures are taken to offset some of the undesired results, e.g. import surcharges, export subsidies.

III - An attempt is made to systematise the changes begun in II. This is likely to include a currency devaluation and reduced reliance on QRs.

IV - As a result of III results are achieved, e.g. in raising export earnings, to permit further relaxation of QRs.

V - The system becomes fully liberalised, including currency convertibility and elimination of use of QRs for balance of payments purposes.

c.f. Krueger, 1978, pp.302-3.

II - IMPACT ON OTHER TARGET VARIABLES

Although strengthening the balance of payments is invariably the principal Fund objective, its programmes establish targets for certain other variables, such as the growth rate and inflation. Any such objectives are clearly subordinate to the payments goal, however, and many of the 'targets' for these other variables are better regarded as forecasts than as desired outcomes. Indeed, there remains considerable disagreement among its staff about the extent to which the Fund should concern itself with the impact of its programmes on the growth rate. But even if the IMF were to disregard all target variables, other than the balance and payments, the governments with whom it deals certainly do not. We may safely assume that they will be concerned not only with the impact of the programme on the growth and inflation rates but also on the distribution of income. Precisely one of the points of difficulty in ldc-Fund relations is the complaint that programmes involve unacceptably large losses of output and undesirable increases in income inequalities. It is therefore essential to enquire into these aspects and we begin with the effect on the rate of growth.

Impact on economic growth

The expectation and belief, of course, is that programme attempts to restrain fiscal deficits and domestic credit will have a short-run deflationary effect, not only by holding down demand but also by reducing investment in fixed and working capital. That it has such effects is not only among the commonest complaints of the Fund's critics; its staff also expect this result, although they go on to argue that such short-run costs are justified by the positive consequences of reducing the foreign exchange constraint and 'building a foundation for sustained longer-run growth'. Once again, however, the evidence fails to provide much support for the general expectation.

The growth of GDP was one of the variables included in both the Connors and ODI tests. The rank tests failed throughout to yield any statistically significant results; this result also held when Connors differentiated between programmes which had and had not been complied with. The ODI results indicated a (non-significant) tendency for the growth rate to accelerate in year 1 but this had been eliminated by year 2. The ODI regression tests yielded an even more surprising result: positive and significant correlation between programmes and growth rate in year 2 (large and small samples) and

year 1 (small sample). For the other years the relationship was also positive but failed the significance test.

Much of the in-house IMF information on this topic is hard to interpret because it is about success relative to programme targets, which targets, as we have already said, are often more in the nature of forecasts . We will thus be selective in the use of their results.

For 1963-72 programmes, however, Reichmann and Stillson (1978) do make a comparison with growth in the previous period and they come to results similar to those of the rank tests already reported: a positive but non-significant association. In most of the subsequent years IMF evaluations report fair success in achieving or over-achieving targets without telling us much about actual growth rates achieved. In 1977 results were less satisfactory than usual, with 5 (out of 11) countries achieving a growth rate of 5% or more, 2 of between 0% and 5%, and 4 countries experiencing negative growth. In 6 cases the programme growth rate was equal to or better than the previous period and in 5 there was a deceleration. In fact, the evaluation for this year commented rather gloomily that the apparent trade-off between payments equilibrium and economic growth appeared to have worsened and that the Fund should henceforth take this more fully into account. The review of 1978-79 also yields interesting information. It shows that 13 of the 21 programmes expected slower growth than in the immediately preceding period. In the event, growth was slower in 12 cases, with 4 countries achieving growth of above 5% in the first programme year, 13 of between 0% and 5%, and 4 suffering from a decline in output. In neither of the reviews just reported were significance tests applied.

While the evidence just surveyed is mixed, it provides little support for the proposition that Fund programmes generally have short-run deflationary consequences, eventhough there are doubtless examples of such results. In the general case, there is rather more evidence of a positive growth effect than of a negative one. Possible explanations for this rather perplexing result are taken up in Part III but we can mention here one factor which will tend to produce a positive association. To the extent to which programmes succeed in reducing the size of the current account payments deficit, relative to GDP, it will have a positive effect on the GDP growth rate, for such a deficit is, of course, a negative number in the national accounts. It is possible that this consideration helps to explain the

reported results, although we would be more convinced of this if there were stronger evidence that programmes do reduce current account deficits.

The inflation rate

It is a common misconception that reducing inflation is a prime objective of Fund programmes. While it is true that many programmes do include a target which envisages a moderation of the pace of inflation, such targets, like those for GDP growth, are firmly subordinate to the balance of payments objective. Indeed, in recent years the Fund appears to have taken a diminished interest in the price variable, perhaps because of the spread of more flexible exchange rate policies which weaken the link between domestic inflation and the balance of payments.

There must nevertheless be some presumption that Fund programmes will tend to moderate inflation, for essentially the same reasons that we would expect them to have a dampening impact upon economic growth. It was suggested in chapter 2 that monetary expansion is an important explanation of inflation in many ldcs; the tighter monetary control associated with Fund programmes should therefore weaken inflationary impulses. Two important qualifications are necessary, however. First, the programmes operate essentially upon the domestic credit component of the money supply. To the extent that the programmes are able to improve the balance of payments and permit an increase in the foreign assets of the banking system this will be a source of monetary expansion tending to offset whatever contraction may emanate from stricter control over domestic credit. Second, Fund programmes quite often include devaluations and/or reductions in subsidies, higher prices for the outputs of para-statal bodies, perhaps higher agricultural producer prices, and so on. Measures of this kind will, of course, raise the domestic price level, even though their effects may be essentially once-for-all rather than continuing.

We are thus left with a general but qualified presumption that programmes will reduce inflation. Is this borne out by the evidence? The inflation rate was among the variables studied by Connors. He found some tendency for the inflation rate to go up but the result was not statistically significant. In this case, however, the CDI rank test yielded a different conclusion: we found a statistically significant reduction in year 1 but not in year 2, with the probability that there was

renewed price acceleration in the second year. The ODI regression tests did not yield any significant correlation.

The results reported in the IMF reviews rather consistently stress the difficulties encountered in trying to bring down the inflation rate and achieving programme targets. In 1963-72, for instance, in the 29 countries which had significant inflation at the time of the programme inception it was only possible to achieve a statistically significant reduction in 7 cases. There was a significant increase in a further 6 cases and there was no significant change in the remaining 16. Interestingly, of the 9 programmes calling for a devaluation, 5 were associated with accelerated inflation, out of the total of 6 such results (Reichmann & Stillson, 1978, Table 5).

The results for 1973-75 were, if anything, more disappointing. Sixteen out of 20 programmes targeted a reduced rate of price increase but in fact this was achieved in only 9 cases, with increases in the remaining 11, although these changes were not submitted to significance tests. Actually accelerated inflation was recorded in half of the programmes which aimed for the opposite. However, it is important to bear in mind that this period was one of rapidly rising import prices and of accelerating world inflation so it is not surprising that the results turned out as they did. In 1976, 1977 and 1978-79 a fairly common picture emerges of many outcomes failing to meet targets and of mixed results by comparison with the pre-programme situation. In the latter sub-period, for example, in the majority (12 out of 21) of programmes the inflation rate was above target and, by comparison with pre-programme, there was an acceleration of inflation in 13 cases.

With the exception of the ODI rank test, therefore, the bulk of the evidence points to a frequent inability by the Fund to bring down inflation both as it intended to and by comparison with the preceding period. In the general case, it cannot be claimed as an advantage of Fund support that its programmes lead to diminished inflation; there may even be a net tendency for the programmes to lead to higher prices, albeit of a once-for-all character. This is, of course, a specific illustration of the general intractability of inflation and Krueger (1978, p.229) similarly reported little success in the stabilisation packages studied in her project.

The distribution of income

There must be a strong presumption that stabilisation programmes will affect the distribution of income. They start from an unsustainable level of absorption in the national economy and are hence predicated on a reduction in consumption and/or investment relative to income. They are often also predicated on the desirability of increasing the production of tradeables vis a vis non-tradeables; and on the desirability of bringing down inflation. It is most unlikely that the achievement of any of these results can be distributionally neutral. The burden of reduced absorption will inevitably affect some groups more than others. Structural adjustment, and the changes in relative prices which accompany it, will favour some industries and disfavour others. Attempts to curb aggregate demand will have implications both for profits and for those whose income is derived from their own labour.

There is nevertheless virtually no systematic evidence on the distributional impact of IMF policies or of stabilisation in general and one reason for this is that the Fund has always declined to become involved in this aspect of its programmes. It argues that it is for national governments to decide upon distributional objectives and to design their policies so as to achieve these and that governments would be strongly resistant to any attempts to involve itself in these matters.[11] The stand-by reviews that have been reported above thus do not concern themselves with the distributional issue, nor was it found feasible to include distributional indicators in the Connors and ODI tests. There is a certain amount of country-specific material but it falls short of providing an authoritative body of evidence. We must therefore approach this topic in a more abstract manner than has been adopted for the variables already considered.

From the presumption that Fund-type programmes will influence income distribution in some direction, the IMF's critics argue, of course, that the influence is in the direction of increasing concentration. Three strands recur frequently in these allegations: that Fund-type programmes[12] lead directly to cuts in the real value of wages; they also lead to

11 An article by Johnson and Salop (1980) reviewing the distributional repercussions of 4 Fund programmes is the only public document we are aware of on this subject by Fund staff members.

12 In what follows we refer a number of times to "Fund-type" programmes. This is because a number of the empirical studies cited are not necessarily confined to programmes supported by the Fund.

increases in unemployment through their alleged deflationary impact; and they include cuts in government spending (and perhaps increases in taxation) the incidence of which bears disproportionately upon the poor, e.g. through reduction in social services. Particular emphasis is placed on the real wage effect. Thus Frenkel and O'Donnell (1979, p.177) suggest that the IMF's programmes,[13]

> show a remarkable asymmetry in the way they treat commodities and labour markets. Whenever price controls and regulations are in force, the program tends to demand their elimination; conversely, when the IMF considers that the government has sufficient power to establish ceilings on salary increases, they are imposed by the program.

A number of country examples have been documented in support of this line of criticism, some of which are discussed in chapter 's discussion of Latin American experiences. Foxley (1981) takes the 'new orthodox' stabilisation programmes introduced in Argentina, Brazil, Chile and Uruguay and shows in all cases that real wages declined sharply. Unemployment rose sharply in two of the countries and the available data on income distribution indicates increased concentration. However, all four governments in question were of the right-wing, authoritarian variety and the question remains open whether these results were intrinsic to stabilisation as such or whether they were rather a reflection of the social priorities of these particular regimes. While it does seem possible that right-wing authoritarian regimes are the more likely to push through stringent stabilisation programmes, which would tend to associate Fund programmes with regressive distributional policies, the evidence on this surveyed in chapter 6 is inconclusive.

In the absence of more conclusive evidence, there are good reasons for doubting whether stabilisation per se has a systematic tendency to increase inequalities because of the great variety of circumstances across countries and programmes. The following appear to be among the more important determining country variables:

- the composition, factor proportions and ownership of export and import-substituting industries, vis a vis the producers of non-traded goods and services;

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13 Unfortunately, Frenkel and O'Donnell fail to make the important distinction, explained in chapter 5, between pre-conditions, performance criteria and other (non-binding) programme components. By the use of words like 'demand' and 'impose' they seem to imply that the liberalisation of price controls and the imposition of salary ceilings are included as preconditions or performance criteria, whereas chapter 6 has shown that this is not usually the case.

- factor mobilities and other determinants of wage and profit responses to changing market conditions, and elasticities of substitution between factors;
- the power of socio-economic groups to protect themselves against adverse consequences, for example through trade unions and other special-interest organisations;
- the share of modern-sector wages in (a) total returns to labour and (b) GDP;
- the incidence across socio-economic groups of marginal reductions in government spending and marginal increases in tax revenues.

It is also important to consider the period of time over which distributional consequences are to be judged. In particular, there may well be a short-run tendency for absolute poverty to increase, as a consequence of reduced consumption and employment, but this may be more than compensated for in the longer-term if stabilisation provides a spring-board for sustained economic growth.

It is surely impossible to generalise about the nature of the variables just described in the ways which lead to unambiguous a priori conclusions about the distributional consequences of stabilisation programmes, especially given that the programmes themselves differ considerably (see chapter 6 pp.). We should be particularly wary of the arguments used about real wages, for these have been unduly influenced by the rather atypical structures of some of the more advanced Latin American economies, in which modern-sector wages form a large part of labour incomes. It does not necessarily follow that falling modern-sector real wages will increase income concentration. Many of the poorer ldcs are characterised by a large amount of non-wage labour - engaged in smallholder farming, the 'informal sector' and service activities - and much larger returns to labour in the urban as against the rural sectors (Lipton, 1977). Take the unexceptional example of a programme which imposes a freeze on modern-sector wages and increases agricultural producer-prices. Depending on the relative importance of the wage-labour force, of smallholder production in total agriculture, and so on, such a programme could easily result in reduced income concentration.

Bolivia provides an apt illustration of the importance of looking beyond real wage trends in the modern sector.[14]

14 From p.25 of a mimeographed version of Johnson and Salop (1980).

> Of the total labor force, 18.4 per cent are employees and draw some 55.2 per cent of labor income. In contrast 81.6 per cent are self-employed and earn only 44.8 per cent of labor income. Hence, the most important distributional question is the effect of the program on the relative income shares of these two groups. Moreover, the overall degree of inequality in Bolivia cannot be improved greatly by securing a more equitable distribution of income in the modern sector, because of the much wider disparity between the modern sector and the traditional sector. Hence, a key distributional indicator is what happened to the rural-urban terms of trade.

Moreover, wages are not necessarily to be regarded as sacronsanct, even on distributional grounds. There is, after all, some trade-off between the level of wages and the volume of employment (unless one makes peculiar assumptions zero responses to changes in relative prices) and there is evidence that liberalisation programmes tend to be associated with increased labour intensity and employment.[15] Moreover, it surely is possible for wages to rise too fast to be compatible not only with payments equilibrium and reduced inflation but also with an accelerated longer-term growth of output and employment. In such cases it is important to include wage restraint in any effective package of stabilisation measures.

There is another consideration. In order to arrive at a reasonably rounded judgement on stabilisation programmes it is also important to consider the probable distributional consequences of not introducing a programme. Economic disequilibria may also increase income concentration, as is suggested in chapter 2's discussion of the consequences of inflation. Exchange and price controls may equally act to the disadvantage of the poor, no matter what the intended results might be. Ghana is one of the countries exemplifying this situation (Killick, 1978). The survey of Latin American experiences in chapter C2 also warns us against assuming that the structuralist/populist policies which are most often contrasted with those of the IMF are beneficial to the poor. There may be some initial gains but the increasing economic difficulties are liable to reverse these well prior to the introduction of any stabilisation package. Manley's Jamaica, studied in chapter C4, yields a similar example, where ostensibly egalitarian measures may well have had adverse distributional consequences, by widening urban-rural disparities and by retarding the

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15 See Krueger, 1978, pp.252-59.

growth of the economy. Mexico offers a further example (Weintraub, 1981 p. 290):

> Much more than wage and salary earners, the disadvantaged groups in Mexico are the unemployed and underemployed. Although real wages declined during the first two years of the stabilization program, they had increased during the previous years of growing inflation. Those who presumably suffered most from the inflation were those who had no regular wages or incomes. The stabilization program may have hurt this group but they were probably hurt much more from the inflationary developments and the economic stagnation prior to the stabilization program.

Among other country examples, our Indonesian study (chapter C3) provides an example of an effective stabilisation programme associated with some apparent reductions in inequality.

Finally, the argument about distributional effects should be seen in the context of our earlier discussion of programme impacts on other variables. By and large, our results have shown programmes to have generally limited impact. If this result is accepted, it seems unlikely that the distributional effects can have been very potent either, especially because the programmes to not often appear to bring about the deflation that is widely expected of them.

So despite the shortage of systematic evidence it is possible to arrive at a fairly firm conclusion about the impact of stabilisation on inequality. In the general case, programme effects are likely to be quite complex. Depending upon the characteristics of the economy, the programme in question and the political priorities of the responsible government, the net effect could be to increase or reduce concentration; there is nothing intrinsic to the logic of stabilisation that requires inequalities to increase. Given our findings on other variables, however, it is more likely than not that most programmes have no statistically significant effects one way or the other, although this general conclusion is, of course, consistent with specific exceptions in either direction. Johnson and Salop's (1980 review of the distributional effects of IMF programmes in Bolivia, Ghana, Indonesia and the Philippines provides a well-rounded conclusion (p. 23):

> This analysis supports the view that stabilization programs necessarily have distributional repercussions. That an economy is in a chronic state of external imbalance implies that the level and structure of domestic demand as well as the associated set of prices

> and factor rewards are unsustainable. Domestic political considerations will largely determine who bears the burden of reducing and restructuring aggregate demand in a manner consistent with the sustained achievement of external balance. Moreover, the associated reallocation of factors of production across sectors entails changes in the set of prices and factor payments that, from a short-run egalitarian perspective, may be undesirable and yet are necessary for the attainment of the economy's balance of payments and growth objectives. Thus, real wage rates may have to fall and real profit rates increase so as to encourage increased foreign capital inflow and private domestic capital formation. Similarly, because the mobility of labor and capital is limited, factor rewards in export industries will tend to rise at the expense of their counterparts in more domestically oriented industries in the process of moving toward a sustainable situation. Depending on the structure of the economy, these changes may constitute a movement toward or away from equality. Finally, perhaps the most important effect of a successful program on both the structure of the economy and the distribution of income operates only over time through the increased inflow of capital and the correspondingly increased rates of investment. Future research might profitably be directed to this topic.

But given this explicit recognition by members of its staff that effectively implemented programmes are unlikely to be distributionally neutral is it not unwise for the Fund management to refuse as a matter of principle to consider such repercussions when designing and evaluating their programmes, particularly because a combination of devaluation, price decontrol, wage ceilings and government expenditure cuts can reinforce each other in ways that considerably increase inequalities? No doubt this is primarily a matter for governments but that is true of all aspects of national policy. Fund missions provide policy advice on how to secure the optimal payments, price stabilising and growth results from its programmes; on what grounds of principle can it decline to do so for the distributional results?

Problems of interpretation

The general outcome of the evidence surveyed in Parts I and II is to suggest that Fund programmes are largely ineffective. If, as is probably desirable, we confine ourselves to statistically significant results, the overall conclusion is easy to generalise: the programmes make little measurable difference to anything. Neither the benefits nor the costs are typically large, although there are, of course, specific exceptions. 'Much ado about nothing' might characterise the enormous public controversies over the Fund's policies, as well as the

considerable resources devoted by the Fund to the design of its programmes. However, in view of the intrinsic difficulty of carrying out adequate tests and the paucity of empirical work, it would be prudent to regard these results as provisional and as indicating potentially fruitful areas of future research.

In any case, all tendencies to infer from these results that the fault necessarily lies with the IMF are to be rejected. Nothing has so far been said about the causes of programmes failures. For example, we should distinguish between those programmes which are and those which are not implemented. Programmes may fail because governments are unwilling or unable to comply with the commitments they entered into; because of the supervention of unexpected exogenous disturbances; because programmes are inappropriately designed; or simply because the scale of the problem defies any quick solution. Just because there is a problem it does not follow that there is also a solution. Reichmann's account of the 1973-75 programmes illustrates the difficulties of interpretation well (1978, p.41):

> Even in the cases where the balance of payments target was achieved or over-achieved, only 3 countries had put into effect adequate domestic policies. In the remaining 11 cases, the improvement in the balance of payments was associated with a temporary increase in exports, heavy restrictions on international transactions, or large inflows of short-term capital.
>
> On the other hand, 3 countries that failed to achieve their balance of payments target had introduced the policy measures included in the program, but exogenous factors- related either to a deterioration of the external terms of trade or to a decline in exports - caused a deterioration in the balance of payments position.

A necessary next step, therefore, is to examine the degree to which the programmes are actually carried into effect by governments, and other possible reasons for the weak results obtained.

III - WHY IS THE IMPACT SO SLIGHT?

The extent of programme implementation

Particularly in recent years, the Fund has had considerable difficulty in ensuring that its programmes are implemented. Specific illustrations of this are provided by the case studies in the country volume. Thus, each of the programmes agreed with Kenya in 1975-80 rather quickly broke down with the result that the credits could only be partially drawn down. A similar outcome is reported in the study of Jamaica, with agreements in 1977, 1978 and 1979 all breaking down well before reaching the end of their intended term. The Latin American survey provides further examples.

That these examples are illustrative of a more general situation is made evident by the IMF's review of its 1978-79 stand-by credits. This offers a general judgement on whether the performance criteria had been observed. Out of a total of 23 cases 12 were judged not to have complied with the criteria. However, 6 of the 11 programmes adjudged to have been complied with had been the subject of modifications or waivers.[16] Thus, in only 5 of the 23 programmes were the original performance criteria observed. Nine of the 23 credits were cancelled prematurely, although in all but one of these cases the cancelled programme was superseded by a new one.

The rather poor level of compliance just reported is probably a sign of the times, for the turbulance which has so affected the international economy since the early 1970s has made implementation more difficult. That this is so is suggested by a comparison of the implementation records of programmes in the 1963-72 and 1973-75 periods. Oddly, Reichmann and Stillson (1978, pp.304-09) evaluated programmes in the earlier period in terms of their success in achieving the desired changes in domestic credit and, by this test, they were able to report a 76% success rate. As already conveyed by the quotation on page above, however, considerably less success was achieved in 1973-75 and Reichmann's general judgement (1978, p.40) was that the "overall credit policies were not, in general, very successfully implemented." Undoubtedly, the first oil crisis and the acceleration of world inflation contributed to this contrast.

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16 See chapter 6, pp. , for an explanation of modifications and waivers.

It is of particular interest to see the extent to which governments observe the performance criteria on total domestic credit and on credit to the government or public sector which form the hard core of all programmes. The Fund has published some information on this for various periods, with the results summarised in Table 1. The most general result is the one for the whole of 1969-78 given in the bottom line of the table, from which it appears that rather more than half of the ceilings were observed, both with respect to total credit and credit to government. The unpublished results of the reviews for 1976-79 inclusive are not out of line with those reported in the table. 1977 appears to have been a particularly poor year but the review for 1978-79 reports that, taken together, the credit ceilings were implemented "to a large extent" and gave an average score of 2.0 in a range varying from 0 to 3, with 3 indicating complete implementation.

Table 1. Observance of Credit Performance Criteria, Selected Periods

		(% of No. of programmes)	
period	number of programmes[a]	total domestic credit	credit to government[b]
1963-72	85	76%	
1973-75	21	30%	55%
1969-78	105	55%	55%

Source: Reichmann & Stillson, 1978, Table 11; Johnson & Reichmann 1978, Table 4; Beveridge & Kelly, 1980, Tables 2 & 3.

Notes:
a) The figures in this column refer to the total number of programmes during the period in question but in most cases the percentages in the other columns refer to smaller numbers of observations.
b) These figures include cases where the ceilings were on credit to the public sector as a whole.

Reichmann and Stillson noticed that most of the unsuccessful programmes in their period failed because of fiscal problems, resulting in larger than planned budget deficits, and Beveridge and Kelly confirmed this observation for the longer period covered by their study. The same is implicit in the unpublished results of the review of 1978-79, which records 'limited' or 'very limited' implementation of fiscal policy intentions. Many programmes include measures designed both to raise government revenues and to limit government spending but there is a good deal of evidence that their intentions are more likely to be

disappointed on expenditures than on revenues. Beveridge and Kelly record that of the 105 programmes they studied revenues were equal to or above projected levels in 60 cases, whereas expenditures were equal to or below projections in only 43 cases. There was, moreover, a growing tendency for expenditures to exceed intended levels over time, with an only 20% observation rate by the later 1970s. The same tendency towards particular difficulty in controlling government spending is reported in the 1978-79 review, with a much higher implementation score for increases in tax rates than for restraint of government expenditures.

To the extent that there is some effect on government spending, a disporportionate burden tends to fall upon state capital formation because recurrent expenditures, dominated by the wage bill for the civil service, are notoriously difficult to cut. The IMF review of its 1977 programmes remarked upon this tendency, drew attention to its probably detrimental effect on economic growth and asked whether programmes should not safeguard against it by laying down target minima for budgetary savings on recurrent account. Beveridge and Kelly provide evidence suggesting that this is a real problem, for while the growth in government capital expenditures was below target in 49% of the programmes, current expenditure exceeded target in 73% of the cases (Table 6). However, they also report that attempts to protect capital expenditures by concentrating cuts in current spending and increases in current surpluses were generally unsuccessful (p.242).

There is also information on the extent of implementation of provisions in the programmes concerning exchange rate policy, liberalisation and external debt. In summary, the position is as follows:

(a) Except when such action is stipulated as a pre-condition, the Fund has limited success in persuading governments to effectuate the exchange rate measures (generally a currency depreciation) envisaged in the programme. Thus, 10 of the 21 programmes in 1973-75 included provision for exchange rate actions plus supporting policies but only 6 undertook and, in the judgement of the Fund, adequately supported the change. In retrospect, the Fund also considered that changes should have been, but were not, made in 5 of the other 11 programmes (Reichmann, 1978, p.40).

Mixed results were also reported in the 1976, 1977 and 1978-79 reviews. In the latter period, a need for exchange rate actions was identified in 13 cases but was undertaken in only 6 of these, 2 of which failed to follow up with adequate supporting measures.

(b) There is much greater compliance with the standard requirement in virtually all stand-by programmes that the borrowing government will not introduce new exchange controls nor intensify existing ones. However, when programmes go further than this and call for an actual liberalisation implementation is much weaker. This is recorded for 1973-75 by Reichmann (1978, p.40) but is exemplified by scores of 1.0 to 1.2 for the implementation of liberalisation measures in 1978-79, out of a possible top score of 3.0.

(c) It obtains generally good levels of compliance with ceilings on additional external debt; most programmes are satisfactorily carried out in this regard.

Impact on the instrument variables

The far from complete execution of the agreed programmes reported above provides a potential line of explanation of why the programmes have limited economic effects. Assuming that the Fund diagnoses and prescriptions are the appropriate ones, poor implementation would tend to produce poor results. We can take this a little further by a examining the extent to which programmes bring about significant changes in the policy instruments to which they are directed and whether those instruments do have the intended results. For example, do the programmes actually reduce the rate of credit expansion and, if so, to what extent?

A qualified yes is suggested by the Fund's in-house reviews. For 1963-72 Reichmann and Stillson test this question in terms of statistical significance. For total domestic credit they show (p.298) that there was no significant change in the rate of expansion in 64.5% of the programmes, there was a significant slowing-down in 27.9% and an increase in 7.6%. Greater effect was recorded for the expansion of public sector credit, with no change in 50.6%, a significant decrease in 41.9% and an increase in 7.6%. They were, moreover, able to go on to reveal the type of association between credit expansion and foreign exchange reserves

predicted by the Polak model. There was a clear tendency for a decrease in the expansion of total and public sector domestic credit to be associated with an increase in foreign assets and this association was significant in a substantial number of cases (pp.304-5).

Unfortunately, none of the subsequent IMF studies have included significance tests. Results are reported for 1973-75 similar to those of 1963-72: 12 programmes recorded a decrease in the expansion of total domestic credit, against 8 in which there was an acceleration; and 14 recorded a decrease in credit to government, against an acceleration in 6 cases. The results for 1976 and 1977 do not specify information in this way but results for 1978-79 show a deceleration or no change in domestic credit in 14 cases and an acceleration in 7. On the whole, therefore, it seems probable that, in the general case, Fund programmes did push the credit variables in the intended direction.

However, the results of rank · · tests by Connors and ODI qualify this conclusion. Since Fund programmes generally call for an increase in government revenues relative to expenditures - a necessary condition for the reduction in deficit financing - Connors investigated the effect of programmes on the ratio of the fiscal deficit to GDP. He found no statistically significant difference between the pre-programme and post-programme ratios; nor is it even possible to say for this test that the signs were 'right'. Moreover and rather astonishingly, this result was as valid for those governments which had complied with credit ceilings as for those which had exceeded the ceilings.

The ODI rank · · work included changes in domestic credit and money supply among its variables. It found a significant fall in the expansion of money supply in year 1 but not in year 2, implying that the effect was a short-lived one. However, greater interest attaches to the results on domestic credit because in the Polak model this is the key determinant of the balance of payments and it is on this that the monetary aspects of the programmes concentrate There was found to be no significant difference in the rate of change of this variable, even at a 90% confidence level. The sign was 'right' in year 1 but whatever tendency there may have been for a reduction had disappeared by year 2.

Overall, then, while Fund programmes have some tendency to bring about a deceleration in domestic credit, it is a tendency with highly uncertain claims to statistical significance. The strongest results are those of Reichmann and Stillson but even they found a significant deceleration in only a little over a quarter of the programmes. A possible explanation of this is that Fund ceilings, contrary to their reputation, are not very restrictive; this would be consistent with our findings in the Kenya case study (chapter C5, Table 10). There is probably a stronger impact on credit to government, which may imply a tendency for increases in credit to the private sector to partially offset the decline in deficit financing. The practical import of this, and again accepting the basic premise of the Polak model, is that no strong balance of payments effects could be predicted from such a muffled impact on the credit variables. The instrument variables employed in the Fund programmes give little control over the balance of payments, with the wide scatter above and below target reported in Part I. The policies may nudge the payments outcome in the desired direction but only very approximately.

Mention should be made of evidence on one other aspect of programme policies, namely exchange rate depreciations. Donovan (1981) tested the impact of depreciations included in 12 Fund programmes in 1970-76 and arrived at conclusions that add further to the evidence surveyed in chapter 4 indicating devaluations to have generally positive effects on the balance of payments. Donovan's strongest result was on exports, with a striking improvement in performance, especially when tested over a 3-year period. The outcome on the volume of imports was more mixed, depending on whether the programmes also included import liberalisation - in which cases import volumes tended to accelerate sharply despite the depreciation - or whether the countries gave prominence to measures to cut back on demand - in which cases import volumes fell. Overall, the depreciations were associated with an improvement in the trade balance, although this was not true of the import-liberalisation sub-group.

We can lastly turn from looking at programme impact on instrument variables to examine the limited evidence on the extent of correlation between programme implementation and impact on target variables.

The correlation between implementation and results

The first piece of evidence comes from the Fund's review of its 1978-79 programmes. This includes general judgements about the extent of programme implementation and economic results by comparison with the outcome, summarised in Table 2.

Table 2. Overall Implementation and Results, 1978-79

(No of programmes)

Implementation	Results (unadjusted): Above Average	Results (unadjusted): Below Average	Results (adjusted for exogenous factors): Above unadjusted average	Results (adjusted for exogenous factors): Below unadjusted average
Above average	8	4	10	2
Below average	2	7	2	7

It is evident from this that there is a general, although far from perfect, association between the degree of programme implementation and the results achieved, although the judgemental nature of the exercise precludes any significane testing. The correlation is particularly strong when the influence of exogenous factors is excluded. The same review goes on, however, to make the important observation that there was no necessary correlation between observance of performance criteria, on the one hand, and overall programme implementation and results on the other. A number of programmes were only partially implemented despite compliance with performance criteria; in a few others there was substantial overall implementation even though performance criteria were not observed. Since credit ceilings are invariably included among the criteria, this implies the absence of a strong connection between credit performance and economic results. It also strengthens the argument of the previous chapter (pp.) that these ceilings do not perform the monitoring function which the Fund wishes them to.

The other evidence is taken from Connors. In all his tests he subdivided observations into those in which governments had and had not complied with programme credit ceilings. He was thus able to study the extent to which the impact of programmes was associated with compliance with the programme. The short answer is that there was very little such correlation. Thus, there was no significant effect on the current account

either for compliers or non-compliers, although the signs were generally 'right' - compliers were more likely to experience an improvement and non-compliers a deterioration, but this tendency was not significant at the 95% confidence level. There was a similar absence of significant correlation both with respect to GDP growth and the fiscal deficit. The test for inflation yielded the only significant result: non-compliers with the overall credit ceilings were significantly more likely to experience an increase in inflation - a somewhat curious result, given the evidence presented earlier that IMF programmes tend to be associated with a short-run increase in the rate of price increase.

We commenced Part III with the question why the existence of Fund programmes apparently has such a limited impact on the balance of payments and other key magnitudes. We have so far been testing the hypothesis that this is because many programmes are not well implemented and have now reached the conclusion that this hypothesis does not have a strong explanatory value. So far as can be judged from the evidence presented above, it is impossible to claim any more than a moderate connection between programme execution and the achievement of desired economic results, and very little connection at all between results and compliance with credit maxima. It is therefore necessary to look for other explanations, although we are only able to do so in a somewhat speculative way.

Other explanations

There are three possibilities which can be mentioned under this heading. Certainly among the most important are the exogenous disturbances mentioned in connection with Table 2 and at a number of points earlier. We can appeal to no quantified evidence on this but it is rather obvious that conditions in the world economy in the 1970s and early-1980s - with the two oil shocks, the upsurge in world inflation and the OECD recessions of 1974-75 and 1980-82 - have been such as to greatly increase the uncertainties and difficulties of designing even short-term stabilisation programmes, as well as of carrying them into effect. Similarly, the magnitude of the payments imbalances to which the programmes are addressed have much increased (chapter 2), thus adding to the difficulty of achieving satisfactory results. By comparison with the 1960s, a lower level of programme effectiveness was among the more predictable outcomes in a world of increased

uncertainty. In other words, the impact may be slight because the Fund has been given an impractical mandate in a world of massive disequilibria.

A second major factor, one directly related to the patchy level of programme implementation reported earlier, concerns the attitudes of national governments towards the IMF and towards stabilisation as an economic objective. In this regard, chapter C3 on Indonesia provides a positive example of what can be achieved when there is a firm government commitment to stabilisation but we suggest that the results of the Kenya and Jamaica case studies in chapters C4 and C5 have a rather more common validity. At least so far as the 1970s were concerned, the Kenya study found that the government did not place any consistently high priority on the stabilisation objective, especially when it would involve politically unpopular measures. It therefore abandoned one programme when a temporary commodity boom let it off the hook and lack of commitment arguably led to the collapse of a second of the agreements examined. A similar lack of seriousness about stabilisation marked the Manley administration in Jamaica, which had[a] marked unwillingness to come to terms with the foreign exchange constraint whenever this posed a trade-off with social priorities and political popularity. The structuralist/populist programmes of Latin America, surveyed in chapter C2, revealed a similar reluctance to modify longer-term ambitions in the face of immediate constraints.

There are additional grounds for suggesting that these country examples may be representative. There is strong evidence for the proposition that, in the absence of conditionality, governments tend to use access to international capital as a substitute for corrective action rather than as an input into the adjustment process. The World Bank (1981 Table 6.2) has, for example, shown an inverse correlation between access to finance and structural adjustment in ldcs. Balassa (1981) found similarly for countries such as the Philippines and Morocco that they used access to the Euromarket and other sources to postpone necessary domestic measures. Black (in Cline and Weintraub, 1981) has drawn attention to asymmetrical reactions in ldc monetary policies to external forces: there was little attempt to neutralise the expansionary effects of the 1972-73 commodity boom by restraint of domestic credit, whereas there was an attempt to offset the

contractionary effects of the first oil shock. The IMF (1981, p.48) has reported that in 1979-80 a majority of ldcs pursued expansionary financial policies despite payments deficits - policies which it regarded as over-expansionary in many cases.

That governments often appear to attach a low priority to economic stabilisation is also strickingly illustrated by the use to which they put the proceeds of the windfall gains resulting from the various commodity booms of 1974-78. Studying the cocoa and coffee booms, Davis (1980) found that nearly all the exporting countries obtained increased foreign exchange receipts exceptional even by the standards of the volatile markets for those commodities. While formal or informal tax systems in these countries were quite effective in preventing much of the windfall gain from accruing to the producers, virtually all the governments were quick to spend the extra revenue, often on hastily conceived projects which bore little relationship to the need for structural adjustment, even though the first oil shock had already occurred and it was manifestly clear that the commodity prices could not for long remain at the exceptional heights they achieved in 1976-77. In consequence there was a rapid expansion in money supply and imports, and by 1978 the reserve position of most of the countries was no better than before the commodity boom. The World Bank (1981, p.74) reached similar conclusions on the basis of a wider range of commodities and, therefore, of exporting countries. They additionally found a tendency for governments to borrow externally when the commodity boom had ended in order to maintain government spending at the new higher levels so that, perversely, the end result of the boom was often to leave countries in a weaker payments position than at the beginning. Covering a wide range of ldcs, straddling all the major regions of the Third World and a wide variety of country experiences, these studies point to a general tendency for governments to opt for quick spending in preference to longer-term stabilisation.

It is precisely for reasons of this kind that the IMF seeks to insist on relatively tight conditionality and "rigorous adjustment policies" (IMF, 1981 p.18), and the evidence presented earlier of rather frequent non-implementation itself suggests sometimes low governmental commitment to the measures agreed. There is no ready solution to this, however, because of the political sensitivity of stabilisation. Many nations are marked by acute divisions, and

their governments are commonly preoccupied with the maintenance of their own power and of social tranquility. Their task is frequently one of conflict management within a fragile political infrastructure. Moreover, short-term losses of income, consumption and employment are expected to result from stabilisation programmes (although we have seen that the actual evidence for this is weak). Disturbances of the distribution of income resulting from programme implementation will be expected to activate various special-interest groups and add further to the political sensitivity of the exercise.

It is therefore likely that such programmes will be perceived as involving larger political costs than the disequilibria to which they are addressed. That such judgements are not capricious is suggested by Cooper's well-known finding (1971) that currency devaluation roughly triples the probability that the responsible finance minister will lose his job within the following year and roughly doubles the probability that the entire government will fall.

To make matters worse, the effects of economic stagnation on saving and investment may increase the political difficulties. Enlarged payments deficits and consequential slower growth in per capita income tend to reduce household and business saving. Economic stagnation is also likely to reduce investment opportunities, it tends to worsen the public finances because, while government revenue is largely a function of national income, expenditures are to a considerable degree autonomous. For such reasons, the net per capita directly productive capital formation on which adjustment must be based is likely to decline. Moreover, in an atmosphere of uncertainty and crisis, and in view of the political frustrations that are likely to accompany an economic slowdown, there is the danger of a poorer quality of policy decision making.

In many cases, chauvinistic reactions to the involvement of a foreign agency like the IMF tip the political balance sheet even further against stabilisation. The presence of the Fund certainly complicates the issue, even if it is also a most valuable source of financial assistance (Krueger, 1978 p.124):

> Foreign intervention became a political issue in many other instances. Indeed, controversy over 'IMF policies' marked a great many liberalization episodes and may have done much to obscure important underlying issues.... In a sense the presence of foreign agencies makes it very difficult to evaluate the causes of 'failure' of some of the stabilization programs. Some governments... were never committed to stabilization in

> the first place and simply agreed to the conditions laid down for receipt of foreign credits. It is difficult to diagnose the stabilization program as 'unsuccessful' if the stated objectives of the programs did not coincide with the true objectives of the governments concerned.

In fact, our evidence suggests that conditionality is unlikely to have much effect if it is perceived as having been imposed from outside and if there is less than wholehearted government commitment to the programme.

It also sometimes happens that governments retreat from programmes when they begin to incur hostility or offend important interests. This makes subsequent attempts at stabilisation even more difficult, not only because the payments imbalance is likely to deteriorate in the meantime but also because of the adverse effects such retreats have upon public expectations. In the face of past failures or retreats, it will be that much more difficult for a government to persuade people that it is really serious this time. But changing expectations, for example with respect to investment incentives or future inflation, is often crucial to success.

Our third and final 'other explanation' brings us back to the policies of the IMF. The limited impact of programmes on national economies and the rather tenuous correlation between programme implementation and economic results may be because the programmes are not well conceived. There is, in fact, a certain amount of IMF staff support for a weak version of this hypothesis. For example, perhaps the strongest result to come out of the painstaking work by Beveridge and Kelly (1980) was a negative correlation between the level of ambition implicit in the fiscal programmes and the rate of implementation. Few of the more ambitious revenue projections were achieved (Table 5) and: "It is probably no coincidence that progams in which the fiscal performance clause was not observed were the most ambitious in detailing policy statements on expenditure and setting goals for expenditure constraint" (p.241). There is other internal Fund evidence which supports this finding, and our Jamaican and Kenyan studies add further to it. The general proposition here, then, is that programme designs tend to be self-defeatingly ambitious, try to achieve too much too quickly. If we accept the basic conceptual framework of the programmes, it seems likely that conditionality will be more effective when it seeks only to achieve modest gradual changes.

A second and more basic point concerns the requirement within the Fund's conditionality guidelines (chapter 4, p.) that its performance criteria should, in other than exceptional circumstances, be confined to macroeconomic variables. Since the Fund has limited effective leverage on the implementation of micro policies, the effectiveness of the macro measures it can insist upon may be undermined by inadequate supporting action at the micro level, as was already reported in connection with some exchange rate depreciations (page). Guitian (1982 p.) puts the point diplomatically:

> An area of policy implementation to which increasing attention will have to be paid is the relationship between macroeconomic and microeconomic variables. In many programs, the implementation of certain macroeconomic policies such as those in the credit and fiscal fields, is contingent on the adoption of certain microeconomic measures dealing, for example, with particular prices in the economy, with taxes or expenditure patterns of the public sector and the like. If these are not undertaken, the global basis for the program is undermined.

Given the somewhat arbitrary nature of the macro-micro distinction and the increased importance of supply-side (= microeconomic) measures in the circumstances of contemporary payments imbalances there is certainly a strong analytical case for modifying the guidelines on this matter.

But this leads to a more subversive proposition. The previous chapter drew attention to the strength of the constraints upon the IMF in seeking to adapt itself to ldc needs in the 1980s. It also commented on the limitations of the Polak approach to payments management which provides the theoretical underpinning of the Fund's focus on domestic credit. The monetary approach, it was suggested, rests upon a range of rather strong assumptions and tends to over-simplify the connection between credit and the balance of payments. The monetarist proposition that monetary factors have no lasting influence on the real economy was argued to have contributed to a Fund neglect of 'real' variables and of the limitations of demand restraint policies in the face of 'structural' deficits. Given these constraints and limitations, it is suggested now that Fund programmes have limited impact because they are not well designed to achieve what they set out to do.

It must immediately be admitted that this is only a hypothesis, for all the a priori plausibility it might have. It is not sufficient simply to point out that Fund programmes - even the implemented ones - seem to produce only weak effects and to infer from this that programme

design is inappropriate. There are other possible explanations and, in any case, it has to be demonstrated that there is some superior alternative to the IMF approach which depends less upon demand restraint. These issues are taken up in the final chapter.

IV - SUMMARY

Part I and II surveyed evidence on the impact of IMF stabilisation programmes on the balance of payments and other target variables. In the general case, this evidence provisionally suggests that they are largely ineffective. There is a tendency for them to move payments indicators in the desired directions, and to affect other variables in certain ways but these tendencies rarely pass standard tests of statistical significance. In terms of results which do pass such tests, the programmes appear to have a very limited impact. More specifically we found:

- that programmes are associated with a modest short-term improvement in the current account but of low statistical significance;
- there is a slightly stronger tendency for the basic or overall balances to be improved but the statistical significance of the results is again low;
- there are indications that Fund programmes do result in larger inflows of capital from other sources but the effect is not large and ambitious expectations are likely to be disappointed;
- there is no systematic association between Fund programmes and sustained liberalisation;
- programmes do not generally have any strong deflationary impact; there is actually stronger evidence of a positive effect on GDP growth but again statistical significances are generally low;
- programmes probably result in a net short-run increase in the inflation rate, rather than the desired reduction, but significances are once more low;

programmes are likely to have rather complex effects on income distribution and are unlikely to have any systematic tendency to increase or reduce income concentration, in practice a large proportion of programmes has probably had no significant impact on inequality one way or another.

The next task, in Part III, was to discover why the impact was so slight. One hypothesis was that this was because of poor programme implementation. We found a good deal of evidence that implementation leaves much to be desired. The IMF has experienced large difficulties in securing governmental compliance with a number of its key performance criteria, specially since 1973, with fiscal difficulties being a major source of non-compliance. Compliance with external debt criteria has been good but much less success has been achieved with exchange rate and liberalisation measures. A presumably related finding was that the programmes appear to have a muffled effect on the key policy variables to which they are directed. In particular, while they have some tendency to bring about a deceleration in domestic credit, this has slight claims to statistical significance. If we accept the basically monetarist premise underlying Fund's emphasis on the control of domestic credit, it seems unlikely that they could expect to achieve strong balance of payments results from the limited deceleration they achieve in the expansion of domestic credit.

What is even more damaging, however, is evidence indicating no more than a moderate connection between programme execution and the achievement of desired results, and very little connection at all between results and compliance with credit maxima. Thus the hypothesis that IMF programmes have little impact because of poor implementation receives only slight support from available evidence.

Three other possible explanations are suggested as likely contributory factors. The strength of exogenous distrubances since 1973 is an obvious one. A second is the general apathy often shown by ldc governments towards stabilisation and payments adjustment, related to the political sensitivity of effective policies in this area. The evidence suggests that an imposed programme to which there is limited government commitment is unlikely to be effective. Finally, it was suggested that there are weaknesses in the design of the IMF programmes themselves, especially in their de facto neglect of supply measures, which are likely also to have been important contributory factors.

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