

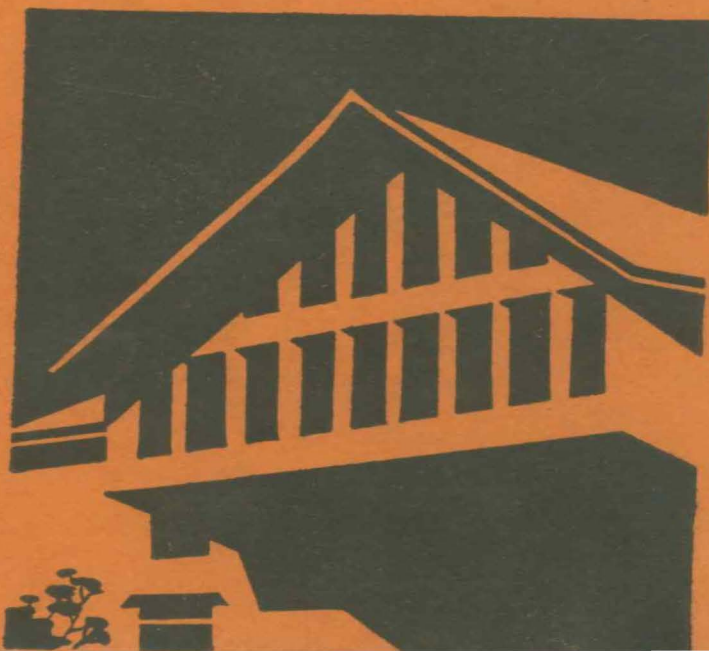
CENTRE FOR DEVELOPMENT STUDIES

Working Paper No.157

*Asymmetries, old and new in International
Finance International Monetary reform
efforts and lowincome countries*

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**Paper submitted at the Bangladesh Economic Association
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Asymmetries, Old and New in International Finance:

International Monetary reform efforts
and low income countries

I.S. Gualti

No international arrangement is perfect, no matter how much time, effort and thought are spent in hammering it out. Firstly every agreed arrangement involves compromises between negotiating countries and these compromises are made usually less out of conviction than out of recognition of one's relative strength as compared to others on the negotiating table. Secondly, every arrangement is bound to get dated quite fast, despite efforts to anticipate events and situations in the future. To be concrete, the Bretton Woods Agreement, laying down International monetary arrangement, was possible to reach because the various sides to the negotiations ultimately made compromises, some more than others. Since it was none other than John Maynard Keynes who yielded ground after ground under American pressure to reach the agreement, there could be little argument about what actuated the compromises he felt impelled to make. The fact that the arrangement worked out at Bretton Woods started showing clear signs of its inadequacy in the late 60s and ultimately collapsed in the early 70's demonstrates how future developments become difficult to accommodate beyond a point in old arrangements.

*Paper submitted at the Bangladesh Economic Association Seminar on International Trade and Economic Development, November 5-6, 1982 in Dhaka.

The monetary arrangements that have evolved since the collapse, in 1973, of the Bretton Woods Agreement are an outcome of not one overall agreement but a series of agreements worked out over the years, beginning with the Jamaica meeting of the Interim Committee of the International Monetary Fund, in January 1976, when it was agreed to accept that member countries enjoyed freedom to adopt the exchange rate arrangement of their choice. They were, at the same time, placed under the obligation to "collaborate with the Fund and other members to ensure orderly exchange arrangements and to promote a stable system of exchange rates". To ensure the latter, the Fund was authorised "to exercise firm surveillance over the exchange rate policies of the members and to adopt guidelines for the members with respect to these policies".^{1/} The Jamaica agreement, in effect, only put a stamp of approval on the system of managed floating which had already come to stay, having been in operation among the major trading countries for almost three years since the beginning of 1973 and which the countries with a major voice in the Fund decision making, particularly the United States, were in absolutely no frame of mind to give up in favour of the old system of fixed exchange rates.^{2/} Also, what was agreed upon in Jamaica marked only a beginning of the newly emerging monetary arrangement, an arrangement whose principal features today are (1) the dominance of flexible

1. See IMF Survey, January 19, 1976.

2. See I.S. Gulati, International Monetary Reform, its background, Present Status and Future Outlook, Indian Economic Journal, July-September 1977.

exchange rates; (2) the expanding role of private banks in the financing of balance of payments and (3) the relegation of the International Monetary Fund to an almost peripheral role in balance of payments financing.

I propose to concentrate in this paper on how the monetary arrangements, as they have evolved since 1973, affect low income countries, the grouping to which all of us on the sub-continent belong. In my presentation, I propose to discuss the various issues arising out of the monetary arrangements currently obtaining under two major headings: (i) payments imbalances and adjustment action (ii) generation of world liquidity. It is necessary, however, to be clear about the current international economic situation to be able to form a clear judgement about the relative significance of the various issues that emerge from my presentation. I shall, therefore, start with a review of the recent international economic developments.

The International Setting

As the World Bank's Development Report for 1981 sums up, "the 1980s have begun on a sluggish note".^{3/} Even during the 1970s, growth of output in the industrial market economies was erratic and slow compared to what was achieved in the 1960s. But in 1980 and 1981, growth in these countries had slumped even further, to a third of the average for the 1970s. While inflation rates in these countries showed some signs of slackening in the early 80's, unemployment reached

3 . See World Development Report; 1981, p.8.

record high levels, levels which revive memories of the Great Depression. The slow down in growth of output experienced by the developing countries was considerably less, though it was substantial for low-income countries. Per capita growth rates in low income countries were more than halved (from 1.8 per cent to 0.8 percent between the 60s and 70s). Alongside, inflation rates experienced by the developing countries have been quite high.

The general slow down in growth of domestic output during the 70s and early 80s has been accompanied by a slackening in the growth of world trade. Again low income countries seem to have been the worst sufferers. While for industrial market economies growth of exports slowed down from 8.4 percent in the 60s to 5.9 percent in the 70s, and for middle income developing countries the pace slackened from 5.4 percent to 4.3 percent, for low income countries the slow down was precipitous, with growth of exports declining from 5.0 percent in the 60's to a negative rate of 1.0 percent in the 70's.

While their export earnings have been slow or stagnant, the prices low income countries have had to pay for their imports have been rising sharply. According to World Bank's calculations, the purchasing power of the exports of these countries declined by 24 percent between 1970 and 1980.^{4/}

4. See World Development Report 1981 pp.21-2. Because of the deterioration of their export prices relative to those of others, low income countries hardly shared at all in the growth of world trade during the 70s. As the World Bank put it, "to the extent the imports depend on export earnings, they (low income countries) can import little more at the end of the decade than they could at the beginning-this in the face of a more than one quarter growth of their population. More recent assessment shows outright decline in the volume of imports by low income countries, amounting to 2 percent in 1980 and 7 percent in 1981. See IMF Annual Report, 1982 p.30

Perhaps the most disturbing development of the 1970s was the worsening of the balance of payments for the non-oil developing countries in general. The worsening trend was sharply accentuated between 1978 and 1981. Thus the balance of payments deficit on current account of the non-oil developing countries was \$11.6 billion in 1973, \$28.3 billion in 1978 and \$99 billion in 1981. During the same period, the current account balances of industrial market economies showed a remarkable capacity to recover from any major shock. Taken together, they moved from a surplus in 1973 of \$17.7 billion to a deficit of \$3.7 billion in 1981, with a surplus of \$29.8 billion in 1978 and a deficit of \$44.8 billion in 1980. The surplus of the oil exporting countries fluctuated between \$2.9 billion in 1978 and 115 billion in 1980. The surplus for 1981 was \$70.8 billion and the IMF projections for 1982 place it at only \$25 billion. Low income countries had a relatively small deficit of \$4 billion 1973 which almost doubled immediately after the first round of oil price increases. By 1977, however, they were able to reduce their deficit to \$3.6 billion. After the second round of oil price increases in 1979 the deficit has again been mounting and that too quite sharply; it was \$14.3 billion in 1981 and is projected at \$15 billion for 1982.^{5/}

An important aspect of the payments situation of low income countries has been that all along their combined deficit as a percentage of their exports earnings was the highest among the various analytical groups within the broad category of non-oil developing countries. Even in 1973 and before, their payments deficit was as high as a quarter of

5. See IMF, World Economic outlook, 1982, pp.61-5.

their export earnings. In 1980 and 1981, it was almost three-quarters of export earnings. Viewed in relation to export earnings, deterioration of the payments position of low income countries has clearly been the sharpest.

Occurance of payments deficits year after year in the 70's resulted quite naturally, in the accumulation of sizeable external debts by the non-oil developing countries. Their long term debts which added up to \$97 billion in 1973 rose to \$437 billion in 1981. The projections for 1982 place the figure at \$505 billion. For low income countries, the jump would be from \$22 billion in 1973 to \$80 billion in 1982 which, as a percentage of export earnings, would work out to 228, again the highest for the various analytical groupings among the non-oil developing countries.^{6/}

Accumulation of large external debts by non-oil developing countries has been accompanied as well as caused by higher than proportionate increases in debt service payments because of both a sharp increase in interest rates and shortening of the maturity structure of debt. For all non-oil developing countries, debt servicing rose from \$15.3 billion in 1973 to \$94.3 billion in 1981, which as a proportion of export earnings rose from 14 percent to 21 percent. It must be added, however, that for low income countries the increase in debt servicing ratio has been the lowest, from 12.6 percent in 1973 to 13.5 percent in 1981. This was so because the access of low income countries has continued to be

6. See IMF, World Economic Outlook, 1982, p.171

restricted very largely to official credit.^{7/}

Private commercial banking credit has remained virtually outside the reach of low income countries despite its phenomenal growth practically all through the 70s and early 80s. Indeed, the expansion of international lending by private commercial banks has probably been the single most dramatic development of the 70s, particularly of the second half of the decade. Euro-dollar deposits, at the end of 1981. Today, these deposits exceed one trillion dollars.^{8/}

Although international commercial lending has shot up dramatically, access to it to the low-income countries has been severely restricted. Indeed, it is hardly worth mentioning except to underline that this is a source of finance virtually untappable by this group of countries. Though the non-oil developing countries, as a group, accounted for about a fifth of this lending, it is very significant that three countries (Brazil, Mexico and Argentina)

years

7. In fact, in between $\frac{1}{2}$ debt service ratio for these countries had registered a substantial decline. It had declined to 7.3 percent in 1979, even though the ratio of external debt to their exports in 1979 was some what higher than in 1973. Recent escalation in the debt service ratio is possibly attributable to a hardening of the terms of their recent borrowings, though the source of these borrowing has continued to be official credit.

8. This excludes inter bank lending. Gross deposits, inclusive of inter bank lending, should be close to \$2.5 trillion, if not higher, by the end of 1982.

from Latin America together owed over one half of this credit.^{9/}

The vast majority of non-oil developing countries, both middle income and low income, had little or no access to this source for either direct or indirect (i.e. through projects) balance of payments financing even though, as was noted earlier, they faced serious, continuing worsening of their payments position. Low income countries continued to depend almost exclusively on official, bilateral as well as multinational, more of the latter -- credit to cover their deficits.^{10/}

To sum up the overall international economic environment in recent years, developments in output, trade and finance have been such as have had the effect of pushing non-oil developing countries in general, and low income countries in particular, more and more to the wall. It is with this background in mind that I propose to discuss the major aspects of recent international monetary developments and offer my assessment of the present situation from the point of view of low income countries.

Payments Imbalances and Asymmetrical Adjustment Obligations

To every dollar of deficit in a country's balance of payments on current account, there has to be, as we all know, a corresponding surplus in the balance of payments of another country (or group of countries). There has, therefore, to be a synchronous transfer on

9. With the addition of three other countries, one from Latin America, Chile, and two from the Far East. South Korea and the Philippines, the six countries together accounted for 70 percent of the bank credit to non oil developing countries as on December end 1980.

10. See World Development Report, 1981, p.57

capital account from the surplus countries to the deficit countries for the overall balance of payments to balance. But to say this much is not going very far. Indeed it tells us little about either how deficit countries raise funds externally to cover their deficits, how surplus countries place their external surpluses or how these surpluses get routed to the deficit countries. Nor does it tell us anything about how the surplus as well as deficit countries seek to readjust their trade and financial flows to rectify their current account imbalances over the longer run.

One of the major concerns in international monetary reform has always been to work out a system or arrangement under which not only is the obligation to take appropriate, timely adjustment action accepted by all countries with payments imbalances but also the obligation is so shared between the surplus and deficit countries that the burden, such adjustment action imposes, is distributed equitably between countries. This was a concern voiced at the negotiations preceding the Bretton Woods Agreement and it has also been a major concern in more recent years, particularly since it was realised that the Bretton Woods System was on the verge of collapse.

The further issue in later years has been that while speaking of symmetrical obligations for adjustment action it is argued that reserve currency countries also need being brought under the umbrella of international adjustment discipline. Otherwise, a reserve currency country, it is felt, could go on incurring payments deficits without undertaking any adjustment action and place practically the entire

burden of adjustment on the reserve accumulating and other reserve decumulating countries.

Indeed the major preoccupation of the reform efforts undertaken during the 4-5 years immediately preceding the breakdown of the Bretton Woods System in 1973 was to work out an arrangement under which the reserve currency countries (at that time, there really was only one such country; namely, the United States) also accepted the obligation to undertake adjustment action like any other deficit country on the grounds that they too were incurring liabilities abroad to achieve a payments balance and that the unregulated expansion of these liabilities created problems for the smooth working of the international monetary system. That efforts in this direction did not succeed is in itself a matter worth careful examination but it is something that I do not wish to pursue here. For my present limited purposes, it should suffice to note that the expansion of foreign exchange reserves (i.e. in the liabilities of the reserve currency countries to the monetary authorities of other countries between end 1973 and end 1981 was more than twice the expansion which took place in the preceding 20 years.^{11/} Although there has, at the same time, been some tendency to diversify foreign exchange holdings among a number of reserve currencies, the share of the U.S. dollar in foreign exchange reserves has still remained rather large at above 70 percent (it came down from 78.4 percent in 1973). Not only has very little been achieved by way of imposing some sort of discipline on the reserve currency countries, the

11. Indeed, if one were to compare the expansion in foreign exchange reserves, with the line drawn at the end of 1969, the expansion since then has been 22 times the expansion before that.

experience of the past decade goes to demonstrate that reserve currency countries are subject to far less control today than they were under the Bretton Woods System.

Continuing Domination of the Dollar

Under the Bretton Woods System, the U.S.A., as the principal reserve currency country, undertook to maintain the gold value of the dollar at 1/35th of an ounce till almost the end. Dollar convertability imposed on the U.S.A. this obligation. This operated as a sort of check on the expansion of the U.S. liabilities abroad. Since 1973, however, there is no obligation whatsoever on the U.S.A., or any other reserve currency country, to maintain the gold value of its currency. Nor has any other effective obligation been placed on reserve currency countries except the very vague requirement under Article IV of the amended IMF Agreement, to follow the guidelines and be subject to Fund surveillance with respect to exchange rate policies. Given this position, there is little reason why a reserve currency country should be unduly perturbed at the expansion of its currency liabilities abroad and the concern is probably even less if and when all reserve currency countries expand their external liabilities more or less in concert.^{12/}

12. No doubt, there will still remain the danger of movement away from reserve currencies into gold (and even other stockable commodities) although gold has now been divested of any formal status in the international monetary system. One could possibly argue that, therefore, reserve currency countries cannot altogether throw caution to the wind. But that is not the same thing as observing proper internationally agreed rules and regulations.

The points to note, in our context, regarding monetary developments in recent years are three. Firstly, whatever diversification has taken place in the currency holdings of monetary authorities has been from the dollar into a few of the other developed country currencies, notably Deutsch Marks and Swiss Francs. Secondly, the extent of this diversification has been only marginal in that it only slightly slowed down the expansion in dollar liabilities abroad. As against a 200 percent expansion of total foreign exchange reserves, the expansion in dollar holdings of the monetary authorities was of the order of 170 percent so that the overwhelming domination of the dollar has remained more or less unaffected. Thirdly, the massive growth, at the same time, of Euro-dollar banking has, very largely, meant the expansion of dollar denominated deposits and lending outside of the United States but principally by branches, subsidiaries and affiliates of the U.S. banks, so that the dominant position of the dollar can be said to have remained virtually unaffected.

Thus after all the swings in exchange rates and movement of funds across national frontiers over the past 10 years since the collapse of the Bretton Woods, the dollar can still be said to hold its firm sway on the world monetary scene. At the same time, a few of the other stronger developed country currencies have also started sharing with the dollar the benefits of reserve currency status. No less important it is to note that

with the massive spurt in Euro-dollar banking operations the commercial banks have become the major source of funds for the industrial market economy countries and a handful of middle income developing countries. At the same time, practically all low income and most middle income developing countries, with extra-ordinarily large payments deficits, have remained virtually excluded from access to commercial bank finance.

Emergences of a New Asymmetry

As a result, a new asymmetry has emerged. This is the asymmetry in the access to balance of payments finance between industrial market economy countries and a handful of middle income favourite on the one hand and the low and most middle income developing countries on the other. While the former have access to commercial bank finance for meeting their payments deficits, the latter have none and are therefore driven more and more to institutions like the World Bank and the International Monetary Fund, offering mostly high conditionality finance.^{13/} The Fund has,

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13. In the past few years, for instance, all drawings from the International Monetary Fund have been made by non-oil developing countries which is in sharp contrast to the position that obtained until mid 1970s. Of the Fund credits outstanding at the end of 1977, 49 percent were accounted for by industrial countries; the proportion had declined to 4 percent by the end of 1981. The share of low income countries rose from 11 percent to 37 percent in the same period.

as we know, lately swung sharply towards high conditionality financing, obliging borrowing countries to undertake severe adjustment actions to contain domestic demand along with import liberalization and exchange rate devaluation. Even the handful of middle-income developing countries which enjoyed access to commercial bank finance directly may gradually be forced to use the instrumentality of the Fund for their future external finance. The recent case of how Mexico has been forced to resort to the IMF is, in my judgement, a pointer in that direction.^{14/}

Thus, we now face a situation where countries, which, by any objective assessment, are faced with sharply increased payments deficits for reasons almost entirely outside their control --- IMF's own most recent assessment shows that the increase in oil prices and the weakening of primary commodity prices accounted for more than two-thirds of the entire increase in the aggregate current account deficit of the non-oil developing countries between 1978 and 1981^{15/} --- are being obliged to take on the entire burden of adjustment action. The justification being offered is that the deficits faced by these countries are not sustainable because they are not temporary and reversible and

14. Mexico's financial crisis illustrates how a country can get into difficulties financially for reasons altogether outside of its control, namely the decline in the price of its oil exports and sharp rise in interest rate on its external debt, and still be forced into a course of economic policy which, though of little immediate impact, fits in with the ideological biases of the Fund and the countries which dominate its decision making.

15. See IMF Annual Report, 1982, p.29.

that therefore these countries must perforce take on the full burden of the corrective adjustment action, regardless of whether or not the deficits they face arose as a result of factors within their control.

It is worthwhile noting at this point that the argument used after the first round of substantial oil price increase (1973-74) was that since the payments deficits arising in consequence were substantial and likely to persist for some years they would have to be accepted in the short run and that therefore deficit countries should not attempt to eliminate their deficits by each taking recourse to deflationary demand policies, import restriction and exchange rate depreciation because such action would serve only "to shift the payments problem from one oil importing country to another and to damage world trade and economic activity". Instead, a forceful case was made for sustained international cooperation "to ensure appropriate financing without endangering the smooth functioning of private financial markets and to avert the danger of adjustment action that merely shifts the problem to other countries".^{16/}

However, when it came to the second round of substantial oil price increase (1979-80), by which time commercial banks had clearly established their ability to finance not only the other external funding requirements but also the deficits of the industrial market economies -- thus, during the 3-year period, 1978 to 1980, while deficits of all the industrial market economy

16. See IMF Annual Report, 1974.

countries added up to \$106 billion their international market borrowing amounted to \$270 billion -- the tune had altogether changed and the burden of the song, right from the start, was that the deficits faced by the countries not being temporary and reversible ought to be tackled by strong adjustment action in the form of deflationary demand management and exchange rate action even though it must have been clear that such action would only accentuate the recessionary conditions already obtaining because of the recent deflationary and beggar-thy-neighbour protectionist policies of the industrial market economies.^{17/}

I would submit that the position as it has evolved, particularly over the past three years, on the world economic scene is extremely ominous for the developing countries, more so for low income countries, in that on the pain of inaccessibility to external finance to cover their payments deficits they are being asked to shoulder the entire burden of corrective adjustment action even though it is generally accepted that the major part of the payments deficits which have currently emerged have little to do with the domestic economic policies of these countries and are entirely attributable to extraneous circumstances.

17. Thus while in the period following the first oil shock three quarters of the resources the Fund made available involved low conditionality, in the period after the second oil shock over three quarters of the Fund lending commitments involve high conditionality calling for rigorous adjustment policies. See Sidney Dell, On being Grandmotherly: The Evolution of IMF Conditionality, Princeton, 1981 and I.S. Gulati, IMF Conditionality and Low Income Countries, Pune, 1982.

What is very unfortunate about the inequity of the high conditionality now being demanded of the developing countries is that this demand is being spear-headed through the International Monetary Fund, an institution which, all said and done, is still part of the United Nations framework and could be said to subscribe to the broad development perspective of the United Nations Organization. Infact, as we shall note presently, the slant of the whole set of policies being pursued by the Fund raises strong suspicions that, given the complete domination over its decision making by the industrial market economies in general and the U.S.A. in particular, there is little chance of the development perspective reasserting itself, atleast not in the near future, in the formulation of policies in regard to the world monetary arrangements through the fora provided by this institution.

Increasing Inequity in World Liquidity Generation

The question of world liquidity is intimately connected with that of balance of payments financing in the sense that, other things remaining the same, the larger the payments imbalances the greater should be the need for international liquidity through which to finance the payments imbalances.

Under the world monetary system, as it evolved over the years after the Bretton Woods Agreement, international liquidity was generated through the creation of dollar liabilities. This arrangement conferred an enormous economic benefit on the United

States as the sole reserve currency country. As the London Times put it editorially, the U.S.A. could on the strength of this position, go on "spending, investing and soldiering abroad as if the nation were still the overwhelming economic power that it was immediately after World War II". Thus, to illustrate during the 1960s, though the U.S surplus in its balance of payments on current account added up to \$33.3 billion, its additional investments abroad (portfolio and non-portfolio put together) added up to \$76 billion. During the same period, the increase in the foreign exchange reserves of the countries other than U.S.A. was of the order of \$16.9 billion.

After the breakdown of the old monetary system and the emergency of a new monetary regime since early 1973, the U.S. position has improved further in the above respect. Between 1973 and 1979, although the U.S. current account surplus was of the order of only \$5.1 billion, its additional investments abroad added upto \$307.1 billion (sixty times the current accounts surplus as against two and a quarter times in the preceding decade). During these seven years, the foreign exchange reserves of the countries other than U.S.A. increased by \$213 billion.^{18/}

18. See Economic Report of the (U.S.) President, 1982 and IMF Annual Report, 1982. In matching U.S. investments abroad and increases in foreign exchange holdings of other countries allowance has to be made for the fact that only a part (70 percent) of these holdings is currently held in dollars.

It can be noted that under the system now obtaining the U.S.A. has been able to invest abroad on a very much greater scale than in the past, absolutely as well as relatively. This phenomenally larger investment abroad by the U.S.A. has been made possible not only because of the accumulation of foreign exchange reserves by other countries but also because of the expansion of international commercial banking under the U.S. leadership.

Whatever may be one's assessment of the liquidity needs of the world monetary system, based as it now largely is on floating exchange rates, we cannot overlook that the experience of the past few years has clearly demonstrated that to meet these liquidity needs the system relies as preponderantly on the U.S.A., and a handful of other reserve creating countries with freely usable currencies, as it did under the old system of fixed exchange rates. The role of the multilateral financial institutions in the generation of world liquidity has so far been only restricted to the International Monetary Fund which has been allowed to play an increasingly limited part in this regard. Before 1973, generation of world liquidity was almost altogether the prerogative of the U.S. monetary authority; since then it is being undertaken jointly by the U.S. monetary authority and the U.S. Commercial banks, with some contribution by a handful of other industrial market economies.

Between 1973 and 1981, Fund related assets namely, SDRs and Reserve Positions in the Fund, increased by SDR 13 billion whereas the foreign exchange reserves increased by SDR 202 billion.

While at the end of 1973 the proportion of Fund related assets to total non-gold reserves including Fund related assets was 13 percent, it declined to 11 percent in 1981. This decline in the relative position of Fund related assets took place despite the second SDR allocation, spread over the three year period, 1979 to 1981.

The reasons why Fund related assets have expanded rather tardily (as a percentage of the current accounts imbalances they declined from 0.26 to 0.15 over the same time span) are well known, namely (1) the reluctance of the developed member countries with major voice in the Fund's decision making, to allocate additional SDRs and (2) their opposition to the expansion in membership quotas.

The first allocation of SDRs was agreed upon in 1969. That was for 9.3 billion SDRs. The next allocation could be agreed upon only in 1978 and this was for 12 billion SDRs. Proposals for any further allocation of SDRs, even though the bulk of it (almost 60 percent) is appropriated by the developed member countries, are meeting with the strongest opposition from these countries, particularly, the U.S.A. which enjoys a virtual veto over major decisions in the fund.^{19/}

19. The current U.S. share of the SDR allocation works out to 20.64 percent (equivalent to its quota in the Fund) which is more than twice the share of low income countries viz., 9.8 percent. But the U.S. opposition to SDR allocations has to be understood in the larger context of liquidity generation. The gain to the U.S.A. from the generation of dollar liabilities, official or banking, is between 60 and 70 percent whereas its gain from SDR allocation is only 21 percent. Naturally, therefore, it prefers liquidity generation through SDR allocation to be as limited as possible. Other reserve currency country gains are also much larger from liquidity generation other than through SDR allocation.

Thus towards the close of 1981, SDRs accounted for less than 5 percent of the total non-gold foreign reserves of the Fund members.

On the matter of Fund quotas, although the dominant view in the Fund has been to rely primarily on quota subscriptions as a source of financing for the Fund operations,^{20/} there has always been considerable prevarication and hesitation, despite the decision to review the position every three instead of five years.^{21/} The last increase in quotas, which was agreed upon in 1979 became effective towards the end of 1980, raised them from a total of SDR 40 billion to SDR 60 billion. The demand for a further substantial quota increase is facing utmost resistance, which again is spearheaded by the U.S.A.

The Fund, as we know, provides unconditional and conditional liquidity. Unconditional liquidity is supplied through the allocation of SDRs as well as by the generation of

20. See IMF survey, October 13, 1980.

21. This was done possibly in recognition of the fact that over the years the Fund's relative position has become weaker with quotas falling out of line with the growth in world trade. In 1948, quotas stood at 16 percent of world imports in 1980 the proportion had fallen to less 3 percent. Since quotas have remained the major source of finance for the Fund's operations, this relative decline has naturally affected adversely the Fund's capacity to provide balance of payments assistance.

Reserve Positions in the Fund.^{22/} Conditional liquidity is made available through the extension of Fund credit to members on terms and conditions which are not uniformly the same. Hence, the distinction between low conditionality and high conditionality. Access to members to both types of conditional liquidity is in accordance with their quotas. Since quotas themselves have declined in relative terms, even expansion in the Fund's conditional liquidity has been slow. Still in its rather tardy attempt at expanding access to its credit, the Fund has inclined increasingly towards high conditionality financing.^{23/}

In spite of all the objections that one can genuinely raise against the manner in which the Fund disposes of its credit, conditional as well as unconditional, one has to look at the slow expansion in Fund liquidity in the context of the total world liquidity. While the sharing of the gains of generating non-Fund liquidity is altogether between the few strong industrial economies, with the rest of the world altogether excluded, there is still this much to be said for the Fund liquidity that it lends itself to a much broader, though quite regressive, sharing of gains. Viewed in this manner, the increasing dependence on reserve currency countries for the generation of world liquidity rather than on the International Monetary Fund is to be regarded as a clearly retrograde development of the 1970s.

23. The consequence is that with the ratios of quotas to trade having declined considerably it does not take a very large deficit to move a country, particularly a small, low income country from low conditionality tranche to high conditionality tranches See Sidney Dell, *op.cit.*

Earlier on in the Paper I referred to the compulsions under which non-oil developing countries were being driven to the Fund for high conditionality financing. This is particularly so with respect to low income countries which have little access to Euro-dollar markets. One major reason why these countries are being driven to high conditionality Fund financing is because firstly, with the relatively rather slow growth in Fund quotas, the countries in need of Fund credit exhaust their low conditionality entitlement fast and are forced into high conditionality borrowing and secondly the expansion within the Fund of its financing facilities has been such that relatively less is now available on low conditionality.

So the developing countries have to fight on several fronts. They have to fight for the progressive expansion of the role of the multilateral institutions in the generation of world liquidity and at the same time fight against the International Monetary Fund's growing bias for conditionality financing as the poorer of its member countries have been forced by circumstances beyond their control to resort to it for balance of payments cover.^{24/}

24. The IMF Managing Director has, in one of his recent addresses, described how recent Fund assistance has been "going entirely to developing countries -- and often poorer among them". These according to him, "are the countries with the most severe payments problems. Also, they have little, if any, access to commercial sources of finance. The financing needs of the industrial countries and many of the stronger developing countries, on the other hand, have been taken care of by means of recycling through the commercial markets".

Concluding Observations;-

I am sorry to be unable to draw a less distressing picture of the current state of international monetary reform efforts. Will the future efforts succeed better? It depends. One thing I could venture to say is that future efforts at reforming the international monetary system in a manner more responsive to the needs of the developing countries are unlikely to bear better fruit than in the past through the fora that an institution like the International Monetary Fund provides. I could even add that efforts however small, at mutual cooperation in matters of not only trade but also international finance among the developing countries at global, regional and sub-regional levels may well be quite fruitful. After all, judging by the expansion in South-South trade even in non-oil items, the modest efforts at mutual cooperation have not at all been disappointing. However, the fact that past efforts did not quite attain the ambitious targets that were set for them certainly points to the need for greater, not lesser commitment to programmes for cooperative action.