Dealing with the IMF: *dangers and opportunities*

VISHNU PADAYACHEE* assesses different views on the potential role of the International Monetary Fund in SA, and discusses the importance of macro-economic balance and stability. He points to the dangers IMF interventions hold for democracy, and criticises the way the ANC dealt with the recent IMF loan to SA.

Recent negotiations about an IMF Compensatory and Contingency Financing Facility (CCFF) of $850m has raised the debate about the IMF's role in South Africa. The loan application was (purportedly) made in support of South Africa's balance of payments (BOP), following a decline in agricultural exports and an increase in agricultural imports resulting from the drought. These factors had led to increased pressure on our foreign reserves. The IMF loan, it was claimed, would bolster these reserves and ease the capacity of the authorities to manage monetary and exchange rate policy.

The breakdown of the Bretton Woods system in the early 1970s left the IMF with the principal task of providing short-term BOP assistance. Global economic conditions, often coupled with poor domestic economic management, have meant that developing countries with sustained BOP deficits are forced to turn to the IMF for short-term financial assistance.

While developing countries can minimise the risk of BOP crises, few are immune from potentially destabilising shocks on their BOPs. Under weakened circumstances, developing countries are left with little room to manoeuvre in negotiating over policy changes the IMF demands. These policies can have damaging effects, often precipitating political instability and jeopardising fragile democratic experiments. Although Fund missions have recently attempted to ameliorate the social effects of its programmes on the poor and other vulnerable groups, "there remains doubt about how much difference these changes have made in practice" (OD1:p1).

The CCFF, from which the loan to SA will come, is usually a relatively low conditionality facility (ie, the IMF does not impose major policy changes). However, some policy changes and adjustment programmes acceptable to the IMF would need to be set out in a letter of intent, prepared by the borrowing government, before the loan is approved. The IMF increasingly speaks of the importance of the borrowing country designing and owning such 'adjustment programmes'. However, many developing

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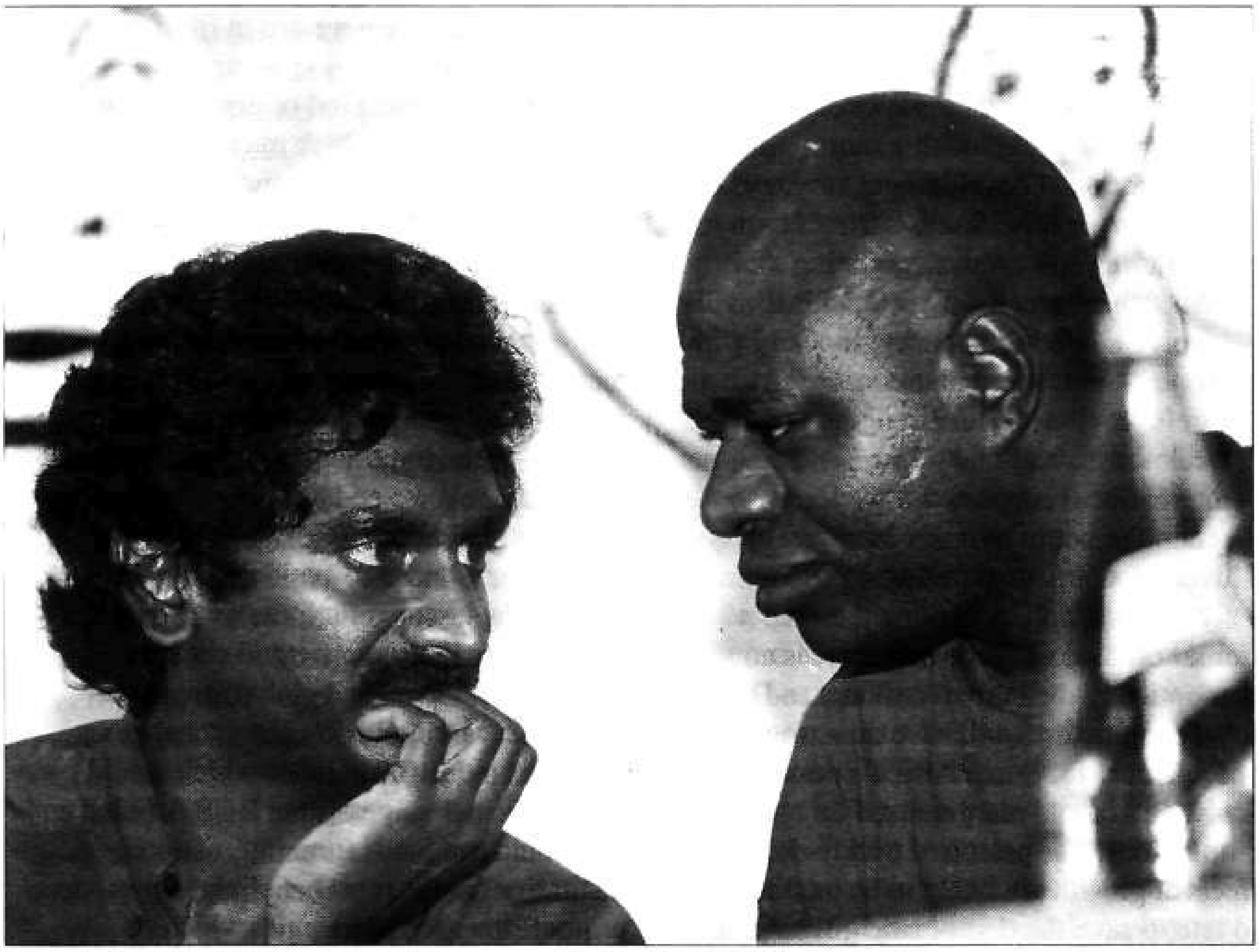

Negotiating the IMF loans: anxious moments for COSATU?

countries have found that the Fund's conditions tend to bring economic austerity to important sections of society.

Views on the IMF and World Bank's role in South Africa

There are four broad views on the IMF's role in the economic reconstruction of a post-apartheid South Africa. These, in a simplified form, can be summarised as follows:

- One which has reconciled itself to the IMF view of growth and development. It is based on a kind of "global consensus", following market-oriented economic reform and liberal, pluralist political solutions in the post-Cold war era! In this view, IMF/World Bank (WB) loans, adjustment programmes and technical assistance are regarded as good for growth and should therefore be eagerly solicited.
- One which sees the IMF/WB as agents of evil imperialist powers out to destroy nationalist and socialist development programmes in developing countries, to open them to western trade and investment with the objective of bolstering capitalist economies in the industrialised west. Here, developing countries are advised to go it alone with an inward-looking strategy of development.
- One which believes the IMF/WB can be persuaded to accept South Africa's nationally-determined development strategy, even where elements of the strategy may be anathema to these institutions. The assumption is that these institutions have changed their development philosophy to accommodate more interventionist strategies or are prepared, for both economic and political (or moral) reasons, to make special concessions in South Africa's case. In this view, IMF loans do not challenge the country's chosen development plans and goals.
- One which recognises that the IMF/WB

may indeed have marginally changed aspects of their approach since the late 1980s. However, their views are still not easily reconcilable with a more interventionist development strategy. In this view, despite South Africa's many bargaining strengths, negotiating a favourable agreement with the IMF will involve a continuous struggle. Only with proper strategy and planning based on a careful review of our strengths and weaknesses, and mass-based and international support, are we likely to retain the better part of our sovereignty over economic and political programmes.

In my view, simply accepting the IMF's familiar orthodoxy (believing there is no other option in the current national and global conjuncture) will have disastrous consequences for South Africa's poor, disadvantaged and marginalised communities. The promised trickle-down effects of growth are likely to be too little, too late to save the democratic government in the 1999 elections.

Those who hold the unproblematically positive view of the IMF, having reassured the Fund about a new government's economic policies, must now ensure that no one upsets the apple cart. Hence constructive dissent has to be stamped out so that the magic IMF/WB loans can be secured.

The view that the IMF/WB are simply imperialist agents and therefore we should not borrow or have anything to do with them is naive, conspiratorial and functionalist. It is true that the IMF/WB in the post-War global economy has heavily favoured the interests of western industrialised countries. However, the view that any country can pursue an independent development strategy is naive. The interdependent nature of the global economy, and South Africa's very open economy, would make this strategy impossible.

On the other hand, believing that we can 'ride the IMF tiger' will lull us into a false sense of security. If we believe that the IMF/WB will simply cave in to our demands because of the moral and political rightness of our struggle, then we are in for a very rude shock.

However, some kind of agreement with the IMF and World Bank may well be necessary. Access to IMF and World Bank loans and other resources may be crucial to our development strategy. But, as Hanlon and others have argued, (see WIP 89) we need a well-planned approach to negotiating with them, based on a clear and well-articulated alternative development strategy which recognises the importance of sound macro-economic balance and has the support of the majority of our people.

We would need to avoid division in conducting our negotiations; we should borrow only if alternative and cheaper sources (both local and global) are not available; we should develop exchange rate, trade and industrial policies which would reduce the risk of persistent BOP deficits; and we should use funds from international institutions in the most beneficial way — to promote long-term strategies which contribute to development and to our capacity to develop our own foreign exchange earnings and capital stock.

South Africa does have some advantages in negotiating with the IMF/WB. Its physical, communications and financial infrastructure are impressive, albeit distorted by racial biases; its foreign debt is low; its new political leaders have developed fine negotiating skills in their daily struggle against racial oppression and economic exploitation over many decades; and it has a relatively well-developed intellectual core of local expertise to draw upon in such negotiations. As Hanlon argues, South Africa could be "the first country to tell the IMF what role we want them to play', but only if it learns from those who have already tried and failed".

Structural adjustment and macro-economic balance

The point of entry for IMF lending (and policy prescriptions) is external macro-economic imbalance, ie sustained deficits in the country's balance of trade, which invariably necessitates recourse to IMF loans. The IMF's role thereafter focuses on correcting other macro-economic balances – the national budget, inflation rate, the savings and investment balance etc.

The IMF is right in insisting on macro-economic stability and financial discipline. But is the IMF's view on what constitutes financial discipline and macro-economic stability the only correct view? This is debatable. The IMF's monetarist view on macro-economic stability is often crudely contrasted with 'macro-economic populism', as if these are the only two possibilities. If one disagrees with their view of macro-economic stability and balance (the Fund and its supporters would argue) one must be a macro-economic populist. And various Latin American examples are trotted out to demonstrate the disastrous effects of this.

Loxley points out correctly that government programmes which try to avoid the IMF/WB encroachment on national sovereignty cannot succeed if they fail to address the economic imbalances upon which IMF/WB programmes focus, and if they fail to map out a coherent longer-term alternative development strategy (Loxley, 1990:26).

It is important to see macro-economic stability as 'enabling' rather than as 'constraining' development. The Macro-economic Research Group (MERG) has pointed out that some commentators have unfortunately used the term 'macro-economic constraints' when referring to the need for macro-economic stability. This is misleading and incorrect. "Sound macro-economic policies should ensure sustainability and increased capacity to deliver social goods, and will thus facilitate, rather than constrain, the implementation of a development strategy. Policies that ignore macro-economic stability collapse after a few short years, usually leaving the poor worse off" (CDS/MERG, 1993:47).

The MERG macro-economic policy framework, for example, argues that the realisation of the MERG objectives necessitates prudent and risk-averse fiscal, monetary and BOP management policies.

Macro-economic balances need to be assessed, maintained or restored over time (say a 10-year reconstruction cycle), allowing for the positive results of policy interventions to work their way into improved growth rates, rather than being artificially maintained at every point within the cycle. Such balances also have to be linked to economic growth. Within a sustained growth environment, certain macro-economic (im)balances can be temporarily stretched beyond typical IMF norms, if, for example, they substantially benefit employment.

Finally, IMF-type macro-economic prescriptions should not be fetishised at the expense of growth and employment. Thus the MERG study "does not recommend that attempts to control inflation should not be given priority". The biggest problem with moderate inflation is that it could easily lead to hyperinflation. Although a low inflation rate must be maintained, this should not be at the expense of production and employment (MERG, 1993:72). If, however, a country flagrantly ignores the need for macro-economic balance and stability it may only have itself to blame if it is forced to administer the IMF's version.

The IMF and democratisation

Despite IMF claims to political neutrality and its public support for multi-party parliamentary democracy (sometimes a precondition for loans), the Fund has historically favoured right-wing authoritarian parties and, in some cases, their actions and policies have led to the demise of left-leaning governments.

It was, for example, only after the overthrow of the Unidad Popular in 1973 that co-operation with Chile was regarded as satisfactory. The IMF has found it easier to deal with authoritarian governments which have fewer qualms about executing the policies which result from the IMF's monetaristic, laissez-faire philosophy. An IMF staff member reportedly said some years ago, and "not without a certain pride", that the military dictatorship in Ghana was the

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consequence of an IMF mission – "a democratic government would have been incapable of effecting the stipulated course of action with due severity".

The general literature is replete with cases where IMF adjustment programmes precipitated painful, sometimes violent, political realignments by once-popular governments. IMF programmes forced even some popular, democratically-elected governments to adopt repressive measures to limit the protests and strikes which followed IMF-imposed policies. Korner et al point out that: "In Brazil, [in 1983] the draconian austerity measures dictated by the IMF almost ruined the first tentative movements towards democratisation. In Jamaica, the IMF's loan policies enabled the USA to get rid of a government of which it did not approve." (Korner et al, 1986:128)

The potential (though by no means inevitable) implications for South Africa are clear. Even an ANC government may have to shift its programme and policies further and further to the right, both economically and politically, if it is forced by external economic conditions, unsound macro-economic policies, or poor negotiations strategies to accept a typical IMF package of economic adjustment. This would further strain the relationship between the ANC leadership and its various constituencies: its mass membership, its trade union allies and the union movement in general, the South African Communist Party, and its more militant Youth League.

A Government of National Unity, ANC-led or otherwise, would have to face an electorate in 1999, many of whom had experienced little improvement in their material conditions and who may view their government's performance unfavourably. For these disillusioned masses, the alternative may well be extra-parliamentary forms of protest and resistance well before 1999.

Few these days (compared to early 1990) still retain romantic and unrealistic expectations about a new government's capacity to deliver all economic and social goods in the short-term. But the huge disadvantaged section of the electorate will have to be convinced that an economic reconstruction programme will make some difference to the quality of their lives within a reasonable period. The neo-liberal, trickle-down, prescriptions favoured by the current government and the IMF/WB do not offer such a hope to the vast majority of South Africans.

The threat posed to South Africa's fledgling democratic institutions by a failure to meet at least some major concerns of ordinary South Africans (new jobs, houses, education, health-care, electrification) cannot be underestimated.

The Recent IMF loan application

The IMF is already attempting to set the agenda in South Africa, through its $850m Compensatory and Contingency Financing facility (CCFF). Despite IMF claims that it "simply wants an undertaking, by a legitimate body, that the economy would be responsibly managed", as a precondition for the loan, this usually includes wage restraint, limits on government social spending, and rapid trade and industrial liberalisation.

This is confirmed by a reading of the first draft of the letter of intent. Although formally drawn up by the borrowing government, this is invariably initially drawn up by the

Fund's technical experts, and states the kind of economic policies and 'financial discipline' the government will endeavour to follow in the next five years or so. Unless it is careful, the borrowing government is invariably left with only minimal space for negotiating minor modifications.

The original letter in support of the latest CCFF was at pains to point to the dangers of increases in real wages in the private and public sector, stressed the importance of controlling inflation, promised monetary targeting, trade and industrial liberalisation, and repeatedly espoused the virtues of "market forces" over "regulatory interventions". The similarity with the present regime's thinking, as expressed in the Normative Economic Model, are striking and not altogether surprising. It is, however, important that the ANC alliance and other parties to these discussions who represent South Africa's disenfranchised majority do not get trapped in the theoretical straitjackets and ideological biases which the IMF and the South African monetary authorities would like the new democratic government to be locked into. If the ANC (even inadvertently) falls for this, a whole range of more direct interventionist policy options targeted to the poor and the disadvantaged will have been closed off.

MERG co-ordinator and former general manager of the Bank of China (in London) Vella Pillay has asserted that if "IMF conditions attached to the Contingency and Compensatory Financing Facility were implemented, unemployment would soar to catastrophic' levels."

It was reported that COSATU had opposed the loan application because of concerns related to wage restraint, among others. COSATU general secretary Sam Shilowa is said to have expressed COSATU's opposition to the loan being negotiated by the present (outgoing) government. He was adamant that the government had no mandate to negotiate wage restraints with the IMF, arguing that such issues would have to be discussed with the unions at the National Economic Forum.

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However, reports suggested that the multiparty Economic Technical Committee (the forerunner to the TEC's sub-committee on Finance, which includes the ANC), had agreed in principle to sign the letter of intent. This was denied by ANC economics head Trevor Manuel *(Sunday Times, 31/10/93)*. Further discussions of the draft apparently took place, involving some of the major players. However, it is unclear what changes, if any, have been made in the final draft, following COSATU's concerns and the advice of some ANC technical experts.

The Fund pronounced rather boldly on 8 November 1993 that it was satisfied enough consensus existed between the key political parties and COSATU on the economic programme and policies that is a prerequisite to the granting of the IMF loan *(Business Day, 9/11/93)*. Finance Minister Keys, asked about the ANC's approval of the application, reportedly replied that the ANC "had accepted the principle of wage restraint and that there should be no real rise in wage levels".

The letter of intent was signed by the TEC on 7 December 1993, at its historic first meeting in Cape Town, and the IMF approved the loan at its December 22 meeting.

As South Africa stumbles towards a

democracy of sorts, access to IMF, World Bank and other foreign finance appears to be increasing. Unless we are very careful, however, some of this finance may carry with it conditions which may eventually force a gradual retreat from democracy, at least from the kind of participatory democratic values and practises which the liberation movement, the UDF and the unions within South Africa struggled so hard to build, especially during the 1980s.

Measures the IMF would like a new government to accept may only be implementable by a more authoritarian, less open and less accountable government a few years down the line. This may be forced upon an ANC government, despite what it stands for now.

With power so close at hand, it is perhaps inevitable that new dynamics come into play, new constituencies have to be won over and compromises made with old enemies. But one would like to believe that the constituencies which have traditionally made up and supported the liberation movement will not be forgotten.

It is a cause for some concern that the ANC chose to negotiate the terms of the IMF loan in such secrecy. While the IMF and the present government would prefer such secrecy, there is nothing to stop the ANC from broadening and deepening the debate over the process and the contents of the letter of intent. The signing of the letter of intent will impact directly on the lives of all South Africans, and it is crucial that, through their organised formations (unions, civics etc), they are fully informed of, and participate in determining, its contents and its implementation.

There is much international attention focused on South Africa. Many powerful people and institutions would like to see South Africa succeed in its transition to democracy. Now is the time to seek support from European, American and other sympathetic governments for South Africa's own programme of economic reconstruction. Thus, for example, in 1976 the Jamaican government skilfully used sympathetic contacts with the governments of Canada, the UK and the US (where the Carter government was initially relatively sympathetic to Third World problems), to tone down IMF conditions, including those on wage guidelines.

It would have been appropriate for the ANC to elicit the support of the Clinton administration, especially, and to request it to pressurise the Fund at the IMF Executive Board level to accept our economic reconstruction programme. Anti-apartheid movements in the US and Europe, many of whom are now seeking a developmental role in relation to a democratic South Africa, could also be useful in increasing awareness about international aspects of South African development and reconstruction.

For, ultimately, "it is the governments of the OECD (Organisation for Economic Corporation and Development) countries which decide the Fund's policies and which determine its stance towards developing countries. Since the USA exerts particularly strong influence...the policies of the Clinton administration will be crucial in this regard." Negotiating only with technical experts, like Leslie Lipschitz, the assistant director of the Fund's Africa department (who apparently led the IMF team negotiating South Africa's loan application), is bound to produce limited success.

Democratising the domestic debate over IMF conditionality and seeking wider international support are two important complementary elements of a broader strategy for negotiating with the IMF. If we cannot succeed now, when international political and moral support for the new government is ostensibly so strong, when will we ever succeed? ✩

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