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Latin America Study.

Chapter I. The policies of the international agencies.

Among aid theoreticians there is a fairly new school of thought about "aid", which is that its function is not merely to transfer resources from rich to poor countries, but also to provide an opportunity for the former to influence the policies of the latter, with the idea of creating conditions favourable to development.

According to this school of thought, the "effectiveness" of aid cannot be adequately ensured simply by attaching conditions to the use of aid itself. It is not enough to tie aid to projects of which the donor approves, or to insist on some measures directly connected with the project. This will not prevent the developing country from financing other projects of which the donor does not approve, and will not ensure a "satisfactory" use of the country's total resources. Moreover other policies of a macro-economic nature may have a much more significant effect on the country's total development. This view has been clearly expressed for instance in an AID paper[1] in which it is stated : "In the long run, aid's 'influence potential' is much more important than its resource contribution. This is true for two reasons. Total aid from all sources has probably contributed roughly 20% of total investment in the developing countries in the past few years. The use made of the remaining 80% is clearly much more important in accelerating growth than is the use of aid alone. Furthermore, policies and procedures - import licensing arrangements, investment codes, marketing board pricing policies, power and transportation rate structures, tax provisions, to name only a few - affect economic development at least as powerfully as the presence or absence of adequate infrastructure or technical skills, Successful efforts to influence macro-economic and sectoral policies are likely to have a greater impact on growth than the added capital and skills financed by aid."

It has therefore been argued by some proponents of this school of thought that the size of aid, and in extreme cases its continuance, should be made conditional on the country adopting satisfactory general economic policies.

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1. See Effective Aid, ODI 1966, p. 91. Also published as AID Occasional Paper no 13. See also Andrzej Krassowski, The Aid Relationship, ODI 1968.

It is hoped thereby not only to have some effect, through negotiation, on particular countries, but also to provide a general inducement to all developing countries to "improve" their policies.[1] Others have argued against this conditionality. In their view developed countries can usefully, through dialogue, become involved in the economic decisions of developing countries. But they would maintain that this does not, and should not, mean imposing the policies of the aid-providing institution on the aid-receiving government.[2] The AID has also argued, with some disingenuousness that it is not a question of imposing the AID's ideas, but of finding the right people to support, thus presumably increasing these people's power to impose their (and the AID's) ideas.

Those most convinced of the need to use the opportunity created by aid for "leverage" (as the jargon goes) in a systematic manner, and with most power to back their conviction with money, are in Washington. Their views now prevail within the three major institutions able to provide finance on concessonary terms for developing countries: the World Bank, the IMF and the AID.[3] But the school of thought is also attracting adherents in Britain and in the context of UNCTAD; and it might be said that its ideas were in some respects being practised by the French in West Africa. There are, moreover, moves, generally described as "coordination", to establish united fronts of donors, often under the chairmanship of the World Bank. It is becoming increasingly clear that the governments of developing countries must decide either to adopt policies designed to please the authorities in Washington, or to do without aid on any scale, at least from Western countries. It should be stressed that this is thought of, by many people, <u>not</u> as some sort of sinister

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1. In ODI in particular.

2. Cf John White, Pledged to Development, ODI 1967 (especially p...:" If their advice is accepted, the donors should consider changing their advice)" and Andrzej Krassowski, ibid.

3. These three institutions will sometimes be referred to collectively as "the international agencies".

imperialism, but as being in the interests of developing countries. This being so, it is perhaps important to dicover something of the theory's operation, by the three main practitioners, in Latin America, which is probably their major area of practice.

There are two main arguments in this chapter. One is that the World Bank, the IMF and the AID do in fact try to impose their own view of what "good performance" means. The other is that this view is a quite well defined, quite predictable, view, which is derived from a recognizable liberal ideology of an orthodox, barely post-keynesian variety.[1]

The concern of the World Bank and of the United States AID with influencing macro-economic policies in Latin America is fairly recent. It is still confined to relatively few countries. They were preceded in this field by the IMF, whose supervisory function in the monetary and fiscal field was included in its original statutes, and has merely been expanded in Latin America as a result of the particular proneness of Latin American countries to balance of payments difficulties. The concern of the World Bank and the AID has, broadly speaking and through rather different processes, grown out of their conviction that a country's macro-economic policies determine whether aid can be "effectively" used. The United States has an additonal reason, in the Aliance for Progress, for becoming involved in general policy matters.[2]

So far, in spite of the broad scope of the reforms to which the United States committed itself under the Aliance for Progress, and in spite of the supposedly long-term nature of the World Bank's development objectives, the three institutions have largely concentrated on "performance" in the monetary and fiscal field with which the IMF has traditonally been concerned.

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1. Whether this need be so in theory, and given perhaps some different institutional arrangements, will be discussed in the last chapter, and also, implicitly, in chapter 2.

2. For the history and methods of the international agencies' involvement, see chapter 2.

To put it another way, they are apparently convinced that policies in this field are the crucial element in Latin American development. Their main preoccupation is to achieve financial stability, as an essential precondition of growth and other policies. The general assumption is made that the failure of most Latin American countries to achieve growth with stability over long periods is primarily the result of mismanagement by their governments of fiscal and monetary matters. Therefore the overriding concern of all three institutions is to press for what they consider to be better fiscal and monetary policies.

In most cases what has happened is simply that the World Bank and the United States AID have added their weight to that of the IMF in attempting to induce countries to adopt or maintain policies designed to ensure financial and monetary equilibrium. They have made their support conditional on the country concerned reaching agreement with the IMF . Usually they have not attempted to challenge the exprtise of the IMF, or even, as far as can be seen, to ensure that IMF decisions are compatible with what are in theory their own long-term economic and social objectives. The IMF itself is now somewhat more concerned than it was in the 1950s with the effect of its policies on long-term development, it is prepared to accept a slightly enlarged role for government, and it is more flexible. But its basic preoccupations have not changed, and its views remain essentially conservative (see below).

There are of course some exceptions to what might be described as the espousal of IMF doctrines by the World Bank and the AID. Especially in countries where the United States makes programme loans, the AID may have had some say in the IMF's decisions; alternatively, it may tell the country concerned that it does not agree with all of the conditions negotiated by the IMF; and it will probably add some rather broader, and perhaps more socially-orientated, conditions of its own. Although the scope and the nature of the World Bank's views on general economic matters seem to be remarkably similar to those of the IMF, it may not in all cases agree with the IMF on for instance the timing and size of fiscal and monetary measures; in some cases it may feel more strongly than the IMF that certain deflationary measures are necessary. In so far as the World Bank or the AID do disagree with the IMF on desirable fiscal and monetary policies, and are prepared to challenge the views of the IMF, the ideal is that such differences should be resdved between the institutions themselves. This ideal is probably most nearly achieved by the World Bank and the IMF, which share a building in Washington; the AID may not be fully informend of their joint decisions. Negotiations with the country concerned are then sometimes conducted by the delegated representatives of one of the institutions.

In all this there does seem to be rather little real negotiation or dialogue with the government concerned. This is possibly less true of the AID than of the other two institutions, perhaps partly because the AID has permanent missions in Latin American countries. Obviously, it is difficult to generalize, and the situation depends partly on the personnalities involved. But it seems that in many cases the decisons of the international agencies are made with almost no prior consultation with the government concerned. The demands are often quite specific. The government must either accept or reject them, and its access to aid may depend on which it decides to do. Governments whose economic policies are clearly defined are of course more likely to be able to negotiate their acceptance by the international agencies than governments whose ideas are more general and perhaps confused. But the international agencies do not appear to produce alternative suggestions for reaching various ends, and to discuss these with governments; it seems they a more likely to produce specific, and sometimes isolated, demands. Furthermore they are of course much more likely to discuss means than ends. As will be argued below, there is no question of discussing <u>fundamental</u> alternatives. Discussions with Latin American government can, at most, be about different methods of achieving goals on which the international agencies have already decided, however implicitly. The international agencies sometimes maintain that they confine themselves to recommendations of a purely technical nature. But very few questions are purely technical. The international agencies' recommendations are fundamentally based on value judgements which, moreover, are seldom made explicit.

What follows is mainly an attempt to make some of the international agencies' values and assumptions more explicit, and to point out some of their possible implications in Latin America.

One of the basic beliefs of the international agencies seems to be, as has been said, that Latin American problems are of a kind which are soluble by fiscal and monetary policies of the IMF variety. There are certainly many within the three institutions, even perhaps at quite high levels, who have doubts about this. But it is at any rate a belief which for the moment seems to govern their policies for Latin America. It implies that neither external factors outside the control of Latin Americans, nor internal factors outside the scope of conservative monetary and fiscal policy, constitute insuperable obstacles to long-term development and real improvement in the conditions of life for the mass of the people. It may be doubted how realistic this belief is.

To begin with the external factors, and their effect on prospects for financial stability, growth and development. It seems clear that many of the current difficulties of Latin American countries in achieving growth and stability, as well as much of the involvement of the international agencies in their policies, arise from their balance of payments problems. In the prescriptions of the international agencies Latin American countries are treated as independent units, able to take effective decisions to achieve aquilibrium. But the success of Latin American stabilisation programmes is acutely dependent on the availability of foreign exchange. Foreign exchange is needed in increasing amounts not only for growth but for the functioning of existing industries; its availability can help in controlling inflation. In Latin American countries which have problems of financial instability there is often little further scope for import substitution or the reduction of "inessential" consumer imports. An increasing proportion of their foreign exchange receipts is moreover absorbed by the servicing of their foreign debt and by an outflow of capital and profits resulting from foreign private investment. It is therefore difficult for them without disruption, to reduce their requirements of foreign exchange.

At the same time the power of Latin Americans to influence the availability[1] of foreign exchange is very limited. Most of their exports are primary commodities whose prices are largely controlled by the developed countries, and have an extreme tendency to fluctuate and probably a long-run tendency to decline. In some cases even the level of production of a country's main exports may be controlled, by foreign companies, who must be offered expensive inducements to produce more with no guarantee that these will be successful, since their decisions are influenced by a number of other political and international factors. The development of alternative exports is unlikely to be achieved on a significant scale in the short run. In many cases, efforts to diversify primary commodity exports mean simply that one country produces, in less favourable conditions, a commodity which another country is already having difficulty in selling; foreign experts tell Colombia to grow cocoa and Ghana to grow coffee. Developing new exports of manufactured goods even when prices and quality are competitive, takes time. In any case when a country does succeed in exporting processed or manufactured goods in significant quantities, there is a large probability that it will meet with obstruction in the markets of developed countries, who have and use the power to take unilateral action to protect their agriculture or their industries against what they are quick to describe as "unfair" competition; or who may force the developing countries to take action to reduce its exports. Much the same applies to the developed countries' monopoly in shipping and insurance. Moreover Latin American countries' main industries are likely to be in the hands of subsidiaries of foreign companies, who obviously are not prepared to compete with their parent companies; usually moreover they have invested to preserve their access to individual Latin American markets and have no desire to export to other countries in which they also have markets, or manufacturing interests to protect.

In the short-term, therefore, it is quite difficult for Latin American countries themselves either to reduce their foreign exchange requirements or to increase their capacity to import. They may hope to solve

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1. They are trying to remedy this situation at the international level, in particular at UNCTAD.

their short-term balance of payments problems through an increased inflow of official foreign aid, and private foreign credit and investment. This hope is encouraged by the international agencies, who of course believe in the role of foreign capital in promoting development. But quite apart from the long-term consequences of relying on these sources of foreign exchange, their availability is if anything more unpredictable than the prices of primary commodities. It is likely to be affected rather less by economic policies in Latin America than by quite extraneous political circumstances or by the developed countries' domestic concerns. A country which adjusts its economic policies to satisfy the international agencies is not thereby assured of full support even from them. Not only may aid be reduced, or altogether stopped, if the country fails to achieve the required degree of financial and monetary equilibrium within the required period; but the United States may react to some minor harassment of its private citizens, the IDA may have to stop disbursements because its funds are not replenished by the donors, and all three agencies may be affected by political events. The chances of success of policies urged by the international agencies, such as devaluation or import liberalisation, may thus be nullified.

Moreover the amount of new foreign resources available, either officially or privately, are becoming increasingly inadequate and irrelevant. They have never, at any time, shown any signs of reversing the <u>general</u> trend for the benefits of trade and capital movements to be appropriated increasingly by the richer countries. More specifically, gross inflows of official and private capital to Latin America are now exceeded by gross outflows of profits, repatriated capital, repayments and interest...[1]

To assign sole responsibility to Latin Americans for their difficulties in achieving financial and monetary equilibrium, without changes in the present international framework, is therefore rather harsh to say the least.

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1. See 1967 ECLA Report, and paper by Abramovic.

But this is, by and large, what the international agencies do. Of course it is not surprising that the changes most effectively pressed for are in the weaker, or dependent, countries. The power of the international agencies to influence the policies of developed countries and international companies is little greater than that of Latin Americans. The World Bnak is also dependent on the goodwill of the developed countries for the replenishment of its own resources.[1] It can do little more than exhort. It is,in fact, one of the most effective and influential supporters of more generous official aid policies. The Presidents of both the World Bank and the IMF have also drawn attention to the seriousness of the debt problems of developing countries and to the need for more liberal trade policies . The United States AID claims that it tries to discourage the repatriation of excessive private profits by US companies in Latin America. The three institutions do in fact constantly press the claims of developing countries for better international treatment.

But there are, naturally, certain limits in what they press for. First, the World Bank and the IMF exist partly to protect the international system from violent disruption, and to support legality, the free flow of resources, and so on. Obviously neither they nor the United States AID would welcome, let alone recommend, any radical attempts by developing countries to break out of the system, for instance by repudiating their debts, or by nationalizing foreign companies. The World Bank was set up partly in order to support and supplement the flow of foreign private capital, has a strong private enterprise and banking ethos, and in practice often works in concert with foreign companies.[2] The IMF's raison d'etre is to avoid exchange restrictions, including restrictions on the movement of capital; its primary responsibility is to the international financial system, not to individual countries.

Nor does it seem that those in high positions are unduly worried by the functioning of the international financial and monetary system as it affects developing countries; few are preoccupied by sophisticated theories

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1. But arguably, less than is sometimes thought. See p... 2. See chapter 2.

on the injustices of a partial free market system in a world of unequal economic powers; and the Prebisch thesis on the likelihood of a long-term decline in commodity prices is fairly generally rejected. Finally, as has been indicated, the World Bank and the IMF do appear officially to believe that financial and monetary equilibrium is achievable in present circumstances, and with tolerable sacrifice, in Latin America. Their exhortation for changes in the international framework is therefore not as urgent as perhaps it could be.

There are in addition other and probably more important aspects of Latin American countries' external dependence. Latin American's major problems are, arguably, not economic but political. Radical political changes are of course strongly and rather indiscriminately opposed by the United States. The international agencies themselves are committed to defending the *status quo*, both constitutionally and because of their dependence on United States finance. They may complain of the power and privileges of Latin American oligarchies. But in fact they reinforce them, not only by pressing for particular economic policies and failing to press for others,[1] but because it is known that their support would be withdrawn if an attempt was made to reduce the concentration of political and economic power, and spread the benefits of development more widely, by any other but "legal" and probably ineffective means.[2]

Most people in the AID, the World Bank and the IMF would probably agree in principle that aid should not be used to promote the short-term political and commercial interests of the donor countries. Nevertheless aid frequently is so used.[3] Moreover the international agencies on the whole probably do hold the, rather more sophisticated, view that the purpose of aid is in some general sense to promote world stability and good relations between rich and poor countries. In this view, developed countries

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1. See below.

2. Even though, with apparent pradox, they are prepared to support "unconstitutional" military governments, presumably so long as these are respectful of property.

3. See for instance chapter 3, section 4, on Peru.

can contribute to stability in developing countries by helping them solve their problems without violent political upheavals endangering peace, trade, the international financial and monetary system, foreign private investment, the regular servicing and repayment of debts, and other more or less general concerns of the industrialised countries. It may be felt that "development" can contribute to these objectives, and even that some changes and reforms are necessary. But the emphasis is on stability. There also seems to be a general aversion towards any drastic changes or innovations, in developing countries. The Western aid agencies want change, but change along lines which will not disrupt the established order. If their attitude was made explicit, it would probably be that they wanted to contribute to the creation of societies in most respects similar to Western industrialised societies. They attach high values to the forms of parliamentary democracy, to legality, to the principles of free enterprise, and to the respect of private property, both domestic and foreign. Above all, they hope to achieve their purposes through peaceful, and evolutionary, reform (in so far as reform is considered necessary).

Moreover the international agencies' relatively sophisticated view of the purposes of aid is probably not the most influential in the policies of the developed countries. There are groups in developed countries who simply want to protect existing investments, markets and sources of supply. There are others who are concerned to ensure that their interests in the developed countries are not threatened by competition. There are others whose near-pathological fear of communism would induce them to oppose almost any kind of change in Latin America, including the legal election of reforming governments. Others would want to impose sanctions on developing countries which made foreign policy pronouncements conflicting with their own. These views, extreme though they are, still appear to have considerable weight in the policies of developed countries, including their aid policies. They also seem, on occasion, to have restricted the actions of the international agencies. Aid is commonly cut off or reduced for reasons quite unconnected with any view on whether the country's internal policies are conducive to development, however defined. This makes it rather difficult for developing countries to predict how the international agencies will react to a particular move.

The international agencies are obviously not the most powerful supporters of the status quo. The prospect of losing some, or all, official aid probably does not weigh very strongly in the decisions of Latin American governments; even those which are heavily dependent on aid are dependent, to a great extent, becausethey need aid to repay debts which presumably they could repudiate. But the industrialized countries of course have other weapons, over which moreover the international agencies have some influence. A country's access to other official aid and to private credit may depend partly on its ability to agree with the international agencies. Consultative groups and renegotiations of debt schedules are, presided over by the international agencies.[1] At any rate in the short-run, a decision by a country to lose access to all forms of external finance, and not merely aid, would require considerable determination and a rather clear view of priorities. In addition, and more important, developing countries which offend the West risk losing the markets for their exports, and even the physical ability to import from their traditional suppliers.[2] Even if they do not incur the hostility of the governments of developed countries, the foreign private companies which are responsible for the exploitation of many of their natural resources may go elsewhere for their supplies if they "lose confidence" in the country. The Communist countries' ability and willingness to replace the West as sources of supply, markets and providers of aid, as they did in Cuba, is probably diminishing and certainly inadequate. In addition there is the most powerful disincentive of all: the almost certainly justified fear of United States political and military intervention.

It may be argued that countries which really want to make changes will make them. The fears of developing countries of the international consequences of any drastic attempt to break out of the problems have often been considered exaggerated. But, first, they probably are not

1. See chapter 2. 2. As Cuba did. Nearly all Cuba's equipment was American. Russian spare parts did not fit.

exaggerated. Second, the fears, whether justified or not, exist and support the arguments of those in Latin America who do not want change. Third, the fact is that the international agencies, however significant or insignificant their influence, do oppose rather than support radical changes.

To turn to the policies which the international agencies do support. First, it should be recognized that, given that changes in the external and internal framework are ruled out, the scope for improvement in economic and social policies may well be quite limited. There are many who criticize the international, agencies and propose alternative policies of a sort which might be adopted by reformist Latin American governments. The international agencies may possibly be right in feeling that they are exccessively optimistic. "Reforms" may be too "expensive", in the sense that real efforts to improve the standard of living of the poor are incompatible with the preservation of existing economic structures and privileges. Second, and more positively, there is no doubt that the international agencies, by their probings and pressure, have contributed to a greater preoccupation with economic necessities. They have been partly responsible for improvements in knowledge of the economy and especially in the collection of statistics. The World Bank, in particular, has demanded and apparently sometimes elicited more thoroughness in the selection of projects and better administration in the institutions to which its loans are made. Moreover, the recent increase in the international agencies' joint concern with more general economic policies may be felt to be likely to lead to greater sophistication in their own analysis; and possibly to a greater understanding of Latin American problems.

Nevertheless it should be clear that, for the moment and perhaps inherently, the policies recommended by the international agencies conform to a rather definite ideological pattern. The economic ideology at the operative level of the three institutions is, by and large, conservative. Possibly its most basic characteristic is that it assigns a relatively limited role to the State. The State is, in general, expected merely to create a framework in which development can spontaneously occur. Thus in

Latin America it is felt that, once a stabilisation programme has re-established equilibrium and eliminated price distortions created by inflation and past government policies, the market mechanism can be relied upon to generate growth. On the whole detailed and and positive intervention by the State in the economy is felt to be unnecessary and undesirable; it is sometimes maintained, as a general principle, that the more global the government's policy the better it is. This implies both considerable faith in market mechanisms and considerable lack of faith in the competence and rationality of governments (as opposed to private individuals and companies). It may also imply a failure to take account of some of the ways in which developing countries differ from developed countries, for instance in their degree of homogeneity and responsiveness to market incentives. The international agencies tend to devote a large part of their reports and advice to the need for better treatment of the private sector and for the creation of "a climate of confidence"; this, it is hoped, will induce private investors, local and foreign, to invest.

In practice, this has meant that the attention of all three international agencies has been concentrated on efforts to achieve or maintain financial and monetary stability, and on the elimination of price controls and import and currency restrictions. Such questions are at the heart of all negotiations, not only with the IMF; they give rise to the "key" conditions insisted upon above all else by the three international agencies. Other issues may be mentioned, but they tend to be secondary, and vaguer (possibly partly because it is less easy to reduce them to numerical targets). In Latin American countries which do not have balance of payments problems and inflation, such as the Central American countries, and which do not have many controls, the international agencies tend to be quite little involved in questions of general policy, although the AID and the World Bank may be concerned with public investment policies and of course the financing of projects. In countries where stabilisation seems necessary, the first objective is usually to limit increases in the general level of demend. Budgetary deficits and excesses in credit creation are regarded as the primary causes of inflation. Efforts are usually made to ensure that wage and salary increases are limited or disallowed, and sometimes to reduce the subsidies to public agencies, for example by insisting that the number of people employed in them should be reduced, or by asking that they should charge higher rates for their services. Balance of payments problems are also expected to be cured by deflationary policies, plus, if necessary, devaluation. At the same time the government is usually asked to take measures to "eliminate price distortions" created by the past use of controls as a measure against inflation, and to liberalize imports.

Historically these policies have not been successful, even in their own terms. Prices have continued to rise, though sometimes at a slower rate; the private sector has not invested. The most common result is acute recession and political crisis so that the government, or its successor, is forced to abandon the stabilisation programme. The proponents of these programmes tend to argue that their lack of success is due to their irresolute and discontinuous pursuit. But the inability of governments to carry them through is so universal that it ought, perhaps to be regarded as part of reality. At any rate, the policies of the international agencies and their supporters in Latin America have met with increasing criticism, both in Latin America and elsewhere, and both on ideological and more technical grounds. It seems clear that alternatives ought, at least, to be considered.

It is perhaps worth, before discussing alternatives, giving some indications of the sorts of effects, and lack of effects, which the international agencies' stabilisation policies have had. The problem is not simply that they have failed to achieve stabilisation. It is that they also distract attention from, or actually conflict with, action on what might be regarded as more basic long-term problems.

First of all growth. Growth is expected to be a consequence of stabilisation programmes. It has therefore been sacrificed during them with a certain amount of equanimity. Stabilization programmes have resulted in zero rates of growth, and negative rates of _per capita_ growth, for two or three years. There is now more concern that stabilisation programmes should not induce stagnation. The international agencies seem prepared to accept that stabilisation should be achieved "gradually". Meanwhile they are not averse to some attention being paid to increasing government revenues so that public investment can be increased, to public investment policies, to export diversification, to the provision of incentives for agricultural production, and especially to the encouragement of private investment. But, at least as far as positive measures are concerned, their concern with growth remains secondary to their concern with stabilisation. For instance the essential criterion of good performance elaborated by the World Bank is said to be "the percentage of public investment which is financed from savings on current account". The effects of stabilisation programmes on the private sector are mixed. The hopes for increased private investment depend largely on the somewhat unlikely hypothesis that the private sector will have confidence in the final outcome of the stabilisation programme and will invest with a renewed feeling of certainty; on the greater availability of spare parts and raw materials to be achieved by import liberalisation measures; and, for foreign firms, on the greater likelihood that they will be able to repatriate their profits. The adverse effects of stabilisation programmes are immediate and tangible, demand and the availability of credit are reduced; import liberalisation measures reduce protection from foreign competition; devaluation and the removal of price controls may increase costs. As for the encouragement of agricultural production, this has on the whole been limited to price incentives and, occasionally, the provision of credit, and has not been particularly effective. Stabilisation programmes obviously still tend to have generally depressive effects on production and growth.

They have other effects about which the international agencies show fewer signs of concern. They of course delay public investment programmes. The international agencies are now more concerned that government revenues should be increased. But, except possibly in the AID's case, their reason for concern on their own admission, is that they "can't stop government spending". Frequently also the taxes they press for are the ones that are easy to collect, like indirect taxes, or increases in the rates charged for public utilities, and are hardly progressive. The international agencies are also showing signs of accepting some arguments about the need for productive investment on the grounds that inflation is caused partly by problems of supply. But they remain insistent that programmes of a "non-productive", or social, nature should be cut: housing programmes, school and hospital building, land reform programmes, and so on. Most of the existing growth and development in Latin America has tended to be rather heavily concentrated in the cities, and the situation of the rest of the country may actually be deteriorating. Some kinds of "social " investment would seem to be rather urgent. As far as land reform is concerned, the need for it is judged exclusively in terms of its effect on agricultural production and on public finances. Land reform programmes conducted by reformist governments obviously involve some charge on the latter. Since the international agencies are apparently convinced that land reform is also likely, in the short-term, to have a negative effect on production, except in a few cases of very badly utilized land, they tend actually to discourage it.[1] Arguments that land reform is an essential prerequisite of long term development carry little weight, since the international agencies are mainly concerned with the short-term. There has of course been much discussion of the need to emphasize agriculture. But, on the rare occasions when the international agencies do refer to agricultural problems, they are usually concerned, as has been said, with the removal of price controls and the diversification of agricultural exports; occasionally also with the provision of credit for agriculture. Aid-financed projects in agriculture are mainly large highly-mechanized commercial farms, often producing livestock, This may or may not be the best and quickest way of increasing agricultural production and agricultural exports. But it is doubtful how much Latin American peasants benefit from policy-measures of this sort. Systems of land tenure are such that peasants gain little or nothing from measures not specifically directed at them. Agricultural credit, the benefits

1. See for instance chapter 3, secton 2, on Chile. This also applies less to the AID than to the other two institutions.

of higher prices and higher profits tend to go to middlemen, or to a few large landlords, who may in any case not be interested in increasing the productivity of the land. On balance the poor, especially of course the urban poor, are likely to suffer rather than benefit from higher prices for food.

Similarly, stabilisation programmes obviously tend to reduce employment, in both the public and the private sectors. In the latter some existing industries are forced to lay off workers, and there is generally a failure to encourage new industries. In the public sector, the international agencies, especially the World Bank, sometimes actually press for a reduction in employment[1], apparently without considering the possibility of alternative employment. Since most Latin American countries already suffer acutely from unemployment and underemployment, with heavy migration from stagnating and possibly overpopulated rural areas to overcrowded and desperate slums in the cities, with the problems aggravated by increases in automation and mechanisation with usually large numbers of landless peasants in rural areas, any policy which creates more unemployment, without offering the prospect of alternative employment, seems rather undesirable.

Finally, one of the major objectives of the international agencies in their stabilisation programmes is to ensure that nominal wages do not increase, or that increase are limited, usually to below the rise in the cost of living. In several Latin American countries real wages have been declining over the last ten years or so; to reduce them still further, and to argue against increases in minimum wages in rural areas for instance, is therefore quite harsh, and is likely further to aggravate social tensions.

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1. Possibly the most important case is in Argentina, where the World Bank was putting pressure on the military government to reduce employment in the railways by 70,000 people, with no views on alternative employment for them, except that they "could always go back to rural areas", There was apparently a rather similar case in Trinidad.

In general, it might be said that the official view of development in the international agencies is a rather narrow one. Development tends to be equated with the growth of national income, if not with efforts to achieve financial stability. The impression is given that the welfare of people is regarded as a by-product, rather than as a central aim, of development. Questions of employment, of the disbribution of income, and growth, and so on, are regarded as social, rather than economic, questions; as such they are discussed. It can of course be argued that the important thing is growth, and that development should be concentrated where it can have most effect. Redistribution can come later, or gradually, through the "trickling down" effect. But the process, for the moment, is a very slow one indeed. Growth, on its own, even when it is achieved, often shows little sign of solving Latin American's major problems which, as has already been suggested are possibly as much social and political as economic.[1]

What of the alternatives? One alternative may be growth with inflation, a la Kubitchek and some redistribution, at least in theory, as under Goulart. The international agencies believe that this creates chaos, that growth cannot be sustained under these conditions, and that inflation, in any case, harms the poor if anything more than the rich, who have ways of getting round it. They are probably right. Those who now argue that there are alternative feasible policies for Latin America, within the existing framework, of an expansionist nature, usually argue that it is possible to have more growth, a redistribution of income in a progressive direction, and less inflation, <u>simultaneously,</u> indeed that these three objectives are <u>not</u> alternatives, but conditions of one another. Their argument rests on the view that it is not possible to control inflation merely by restricting demand, and that its underlying causes, as opposed to its symptoms, are primarily bottlenecks in supply, especially in food and in imports. Therefore inflation cannot be cured without growth and, it might be added, without some progressive redistribution

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1. Examples of growth and stability without development are the Central American countries and, until the Belaunde government took office, Peru. They are presumably regarded by the international agencies as countries with "good performance."

of income, which will increase demand and change its pattern, and some important "structural" changes, particularly in the system of land tenure. It is sometimes also argued that, stabilisation programmes of the purely deflationary variety are in any case impossible to implement for political reasons.

This, very roughly, is the position of the now famous school of "structuralists". Structuralist ideas were evolved mainly by Latin Americans in CEPAL,[1] in opposition to the generally accepted orthodoxy of the international agencies and their followers, which came to be known as "monetarist". There has no doubt been some reconciliation of the two schools of thought, and structuralist ideas have probably had some influence on the international agencies. As has been said, the international agencies are rather more concerned than they used to be with problems of supply, with the revenue side of the budget, with agricultural production; they seem, on the whole, to be prepared to accept the idea of "gradual" stabilisation. But the more philosophical aspects of structuralist ideas have not been accepted, and there is considerable unwillingness to discuss them seriously.[2]

There is a similar unwillingness to take seriously other suggestions for changes and other doubts about the efficacy and universal validity of economic instruments which were evolved in, and for, the United States, Britain and a few other industrialized countries.[3] The international agencies are in effect trying to apply in Latin America a rather classical and mechanistic version of economic policies which are already partly discredited even in the apparently more propitious circumstances of Britain. These policies largely fail to take account of some of the major characteristics

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1. Or ECLA: Economic Commission for Latin America. There is a large structuralist literature. See especially Sunkel, Prebisch, Seers...

2. See chapter 3, section 2, on Chile.

3. See the report of a conference at Manchester, The Teaching of Development Economics, especially paper by Dudley Seers, The Limitation of the Special Case.

of Latin America and indeed of most less-developed countries; for instance the concentration of growth in a few small areas ,the extremely unequal distribution of income, the existence of a great deal of unemployment, the difficulty of promoting agricultural changes when people are on the edge of subsistence, the very high rate of population increase, the dominance of foreign firms, the high dependence of the economy on the export sector, and in general the difficulty of regarding developing countries as homogeneous units, able to regulate their problems independently of external influences. Other institutions and people - Latin American governments, CEPAL, even the Inter-American Bank[1] - do seem more concerned with such problems as how to absorb the increase in population, the value of labour-intensive techniques, the means of promoting rural change, the problems of urban "marginalidad". But on the whole the three major international agencies, with the possible exception of some people in the AID, show little sign of questioning the meaning of growth and development.

It may be that if they did start to have doubts, they would soon find themselves confronted with unresolvable questions of a political nature, at least in Latin America, if not elsewhere. The prospect for success of Latin American governments theoretically committed to expansionist policies and reforms are not at all clear.[2] It could be argued that they are trying to have it all ways; to preserve the special advantages and privileges of the rich, and at the same time to find ways of alleviating the conditions of the poor. It is possible that the urgency and seriousness of Latin America's problems is such that they are not going to be solved without giving up one of these objectives.[3] The changes in the status quo which giving up the former would involve appear to be considered inconsistent with the interests of the countries, especially the United States, who provide the resources of the international agencies.

1. See also Laughlin Currie, Acceleration Development.

2. See chapter 3, section 2, on Chile, for example.

3. The commitment of many Latin American governments to development is doubtful. For example in the case of Brazil, where economic policies are sophisticated and have high priority, this concern has little to do with the well being of the mass of the population. In countries where the political leaders are aware of the urgency and seriousness of the problems, their ability to do anything about them is often hampered by the weakness of the executive. In Colombia, Peru, and Chile, for instance, all of which have (or had)

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Footnote 3 (Continued)

relatively enlightened and progressive political leaders, really heroic efforts are required to get any measures of reform through Congress. Parliaments tend to represent, at best, sectional interests, when they are not simply instruments for protecting the privileges of landlords and preventing the raising of taxes. Reforms are passed, in an adulterated form, ofter two or three years of battle and occasionally the artificial creation of crises. In some countries the government has been put in power by the army and is threatened by military take-over if it attempts to move too drastically against the established order. Governments find it easier to spend money than to raise it or to save it in places where it hurts anybody but those whose interests are inadequately represented in the present power-structure (generally the peasants and the urban unemployed).

Some of the possibly rather subtle ways in which present development policies may distract attention from basic problems, or even conflict with their solution, have been mentioned. There are other more blatant ways. Some of the activities which are supposed to represent "development" - some large and under-utilised infrastructure projects, some excessively luxurious schools and hospitals,investment in universities to which access is virtually limited to graduates from fee-paying secondary schools, some industries producing luxury consumer-goods - as well as other activities which obviously do not represent development - particularly large military establishments - use up scarce resources and benefit the privileged few. It is sometimes hard to avoid the impression that some of them are deliberately intended to distract attention from the government's inability or unwillingness to make more fundamental improvements in the social and economic situation of the population.

In any case there is apparently not enough sense of urgency. Naturally, there is not a very wide-spread disposition to be concerned with what will happen in, say, twenty years' time. Some of the changes which most people recognize to be necessary in the long-run are likely to take effect only slowly, or to cause disruption which should perhaps be got over with as soon as possible. The first is true of measures to control the increase in population administrative reforms, and so on. The second is, arguably, true of land reform. Most land reforms, unless they have been very partial and/or very expensive, have at first caused drops in production. In addition, while there is uncertainty over the extent of the probable reform, the present owners of land are unlikely to invest in it; this is an argument used by the opponents of land-reform, but it could equally lead to the conclusion that the reform should be immediate, rather than gradual. In some cases the policy of a very careful and slow land reform which is justified, on the grounds that production must not be allowed to fall, may in fact proceed more from a reluctance to confront land-owners, combined with a fundamental under-estimate of the capacities of peasants. Arguments for the delay on the grounds of the burden on public finances might, again, lead to the conclusion that the reform should be immediate by that the compensation should be postponed, or reduced, or abolished.

Chapter 2. Rationale and methods of involvement

So far I have tried to generalize about the policies in Latin America of the IMF, the World Bank and the United States AID. Their policies are similar enough for this to be possible.

But their present state of involvement in the general policies of Latin American governments has come about in rather different ways, and their methods of trying to get their ideas adopted also vary. This chapter, then, will try to describe the rationale and methods of the three institutions' separately. Sections are added on the position of the Inter-American Bank and the CIAP in these matters.

1. The International Monetary Fund.

Of the three major institutions, the IMF is playing a role which is most clearly in accordance with the original purposes for which it was set up, and also most formalized.

The IMF as it emerged from Bretton Woods was largely a victory for the United States' concern with monetary stability and desire that drawings from the Fund should be subject to members' policies being considered to be in accordance with the purposes of the Fund. Keynes's original idea of an international Clearing Union allowing automatic access to its resources was largely lost.[1] In the Fund's Articles of Agreement it is stated that the Fund's purposes are to promote international monetary cooperation; to facilitate the expansion of trade and to contribute to the development of members' productive resources; to promote exchange stability; to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation; to eliminate foreign exchange

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1. For an account of this process and the Fund's subsequent development, see in particular a research paper by Ann C. Scott, published in Colombia Essays in International Affairs, Volume II, the Dean's Papers 1966, Colombia University Press, New York and London 1967.

restrictions; and to assist in correcting balance of payments disequilibria by making its resources available under adequate safeguards. It was subsequently made clear that the Fund's resources were to be available only as "temporary assistance in financing balance of payments deficits for monetary stabilisation operations".[1]

As far as its supervision of member countries' policies was concerned, the IMF's primary interest was intended to be in the field of exchange rates and foreign exchange restrictions. Members of the Fund, under article 8 of the Articles of Agreement, were expected not to maintain currency restrictions, not to engage in multiple currency practices, and to maintain the convertibility of their currencies. But under article 14 members are permitted, in theory "in the post-war transitional period", to maintain exchange restrictions. Such countries are expected to "consult" with the Fund over the retention of these restrictions at stated intervals of time; the Fund is entitled to recommend in its Report to the Directors that a country gives up its restrictions and can, if the country fails to comply with IMF recommendations, declare it ineligible to use the Fund's resources and eventually require it to withdraw from Fund membership. In addition of course the country risks losing the support of other financial agencies and of the international community in general if it fails to agree with the Fund.

The procedure of consultations applies whether or not a country wants financial support from the Fund. (The Fund may also, and frequently does, send missions to make Reports on "Article 8" countries). If a country wants to use the Fund's resources it can do so either by making an immediate drawing, which is a loan repayable over three or five years, or by making a standby arrangement, which is an agreement under which a country can make a drawing from the Fund up to a stated amount over a stated period, usually one year, when and if it needs to. Countries may draw the first 25% of their quota without formal conditions. Drawings on subsequent

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1. Report of the Executive Directors and Summary Proceedings, Sep. 27 to Oct. 3, 1946.

tranches carry increasingly strict conditions. Usually the country is expected to provide a Letter of Intent, stating the policies it intends to adopt. In the case of a standby arrangement, the country may make a drawing from the Fund only if the Fund considers that it has complied with the conditions in the Letter of Intent.

Since 1963 the Fund has been able to provide support in a third form, that of Compensatory Finance for short-term export fluctuations. This support is based on calculations of weighted average export earnings in the current and two preceding years and of a five year average including projections for the likely values of major commodities in the next two years. Although it is thus based on a fairly technical evaluation, the notion of automaticity in disbursement is explicitly rejected.[1] The decision whether to provide Compensatory Finance in given circumstances remains in the discretion of the Fund. Disbursement occurs also, from the necessity of statistical evaluation, after a time lag, by which time a country with no reserves may have failed to meet other IMF conditions and have forfeited IMF support.[2]

The range of policies with which the IMF is concerned has been widening from the original concern with exchange rates, foreign exchange restrictions and the balance of payments.[3] IMF Reports still conclude formally with, as the case may be, a recommendation that the country be permitted to maintain specified restrictions, and perhaps a statement that others are to be abandoned. But Fund programmes are now intended to be comprehensive programmes to "help countries maintain a stable monetary situation"; they operate primarily through the control of Central Bank credit policies, which are supposed to condition the balance of payments.[4] They also go increasingly into the details

1. See IMF, Compensatory Financing of Export Fluctuations, Washington DC, February 1963, pp 9-14.

2. See chapter 3, Section on Colombia.

3. In a relative sense: se chapter 1.

4. Although apparently the Fund does not have much faith in its own instruments: see chapter 3.

of fiscal policy, wages policy, even occasionally agricultural policy. The Fund, finally, as is well known, has become a specialist in "Stabilisation Programmes", designed to control inflation within the short time horizons established for the Fund's form of intervention and support.

The Fund was never intended to be concerned with development, and its early reports show no sign of such concern. It is certainly becoming more concerned. But it is still, as an official put it, concerned with development " at one step removed". In other words, as with other policies and events, it is concerned with development in so far as it affects monetary stability and hence the balance of payments and exchange rates. An example that was given by a Fund official was that the Fund had become interested in increasing public savings[1] through increasing public revenues because it was convinced that it was impossible to prevent governments spending. Similarly, the Fund is now showing signs of accepting some arguments on the importance of supply problems in the control of inflation, and to be concentrating less exclusively on the limitation of demand.

Fund pronouncements , moreover, have increasingly, and rather defensively, tried to show that the converse is true, and that development is conditioned by monetary stability. Programmes are presented in terms of their advantages for the country concerned. Officials also seem more willing than perhaps they were in the past to recognize that their short-term exigencies can have effects on long-term policies which need to be taken into account. Whether they are effectively taken into account is another matter. It is possible that in some ways the identification of the intersts of individual countries with the interests of the world as a whole, inherent in the principles of the IMF, is a rather artificial one, at least as far as developing countries are concerned.

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1. Which is the "development" concern of the World Bank <u>par excellence</u>.

A conflict of interest between the international financial community and the interests of individual developing countries is certainly conceivable.

The IMF is sometimes said to be making "concessions". This generally means, in Latin America, that it allows countries to pursue what it considers to be inflationary policies, or that it allows them to impose exchange restrictions, or that it allows them not to devalue a currency which it considers to be overvalued. These are often concessions, in a real sense, not simply of IMF principles, but of the interests of some of the more powerful Directors in stable trading conditions in general, and also in so far as they represent their countries' financial and trading interests, and in particular those of companies trading with or established in developing countries. Certainly, whatever the effect of this may be, the Fund staff would not suggest a policy of which the major countries would disapprove; and the Fund, to a greater extent than the World Bank, has to refer its decisions to the Directors. In Latin America, naturally, only the United States is really concerned; it seems on occasion to have influenced the IMF negotiating position.

In Latin America the IMF is powerful partly because of its own financial resources, partly also because a country's access to other sources of finance may depend on ability to get its policies accepted by the IMF. The World Bank and the AID frequently make their support conditional on agreement with the IMF.. Commercial bank loansand private investment may be affected; when a country is in agreement with the IMF, its standing with the international financial community tends to be better than it otherwise would be. Also when a country has serious debt problems, negotiations for re-financing its debt are sometimes presided over by the IMF.[1]

1. The IMF was concerned with debt renegotiation for Brazil in 1961 and 1964; for Argentina in 1962 and 1965; and for Chile in 1965.

It is no doubt also true that, especially in the 1950s when the economic sophistication of Latin American governments was probably less than it now is, and before IMF prescriptions had been so heavily and publicly criticized, some governments have come to the IMF simply for advice on how to solve their problems. Even governments whose policies are rather at variance with the IMF line may ask for IMF advice and advisers on particular problems. And governments with serious economic and political problems must sometimes still find it tempting, as a relatively easy solution, to appoint a Finance Minister with liberal opinions, turn their problems over to the IMF and the rest of the international community, and blame them for any resulting unpleasantness. This solution, for some governments, has the additional advantage that it is the under-represented poor, rather than the powerful and privileged who usually suffer most from IMF programmes.[1]

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1. See chapter I

2. The World Bank.

As is well known, the World Bank is an institution whose major activity has been to contribute to the financing of projects.[1] The Bank's ideas about influencing the general economic policies of developing countries, and its methods of doing so, are still at a formative stage. They have not been generalized or formalized, and they were not envisaged in the Bank's original statutes. They are also very little known to the general public.

The Bank was set up at Bretton Woods to promote long-term development largely by investing its own resources and also by encouraging others to invest. Its statutes are somewhat vague and even in its project-financing activities the Bank has evolved its own emphases and methods. The Articles of Agreement state that the purposes of the Bank are to assist in post-war reconstruction by facilitating investment; to promote private foreign investment by means of guarantees and participations and if necessary to supplement it by providing finance for productive purposes out of its own capital, funds raised by it and its other resources; to promote trade and balance of payments equilibrium by encouraging international investment for the development of productive resources; to ensure that priority projects are dealt with first; and to conduct its operations with due regard to the effect of international investment on business conditions in its members' territories. The World Bank, except through the IFC,[2] has done little, directly, to promote productive projects in the private sector. It has concentrated overwhelmingly on the economic infrastructure; its projects have been mainly in the public sector, although it has also financed projects for some private railways, electric power companies, and so on, with government guarantees. Since 1962, through the IDA, it has been able to provide finance on softer terms; the projects financed from IDA resources are not significantly different from the projects financed from the Bank's ordinary resources, and the procedures involved in negotiating the setting up of projects are the same. Bank loans are usually for the foreign exchange costs of projects only, although the concept is

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1. Which are not the subject of this study.
2. Set up in 1957 and with which this study is not concerned.

sometimes stretched. Immediately after the Second World War, before the Marshall Plan, the Bank made some "programme loans" to European countries; and recently it has made some near-programme loans to India and Pakistan. The Bank's function in "reconstruction" is now presumably ended, and it has become primarily an institution concerned with the development of the less-developed countries. It does however continue to make loans to Spain, Portugal, South Africa, New Zealand, Finland, Ireland and Japan.

In its project-lending, the Bank has increasingly attached conditions to its loans to ensure that its projects are viable. The field covered by these conditions has been extended. An important part of the Bank's project-lending has been an effort to improve the organisation of the institutions responsible for administering Bank projects: railway authorities, electricity companies, and so on. The Bank, especially in Latin America, has also made considerable efforts to increase the financial viability of the public and private companies to which it makes its loans, in particular by persuading governments to allow them to charge higher rates for their services. The Bank has also had some influence on project choice, insisting that countries should start projects which could be finished; and it has been very insistent on thorough preparation, feasibility studies, the use of consultants, and so on. In addition, the range of sectors in which the Bank is prepared to finance projects has been enlarged. The Bank is now, at least in theory, prepared to finance projects in agriculture and education sectors, which were originally thought unsuitable for a banking institution.

But, quite separately from its project-lending activities, the Bank has also become concerned with the general economic policies of the countries to which it lends. It is said that, in principle, the Bank must now approve both the project and the country before it decides to make a loan.

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1. Which this study discusses very little.

There are different views in the Bank on how this has come about, and/indeed on whether it has come about. The development of the Bank's involvement in general policies has certainly been sporadic, and has had much to do with personnalities and chance circumstances. There are some who see a general and inevitable trend, with the Bank moving steadily from an original, rather narrow banking view, towards much greater awareness of development problems in general. There are others who point to specific events and constraints. The Bank's activities in this field have, at any rate, not yet been fully systematised; there is still some internal opposition to this happening, and considerable divergence of views. It is therefore difficult to trace the history of Bank involvement and to explain its present operation in any coherent manner.

From early days the Bank has, from time to time, made general observations on countries' economic policies. For instance in 1949 the Bank was already saying to Chile that it should make an effort to reduce inflation as a prerequisite for Bank lending. Occasionally it made specific representations: Peru for instance, in the 1950s, agreed not to accept more short-term suppliers' credits. Sometimes the Bank succeded in persuading a government to raise the rates charged, or to reduce the number of people employed in, for instance, railways or power companies, even when no particular Bank project was involved. On a number of occasions the Bank has ceased to lend: in Colombia, under Rojas Pinilla, from 1956 to 1958; in Brazil, under Gonlart from 1957 until the new military government came in in 1964; in Argentina, under Illia and in the first few years of the new military government, until this government appointed Dr. Krieger Vasena as Finance Minister.

In addition, apart from occasions when there was a question of the Bank ceasing to lend, the Bank also became more willing to offer its advice and expertise in matters not directly connected with specific projects. In the 1950s efforts were made to build up planning offices in Colombia, Peru and Chile. An agricultural mission was sent to Uruguay in 1950 and to Chile in 1951. The Bank's involvement in Colombia has been long and fairly continious.

In 1956, the Bank set up its Economic Development Institute (EDI) which at first provided courses on general development problems; it now concentrates on teaching methods of project evaluation.

Most important perhaps, the Bank began to produce general reports on countries' economic situation. Originally, Bank reports, rather like IMF reports, had a formal purpose. IMF reports conclude formally by recommending to the Directors that a country be permitted to retain certain exchange restrictions. Bank reports were exercises to determine a country's creditworthiness; they concluded, and still usually conclude, by saying that the Bank and other potential lenders would be justified in lending to the country concerned, and they generally make some estimate of the amount of lending that is needed and justified. From this rather narrow concentration on creditworthiness, the Reports developed into general analyses of countries' economies. During the 1950s the Bank produced some big reports on a number of countries, resulting from what were called General Survey Missions, which were published by the Johns Hopkins Press. Bank reports are now very seldom published, and their circulation is restricted to the government of the country concerned, the Board and a few privileged individuals. But on the whole the scope of the analysis has continued to widen. Most of them now usually cover not simply the country's borrowing capacity and needs, but for instance its fiscal and monetary policies, investment policy, the balance of payments, prices and wages, the treatment of the private sector, sometimes agricultural and even educational policies; and they usually contain projections for the future, and rather full statistical tables. The Bank fairly regularly produces reports "in depth" for countries for which it organizes consortia and consultative groups, and for certain major countries which are large borrowers from the Bank, Brazil for instance. For other countries the reports are shorter and less complicated. The Bank's aim is to send missions, of varying sizes and at varying intervals of time, to all the countries to which it lends.

Another very important development in the Bank's activities has been the setting up of consortia and consultative groups presided over by the Bank.[1]

1. See Pledged to Development, John White, ODI, for a full history and analysis of these mechanisums.

The first consortium, the India consortium set up in 1958, arose as an *ad hoc* response to India's critical foreign exchange situation, and developed subsequently into an institution concerned with India's general development problems. The Pakistan consortium had its origin largely in Pakistan's desire to be treated like India. The subsequent consultative groups were more consciously designed to mark the Bank's, and, it was hoped, other lenders', concern with the development of the countries for which the groups were set up. In Latin America groups were set up for Colombia and Peru, and contemplated, from time to time, for Chile and Brazil. The Bank, in agreeing to operate a consultative group for a particular country, demonstrated its general approval of the policies of the country, tried to ensure that the lending policies of other countries and agencies were conducive to its development, provided documentations for the group, and in general offered to act as the country's advocate and special adviser.

Partly as a result of these developments, and also, perhaps, contributing to their momentum, the Economics Department of the Bank was in 1965 reorganized and reinforced by a considerable influx of economists. The Bank has four "Area Departments," the Western Hemisphere Department dealing with Latin America. It has also a Projects Department, which was, and remains, the core of the Bank, responsible for accepting or rejecting projects submitted to it by Area Departments, and heavily preponderant in the structure of the Bank . The Economics Department is responsible for producing functional reports and more specialized economic and econometric analyses. It is very much engaged in attempting to define criteria for "good performance". It is not responsible for country missions, but may provide personnel for these missions and to service consultative groups.

In the past few years rather more deliberate attempts have been made to influence the policies of borrowing countries.

In its report to UNCTAD on Supplementary Financial Measures,[1] the Bank, it is said, more or less expressed its view of an ideal situation in relations with borrowing countries. The Bank was asked to report on a proposal to

1. Supplementary Financial Measures, A study requested by the United Nations Conference on Trade and development, 1964, International Bank for Reconstruction and Development, December 1965. See especially pp 8-11.

to make funds available to developing countries which experienced unexpected shortfalls in their export receipts because of fluctuations in world commodity prices. The Bank proposed a departure from the semi-automatic procedure used in the IMF scheme.[1] Its proposal was that countries wishing to be eligible for "supplementary finance" should agree with the managing Agency, presumably the Bank, not only on its export prospects over a given period, but also on the general economic policies which the government intended to adopt. The country would remain in continuous communication with the Bank. It would cease to be eligible for finance if, in the Agency's view, it departed from this agreement for unacceptable reasons.

In the same way the Bank hopes to come to some sort of an agreement on present and future policies with the countries in which it is likely to finance projects, and to continue to discuss these policies in a fairly continuous manner. In a country whose economic problems were particularly acute in the Bank's view, the Bank might ask for a formal Memorandum of Understanding on specific issues, similar to the IMF's Letters of Intent. The question of the country's general performance would not arise specifically in connection with negotiations for project loans, and the Bank would be most unlikely to stop disbursement of a loan once the agreement had been signed. But, in theory, the Bank now makes its decisions as loans arise partly on the basis of its view of the country's general performance. It will not discuss a lending programme unless it is satisfied with the country's general policies. A very good project, it is said, might be rejected on the grounds that the country's general policies were "not conducive to economic development and investment."

This view of things was embodied in formal procedural changes made inside the Bank in 1965. An Economic Committee was then set up, parallel to the already existing Loan Committee. Loans, to be accepted by the Bank staff before they go to the Board, must now be accepted first by the Economic Committee. The Loan Committee has views on the projects themselves. The Economic Committee,

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1. See above, pp

which has before it memoranda defining policy issues from the Area Departments, accepts or rejects the proposal for a loan on the basis of its view of the general economic performance of the country concerned.

Of course the effective application of these ideas and procedures depends on the degree of the Bank's involvement in particular countries, and on the personnalities concerned. Probably these ideas, for the moment at any rate, are more accepted in the Western Hemisphere Department than elsewhere in the Bank, with the exception of those concerned with the Asian subcontinent perhaps. In countries where there is no particular history of World Bank concern with general policies, the scrutiny of the Economic Committee may be more formal than real.

An important question is whether there is any intention on the part of the Bank to change the policies of the countries to which it might lend. In a country with which the Bank's relations are distant, the Bank may simply, decide to lend or not to lend, and that will be that. The decision may be an inducement to this country, or others, to adopt policies of which the Bank is likely to approve. But elsewhere the Bank may actually become engaged in negotiations with the country, aimed at improving its policies in the eyes of the Bank. The aim of the Bank, ideally, is not to relegate countries to some black list, but to get as many countries as possible into a situation in which the Bank feels confident in supporting them. That the Bank has a tendency to lay down conditions and say take it or leave it, is possible but is nevertheless not conducive to this ideal, which is one of dialogue and discussion. The Bank would like to be an institution to which countries come freely for advice and guidance.

The role of Bank reports in all this, like the application of Bank ideas on involvement, is not clear and varies from country to country and from mission to mission. Some reports are very operational, in the sense that they are intended to provide the criteria on which the Bank's view of the country's performance will be based. Reports generally go through a number of drafts. The first draft may contain some quite strong criticisms of the policies of the government concerned, and some proposals for changes. The aim is then that it should be possible to eliminate the grounds for criticism through negotiating changes in the country's policies. If such negotiations are unsuccessful, the report may never get to the stage when it is seen by the Board.[1] The Bank prefers not to present very negative reports to potential lenders. The result is that only the government of the country concerned, and the staff of the Bank, officially sees the Report and knows of the specific recommendations made by the Bank. Other reports may be fairly general and innocuous from the start. The information, opinions and projections they contain will then, to a greater or lesser extent, and depending whether the government bothers to read them,[2] presumably be useful in the formulation of policy. Reports for countries for which there are, or were, operating consultative groups, may be specifically intended to guide the policies of other lenders as well as those of the country concerned; and all Bank Reports, in so far as they are made available, may of course serve this purpose. There are, incidentally, many criticisms of Bank reports, and of the lack of clarity in their purposes, made within the Bank itself!

Why has this greater Bank involvement in the general policies of developing countries come about?

There seem to be two main explanations suggested in the Bank, plus a number of subsidiary ones. One is that the Bank's concern arose primarily because of the increasingly heavy indebtedness of its member countries, which was a problem which directly concerned the Bank as a big international lender and which made it necessary to ensure that the country would be in a position to repay its debts in the future. The second is that the Bank, like other international institutions, inevitably came to concentrate increasingly on the economic development problems of its member countries; it had to take more account of these problems, and therefore it began to try to find solutions to them and, possibly, to persuade countries to adopt these solutions. Different people in the

1. And receives even the limited circulation described above.
2. And which members of it can read English.

Bank have rather categorically affirmed that one of these explanations was correct and the other false, and vice versa. There are certainly several examples of the Bank first becoming involved in a country because of its debt problems. India is perhaps the most notable example. And Colombia, for instance, in 1955 wanted to contract new debt from French suppliers; the Bank, concerned about the level of public debt, decided to review the purposes of the debt and studied Colombia's public investment programme. On the other hand in recent years there has been increasing concern about the "effectiveness" of "aid", especially perhaps in Washington, and aid theorists and practitioners have increasingly been talking about the principles of "self help", "aid leverage", "performance criteria", and so on. People in the United States AID, and some people in the Bank, were arguing that physical investment alone would not make an effective contribution to development if the country's policies were "wrong"; capital inflows might help, but more was to be expected from technical assistance and the "discipline" that came with the capital inflows; it was necessary to support people in the government who were trying to do the "right" thing; when the country's policies "went astray", lending agencies could be most useful by saying they would stop lending until policies changed. It was natural that the Bank, as a leading development institution, should come to play a leading role in this new school of thought.

Probably both these phenomena have contributed to the Bank's evolution. There are other explanations and contributory causes, interlinked no doubt, and of greater or lesser significance. Partly because of countries' indebtedness, it became more important for the Bank to feel certain, at least, that its own projects were priority projects; this meant that it was necessary to try to see the projects as part of a total investment programme. The Western Hemisphere Department was probably the Area Department most concerned with relating projects to general economic policies. Its advance over other departments in this respect may have had something to do with personnalities, possibly more to do with the fact that it was dealing with countries which had begun to industrialize, whose incomes per head were generally higher than in Africa and Asia, and whose economies were generally more complex; in particular, Latin American Countries have on the whole been the first developing countries to experience in an acute form the problems of inflation, heavy debt, and balance of payments crises.

More recently, the Bank has had to be concerned with making a case for the replenishment of IDA. Especially in Washington, there is a feeling that the way to persuade the rich countries to provide more money is to demonstrate not simply that the money itself is being well spent, but that developing countries are making what can be described as satisfactory efforts of their own to develop. Hence the exercise to demonstrate what amount of additional resources developing countries could effectively absorb; and hence, partly, the efforts to persuade Latin American Countries in particular to adopt "sensible" policies. In addition, there are those who see, with or without alarm, the greater efforts to persuade developing countries to "help themselves" as a substitute for a willingness to increase the level of financial resources provided by the rich countries. Others point to the coincidence of the Bank's change of direction with the presidency of Mr. Woods; others to its coincidence with the enlargement of the Economic Department (which may have been partly effect and partly cause).

At any rate, the change is certainly happening, to a much greater extent than is generally supposed. Those who oppose it within the Bank do so mainly on the grounds that the Bank is being over-ambitious, and diverging too far from its original purposes as expressed in its statutes. The Bank's ability to exercise pressure is presumably based mainly on its ability to provide financial resources. But, of the three institutions primarily involved in the business of pressure, the World Bank's traditional method of providing finance is probably the least well adapted for use as " lever". The Bank cannot, or at least it does not, link the actual disbursement of its project loans directly to observance of its conditions on general performance. It can only delay commitment. Usually it must negotiate separately on the two issues. Project loans arise at irregular intervals. It may happen that the Bank would particularly like to have an effect on policy at a time when there is no project loan pending. In any case, the Bank's financial contribution to projects is not usually of sufficient importance in particular instances for the government to be willing to changeits policies in order to get it, especially as the Projects Department in the Bank can have its powerfully negative effect whatever the views of the Area Departments on the virtue of supporting a government's programme. There are therefore a few in the Bank who would apparently like to be able to make programme loans. There are others who say that the Bank is a bank and should stick to what it is good at: projects.

Recently the Bank, consciously or unconsciously, has been adding to its armoury. In a country in which it is heavily involved, and which has a need for external finance, the Bank is likely to consider setting up a consultative group. The offer to do this can be an inducement to come to an agreement with the Bank. In the countries for which there already are, or have been, consultative groups[1] the Bank can and does postpone calling a meeting of the group until it is satisfied with the country's policies. In a less formal sense also the Bank's approval or disapproval of a country may have some effect on the policies of other lenders, in the same way as that of the IMF can. A direction in which the Bank might move is that of becoming the coordinator, even the controller of other forms of external finance. Already, in Latin America, there are signs of a united front of lending agencies, at least as far as the three main ones are concerned; the World Bank of course is not always dominant, but in some countries it may be. The World Bank also has been known to try to persuade the Inter-American Bank either to stop lending to a country, or at least to push for policy changes which the World Bank thinks necessary; these efforts, so far, have met with partial success. Once, to my knowledge, the Bank "told" the New York commercial banks to stop lending to a country - with success. The ability of Latin American countries to chose between lenders with different policies seems to be somewhat decreasing, and their need to agree with any one

1. Peru and Colombia in Latin America

institution correspondingly increasing.

The proposal for Supplementary Financial Measures, if it had been accepted in the form in which the Bank made it, and if the Bank had acted as the managing Agency, would of course have increased the Bank's ability to influence policies. But it is doubtful by how much:- as somebody in the Bank put it, the Bank "is doing it anyway", and does not feel that the funds contemplated for Supplementary Finance would have been very significant. In any case, the scheme seems to have emerged from UNCTAD II more dead than alive.

Finally, it is arguable that the rather considerable prestige of the World Bank does have some effect on its own. World Bank reports, possibly wrongly, are quite widely taken as an authoritative and impartial view, free from political arriere pensees. The Bank certainly has fewer hesitations than some other institutions about making criticisms of its member countries, and is relatively free from political inhibitions of this variety. The World Bank, it is often said, is a "lenders' organization", whereas the Inter-American Bank, for instance, is a "borrowers' organization" and therefore less prepared to be "tough". Some of the Bank's appraisals carry considerable weight, and may even contain revelations which can create internal political difficulties for the government concerned.[1] In addition, the Bank, by its determination to collect figures, has probably had some useful effect on the quality of statistical information. It may, by its probings and pressure, have contributed to a greater preoccupation with economic necessities. Certainly Bank views should, and sometimes do, give rise to discussion and reappraisals of policy.[2]

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1. For example in Costa Rica, the Bank's criticisms of educational policy reached the press, made front page news and gave rise to quite violent debate in parliament.

2. the process of course ought to be mutual

There are some people in the Bank who feel that the Bank's capacity to influence policies might be greater if it had permanent representation in developing countries. The Bank has, from time to time, had permanent representatives in Latin American countries. They have now all been withdrawn, or at least the Bank officials who are still resident in Latin America are not referred to as "representatives". The official Bank view is that , in the age of jet aeroplanes, it is simpler to fly people to Latin America whenever this is felt to be necessary and to centralize administration and policy-making in Washington. Bank officials do visit Latin American countries very frequently and know their economies well. But it may be that if, like AID officials, they were resident in the country, the possibility of real discussion and give-and-take on policies would be greater. It might also, on the whole, be an advantage if Bank officials were a little more subjected to the danger of losing their (Washington) sense of perspective.

Apart from those who have doubts about the suitability or the capability of the Bank, as an institution, to have an influence on general economic policies, there are also a few at high levels who have doubts about the directions in which the Bank's influence is exercised. These doubts are sometimes based on the feeling that the Bank does not necessarily know what is right for particular countries; its function should, at most, be to point to possible difficulties and possible solutions. The Bank in any case has a tendency towards arrogance and dogmatism in its dealings with governments. It is very rare- possibly unknown-for Bank reports to discuss alternative policies: either alternative ends, or even alternative means to the some ends; and Bank reports tend not to make their assumptions explicit.

There also exist some doubts about the fact that, as one official put it, the Bank's agreements with countries, especially Latin American countries, tend to look like "carbon copies" of Fund agreements. The Bank is certainly entering the IMF's field. This is justified, within the Bank, by the contention that in Latin America the most urgent problems are those with which the IMF has for some time been dealing. Short-term problems, it is said, are so difficult to solve that preoccupation with them is unavoidable; the problem of inflation is "overwhelming." Quite apart from whether this is so,[1] there is of course an argument for leaving these matters to the Fund. On the other hand it can be argued that the Fund and the Bank, from their different points of view - the one monetary stability, the other investment policy - have necessarily converged; that there is a group of questions, mainly fiscal questions, with which both institutions must be concerned, and that there are connected questions with which one is clearly more concerned than the other; the Bank would give way to the Fund on exchange rates,[2] the Fund would give way to the Bank on investment policy, even if this affected stability.[3] Both institutions have views on the causes of inflation, but the Bank's views are "largely based on taking to the Fund." It is certainly recognized that cooperation is necessary in order to " avoid duplication" and conflicting advice; it seems that cooperation between the Bank and the Fund is fairly well organized, and that Fund officials attend meetings of the Bank's Economic Committee. Possibly the best justification for the Bank's concern with Fund policies would be that the Bank wanted to ensure that the Fund's short-term exigencies did not conflict with the Bank's long-term concerns. But the "long-term," for the Bank, seems to be a rather relative concept, and not much different from the short term; and, for the moment, the Bank seems either not to question Fund policies, or to be just as likely to be more exigent than the Fund on deflationary policies as, for instance, to argue the case for expansion.

There are, again, some in the Bank who would like the Bank to exercise influence, but in different directions. One specific suggestion was that the Bank should concentrate on what is sometimes called "institution building."

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1. See chapter 1.

2. Does it? cf. ch.3, section 1.

3. Does it? cf. ch. 1, p

on building up and strengthening the mechanism for taking economic decisions in developing countries, so that they can manage their economies more efficiently, know what is happening, and chose rationally. This suggestion was based on the feeling that at the moment, in some countries, people tended to think of the business of project selection, economic forecasting, collecting of statistics, and so on, as "religious rites" which the Bank went through; they themselves watched; they were not of the priesthood.[1] In this view the Bank should be less concerned with problem-solving, more with encouraging others to solve problems.

A few would like the Bank to be more "adventurous", more concerned, for instance, with social problems. This is a view not at all widespread at high levels in the Bank. When it is held, it is sometimes qualified by the observation that the Bank's freedom of action is limited by the need to maintain its reputation in conservative financial circles. The Bank jealously guards its reputation for cautiousness, soundness and reliability. It is one of the few international instituions which does not have a reputation for squandering its funds on over-ambitious projects It has certainly achieved a remarkable amount of respect in the international financial community. It might lose this respect if it was "adventurous" in the projects it financed or in the policies it promoted. It is not so clear that it would lose, as is also argued, its ability to raise funds in private capital markets, or its triple AAA rating on Wall Street. It is probable that these things depend at least as much on the size of the Bank's government backing as on the soundness of its projects.[3] The Bank's bond issues have often been oversubscribed, and are regarded as exceptionally safe investments. The Bank's main difficulty in raising funds

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1 In Peru feasibility studies are "los informes de los guingos", "el trabajo de los tecnicos".

2. It has indeed been accused, in fairly conservative financial circles, of excessive cautiousness.

3. The Bank's uncalled subscriptions are equal to nearly seven times the Bank's outstanding debt.

especially in Europe, is in getting permission from governments for access to their markets. Most governments are rather less conservative, at least in their public pronouncements, than the Bank.

There is also the question of the autonomy of the Bank staff. There is no doubt that the staff has considerable freedom to make its own decisions, and that, unlike in the IMF, a great deal is done without the Board even being informed. It is possible that, although many governments might be more inclined towards progressive policies than the Bank staff, the same is not true of the members of the Bank's Board, most of whom are central bankers or Finance Ministry officials primarily interested in the IMF.[1] But this ought not to be a factor of any fundamental importance. What is probably more important is that the Bank staff's autonomy is not questioned partly because it acts within a framework of which the major countries no doubt approve. But the Bank seems either to have a mistaken view of the distance it would be possible to move without going outside this framework, or merely to be doing what its officials are anyway inclined to do, with or without using the framework as an excuse.

Although the Bank probably has not reached the limits it would be possible for it to go to, such limits clearly exist. The Bank could be as "progressive" as the United States government, but not more so. In addition, there is the question of creditworthiness, which may after all have been the Bank's original reason for becoming involved in the general economic policies of developing countries. The Bank is fundamentally concerned, both because of the source of its finance and because it makes loans, with financial stability, the orderly settlement of debt, legality, and so on. It would be constitutionally incapable of recommending revolution.

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1. Although they may have deputies with interests in development.

3. The United States Agency for International Development.

The AID, of the three major institutions, has perhaps most clearly and publicly formulated its theories on "aid leverage" and the linking of aid to "performance criteria".[1] These theories are based on the recognition that aid is a small part of a country's total investment and foreign exchange resources, and that merely controlling the use of aid itself will not have a very significant effect on the country's development. The theory is that the AID should, after discussion and "dialogue", agree with the government on its development programme and make the provision of "aid" conditional on the government carrying out this agreement. It is claimed, somewhat disingenuously, that it is not a question of the AID imposing its ideas, but of "finding the people with the right ideas" and supporting them against internal opposition. Presumably, if this policy is to be followed, there are three possible positions: the AID can fail to agree with a government and decide that its policies are so bad that it stops or reduces aid; it can agree fully with the government's policies and simply provide aid in support of them, in which case it is merely a question of checking that the policies are being carried out, perhaps reinforcing the government's resolution; or it can decide that the policies need to be changed but that there are enough satisfactory elements for it to be worth supporting some policies against others and trying to "improve" the government's total programme, in which case it is more likely that the AID will have to work out its own solutions and policies for the country.

The AID has developed a special method of using aid as a "lever". This is the system of "programme loans".[2] Programme loans are tied to the purchase of goods in the United States, and they may be tied to particular

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1. See for instance the AID paper on Measures to Ensure the Effective Use of Aid published in Effective Aid, ODI, 1967, and as AID Occasional Paper No 13. See also Andrzej Krassowski, The Aid Relationship, A discussion of aid strategy with examples from the American experience in Tunisia, ODI, 1968.

2. The idea of programme loans was first developed not in the AID but in the State Department proper.

groups of commodities. They are not tied to specific uses in the country concerned; the counterpart funds generated from the sale of foreign exchange may be so tied but usually their use is more flexible than that of ordinary project loans. Countries receiving programme loans must however negotiate an agreement with the AID, which must be approved in Washington. The agreement usually covers a period of one year, and contains a number of general and some specific conditions, embodied in a Letter of Intent which, in Latin America's case, is formally addressed to the CIAP.[1] The loan is then disbursed in quarterly "tranches", in theory according to whether the AID considers that the conditions have been satisfactorily observed. This method of providing finance has obvious advantages from the point of view of the country, since it can be rapidly disbursed and can be used for the kind of imports for whch external finance is not usually available.[2] From the point of view of the AID, it provides considerable flexibility, and disbursement can easily be delayed; whereas with project aid, once a project has been agreed and started, it is wasteful and difficult to stop it.[3]

In countries where the AID does not now make programme loans, the prospect of such loans, or of more project loans, can of course be held out as an inducement for the government to discuss its policies with the AID. The possibility of such discussion is considerably increased by the existence in all Latin American countries of permanent AID missions.[4] The staff of these missions is on the whole more operational and of a higher level than the AID staff in Washington. It is usually possible for them to establish a fairly continuous working relationship with the government of the country, involving discussion of general policies as well as of projects which the AID might finance, even when no programme loan is involved.

1. See section 4 of this chapter.
2. For a detailed discussion of programme loans see Andrzej Krassowski, ibid
3. See above on the World Bank.
4. Of varying degrees of giganticism: in Brazil the mission occupies about 10 floors of a new office block; the Embassy is housed elsewhere.

There are those who put more faith in this kind of discussion or negotiation than in the programme loan system, involving as it does specific checking on policies and specific threats to cut aid; who would prefer, for instance, to talk in terms of the "difficulty of considering how to make a loan if certain conditons do not exist", rather than making decisions ex post. In practice it seems that where programme loans have been agreed upon, it is rare for disbursement to be held up: the AID usually manages to agree that there were special circumstances which made it difficult for a particular condition to be observed. In any case, programme loans usually cover so many different points that no one of them is likely to be important enough to affect disbursement on its own.

There does also exist some confusion about what it is hoped to achieve. The AID is more "flexible" than the World Bank or the IMF. On the whole, it is unwilling to make drastic breaks, to enforce exact observance of its conditions, to say take it or leave it; efforts are made to continue discussions. This may be partly because the AID is represented in the country, and has a better understanding of the priorities and difficulties of Latin American governments. It may also, in some cases, be due to the fact that the United States has political reasons for wishing to support particular governments, whether or not their policies can strictly be said to be conducive to development, or economic stability, or whatever other goals might be set by the AID.[1] The AID, at the moment, makes programme loans to three Latin American countries: Brazil, Chile and Colombia. These countries do have rather sophisticated development programmes of which the AID, on the whole, is able to approve. Brazil is in some ways ideal from the AID's point of view: a strong government with a strong stabilisation policy; but there are also obvious political reasons for the United States to support the government which overthrew Goulart. Chile is more doubtful; its programme has elements of which the IMF and the World Bank disapprove, and it is not clear how much the AID genuinely understands and approves, and how much the United States has

1. See below.

decided to support the Christian Democrats, come what may, as the only alternative to FRAP. In Colombia similar doubts might occur: Colombia has a recent history of political disturbances as well as economic difficulties.[1]

There are other sources of confusion. Some Latin Americans say they "always look for the trap" in AID offers of aid. The "trap" may be that the United States wishes to supply some particular form of machinery for which it hopes to establish a market. More generally, some of the conditions attached to AID programme loans may be rather ambiguous. For example there are some who are genuinely not sure of the reasons for the AID's passion for import liberalisation programmes. More crudely, some conditions may be inserted in an AID programme which clearly have nothing to do with the promotion of the country's development and which involve the treatment of US private investors and concessions for US trading interests.[2] Put at their best, such efforts diminish the credibility of AID economists, and considerably reduce their effectiveness in negotiation.

There remains the question of what the American officials who are concerned with economic development want. The AID's involvement in general policies in Latin America has arisen partly from the ideas of the Alliance for Progress. Among Alliance for Progress objectives there were many which were broadly social and of a distinctly "progressive" nature, including targets for increasing taxation, presumably for social, not anti-inflationary, purposes, for land reform, for education, housing and health. Some traces of these objectives remain in AID programmes. Among the conditions there is likely to be something about education, less frequently the distribution of income, even unemployment; land reform conceivably.[3] In its project-lending the AID shows more concern

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1. See chapter 3.

2. For a specific example see p . In this case the offer of a loan was refused.

3. See section on Chile, p

with education and agriculture, and with social objectives in general, than the World Bank. In general, its idea of development is probably rather broader than that of the World Bank or the IMF.

Nevertheless, as the AID put it, the "key" conditions in programme loans are usually concerned with the exchange rate, the government's surplus on current account, taxation. In its more immediate and operational "programme" concerns the AID seems to have joined the other two in their preoccupation with financial stability. Sometimes this takes the form of making AID loans, at least programme loans, conditional on agreement with the IMF. In some cases, especially where the AID mission has a strong group of economists, the AID may make it clear that some of IMF's conditions are not important to it. There may also be some difference in emphasis: for instance the AID may be more concerned than the IMF with the revenue side of the budget. It is probably true that the AID does not work as closely with the IMF as the World Bank does, and is less likely to be fully informed of what it is doing. But in most cases the AID will accept what the IMF says, and there appears to be a broad identity of views.

In any case such official belief as there was in the possibility or desirability of United States - induced evolution and political " liberalization" in Latin America seems to have largely disappeared. This may, as most Americans claim, be because of disillusion in Latin American governments. But there were always some obvious contradictions in United States objectives. Real efforts at reform in Latin America were certain to damage the interests of United States private concerns, if they were to be effective and unless they were to discriminate in favour of foreigners. For the moment, the roughly speaking parallel policies of political and economic stability, as represented by strong military governments and stabilisation programmes, seem to have won the day.

4. The Inter-American Development Bank.

The BID[1] has so far been rather resistant to efforts to make it join the ranks of the influencers of general policy. It seems that in the early days of the Alliance for Progress it was hoped that the Bank would be an instrument for promoting Alliance for Progress aims. But it stuck to projects.

The Inter-American Bank has had a somewhat different emphasis from the World Bank in its project lending. It has financed a number of projects in the economic infrastructure. But it has also financed projects in education and especially in housing, which has been a major field for BID lending. It has been concerned with the problems of unemployment and "marginalidad" in expanding urban agglomerations. It has financed some fairly experimental projects in agriculture[2]: for instance, in Peru it is making unguaranteed loans in support of an attempt to revive the old communal forms of agriculture in the Inca uplands; in Chile it is lending for agrarian reform projects. It is currently interested in promoting Latin American integration, and in financing regional projects. There are some who say that the Bank is taking excessive risks, and that its loans will not be repaid.

On the other hand, the BID, like the World Bank, insists on conditions to ensure the success of its projects. It seems that it is thorough in project preparation, nearly as insistant as the World Bank on feasibility studies, and takes as long to negotiate conditions. It does work on a different principle. The World Bank does not sign the agreement for a loan until the project has been fully worked out, and until it is satisfied that its conditions have been accepted; if it is not satisfied, the country may not get the loan. The Inter-American Bank signs the agreement first,

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1. Banco Interamericano de Desarollo.

2. Whereas the few agricultural projects which the World Bank has financed have, with very few exceptions, been irrigation projects or large commercial undertakings.

and negotiates afterwards; the negotiations may be long and complicated, but the Bank has committed itself to make a loan in the end. It may also be true that the BID, as a "borrowers' organisation", is more flexible in negotiation than the World Bank, and that there is a somewhat greater sense of urgency and more sympathy for the need of Latin American governments to show results. But, as far as projects are concerned, the BID has fully adopted the principle of negotiating on the use of its resources.

On general policies the BID has been much more hesitant. At least until recently, it has not attempted to make judgements on countries. It continued to lend in Brazil under Gonlart; it continues to lend in Haiti. Efforts are fairly frequently made, by the World Bank and the Americans, to persuade it to put pressure on governments. In a few cases, recently, it has shown signs of doing so: in Argentina a formal memorandum was presented to the Minister of Finance which had nothing to do with any Bank project, and on another occasion, under pressure from the World Bank and the United States, the BID agreed to "suspend" its activities, but without making recommendations. In Peru the Bank would do no more than talk informally to the financial authorities about the fiscal situation, and express concern whether enough revenue would be raised to cover the counterpart of BID loans. In Paraguay the BID has promoted the setting up of a development fund in the budget composed of taxes it had recommended, in the hope of ensuring that the counterpart funds for its loans would be available. A more important move was the setting up of a consultative group for Ecuador; the BID has expressed its disapproval of recent Ecuadorean policies by refusing to call a meeting of the group; but it seems a little doubtful about the effectiveness of a consultative group as a means of improving general policies (as opposed to project preparation and selection).

There are some in the Bank who would like to go further in this direction, including some who are fairly much in agreement with World Bank and IMF views on desirable policies in Latin America. Others would like to see CIAP taking over more of the role of vetting Latin American policies, on the grounds that it would be better for this to be done by Latin Americans rather than by external agencies, and that , when the government concerned is represented in the discussions, there is a better chance that its political difficulties will be understood. The BID already participates quite actively in CIAP reviews.

There are a number of reasons why the BID has been reluctant to become involved. Some of them are political; Bank officials may be hesitant about criticising Latin American governments. There are also doubts, as in the World Bank, on the effectiveness of any leverage that the BID might try to exercise. There are feelings on the sovereignty of countries, and the right of governments to make their own decisions without external intervention. Finally, there are a number of people in the BID who have doubts about the pretension of outsiders to know better; some, in particular, are highly critical of World Bank and IMF policies. It seems anyway clear that if the BID does more into the field of influencing general policies, it will have to do so either by joining the ranks of the other international agencies, or, conceivably, through CIAP.

5. The CIAP.

The CIAP exists, in spite of all that is said to the contrary, and is an interesting institution.

It was set up in January 1964 after long discussion whether it should have the power to decide on the allocation of aid under the Alliance for Progress, or merely to advise on its allocation. In the end the United States threatened not to participate if Latin Americans insisted on the CIAP "deciding". The CIAP's functions are now formally to "study" progress made in achieving Alliance for Progress objectives; to promote a greater multilateralisation in the provision of aid; to make estimates of the financial resources needed and available; to make reviews of Latin American plans and recommendations based on these reviews; to make proposals on the proportion of the necessary resources that should be provided from abroad. The CIAP now holds reviews, it is hoped annually, of each country's performance, based on reports made by the secretariat. These reviews are attended by representatives of CIAP and of the country concerned and, unofficially but regularly, by representatives of the World Bank, the IMF, the AID and the BID; usually also by representatives of other international agencies, sometimes by some Europeans.

United States policy is believed to be to try to strengthen the CIAP review process. The United States would of course like the CIAP to take a strong line on the development policies of Latin American countries; and it would like to involve Latin Americans in the process. Latin American governments, although there is some rather resigned criticism of the fact that the CIAP has no real power to affect the allocation of aid, nevertheless have taken the review process seriously, have submitted themselves to criticism, and have sent representatives of a high, usually ministerial, level. Reviews are seldom attended by representatives of Latin American governments not directly concerned; but CIAP itself has strong Latin American

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1. Inter-American Committee for the Alliance for Progress known by its Spanish initials.

representation, and Campos apparently attended a Chilean review at which interesting comparisons were made between Chilean and Brazilian policies.[1] Those Latin Americans who are convinced that the tendency to base the provision of financial resources on "performance criteria" is likely to grow may hope that CIAP will at least provide a more sympathetic hearing for their point of view. CIAP reports themselves seem to be increasingly respected, although they are made, for the moment, with very small resources.

The idea of the CIAP Secretariat is that it should act as a kind of "ombudsman" or mediator between Latin American countries and the international agencies. In a sense, it is claimed, the fact that CIAP is not a financial institution is actually an advantage; it cannot be accused of using money as an instrument or of merely looking for bankable projects; it will be respected in so far as its judgements are serious and objective. The CIAP would like to be an agent transmitting pressures and preoccupations in each direction, explaining and trying to persuade. Usually it holds meetings before the review itself with the country concerned and with the international agencies.

The CIAP is interesting because it does seem to be critical both of Latin American policies and of World Bank/IMF/AID policies. It must move cautiously in its criticisms. But it would like, for instance, to "educate" the IMF into a greater understanding of the non-financial aspects of development, to put the case for not reducing public expenditure, to put the problem of inflation in perspective, to demonstrate that "sometimes orthodox remedies do not work", to show that land reform in Peru is a "pressing social problem" whereas in Argentina there is more of a need for economic efficiency; and perhaps especially, to try to convince the financial community that everything is affected by the balance of payments and that the balance of payments, itself, is often affected by

1. See chapter 3, sections 2 and 3.

factors outside the control of Latin Americans.[1] The CIAP is attempting to develop a view of what "good performance" means. Good performance in relation to what? Is the Brazilian performance "good"?. There was much understanding and sympathy for the alternative polices tried by Chile. There is also questioning of the tendency to evaluate performance in measurable results: growth of output, public savings, price stability, and so on. It might, it is felt, be more important that a country is making a big effort to organize itself or to transform its institutions, or even that it is conducting a social revolution. Are Guaternala and Nicaragua, with high rates of growth, price stability, no structural change and social tensions of an extreme variety, performing well? The World Bank and the IMF no doubt think they are. The CIAP questions.

Whether CIAP questioning is likely to have any effect is another matter. The CIAP feels that its influence on countries, if it has the weight of the financial institutions behind it, can be considerable. It feels also that the IMF and the World Bank " cannot withstand criticism indefinitely" . The CIAP's criticism may not be any more effective than anybody else's; the World Bank and the IMF do not seem, for the moment, to take it very seriously. The weight of the CIAP, so long as it is given no power over the allocation of resources, is little more than moral.

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1. See an article by Walter J. Sedwitz, Executive Secretary of CIAP, in the Journal of Commerce, April 1968, in which he says for instance, "Can the United States continue to tell Latin America that it must become more competitive , that it must lower its trade barriers, and that it must allow freer play to market forces, if these principles are not practiced at home? Is it possible for this country to expect the Latin American nations to launch massive new efforts at export promotion, if the chances are that as soon as these efforts show promise of success, entry into the US. market may be closed?"

Chapter 3. Colombia, Chile, Brazil and Peru.

In this chapter I shall try to give some idea of how all this works in practice by describing some of the things which seem to have happened in the four countries I went to: Colombia, Chile, Brazil and Peru.

I make no pretensions to accuracy. The negotiations of the World Bank, the IMF and the AID are conducted in great secrecy. Some of the things I was told were flatly contradictory. But I was told enough, by people involved in both sides of negotiations and also by outsiders, to have some, no doubt rather impressionistic, idea of what was happening.

1. Colombia.

At the end of 1966 Colombia had a sort of crisis with the international agencies. On November 29th President Lleras appeared on television to announce that he was not going to devalue the peso because foreigners told him to, that he was breaking off negotiations with the IMF, and that he was imposing drastic controls: stopping dealings in foreign exchange for two days, after which all dealings would be subject to central bank control; putting commercial payments at the bottom of the list of priorities; and returning to a tight system of import controls.

Colombia has had a long and on the whole close relationship with the World Bank, except for a period under Rojas Pinilla, from 1956-58, when the Bank stopped lending. The first Bank mission was to Colombia, in 1948, under Laughlin Currie[1] the report made a general economic appraisal, talked for the first time in Colombia about national income, the balance of payments, and such concepts, and recommended the construction of a railway and roads. The Bank has been a big lender in Colombia, mainly for railways, roads and electric power; Colombia has been the biggest recipient of its loans in South America. In 1965 one of the first four of the Bank's consultative groups was set up in Colombia.

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1. Who now lives in Colombia and subsequently became critical of the policies of the international agencies. Cf. Accelerating Development, Laughlin Currie

The World Bank remains, in Colombia, the acknowledged "chairman" of the international agencies. The Americans became interested in Colombia in the time of the "violencia" when disruption and revolution seemed possible, and subsequently when, mainly because of falling coffee prices, Colombia had increasing difficulties with its balance of payments. The AID has been making programme loans since 1963. Colombia has also been using IMF facilities for some years. The involvement of the international agencies was thus substantial, and Colombia was by the mid-60s receiving considerable amounts of aid. In August 1966, under Colombia's system of four-year alternation between the Liberal Party and the Conservative Party, the Liberals came into power under President Lleras Restrepo. President Lleras is an economist with liberal inclinations. Good relations between him and the international agencies should theoretically have been possible.

Under the previous government, in November 1965, Colombia had made a standby agreement with the IMF. Colombia at that time was in considerable economic difficulties. The international agencies said they would suspend their aid until the situation was improved. Finally, a new Finance Minister was appointed, the Peso was devalued in September, and in November the government agreed with the IMF on a series of measures including a tight credit policy, reductions in government expenditure and increases in government revenues, a reform of the planning machinery, an effort to diversify out of coffee exports, and liberalisation of imports...... In addition the IMF, apparently not confident of the efficacy of the measures agreed to, insisted on Colombia accepting a balance of payments target. If Colombia failed to meet this target, even if it had observed the IMF's conditions, then the IMF reserved the right to withdraw, or not to renew, its standby.

By the autumn of 1966 it was becoming clear that Colombia was going to fail the balance of payments test. It seems that the other conditions of the agreement were more or less fully carried out. There are one or two claims to the contrary; but the most authoritative version seems to be that

Colombia fulfilled all the conditions on money supply, government expenditure cuts and revenue increases, coffee policy, import liberalisation and partial devaluation of the exchange rate. The government did go further in import liberalisation than was stipulated in the agreement; Lleras himself made some sharp moves towards liberalisation immediately after he came to power. But this was a subject for congratulation, rather than blame, from the IMF and the AID, who, at any rate, could not be expected to object to any measures of import liberalisation, and who agreed with the Colombian government's view that imports should be very largely liberalised so as to discover what their true level was likely to be. Imports certainly were at a higher level, unnervingly so, it seemed, in the autum of 1966; but it subsequently became clear that their level was not above the level projected at the time of the 1965 agreement.

The main trouble seems to have been that Colombia's receipts from coffee were less than expected: both the prices and the volume of Colombia's exports fell, the latter partly because of cuts in Colombia's quota, partly because of fears of further drops in the price. The estimates of the "shortfall" vary from Colombian estimates of $70m and an AID estimate of $60m to IMF estimates of $18.9m.[1] Other subsidiary explanations are produced: that Colombia was unable to use AID funds and other tied foreign exchange once it had liberalized its import system, for instance. But, as was stated in an AID apologia for the policies of the international agencies, the fall in coffee receipts "would be enough to explain anything."

At any rate, by the autumn of 1966, the balance of payments situation was disturbing. IMF and World Bank missions went to Colombia. These missions and members of the AID permanent mission met at the US Embassy and decided devaluation was necessary. The IMF representative went to the

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1. Presumably, since this was the amount Colombia finally got from the IMF in Compensatory Finance (see below).

Colombian government and said that the IMF would not renew its standby unless Colombia devalued, apparently also making plain by what amount Colombia should devalue. The New York banks stopped lending. At this time Colombia was also negotiating for a new programme loan from the United States; according to one AID version, the United States had already made plain in August that it was not prepared to provide "advance commodity financing", but only to commit itself to reimburse Colombia, up to a certain amount, after proof had been given of commodities imported from the United States; this would have meant that immediate funds would not have been available whether or not agreement with the IMF had been reached. Whatever the truth of this,[1] negotiations for any kind of programme loan were broken off after Lleras' television announcement on November 29th. The World Bank, since this is not its policy,[2] did not stop disbursements on its project loans; but the question of calling a meeting of the consultative group was postponed. Colombia did not devalue; instead on November 29th, Lleras announced the reversal of the import liberalisation policy.

Explanations as to why all this happened conflict. The first question is on whose inititive the IMF representative was acting. There are some, in the AID especially, who profess to believe that the IMF pushed for devaluation on its own initiative and was responsible for the break by being excessively rigid in negotiation; the AID, it is said, would have been more flexible. According to one AID version the AID and the World Bank did not foresee the crisis; they believed that the IMF would be understanding about the reasons for Colombia's failure of the balance of payments test; the AID had reserved the right to disassociate itself from the IMF if the IMF called for devaluation, and after Lleras' television appearance had to make the decision not to do so in a hurry. There were also some doubts expressed in the AID about the wisdom of the policy of devaluation.

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1. See below

2. See chapter 2, p.

There were many in Colombia who believed that there was some possibility that the AID and/or the World Bank might disassociate itself from the IMF, and continue discussing future lending policies, or the calling of the consultative group, whether or not Colombia reached agreement with the IMF. And there was rather universal criticism of the actual manner in which the IMF made its decisions known to the Colombian government, and the failure to take account of Colombian susceptibilities. On the other hand, it was said by others in the AID that the United States was always fully behind the IMF; at worst, there was a failure of personnalities. One IMF version of the story was that the United States Embassy took the initiative, inviting the IMF and World Bank missions to the Embassy and saying it was time to be tough on the Colombian government; the IMF representative merely acted as spokesman, even as "scapegoat", following instructions from the United States Embassy and Washington. It seems clear also that, in spite of the views current in Colombia, the World Bank was fully behind devaluation and may also have felt more strongly than the IMF that pressure should be put on the Colombian government; and it was the World Bank which "told" the New York banks to stop lending in Colombia.

The next question is why the international agencies decided devaluation was necessary. The Colombians maintained that it was not necessary, and that Colombia could have survived the balance of payments crisis without devaluing if the IMF had been prepared to renew its standby, if the AID had agreed to make disbursements immediately on another programme loan, if the New York banks had not stopped lending, if the IMF had immediately provided compensatory finance for the shortfall in coffee earnings, or if some of these things had happened. Some people in the AID definitely supported this view. From the political point of view, if this had been possible, the advantages for Lleras would have been considerable; devaluation in Colombia is extremely unpopular and has, in the past, given rise to general strikes; Lleras, in his first public appearance as President had given a pledge that he would not devalue. The economic arguments against devaluation were more controversial.

There is first the point that unless a government is politically strong, no economic policy is likely to be successful; decisions about devaluation can seldom be purely "technical". Second, there are doubts about the wisdom of Colombia's continual devaluations, which have tended to set off rounds of price increases and wage demands which may wipe out all the advantages from devaluation, while doing little to help exports, given that the price of coffee is fixed outside Colombia in any case and the possibility of immediate expansion in other exports is small.[1] It was also argued that, in Colombia, which had had controls, especially on the import of luxury goods, more or less continuously since the war, devaluation on its own was almost certain to be inadequate as a means of reducing imports. Devaluation was opposed also by some of those who believed in the policy of import liberalisation, as the Lleras government clearly did. These people hoped to discover what the "normal" level of imports would be after the immediate rush for imports caused by the measures of liberalisation. There were signs that imports were levelling off; it seemed also that those who were stockpiling luxury goods in the expectation of devaluation or controls had nearly reached their limit. Moreover the level of prices in terms of dolars in Colombia is quite low, considerably lower than in some other Latin American countries.

Then why did the international agencies want to force Colombia into devaluation? The international agencies may have been right in arguing that devaluation was necessary simply in order to keep up with the price increases over the year; they may even have been right in believing that the balance of payments crisis was bound to force Colombia into devaluation or reversal of its policies; certainly their actions made Colombia's position untenable, since Colombia had no reserves. In the World Bank it was said, rightly or wrongly, that at the time of the 1965 standby it had not been possible to persuade the government to devalue as far as the international agencies had thought desirable; this was why they insisted on the balance of payments guarantee. But it does seem that the decision

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1. See for instance paper by Wiesner, ...

that devaluation was necessary, and by how much it was necessary, was taken by the three missions without as thorough consideration as might have been desirable[1], considering the political and economic implications for Colombia.

Finally, there is the question why Lleras took such dramatic action on November 29th. It seems that the cabinet met all night before the decision was taken to defy the international agencies and to impose controls. The explanations given by Colombians and in the international agencies were mainly political and personal. There were not many who claimed that Lleras himself was against devaluation, and in favour of controls, for economic reasons. Lleras would no doubt have liked, from every point of view, to carry through the policy of liberalisation. He may or may not have thought devaluation necessary; but it seems certain that he would, in any case, have preferred to devalue in his own way and at his own time. Possibly he would have devalued in a gradual and fairly concealed way - as, in fact, was already happening with categories of imports being moved from one exchange rate to another - rather than across-the-board, as the IMF apparently insisted. Certainly he would have tried to chose the moment for devaluation, if he devalued at all, so that the political and economic repercussions were minimized.

The political explanations given by the international agencies tended to be cruder. They professed disappointment in Lleras' toughness and dedication to economic principles, which they had believed, they said, to be greater. Personal explanations, of a more or less petty kind, were also advanced. It was for instance claimed that Lleras deliberately pretended not to know that the AID and the World Bank had always been behind the IMF. On November 25th, at a time when his relations with the IMF were already deteriorating, Lleras on television spoke confidently of the support his policies were receiving from the World Bank and the AID.

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1. In a rather "after-dinner spirit", as somebody put it.

It was suggested that he knew, or that his advisers knew, that their support was dependent on his agreeing with the IMF. On November 29th he said that one of the reasons for his actions was that he had just discovered that the AID was not, after all, prepared to provide "advance commodity financing." It was said that he had always known this; any other belief was "wishful thinking", at best. Others in the AID felt that Lleras could not have known the AID's position, expressed regrets that the AID should have "sprung it on him", and suggested that Lleras acted out of pique when he discovered that the international agencies were solidly together. Others blamed the IMF for undiplomatic presentation of its demands. In the World Bank, it was said that Lleras disliked discovering that he was bound by an international agreement made by his predecessor. Dislike of the deviousness of the international agencies' behaviour may conceivably have played some part in Lleras' decision to break off negotiations. Possibly also Lleras wanted to demonstrate to the international agencies that he was not prepared to have his policies dictated to him, and to ensure that in future he was treated with more respect. But it is doubtful how significant these sort of personal explanations were.

Possibly more important were internal political considerations of a rather different sort from those suggested by the international agencies. Lleras gained considerable popularity from his defiance of the international agencies and his announcement that Colombia would go it alone. It was suggested in Colombia that Lleras lacked mystique, and that this demonstration of independence and toughness was very good for him. As in other places and times, the international agencies had served a useful purpose, from the point of view of the government, not at all by pushing towards "sensible" policies, but by providing something to fight against, a means of gaining relatively easy popularity.

After this crisis, fence-mending operations began. The AID and the World Bank, whose part in the IMF's decisions still did not seem to be fully realized by the Colombians, acted as "mediators". There still seemed to be doubts whether they would "disassociate" themselves from the IMF.

In November, the World Bank gave a press conference in which it praised Lleras. In January 1967, a World Bank mission came to Colombia to discuss the possibility of reopening negotiations with the IMF, ostensibly to bring the two sides together. After this, the Colombian government agreed to talk to the IMF. Another IMF mission, with a different head of mission, came in February. It seems that this time the Americans put pressure on the IMF not to be tough. In April an agreement was announced.

Lleras claimed that, with the help of the bons offices of the World Bank, he had persuaded the IMF to accept a Colombian programme. The agreement in fact seems to have been a compromise between the Colombian government and the international agencies. Lleras, in a way, did quite well. He got a standby from the IMF and a programme loan from the AID, with five months delay, but with his popularity in Colombia much increased. The agreement with the IMF allowed him to keep the import controls; he made no specific commitment on liberalisation; although he agreed to a floating exchange rate, whether the rate floated downwards would depend on how much he decided to relax the controls. The IMF got the (theoretically) floating exchange rate; it also got a commitment to a very tight credit policy; but it had no means of controlling the growth of national income, which, presumably, would depend on how many imports the Colombian government allowed, and therefore, no means of ensuring that money supply, however limited, was not ahead of growth. The standby has been variously described as "botched" and " fuzzy". It is, to say the least, doubtful whether this sort of swapping of "concessions" is the best way to determine a country's economic policy.

It may be that the Colombian case is an unfortunate exception, a question of bad negotiation and clash of personnalities which happened to become fairly public as a result of particular political circumstances. Probably the possibility of this sort of confusion is not the most important reason for having doubts about the international agencies' desire to influence general policies. It nevertheless illustrates what can happen when there is a government whose economic policies are not completely dear, but which is not willing to have policies dictated to it, and in any case has political difficulties with which probably it alone is competent to deal.

There is also, of course, another and wider aspect of this debacle. This is the question whether the international agencies were right in what they were trying to achieve, from the point of view of long-term economic development. This has probably been enough discussed in chapter I. But Colombia provides an illustration of almost exclusive concentration on the exchange rate, very little regard for long-term, or supply problems, and rather indiscriminate pressing of some policies which were likely to have an adverse effect in the long term.[1] Even as far as short-time policies were concerned, there are some signs that decisions which were important from Colombia's point of view were made with rather inadequate care and thought.

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1. For instance there was apparently no attempt to ensure that Colombia's tight credit policies did not excessively damage the prospects of agriculture; since credit for imports is the easiest and most popular form of credit, global credit restrictions have to be very tight indeed before imports are affected.

2. Chile.

"Structuralist"[1] ideas on economics, as usually propounded, purport to provide an alternative to orthodox or "monetarist" ideas without drastically changing the legal and constitutional framework. The Frei government, arguably, was trying to apply these ideas in its first two or three years in office. It appeared that it might have found a middle way in economics, as in politics, between stagnation and revolution. Its economic policies had some unorthodox features which at first seemed to be rather successful. The fact that their success was short-lived may possibly prove that the international agencies are, in one rather depressing sense, right: there is no painless way of solving Chile's problems, without somebody's interests being hurt. The question, of course, is whose interests are hurt.

Chile had had inflation more or less continuously since the end of the 19th century. After the Second World War, stabilisation programmes of the IMF variety were tried on several occasions, with impermanent effects. In 1963 and 1964 the Alessandri government was attempting to control inflation with the help of standby agreements with the IMF and programme loans from the AID . Chile ran big balance of payments deficits and its foreign debt rose rapidly.[2] Efforts were concentrated on keeping wage and salary increases below the rise in the cost of living and on limiting government expenditure. Admittedly they were not very successful in this. At any rate, in 1963 and 1964 growth was barely equal to the population increase; the rate of inflation, in 1964, was 38%

The Frei government came into power in September 1964. The economic authorities, and especially the Finance Minister Molina, had rather clear views on policy. Their control and knowledge of the economy was more

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1. See chapter 1.

2. From 1960-64 the Chilean balance of payments deficits amounted to $520m, and the foreign currency debt rose from $800m to $1,800m.

effective and sophisticated than under the previous government. Their economic programme undoubtedly had several structuralist features.[1] The most important general principle of the programme was the intention to achieve simultaneously three objectives: to slow down inflation, to increase the rate of growth, and to redistribute income in a progressive direction. These objectives were considered to be not alternatives, as "monetarists" might argue, but conditions of one another, both for political and for economic reasons.

The government was concerned with the elimination of inflation as a major objective. It was not prepared to try to achieve stabilisation in the short run. The authorities conceded that it would be technically possible to achieve stabilisation without growth. But from the political point of view it was considered impossible. And from the economic point of view, it was felt that the results were unlikely to be maintained: as soon as growth began again, the old problems would recur, basically because nothing had been done to ensure that supply would be any more likely to keep up with demand than it had in the past. The government claimed that it was attacking not merely the symptoms of inflation, but also the "fundamental causes of inflation"[2]: in other words the failure of the economy to grow, and in particular the stagnation of agriculture and the difficulty in expanding Chile's capacity to import.

The authorities also agreed with the monetarist point of view to the extent of believing that stabilisation programmes in the past had failed partly because governments had been politically unable to carry them through. Thus part of the sophistication of their policy was that they calculated rather carefully where the burden of readjustment was to fall, compensating workers for rises in agricultural prices by a fairly liberal

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1. This is a slightly controversial statement. It was claimed by the AID (see below) that the programme merely reinforced the classic anti-anflationary policies under the Alessandri government. On the other hand it has also been claimed that the programme followed closely the ideas set out in Osvaldo Sunkel's article.. ..

2. See Christian Democrat Manifesto, and chapter 1.

wages policy,[1] and devaluing the escudo by monthly adjustments, slowly at first thus apparently avoiding the all-round price increases which had usually followed devaluation in the past.

As far as growth was concerned, the government decided to concentrate as an immediate objective, on an expansion in copper production and exports. Successive Chilean governments had tried, through incentives such as tax reductions and devaluation, to get the US copper-companies to produce and export more, The Frei government made an agreement with the copper companies under which they were to double production by 1970, undertook to provide most of the capital, and obtained a loan for this purpose from the US Export-Import Bank. Other industrial projects were supported through the State-owned CORFO[2]: petrochemical, paper, a sugar refinery, cellulose. In addition government expenditure, both current and investment, expanded considerably; although there were also big tax increases, the budgetary deficit at first increased. The industrial sector, which had much unutilised capacity, apparently was able to expand production to meet the increase in demand and the shift in its pattern; some producers of mass consumption goods in particular increased their overall profits, in spite of bigger wage and tax bills and reasonably effective price controls, as a result of a bigger volume of sales.

A major policy of the Frei government was land reform. Like other policies in the government's programme, it was supposed to serve several purposes: anti-anflationary, productive, redistributive and social. According to structuralist theories one of the main causes of inflation is the slow growth of food supplies. Chilean agriculture is inefficient, and a number of large farms are under-exploited. It was considered that

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1. The principle was adopted that wages would rise at the same rate as the rise in the cost of living; in addition, preferential increases above this rate were granted to the lowest-paid workers, particularly in agriculture.
2. Corporacion de Fomento de la Produceion.

changes in the system of land tenure would not only improve material and social conditions for the rural poor, but also increase production, in many cases immediately. It seems that production on the land expropriated in the first years of the Frei government did in fact increase, although the government was not particularly successful in expanding the general level of agricultural production. The government's land reform law, which was held up in congress for over two years, made expropriation somewhat easier and the terms for land lords somewhat less favourable.

In addition, the government had a number of other policies of a social and redistributory nature. As has been said, the government's expenditure, current as well as investment, increased considerably. The land reform law allowed peasants to organize themselves in trade unions, which had previously been banned. Educational programmes were expanded and reformed. It was claimed that, with its programme of "promocion popular," the government was laying the foundation for a communitarian form of society . Unemployment was reduced. In general, the government's fiscal policies, its policies on wages and prices, and its success in reducing unemployment, constituted what the IMF described as "a sharp redistribution of income".

All this did amount to considerable innovation along what might be described as structuralist lines. In the first two years it also seemed a rather triumphant vindication of structuralist arguments on growth and inflation. Chile achieved the hat-trick: more growth, less inflation, and some progressive redistribution of income. In 1965 the rate of growth was 5% and the rate of inflation was down to 26%. In 1966, growth was 7%, inflation was 17%. In 1967, inflation was to be 10%. Chile also greatly improved its balance of payments position; in 1966 it had a record balance of payments surplus of $100m. Commercial arrears were paid off; the proportion of short-term high interest debt in Chile's total foreign debt declined considerably. For 1967 the government was able to decide to do without the AID programme loan and IMF standby.

No doubt much of this success was made possible by high copper prices. In 1965, copper prices increased by 11%, which accounted for most of the export increase of 15%; in 1966 copper prices increased by 25%, total exports by a third. The share of copper in Chile's total exports increased from 60% in 1964 to nearly 70% in 1966. Increases in copper prices are said to have accounted for half the increase in tax receipts. The government maintained that it could have adjusted its programme to a lower level of copper prices without distorting it, and that it would, in any case, have been possible to obtain aid in comparable amounts if copper prices had not risen. But the fact that copper prices fell in 1967 must be at least partly responsible for the government's failure to continue the slowing down of inflation in 1967 and 1968. It also of course contributes to the force of one of the structuralists' main arguments: that the difficulties of developing countries are to a considerable extent caused by the decline in their export prices.

More serious perhaps from a theoretical point of view is that the Chilean government, like other governments trying to achieve stabilisation, quite rapidly found itself faced with the difficulty of increasing investment. By 1967, existing capacity in the private sector was being fully used, and new investment was needed for expansion. The limits in taxation had, in the government's view, been reached or possibly exceeded. There were some who felt that taxation must be reduced in order to allow the private sector to invest. The government resorted to a highly controversial alternative: wage-earners, instead of receiving their full wage adjustment in cash in proportion to the rise in the cost-of-living, were to receive part of it in the form of bonds conferring ownership in new industries to be set up by the government. The government claimed that, faced with the alternatives of a reduction in the level of investment or a reduction in the level of taxation of the private sector, it had adopted a solution that would reduce the concentration of industrial power; the proposal could in fact be interpreted as quite radical, leading to workers' ownership of state industries. But it was strongly attacked by the left, who saw it as undermining the standards of living of the workers and felt that the bonds were likely to become worthless. The policy had to be abandoned amid political crisis, rather like IMF policies before it. Since, in an effort to prevent an increase in the rate of inflation, the government also decided on restrictions in government expenditure in 1968, many of the expansionist aspects of the government's economic policies were abandoned.[1]

In general, it could be argued that the government's policies were too cautious and in fact quite unrevolutionary. This is particularly apparent in the case of the two major planks of the government's political programme: "Chileanisation" of the copper-companies, and land reform. As far as the copper-companies were concerned, the government, like other governments before it, made quite big concessions to the copper-companies in order to get them to agree to expand their production. The companies got a large reduction in their rate of taxation. "Chileanisation" meant basically that the Chilean government put up most of the capital for expansion. The Chilean government bought in one case a majority share in the companies' capital, but acquired comparatively little management control. The copper-companies were delighted with the arrangement. From an economic point of view Chile would almost certainly have gained if the companies had simply been nationalised. After their long and fruitful exploitation of Chile's mineral resources, and with Chile's almost total dependence on their activities, the copper-companies no doubt know that they will, one day, be nationalised. As an interim arrangement, the Frei government's " Chileanisation" is a great and probably partly unexpected boon.

The land reform programme originally aimed at the settling of 100,000 families on expropriated land by 1970. This would have been about % of the existing landless population(?) Mainly no doubt because it was over two years before the government's new law was passed by congress,

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1. Which may prove either that an expansionist policy was impossible, or merely that the government lost its nerve and decided on more "safe" policies.

the programme was slow in starting. By 1967, about 5,000 families had been settled. It became clear that the target would be reduced. The main argument for reducing it was that the programme would be too expensive. About a third of the cost was for compensation of land-owners; it could be argued perhaps that this was compressible. The rest was for new housing and roads, machinery, working capital, education and research. The government was determined that the programme should be thorough, and that great efforts should be made to avoid a drop in production. But it is possible that part of its determination arose from an underestimation of the capabilities of Chilean peasants, and a failure to distinguish between what was essential and what, like government housing, was not; possibly also from the fact that the cabinet, most of whom were land-owners, may have had their own reasons for time-consuming thoroughness. Moreover there are strong arguments, from the point of view of production, for transferring land as quickly as possible. There is likely to be some fall in production on some farms, and certainly some increase in local consumption, however cautious the programme, before the undeniable and undenied long-term benefits of land reform are translated into higher marketed production. Other things being equal,[1] the sooner the land is transferred, the sooner these benefits are likely to materialize. Also, if the period of transfer is short, one of the arguments advanced by the critics of land reform, that uncertainty about ownership causes land-owners not to invest, disappears. At any rate, arguments against land reform on the grounds of its burden on public finances are possibly rather short-sighted.

What of the attitude of the international agencies? First it should be said that, as far as the copper-companies are concerned, it is clear that one of the major reasons why they were not nationalized, and also why the Christian Democrats were elected rather than the Communist - Socialist coalition (who were committed to nationalisation), was fear of the United States. Before the 1964 election, the Christian Democrats appear to have come to an understanding with the United States government on treatment of the copper-companies, which was one of the reasons why the

1. And perhaps even if they are not quite equal.

United States decided to back them in the elections. In the absence of such an agreement, the United States of course would have had various means of retaliation. The economic ones might conceivably have been faced. A decision to do without aid and foreign private investment, to nationalize United States assets and to default on debts might have been to Chile's economic advantage, although possibly the Chilean Democrats would not have been prepared to face the internal consequences of such actions. Chile would probably not have lost the 85% (?) of its markets for copper which are in Europe. But it was clear that the United States would have gone, and still would go, to considerable lengths, including possibly military intervention, to prevent a party or coalition committed to nationalisation and radical social changes from winning the elections, or, if it did, from taking office.

Once the Christian Democrats were elected, with their commitment to "revolution in liberty", the IMF and the AID were again involved. A Chilean mission went to Washington to negotiate a new standby with the IMF. A programme loan was negotiated with the AID. A re-scheduling of Chile's debts was arranged. The World Bank was not directly involved in negotiations on Chile's general economic policies during this period, although it made a large loan for electric power in 1966; but it too expressed its views on Chilean policies, and a World Bank mission was in Chile in 1966 and wrote a general report.

The attitude of the international agencies to the Frei government's economic programme was interesting. It consisted mainly in trying to ensure that Chilean policies were "consistent" with one another. A State Department view was that the Chileans had a confused set of policies which were not internally consistent, and that programme loan negotiations in the first year had forced Chile to reconcile the conflicting objectives of simultaneous income redistribution and reduction in inflation. There appeared to be very little recognition of, or willingness to discuss, the theories behind Chilean policies, particularly the theory that the government's objectives, far from being "inconsistent", were in fact conditons of one another.

A notable exception to this failure of understanding was in the AID mission in Chile where, at least in one case, there was considerable sympathy with and understanding for Chilean economic and social objectives. Elsewhere officials were prepared to admit, at most, that the Chilean authorities, with strong left-wing opposition, were justified in their concern with political support. There was also some recognition of practical successes. The IMF's 1967 Report, for instance, began with a quite landatory paragraph on Chile's achievement of faster growth, slower inflation, improvement in the balance of payments and sharp redistribution of income. The AID was of course prepared to admire some of the government's social policies per se. The World Bank's report was more negative.

At any rate, the IMF and the AID decided to give full financial backing to the government's programme. They did so, apparently, with reservations. The United States had good political reasons for supporting the Christian Democrats. In so far as the IMF and some US officials praised the government's initial economic successes,[1] they tended to ascribe these to what was felt to be a more vigorous application of the kinds of anti-anflationary policies which the two agencies had rather unsuccessfully been trying to persuade the Alessandri government to adopt. The AID was particularly pleased by, and apparently felt, with very dubious justification, responsible for, the government's achievement in increasing tax revenues and reforming the budget. The IMF was encouraged by some relaxation and simplification of import and exchange controls, and by the "considerable reduction in the rate of overall credit expansion". Both in the IMF and in the AID there was praise for improvement in the techniques of monetary control. But there is little doubt that they also accepted aspects of the programme of which they disapproved, or at any rate would not themselves have recommended.[2] The Chileans, in their

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1. With the exception noted above.

2. One of the most frequently cited specific examples was the system of gradual adjustments of the exchange rate. The IMF would have liked a once-for-all devaluation large enough to anticipate subsequent price increase.

presentation of their policies, doubtless played down some of their more unorthodox aspects and stressed their concern with controlling inflation; but they had at least to get acceptance for the notion that the control of inflation should be "gradual".

As far as criticism was concerned the main pressure in the reports, advice and negotiations of the three institutions seems to have been on controlling public expenditure, especially expenditure for social purposes, and on controlling wage increases. The IMF considered that the gradual control of inflation must necessarily involve "increasingly tighter over-all financial programmes year after year". It also felt that the policy of income redistribution must be moderated if business savings were to be promoted. In the World Bank there was concern that the public sector was " getting too large a share of the cake". All three institutions were especially disturbed by the size of the government's housing programme; the AID, it should be said, felt that the government's expenditure should be reoriented towards agriculture and other directly productive purposes.

Above all, both the World Bank and the IMF came down strongly on the side of reducing the target for land reform, suggesting 20,000 or 30,000 families as more suitable targets.[1] Their main reason for doing so was that they considered the programme would be too expensive. The World Bank indeed, on whose 1966 mission there were agricultural specialists, was of the opinion that the cost per family ought to be even higher than the Chileans had estimated. International officials apparently were also concerned about the short-term effects of land reform on production; the perspective in the World Bank was "the next four or five years." Some apparently still felt that higher prices were the solution for Chilean agriculture. At any rate, the decisions of the IMF and the World Bank on land reform were taken on the basis of its effect on public finances and of its short-term effects on production. From both these points of view it was felt, rightly or wrongly, that land reform was undesirable , and it was therefore discouraged. Even though it was recognized at a

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1. See above.

responsible level in the World Bank that Chile's agricultural development in the long-term was dependent on its basic social conflicts being resolved, it was nevertheless felt that Chile "simply could not afford" a land reform programme of the size proposed. As for the AID, its official attitude seems to have been fairly neutral; in the State Department it was claimed that the US "certainly did not hold up land reform".

For 1968 the Chilean government decided to do without an IMF standby and AID programme loan. It does not seem that it did so because it wanted to avoid the conditions attached to them. Negotiations with the AID for a programme loan were in fact practically concluded; the Chileans told the AID they would still carry out the agreed programme, and announced publicly that the loan would still be available if, for instance, copper prices fell. Similarly they assured the IMF that their decision to forego the standby should not be interpreted as an unwillingness to formulate financial and general economic policies within the framework of an internally consistent programme. It seems there were several reasons for deciding to do without the financial support of the AID and the IMF. One was political; it was useful to demonstrate that the government was not wholly dependent on external support. There was also doubtless a desire to reduce this dependence in fact; Chile's heavy foreign indebtedness was an obvious limitation on its freedom of manoeuvre, so long of course as it hoped for further credit in the future and was not prepared to take the drastic step of defaulting on its debts. There were in addition various practical reasons: at a time when there was a boom in foreign trade, there were obviously strong pressures on the government to start new projects and to increase wages, especially in the copper industry, and the government wanted to put itself in a better position to resist these pressures by appealing to a patriotic desire to reduce foreign dependence. Finally of course it would have been difficult simply to put the AID loan into the reserves.

The Chilean economic authorities do not seem to have been particularly bothered by the efforts of the international agencies to influence their policies. They tended to say that these efforts did no harm, and might even help, in Chile's case where the authorities had a clear programme of their own which they in fact persuaded the agencies to support; they felt that in countries whose economic policies were not so clearly formulated the pressure could be more damaging. They did not feel the agencies' activities had had much effect; policies which the agencies supported, such as increasing tax revenues, controlling wage increases, improving the management of monetary policy, were policies with which the authorities were in any case concerned; policies of a more expansionist or redistributory nature, which on the whole the international agencies opposed, were carried out in spite of them. Some Chileans felt not that the international agencies approved of Chilean policies, but that, in the political situation immediately after the elections, the international agencies "would have supported anything"; the programme was "approved" reluctantly, but the agencies were later, on the whole, convinced by its success. As far as taxes were concerned, it was felt in one case that US support might have had a beneficial effect in the sense that the opponents of change could no longer expect support from the United States; the US position was described as "a sort of green light" for taxation and even land reform.

It was also felt by at least one Chilean official that the discussions were useful in the sense that they enabled the Chilean authorities to clarify their ideas. Some who were concerned with excesses in certain kinds of public expenditure and in wage increasss felt that their position was reinforced. The Chilean authorities also felt that the IMF and the AID, "slowly and incoherently," were changing. When asked whether international officials were capable of understanding what the Chileans were trying to do, one answer was that the level of AID economists had gone up sharply, and they could now make a real intellectual contribution. IMF officials apparently varied; of some of those who came, the Chileans might afterwards be able to say: "that was a good one, he understood."

In any case, the differences between the Chilean economic authorities and the international agencies were not really fundamental. There were differences of emphasis, differences of method, and differences of understanding. But the ultimate goals were not necessarily incompatible, or so at least the Christian Democrats would have liked to prove. Both the government and the international agencies were basically in favour of financial stability, growth, a better distribution of income, legality and evolutionary change. The government hoped to achieve them all at once; the international agencies said Chile must choose between them, and tried to persuade the government to put stability and legality first. Whether, given more political skill and determination, the Frei government could have achieved all its goals at once, is very hard to say. At any rate when the crunch came Chile seems to have come down on the side of the international agencies.

Perhaps the main conclusion to be drawn from the Chilean case is simply that those who argue in favour of the international agencies exercising pressure must realize that the pressure will not be on the side of radical solutions.

3. Brazil.[1]

Brazilian economic policies from 1964 to 1967, under Dr. Roberto Campos, were all that the World Bank, the IMF and the AID could desire.

Campos had for years been one of the major proponents and theorists of the "monetarist" school of thought.[2] For his three years as Econmics Minister, from the accession of the military government in April 1964 to the change of president in March 1967, he had almost total freedom of action. He was wholly backed by the military government, which was remarkably impervious to internal pressures of most varieties. He had the full agreement and cooperation of the Finance Minister, Dr. Pullhoes. The World Bank, the IMF, the AID and the United States government did their best to contribute to the success of his endeavours.

Campos' policy was monetarist in its simplest and purest form. Not simple in the methods used, which were highly sophisticated, but simple in the doctrinal sense. The main concern of the Brazilian military government seems to have been to reestablish stability, economic and political. Stability, in the economic field, meant reducing the rate of inflation from its (hypothetical) 1964 level of 120%, paying some of Brazil's debts, and restoring the reserves. All these Campos succeeded in doing, although in 1966 the rate of inflation was still 40%. But the economy remained more or less stagnant, real wages declined, and unemployment increased. Social reforms and progress, in education, in land tenure, in the conditions of life of the rural and urban poor, were no part of policy.

The international agencies, all three of which provided considerable financial support, had fairly constant discussions with the Brazilian government on policy. There seems occasionally to have been some disagreement on for instance the timing of policies, the degree of restrictiveness required, whether or not Brazil needed to allow increases in imports at particular times, and so on. In the AID there were occasional complaints

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1. This section is short certainly not because the Brazilian case is unimportant, but in fact precisely because the Brazilian economy is extremely complex, and much has been written about it.

2. See for instance his contribution to Latin American Issues, edited by A.O.Hirschman.

that Campos was "more royalist than the king." The World Bank was critical of the inadequacy of Brazilian statistics and of the authorities' knowledge and control of the economy in general. But on the general direction and emphasis of policy, on the necessary severity of stabilisation measures, and on most of the specifics, there was a "basic identity of views"[1]. They were "all in it together". A study of Brazilian economic policies from 1964 to 1967 would provide a good illustration of the international agencies' ideal.

There were of course some within the international agencies who did not share this official ideal. There were also, in the AID, at a high and responsible level, one or two who felt, not that the policies had been wrong, but that they had failed. Failed because the economy had stagnated: the private sector had not invested, and the expected large inflow of foreign private investment had not occurred. This failure was sometimes assigned to the fact that the government was military, and investors did not have confidence in its survival. Certainly there were some American officials who were concerned about the "undemocratic" nature of the Brazilian government, and would have preferred, say, a Chilean government with Brazilian economic policies.

Apart from this, responsible international officials seemed to share the Brazilian government's unconcern with political and social problems. An illustration of the agencies' official attitude may perhaps be provided from the Report resulting from a major World Bank mission in Brazil early in 1967. The mission included a great variety of talents and opinions. But the long introduction to the final[2] version of the mission's Report mentioned agriculture only in connection with price incentives and diversification from coffee exports, and mentioned educational and other social policies, and unemployment, not at all. It stated its view of the possibilities for the Brazilian economy and concluded with the following (unshortened) list of "requirements":

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1. At least among those responsible for official views.

2. And therefore least secret : see p.

- very strong restraint in the current expenditure of the government and improvement in fiscal cooperation between the Treasury and the states and municipalities.

- very great improvement in the knowledge of - and control over- the government's own expenditure and those of its dependencies, over their borrowing and over their investment planning.

- sufficient austerity in the public sector's capital expenditures to permit a more adequate flow of credit to the private sector than in the past, without excessive overall credit expansion.

- effective action to eliminate the production and accumulation of unsaleable coffee.

- continued readiness to adjust the exchange rate to the degree needed to keep Brazilian production competitive with the rest of the world.

- continued willingness of the authorities to rationalize and liberalise restrictions on imports.

- pressing forward with the policy of letting prices be determined by the market mechanism rather than by administrative fiat.

- above all else, that a sense of continuity and stability pervade the economy, so that the private sector is convinced that the framework for investment decisions - taxation, price determination, exchange control, property rights, etc - will not be modified lightly and without due process of law.

There were of course many Brazilians who resented the activities of the international agencies. Some resented the time spent by a few responsible and overworked Brazilian officials in answering their questions. Some felt that the endless search for statistics, by the World Bank in particular, was beside the point; it was suggested for instance that the World Bank would believe that unemployment existed only if there were figures to say so, and was oblivious to the sight of people sleeping in the street. Most of the serious criticism of the international agencies came from those who were also critical of Campos' policies, especially those who believed that it would have been possible to have expansionist policies, and pay more attention to social problems, with the same rate of inflation or a lower one.

There were also some Brazilians who felt that, on balance, the move by international agencies towards more concern with general policies was a useful one. This was not necessarily the view only of those whose policies the international agencies were supporting. There were also some who felt that a broadening of the international agencies' concern must mean that they would begin to pay more attention to the long-term. They hoped the international agencies would, eventually, learn. It was said that Brazilian officials negotiating on the scheme for Supplementary Financial Measures[1] had accepted the principle of the scheme as inevitable. If developing countries were to get help, they would have to agree on policies. They were concentrating on trying to ensure that the policies would be good policies; that international civil servants were more competent, had a wider understanding of political and social problems, and were more prepared to accept that developing countries had to move fast. All Brazilians seemed to agree that the international agencies, to varying degrees, made the mistake of believing that financial problems could be solved in isolation, and that they had an excessively narrow and quantitative view of reality.

The significance of the international agencies' support for the Brazilian government's policies from 1964 to 1967 was not so much that they affected these policies as that they were the sort of policies of which they approved. The policies were Campos'. Claims by the international agencies that they strengthened his resolve seem to be rather dubious. At most, they may have strengthened his position within the government, which was pro-American enough not to resent policies expected to please Brazil's international creditors.

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1. See above, p

4. Peru.

Peru was one of the first Latin American countries in which the IMF was involved, and from 1954 had a fairly continuous and close relationship with the IMF. Its economic situation in the late 50s and early 60s was sometimes held to prove the validity of IMF policies. In this period Peru had rapid growth, financial stability, no balance of payments problems, almost no exchange on import controls, and a very low level of government expenditure and revenues. The World Bank and the AID were little involved.

But Peru's combination of growth and financial stability was rather illusory. The growth started from a low base. It was mainly the result of foreign private investment, and it was confined to Lima and one or two other coastal areas. Large areas of the country, particularly the highly populated sierra or mountain areas, were barely touched. Their social and material situation, partly as a result of an extremely inequitable system of land tenure, was disturbing. There was heavy migration to slums in coastal cities. Even from the point of view of further economic growth, Peru probably needed to expand its internal market. As for the balance of payments, imports were low partly because the consuming population was small. Peru was also lucky with the prices and markets for its exports, especially fishmeal. But by the mid-60s the boom in fishmeal exports was coming to an end, and Peru was having difficulties with its exports of sugar and cotton.

In 1964 the Belaunde government came into power. One of its major policies was to open up the interior of Peru and integrate "los olvidados" - the forgotten people - into the economy. It began spending. Since it was in a hurry it spent, no doubt, in rather a haphazard way. Belaunde[1] had his own rather particular vision, and his vision tended to express itself in terms of physical achievements: the Mantaro dam project, projects for opening up new agricultural lands, major irrigation works in the coastal desert, roads in the interior, above all the Carreterra marginal, a great road along the potentially fertile jungle-covered eastern

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1. Who was an architect by training.

slopes of the Andes. In addition some interesting experiments were started in the Sierra, in particular the programme of "cooperacion popular" and efforts to revive some of the Indian communal systems of agriculture (although the problem of land tenure was barely touched). When the institutions capable of providing long-term finance for such projects demanded a cautious appraisal of their usefulness, Belaunde lost patience; Colombus, he said, would never have discovered America if he had waited for the results of feasibility studies. Peru, partly because of its past stability and liberal economic policies, was able to borrow freely in New York and Europe, and contracted large amounts of short-term high interest debt. Some of the contractors, as an additional inducement ,provided funds, on equally bad terms, which constituted almost a parallel budget.

The Belaunde government was moreover unable, mainly because of the intransigeance of Congress, partly perhaps because of a lack of concern and political will, to increase its revenues from taxation. Tax revenues, in the 1960s, were declining as a proportion of national income. The Belaunde government did not have a majority in Congress, and it owed its position partly to the support of the military. The main political platform of the opposition parties, including the once supposedly revolutionary Apra Party, seemed to be "no mas impuestos" : no more taxes. As a result of all this, there were increasing budgetary deficits. By the beginning of 1967, Peru's reserves were running out and there was talk of crisis and devaluation[1]. The international agencies were by now, of course, concerned.

The World Bank and the AID, at any rate at the beginning of the Belaunde government's period in office, seem to have been in favour of the plans to expand public investment. A 1965 World Bank mission gave its blessing to such an expansion, and it was acknowledged that development in Peru had been concentrated in a very small area, and even that private enterprise would not provide economic opportunities for the people of the sierra. As a mark

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1. Devaluation was generally regarded as a political humiliation. It did in fact occur in October 1967.

of its approval of Peru's new policies the Bank indeed set up a consultative group, which met for the first time in 1966. The Bank concentrated on trying to improve the Peruvian government's planning of its investment, and on persuading it to consolidate and maintain what it had begun. Its efforts in this direction were no doubt useful, in so far as they were effective. The Bank's negotiations for project loans were, as usual, for roads, the railway, power, and some large irrigation projects on the coast. The AID and the BID were also involved in the financing of roads. The three agencies tried to work together to concert priorities, and held discussions _a quatre_ with the Peruvians. The idea of the _carreterra marginal_ seems to have been generally approved. The BID also had some rather more adventurous projects in the _sierra_, where it supported some of the government's experiments.

Possibly the most controversial aspect of the international agencies' activities in the first years of the Belaunde government was their reluctance to agree to finance the government's projects without long and careful appraisal. Project financing is outside the scope of this study. But the cautiousness of the international agencies did have an effect on Peru's general policies, since it is sometimes argued that Peru was "driven to Wall Street" by this cautiousness, and the size of the short-term debt thus contracted was one of the causes of the crisis in 1967. It might have been possible for the World Bank, in particular, to show more sympathy with the sense of urgency of the Belaunde government. There was possibly, in this sense, some conflict between the World Bank's concern with the economy as a whole and its concern with the direct financial return of particular projects. The Projects Department in the Bank is, and was designed to be, a bottleneck holding up decisions. There is little doubt that its procedures are unwieldy. In Peru's case it can be argued that the Projcts Department took a narrow view even at the level of deciding between projects: for instance the Bank decided that it would be prepared to finance an irrigation project which was likely to produce fairly high financial returns at Olmos but not a financially less viable project near Arequipa;

it was not prepared to accept the Peruvian government's view that priorities should be determined by the fact that the Arequipa area, unlike Olmos, suffered from political and social strains and strong pôpulation pressure. The Bank's argument that "people can be moved" is not wholly convincing; if the Arequequipa project, as proposed by the Peruvians, was not "viable", it might have been possible to think of an alternative in the same area. On the other hand the question of social and economic priorities is a difficult one, and it is also difficult to weigh the need to ensure that projects are viable against the need for rapidity in decision. It seems that in the case of the Mantaro dam project, for instance, the Peruvian government might have done better, even from the point of view of speed, to accept World Bank advice in dealing with contractors (including British contractors). The Inter-American Bank, which makes a commitment to lend and negotiates conditions afterwards, does not seem to have been notably more successful in shortening the time spent in negotiation.

Apart from the question of project negotiations, the World Bank and the AID, as well as the IMF, were of course by 1967 involved in questions of general policy. They do not seem to have been calling much, if at all, for devaluation; the IMF, at any rate, which had a resident representative advising the central Bank, seemed to believe that devaluation could be avoided if the budgetary deficit was controlled. As far as the budgetary deficit was concerned, there was agreement that the main problem was the failure to increase tax revenues. There was some concern about the increase in the government's current expenditures, for social purposes in particular, and about the direction of public investment; and there was some suggestion that a wage freeze was necessary. But the international agencies apparently did not consider that the level of public investment was excessive, so long as something was done about public revenues.

The World Bank had a number of missions to Peru at the end of 1966 and beginning of 1967. It became clear that there was little hope of the Bank calling another meeting of the consultative group until Peru had solved its fiscal problems; it was also conceivable that the Bank would consider stopping lending. The Bank put its weight behind a set of specific proposals for increasing tax revenues made by an OAS mission, with some doubts, which were shared by others, as to whether this was the "right package". Some suspected the Bank of wanting increases in petrol taxes in order to help the British-owned railway company, which was in danger of defaulting on a World Bank loan. Others criticized the Bank for lack of firmness, and in particular for failing to object when the army allocated most of the proceeds of new import tariffs to itself. But with the general objective of more taxation nobody but the Peruvian oligarchs could disagree.

The AID mission in Peru was of course also engaged in trying to persuade the Peruvian government of the seriousness of the fiscal situation and the accummlation of short-term debt. The idea of a programme loan, with conditions, was being discussed. There were some who felt that programme loans were an instrument that needed great care in manipulation, and that direct threats to cut aid if certain things were not done were likely to be counter-productive. But, whatever the mission may have felt about it, a small programme loan was offered to Peru in the spring of 1967, and refused.

No doubt the programme loan had as a condition that the Peruvian government should be successful in increasing tax revenues. But the main reason for the refusal of the loan was that it had a number of other conditions which were purely and simply intended to protect US interests. There were three main conditions: Peru was asked to buy US supersonic planes instead of French ones, to allow US ships to fish within a 200 mile limit in which Peru was trying to control fishing in the off-season in order to preserve stocks, and not to allow the Peruvian state oil-company to take over some of the interests of the US oil-company in Peru.

This attaching of conditons to an offer of a programme loan to Peru was part of a long series of United States efforts to get its interests looked after in Peru. The US had already on earlier occasions threatened to cut off aid in connection with Peru's treatment of the oil-company and of its fishing-boats. At other times the Lima telephone company entered the discussions. On a later occasion, when the Peruvian government attempted to give the Peruvian shipping line some minor preferential treatment over the US Grace Shipping Line, the State Department threatened to close US markets to Peruvian exports of sugar and other commodities. In all this the disproportion between the interests concerned - vital to Peru, secondary to the United States - tends to be rather fragrant. And the question of the Peruvian government raising taxes, whether or not one considers this to be a legimtimate concern for the United States, inevitably gets rather lost.[1]

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1. Possibly the incoherence of this chapter may reinforce a little the argument that the problems of developing countries are complex and hardly susceptible to generalised comment by temporary visitors, and that it is therefore important that these visitors should not wield too much power.

Chapter 4. Conclusions

The first three chapters attempted, as far as the rather secret nature of their subject permitted, to describe the policies which the international agencies, with minor variations, believe to be desirable in Latin America. It was maintained that these policies are rather clearly defined and predictable, especially in their emphasis and priorities, and in their limitations. An attempt was also made to show how and why the international agencies try to get their policies adopted by Latin American governments.

The conclusions in this chapter are based on some assumptions and convictions, which should be made clear. The first and major assumption is that the wellbeing of most Latin Americans[1] is the primary consideration.

The conclusions are also based partly (but not wholly, as will be seen) on the conviction that from this point of view the policies favoured by the international agencies for Latin America have considerable disadvantages. To summarize: they perpetuate, and sometimes increase, existing severe inequalities in the distribution of income and power within countries; they postpone, sometimes indefinitely, improvements in the material and social conditions of the mass of the people; they devote little attention to fundamental questions about the purposes of development and the goals of society. Consciously or unconsciously, they pay a high price for the maintenance of existing economic structures and of the privileges of minorities, both Latin American and foreign; and they subscribe to an order of priorities which has more to do with the maintenance of the existing national and international order than with the good of the inhabitants of Latin America.

These disadvantages would no doubt have to be accepted if there were no satisfactory alternatives. The conclusions in this chapter are therefore also partly based on the, slowly acquired, conviction that such

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1. And similarly of the inhabitants of other areas in which there is great material deprivation.

alternatives do exist, in theory and to some extent in practice.[1] But, for reasons which should already be clear and should become clear in what follows, this study has not attempted to do more than suggest, in vague terms, what alternatives to the policies favoured by the international agencies might be open to Latin Americans. It has deliberately avoided the putting forward of "solutions" for Latin America or other developing areas.

The conclusion to which the study has led is that, ideally, if rich countries are prepared to transfer financial resources to poor countries, these resources should be pooled and allocated according to automatic formula determined in advance, in the form of grants and by an agency with no discretionary powers. The formula should be based primarily on the principle that each developing country should receive a share of the amounts available in proportion to its population. Whether or not other relatively easily measurable criteria should be taken into account, so that for instance a country's share increased (as in the IMF quota system) in proportion to the size of its national income and foreign trade, or alternatively perhaps in inverse proportion to average income levels, is a complex question which this study does not attempt to answer. Possibly the complexity of the question, and the difficulty of measuring even national income levels, does suggest that it would be best to use the size of population as the sole criterion for distribution among a group of countries defined as "less-developed".[2] At any rate, the point of this conclusion is that, once the formula had been decided upon, the allocation of whatever resources were available should be wholly automatic.

1. It should be repeated that by "satisfactory" is meant satisfactory for most Latin Americans. Whether or not the alternatives would be satisfactory, or tolerable, for most foreigners is another question, which ought to be discussed separately.

2. This definition would of course in itself present difficulties, which were partially solved in the negotiations at UNCTAD II.

There are of course objections to the idea that transfers of financial resources should be unconditional. The most important are that the resources will be transferred to governments which misuse them that the governments of some developing countries are less concerned with the welfare of their peoples than the international agencies are or might become; and that the rich countries probably would not accept the idea in any case. In theory, even if it is accepted that there are disadvantages in the existing situation, there are methods of allocating any resources transferred, and determing what influence they are to have, which would avoid both the existing situation and total automaticity in their disbursement. For instance it might be suggested that the international agencies should change their policies, or that new international institutions should be set up; that the allocation of resources should be determined primarily or wholly by the less-developed countries; that the influence of the agencies resoponsible for allocating the resources should be confined to the selection and supervision of "projects" financed by them; that the resources should not be transferred to governments at all, but to other groups within countries; or that international agencies should become involved in a "dialogue" about countries' general policies and the use of resources, but should not make the size or continuation of their financial contribution conditional on any particular policies being adopted.[1] The contention of this chapter is that on balance the effects of an automatic transfer of resources to governments would be more desirable than those of any presently probable form of external control or influence over the use of the resources; that the above suggestions are, for various reasons, unlikely to be put into effect, impractical and/or undesirable; and that supposing the only alternatives are "aid" with the kind of conditions aid is likely to have, or much less aid, it might be better to have much less aid.

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1. Cf; John White, Pledged to Development, ODI 1967, and Andrzej Krassowski, The Aid Relationship, ODI 1968.

To begin with the possibility that the international agencies will change their policies, or be replaced by other institutions with a different set of policies and priorities. Enough has presumably been said, especially in chapter 2, to show that there are limits to how far the existing institutions can change. The same limitations would be likely to apply to any alternative international institution. It is true that the experience with CIAP, with the regional development banks, especially the Inter-American Development Bank, and even with the World Bank itself, in so far as it is international, has shown that there is some desire on the part of developed countries to internationalize the transfer of resources and also to persuade others, including the developing countries themselves, to play some part in scrutinizing policies and allocating the resources accordingly. This is especially so in the United States, where the emphasis on "good performance" is strongest and where the CIAP's functions are compared to those of the OEEC in playing a part in decisions about Marshall Aid. But the CIAP, in spite of Latin American pressure, has not been permitted to control the allocation of the resources provided by the United States under the Alliance for Progress; the most it can hope to do is to persuade the United States, and others, to allocate their resources in accordance with its views, whatever they may be.[1] The Inter-American Bank probably demonstrates the limits of freedom of action likely to be achieved by an agency actually responsible for allocating a considerable proportion of "aid"; it has nevertheless on the whole avoided controversial issues; and where it has attempted to influence general policies, it has done so in support of, or on lines similar to, the other agencies.[2] The efforts of the developing countries to set up a

1. See chapter 2, section 4.

2. See chapter 2. section 3.

United Nations financial agency in which their votes would be predominant have been unsuccessful. It seems, for the moment, clear that the United States and other developed countries are not prepared to relinquish the opportunity which "aid" gives them to influence the policies of developing countries, whatever their motive in doing so. There is moreover no reason to suppose that Western governments would be any more likely to support institutions whose policies they considered incompatible with their interests, or in other ways undesirable, than they would be to contemplate total automaticity in the disbursement of resources; in fact the former is possibly more improbable than the latter.

Those who advocate an allocation of "aid" based on some view of a country's general policies are in effect suggesting that its allocation should be determined by what Western governments consider desirable or acceptable. So long as the United States maintains its resistance to "Communist takeovers", so long as it and other countries consider it important to preserve their investments, their special trading advantages, their semi-monopoly position in banking, insurance, shipping, and to have their loans repaid, so long as they continue to feel threatened by what may happen in developing countries, all aid policies supposedly promoting development will tend to have a general bias against radical policies in developing countries. It is hard to imagine the governments of developing countries taking radical action against the privileges of their own nationals and leaving those of foreigners untouched. Developing countries may also feel that the creation of viable and just societies demands a reduction in their dependence on imports and foreign capital, and the abandonment of some existing economic structures. They may decide no longer to adhere to the rules of the present international system, since it mainly favours the rich. In all such cases rich countries may feel that their essential interests are threatened. A number of solutions are thus virtually excluded for countries hoping to receive aid allocated on the basis of " good performance".

It may be said that this does not matter; radical policies are unnecessary and undesirable; all that is needed, if change is needed at all, is some change in emphasis and priorities. Such change is of course conceivable. It is possible to imagine the existing international agencies, or others, putting more emphasis on social policies, on the redistribution of income, and so on, and in general being more progressive than they now are. Indeed they might become more progressive than the majority of the existing governments of developing countries; they already are, in some respects, more progressive than some. The governments of the United States and Western Europe may, one day, change their nature, in which case the policies they favoured for developing countries might also change.

But first, it has not been proved that changes in political emphasis which are likely to be acceptable to the United States[1] in the foreseeable future will be adequate.[2] They may be so in some cases and not in others; the onus of proof is on those who want to exclude one range of possibilities. Second, whatever the nature and views of the governments of rich countries, there is likely to be a continuing temptation for them to use their ability to control the use of "aid" to dissuade developing countries from undermining the privileged economic position from which their nationals benefit.

Third, and more fundamentally, the whole principle of the staff of an international agency attempting to use the agency's financial power to determine the policies to be followed in large areas of the world seems dubious. At the moment, such an attempt is being made by organizations which are quite unrepresentative of opinion in these areas. But, even supposing the organizations became more representative, and progress was made, for

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1. Or to other developed countries in areas where they feel closely concerned. For example the United States was rather more relaxed in its attitude towards Tanzania than Britain was; in Cuba and the Dominican Republic the reverse was true.

2 . See also chapter 3, section 2, on Chile.

instance, towards democratic world government, there would still be formidable objections to an organization using its financial power in such a way. How would its staff be selected? What would their qualifications and inclinations be? How well would they need to know the varying conditons and traditions of different countries and regions? How, in any case, could they take these into account? Above all, how would "good performance" be defined? For the sake of fairness, would it be necessary to evolve one or two relatively easily measurable but necessarily crude criteria of good performance[1] which could be applied to all countries? If not, how would it be possible to avoid wholly subjective judgements by individual members of the staff of the organization? How could they compare their judgements with each others'? Even within Latin America, for instance, one of the most usual mistakes made is an attempt to generalize about the continent's problems and solutions.[2] Generalized solutions, when they are propounded, must necessarily fail to take account of some of the most important realities and priorities, and may neglect large and important areas of the economy and society.

Studies of the present allocation of "aid" have shown that the one obvious criterion enabling a country to receive a large amount of aid in relation to its population is for its population to be small. Countries are regarded as political units to be influenced. An automatic allocation of aid, based on population, would at least eliminate this anomaly. It might also be possible to construct an argument which would show that the governments of small countries were more likely to misuse resources than those of large countries. In any case it must be very clearly demonstrated that some better measurement of a country's needs and deserts than the size of its population can be found and applied if the disadvantages, uncertainties and confusions in the present system of aid, and its further elaboration and extension, are to be justified. Moreover unless it is possible to

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1. Such as the World Bank's "percentage of public investment financed from savings on current account"?

2. For instance it would be about equally foolish to say that all Latin American countries needed guerilla warfare and to say that all Latin American countries needed to reduce public expenditures.

produce a much more rigorous definition of good performance than at present exists, the probability is that the allocation of aid will continue to be determined primarily by the political preferences and special interests of its allocators.

It might be suggested that the amounts of resources to be allocated to particular countries should be determined by the size of their population, but that their use should be determined, not by national governmemts, but internationally. This idea has certain attractions. No attempt would be made to influence the country's general policies, but governments would, in theory, be prevented from misusing the resources provided. But experience has shown that external supervision of the use of "aid", even by the most respected international agencies, has not invariably prevented any but the most extreme forms of waste; projects which seem carefully prepared and supervised may nevertheless have a negative social or economic return. The idea is moreover not very practical, for if the country is assured of receiving the financial resources in any case, it is difficult to force it to use them for any particular purposes. An alternative idea, of basing allocation not on an automatic formula but on the availability of "good projects", is already claimed by some countries and agencies to govern their allocation policies, partly or wholly. It suffers from much the same disadvantages as the attempt to allocate resources according to some view of the country's general policies. How is it possible to judge whether a certain sum would be better spent on a hospital in Turkey or a school in Ghana, without taking into account a number of other general and political factors?

It is also sometimes asked why the governments of developing countries should be the chosen instruments for the allocation of the resources transferred. Why not transfer the resources to groups within countries? To a limited extent, this principle already operates. The international agencies "do not impose their policies"; they "choose the right people to support." From this it is a short step to chosing governmemts; this principle also partially operates.[1] The idea in fact suffers in an extreme form from the disadvantages described above. It would have the same biases as the other systems of transferring resources, but with greater effect.

Finally, it has been suggested that the agencies concerned with the transfer of resources should become involved in a "dialogue" with developing countries. They should as far as possible be involved in planning decisions, and they should provide the critical appraisal of these decisions which is sometimes lacking in developing countries. But they should not press for the adoption of any particular policies, and they should indeed be prepared to change their advice if they found it too readily accepted. Presumably they would favour countries which were prepared to discuss their policies with them; but they should not make their financial contribution dependent on the acceptance of their opinions. This of course is not a description of the existing situation: the advice now given is along predictable lines, and must be accepted.[2] Again, it seems rather unrealistic to expect this situation to change. No international agency respected and financially supported by the developed countries could give even advice which the latter considered incompatible with their essential interests. There are no doubt limits to what even the CIAP, with no control over the allocation of resources, is permitted to say. The CIAP can perform a mediating role between expansionist or reformist Latin American governments and the international agencies; it can perhaps improve the situation in some respects. But its role is limited. It has in fact little, if any, more authority than the many other advisers of developing countries. This is

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1. See chapter 1, and below. It might be decided that the resources should be transferred to guerillas fighting against Duvallier, to freedom fighters in Rhodesia, to Christian Democrats in Chile or to Cubans in Miami.

2. See chapters 1, 2 and 3.

because it does not have the financial power to impose its views either on the international agencies or on Latin American governments. If it did, its views might have to change.

The idea that such financial resources as rich countries are prepared to make available for developing countries should be allocated automatically does not of course mean that developing countries need reject the discoveries and expertise available in industrialised countries. The idea that resources should be transferred at all pre-supposes[1] that there exist goods and services which it would be useful for developing countries to acquire from abroad. These may be petroleum, or they may be technical advice. The point of "automaticity" is merely that developing countries should have a greater possibility of choosing what they do and do not want and need, and of determing what kinds of societies they will create. These societies may be quite different from existing "developed" societies, and perhaps superior to them. Certainly Western, or Eastern, ways of life cannot merely be uncritically transposed.

Possibly "automaticity" is utopian in the sense that the rich countries will never relinquish their power to use the threat to withhold aid in order to promote the kind of development which they believe to be desirable and/or to protect their own economic and political interests. In this case, ultimately, developing countries will have to balance the advantages of receiving "aid", and what goes with it, or deciding to do without it. Some developing countries would gain, even from a short-term financial point of view, by repudiating their debts and having aid cut. Their governments might then have to decide whether there was any risk of developed countries using other weapons, economic or military. Or they might prefer to remain within the system, partly perhaps because the need to adhere to international rules provided a

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1. The "savings gap" notwithstanding.

useful argument against internal forces pressing for change. Other countries, in deciding to risk losing aid, might be making a real short-term sacrific, but feel that this sacrifice would be outweighed by social, and long-term economic, gains.[1]

Such choices, ultimately, rest with the developing countries and depend also in what other ways the developed countries decide to react. Changes in the methods of allocating and administering "aid" are not likely to have a very significant effect, one way or the other. There are also other ways, in the field of trade especially, in which rich countries could and should reduce the damage they do to poor countries, and ideally discriminate in favour of them, which this study has not attempted to discuss. But, supposing it was decided that there should be large and automatic direct transfers of resources from rich to poor countries, this would at least relieve developing countries of some of the difficulties of choice; it would help them to have their, long withheld, cake, and make it slightly easier to eat it.

These conclusions are perhaps above all a plea for non-intervention; a plea that rich countries shall not intervene in the affairs of poor countries in such a way that the latter cannot chose which forms of development are best suited to the needs of the mass of their populations. The study has attempted to show that aid on balance does not widen the area of choice available to developing countries, but is part of a general system in which the poor are dependent on, and dominated by, the rich.

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1. See also chapter 1.

13th September, 1968.

TH/SA