Review Article — The Bretton Woods Institutions in Developing Countries: Bêtes Noires or Toothless Tigers?

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1. INTRODUCTION

The 1995 publication of two books on the Bretton Woods Institutions' policy-based lending operations in developing countries (Killick, 1995; and Stewart, 1995) provides the opportunity to assess the effects of World Bank structural adjustment loans and IMF stabilisation programmes in LDCs in terms of impact on macroeconomic performance and social welfare. Tony Killick's book *IMF Programmes in Developing Countries: Design and Impact* (henceforth *IMF*) assesses the evolution of IMF programmes over the past decade and their impact on macro variables and policy instruments and is a follow on from his earlier work (Killick 1984a and 1984b). Frances Stewart's book *Adjustment and Poverty: Options and Choices* (henceforth *Options*) is more focused, concentrating specifically on the effects of the IMF and World Bank programmes on poverty and income distribution. The book contains a theoretical section on the poverty and distributional effects of adjustment under various assumptions. The bulk of the work is devoted to an empirical assessment of meso policy effects on the poor under adjustment, with particular emphasis on fiscal policy, food subsidies and social funds.

Killick argues that the IMF is a toothless tiger whose programmes have had a negligible impact on most macro variables and, with the exception of the exchange rate, on most macro policy instruments. This is in stark contrast to the popular orthodoxy of the left which sees the Fund as a bête noire forcing recessionary demand reduction programmes on helpless LDC governments. Stewart traces some stronger links between IMF and World Bank policies and

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poverty and income distribution, although, mindful of the counter-factual problem, she is reluctant to ascribe causation.

Despite these conclusions, neither Stewart nor Killick absolve the Bretton Woods institutions of moral responsibility. Both make a common argument, namely, that the institutions have been heavily involved in policy-making in LDCs since the early 1980s and therefore could have, and should have, done more to ensure that policies promoted growth and social welfare. Another common theme which emerges from both books is that LDCs have very diverse experiences in terms of the impact of adjustment and stabilisation programmes. Effects are shown to depend on LDC socio-economic structure and on the nature of the reform package adopted. This latter point is used to reinforce the argument that both the Washington institutions and recipient LDC governments had *choices*. If some countries could adjust with positive growth and welfare effects (Ghana, Chile and Indonesia) then others had the option to do likewise.

2. TOOTHLESS TIGER?

In his survey of empirical evidence and presentation of his own evidence Killick reaches a conclusion similar to that of his earlier work (Killick, 1984), namely that the controversies surrounding Fund involvement in LDCs are much ado about nothing. This is echoed in *IMF*:

> it is difficult to understand the fierce controversies which have surrounded IMF programmes in developing countries ... it does not appear that programmes systematically result in large distributional, political, or supply-side costs (*IMF*, p. 122).

The evidence presented, however, does not seem to justify such a strong conclusion. What emerges from the survey is not that effects are slight but that they vary considerably from study to study. For example, in terms of the impact on growth we have negative results (Goldstein and Montiel, 1986; Heller et al., 1988; Edwards, 1989; and Khan and Knight, 1981 and 1985), insignificant results (Doroodin, 1993) and positive results (Stuart, 1991; and Killick's own before-after analysis of 16 LDCs with fund programmes *IMF*, p. 71). It is noticeable that negative results tend to dominate this list. It is difficult to see how such varied evidence can justify the claim that IMF programmes are not associated with any significant loss of output or slowing of economic growth.

Most of the studies surveyed by Killick are based on cross-country data sets which obscure inter-country differences of experience. Killick's own before-after analysis of eight frequent IMF users found four countries with growing GDP, two with static GDP and two with declining GDP (*IMF*, p. 101). A key question is why IMF programmes are associated with declining growth in *some* LDCs. One answer, advanced by both Killick and Stewart, is that growth may decline in

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LDCs characterised by supply-side bottlenecks which cannot respond to expenditure-switching measures like devaluation, so that balance of payments deficits need to be cured by excessive recessionary demand reduction (*IMF*, p. 53 and Killick, 1984).

One unanimous result reported by both Killick (*IMF*, p. 72) and Stewart is the negative correlation between IMF and World Bank programmes and investment, particularly public sector investment. This is a result reported in many other studies (Mosley et al., 1995; and Faini et al., 1991). In the light of the potentially negative effects of declining investment on future growth, Killick points out that the jury may still be out on the long run effects of programmes on growth in LDCs. This point surely deserves more emphasis before dismissing the controversies concerning IMF involvement in LDCs.

Killick's survey of the literature on balance of payments effects of stabilisation shows a positive link between IMF programmes and payments performance (Khan, 1990; Pastor, 1987; Gylfason, 1987; Loxley, 1984; Khan and Knight, 1985; Doroodin, 1993; Khan, 1990; and Stuart, 1991). This is supported by his own before-after analysis of 16 LDCs with IMF programmes which found improvements in both the overall and current account balances (*IMF*, p. 67). Killick as well as the Fund (Schadler et al., 1993) argue that this improvement was brought about by export expansion rather than import compression (*IMF*, p.70). This is attributed to the fact that the real exchange rate is the policy variable over which the IMF exerts greatest influence (*ibid* p.72).

In terms of other policy variables and instruments, the evidence surveyed by Killick is less conclusive. Although control of domestic credit is central to the Fund's approach to macroeconomic management as embodied in the Polak Model (Polak, 1957), this is a variable that Fund programmes have difficulty controlling (Killick, 1984; Mellor et al., 1988; Zulu and Nsouli, 1985; and Stuart, 1991). Despite difficulties controlling credit, the evidence of Fund impact on inflation is mixed. Some studies indicate that IMF programmes are associated with reduced inflation (Gylfason, 1987; Loxley, 1984; Khan and Knight, 1985; and Doroodin, 1993). Other studies find no significant link (Khan, 1990; and Stuart, 1991), whilst Killick's study found that inflation actually increased in 40 per cent of the 16 programme countries he analysed, and this was supported by his earlier work (Killick, 1984).

Evidence is likewise mixed on the Fund's ability to control budget deficits. Zulu and Nsouli (1985) and Nashashibi et al. (1992) found deficit reduction in only a minority of countries whilst Edwards (1989) and Killick (1984) found very weak compliance with budget deficit conditionality. Cashel-Corbo and Craig (1990), on the other hand, find that Fund credits exert considerable leverage in securing significant fiscal effects. This is supported by Killick's own analysis which found 'significant reduction in budget deficits' in twelve out of 19 countries analysed (*IMF*, p. 73). Again, Killick's strong conclusion that the Fund

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has only limited impact on public finances (*IMF*, pp. 112–3) is not unambiguously supported by the evidence he surveys.

On the basis of Killick's very comprehensive literature survey we can draw some firm conclusions. First and foremost, much of the evidence is mixed and conflicting. This is true in terms of Fund programme impact on growth, inflation and the government budget deficit. There is clearer evidence, however, that Fund programmes find it difficult to control domestic credit and have a negative effect on investment. Also clear is that the Fund can effectively devalue real exchange rates leading to improvement in balance of payments performance. These conclusions mirror those reached in a study of the impact of World Bank structural adjustment programmes which found ambiguous growth effects, negative investment effects and positive balance of payments effects (Mosley, Harrigan and Toye, 1995, Vol. 1, Part 3).

Killick bases his argument that the Fund is a toothless tiger not just on the questionable view that Fund programmes have no correlation with changes in economic variables, but also on the much firmer observation that there is considerable slippage in the implementation of Fund programmes. It is in its analysis of implementation of conditionality that *IMF* makes its major contribution to the literature. Killick analyses 305 IMF programmes in LDCs between 1979 and 1993 to see how many were not completed, where an uncompleted programme is defined as one where 20 per cent or more of the credit remains undrawn. He found that 53 per cent were uncompleted. From this and a survey of other studies on implementation Killick concludes that:

> the above results suggest rather strongly that the Fund is unable to change policies to the extent that it would like to — and to the extent that would be necessary for programme success (*IMF*, p. 55).

Killick advances numerous possible explanations for inability and unwillingness of countries to comply successfully with conditionality. These include: inadequate programmes finance; inadequate debt forgiveness; Fund lending to countries not serious about reform in order to prevent them going into arrears on past loans from the Fund; unfavourable terms of trade movements; Fund over-optimism in setting programme targets; and political interference in Fund lending by western Fund members encouraging lending to strategically important LDCs which often have little inclination to comply with conditionality. Killick concludes that this latter factor is 'among the strongest explanations for ineffective programmes' (*IMF*, p. 119).

Killick's analysis of programme implementation and completion raises two important questions. Firstly, if implementation is so weak, with the Fund unable to change policies to the extent that it would like, why do Fund programmes seem to be negatively associated with investment and positively associated with real exchange rate devaluations and improved balance of payments performance?

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Since Killick downplays links between IMF programmes and changes in economic variables, he does not address this question. Secondly, what of the counterfactual? What would have happened had more IMF programmes been completed? Killick has a definite answer:

> This evidence should be evaluated against fairly strong expectations that, were they implemented, the types of policy changes commonly incorporated in Fund programmes would produce substantial beneficial economic results.

This then, would seem to be a strong pro-Fund argument suggesting that the Fund should make efforts to sharpen its teeth to improve programme implementation. In his final chapter Killick suggests that the Fund should do this by saying 'no' to more countries and concentrating its limited resources on a smaller number of countries which are committed to home-grown reform programmes which require less conditionality.

Killick's argument that IMF programmes, were they implemented, would have beneficial results, at first sight seems to contradict his material in chapter 4 where he critically discusses the design of IMF programmes. He identifies the core of the Fund's approach as one which sees excess credit creation, and often underlying this, excessive government deficit financing, as the chief source of balance of payments problems. In his critique of this Polak model approach he challenges the reality of many of the assumptions underpinning the model, questions whether LDC governments are really able to exert control over domestic credit, and suggests that credit control would have undesirable effects on output and employment. Killick also argues that excess credit is not the *only* source of payments problems, citing exogenous shocks and structural weaknesses on the supply side of the economy as other causes. A final critique of the Polak model is its inability to accommodate growth-orientated programmes.

Reading between the lines, what Killick seems to be saying when he states that Fund programmes, were they implemented, would have beneficial results, is that significantly modified Fund programmes could produce such results. He presents a host of interesting suggestions as to how Fund programmes could be modified. Firstly, he argues that in view of the critique of the Polak model the Fund should abandon conditionality in the form of credit and fiscal deficit targets:

> the conclusion seems inescapable that quantified credit ceilings and other performance criteria are literally indefensible (*IMF*, p. 146).

Secondly, he argues that Fund programmes should focus less on government budget deficit reduction targets and more on the quality of fiscal policy with selective rather than across-the-board cuts and a more gradualist approach to deficit reduction. Here he echoes the advice of one of the Fund's own staff members (Tanzi, 1989). Finally, he argues that Fund programmes should focus more on growth by adopting medium-term supply-side measures. Killick convincingly shows that the Fund's SAF and ESAF facilities, which were

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designed to do this, paid only lipservice to the growth objective (*IMF*, pp. 83–85). However, Killick, like others (Bird, 1995; Mosley, Harrigan and Toye, 1995; and Group of 24, 1987), states that a key requirement, if the Fund is to take a more gradualist, supply-side approach to fiscal and balance-of-payments (BofP) deficit reduction, is adequate supporting finance. Hence Killick concludes:

> Money is the real obstacle. Longer programmes and more extended transition periods require larger amounts of support to finance the longer period before BoP viability is achieved ... The unwillingness (of surplus countries) to put up more finance is the hole in the heart of all proposals to give the fund a greater growth orientation (*IMF*, p. 151).

Returning to Killick's point that the Fund is a toothless tiger, in the sense that it often cannot secure implementation of its programme conditionality, leads to an important question, namely, why some programmes are implemented whilst others (53 per cent) break down. This is not a question addressed in detail in *IMF*, but it is taken up by Killick in his more recent work (Killick, 1996, forthcoming). Using a principal-agent model Killick finds that domestic political calculations dominate LDC governments' decisions about economic policy changes and that donor agencies are relatively powerless in the face of this. Other analysts have reached similar conclusions (Nelson, 1992; Williamson, 1993; Bates and Krueger, 1993; Haggard, Lafay and Morrison, 1995; and World Bank, 1995). Killick also argues that in making their calculations about reform conditionalities, governments will be particularly sensitive to the income distribution effects of a given package of policy reforms, since there will be gainers and losers from any reform package. This brings us to Stewart's work, *Options*, which specifically analyses the income distribution and poverty effects of IMF and World Bank programmes.

3. ADJUSTMENT, INCOME DISTRIBUTION AND POVERTY

A key theme that runs throughout Stewart's work is that the distributional and poverty impacts of adjustment programmes are diverse and depend partly on the socio-economic structure of the LDC concerned and partly on the policy choices of the LDC government. This is well illustrated by Stewart's theoretical discussion on the impact of macro adjustment policies on incomes of the poor and on income distribution. In this she refutes the Fund's conclusion that IMF programmes have in general improved income distribution (IMF, 1986). Her theoretical analysis divides adjustment programmes into two components: expenditure reduction, which is the province of IMF stabilisation programmes, and expenditure switching i.e. shifting production from non-tradeables to tradeables, which is usually done via devaluation under the auspices of both the Bank and Fund.

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Stewart argues that, despite the Fund's claims, expenditure reduction has unambiguously negative effects on the poor since it cuts into real incomes by reducing employment and real wages of those in employment and raises the prices of consumption goods. Most of these negative effects tend to be urban and often particularly affect the formal and public sector (*Options*, pp. 23–24).

Stewart's theoretical discussion of the impact of expenditure switching on income distribution and poverty is complex and comprehensive. She analyses the impact under a number of different assumptions and reaches the conclusion that the income distribution effects of expenditure-switching measures such as devaluation essentially depend upon the economic structure of the economy concerned. It is worth quoting at length Stewart's theoretical findings:

> Income distribution is likely to worsen following devaluation in economies:
>
> (i) specialising in mineral exports or agricultural products whose production is unequally distributed;
> (ii) where urban poverty is high in relation to rural poverty;
> (iii) where there is a large oligopolistic modern sector, specialising in import-substituting production — this will affect urban incomes in particular.
>
> Income distribution is most likely to improve where:
>
> (iv) tradeables are labour-intensive relative to non-tradeables (i.e. in economies specialising, especially at the margin, in labour-intensive manufactures or labour-intensive agriculture);
> (v) rural poverty is high in relation to urban poverty, and rural incomes (and tradeable production) are fairly evenly distributed (*Options*, p.34).

The results of simulation exercises tend to confirm Stewart's view, namely, that the impact of adjustment depends upon the assumptions made about the structure of the economy (Bourguignon et al., 1991).

The theoretical conclusion that demand-reducing policies have negative effects on poverty, whilst expenditure switching has ambiguous effects on poverty and income distribution depending on economic structure, leads Stewart to argue that:

> the poverty-increasing effects of adjustment packages are likely to be smaller the more switching occurs and the less deflation ... The reason the typical adjustment package is poverty creating is that the deflation effects overwhelm the other effects (*Options*, pp. 35 and 46).

The dominance of poverty-creating deflation is dependent on economic structure and is likely to be especially acute in inflexible economies which cannot respond to expenditure-switching measures i.e. those specialising in primary production rather than export-orientated manufacturing. Flexibility also depends on investment and time and it is significant that both Killick and Stewart find that adjustment programmes are associated with declining investment.

The fact that demand reduction leads to clearer poverty increases than expenditure switching constitutes a strong case for more medium-term adjustment programmes which focus on the switching of the supply side of the economy rather than on short-term demand reduction. This echoes Killick's plea

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for more medium-term growth-oriented IMF programmes. Like Killick, however, Stewart identifies the main constraint on such programmes as being inadequate support in the form of international finance:

> more generously financed programmes permit less short-run adjustment (and less poverty creation), and also may provide the resources for investment which allows for more medium-term flexibility (*Options*, p. 36).

Stewart supplements her theoretical discussion with a brief survey of the empirical evidence concerning the poverty and distributional effects of adjustment programmes. The limited evidence points to worsening income distribution in most adjusting Latin American countries, mixed performance in Asia and lack of substantial evidence for Africa. As in her earlier work (Cornia, Jolly and Stewart, 1987) she is cautious, however, in ascribing causation:

> The lack of a well-defined counter-factual, as well as data deficiencies, make it impossible to come to definitive conclusions on the effects of adjustment policies on income distribution and poverty (*Options*, p. 45).

Combining her theoretical and empirical discussions, Stewart reaches several firm conclusions. Firstly, that impact depends on the type of package adopted and on the nature of the economy; secondly, that we must reach an agnostic view concerning the impact of adjustment on income distribution; and thirdly, that we can reach more negative conclusions with respect to poverty. A similar set of conclusions is reached by Killick in his analysis of the social welfare costs of IMF programmes:

> What can we learn from these scraps of information? The most they do is to confirm (a) that stabilisation programmes are liable to have appreciable effects on the distribution of income but that these are apt to be rather complex and to vary from one situation to another; (b) that groups of the poor can indeed be among the losers, with the urban working class particularly at risk (*IMF*, p. 103).

Stewart's theoretical and empirical work discussed so far concentrates on the effects of macro policies on primary income i.e. income from assets and employment. *Options* also contains a lengthy analysis of the effects of meso policies, which Stewart defines as government tax and expenditure policies, on secondary income i.e. incomes received after taxation and benefits.

Stewart starts from the premise that well-designed meso policies can largely protect the poor from adverse effects on their primary incomes arising during temporary recession such as that induced by an IMF expenditure reduction programme. Since the main effects of meso policies on the poor are through public expenditure on goods and services consumed by the poor, rather than through taxation. Stewart concentrates most of her analysis on three critical expenditure ratios: the public expenditure ratio i.e. the ratio of public expenditure to GDP; the social allocation ratio i.e. the proportion of total government expenditure going to social services such as health and education: and the social

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priority ratio (i.e. the proportion of social expenditures on priority services such as primary health care and primary education which reaches the poor.

In terms of the public expenditure ratio and expenditure per capita Stewart finds varied evidence. The main conclusion that Stewart draws from this is that adjusting countries can have both good and bad experiences in terms of changes in public expenditure per capita. Some countries succeeded in combining growth with rising per capita expenditures and a falling budget deficit e.g. Mali, Indonesia, Mauritius, South Korea, Sri Lanka and Thailand. There were even some countries with negative growth that managed to raise expenditure per capita without causing budgetary problems by raising the tax ratio e.g. Bolivia, Colombia, Ghana, Uruguay and Zimbabwe. On the whole, however, countries with negative growth lowered expenditure ratios and so produced large cuts in per capita expenditure, particularly acute in cases such as Argentina, Sierra Leone, Tanzania, Zambia and Zaire. Stewart argues that:

> The 'classic' IMF stabilisation package with prime emphasis on expenditure reduction rather than revenue raising, encourages the negative pattern observed in this category. It is noteworthy that this is the largest single category of adjusting countries (*Options*, p. 61).

Analysis of the allocation ratio shows a clear difference between adjusting and non-adjusting countries; adjusting countries showed a large rise in the share of government expenditure going to interest payments and a small fall in the share going to social sectors i.e. health and education,[1] whilst the reverse was true for non-adjusting countries. This supports both Stewart's and Killick's point that the Bretton Woods institutions, particularly the IMF, acted as efficient debt collectors in LDCs:

> Indebted countries were pushed into prolonged recessions, with most of the benefits of often fiercely deflationary demand-management policies seen as accruing to foreign commercial banks and other creditors, and with the Fund increasingly perceived as playing the role of debt collector (*IMF*, p. 6).

In the context of the negative net resource transfers from LDCs to the west which emerged in the mid-1980s, the IMF's role as an efficient debt collector can be seen as having exacerbated the problem of programme under-funding which we have already argued was the main reason why LDCs were unable to adopt more medium-term supply-side growth-oriented adjustment programmes.

As with the public expenditure ratio, performance in terms of the allocation ratio varied considerably among adjusting countries, with both good and bad performances. Some countries combined per capita income growth with a rising proportion of social services expenditure (e.g. Turkey, Sri Lanka and Cameroon) and some countries managed to increase per capita expenditure on health and education despite falling per capita incomes (e.g. Ghana, Zimbabwe, Uruguay and Panama).

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[1] The effect of changes in the expenditure ratio and the social allocation ratio was a fall in the share of health and education in GNP among adjusting countries and a sharp fall in per capita expenditure on social sectors — by 30 per cent in Africa and 13 per cent in Latin America.

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Data on the priority ratio is much more limited, although what there is suggests that the priority ratio in the health sector worsened for adjusting countries as a whole whilst the education priority ratio increased. Again, however, the key finding which emerges is that experience in adjusting countries is mixed:

> priority ratios behave differently in different countries, indicating that this too is an area in which governments can make choices which may protect against or accentuate the effects of macro changes (*Options*, p. 68).

Stewart's very detailed discussion of food subsidies and her brief discussion of health and education user fees indicate that the reduction in subsidies, the shift to targeted subsidies, and the introduction of user fees, all of which are often contained within adjustment programmes, have tended to increase the absolute burden on the poor. In particular, targeting and exemptions have been leaky, such that many of the poor faced increased costs for essential items.

The discussion of revenue policies in *Options* starts from the assumption that the rich pay more direct taxes and the poor pay more indirect taxes. Since IMF and Bank programmes have often successfully advocated a shift from direct to indirect taxes, we can conclude that in this respect adjustment programmes have been regressive.

Stewart's observation that adjusting governments have choices in their meso policies is reinforced by the fact that since the late 1980s many LDCs have been able to introduce social funds to help combat the adverse social welfare effects of adjustment programmes.[2] Stewart's extensive analysis of social funds, however, indicate that they were 'add-on' temporary institutions which reached only a small fraction of the poor due to limited coverage and high targeting errors. One reason for this was inadequate expenditure devoted to the schemes, which again echoes the more general theme developed in this paper that adjustment programmes as a whole have often been underfunded. An interesting point that emerges from Stewart's analysis is that home-grown schemes initiated, designed and financed by the LDC government, rather than by the World Bank, are generally more successful in terms of more extensive coverage of the poor and lower leakage to the non-poor e.g. own-designed schemes in Chile, Costa Rica, Botswana and Maharashtra.

4. CONCLUSIONS

Although covering different aspects of the Bretton Woods institutions' involvement in LDCs, both *IMF* and *Options* reach some strikingly similar conclusions. Both argue that adjustment is inevitable for most LDCs and that it is

[2] For a detailed discussion of the World Bank's role in placing poverty on the adjustment agenda see Mosley, Harrigan and Toye (1995, pp. xx–xxviii).

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necessitated by a combination of exogenous shocks and domestic policy mistakes. Stewart also states that it is almost always better for the poor to be part of an economy that adjusts quickly rather than one that remains in disequilibrium. Killick takes the argument further and rejects as ineffective radical alternatives to IMF and Bank programmes (*IMF*, chapter 5) although he himself proposes what he refers to as changes in programmes that are 'incremental suggestions in a reformist tradition.' Despite his claim to incrementalism his proposals are quite radical and reminiscent of many structuralists' suggestions, namely that the Bretton Woods institutions adopt a more medium-term supply-side growth-orientated approach to stabilisation and adjustment which focuses on structural constraints and as such requires much higher levels of funding.

Both books also conclude that several important changes in their approach to programme lending, introduced by the IMF and World Bank in the second half of the 1980s, have had only limited effect. Killick shows that the Fund's move to more growth-oriented programmes has existed in rhetoric but not in reality, whilst Stewart argues that the introduction of social funds and the Bank's greater concern with public expenditure reallocation to priority areas have failed to adequately address the problem of poverty during adjustment.

Another major theme which emerges from both books is that LDC experience of adjustment and stabilisation programmes was essentially diverse and varied, depending partly on the initial causes of disequilibrium, partly on the countries' economic structure, partly on the package adopted, and partly on the choices made by LDC governments. This issue of government choice and options is particularly pursued, by both authors, in the context of the income distribution and poverty effects of adjustment. Stewart argues:

> the very fact that some countries did succeed in protecting the poor while adjusting suggests that the deterioration observed elsewhere may not have been inevitable but could have been avoided ... the impact on the poor of fiscal changes during adjustment, while frequently negative in practice, is *not unavoidably negative*, but rather there is a series of choices which governments are able to make that can accentuate or reduce the negative effects (*Options*, p. 2 and p. 5).

To quote Killick:

> governments adopting Fund programmes are none the less free to adopt measures to protect vulnerable groups ... The priorities of the government in power, rather than those of the IMF, are probably the principal determinant of the ways in which programmes impinge upon the poor (*IMF*, pp. 103–4).

Stewart identifies several choices which she claims governments are free to make, namely, to avoid falling GNP, to avoid over-ambitious targets for reducing the budget deficit, and to place more emphasis on deficit reduction via revenue increases rather than expenditure reduction (*Options*, pp. 55–56). She admits that there are constraints upon these choices since governments do not have full control over the factors which determine growth and are constrained by external

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influences, such as the Fund and Bank, and by internal bureaucratic and political problems as well as their own indifference to the plight of the poor. Stewart is, however, remarkably dismissive of these constraints, particularly external constraints. Although she admits that the Bretton Woods Institutions often pushed further and faster than desirable (a slower and more limited adjustment being desirable for the poor), with the IMF in particular emphasising rapid expenditure reduction and debt repayments, she concludes:

> countries, however, were not obliged to follow every letter of the IFI's programme ... Governments were certainly constrained by external and internal focus; yet freedom remained within these constraints ... particularly when they are able to borrow or reduce debt-service payments they do have some control over the speed of adjustment and the extent to which adjustment is stagnationary or growth-orientated (*Options*, p. 56 and pp. 79–80).

One must surely question the optimism of the above statement and the extent to which government's really have such choices. According to Stewart's own evidence (supported by Killick) the Bretton Woods institutions have acted as efficient debt collectors which 'tightened the debt straitjacket and delayed serious consideration of debt write-off' (*Options*, p. 213). As her evidence shows, LDCs adopting adjustment programmes have been forced to increase their share of interest payments at the expense of expenditure on social services. This, combined with IMF budget reduction targets, suggests that many LDCs have limited choice over both their public expenditure ratio and their social allocation ratio. Not only is reduced debt service payment often not an option, but ability to borrow more to enable a gradualist adjustment programme has also not been an option for many LDCs — as shown by Killick the Bretton Woods institutions' programmes have not had a catalytic impact on financial flows into LDCs and many programmes have consequently been under-funded, severely limiting the option of adopting gradualist growth-oriented pro-poor programmes. One must also question, particularly for low-income LDCs with a narrow tax base, how feasible is the option of curing the budget deficit via revenue increases. It is in their role as efficient debt collectors and due to their failure to provide adequate supporting finance that the Bretton Woods Institutions, along with the west more generally, can be seen as the bêtes noires of LDCs.

An interesting question, which neither Stewart nor Killick pursue, is what type of LDC (few in number as Stewart admits) managed to successfully choose adjustment with protection of the poor — were they the less indebted, strategically important LDCs able to attract foreign finance, and the middle income countries with broader tax bases and more flexible economies able to emphasise expenditure switching rather than expenditure reduction? For countries not in this category, surely choice has been severely constrained.

It has been argued that Killick's view that the Fund is essentially a toothless tiger can be questioned. Although 53 per cent of IMF programmes were uncompleted, we have shown, using the evidence that Killick himself surveys,

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that there do appear to be correlations between changes in macro variables such as investment and the balance of payments and IMF programmes. In addition, although Killick argues to the contrary based on a very scant overview of the evidence (*IMF*, p. 158), Stewart has shown that adjustment is often correlated with declining expenditure on social services, and increased poverty, although there are some country exceptions. We have also challenged Stewart's argument that LDC governments had considerable flexibility in terms of their choice and option to protect the poor during adjustment. One must surely ask, if such choice existed, why so few governments chose to exercise it. To suggest, as Killick does, that this was largely due to 'the indifference of a good many borrowing governments' is a disservice to policy makers in LDCs.

Despite Killick's toothless tiger argument and Stewart's choices and options argument, it is encouraging that neither author absolves the Bretton Woods Institutions of their responsibilities in LDCs. Stewart argues that although worsening poverty was partly due to the initial imbalances that led to the need for adjustment, and to exogenous shocks, this was only 'partially true' (*Options*, p. 2), implying that part of the cause may have been due to adjustment programmes. She is careful, however, not to assume causation, since we do not know the counter-factual, and stops short of claiming that adjustment policies caused poverty. However, she correctly argues that an appeal to the counter-factual cannot exonerate policies entirely 'because policy-making should protect the poor from a sharp worsening in their condition *irrespective of cause*' (*Options*, p. 19). Since 1980, both the IMF and World Bank have been heavily involved in policy-making in a large number of LDCs; hence we can conclude with Stewart that although we cannot prove that poverty worsened due to IMF/World Bank policies:

> Nonetheless, the IFIs have rightly been criticised for their actions and inactions in this area. The most telling criticism is that, though not primarily responsible, they were there and did little or nothing. Claiming innocence because of lack of responsibility for the initial cause is, in this context, akin to claiming no responsibility for not putting out a forest fire in the vicinity, or failing to call in the fire brigade, on the grounds that someone else started it (*Options*, p. 213).

Killick reaches a similar conclusion that the Fund should have done more:

> The jury thus remains out on whether programmes have growth-reducing consequences. Even if they do not, it is possible that a different approach would produce better results . . . while it is not possible to demonstrate the programmes have worsened poverty overall, there is equally little evidence that they have improved it either (*IMF*, p. 148 and p. 174).

What, then, should the Bretton Woods Institutions have done? Both Stewart and Killick have suggestions: providing more, and encouraging more supporting finance so that LDCs can pursue more medium term supply-side growth-oriented adjustment programmes which target structural constraints, rather than tacking meso policies and social funds onto unchanged macro policies; easing the debt overhang rather than acting as efficient debt collectors; reducing exogenous

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shocks facing LDCs such as deteriorating commodity terms of trade; permitting LDCs to design their own adjustment and poverty alleviation programmes; and helping LDCs overcome domestic political barriers that prevent pursuit of growth and poverty reduction programmes. Hence, whether or not one sees the Bretton Woods Institutions as toothless tigers or bêtes noires, they are clearly leopards who could change their spots.

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