IMF reform

debates in South Africa

Brian Kahn assesses the state of debate in South Africa regarding the reform of the International Monetary Fund (IMF).

Since the Asian crisis of 1998, there have been numerous international debates about the need to design a new international monetary system. Much of the discussion has revolved around the role of the IMF and the World Bank. The recently published Meltzer Commission Report was one outcome of these debates. The report came up with a number of controversial recommendations about the role of the IMF in the international monetary system, as well as some governance issues.

Surprisingly there has been relatively little debate in South Africa on the reform of the international financial system, or of the IMF itself. Although there is hostility towards the IMF and the World Bank in the labour movement, the South African Communist Party (SACP) and some constituencies within the African National Congress (ANC), this is usually expressed in terms of the influence these institutions have on economic policy formulation.

As South Africa has not been a regular borrower from the IMF, nor had a structural adjustment programme, access to IMF resources does not weigh heavily on the domestic debates. The only recent explicit critique of the IMF has come from government, before the spring 2000 meetings of the IMF in Washington, when finance minister Trevor Manuel called for changes in the fund. Manuel raised questions about the internal governance structure of the IMF and the access of developing countries to its resources. The focus appeared to be on championing the cause of developing countries, rather than on narrow South African interests. Other concerns were the debt of highly indebted poor countries (HIPC).

About the IMF

The International Monetary Fund (IMF) came into existence on 27 December 1945, when 29 countries signed its Articles of Agreement (its Charter). These articles were agreed on at a conference held in Bretton Woods, New Hampshire, US, 1-22 July 1944. It was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. The IMF has 183 member countries.

Source: www.imf.org

Why so little debate?

Perhaps the reason for the lack of debate about the IMF is the fact that during the sanctions period South Africa had little contact with the international monetary system or its institutions. Debates at the time generally revolved around sanctions The issue then was whether banks (including the multilateral organisations) should lend to South Africa.

During the 1970s, South Africa had obtained three credits from the IMF, mainly to assist with balance of payments problems emanating from the weak gold price. However, Padayachee has noted that this was also a period of political instability that included the invasion of Angola and the Soweto uprising. In 1981, a falling gold price and high imports resulted in a massive current account deficit. In mid-1982, when the financial sanctions debate was intensifying, the IMF granted South Africa a US$1,1-billion loan, amid controversy This was to be the last loan to South Africa until apartheid ended.

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In 1983, the Gramm amendment was passed in the US prohibiting the US executive director of the IMF from supporting loans to South Africa unless the Secretary of the Treasury certified to the US Senate and House Banking Committees that the loans would reduce apartheid distortions Before the Gramm amendment, South Africa had been expelled from the Australian constituency, so although it was entitled to access of fund resources, it had no board representation.

After the changes by the De Klerk government in the early 1990s, the IMF and the World Bank heightened their visibility in South Africa. They increased their visits, which included contacts with academics, trade unions and non-governmental organisations (NGOs). It was clear that the IMF was concerned with the economic policies to be followed by the new government. The major debate at the time revolved around the choice between redistribution before growth, or growth before redistribution. In 1992 an IMF occasional paper on South Africa fuelled this controversy by supporting the latter view.

South Africa's position

After its transition to democracy, South Africa resumed full membership of the IMF. In 1996 it joined the English-speaking group of African countries (Africa Group 1). Although South Africa has most votes in the group, it did not insist on having a permanent executive director. The South Africans did not wish to assert their dominance within the group. Permanent executive directors represent all other constituencies, with the advisory functions rotating In Africa Group 1, the executive directorship rotates, and the advisory functions are more or less permanent. This means that countries with low voting rights can represent South Africa's interests. South Africa has a permanent advisory position, and the current alternate executive director is South African. In addition, Trevor Manuel is the group's representative on the International Monetary and Financial Committee (IMFC).

Although South Africa has high-level representation in the fund, it seems to act more as a representative of the developing countries, and Africa in particular.

Calls for reforms

Before the IMF and World Bank meetings in Washington last year, Manuel said he would push for changes in the

Gear was crticised as typical of an IMF structural adjustment programme.

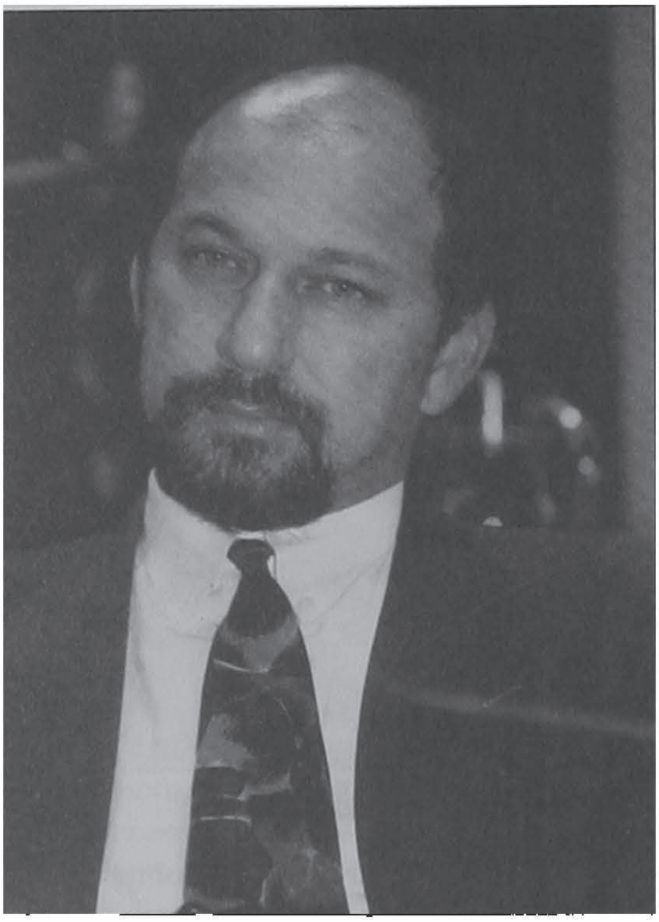
shareholding, shaping of constituencies and operations of the IMF and World Bank He expressed concern that the institutions' main clients, poor countries, 'are ignored, and the ordering of the constituencies tends to weaken the voices of the poorest members'. The 'cosy arrangement' for selecting the fund's managing director was criticised as lacking transparency and excluding most of the world's people

At a press conference, he said 'we will continue to argue for a review of the institutions and how they operate. Developing countries need to have voices The time is right now in the absence of any global economic crises, to implement changes.'

Finance director-general Maria Ramos said South Africa would lead the developing countries in pushing for reform of the IMF and World Bank. 'We hold the chair this year and we have a great opportunity to ensure that the developing world has a voice.' She also rejected calls for the demise of the IMF and World Bank, saying they represented the only access many developing countries had to capital She added, however, that 'where the IMF and World Bank have erred is that they have insisted on the level and detail of conditionality'.

As IMFC chair, Manuel took a particularly strong stand on HIPCs In contrast with the Meltzer report, which effectively called for reduced lending to developing countries, he urged the maintenance of longer-term support measures On the HIPC initiative, he criticised the slow pace of debt relief, despite previous commitments Only one of the retroactive HIPC cases had reached completion.

Manuel noted with concern the downward trend in development assistance, and argued that unless the advanced economies opened their markets more to developing countries, the benefits of globalisation would bypass Africa He, however, cautioned against



Trevor Manuel called for changes in the IMF.

excessive zeal in promoting capital account liberalisation.

Manuel argued that the fund should cater for its diverse membership, and ensure that the rules for gaining access to its resources did not inappropriately exclude members

Domestic debates

There is very little debate about the internal structure of the IMF in South Africa, but there is significant opposition to the IMF's influence on policy formulation.The 1992 IMF occasional paper generated much debate.There was also heated debate when South Africa applied for a loan in 1993, when the Transitional Executive Council (TEC) ran the country.The financing facility, for US$850-million, was to support the balance of payments after prolonged drought.Although the letter of intent spelled out conditionalities in the normal 'neo-liberal' mould, the level of conditionality was fairly low. If they had been publicised, opposition from the left would have been more vociferous, particularly as the ANC, as a member of the TEC, was part of the decision to accept the loan.The letter of intent committed the new government to:

- 'a reduction within a few years of the government budget deficit to 6% of GDP;
- expenditure containment rather than tax increases;
- containing the civil service wage bill;
- a continuation of tight monetary polices of the past four to five years;
- monetary targeting;
- policies to couple wage restraint and training to foster investment and promote employment;
- maintenance of the financial rand mechanism without the introduction of new exchange control mechanisms,
- and a simplification and rationalisation of the tariff system and the phasing out of import licensing and non-tariff barriers.' (Padayachee, 1997:32)

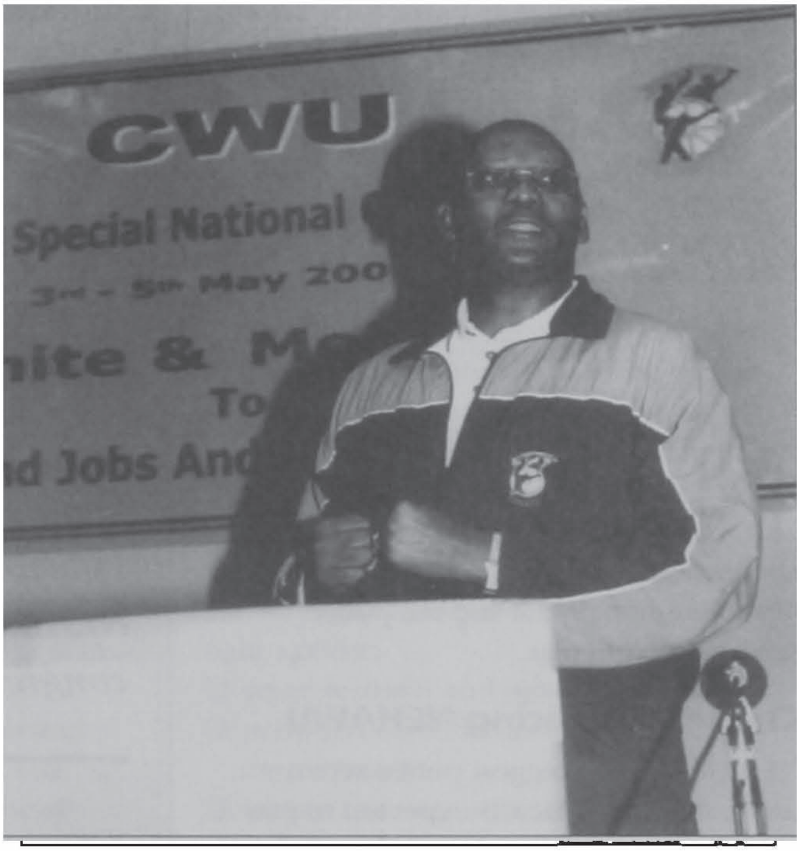
These policies are precisely those criticised by the IMF's opponents in South Africa.

Although South Africa has not had an IMF structural adjustment programme, the government's Gear policy, introduced in 1996, was criticised as typical of one. In a report prepared for the United Nations Development Programme (UNDP), the National Institute of Economic Policy argued that Gear 'closely resembled an IMF structural adjustment programme which prioritised budget cuts, liberalisation, deregulation, privatisation and tight monetary policy'.

The trade unions, in particular COSATU,

have consistently criticised the IMF and the international financial system, but have not spelled out detailed alternatives. In particular, the lack of transparency and democratic participation has been attacked

At the International Confederation of Free Trade Unions (ICFTU) congress in Durban last year, COSATU general secretary Zwelinzima Vavi said the 'Seattle and Davos protests signalled the end to the cosy, secretive, exclusive club comprising government and big business shaping our destiny without our participation The social partnership we are looking for is not akin to the chicken and the pig partnership, where the pig makes a total sacrifice and the chicken a partial sacrifice in order to create bacon and egg'



Vavi does not want a 'chicken and pig' partnership.

Later he called for the formulation of an alternative strategy, including

- an alternative platform for a new trade and financial world order;
- democratisation of international multilateral institutions such as the IMF;
- the building of a social movement in the South and the North to articulate a new development path,
- for this agenda to be advanced in all international forums, particularly the United Nations

A resolution of the ICFTU argued that criticism of the IMF and World Bank had forced them to 'show increasing concern about poverty reduction and changed their attitude to meeting and discussing their policies with unions'. The resolution called for changes in views on fiscal targets; increased investment in social programmes, and comprehensive debt-rescheduling programmes It also urged increased financial support for democratic countries that supported workers' rights and directed social expenditure towards education, health and job creation

Conclusion

Despite currency crises since 1996, South Africa has not had to rely on IMF assistance This may explain the lack of detailed debate over its role and workings If government has to rely on access to the fund's resources, this would spark a more intense debate Given the opposition in the ANC alliance to the IMF, access to fund resources at high levels of conditionality is likely to be a last resort ★

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