

THE INTERNATIONAL ECONOMIC CRISIS

The world economic system's recent difficulties have been widely acknowledged. However, some would assert that with the latest IMF-negotiated agreements to reschedule much of Latin America's \$360 billion debt, the worst is over. Other experts disagree, citing several persisting "symptoms" of a continuing crisis: Per capita incomes in Africa are stagnant or falling. Africa's \$83 billion external debt is a full 25 percent of its total annual income. The Developing World currently spends at least half of its export earnings as debt service, and pays more in interest than it receives in loans. The U.S. has enormous budgetary and trade deficits of its own.

These experts therefore are convinced that a systemic problem exists. Even the staunchest U.S. allies now assert that U.S. fiscal and monetary policies have contributed to Western Europe's current economic difficulties. Many contend that U.S. economic policy has become a major determinant of global economic conditions.

This ISSUE BRIEF surveys the U.S. role in the development of multilateral financial institutions and the evolution of the international economic crisis. It begins with a point-counterpoint on the relative merits of a quintessential Reagan administration foreign aid proposal—the Economic Policy Initiative for Africa, (EPI). The interviewees are Princeton Lyman, Deputy Assistant Secretary of State for Africa and Robert Browne, Senior Research Fellow at Howard University's African Studies and Research Center. Formerly, Mr. Browne was Executive Director of the African Development Fund, the "soft-loan window" of the African Development Bank. □



Princeton Lyman

"EPI is intended, is aimed at our economic development objectives in Africa. That is its prime purpose."

To what extent did the Lagos Plan of Action and the Berg Report influence the formulation of the Economic Policy Initiative?

LYMAN: The Lagos Plan of Action (LPA) is an important statement because it first recognizes the severity and uniqueness of Africa's economic crisis, then points to the importance of food production and the need for more production incentives.

The Berg Report did influence the formulation of the EPI, but some of the same issues were also raised in the LPA. Our conclusion—and I think the conclusion in practice of the African countries—is that they do need to increase their foreign exchange earnings, and that for the foreseeable future the markets lie largely outside of Africa.

Perhaps the biggest difference in strategy between them is that the LPA tended to stress more self-sufficiency and inter-African trade, whereas the Berg Report stressed export development and greater international connections for the African economies. There is an overlap, however, between the food production/self-sufficiency emphasis in

"It is the imposition of one's views on another, be those views correct or faulty, which is objectionable. That is the 'colonial' character of the EPI proposal."



Robert Browne

To what extent do you think the Lagos Plan of Action and the Berg Report influenced the formulation of the Economic Policy Initiative?

BROWNE: I think the Lagos Plan of Action is a milestone. The document is signed by all fifty heads of state—which considering the disparities in their perspectives and circumstances is indeed an accomplishment. It lays out an alternative to the present pattern of development; and since the present pattern has proven to be so inadequate, I certainly think the Lagos plan should be tried. I see no evidence that the Lagos Plan played any role whatsoever in the EPI.

The Berg report is the most comprehensive study that we have of Africa's current economic situation. Many of its recommendations are satisfactory and much of the analysis is correct, but in attributing the causes of Africa's current difficulties, there was too much emphasis placed on Africa's internal policies and not sufficient emphasis placed on the effective external factors. The prescriptions of the Berg report tend to focus very heavily on the incorrect policies of the African governments. When one is

The domestic and foreign policies of the U.S. have been a major factor in the last forty years of international economic history. As the only nation to emerge from World War II with a vibrant economy, the U.S. played a key role in the post-war economic reconstruction of Europe and Japan, and by the 1960's was contributing 60 percent of all economic assistance. Today however, U.S. bilateral aid accounts for only 16 percent of world-wide assistance, and excessively high U.S. interest rates and an overvalued dollar have reversed earlier patterns of global capital flows. This latter day reversal in the nature of America's economic role has been sharpened by the imposition of a foreign model of Reaganomics with three distinct features:

- support for private sector initiatives in Third World economies instead of development assistance;
- curtailment in U.S. multilateral contributions; and
- politicization of selection criteria for the recipients of bilateral assistance.

The Reagan administration has shifted U.S. policy away from developmental concerns, and toward the promotion of U.S. security and strategic interests. Trends in U.S. aid to Africa since 1981 illustrate the disproportionate rise in foreign military aid: Military assistance to Africa will have risen by almost 150 percent by 1985, while economic aid rose by only 40 per cent—less than the inflation rate of that same period. The proportion of military assistance in the total U.S. bilateral aid package to Africa doubled from 10-20 percent. In 1981, nineteen African nations were receiving U.S. military aid, today thirty-six are. Grants for the military have leaped from seven million to 202 million dollars, thirty times in FY 1981. President Reagan has proposed military sales to sub-Saharan Africa of \$400 million for FY 1985, almost three times the \$136 million allocated for that purpose when he assumed office in FY1981. Additionally, while in FY1980 the U.S. trained 184 African military personnel from fourteen nations, the Reagan administration proposes to train 879 African military personnel from 36 sub-Saharan nations in FY1985.

Reagan's negative attitude towards multilateralism is epitomized by his administration's treatment of the International Bank for Reconstruction and Development (IBRD, or World Bank). The administration curtailed U.S. contributions to the Bank's soft-loan window—the International Development Agency (IDA). While Bank officials recommended that IDA's \$12 billion total allocation

be increased to \$16 billion, the Reagan administration urged that the pool be lowered to \$9 billion and decreased the US contribution by 25 per cent. African economies will be particularly hard-hit by this refusal, for IDA is the largest single source of concessional assistance to the continent. The proportion of IDA assistance designated for Africa increased from 25 percent during the 1977-1981 period to 34 percent in 1983, but because of U.S. action the absolute amount of aid actually decreased 15 percent.

The Reagan administration is more supportive of the International Monetary Fund (IMF), where the U.S. controls more votes than all of Latin America, sub-Saharan Africa, and a good part of Asia combined. Not surprisingly, IMF lending decisions tend to mirror U.S. foreign policy. For, example, the Manley and Allende governments of Jamaica and Chile were both denied access to IMF funding, while the successor Seaga and Pinochet regimes received financing immediately. Despite the Sandinistas' compliance with IMF regulations negotiated by Somoza in order to maintain Nicaragua's credit rating, Nicaragua found itself included in what the Wall Street Journal identified as a Reagan "hit list" of nations to be systematically denied multilateral loans and assistance. South Africa however, was granted a \$1.1 billion IMF loan in 1983—despite its access to other capital markets and forecasts that predicted a \$1.6 billion South African trade surplus for that year.

IMF conditionality usually requires recipient nations to devalue currency, reduce government services, increase taxes, raise utility rates, and eliminate food and health care subsidies. These measures usually have greatest impact on those sectors of the society least able to afford such changes, and have provoked domestic upheavals in even the staunchest American allies. Despite this, receipt of most bilateral aid is conditioned upon compliance with IMF demands.

Reagan officials note that the total amount of U.S. bilateral aid has increased 25 per cent over the last four year period, but the number of eligible recipients has been restricted by the imposition of a new condition—support for U.S. policies within international fora. Thus, Zimbabwe's aid package was reduced by more than half after it deviated from two U.S. positions within the UN Security Council.

Because of their strategic position astride a major shipping route, Somalia, Kenya, and the Sudan received 60 per cent of all ESF funds earmarked for Africa and also were allocated 20 per cent of all Development Assistance appropriations. The strategic concerns of the administration are again reflected in the selection of Food for Peace beneficiaries: \$50 million for Sudan, and between \$16-20 million each for Somalia, Liberia, and Zaire. Other African nations were allocated three million dollars or less, in spite of their dire straits. U.S. priorities are clear: Israel, one nation with four million people and a per capita income of \$5000, receives \$2.5 billion in U.S. aid. Sub-Saharan Africa, with some 50 countries and 500 million people, received only \$1.2 billion. □

Vol. 3, No. 4

August-September 1984

TransAfrica Forum Issue Brief®

545 Eighth Street S.E., Suite 200

Washington, D.C. 20003

Niikwao Akuetteh..... Research Fellow
 Cecelie Counts..... Research Fellow
 Karrye Braxton..... Research Assistant
 Hastings Jones..... Research Assistant
 Menda Ahart..... Administrator
 Randall Robinson..... Executive Director

ISSN 0730-88X

the Lagos Plan and the export emphasis in the Berg Report. Much of the potential increase in foreign exchange can come from the agricultural sector, and food and export crop production can be combined on the same farms.

Assistant Secretary of State Chester Crocker has said, "Some old shibboleths badly need re-examination including one that a country must produce its own food supplies when in some cases it may be more efficient and no less self-sufficient to concentrate on cash crops and buy food with money thus earned." Does this view not contradict the EPI's stated goal of encouraging food self-sufficiency?

LYMAN: Every country will want to maximize food self-sufficiency to the extent it can. Most African countries have the potential for increasing their share of their domestic food production. But in parts of Africa the cost of producing certain grains is higher than the world market sale price, and for some of those countries it may be more profitable to develop other agricultural commodities which command a high export price and import some of the food. Guinea, for example, is a country that has the potential for exporting high quality fruit and vegetables and could earn foreign exchange to cover some of its food imports.

Development economists see a strong resemblance between the EPI and IMF conditionalities. Do you agree?

LYMAN: The IMF has come to play a very important role in Africa: This is an indication of the severe liquidity crisis—the shortage of foreign exchange for basic imports—that has been taking place. We see the IMF as one piece of the equation: it imposes conditions on the foreign exchange situation and budget deficits. We see EPI as a different part of the equation; we see it as part of the growth equation. So we don't see EPI conditionality, if you use that term, as identical to the IMF. While programs of budget austerity are needed during this period, the real need is for growth and development. EPI emphasizes the latter.

Some economists argue that programs like the EPI ignore political and social reality, and thus are a form of colonialism. How do you respond?

LYMAN: Most of the countries in Africa are struggling with a whole host of problems: balancing budgets, increasing their supplies of foreign exchange, producing enough food, and keeping political stability. But I think the Africans' first want to get out of the crisis they are in and move on to a path of steadier growth. The EPI provides incentives and tangible support for policy changes that will produce growth.

Some of the adjustment measures, whether they are austerity measures or the redistribution of economic opportunities from rural to urban area, are going to cause great difficulties. Food prices will have to be raised. This may cause great hardship to city residents and sometimes lead to unrest. By adding resources at the critical time,

EPI hopes to help ease the social strains in these adjustments.

Price supports for U.S. farmers currently cost about 22 billion dollars annually. How then do you justify the allocation of only \$500 million for 5 fiscal years—75 million for FY 1985—for 45 of the world's poorest countries?

LYMAN: First, we are not advocating that other countries adopt the American form of agricultural incentives. What we are encouraging is fairer prices to farmers so that they can compete effectively with other sources of food. In most African countries, farmers receive only a fraction of the world market value of their crops. This discourages domestic production and increases the demand for imported food. Second, the EPI does not contain an enormous amount of money, but concentrated—as we plan to do in 4, 5, or 6 countries per year—it can be substantial; in some cases it could be as much as double our annual aid level to that country. The amount of money is important, but so is the timing and flexibility of the resources. We are also encouraging other donors to increase their aid levels.

Skeptics have charged that the EPI may be little more than a "Presidential slush fund" to reward African governments that support U.S. foreign policy. Can the Senate Appropriations Committee's failure to allocate any funds at all to EPI in FY 1985 be attributed to such concerns?

LYMAN: We specifically requested that EPI come under the Development Assistance legislation which emphasizes its development purposes. The idea behind EPI was to provide the kind of flexible funding for a wider variety of African countries than those few that fall within strategic emphasis of Economic Support Funds (ESF). We also have agreed with the criteria in the House Foreign Affairs Authorization Bill which are intended to insure that EPI recipients are selected based on the soundness of their government policies. Finally, we have agreed with the conditions that require consultation with Congress on the final selection of EPI recipients. EPI is intended—is aimed—at our economic development objectives in Africa. That is its prime purpose.

The Senate Appropriations Committee endorsed the concept and purpose of EPI, but did not agree that additional funds were needed. Instead it urged us to use existing Developmental Assistance and ESF program funds. The House agreed with both the concept and the need for funds. We hope EPI will be fully funded in the final bill.

Once EPI is approved, there will be an opportunity to review the selection process at several stages along the way. We will notify the Authorization and Appropriations Committees prior to the final selection of countries for allocation of EPI funds. We will probably stay in touch with these committees as we develop and refine the list and then make final selections. We believe the program will prove to be one that is soundly administered for the purposes intended. For that is in the interest of the U.S. as well as Africa. □

talking about forty-five countries, one is obviously very limited because what is good for one country may not be good for another. Some of the policy prescriptions, while good, are inappropriate for certain countries.

But the problem with the Berg report is not one of specifics, but of its overall thrust. The Berg Report argues for an export-led development strategy, whereas the Lagos Plan calls for an inward-focused pattern of development, which I think is more appropriate for Africa. The Berg Report essentially asks Africa to continue on the development path that it has been pursuing since independence; but to do so more effectively. The conclusion of the Lagos Plan of Action, the Africans' own document, is that the strategy itself needs to be changed.

With respect to influence, although the Berg Report was a World Bank document, the American perspective was very heavily reflected in it—perhaps because the principal author, Dr. Berg, is an American. The Berg Report preceded the EPI, so one might conclude that the Berg report was the basis for the EPI. However, it could have been just the reverse: the thinking might have originally gone from the State department to the World Bank, and is only now being reflected in the State Department's own Economic Policy Initiative.

Assistant Secretary of State for Africa Chester Crocker has questioned the need for food self-sufficiency by certain countries. What is your view on his comments?

BROWNE: Mr. Crocker's comments certainly aren't a reflection of the way Africans perceive things. Food is absolutely essential to any country's survival; no country wants to be dependent upon someone else's goodwill.

The Lagos Plan calls for food self-sufficiency for Africa as a whole, not necessarily each of the fifty countries. Some few of the African countries may be hard put to feed themselves, but the continent as a whole certainly can.

Do you see the EPI as a conditionality program similar to the IMF's?

BROWNE: Although there may be some differences in the overall objectives of the EPI and IMF loans, the conditionality requirements are basically similar in that the recipient country is obliged to impose austerity measures and policy changes which are clearly not going to be popular with its populace.

The imposition of conditions is always somewhat of a violation of a country's sovereignty, but when it's done by an international organization like the IMF it's more acceptable because the responsibility is shared by many nations. I think it's very dangerous for a single country to impose conditions on another because the recommendations and policies that one imposes may very well be wrong and contribute to the ruin of the country. The local people can blame you even if you are not responsible because you interfered.

You are known to have argued that the EPI seems to ignore the wishes of Africans and therefore may be considered a form of colonialism. Administration officials, on the other hand, have argued that the Africans' real goal is for economic growth—the EPI's objective. What is your response?

BROWNE: I'm quite sure that African countries want more economic growth, and the EPI may very well have economic growth as its main objective. But that doesn't necessarily mean that the EPI's route to economic growth is one the Africans believe to be correct. Whether the policies being mandated are incorrect may become clear only if the EPI is implemented. It is the imposition of one's view on another, be those views correct or faulty, which is objectionable. That is the "colonial" character of the EPI proposal.

Do you share the criticism that EPI, a program that features incentive pricing within the agricultural sector as its centerpiece, is severely underfunded?

BROWNE: The allocation of \$500 million dollars for about forty-five countries over five fiscal years, and \$75 million dollars for fiscal year 1985, is a pittance. I understand, of course, that AID plans to use it in only a few countries. Certainly, if you put it all in one or two countries it could make a difference, but it's really a very small amount of money for which to ask a country to sell its soul. I think we will soon have an opportunity to see if Africa's welfare is the real motivation behind the EPI. The World Bank has proposed a supplementary concessional loan fund for Africa which has much the same character as EPI, but whose \$2 billion annual size makes it meaningful. Most of the OECD countries have indicated support for this initiative, so we'll see if the U.S. joins in.

Some skeptics also have said that the EPI may be little more than a "presidential slush fund" to reward right-wing African governments that support American foreign policy. Could such skepticism have been responsible for the Senate Foreign Relations Committee's failure to allocate any money at all to the EPI for fiscal year 1985?

BROWNE: It certainly has the potential to be used as a slush fund, but that's entirely within the prerogative of the administration. The Congress is trying to insure that such a fund not be misused, but whether Congress can control this sort of thing I really don't know.

The press reported that the Senate didn't feel the need for another institution. If that's the true reason, I somewhat share their concern. It seems to me that the same goals could be achieved by modifying the criteria for economic support funds (ESF). Much of the EPI is really similar to ESF, except for the fact that the economic support money must be tied to some sort of U.S. security consideration. Eliminate the link to the military and we don't need a new program.

The World Bank's supplementary fund for Africa would be a much more effective avenue for achieving the EPI objectives, and the administration would be well advised to consider transforming its EPI funding request into a request for a U.S. contribution to the World Bank's supplementary fund. □

Two international financial institutions have dominated the post World War II international economic system: the World Bank Group and the International Monetary Fund (IMF). They were established in 1944 by the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire. While forty-four nations participated, the U.S. was the predominant actor.

While they have a common origin, the two institutions were established to meet different needs. However, they share a fundamental characteristic—the apportionment of votes according to each member nation's share of the global economy and contribution to the institution in question. Thanks to America's economic and financial preeminence in the world, this weighted voting mode assured it of a dominant role within each institution.

The World Bank Group, whose basic facility involves long-term loans for large infrastructural projects, is made up of three units: the International Bank for Reconstruction and Development (IBRD); the International Development Association (IDA); and the International Finance Corporation (IFC). IBRD loans carry market interest rates, are for periods ranging from 15 to 20 years, and are meant to spur capital flows, increased trade, and technology transfer among national economies.

The other two World Bank units have more specialized purposes. While IDA uses IBRD's criteria in appraising and evaluating requests and projects, its funds (called "credits" to differentiate them from IBRD loans) carry no interest; are for a term of 50 years with a grace period of 10 years; and are restricted to the poorest nations—those with per capita GNP not exceeding \$806 (in 1982 dollars). IFC's specialized purpose is to lend to private firms and to make equity investments. However, governments usually must support the loan application and are kept fully informed of IFC lending decisions.

The recent difficulties in the international economic system have caused the Bank to institute structural adjustment lending (SAL). Started in 1980, SAL funds are not for specific projects but require a recipient nation to undertake policy reforms. They are thus reminiscent of IMF conditionality.

The World Bank is formally run by a Board of Governors composed of one representative of each member country. However, since the Board meets only annually, operational decisions are made by twenty full-time executive directors who form an Executive Board. Fifteen Executive Board members are elected by the Bank's member nations; the rest are appointed by the five nations with the largest voting shares (France, West Germany, Japan, the United States, and the United Kingdom). The Bank president chairs the Executive Board, and to date has always been from the U.S.

In contrast to the World Bank, the IMF was created to provide short-term balance-of-payment relief—to lend money to a nation whose external expenditures exceed earnings. However, through the sharing of financial data and evaluation of economic policy the Fund has become a lynchpin of the international financial network, and it is now virtually impossible for any debtor country to receive additional commercial, bilateral, or multilateral funds without IMF approval.

IMF members are assessed a contribution, or quota, of which 20 per cent must be placed in the Fund's resource pool in the form of gold or a reserve currency. The other 80 per cent can not only be contributed in a member's national currency, but can be kept in the member's domestic reserve bank. A member nation's total quota determines the size of its vote, but the paid-in figure forms the initial basis for determining the amount it can borrow on demand. Because developing nations have the smallest quotas and the largest credit needs, they resort to supplementary IMF facilities which require submission to further regulations.

The fundamental and distinctive characteristic of supplementary IMF assistance is conditionality: a concept which requires nations to adopt specified austerity measures before receiving any funds. Typically, a country must agree to reduce government expenditures, limit wage increases; increase prices, devalue its currency; and eliminate any barriers to trade—and maintain such changes for five years. Conditionality requirements intensify with the use of each credit tranche, and in extreme cases the IMF can require not only policy reforms, but direct supervision. By signing a letter of intent, a borrower nation registers its promise to institute such changes, and to allow the use of IMF criteria to monitor its macroeconomic and/or sectoral performance. If the policy and performance targets are not met, the IMF withholds undischarged funds.

The U.S. is the unquestioned power wielder in these international financial institutions. The initiating Conference was held in the U.S.; both institutions are headquartered in Washington, DC; the U.S. dollar is the system's only reserve currency; and executive personnel have been predominantly American. Operational and policy decisions are all heavily influenced by U.S. positions by virtue of its carrying the largest number of votes.

The widespread nature and severity of the problems in the international economic system have led many observers to question the current roles of both the IMF and the U.S. They contend that a system designed to 'help' European economies of the 1940's is inherently incapable of dealing with Third World economies of the 1980's. They note that IMF conditions almost invariably lead to social and political upheavals, and cite Liberia, Ghana, Morocco, and the Dominican Republic, as recent examples. Others have gone further and argued that IMF programs appear to create a dependency on more and more loans. These critics cite the case of the Sudan as classic: When it first approached the IMF for extra funds in 1978, Africa's largest country had an external debt of \$2 billion. Today, after six years of IMF 'solutions' that mandated severe austerity measures and necessitated seven debt restructurings, the Sudan has an external debt of \$8 billion!

Virtually all observers agree that some action must be taken. The disagreements center on whether the entire international economic system must be restructured, beginning with the two largest international financial institutions—the IMF and World Bank Group. □

TRANSAFRICA FORUM

A Quarterly Journal of Opinion on Africa and the Caribbean

TRANSAFRICA FORUM is a quarterly journal of opinion on matters pertaining to Africa and the Caribbean. The journal presents an independent review of differing perspectives on political, economic and cultural issues affected black communities globally. The intent of the journal is to provide an expanded analytical framework which can be useful to a broad audience with a continuing commitment to African and Caribbean advancement.

"TRANSAFRICA FORUM publications produce news and information which have been often exclusive, provocative, and very helpful in our deliberations."

Paul Tsongas (D-Mass.)
Senate Foreign Relations Committee

*"TransAfrica Forum's ISSUE BRIEFS and TRANS-
AFRICA FORUM JOURNAL are among the best in-
formative and insightful writings on African and
Caribbean affairs available to readers today."*

Andrew Young
Mayor, Atlanta, Georgia

*"TransAfrica Forum's ISSUE BRIEF provides the
black nation with the most pertinent, concise, and sub-
stantive information on development in Africa and the
Caribbean."*

Walter E. Fauntroy
Member of Congress,
District of Columbia

*"We have found TRANSAFRICA FORUM publica-
tions to be of great significance to the research efforts
of both faculty and graduate students. We recommend
them very, very highly."*

Dr. Robert Cummings
Chairman, African Studies
Department
Howard University

Please enter my subscription for: **TRANSAFRICA FORUM**

NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

Organizational Affiliation _____

Mail Check & Subscription Form To: Transaction Periodicals Consortium
Dept. #9001
Rutgers University
New Brunswick, N.J. 08903

*Subscription includes 4 Jour-
nals and monthly Issue Briefs.

Individual

- ☐ 1 year —\$15.00
- ☐ 2 Years— 25.00
- ☐ 3 Years— 40.00

Institutions

- ☐ 1 Year —\$30.00
- ☐ 2 Years— 55.00
- ☐ 3 Years— 85.00

Add overseas postage of:
\$ 8.00 annually for surface
\$30.00 annually for airmail

TRANSAFRICA FORUM

545 Eighth Street, S.E., Suite 200
Washington, D.C. 20003

TransAfrica Forum
Non-Profit
Organization
U.S. Postage
PAID

TRANSAFRICA FORUM



**Make *TransAfrica Forum*
a holiday gift subscription.
Current low rate-
\$20**

- ☐ **YES!** Enter one or more one-year gift subscriptions as I've indicated below.
- ☐ Payment enclosed.
- ☐ Bill me
- ☐ Extend my own *TransAfrica* subscription, and count it as my first "gift."

(Renew now and save \$3.00.)

Your name: _____
(please print)

Address _____

City _____ State _____ Zip _____

Send a full year of *TransAfrica* as a gift to:

Recipient's name: _____
(please print)

Address _____

City _____ State _____ Zip _____

Send a full year of *TransAfrica* as a gift to:

Recipient's name: _____
(please print)

Address _____

City _____ State _____ Zip _____

Send a full year of *TransAfrica* as a gift to:

Recipient's name: _____
(please print)

Address _____

City _____ State _____ Zip _____