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COMMUNIST STATES IN THE IMF AND IBRD: CONFLICT AND COOPERATION

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COMMUNIST STATES IN THE IMF AND IBRD:
CONFLICT AND COOPERATION

by

VALERIE J. ASSETTO

A THESIS SUBMITTED
IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE

DOCTOR OF PHILOSOPHY

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1984
Communist States in the IMF and IBRD: Conflict and Cooperation

Abstract

According to the requirements stated within their charters, the IMF and the IBRD are prohibited from including non-economic criteria in their decisions to lend to members. Despite this restriction, political criteria such as regime type and foreign policy orientation with respect to the East-West conflict have entered into Bank and Fund lending behavior. Political criteria do not, however, dominate decisions to lend in either organization; rather, the appearance of political criteria depends on circumstances in the environment of both the Bank and Fund and the particular relationship of a member to that environment. Using the Communist members of the Bank and the Fund as examples, it appears that foreign policy orientation is the most frequent political input into decisions to lend by the IMF and the IBRD.

Due to the pro-capitalist bias of both organizations, only five Communist states have ventured to join the Bank and the Fund, and by 1980 that number had dwindled to two, Yugoslavia and Romania. Mutual suspicion and hostility, coupled with the reluctance of the Bank and Fund to accommodate the special needs of their Communist members, eventually led to the withdrawal of Poland, Czechoslovakia and Cuba from the organizations. Conversely, Yugoslavia and Romania have received levels of IMF and IBRD funding which exceed the average level of members which are non-Communist, developing nations. The uneasy relationship of Yugoslavia and Romania with the Soviet Union and the need of the Bank and Fund to achieve the goal of universal membership in order
to control the increasingly volatile nature of the international economy explains this seemingly preferential treatment.
Dedication

To Charlie, with much love and gratitude.
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Chapter 1: INTRODUCTION

One of the most significant developments in the post-war international economic system is the startling increase in the level of financial assistance provided by private and public agencies. Both bilateral and multilateral financial institutions have attempted to satisfy the need in modern nation-states for substantial amounts of financial assistance. Aid agencies and commercial banking institutions in the developed states of North America and Western Europe supply large amounts of funds to the rest of the world but the largest single sources of international financial assistance, particularly to developing nations, are two specialized agencies of the United Nations, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD or World Bank). These two agencies provide the bulk of multilateral development assistance and balance of payments financing in the present international economy.

The purpose of this study is to examine the role of political inputs in the decisions of the IMF and IBRD to lend to Communist countries. This analysis focuses on the influence of political variables on the flow of economic assistance from an international financial organization to one of its members. The constitutions and bylaws of international agencies for economic assistance typically prohibit the inclusion in decisions to lend of any but economic or technical criteria. Yet, as will be shown, various political criteria do, in fact, affect certain lending decisions.
While the decision to finance a highway in a remote area or to bolster a declining balance of payments position in a member country involves the use of numerous economic criteria, such as GNP and inflation, several political criteria may also enter into the decision-making process of international assistance organizations, either directly or indirectly. Political inputs may have influence when the assessment of the potential borrower's ability to repay a loan is based upon political criteria such as the borrower's regime type. The attempt of the lender to control economic policy-making by the borrower is an example of another possible aspect of political inputs into lender operations. The magnitude of the funds dispensed by international lenders bestows upon these organizations the potential for influence on the decision-making process of the borrower.\(^1\)

This analysis seeks to examine the political inputs into lending decisions in international organizations for financial assistance. The forms that political inputs may take and the points in the lender's decision-making processes in which political inputs enter influence how the inputs impact upon the operations of international economic organizations. It is the central thesis of this analysis that political inputs may appear in the lending decisions of the IMF and the IBRD only under certain circumstances determined by the attributes and policies of the borrower and only at certain stages of the decision-making process.

The Communist bloc is the focus of this study. The Bank and the Fund are prohibited from lending to states which are not members of their organizations; consequently, this study is limited to the members
of the Bank and the Fund. The weight of political inputs in the lending policies and decisions of the international lending agencies is of critical importance to borrowers in the Communist countries. Official statements by these international economic organizations offer a borrower few guidelines for assessing its performance with respect to political criteria. Some clues to political criteria may be derived from the constitutions or regulations of these agencies, but more often political inputs are well-disguised. Knowledge of the impact of political criteria on the level and conditions of loans from international financial organizations can assist a borrower immeasurably in preparing a development program or set of projects which international lenders are likely to fund. A borrower may even be able to develop a loan application strategy using the results from the analysis of the impact of political criteria to anticipate and avoid major conflicts with the lender.\(^2\)

Analysis of the impact of political inputs in the lending policies of international economic organizations may also enable the borrower and the lender to minimize the unexpected effects of lender policies on the borrower's political and economic system. This factor could be critical to a Communist country which is trying to preserve its unique political and economic system in the face of what it perceives to be intense international hostility. The subtle influence of the lender's ideology or procedural biases can often divert the borrower from its intended goals. This may or may not be an intentional consequence of the lender's policies. Recognition of such a possibility gives the Communist borrower (or the lender) the opportunity to counteract any
undesirable influences which may result from the lender's operations, either in a case-by-case fashion or as part of a comprehensive set of reforms.

Communist states have often served as alternative role models for Third World members of the Bank and Fund. An administrative, centrally-planned economy is one option open to a state which desires to develop rapidly. Soviet and Eastern European experiences in the post-war period have demonstrated the viability of this option in promoting rapid economic development, and thus, are regarded with some interest and admiration in other developing countries. Bank and Fund treatment of Communist countries, therefore, could serve as an indicator to non-Communist members of the range of experimentation permitted by the IMF and IBRD.

Between 1949 and 1979, only five Communist states have joined the IMF and the IBRD: Poland, Czechoslovakia, Cuba, Romania, and Yugoslavia. Of these five, only Yugoslavia was a member of both organizations for the entire period under investigation, 1950-1980. Poland, Czechoslovakia, and Cuba withdrew prior to 1965, and Romania did not join until 1972. For the purposes of this study, all five states are considered to be similar to developing states. For most of the duration of their membership in the Fund and Bank, all five states suffered severe economic difficulties of the sort which is typical of a developing state. Structural imbalances, a low GNP per capita, reduced industrial capacity (in some cases due to war damages), and a high proportion of the population employed in agriculture are characteristic of developing states and are also characteristic of the Communist states
during their tenures as members of the Bank and Fund. Yugoslavia has recently surpassed the minimum threshold of development (according to IBRD standards), but its dependence on foreign trade has led to sharp fluctuations in growth in recent years. Romania defines itself as a developing state which is laboring under many of the problems of other developing states on the verge of development. As a result of this self-definition, Romania is actively seeking to identify itself as part of the Third World by attempting with some success to join several Third World forums.

Communist members of the Bank and the Fund in their roles as developing economies share many of the same difficulties with the Fund and Bank as do other developing members of these organizations. The hostility to communism of the powerful Western members of both organizations only strengthens the potential impact of political inputs in decisions to lend to Communist members. If political variables have any effect on Bank and Fund decisions, this effect should be even stronger in the decisions of the Bank and Fund to lend to their Communist members. The Communist states, therefore, are the focus of this study for two reasons; the Communist members of the Bank and the Fund can be considered a part of the group of economically developing states, and the nature of their political and economic systems can be expected to provoke hostility, or at least suspicion, from the capitalist-oriented members and staff in both organizations. Conceivably, this hostility could manifest itself in Bank and Fund decisions to lend.
The decision to focus this study on the lending policies of the Fund and the Bank underscores several important aspects of international development assistance. Theoretically, multilateral aid yields less potential for political influence than does bilateral aid. It follows, therefore, that an international lending agency should be able to restrict the basis for its decisions more easily to economic criteria than would an agency or organization of a single lending state. An international organization is composed of many states whose political criteria for lending may conflict and cancel one another, whereas bilateral aid subjects the borrower to the decisions of a single state. In the case of the Fund and the Bank, the fact that the numbers of these organizations' members exhibit a wide variety of political and economic values and structures further reduces the influence of political criteria in lending decisions to those countries. The presence of political inputs in Bank and Fund lending policy to Communist countries, therefore, should not be readily apparent given the nature of multilateral aid, and in fact, the appearance of such political considerations would be considered undesirable by both the organizations and their members as contrary to the purpose of multilateral aid.

The intrusion of political variables into Bank and Fund lending policies can have immense impact on the direction of development in member states. These two organizations work closely together on matters of general policy, policy evaluation research, and provision of technical assistance to members. As a result, the Fund and the Bank are alleged to have developed a "broad identity of views." The sheer volume of funds dispersed by these two organizations make them almost
indispensable to the economies of most developing nations. These organizations' increasing interest in non-traditional capitalist or socialist economic systems can be traced not only to an increased interest in the development process but also to a growing concern that the heavy indebtedness of developing states will lead eventually to widespread defaults in commercial and government loans which could have a disastrous effect in the international economy (Hayter, pp. 74, 32). It is feasible to expect, therefore, that the Bank and the Fund will seek to create and maintain an environment in which the probability of default will be low.

Bank and Fund impact in member economies is amplified by the respect that these two organizations command in international financial circles. Both organizations are leaders in facilitating loans to member states from both governmental and commercial sources. Fund and Bank approval of the policies of a member nation is often used as indicator to other lenders in their decisions to lend (Hayter, p. 79). These "other lenders" may be national governments, commercial banks or other international organizations. The World Bank is a leader in composing aid consortia, groups of lenders who coordinate their efforts to lend to a particular state or region. Fund approval of one of its stand-by arrangements "has come to be regarded as the leading international judgement on the soundness of a member's policies;" consequently, the Fund serves, in a sense, as an international credit bureau for potential lenders. From the preceding discussion, it can be seen that Fund and Bank opinion may influence the entire scope of assistance to a member state.
Technical assistance is an integral part of both Fund and Bank operations and an important source of economic and financial expertise outside the U.S., Western Europe, and Japan. Both organizations provide a wide range of technical assistance facilities to members upon request and in addition, offer courses on a variety of topics at their headquarters in Washington, D.C. Technical assistance in the World Bank consists of aid in developing technical plans, assistance in the choice of priorities among projects, and recommendations by the staff on the administration of selected projects. Fund assistance tends to concentrate in the areas of training in modern statistical methods used to generate and evaluate monetary and fiscal policies, and current developments in central banking policies and procedures. Members of the Bank and the Fund do not hesitate to use the technical assistance offered by both organizations and frequently send their most promising young officials for intensive training in Washington, D.C. This accords the Fund and Bank perspective on development tremendous influence on the development attitudes of key policy-makers in member countries.

The Bank and the Fund perform a vital function in the development process. The presence of political inputs in the decision-making process of these organizations can affect the extension of credit from both private and international lenders. In addition, the technical assistance provided by these two agencies may influence the development choices made by a state. The IMF and the IBRD are clearly important elements in a study which purports to examine international economic assistance.
1. R. B. Sutcliffe attributes much greater influence to financial assistance. He quotes an AID official who claims that foreign aid is often used to support friendly governments by alleviating economic stresses on the recipient. See Teresa Hayter, *Aid As Imperialism* (Baltimore: Penguin Books Ltd., 1971), Preface.


Chapter 2: FORMULATION

Most states rely on the multilateral financial assistance supplied by international economic organizations. If pronouncements by these international organizations are correct, reliance on Bank and Fund assistance assures the borrower of assistance provided according to well-defined technical criteria determined in an objective, unbiased manner. Acceptance of assistance by a member, according to the Fund and the Bank, involves little or no loss of sovereignty on the part of the borrower. This chapter examines two approaches to the study of international financial assistance and presents a third view which integrates both approaches.

There are two opposing opinions among scholars about the role of political inputs in the lending policies of international financial institutions. These contending views may be labelled as the technocratic and the normative approaches. The primary source of disagreement between the two views rests in the relative weight that each group ascribes to political and economic inputs in the development process. The technocratic approach to the study of international economic organizations consists of analyses which assign a dominant role to economic inputs and economic performance in the lending decisions of international financial organizations. Analysts who adopt the technocratic approach contend that political inputs have little or no effect on decisions to lend. These scholars believe that economic problems and their solutions can be formulated using strictly objective, economic criteria. Technocratic refers, then, to the type of analyses which
emphasize the economic or technical nature of lending policy and decisions. The second, normative, approach disputes this claim. Analysts who follow the normative approach contend that political inputs eclipse economic inputs in the lending policies of the Bank and the Fund. In this view, political criteria dominate the decision-making process in international financial organizations. The normative group argues that economic problems and solutions cannot be stripped of their political origins and content. The values and goals behind economic policy-making are essentially political, and therefore, are also normative.

The group of scholars representing the technocratic approach to international financial assistance stresses the importance of the economic and technical variables of development. In addition, this group argues that it is possible to make decisions to lend solely with reference to "objective economic" criteria. This approach regards the intrusion of political considerations into the decision-making process of international financial institutions as inexpedient and to be avoided at all costs. Decisions made according to strict economic criteria, assert the technocratic analysts, are most likely to hasten the development process.

The tenets of the functionalist model of international organization provide the basis of the technocratic approach to international economic assistance. Functionalists firmly believe that the economic (welfare) components of the development process are separable from the political (power) components of the process.\footnote{1} Adherents of this task-oriented approach affirm that the technical, non-political aspects of development can be isolated and that organizations which are limited to
such functionally specific aspects will maximize international welfare and promote peaceful international exchange. Through a learning process, proponents of the functionalist model such as David Mitrany and Ernst Haas state that the cooperative problem-solving approach utilized in functionally specific international organizations such as the Bank and Fund will lead governments from the pursuit of "power-oriented" goals to more "welfare-oriented action" (Haas, Beyond, p. 47). This "spill-over" mechanism (Haas, Beyond, p. 48) will continue to expand cooperation into other functional areas, free of political conflict, until essentially political tasks are also performed cooperatively.

This is basically an indirect approach to international cooperation and integration, "sidestepping the still blazing national loyalties" (Haas, Beyond, p. 11) of the present nation-state system by concentrating on very limited, technical issues. Personal loyalties will gradually attach to organizations which are performing these technical tasks (Haas, Beyond, p. 49) and slowly, consensus on ends and means will emerge (Haas, Beyond, p. 38).

Cooperation through actions or behavior and not as a result of constitutional planning is a key element of functional analysis (Haas, Beyond, p. 12). Another important element of functionalist thought is the role of experts in performing functional activities. Haas claims that the maximum welfare "is approximated whenever a maximum of authority is exercised by technicians and administrators dedicated to the commonweal . . ." (Haas, Beyond, p. 8). In this conception, experts are apolitical, and as they are not interested in accruing
political power, these experts are better able to come to agreement on international issues.4

Neo-functionalists represent the response of functionalism to the evolution of the European Economic Community (EEC). Proponents of the neo-functionalist approach recognize that the spill-over mechanism critical to functionalist analysis may not always occur even though the international system is composed of ideal-type technocratic organizations such as the IMF. Political issues and opposition, assert the neo-functionalists, will appear at some stage of the integration process; thus, the result of the functionalist effort may conceivably be a sort of equilibrium or even spill-back.5 If political opposition and conflict are encountered at the onset of the operations of a functionalist-type institution, then the organization's constitution must explicitly address those issues. This is contrary to functionalist thought which ignores the role of constitutional arrangements. If political controversy is encountered at a later stage of the institution's operations neo-functionalists suggest that machinery for the solution of political conflicts must be devised and incorporated into the organization. In either case, the neo-functionalists assert that political issues must be confronted openly whenever they arise.

Neo-functionalist analysis still retains the basic technocratic functionalist assumptions, however. This group of scholars agrees that the political components can be identified and minimized by the technocratic experts who staff international economic organizations. Political issues are not encountered in the daily operations of the organization and spill-over remains the dominant mechanism. When
political issues do appear, they take the form of major crises which must be resolved if further integration is to occur.

Functionalist thought had considerable impact on the architects of the United Nations group of international organizations, particularly the IMF and the IBRD. Designed in 1944 to promote international financial stability, reconstruction of war-damaged economies, and economic development, the IMF and IBRD were organized along primarily functionalist lines. According to C. Fred Bergsten, "the functional aim of each was to provide an international framework within which to manage issues where national management had become inadequate, or to handle better those issues where earlier international arrangements had failed." The tasks assigned to both organizations were limited and of a highly technical nature. This was particularly true of the IMF. The very nature of technical functions of these two institutions required (and still requires) a highly-skilled, expert staff and knowledgeable national representatives. The organizational structure of both the Fund and the Bank was, and is, such that policy decisions are formulated by staff and representatives appointed or elected by member states. This arrangement permits continuous contact, at least in theory, with the demands and problems of members while maintaining some independence from those demands.

In keeping with functionalist expectations and the experiences of several other U.S. specialized agencies (Haas, Beyond, pp. 16-17), the essentially political problems encountered at the creation of the IMF and IBRD gradually faded as the complexity of the tasks assigned to these organizations grew. In fact, the Fund and the Bank are
specifically prohibited from the consideration of political criteria in their charters, the Articles of Agreement. The Articles for the Bank require that:

"The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially . . ." (Articles of Agreement IV, Section 10; see also Cohn, p. 561).

The Articles of the Fund also declare that political criteria are to be excluded from decisions to loan. Article IV, Section 3(b) states that the Fund "shall respect the domestic social and political policies of members . . ." (p. 5). Performance criteria, the observance of which are required as a condition of certain types of loans, are to be "formulated in arithmetic of other objective terms" so that members can be assured "that the Fund could (not) impede purchases under the Stand-by arrangement by decisions motivated by subjective or discretionary considerations" (Gold, Financial Assistance, p. 12). According to the Fund, "The purpose of conditionality is not to change the basic character of the organization of a member's economy" (Gold, Financial Assistance, p. 20).

In both organizations, the critical criterion in lending decisions is "creditworthiness," (IMF, Annual Report 1979, p. 42) which is loosely defined as the ability of a borrower to repay a loan (Gold, Financial Assistance, p. 30). The IMF and the IBRD interpret "creditworthiness" in such a way that their own creditors are convinced of their "cautiousness, soundness, and reliability" (Hayter, p. 84). That they have succeeded in this is conceded by one Bank critic who notes
that Bank bonds "are regarded as exceptionally safe investments" in the international banking community. 8

In functionalist terms, then, the IMF and the IBRD can be considered successful agencies. Organized to perform limited, technical tasks and constrained from considering political criteria, these two agencies have the trust and respect of their members and the world financial community. The daily operations of both the Fund and the Bank are performed by highly-trained specialists in economics, management and engineering. In theory, issues and problems are formulated and resolved solely in economic terms. On the surface, the Bank and the Fund would seem to be model functionalist organizations.

Several scholars disagree with this functionalist approach to international organization and with the application of functional explanation to international organizations for economic assistance. This group of writers, who take what shall be called the normative approach, argues that the political can never be excluded from economic or technical problems and issues; therefore, the functionalist effort to build a network of cooperation on international problems through isolating technical tasks is destined to be impeded by the stubborn intrusion of political conflicts (Cohn, pp. 533-534; Hayter, pp. 19-20). At a more basic level, this group contends that the agencies for international economic assistance that were constructed after World War II were never limited to merely a defined, technical task, but were created specifically to support a particular economic system — world capitalism. 9 The IMF and the World Bank, in particular, they argue, are designed to maintain and support a system of stable exchange rates,
free trade, and unimpeded private foreign investment. The dominance of the international economy by the capitalist nations of North America and Western Europe and the role of these countries in the creation of the World Bank and the IMF prompts Teresa Hayter, an ardent critic of the World Bank, to conclude that World Bank policy (and by implication, the policies of the Fund) is an "integral part of the foreign policies of Western capitalist nations toward underdeveloped countries" (Hayter, p. 6). Contrary to functionalist prescriptions, therefore, these writers argue that the international financial agencies of the U.N. system are not formed to perform limited, value-free tasks but to support a world economic system based on a specific set of ideological norms.

One of the primary directives contained in the Articles of Agreement of the Bank and the Fund is to maintain a favorable environment for private foreign investment. This translates as the preservation of stable political systems with governments hospitable to, and even eager for, foreign investment, particularly from the U.S. and Western Europe. Revolution and revolutionary regimes are not perceived as an environment conducive to this type of investment. Obviously, the revolutionary context and intent of Marxist-Leninist thought pose a direct challenge to this dominant organizational ideology (Hayter, p. 10).

In a different context, dependencia theory also emphasizes the role of international financial institutions in the preservation of the capitalist world economic system. This places dependency analysis directly in the normative school. In this view, the developed, capitalist states of the Northern Hemisphere provide lending capital to
financial assistance organizations for distribution to states in need of such assistance. According to dependencia analysts, the motives behind the provision of such aid are rarely altruistic, however. Rather, funds for such assistance are intended to promote the lender's exports or to facilitate the establishment of trading and marketing relations between the lender and the borrower (Mittleman, p. 158; Faaland, et al.). While such aid often has a substantial positive impact on the economy of the borrower, proponents of the dependencia approach assert that the terms and pattern of such loans only reinforce the reliance, or dependence, of the borrower on decisions made by the lender. Once such dependence is established, the borrower is vulnerable to virtual political and economic blackmail by the lender.

According to the dependencia explanation, then, the predominance of the developed, capitalist members in the decision-making processes of the IMF and the IBRD serves to further the interests of world capitalism and to increase the dependence of other members on this system. Obviously, if true, this conclusion has some very serious, if not threatening, implications for the Communist members of the Bank and the Fund.

Adherents of the normative approach question even the objective qualities of the technical questions, methods, and personnel employed in international organizations for financial assistance. The Fund itself admits that its actions may have political implications. Joseph Gold of the IMF comments that "Political relations may be affected even though the fundamental issue is unquestionably an economic one" (Gold, Voting, p. 93). Seemingly technical issues and policies often have hidden or unexpected political implications and consequences.
Proponents of functionalism such as Ernst Haas, recognize that even experts often disagree and that functionally organized institutions compete for funds and increased scope (Haas, *Beyond*, p. 32). In his description of the early operations of the World Health Organization, Haas relates that "experts were sharply divided on the technical issues involved, and the respective technical positions that they embraced corresponded strikingly with the political positions espoused by their governments" (Haas, *Beyond*, p. 14). Critics of the functional approach, however, claim that dissention among experts in the Bank and the Fund is merely squabbling over minor issues with respect to means. These critics assert that a basic consensus on ends and most means exists among experts in the IMF and IBRD. Due to the nature of their education and work experiences, many of these experts have a common economic philosophy and a bias toward methods based on this philosophy (Ohman, p. 31), and as a result, policy alternatives to capitalist methods and goals are rarely offered by the Bank and Fund to their borrowers.\(^\text{11}\) The extent to which Communist countries can benefit from the expertise of these institutions, therefore, can only be marginal and, indeed, such expertise may even be harmful.

The works by several adherents of the normative view indicate that political variables may enter the lending policies of international organizations in a more straightforward manner than is described above. David Baldwin writes that "In carrying out their duties Bank officials cannot ignore political considerations, despite a formal ban on their doing so."\(^\text{12}\) This is because "In a world where governments can expropriate property, manipulate exchange rates, and control the currency
supply, it is nonsense to speak of evaluating the economic soundness of a project without reference to government behavior" (Baldwin, p. 40 2.69). Political inputs, in this analysis, are included as criteria in the decision to lend.

Bank and Fund officials according to Baldwin, attempt to disguise the presence of political inputs behind the rhetoric of "sound banking standards" (Baldwin, p. 69), but when pressed the Bank will admit that political criteria do creep into lending decisions (Baldwin, p. 75; IMF, Annual Report 1976, p. 146). The Bank endeavors to justify this apparent violation of the Articles of Agreement by implying in its publications "that the Articles prohibit only the pursuit of political objectives and not the weighing of political factors" in decisions to lend (Baldwin, p. 75). Critics of the Bank and Fund contend that these "political factors" often have far more influence on loan decisions than either organization would admit. Hayter declares that the Bank will not discuss lending unless and until it is satisfied with the potential borrower's general economic policies (Hayter, p. 68). Political factors may include such elements as the borrower's government, economic and social policies, and treatment of private foreign investment. According to Hayter, the Bank will refuse to lend if it considers the borrower's political characteristics to be undesirable or unacceptable (Hayter, p. 15). Operations of the Fund are vulnerable to these same sorts of criticisms.

The influence of political variables described above takes the form of political inputs into the decisions to lend of an international economic organization. Another political element of international
lending appears in the works of normative scholars. These writers claim that international economic institutions, specifically the Bank and the Fund, actively intervene or participate in the formation of economic and social policy in the borrower. The Fund itself states that it requires "the assurance of an opportunity to influence the member in its choice of monetary policies" (Gold, p. 474). The World Bank also declares its desires "to come to some sort of agreement on present and future policies with the countries in which it is likely to finance projects, and to have a continuing discussion of and interest in these policies" (Hayter, p. 68).

This sort of active participation in the policy process of a borrower is contrary to both functionalist prescription and the constitutions of most international economic organizations. Yet the Articles of Agreement of the International Monetary Fund tacitly permit such practices by providing for the application of conditionality on loans above a certain level and of a certain type (Payer, p. 35). Conditionality is defined by the Fund as "policies the Fund expects a member to follow in order to be able to use the Fund's resources" (Gold, Conditionality, p. 5). Although the borrower is free to choose its economic program, the Fund is often "influential in convincing the member [which] choice should be made" (Gold, Stand-by, p. 48). Fund influence can also extend beyond program formulation to the implementation and supervision of that program.

The World Bank also acknowledges that it is standard Bank policy to require borrowers to pursue stabilizing economic policies (IBRD, Policies, p. 45). An analyst of the Bank's policy, L. K. Jha, declares
that the practice of requiring policy reform as a condition on lending is a well-established principle within the Bank (Jha, p. 98; Hayter, p. 70). Baldwin claims that the provision of loans is secondary in the Bank's priorities to "influencing the behavior of governments" (Baldwin, p. 78) in both their political and economic behavior (Baldwin, p. 76; IBRD, Policies, p. 46). As the normative approach notes, however, attempts by international lending agencies to induce policy reforms in borrowers are usually well-disguised behind economic terms such as "creditworthiness" (IMF, Annual Report 1952, p. 42; Gold, Stand-by, p. 30). The definition of "stabilizing" economic policies with respect to centrally-planned economies becomes an intriguing and critical question here.

Political inputs into the decisions of international financial institutions extend beyond conditions on lending in the view of several scholars. The effects of operations of a lending organization on the distribution of authority are analyzed by Anthony D. Moulton who concludes that World Bank lending encourages the centralization of governmental authority in a borrower by supporting the central government in its negotiations with other units in the political system. According to the normative approach, lending by international organizations also tends to strengthen class distinctions within the borrower (Mittleman, p. 150). James Mittleman claims that because international loans usually have the effect of reinforcing the government in power, these loans also reinforce the position of the dominant class in Third World states. A "confluence of interest" then develops between the international economic organization and government officials creating a
domestic constituency for the international organization in a borrowing state (Moulton; pp. 1034, 1031). The government of the borrower not only receives international support and approval of its policies, but is also able to relegate the responsibility for problem-solving to the international organization which will also bear the blame for failure or "any resulting unpleasantness" that the solutions might cause (Hayter, p. 41). The emergence of a group of government officials committed to the maintenance of cordial relations with the lending agency, therefore, enhances the political as well as economic influence of that agency on the policy process in the borrower.

In summary, two basic approaches to analyzing the role of international organizations for economic assistance can be identified. The technocratic approach takes as its basic assumption that technical, economic functions can be purged of their political overtones and implications. This makes it possible to create international organizations which are able to lend strictly according to technical criteria based on economic performance. In this view, the impact of agency operations is targeted at the performance of borrower's economy only. Normative analysis argues that political inputs can never be excluded from the lending process. It follows from that assumption that international organizations are created to meet a specific political and economic need; these organizations embody a specific philosophical bias. Loans made by international financial organizations, therefore, are subject to influence by numerous political inputs and have serious consequences for both the economic and the political systems of borrowers.
While both the technocratic and normative approaches to international economic assistance describe a part of the lending process in international financial institutions, neither is accurate in describing the whole. There are both economic and political components in every decision to lend; the prevalence of one set of components over another varies, however. As the technocratic approach suggests, a broad area of the lending process in international economic organizations exists in which objective economic criteria are predominant and in which political criteria have minimal and infrequent influence. In this technocratic arena of Bank and Fund lending policy, decisions to lend are governed by procedures which rely solely on economic or technical criteria. The borrower’s past economic performance is the major determinant of the size and frequency of Bank and Fund loans to that country. Economic criteria set the limits on lending in technocratic arena of Bank and Fund lending and the majority of Bank and Fund loans can be placed in the technocratic arena. In this arena of lending, therefore, the lending process closely approximates the functionalist description.

There is a boundary to this technocratic arena, however, beyond which political inputs or criteria dominate and explain the decisions and behavior of the lending agency. Borrowers located in the political arena of lending are characterized by levels of assistance which are significantly higher or lower than those of borrowers with similar economic conditions and performance. This abnormal amount of assistance is explained by the unusual political characteristics of the borrower. Loans to a borrower in the political arena of lender policy-making are made with reference to the borrower's political characteristics, not
its economic performance. Political characteristics, then, set the boundary between the technocratic and political arenas of lending. The nature of the relevant political characteristics which determine where the boundary lies is defined by the principles embodied in the lender's charter, its operating philosophy, and the biases inherent in its organizational structure.

This boundary concept of international economic assistance is depicted in the following diagram:

<table>
<thead>
<tr>
<th>TECHNOCRATIC ARENA</th>
<th>POLITICAL ARENA</th>
</tr>
</thead>
<tbody>
<tr>
<td>economic performance criteria</td>
<td>political characteristics criteria</td>
</tr>
<tr>
<td>$X$ loans to borrower #1</td>
<td>$Y$ loans to borrower #A</td>
</tr>
<tr>
<td>borrower #2</td>
<td>borrower #B</td>
</tr>
<tr>
<td>.</td>
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<tr>
<td>.</td>
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<tr>
<td>borrower N</td>
<td>borrower N</td>
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</tbody>
</table>

Loans to borrowers in the technocratic arena dominate lending policies of international organizations for economic assistance. The process in this arena is dominated by economic performance criteria and is accurately described by the technocratic approach. In the political arena, however, loans are made according to political criteria (for example regime type) and this process is accurately described by the normative school. A borrower's political characteristics determine the arena in which it is located at a given point in time. It follows from this last statement that a borrower may be located in different arenas at
different points in time due to a shift in the boundary itself or as a result of a change in the borrower's political characteristics. If the normative school is correct, the level of assistance to borrowers in the political arena is characteristically well-above the average level of assistance to borrowers in the technocratic arena. In this way policy-making in the political arena differs sharply from the technical process in the technocratic arena. The technical process is explicitly described in the publications of the international lending agencies.

In the boundary formulation of international lending, the lender continues to control the policy-making process. The lender assembles the relevant economic and political criteria and decides which criteria are critical to the decision to lend. The lender's initial decision may be influenced by existing political and economic characteristics of the borrower, but the borrower has no control over the manner in which these characteristics are employed in a decision to lend. The lender may even try to extend its influence by attempting to alter specific policies formulated by the borrower. The opportunity for the borrower to influence the lender occurs when standards are set and specific procedures are formulated in the lender. In general, therefore, it is the lender which attempts to influence the behavior of the borrower, although on a few occasions and in a limited way, the lender's behavior can itself be altered.

Several questions emerge out of this boundary conception of international assistance. The location and content of the boundary must first be established. Do borrowing states with certain political and economic characteristics tend to receive larger loans on better terms
than states which do not possess those characteristics? Relevant political and economic criteria must be identified, indicators devised, and a profile of the standard lending pattern of international economic organizations described before this question can be answered. Once the boundary is identified, it is necessary to examine the manner in which inputs in the political arena impact upon the lending policies of international organizations for economic assistance to Communist countries.

Political inputs do not enter lending policies of international organizations in the same way, nor do different political criteria have equal impact on these decisions. Which inputs seem to have the most influence on lending policy? Do some political inputs appear more frequently in decisions to lend than others? At what point do political inputs enter the lending process? For example, Bank lending policies may include political inputs as criteria in a general assessment of the borrower's capacity to repay the debt or as criteria in the determination of conditions to be met by the borrower in return for a loan. Attempts to move the boundary also must be investigated. What influences a lender to revise its evaluation of inputs in the political arena and thus, to shift the location of the boundary?

The next chapter sets up the framework for examining the political arena in the policy process of two international organizations for economic assistance, the IMF and the IBRD.
END NOTES


2 Haas, Beyond the Nation-State, pp. 47, 6.


4 Haas, Beyond the Nation-State, p. 11.


7 Haas claims that if such contact is not maintained with member governments, expert advice is likely to be ignored (Beyond the Nation-State, p. 49). He warns, however, that "Government designated experts are unlikely to act much differently from their governments if the focus of action and representation is universal" (Beyond the Nation-State, p. 49).


13 Holly, p. 479; Hayter, p. 77; Mittleman, pp. 153-154.


Chapter 3: FRAMEWORK

This study analyzes the role of political variables in the decisions to lend to Communist members of the IMF and the IBRD. The arena of lending in which political variables dominate decisions to lend is the focus of this analysis. As is described in the previous chapter, a boundary exists between the technocratic arena and the political arena in policy-making in international assistance agencies. This boundary is set by the lending agency and is composed of political characteristics which the lender perceives as desirable. These "desirable" political characteristics are described or reflected in the organization's charter, its structure, and its procedures; these characteristics may not be readily apparent at first inspection, however. In the technocratic arena of lending, "objective" economic criteria such as GNP govern decisions to lend; conversely, political criteria such as regime type dominate the decisions in the political arena. Both the lending organization and the borrower desire the technocratic arena to be as large as possible, with little weight assigned to political inputs, without reducing the amount of aid extended. As a result, the location of a borrower in the political arena is not permanent due to shifts in its political characteristics and behavior as well as shifts in the lender's emphasis on specific political criteria (i.e., shifts in the location of the boundary).

There are three distinct inputs into a lender's funding decisions in developing states; ascriptive, leverage and reverse. Ascriptive inputs are derived from the domestic economic and political
characteristics of the borrower. These inputs determine to which arena the borrower is assigned by the lender. Leverage consists of actions by the lender to alter policies of a borrower in the political arena so that the political and economic characteristics of the borrower more closely approximate the lender's desired attributes as represented by the boundary. Leverage reflects the effort by the lender to move the borrower from the political arena to the technocratic arena. The final set of political inputs, reverse, appear in efforts by the lender or borrower to relocate or redefine the boundary.

Ascriptive inputs are the domestic economic and political attributes of the borrower. These attributes can be considered as given, although they may change slowly in response to consistent pressure from the lender. The lender considers these inputs in formulating a decision to lend prior to any action taken by the borrower. This type of input tends to have the greatest effect on the lender's decisions to extend credit to a specific borrower because these inputs are the least resistant to change. Since these inputs are attributes of the borrower and not easily altered, the borrower has no control over how and when ascriptive criteria are used by the lender. Ascriptive criteria have influence on the lender's decisions, but the form and extent of this influence is controlled by the lender, not the borrower. One economic criterion, economic performance, and three political criteria, regime type, type of economic structure and the international alignment of the borrower's foreign policy, are four ascriptive inputs which may be included in arena assignment and a decision to lend.
Of the ascriptive inputs into both areas, economic performance assumes less prominence in lender decisions in the political arena. Economic performance as a criterion in decisions to lend is heavily stressed by both organizations and the technocratic analysts. In consonance with functional analysis, the Articles of Agreement of the IMF and the IBRD regard economic performance as the sole criterion in lending decisions. In theory, therefore, the borrower's successful economic performance in the past on several variables (such as GNP and control of the money supply) has substantial impact on the lender's consideration of an application for credit (see Articles of Agreement, IBRD General Conditions on Borrowing). Since the Bank and Fund claim to apply these economic standards to prospective borrowers in an objective manner, the extension of an unusual level of assistance to a borrower whose economic performance is similar to states which do not receive comparable levels of assistance should be an indication of the presence of non-technocratic criteria in lending decisions.

Regime type appears frequently in analysis performed by the critics of international financial institutions. Typically "rightist" authoritarian regimes are alleged to receive the most favorable treatment in the IMF and the IBRD. These regimes are usually financially conservative and supporters of capitalist solutions to economic problems, two key elements in the organizational philosophy of both the Bank and the Fund (see discussions, Chapter 2, pp. 17-18). Both Hayter and Payer provide several examples of the negative effects of populist and "leftist" regimes in the Bank and Fund decisions to lend (Hayter, p. 31).
The third variable which has indirect influence on the lending decisions of the Bank and the Fund is the international alignment of the borrower's foreign policy. In essence, this variable attempts to capture the effect on lending of between East and West. Functionalists such as Haas and Bergsten recognize that the present system of international organizations is a reflection of the international distribution of power from 1944 to the present.² The IMF and the IBRD were designed primarily by Western powers and are still dominated by that group of states today. The weighted voting procedure used in both the Fund and the Bank is an example of how the structure of international relationships is translated into procedures in international organizations. Consequently, it can be expected that states which align themselves with the East in East-West conflict will receive fewer and smaller loans from the Bank and the Fund (Payer, p. 43).

Another influence on Bank and Fund decisions may be the borrower's type of economic system. This is a reasonable expectation given the capitalist bias of both organizations. Several scholars note the prevalence of "profit-and-loss thinking"³ and modern Western economic methods in the Bank's and the Fund's efforts to promote development and to liberalize trade and payments.⁴ It follows, therefore, that if economic system is important to the decisions of the Bank and the Fund, member states with centrally planned economies will receive fewer and smaller loans than states with market economies.⁵

The four ascriptive inputs — economic performance, regime type, type of economic system, and international alignment — do not
necessarily exert the same influence on a lender's decisions. Given the nature of Bank and Fund operations it is reasonable to expect that a compatible economic system will have more weight in lending decisions than either a borrower's regime type or its international alignment position. A borrower's ability to repay its debts, attitude toward private foreign investment, and the use of accepted market solutions to economic problems are more directly related to the purposes and operations of the Fund and the Bank than the structure of a borrower's legislature or party system. This formulation is also consistent with functionalist analysis. The weight of ascriptive inputs may vary with each borrower, however, depending on the combination of the four ascriptive inputs that is present in that state. To the Bank and the Fund a desirable regime and international alignment position may combine to outweigh the presence of an undesirable economic performance or economic system in a borrower.

The aggregate data used in examining ascriptive variables will be those generated and employed by the Bank and the Fund. Data will be obtained directly from IMF, IBRD and UN sources for the period 1949-1980. This analysis does not intend to examine the validity of the indicators with respect to the actual phenomena being measured. The focus of this study is on the decisions made by the Bank and the Fund; official Bank and Fund sources can be considered as valid since the data included in these sources are the data actually employed in Bank and Fund lending decisions. Any biases in the data would reflect actual Bank and Fund biases and therefore, would be the most accurate indicators available for these variables.
Leverage occurs in the responses of lenders to specific policy behaviors or expected behaviors by the borrower. This is an attempt by the lender to influence the behavior of the borrower by releasing or withholding funds (or threatening to do so). Action of this type by a lender is basically an effort to move the borrower closer to the technocratic arena by altering policies which may have an impact on the borrower's ascriptive characteristics.

According to some analysts, the IMF and the IBRD deliberately seek leverage over the policy behavior of LDC borrowers (Hayter; Mittleman; Payer, Libby; Cohn; Moulton; Baldwin). Leverage is most frequently cited in the literature as an example of the political aspects of Bank and Fund operations (Hayter, p. 61; Cohn, p. 561). In Mittleman's analysis, program aid leverage is not only limited to policies regarding a specific project but also "can give the lender control over the borrower's entire economy" (Mittleman, p. 152). The lender's goal is eventually to bring the borrower's ascriptive characteristics within an acceptable range as perceived by the lender.

Leverage takes four distinct forms. Funds can be used to punish, reward, induce, or reinforce specific acts or policies undertaken by the borrower (Hayter, p. 18, esp. #3). Punishment is the withholding of funds due to the failure of the borrower to meet certain standards or perform certain behaviors. The refusal to lend may also be a response to the undesirable behavior of the borrower. Leverage is usually conceived of with reference to attempts by an international organization to punish a borrower. The concept of conditionality in the Fund is an example of the failure to observe or meet specific economic
standards. As defined above, conditionality exists when a loan is made contingent upon the institution of specific policies or satisfactory performance as measured by "objective" indicators (these are performance criteria, see Chapter 5, p. 96). At the conclusion of loan negotiations a borrower sends the Fund a Letter of Intent in which it declares its "objectives and policies" and agrees not to request a loan if it does not meet the performance criteria. Failure to meet similar performance conditions in the Bank has similar consequences, the refusal of the organization to lend or continue to lend.

The use of Bank and Fund loans to reward borrower behavior is more difficult to identify than the use of such funds as punishment. The refusal of an international organization to lend ordinarily must be justified to the borrower and often to the entire membership of the organization. Justification of an agreement to lend is not as frequently demanded and is easier to couch in acceptable economic terms. Reward is extended for a policy or action that it has requested of the borrower. This is a sensitive issue for both lender and borrower.

The denial of funds, or a sharp increase in loans, may also indicate a desire by the lending agency to induce a borrower, or potential borrower, to consider a different policy or action. This strategy is distinguished from a punishment or reward strategy by the fact that it is NOT a response to action of the member's. It is an attempt by the lender to induce a certain action by the borrower. This is a risky strategy for the lender to pursue because there is no guarantee to the lender that the borrower will respond to such an inducement.
Empirically, the fourth form of leverage in international lending, reinforcement, is difficult to distinguish operationally from rewards. Both are given in return for desirable behavior. The use of loans as reinforcement differs from rewards in that it is a response by the lender to behavior initiated by the borrower. Often the actions being reinforced were not anticipated by the lender but were favorably received by the lender. Thus, the lender wishes such behavior to continue and extends credit to indicate its approval. The key to differentiating a loan for reinforcement purposes and one for reward is in identifying which actor initiated the action to which the loan is a response. A reward is a loan extended in return for the borrower's adoption of the lender's policy suggestion; a reinforcement loan is a response by the lender to an action initiated by the borrower.

Loans may be employed to reinforce a regime or to reinforce a particular set of policies or reforms. The Fund's stand-by arrangement (or loan) and program aid in the World Bank are the primary instruments of organizations for economic assistance in supporting or preserving a government favorable to the organization (Payer, p. 31; Hayter, p. 5). In the effort to reinforce a regime, however, the Bank or Fund may "create internal political difficulties for the government concerned" (Hayter, p. 80) by supporting a faction which is advocating "politically dangerous" measures (Libby, p. 70). In at least one case, Ghana, Libby alleges that this sort of reinforcement caused the ouster of a cordial regime by the military (Libby, p. 67). In this view, the Bank and Fund will extend credit or increase existing credits to a borrower who has initiated policies which the lender believes will bring the
borrower's ascriptive characteristics closer to those specified in the boundary.

The other ascriptive inputs into the Bank and the Fund lending policy also affect the use of leverage in such policy. Regime type, economic structure, and international alignment supply the basis on which the lender decides to punish, reward or reinforce. The failure to meet performance criteria, the employment of non-market techniques such as nationalization of foreign-owned industry, and/or active support of the Soviet bloc in the East-West conflict will evoke a lender's decisions to punish the offending borrower by withholding funds or refusing to lend at all. The lender will reward fulfillment of performance criteria and/or the acceptance of one of its proposals by the borrower (where this can be documented) with a continuing and perhaps increased flow of credit. A borrower's decision to implement market reforms, to support the United States in the East-West conflict, and the ouster of a populist-oriented or communist regime will elicit from the lender a larger flow of credit or provoke a decision to lend where loans had not been previously extended.

Interaction of the ascriptive inputs will be investigated in case studies of the Communist members of the IMF and the IBRD. These cases were selected because of their unusually high loan receipts and the nature of their domestic characteristics. The cases will be analyzed for evidence of political considerations in lending policies of the Bank or the Fund.

Data for the analysis of leverage will be drawn from many sources. Statements from the Bank, the Fund, government officials and the local
press will be employed where available. Analysis by knowledgeable scholars will supplement these data. Missing and inaccurate data are potentially a serious problem at this stage of the analysis. The use of leverage is difficult to establish without access to confidential documents of the Fund, the Bank, and the member governments. Access to these types of materials is difficult to obtain, but this is not unusual given the politically sensitive nature of leverage. Neither the international organization nor its borrowers want lending to appear as infringing on the member's sovereignty. The Fund, the Bank, and member governments, therefore, are reluctant to release material which might convey this impression. It is possible that the data may even be deliberately altered to disguise Bank and Fund use of leverage in a member. As a result, there may be gaps in the link between loans and behavior which can only be estimated using data from interviews and other sources.

Political inputs also have reverse impact on decisions of international financial organizations. Organizational response and adaptation of the lender to the political and economic demands and characteristics of the borrower are considered to be examples of reverse impact. Political inputs have an effect on the lender when the lending organization responds to changes in its environment (i.e., demands from members) through alterations in its operational philosophy, organization or procedures. This adaptation occurs because of the lending organization's desire to survive and to maintain its effectiveness. Many scholars have noted the appearance of a reciprocal relationship between the Bank, the Fund and their developing members. This study examines
whether the relationship of these organizations and the developing states is a reciprocal one in actuality or only in appearance. The ways in which Communist states influence Bank and Fund structures and procedures is also investigated.

Reverse inputs affect the efforts of lenders and borrowers to alter the content or location of the technocratic-political boundary. Both lenders and borrowers desire the technocratic arena of lending to be as broad as possible. Since the lender is prohibited in its charter from the consideration of political inputs, it endeavors to reduce the number of cases in which political inputs appear. The borrower's motives are more complex. Borrowers wish to expand the technocratic arena for two reasons. In one sense, borrowers and lenders agree that lending decisions should be limited to the consideration of only economic criteria. Yet borrowers also want their special circumstances to be included in decisions to lend. Borrowers, therefore, attempt to exclude political inputs such as regime type and international alignment from lending decisions while they simultaneously work to retain economic structure as an input. The final decision on any alteration of the boundary ultimately belongs to the lending organization, but borrowers' demands can have a significant impact on that decision.

Organization theory analyzes the attempts of organizations (usually commercial firms) to control their environments. According to this theory a relationship exists between the stability and complexity of the environment and the centralization of an organization's authority structure (MPC). Every organization endeavors to stabilize its environment, and thus, reduce the uncertainty with which it must
deal. To accomplish this goal, an organization must be able to adapt to changes in its environment when they occur. As the environment becomes more uncertain or complex, the organization's structure evolves into a more decentralized, or horizontal, pattern of authority and decision-making.

The environment of the World Bank and the IMF consists of the international economy. In this study the definition of the Bank and Fund environment is narrowed to include only the economic problems and conditions in Communist states and the relationship of Communist states with the Bank and the Fund. The need for more flexibility in Bank and Fund operations is often cited by analysts.\(^9\)

This concern for responsiveness reflects the increased complexity and uncertainty in the environment of both the Bank and the Fund since the late 1950s. Since that time, the majority of members and borrowers from the two institutions have been states whose economic problems and conditions differ markedly from those of the developed states in the Northern Hemisphere.

The expansion of membership in the Bank and the Fund includes not only Third World states but communist members as well. Romania joined the IMF and the IBRD in 1972, and the People's Republic of China became a member in 1980. These states have problems and characteristics different from both the developed states and the developing states. Growth in the size and composition of the Bank and Fund membership is explained by functional analysis as the gradual extension of the functional activities of both organizations to other economic problems and systems in the world economy. The inclusion of "newcomers" is
encouraged and even vital to the survival and success of the organizations under study (Bergsten, p. 362; Lewis and Kapur, p. 10).

Changes in individual procedures represent an effort by the lender to satisfy some special condition in a particular borrower. It is at this point in the organization's structure that ascriptive and behavioral political inputs have the largest impact. If this is the case, lending procedures will vary to accommodate special circumstances or characteristics in a borrower's regime, economic system or international alignment position. The manner and scope of this variance is also dependent upon the concomitant philosophy and structure of the organization.

To investigate the impact of reverse inputs into decisions in the Bank and the Fund, a combination of case study and aggregate data analysis will be used. Changes in philosophy and structure will be traced through Bank and Fund documents, scholarly studies of both organizations, and in interviews with Bank and Fund personnel. Data on changes in procedures, which are case specific, originate in organization documents, interviews, and other scholarly analyses. Again, it will be difficult to conclusively establish the link between Bank and Fund reforms and the intentions which motivate them due to the sensitivity of the issues involved.

This study examines the role of political variables or inputs in the lending policies of two international organizations for economic assistance. The manner and extent to which these inputs impact upon the lender's policies and procedures are the focus of this analysis. Deviating from both the technocratic and normative approaches, this
study conceptualizes lending policy in the Fund and the Bank as including both economic and political criteria. This study posits two arenas of lending, technocratic and political, separated by a boundary which is defined by the lender's ideal set of political characteristics. The focus of the analysis is the political arena in which political inputs dominate decisions to lend. It is the intention here to examine the lender's policy process inside that political arena.

Through a combination of data from case studies, aggregate data sources, scholarly analysis, and interviews, the presence and significance of political inputs in the lending processes of the IMF and the IBRD are evaluated. The impact of political variables on both the lender and the borrower are investigated in an effort to portray a realistic picture of Bank and Fund lending to Communist states.
END NOTES


4See Libby, "External Co-optation," and Mittleman, "International Monetary Institutions."


6Performance criteria are used to indicate the success of the borrower's economic program for which credit was extended. These performance criteria are usually formulated in mathematical terms in order to leave "minimal scope for dispute." See Joseph Gold, The Stand-by Arrangements of the International Monetary Fund (Washington, D.C.: IMF, 1970), p. 152.

7Gold, The Stand-by Arrangements, pp. 52, 63.


Chapter 4: THE BOUNDARIES OF ASSISTANCE

Before the experiences of Communist countries in the IMF and the IBRD can be evaluated, it is necessary to describe the overall configuration of Bank and Fund lending operations. In particular, the boundary between the political and technocratic arenas must be defined so that the Communist countries can be located in either arena. The "objective" economic criteria, which by definition constitute that boundary, thus provide a standard against which the experiences of the Communist can be compared. The following analysis first identifies the economic criteria which are used by the Bank and Fund in their evaluations of members (the content of the boundary between arenas) and then uses those criteria to establish the level of assistance which a member can expect from the Bank or Fund given the member's economic characteristics (the location of the boundary).

The dependent variables used throughout this analysis are the total amounts lent by the Bank and Fund, respectively, to a member in a given year, expressed in U.S. dollars. This analysis does not explain why requests for loans are accepted or rejected by the Bank or Fund; this is due to the lack of available data on this subject. The IMF and the World Bank maintain strict confidentiality with respect to loan negotiations in order to prevent the content of those negotiations from having a negative effect on the world market; this is particularly true of the IMF, which, as stated earlier, is often regarded as the world's credit union. For the same reason, this analysis cannot explain any alterations in the size of a loan made prior to the final agreement.
The most reliable indicator of the Bank and Fund's treatment of an individual member, then, is the size of the loan as stated in the final agreement.

The boundary between the political and technocratic arenas of Bank and Fund lending is defined by several variables intended to measure economic performance in an "objective" manner. Both the Bank and Fund rely on their evaluation of a member's economic performance when establishing a member's creditworthiness and therefore, the level of assistance for which a member is eligible. The Bank and Fund are reluctant, however, to define explicitly economic performance, and therefore, the variables which compose the boundary can only be inferred from Bank and Fund documents and the analyses of scholars of both organizations.

Information regarding the aggregate level of the IMF and IBRD assistance is readily available from both organizations. Fund assistance most frequently takes the form of Stand-by Arrangements which are negotiated between members and Fund staff for periods not exceeding five years. The Fund considers itself free (indeed, obligated) to examine a member's economic policies and objectives as a result of the member's request for a Stand-by Arrangement. The Letter of Intent is the result of negotiations on policy between the member's government and Fund staff; it represents the policies the member intends to pursue for the duration of the Stand-by Arrangement. The Fund feels justified in pursuing this policy of conditionality (see Chapter 5, p. 96) because such a policy ensures that the member is making an effort to resolve the balance of payments problem which occasioned the need for a Stand-by, and in this manner, IMF resources are protected.² Stand-by
Arrangements (SBA), then are a good measure of the first dependent variable, level of Fund assistance, in that they are the most frequent form of Fund aid and are also closely connected to the economic performance of the requesting member.

World Bank policy also condones and even encourages scrutiny of the economies of borrowing members to ensure the success of projects in which the Bank has invested. According to Bank sources, if a member's financial and monetary instability endangers the productivity and repayment of a loan then "it is the policy of the Bank to require, as a condition of Bank financing, that the borrowing country institutes measures designed to restore stability to its economy."3 Although the Bank, unlike the Fund,4 does not have any formal provisions for withdrawing its funds once they are committed, the Bank can delay their disbursal.5 The World Bank publishes information only on the projects it funds and the amount and financial terms of the loan; it does not reveal what, if any, policy changes were recommended by the Bank and adopted by the borrowing member. World Bank Loans (WBL) are the variable which measures the aggregate amount of aid extended to each member by the Bank. Together, Stand-by Arrangements and World Bank Loans constitute the assistance variables.

There are thirteen variables which determine the content of the boundary. These thirteen reflect the economic performance characteristics of members which are examined by the IMF and the IBRD during the lending process. In the Fund, emphasis is placed on macroeconomic variables which can be manipulated as part of a stabilization program designed to assure monetary stability.6 These macroeconomic variables
are usually embodied in the Letter of Intent as performance criteria. It is reasonable, therefore, to assume that those variables which appear as performance criteria or in the Fund's definition of stabilization are variables which the Fund stresses in its evaluation of a member's economy. According to official IMF sources, the Fund tends to be particularly interested in several aspects of a member's economy which impact upon its exchange rate, such as monetary policy, the relative strength or weakness of its balance of payments position, and the level of inflation. The Money Supply (MS) and Domestic Credit (DC) variables in this analysis represent a member's efforts with respect to monetary policy and also reflect the Fund's inherently monetarist explanation of inflation (IMF, 1962 Annual Report, p. 42). Current Account (CA), Exports (X), Imports (M), and Total Reserves (TR) measure the last aspect of the Fund's evaluation, a member's general balance of payments position.

World Bank criteria for evaluating the state of a prospective borrower's economy are similar to the Fund's but also include member policies in specific sectors such as industry and agriculture. The Bank seeks assurance that the economy of the borrowing member is able to provide a conducive atmosphere for the success of the Bank's investment. Like the Fund, the World Bank examines the prospective borrower's balance of payments position, as reflected in its Current Account Balance (CA), and the level of inflation, which is measured in this analysis by the Money Supply (MS) and Consumer Price Index (CPI) variables. The general health of the economy is described by four variables, Gross National Product (GNP), GNP per capita (GPC), Unemployment
(UE), and Per Cent Unemployed (UPC), which are rough measures of the productivity of the society. The Bank is also concerned with the fiscal policies of the members in which it invests, and the Government Expenditure (GE) variable represents an approximation of the success of a member's fiscal policies. The economic potential of a state also includes its Population (POP) which serves as a potential market and labor force. Combining both the IMF and the IBRD criteria, therefore, yields thirteen economic performance characteristic variables.

Three other variables are included in this analysis in order to assess the effects of two "political" variables which the normative school claims influence lending decisions in the IMF and IBRD. According to scholars in the normative school, a member's ideology, operationalized as Regime Type (RT), has a strong influence on its treatment by the two international assistance organizations. Regime Type is coded as an ordinal variable in order to trace the relationship of this variable with the dependent variables; countries with avowedly Communist regimes scored highest on this variable. The normative school analysts also contend that the weighted voting system in the Bank and Fund reflects the relative influence of members and therefore, should be related to the way members are treated in lending decisions. Since all members are eligible to borrow from the Fund (unlike the Bank, where a member's GNP per capita may disqualify it from receiving Bank assistance), the distribution of votes within the Fund is a good estimate of members' influence in the IMF and IBRD; Fund Votes (FVT) is the number of votes in the IMF possessed by each member. Members of the normative school also contend that the voting structure of the Fund
and Bank leads to the domination of both organizations by the developed countries — usually considered to be the U.S., Canada, Japan, and Western Europe. The LDC variable identifies those members which are classified by the World Bank as LDCs. Again, in order to examine the relationship between a country's development status and its receipts from the Bank and the Fund, each member of these organizations was scored as a "1" if the Bank classified it as an LDC and as a "0" if it was classified as a DC. Regime Type, Fund Votes, and LDC, thus, are the political characteristic variables.

In the following analysis, the thirteen economic performance characteristics variables and the three political characteristics variables are related to the two assistance variables using averaging, correlation, and regression methods (see Table 4-1). The influence of economic and political variables on Bank and Fund lending is examined, and the means for determining the expected level of assistance is established.

I. Boundary Location

The exact location of the arena boundary was determined by examining the relationship between Bank and Fund lending and the performance of their members on the boundary variables. This connection between members' economic performance and the level of Bank and Fund assistance to those members was illustrated through the use of correlational and regression techniques. Once the boundary is established, it will be possible to determine whether Communist countries receive special treatment in the Bank and Fund.
<table>
<thead>
<tr>
<th>VARIABLES USED IN CORRELATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSISTANCE</strong> - Stand-by Arrangements, IMF (SBA)</td>
</tr>
<tr>
<td><strong>VARIABLES</strong> - Total Amount of Loans, World Bank (WBL)</td>
</tr>
<tr>
<td><strong>ECONOMIC</strong> - Total Reserves (TR)</td>
</tr>
<tr>
<td><strong>VARIABLES</strong> - Money Supply (MS)</td>
</tr>
<tr>
<td>GNP</td>
</tr>
<tr>
<td>Government Expenditure (GE)</td>
</tr>
<tr>
<td>Exports (X)</td>
</tr>
<tr>
<td>Imports (M)</td>
</tr>
<tr>
<td>Unemployment (UE)</td>
</tr>
<tr>
<td>Unemployment per capita (UPC)</td>
</tr>
<tr>
<td>Population (POP)</td>
</tr>
<tr>
<td>Consumer Price Index (CPI)</td>
</tr>
<tr>
<td>Current Account Balance (CA)</td>
</tr>
<tr>
<td>GNP per capita (GPC)</td>
</tr>
<tr>
<td>Domestic Credit (DC)</td>
</tr>
<tr>
<td><strong>POLITICAL</strong> - Votes in the IMF (FVTS)</td>
</tr>
<tr>
<td><strong>VARIABLES</strong> - Regime Type (RT)</td>
</tr>
<tr>
<td>LDC</td>
</tr>
</tbody>
</table>
Data on the boundary variables described in the preceding section were drawn from several sources. Since this analysis focuses on Bank and Fund decisions to lend, every attempt was made to utilize data actually employed by the IMF and IBRD, and where this was not possible, sources were employed which provide approximations of data used by these organizations. These Fund publications provided data on ten of the boundary variables: the Balance of Payments Yearbook, International Financial Statistics, and the IMF Annual Report to the Executive Directors. The Annual Report of the IBRD, the United Nations Statistical Yearbook, and the Political Handbook of the World furnished the necessary information on the remaining eight variables. The time period under investigation, and for which data was collected, encompassed the years 1950-1980.

While every attempt was made to ensure that the data used in the analyses in this section were accurate, two factors may have limited this accuracy. Missing data were a frequent, and therefore important, problem in this data set. Information on several variables was, for several countries, either non-existent or was considered confidential by the member government and not revealed in published sources. The latter was particularly true for Romania, and the former was a problem for developing countries which either did not have the facilities or the expertise to produce such information. In fact, it is this latter group which constitutes the only evidence of systematic bias found in the cases excluded because of missing data; the reasons for this are mentioned above. As a group, LDCs had a proportionately higher level of missing data than did DCs, but within LDCs as a category there was
no reason to suspect that there was any systematic bias which would skew the results of this analysis.

In the case of non-existent information, the Bank and Fund may make estimates of the value of the missing variables. Those estimates are usually unpublished and are therefore, unavailable to the analyst. Consequently, the following procedures are based on the best data available, but it is entirely possible that as a result of missing data, the results of this analysis differ from those which would be obtainable given perfect information.

The composition of two variables, Regime Type and LDC, deserves further explanation at this point. The classification of a state as developed or lesser-developed, as mentioned above, was based on the World Bank's own classification. LDCs were scored as "1," and DCs were scored as "0." Regime Type was divided into four categories and scored as follows: democratic (1), authoritarian (2), military authoritarian (3), and communist (4). The ranking of the various regime type categories depended on the relative "distance" of each from the organizational norm of democratic capitalism which the normative school claims dominates both the Bank and Fund. The presence of regular and open elections was the operative criterion for the democratic category; communist countries were distinguished by the presence of a vanguard party and adherence to Marxist-Leninist ideology. Military domination of political office and/or policy-making differentiated the two types of authoritarian regimes. Data for the Regime Type variable were drawn from the Political Handbook of the World, 1950-1980.
Finally, time was considered as a variable in two of the procedures performed (correlations and regressions) in order to account for incremental increases in the dependent variables which were due merely to the passage of time. The results did not indicate that the passage of time had any significant effect on either the dependent or the independent variables, however, and consequently, time was excluded as an explicit variable from the analysis.

This analysis employed three methods for examining the relationship between economic characteristics and aid receipts. First, simple averages of the total receipts from the Bank and then the Fund were computed for each member, controlling for length of membership and population size, respectively. In the first case, the average size of loans per year was used to identify outliers by eliminating the tendency of members which had a long tenure in the two organizations to accumulate a large loan total. In the second case, the effects of population size on total loan receipts were removed. These averages provided only a preliminary view of Bank and Fund lending operations, however.

The relationship between the boundary variables and Bank and Fund loan receipts were also examined using correlation techniques. This procedure should have indicated which, if any, of the variables measuring the economic performance of members were strongly associated with IMF and IBRD lending decisions. These variables then formed the basis for the regression analysis to follow. Including the boundary variables in a regression equation was intended to demonstrate the extent to which the boundary variables explained variations in the level of
Bank and Fund assistance and the level of assistance which a given member could expect, given its economic characteristics.

II. Results

The following analysis is divided into three sections; averages, correlations, and regressions. Each section presents the results and conclusions from the procedure employed in that section; the implications from the analysis are discussed and summarized in the concluding section.10

A. Averages

Four sets of averages were computed for the two assistance variables (SBA and WBL) in order to establish a preliminary standard against which the loan receipts of the Communist countries could be measured. The averages of Bank and Fund loans for the entire thirty-year period, 1950-1980, the averages of Bank and Fund loans for each of the thirty years, the Bank and Fund loan averages for the entire period for each member per year of membership, and the total per capita averages of IBRD and IMF loans for the entire period for each member were obtained in order to construct an aggregate picture of Bank and Fund lending. These averages then provided a means for assessing where the Communist countries stood relative to other members in terms of aid receipts.

The average size of a Stand-by Arrangement for the entire thirty-year period was $11,450,580; the corresponding figure for World Bank Loans was $19,785,760. In both cases, the figures for the two
Communist countries, Yugoslavia and Romania, which received these types of loans were above the average total period figures for the entire period. Yugoslavia's average receipts from the Fund were $29,340,810 and from the Bank, $86,583,870 (see Table 4-2). These figures placed Yugoslavia tenth among all members in the absolute level of its receipts from the Fund and eighth in terms of Bank assistance (see Table 4-3). Romania received an average of $20,542,440 from the Fund and $187,500,000 from the Bank. Romania ranked just below the top 10 percent of Fund aid recipients and first among Bank recipients. In comparison, five of the fourteen states included in the top 10 percent of Fund aid recipients are developed countries, with the United Kingdom, Italy, and France leading the list, and the remaining countries were an interesting mixture of developing nations from South America (3), Asia (3), Africa (1), and the Middle East (1). In terms of Bank assistance, Asian countries appear most frequently (5), followed by states in South America (3), Africa (3), and the Middle East (5). It is interesting to note that the developing countries represented on the Bank list are not among the poorest countries in the Third World, and instead, tend to be those countries which could be considered to be on the brink of self-sustaining development, such as Nigeria and Mexico.

Disaggregated, the figures for the averages of Bank and Fund loans for each of the years between 1950 and 1980 indicate that the average levels of assistance dispensed by both organizations has tended to rise steadily throughout the period. This is not unexpected when rising member subscriptions and inflation factors are considered. In
### TABLE 4-2

**AVERAGE IMF LOAN, 1950-1980: HIGHEST 10% RANK ON SBA**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total Period Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United Kingdom</td>
<td>$458,307,800</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>62,399,050</td>
</tr>
<tr>
<td>3</td>
<td>France</td>
<td>49,241,070</td>
</tr>
<tr>
<td>4</td>
<td>Peru</td>
<td>39,462,960</td>
</tr>
<tr>
<td>5</td>
<td>Argentina</td>
<td>38,835,270</td>
</tr>
<tr>
<td>6</td>
<td>South Korea</td>
<td>36,128,520</td>
</tr>
<tr>
<td>7</td>
<td>United States</td>
<td>35,714,290</td>
</tr>
<tr>
<td>8</td>
<td>Turkey</td>
<td>34,918,590</td>
</tr>
<tr>
<td>9</td>
<td>Zambia</td>
<td>29,734,600</td>
</tr>
<tr>
<td>10</td>
<td>Yugoslavia</td>
<td>29,340,810</td>
</tr>
<tr>
<td>11</td>
<td>Brazil</td>
<td>23,961,220</td>
</tr>
<tr>
<td>12</td>
<td>Philippines</td>
<td>23,487,730</td>
</tr>
<tr>
<td>13</td>
<td>Bangladesh</td>
<td>23,105,890</td>
</tr>
<tr>
<td>14</td>
<td>Japan</td>
<td>21,785,720</td>
</tr>
<tr>
<td>Rank</td>
<td>Country</td>
<td>Total Period Average</td>
</tr>
<tr>
<td>------</td>
<td>---------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>1</td>
<td>Romania</td>
<td>$187,850,000</td>
</tr>
<tr>
<td>2</td>
<td>Brazil</td>
<td>168,990,000</td>
</tr>
<tr>
<td>3</td>
<td>Mexico</td>
<td>131,587,100</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>127,333,300</td>
</tr>
<tr>
<td>5</td>
<td>South Korea</td>
<td>115,940,000</td>
</tr>
<tr>
<td>6</td>
<td>India</td>
<td>89,374,520</td>
</tr>
<tr>
<td>7</td>
<td>Colombia</td>
<td>89,076,770</td>
</tr>
<tr>
<td>8</td>
<td>Yugoslavia</td>
<td>86,583,870</td>
</tr>
<tr>
<td>9</td>
<td>Turkey</td>
<td>77,658,070</td>
</tr>
<tr>
<td>10</td>
<td>Philippines</td>
<td>77,093,550</td>
</tr>
<tr>
<td>11</td>
<td>Nigeria</td>
<td>69,035,000</td>
</tr>
<tr>
<td>12</td>
<td>Morocco</td>
<td>65,331,820</td>
</tr>
<tr>
<td>13</td>
<td>Thailand</td>
<td>63,237,103</td>
</tr>
<tr>
<td>14</td>
<td>Algeria</td>
<td>57,421,050</td>
</tr>
</tbody>
</table>
aggregate terms the average size of Fund loans per year was $1,109,179, and $1,945,599 was the corresponding figure for the IBRD.

Since most of the members of the Bank and Fund had not been members for the entire thirty-year period, average loan sizes per year of membership were computed for each member. Again, the countries which appear in a list of the top 10 percent of recipients of Bank assistance when controlling for length of membership (see Table 4-4) tend not to be the poorest countries of the Third World. In fact, the countries which appear in Table 4-4 are identical to those which appear in Table 4-3 (the top 10% recipients of total IBRD aid) although the relative positions of the countries on these lists have changed. Romania is the leading recipient of Bank assistance even when length of membership is considered, and Yugoslavia ranks eighth. Fund assistance in this category also resulted in an almost identical set of countries as that of Table 4-2, Average IMB Loan, 1950-1980, with one exception (see Table 4-5). Romania now appears as 12th on this list at $23,110,250; Yugoslavia ranks 11th out of 14 with an average loan of $23,472,650 per year of membership.

In terms of per capita assistance, members with relatively small populations, such as Zambia and Grenada, appear in the top 10 percent of Bank and Fund receipts (see Tables 4-6 and 4-7). Controlling for population, the highest levels of IMF assistance in the form of stand-by arrangements went to ten South American members, two African members, and to two small developed states (Finland and New Zealand). Neither Yugoslavia nor Romania appear in Table 4-6; their average IMF loans per capita were $1,325,239 and $930,785, respectively. The
### TABLE 4-4

**AVERAGE IBRD LOAN PER YEAR OF MEMBERSHIP:**
**HIGHEST 10% RANK OF WBL**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total Average Per Year of Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Romania</td>
<td>$187,850,000</td>
</tr>
<tr>
<td>2</td>
<td>Brazil</td>
<td>154,079,100</td>
</tr>
<tr>
<td>3</td>
<td>Indonesia</td>
<td>117,538,500</td>
</tr>
<tr>
<td>4</td>
<td>Mexico</td>
<td>116,548,600</td>
</tr>
<tr>
<td>5</td>
<td>South Korea</td>
<td>115,940,000</td>
</tr>
<tr>
<td>6</td>
<td>India</td>
<td>79,160,290</td>
</tr>
<tr>
<td>7</td>
<td>Colombia</td>
<td>78,896,540</td>
</tr>
<tr>
<td>8</td>
<td>Yugoslavia</td>
<td>76,688,570</td>
</tr>
<tr>
<td>9</td>
<td>Turkey</td>
<td>72,951,520</td>
</tr>
<tr>
<td>10</td>
<td>Nigeria</td>
<td>76,842,000</td>
</tr>
<tr>
<td>11</td>
<td>Philippines</td>
<td>68,282,860</td>
</tr>
<tr>
<td>12</td>
<td>Morocco</td>
<td>65,331,820</td>
</tr>
<tr>
<td>13</td>
<td>Algeria</td>
<td>64,176,470</td>
</tr>
<tr>
<td>14</td>
<td>Thailand</td>
<td>63,237,100</td>
</tr>
</tbody>
</table>
TABLE 4-5

AVERAGE IMF LOAN PER YEAR OF MEMBERSHIP:
HIGHEST 10% RANK OF SBA

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total Average Per Year of Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United Kingdom</td>
<td>$366,646,300</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>52,944,550</td>
</tr>
<tr>
<td>3</td>
<td>Argentina</td>
<td>45,307,820</td>
</tr>
<tr>
<td>4</td>
<td>South Korea</td>
<td>40,463,940</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>39,392,860</td>
</tr>
<tr>
<td>6</td>
<td>Zambia</td>
<td>31,716,910</td>
</tr>
<tr>
<td>7</td>
<td>Peru</td>
<td>31,570,370</td>
</tr>
<tr>
<td>8</td>
<td>Turkey</td>
<td>29,627,890</td>
</tr>
<tr>
<td>9</td>
<td>United States</td>
<td>28,571,430</td>
</tr>
<tr>
<td>10</td>
<td>Bangladesh</td>
<td>25,994,130</td>
</tr>
<tr>
<td>11</td>
<td>Yugoslavia</td>
<td>23,472,650</td>
</tr>
<tr>
<td>12</td>
<td>Romania</td>
<td>23,110,250</td>
</tr>
<tr>
<td>13</td>
<td>Japan</td>
<td>21,785,720</td>
</tr>
<tr>
<td>14</td>
<td>Brazil</td>
<td>19,732,770</td>
</tr>
</tbody>
</table>
TABLE 4-6

AVERAGE IMF LOAN PER CAPITA: HIGHEST 10% RANK ON SBA11

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total Average Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Zambia</td>
<td>$5,262,761</td>
</tr>
<tr>
<td>2</td>
<td>Panama</td>
<td>4,528,156</td>
</tr>
<tr>
<td>3</td>
<td>Guyana</td>
<td>3,514,129</td>
</tr>
<tr>
<td>4</td>
<td>Grenada</td>
<td>3,143,775</td>
</tr>
<tr>
<td>5</td>
<td>Jamaica</td>
<td>3,000,176</td>
</tr>
<tr>
<td>6</td>
<td>Bolivia</td>
<td>2,957,679</td>
</tr>
<tr>
<td>7</td>
<td>Uruguay</td>
<td>2,792,602</td>
</tr>
<tr>
<td>8</td>
<td>Costa Rica</td>
<td>2,378,789</td>
</tr>
<tr>
<td>9</td>
<td>Nicaragua</td>
<td>2,147,516</td>
</tr>
<tr>
<td>10</td>
<td>Chile</td>
<td>1,894,641</td>
</tr>
<tr>
<td>11</td>
<td>Liberia</td>
<td>1,786,661</td>
</tr>
<tr>
<td>12</td>
<td>Finland</td>
<td>1,569,056</td>
</tr>
<tr>
<td>13</td>
<td>New Zealand</td>
<td>1,403,225</td>
</tr>
</tbody>
</table>
**TABLE 4-7**

**AVERAGE IBRD LOAN PER CAPITA: HIGHEST 10% RANK OF WBL**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total Average Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Romania</td>
<td>$8,511,554</td>
</tr>
<tr>
<td>2</td>
<td>Jamaica</td>
<td>8,156,319</td>
</tr>
<tr>
<td>3</td>
<td>Liberia</td>
<td>7,930,555</td>
</tr>
<tr>
<td>4</td>
<td>Zambia</td>
<td>5,476,892</td>
</tr>
<tr>
<td>5</td>
<td>Panama</td>
<td>5,425,361</td>
</tr>
<tr>
<td>6</td>
<td>Tunisia</td>
<td>5,350,720</td>
</tr>
<tr>
<td>7</td>
<td>Costa Rica</td>
<td>5,202,534</td>
</tr>
<tr>
<td>8</td>
<td>Mauritania</td>
<td>5,035,971</td>
</tr>
<tr>
<td>9</td>
<td>Singapore</td>
<td>4,801,377</td>
</tr>
<tr>
<td>10</td>
<td>Morocco</td>
<td>4,514,984</td>
</tr>
<tr>
<td>11</td>
<td>Guyana</td>
<td>4,375,968</td>
</tr>
<tr>
<td>12</td>
<td>Algeria</td>
<td>4,063,768</td>
</tr>
<tr>
<td>13</td>
<td>Yugoslavia</td>
<td>3,910,743</td>
</tr>
<tr>
<td>14</td>
<td>Malaysia</td>
<td>3,870,813</td>
</tr>
</tbody>
</table>
largest levels of Bank loans tended to go to African States (6), followed by members in South America (4) and Asia (2). Romania ranked first on the list of Bank members receiving the highest average level of Bank aid per capita; Yugoslavia placed 13th out of 14.

Yugoslavia and Romania were the only Communist countries to receive loans from the Fund and Bank during the period under study. A comparison of Yugoslav and Romanian loans with the average Bank and Fund loans for corresponding years reveals that not only do both these countries' loans exceed the average but they tend to exceed the average loan size by at least one standard deviation from the mean. Yugoslavia received five Fund stand-by arrangements, one each in 1962, 1965, 1967, 1971, and 1972 (see Table 4-8). In 1967 the Yugoslav SBA ($45 million) exceeded that year's SBA mean by well over two standard deviations. The $51.95 million SBA that Yugoslavia received in 1971 exceeded the mean by nearly four standard deviations, and the $83.5 million figure in 1972 was over seven standard deviations from the mean. Three out of five of Yugoslavia's stand-by arrangements, therefore, were significantly above the IMF average for those years. Both of Romania's SBAs were just over one standard deviation from the mean at $95 million in 1976 and $64.13 million in 1978.

Yugoslavia received twenty-one loans from the IBRD between 1950 and 1980. Of these, four were above one standard deviation from the mean, ten exceeded the mean figure by more than two standard deviations, and one loan was more than four standard deviations above the mean (see Table 4-9). Romania received seven World Bank loans during its eight years of membership; four of these loans exceeded the mean
**TABLE 4-8**

**COMPARISON OF YUGOSLAV AND ROMANIAN IMF SBAs BY YEAR**

<table>
<thead>
<tr>
<th>Year*</th>
<th>IMF Members' Average</th>
<th>S</th>
<th>Yugoslav Loan</th>
<th>Romanian Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>$20,007,650</td>
<td>$68,300,350</td>
<td>$30,000,000</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>21,324,290</td>
<td>110,118,500</td>
<td>80,000,000</td>
<td></td>
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<tr>
<td>1967</td>
<td>6,052,315</td>
<td>14,977,110</td>
<td>45,000,000</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>4,053,019</td>
<td>13,480,620</td>
<td>51,950,000</td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>2,703,504</td>
<td>11,555,760</td>
<td>83,500,000</td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>10,812,910</td>
<td>73,398,480</td>
<td></td>
<td>$95,000,000</td>
</tr>
<tr>
<td>1978</td>
<td>10,680,190</td>
<td>45,892,830</td>
<td></td>
<td>64,130,000</td>
</tr>
</tbody>
</table>

*These are years in which Yugoslavia or Romania received SBAs.*
### Table 4-9

**Comparison of Yugoslav and Romanian IBRD Loans by Year**

<table>
<thead>
<tr>
<th>Year</th>
<th>IBRD Members' Average</th>
<th>S</th>
<th>Yugoslav Loan</th>
<th>Romanian Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>$3,394,898</td>
<td>$10,142,030</td>
<td>$2,700,000</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>5,539,811</td>
<td>11,373,640</td>
<td>28,000,000</td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>3,189,821</td>
<td>10,585,150</td>
<td>30,000,000</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>8,817,917</td>
<td>22,080,500</td>
<td>30,000,000</td>
<td></td>
</tr>
<tr>
<td>1963</td>
<td>5,278,235</td>
<td>13,364,620</td>
<td>65,000,000</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>8,574,800</td>
<td>21,433,440</td>
<td>35,000,000</td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>9,950,961</td>
<td>24,278,400</td>
<td>70,000,000</td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>7,145,833</td>
<td>17,195,390</td>
<td>10,000,000</td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>7,614,220</td>
<td>19,848,050</td>
<td>60,500,000</td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>12,770,090</td>
<td>26,424,690</td>
<td>40,000,000</td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>12,061,970</td>
<td>30,124,890</td>
<td>98,500,000</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>16,009,170</td>
<td>35,031,400</td>
<td>110,000,000</td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>16,050,000</td>
<td>51,096,370</td>
<td>75,000,000</td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>15,802,760</td>
<td>38,719,800</td>
<td>90,400,000</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>25,026,560</td>
<td>55,038,300</td>
<td>128,000,000</td>
<td>$60,000,000</td>
</tr>
<tr>
<td>1975</td>
<td>35,579,130</td>
<td>76,562,030</td>
<td>263,000,000</td>
<td>230,000,000</td>
</tr>
<tr>
<td>1976</td>
<td>38,272,090</td>
<td>88,411,670</td>
<td>242,000,000</td>
<td>170,000,000</td>
</tr>
<tr>
<td>1977</td>
<td>44,606,980</td>
<td>91,990,150</td>
<td>240,000,000</td>
<td>166,300,000</td>
</tr>
<tr>
<td>1978</td>
<td>45,847,370</td>
<td>111,808,100</td>
<td>328,000,000</td>
<td>256,500,000</td>
</tr>
<tr>
<td>1979</td>
<td>58,280,570</td>
<td>123,383,800</td>
<td>385,000,000</td>
<td>295,000,000</td>
</tr>
<tr>
<td>1980</td>
<td>52,942,660</td>
<td>131,202,100</td>
<td>347,000,000</td>
<td>325,000,000</td>
</tr>
</tbody>
</table>
Bank loan by more than one standard deviation, and two were above two standard deviations.

The preceding analysis reveals that in aggregate terms, the Communist countries' Bank and Fund loan receipts ranked above average, in the top 10 percent in all but one of the categories examined. It can be concluded from this, therefore, that Communist countries do not seem to suffer in the Bank and Fund as a result of their economic organization or political ideology. It must be noted here, however, that only two of the five Communist states which were members of the IMF and IBRD before 1980 were included in this analysis (the other three did not receive Bank or Fund aid before withdrawing). It might be more appropriate to conclude, therefore, that the Communist countries did well relative to the other members of the World Bank and IMF only after 1960.

B. Correlations

Thirteen economic characteristic variables and three political variables were correlated with each of the assistance variables in order to determine the nature of the relationship between individual political and economic characteristics of members and the level of World Bank and Fund loans. The correlations were analyzed with respect to both the strength of the relationship and the direction of that relationship. In the former case, none of the relationships between Fund Stand-by Arrangements and World Bank Loans and the sixteen members' characteristic variables were strong; the highest correlation (0.263) occurred between population and World Bank loans. Depending on
the definition adopted with regard to the purpose of Bank and Fund lending, the correlations varied in expected directions.

Table 4-10 presents the strongest relationships which emerged from the correlation analysis. Each of the political and economic characteristic variables was correlated with each of the assistance variables using lags of 0 to 5 years. The inclusion of lags was intended to capture any possible effects of member delays in reporting data. The correlations were weak; none exceeded 0.27. Bearing in mind that none of the relationships was strong, certain variables were more closely related to the assistance variables than others, and these are displayed in Table 4-10. A member's Fund SBAs were most closely related to the number of votes that member commanded in the IMF, a political variable, to the level of the member's money supply and to its current account balance. World Bank Loans tended to correlate most closely with economic variables such as members' population, current account balance, and unemployment. Given the monetarist orientation of the Fund, the appearance of money supply in Table 4-10 was not surprising. The three variables which appear as relatively highly correlated with World Bank Loans were also not surprising when the Bank's lending criteria were taken into account. The relative weakness of these relationships implies, however, that Bank and Fund decisions to lend have not been based on any single criterion.

With respect to evaluating the directions of the relationships between the member characteristic variables and the assistance variables, the conclusions differed according to the role of Bank and Fund lending which was assumed. The IMF defines itself as an institution
### TABLE 4-10

**HIGHEST CORRELATIONS WITH SBA AND WBL**

<table>
<thead>
<tr>
<th>Variable</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBA</td>
<td>FVT (0.195)</td>
<td>FVT (0.189)</td>
<td>FVT (0.198)</td>
<td>FVT (0.201)</td>
<td>FVT (0.200)</td>
<td>FVT (0.195)</td>
</tr>
<tr>
<td></td>
<td>MS (0.116)</td>
<td>MS (0.102)</td>
<td>MS (0.108)</td>
<td>MS (0.114)</td>
<td>MS (0.115)</td>
<td>MS (0.108)</td>
</tr>
<tr>
<td></td>
<td>TR (0.113)</td>
<td>LDC (-0.098)</td>
<td>LDC (-0.098)</td>
<td>CA (-0.102)</td>
<td>LDC (0.098)</td>
<td>LDC (-0.100)</td>
</tr>
<tr>
<td>WBL</td>
<td>POP (0.263)</td>
<td>POP (0.252)</td>
<td>POP (0.249)</td>
<td>POP (0.249)</td>
<td>POP (0.250)</td>
<td>POP (0.241)</td>
</tr>
<tr>
<td></td>
<td>UE (0.179)</td>
<td>CA (-0.187)</td>
<td>CA (-0.78)</td>
<td>CA (-0.167)</td>
<td>CA (-0.164)</td>
<td>CA (-0.142)</td>
</tr>
<tr>
<td></td>
<td>CA (-0.175)</td>
<td>UE (0.178)</td>
<td>UE (0.152)</td>
<td>UE (0.147)</td>
<td>UE (0.146)</td>
<td>UE (0.140)</td>
</tr>
</tbody>
</table>
designed to lend assistance in meeting a member's obligations due to temporary balance of payments difficulties and the functionalist analysts agree with this conception. The health of the borrowing member's economy should be of paramount importance if this assertion is true. Critics claim that the IMF is an organ of the developed countries and directs most of its resources toward those countries. The health of the member's economy should not be relevant in this case. Using only the directions in which the characteristic and assistance variables covary, both interpretations of the Fund's role can be considered to be correct. As the functionalist would predict, those variables which assess the relative "health" of a member's economy varied with the Fund SBA variable in the expected directions. The correlation with SBA of GNP, Exports, and Total Reserves, high levels of which are critical for a successful economy, were all positive while Consumer Price Index, a rough measure of inflation, varied inversely with SBA. Money Supply and Domestic Credit also varied in a positive direction. Five economic characteristic variables, Unemployment (+), Per Cent Unemployed (+), Government Expenditure (-), Imports (+), and Current Account (+), varied in directions consistent with the Fund's assertion that it aids members who are experiencing some financial and other economic difficulties.

Two of the three political characteristic variables, Fund Votes and Regime Type, covaried with SBA in a direction consistent with the expectations of the normative school. The correlation of Fund Votes with SBA was positive, lending some credence to critics' claims that influence in the Fund has a large impact on IMF decisions to lend.
Regime Type (democratic=1; communist=4) varied inversely with SBA and thus, provided some support for the normative school's claim that the Fund is the creation and servant of the Western, First World countries. Two variables, LDC and GNP per capita, varied in directions which were not predicted by either school. LDC and GNP per capita were both inversely correlated with SBA and thus, raise some speculation concerning the role of the Fund as a development-oriented, Third World institution.

Two views dominate the perception of the role of the IBRD. The functionalists, including the World Bank itself, believe that although the Bank is an institution designed to facilitate development in LDCs, it must be careful to protect its resources by supporting only those projects with a reasonable chance of success. 13 Thus, the functionalists argue, economic criteria on the health of the economy of the prospective borrower are prominent in the Bank's lending decisions. Scholars in the normative school agree with the functionalists on the development orientation of the World Bank but claim that since the distribution of power within the IBRD favors the First World members, Bank lending is structured to promote First World interests in the Third World. If this is true, lending decisions in the Bank should be founded primarily on non-economic criteria, such as regime type and foreign policy orientation. Thus in this view, countries whose political characteristics are considered contrary to the norms of capitalism would be relatively disadvantaged with respect to Bank and Fund loans without regard to their economic performance.
The role of the Bank as a development institution was implied by the positive direction of the WBL correlations with the LDC, Population, and Regime Type variables. This development orientation was supplemented by the inverse correlations of the GNP and GNP per capita variables with WBL. To a limited extent, one can conclude that LDCs with large populations and a low level of development, as indicated by the GNP variables, tend to receive IBRD support. That the Bank is most concerned with the potential success of a project was indicated by the positive correlation with World Bank Loans (WBL) of the Total Reserves, Domestic Credit, and Money Supply variables and the negative correlation of the Import variable.

Several variables did not vary in the expected direction with WBL, however. If the Bank is most concerned with a healthy economy in which to invest then the negative directions of the Government Expenditure, Export, and Current Account variables should be reversed, as should the positive correlations of the Consumer Price Index, Unemployment, and Per Cent Unemployed variables. These results can imply one of two things: first, the Bank may actually be less interested in the future success of a proposed project than with aiding an ailing economy (a function similar to that of the IMF); or the normative school may be correct in asserting that the economic characteristic variables are not dominant considerations in Bank decisions to lend.

The correlations of the economic and political characteristic variables with the assistance variables yields only tendencies which will be examined in more detail in the following section on regressions. What the correlation analysis does suggest, however, is that
Bank and Fund decisions to lend are based on a complex set of factors which include both economic and political considerations and which both support and refute the functionalist conceptions of the purpose of these organizations.

C. Regressions

Regression analysis was performed using the sixteen economic, political, and assistance variables in an effort to assess the cumulative effects of these variables on Fund and Bank loans. In essence, the results of the regressions could be considered to set the boundary between the political and technocratic arenas. The extent to which the regression equations do not explain the variance in SBA and WBL is the political arena of Bank and Fund lending.

The thirteen economic characteristic variables and three political characteristic variables listed in Table 4-1 constituted the set of variables from which the independent variables were chosen. Using statements by the IMF and by analysts of the IMF (see pp. 46-48 above), eight independent variables were chosen: Domestic Credit (DC), Total Reserves (TR), Money Supply (MS), Exports (X), Imports (M), Current Account Balance (CA), Fund Votes (FVT), and Regime Type (RT). Three of these variables, FVT, MS, and TR, also had the highest correlations with the dependent variable, Fund Stand-by Arrangements (SBA). There were also eight independent variables in the equation evaluating World Bank lending. Total Reserves (TR), Current Account (CA), GNP, Government Expenditure (GE), Consumer Price Index (CPI), Unemployment (UE), Population (POP), and Regime Type (RT), were regressed on the
dependent variable, World Bank Loans (WBL). Of the independent variables, CA, UE, and POP were the three variables most highly correlated with the dependent variables.

Two sets of equations were employed to locate the boundary. The first set assumed a two-year lag between the time when the organizations received data on the independent variables and the time a loan agreement was signed. The second set of equations used the results of the correlation analysis to determine the length of lag to use for each independent variable. The resulting sets of equations were as follows (the number in parentheses indicates the length of the lag used):

I. A. \[ SBA = DC + TR + MS + X + M + CA + FVI + RT \]
   B. \[ WBL = TR + GNP + GE + UE + POP + CPI \] + CUR + FVT + RT

II. A. \[ SBA = DC(0) + TR(0) + MX(0) + X(0) + M(0) + CA(0) \]
      \[ + FVT(3) + RT(0) \]
   B. \[ WBL = TR(0) + GNP(4) + GE(5) + UE(0) + POP(0) \]
      \[ + CPI(0) + CA(1) + FVT(0) + RT(5) \]

As can be seen from IA and IIA, in the Fund the present state of a member's economy seems to be most important, whereas in the Bank the lags vary considerably.

Before the results of the regression analysis can be presented, two significant qualifications must be noted. First, the range of values on each of the independent and dependent variables was quite wide, resulting in the appearance of several significant outliers which reduced the explanatory value of the regression line. To compensate
for this problem, two sets of equations were run: one which included all countries in all years, and a second set (denoted as "limits") which eliminated outlyers. Examination of the cases eliminated as outlyers did not reveal any consistent pattern in the identity or characteristics of those outlyers so that the results of the regression procedures using limits should be a fair approximation of actual Bank and Fund behavior.

The use of limits and no limits equations brought the total number of equations used in the regressions to eight. Four equations used SBA as the dependent variable; two of these assumed a two-year lag (IA) but differed in that one equation included all possible cases (no limits) and one eliminated outlyers (limits). The remaining two equations assumed variable lags with limits and no limits. The same procedure was employed using WBA as the dependent variable. "Cases" refers to country/year pairs; there were 4,290 possible cases in the analysis.

Missing data were a second important problem incurred during the regression analysis. Data on several countries did not contain values on several of the independent variables. Indeed, Romania presented no values on the majority of the independent variables for the entire period, 1950-1980. It can only be assumed that the Bank and Fund use estimates for these missing data, information about which was unavailable from public sources.

Results from the four equations which used SBA as the dependent variable ranged from an $R^2 = 0.115$ to $R^2 = 0.7727$ (see Table 4-11). According to Table 4-11, the equation using variable lags and limiting the number of outlyers explains the greatest proportion of the variance
### TABLE 4-11

REGRESSION RESULTS USING SBA

A. \( \text{SBA} = 0.181 \, \text{DC} - 0.200 \, \text{TR} - 0.334 \, \text{MS} - 0.153 \, X + 0.177 \, M \)
   \( + -0.011 \, \text{CA} + 0.530 \, \text{FVT} + -0.003 \, \text{RT} \)
   No limits, cases = 2,029 \( R^2 = 0.115 \)

B. \( \text{SBA} = 0.181 \, \text{DC} - 0.287 \, \text{TR} - 0.143 \, \text{MS} - 0.676 \, X + 0.853 \, M \)
   \( + -0.012 \, \text{CA} + 0.820 \, \text{FVT} + -0.012 \, \text{RT} \)
   Limits, cases = 365 \( R^2 = 0.638 \)

C. \( \text{SBA} = 0.152 \, \text{DC}(0) - 0.093 \, \text{TR}(0) - 0.341 \, \text{MS}(0) - 0.233 \, X(0) \)
   \( + 0.236 \, M(0) + 0.026 \, \text{CA}(0) + 0.518 \, \text{FVT}(3) + 0.0 \, \text{RT}(0) \)
   No limits, cases = 1,906 \( R^2 = 0.128 \)

D. \( \text{SBA} = -0.405 \, \text{DC}(0) + 0.808 \, \text{TR}(0) - 0.361 \, \text{MS}(0) + 0.026 \, X(0) \)
   \( + 0.101 \, M(0) - 0.241 \, \text{CA}(0) + 0.693 \, \text{FVT}(3) + -0.040 \, \text{RT}(0) \)
   Limits, cases = 340 \( R^2 = 0.7727 \)
in SBA (77.27%), and therefore, can be used to define the locations of
the boundary between the technocratic and political arenas of Fund
lending. This implies that approximately 77 percent of Fund SBAs fell
into the technocratic arena during the 1950-1980 period. In terms of
the number of members included in this analysis, the "cases" figure
included 81 percent of the countries represented in the IMF. It can be
concluded, therefore, that this equation is a reasonable description of
lending behavior of the Fund.

The regression results for the IBRD are much less satisfactory
than those for the IMF (Table 4-12). As Table 4-12 indicates, the
explained variance for WBL never exceeds 40.87 percent; the highest $R^2$
were obtained in those equations which reduced the number of cases to
approximately 300. These cases included only 28 percent of the 143
members of the Bank. This indicates that more than 59 percent of the
Bank's agreements to lend, as indicated by the final agreement, were
not explained by economic variables, and only a small number of Bank
members were included in that 59 percent. As was explained earlier in
this chapter, this analysis does not seek to explain decisions made
prior to the final agreement to lend and which culminated in that
agreement; this analysis also does not include decisions not to lend.

With respect to final agreements to lend, the regression equations for
WBL do not explain very well World Bank decisions in this area. This
is due perhaps to the inclusion in Bank decisions of variables which
can not easily be quantified, such as availability of credit, pricing
structures, and availability of managerial expertise. A certain per-
centage of the unexplained variance may also be due to political
### Table 4-12

**Regression Results Using WBL**

#### A. WBA = 0.091 TR + -0.027 GNP + -0.033 GE + 0.166 UE + 0.201 POP  
+ -0.030 CPI + -0.117 CA + -0.167 FVT + 0.239 RT  
**No limits, cases = 853**  
$R^2 = 0.1656$

#### B. WBA = 0.367 TR + -0.017 GNP + -0.116 GE + 0.079 UE + 0.003 POP  
+ -0.295 CPI + -0.098 CA + 0.018 FVT + 0.202 RT  
**Limits, cases = 322**  
$R^2 = 0.3999$

#### C. WBA = 0.060 TR(0) + -0.041 GNP(4) + -0.171 GE(5) + 0.194 UE(0)  
+ 0.176 POP(0) + 0.018 CP(0) + 0.085 CA(1) + -0.194 FVT(0)  
+ 0.278 RT(5)  
**No limits, cases = 827**  
$R^2 = 0.2207$

#### D. WBA = 0.235 TR(0) + -0.145 GNP(0) + 0.059 GE(5) + 0.029 UE(0)  
+ 0.164 POP(0) + 0.415 CPI(0) + -0.046 CA(1) + 0.254 FVT(0)  
+ 0.172 RT(5)  
**Limits, cases = 292**  
$R^2 = 0.4087$
considerations other than Regime Type and LOC, but it is unlikely that the entire 59 percent unexplained variance is due to such factors. In summary, then, the boundary between arenas for the World Bank is less easily located, but the regression equation, WBL.D, is the closest approximation available.

The combined influence of economic variables, thus, does not explain Bank and Fund lending decisions in their entirety. Economic variables explain only part of the variance in SBA and WBL for only a limited number of Bank and Fund members. The arena boundary for the Fund, using the SBA.D regression equation as a guide, encompasses a much larger area for the technocratic arena than does the boundary for the Bank, as indicated by equation WBL.D. Due to the large number of economic considerations which could not be included in the WBL equations, it can not be concluded that political considerations are more active in Bank decisions than in Fund decisions.

Yugoslavia was the only Communist country included in the regression analysis due to the large amount of missing data on Romania's economic characteristic variables. In terms of World Bank loans, Yugoslavia's loan receipts deviated from the mean by more than one standard deviation in only two years, 1975 and 1978 (see Table 4-13). Looking at Table 4-13, Yugoslavia's World Bank loans appear to follow an interesting pattern. Those years in which Yugoslavia received a greater than expected level of loans tended to follow periods of economic reform; the years from 1965-1968 and 1972-1973 were years of economic discussion and experimentation with market socialism. Since Bank projects typically take at least one to two years from inception to
<table>
<thead>
<tr>
<th>Year</th>
<th>Predicted — Annual WBL (in millions $ U.S.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>-19,622,470</td>
</tr>
<tr>
<td>1967</td>
<td>-49,473,640</td>
</tr>
<tr>
<td>1968</td>
<td>-1,921,795</td>
</tr>
<tr>
<td>1969</td>
<td>39,897,590</td>
</tr>
<tr>
<td>1970</td>
<td>24,563,980</td>
</tr>
<tr>
<td>1971</td>
<td>31,356,450</td>
</tr>
<tr>
<td>1972</td>
<td>-21,232,060</td>
</tr>
<tr>
<td>1973</td>
<td>-22,336,010</td>
</tr>
<tr>
<td>1974</td>
<td>4,179,810</td>
</tr>
<tr>
<td>1975</td>
<td>111,939,200</td>
</tr>
<tr>
<td>1976</td>
<td>64,529,790</td>
</tr>
<tr>
<td>1977</td>
<td>52,870,970</td>
</tr>
<tr>
<td>1978</td>
<td>104,665,100</td>
</tr>
</tbody>
</table>
final agreement it is likely that new Bank projects were developed simultaneously with the implementation of economic reform in Yugoslavia and thus, lends support to the argument that the Bank used reinforce-
ment leverage in Yugoslavia.

Yugoslavia's SBAs for any given year did not exceed by more than one standard deviation the mean level of SBAs for all countries ($273,762,221). In all cases in which equations were computed for Yugoslavia, Yugoslavia exceeded the level of SBAs expected for a coun-
try with Yugoslavia's economic characteristics. Conclusions drawn from the regressions regarding the performance of Communist countries in the IMF and IBRD, thus, are mixed. In general, however, it can be said that, in Yugoslavia's case, loan receipts have not been highly unusual with respect to its economic performance.

III. Summary

The content and location of the boundaries between the political and technocratic arenas of IMF and IBRD decisions to lend were estab-
lished in the foregoing analysis using statements by both organiza-
tions, scholarly evaluations, and regression techniques. The content of the boundary was defined by thirteen economic characteristic and three political characteristic variables which were derived from the literature. The location of the boundary was fixed by the correlation and regression analyses. In the case of the Fund, the economic vari-
ables in the regression equation, SBA.D, accurately define the boundary location and posit a large area for the technocratic arena. Unfortu-
nately, the regression equation, WBL.D, does not precisely locate the
boundary of World Bank decisions. This is not necessarily due to the large number of political considerations in Bank decisions but to a number of unquantifiable economic factors as well.

In balance, this analysis shows that Yugoslavia and Romania tend to do well in terms of Bank and Fund aid receipts. This is particularly evident in the averages procedures. Yugoslav and Romanian SBAs and WBLs tend to exceed the averages for those variables by more than one standard deviation from the mean despite the fact that, individually, Yugoslav and Romanian economic characteristics are not unusual. This would seem to indicate that the Communist countries tend to be located in the political arena of Bank and Fund lending. The regression analysis, which assesses the combined effects of the independent variables on the dependent variables, however, indicates that Yugoslavia's aid receipts are within the range of aid that could be expected given its economic and political characteristics. Support for the normative school's assertions, thus, is mixed.

Undoubtedly, a political arena of lending does exist in Bank and Fund decisions, but the size of that arena can only be approximated. The case studies in the following chapters attempt to demonstrate the types of political influences which appear in the political arenas and the ways in which these political influences operate with respect to the Communist members of the IMF and the IBRD.
END NOTES


4 See Gold, Conditionality.


8 Hayter, p. 65; The World Bank: Policies, pp. 39-42; see also Libby, External Co-optation.

9 See discussion in Chapter 2, p. 8.

10 I wish to extend my appreciation to Dr. Charles M. Loeffler for his programming and statistical aid in the development of the following sections. Mark Agee also assisted in the generation of the results produced in this chapter.

11 I would like to thank Margaret A. Brown for her assistance in the compilation of these figures.

12 See Chapter 2 for details.

13 See Chapter 2 for details.
Chapter 5: THE BANK, THE FUND, AND COMMUNIST MEMBERS: SUCCESS AND FAILURE

During the period of Bank and Fund operations to 1979, there were only five Communist members of the Bank and the Fund. Of these five countries only two remained members in 1979. At first glance, it would seem, therefore, that any examination of the experiences of these five states in the Bank and the Fund would have little relevance for the operations of these two organizations in the rest of the world. This is not the case, however. The experiences of Communist states are noteworthy because they provide an example of the attitude of the Bank and the Fund toward members with non-capitalist ideologies and forms of economic organization, and consequently, an indication of the extent to which political considerations enter into Bank and Fund decisions to lend.

The Articles of Agreement of both the IMF and the IBRD prohibit consideration of the structure of a member's economy (i.e., centrally-planned, market, etc.) in a decision to lend as economic structure is essentially a member's domestic political decision.\(^1\) It follows, then, that a state's economic ideology should have little or no impact on its relationship with the Fund and the Bank. If political considerations are indeed a part of the Bank and Fund's lending decisions, however, this fact should be apparent in these organizations' relationships with Communist countries. The very foundations of the Communists' organizing ideology pose a direct challenge to what many scholars believe is the principle philosophy, or ideology, underlying all Bank and Fund actions and decisions. Scholars such as Daniel Holly argue that the
main function of both the Bank and the Fund is to promote a capitalist world economy (Holly, L'O.N.U., p. 470). Given this orientation, it is logical to assume that the Bank and Fund would not be particularly receptive to forms of economic organization which preclude the free operation of the market and private enterprise. The almost complete prohibition of both domestic and foreign private investment and the use of central planning rather than the market to regulate the economy is typical of the economic systems of states based on the communist ideology, as well as many non-Marxist socialist states.

Even if one does not accept the argument that the Bank and the Fund are consciously promoting Western-style capitalism as a way of organizing the world economy, there is a second reason why the Bank and Fund may be inherently biased against non-capitalist forms of economic organization. The staff of both the Fund and the Bank have historically come from capitalist countries, particularly at the higher levels of management and decision-making. A quick overview of the 1981 Annual Reports for both the Fund and the Bank reveals that over 50 percent of senior staff members in both organizations still come from the developed, capitalist countries despite efforts to broaden the representativeness of the staff. The education and experiences of Bank and Fund staff, therefore, does not equip them, at least initially, to understand and handle the special problems encountered in state-trading, centrally-planned economies (Payer, Debt Trap, p. 44). As a result, Fund and Bank recommendations place heavy emphasis on market type solutions to balance of payments and other economic problems; in fact, Cheryl Payer contends that state-trading is the last of the options
preferred by the IMF as a solution to balance of payments difficulties. 5

Another reason for Bank and Fund "caution" in dealing with Communist countries is their reliance upon financial markets in the capitalist developed countries as buyers for Bank and Fund securities. Neither organization can afford to alarm unduly the primarily conservative buyers of their securities (which constitute a large part of Bank and Fund capital) 6 by lending at too great a risk to the organization. To the extent that these non-organizational personnel regard Communist countries as poor risks, political considerations can be considered economic factors as well. The tremendous amount of support in capitalist financial circles for Bank and Fund operations suggests that the prudence demonstrated by the Bank and the Fund in their lending policies has been successful. 7

The following chapters investigate the relationship between the organizations created at Bretton Woods and a special category of Communist members. There are basically two types of Communist states which have been, or are, members of the Bretton Woods organizations. The first type of Communist member conforms to the Soviet model of a Communist state. Democratic centralism is the basis for all decision-making, in the government as well as the party. Economic decisions are made according to a central, comprehensive plan, and private enterprise is prohibited and almost non-existent. Countries in this category also tend to be almost exclusively pro-Soviet in their foreign policies. The second category of Communist members in the Bank and the Fund deviate from the Soviet model in the direction of their foreign policy with
respect to the East-West conflict. The foreign policy of an innovator Communist country is independent — an effort to maintain a non-aligned or middle road between East and West. In this sense, these countries are the "mavericks" of the Soviet bloc.

The differences between these two types of Communist countries in the Bank and the Fund stem from many different factors. Perhaps the most significant of these factors is the amount of domestic political support the regime receives, especially at the onset of Communist power. A large reserve of domestic support enables a Communist regime to forego some of the support of its Communist brethren without endangering its position at home. Other factors which can contribute to the choice of an independent course are historical, economic, and strategic. For example, the extent to which a Communist country must rely on the Soviet Union for essential raw materials and manufactured goods will determine the costs of an anti-Soviet or non-aligned foreign policy. These costs can be borne more easily, however, if the regime enjoys extensive support at home (i.e., a population which is willing to make the necessary sacrifices for regime independence).

The experiences of Communist countries in the Bank and the Fund also fall into two categories, successful (harmonious) and unsuccessful (conflictual). The criteria which determine success are the size of loans from the Bank and the Fund, and the relative absence of conflict over the methods and philosophy of economic development chosen by the member (or recipient). Chapter 6 investigates the cases of conflictual or unsuccessful Communist participation in the Bretton Woods organizations. The following chapter examines the successful Communist cases.
In all three cases, Poland, Czechoslovakia, and Cuba, conflict with the Bank and Fund was resolved only through the withdrawal of the country from membership in both organizations. The major issues examined in this chapter are the extent to which the conflict between the Communist members and the international organizations was based on political factors and whether this conflict was related to the member's particular economic ideology. If the international organizations are abiding by their respective charters, there should be no evidence of political issues and ideology in the controversies which erupted between the Bank, the Fund and the Communist members. The variables examined in each case will be:

1. Type of economic decision-making practiced by the member. Are economic decisions made according to a central, administrative plan or according to market, profit and loss criteria? If adherents of the Bank and Fund are correct, this variable should be unrelated to decisions to lend to Communist members.

2. The reasons the member joined the Bank and Fund. This variable will establish the expectations the member had of Bank and Fund membership. The benefits the country expected to gain from membership will largely determine the costs that country is willing to incur as a result of membership.

3. The nature of the relationship between the member and the Bretton Woods organizations, including the size and frequency of loans; the position of the member relative to other members with similar economic characteristics, such as GNP, population
and inflation; and the issues which initiated open conflict between the organizations and the member, if any.

4. Changes in policy as a result of Bank and Fund leverage. These can be considered part of the costs of membership. Did the Bretton Woods organizations attempt to use loans as leverage to induce, reinforce, reward, or punish the member's economic policies?

5. Special problems or effects which arose specifically due to Bank and Fund interaction with the member. These problems or effects may be perceived by the member as either costs or benefits.

Before analyzing the experiences of Communist members of the Bank and Fund, it is first necessary to summarize the structures and functions of the two organizations as they were formulated at Bretton Woods and to examine the role and influence of the Soviet Union in that formulation. Knowledge of the standard operating procedures in both organizations provides the base against which Bank and Fund operations in Communist countries can be understood and evaluated. Knowledge of Soviet actions at the U.N. Monetary and Financial Conference is essential in order to understand the implications of Soviet participation for later Communist relations with the IMF and IBRD. The issues and problems raised by the Soviets and the compromises reached between the Soviet Union and the U.S. and U.K. at Bretton Woods would influence greatly the future course of Communist membership in the Bank and Fund. A brief examination of the Soviet Union's participation at Bretton Woods, thus, will set the stage for following chapters.
I. A Brief Description of the IBRD and the IMF

The International Monetary Fund and the International Bank for Reconstruction and Development were created as a response to the disintegration of the international monetary system in the 1930s and the destruction of World War II. The initiative in the formation of the IMF and the IBRD was taken by the United States and Great Britain. In the period prior to the conference at which the IMF and IBRD were formed, the proposal to create a type of international payments union was the focus of a continuing, and occasionally heated, debate between John White from the U.S. and J. Maynard Keynes from the United Kingdom. It was these two men who provided much of the foundation and structure for the organization which became the IMF. The World Bank was almost an afterthought which began to emerge as an important issue only after substantial agreement on the payments union concept was reached.

During the period July 1 through July 21, 1944, representatives from 44 nations gathered at Bretton Woods, N.H., to discuss and create three organizations; an international payments union which would deal with international financial transfers, balance of payments, and exchange controls (IMF); an organization to provide funds for reconstruction of war-damaged economies and future economic development (IBRD); and an organization to supplement the payments union which would regulate international trade (ITU, which for several reasons was never formed). The purpose of the conference was to design a structure of international organizations which would regulate the international monetary system and thus avoid the competitive international financial
policies of states which many believed were responsible for the Depression and which contributed to the outbreak of World War II. The purpose of the organizations which emerged out of the Bretton Woods conference, as stated in the Articles of Agreement for the Fund and the Bank, was to promote stability in the international monetary system through the promotion of free trade, stable exchange rates and economic development.

Stabilizing the international monetary system required the cooperation of all states which participated in the system. As a result, membership in the Fund and the Bank was made as easy as possible with a goal of universality. Criteria for membership are identical for each applicant and are kept to a minimum. To join the Fund and the Bank, the applicant must be "a 'country' that is in formal control of its external relations and that ... is able and willing to perform the obligations of membership." The Fund and the Bank reserve the right to determine the definition of "country" and whether an applicant is in control of its external relations and able to fulfill its obligations, independent of such determination by other states or international organizations (Gold, Membership, p. 469). Those criteria still govern the admission of new members to both organizations and by 1980, Fund and Bank membership had grown to 140 states.

In keeping with the desire of the participants at Bretton Woods that participation in both the IMF and the IBRD be voluntary as well as universal, procedures are included in the Articles for the cooperation of members with non-members, and for withdrawal from either organization. The withdrawal clauses in the Articles are unique for an
international organization created immediately after World War II. Since membership in the Fund is a condition of membership in the Bank, withdrawal from the Fund also entails withdrawal from the Bank. In the Fund, there are three types of withdrawal: voluntary, on the initiative of the member; compulsory, as a result of the member's failure to perform its obligations; and an intermediate type in which the member's refusal to adopt a change in a specific value of its currency at the Fund's request leads to the member's withdrawal. There have been three cases of voluntary withdrawal from the Fund and the Bank (Poland, Cuba, and Indonesia, which later rejoined) and only one case of compulsory withdrawal (Czechoslovakia). The desire for universality in both organizations is so strong that a tremendous effort is made by the organizations to avoid situations in which withdrawal is the only alternative.

Article I of the Articles of Agreement for the International Monetary Fund lists the purposes of that organization. According to Article I, the primary purpose of the Fund is to promote international monetary cooperation through consultation and collaboration of members on international monetary problems. The Fund is also directed to facilitate the growth of international trade, assist in the attainment of full employment and high levels of income, and encourage the development of productive resources in its members. In the international monetary system, the Articles exhort the Fund to work toward the establishment of exchange stability, the establishment of a multilateral system of payments, and the reduction of foreign exchange restrictions.
The Fund is also to provide assistance in moderating the effects of disequilibrium in members' balances of payments.

In order to fulfill this important role, designers of the Fund at Bretton Woods established an authority structure which blended government representatives and experts on international monetary affairs.11 Every member sends one representative and his alternate to serve on the highest organ of the Fund, the Board of Governors. These representatives are usually high-ranking officials in the government ministries or the central bank. The Board of Governors typically meets annually. The Executive Directors "are the organ of the Fund that is in continuous session and is responsible for the conduct of the general operations of the Fund" (Gold, Voting, p. 55). Executive Directors are appointed or elected by members according to regulations specified in the Articles (Gold, Voting, p. 55). Decisions of the Board of Governors and the Executive Directors are considered to be decisions of the entire organization and "not a decision of members or even the collectivity of members" (Gold, Voting, p. 99).

Voting in the Board of Governors and in the Executive Directors is based on a weighted voting formula which reflects the financial contribution of each member to the organization (this contribution is the member's quota). Each member receives a bloc of 250 basic votes and one vote for every $100,000 of its quota (Gold, Voting, p. 18). A governor may cast the total amount of votes allotted to his country or he casts no votes at all (Gold, Voting, p. 51). The Executive Directors also cast the total number of votes which contributed to their election as a unit (Gold, Voting, p. 89).
The Managing Director of the Fund supervises the daily operations of the Fund. He is responsible for the management of the various departments and the staff. The Managing Director is selected by the Executive Directors and is responsible to them. Well-trained experts in economics, drawn from a wide range of countries, make up the staff of the Fund. The Managing Director and the staff owe allegiance to the Fund alone. The departments perform administrative, technical and regional functions and are the organs through which the majority of Fund business is conducted.

The operations of the Fund are of a very complex and technical nature. As was described above, each member is assigned a quota which reflects its financial subscription to the organization. A member's transactions and privileges in the Fund are governed by the size of its quota. A par value is assigned to the member's currency. This is the official value of a member's currency in its dealings with the Fund. A member may purchase up to 200% of its quota from the Fund to relieve temporary balance of payments disequilibria. A member "purchases" foreign currency from the Fund with its own currency. These purchases are called loans in common parlance, although in the strict sense no loan occurs since currencies are exchanged. Loans equal to or less than 25% of a member's quota are considered to be within the first tranche, the reserve tranche (or gold tranche prior to 1972), and are not subject to any conditions or review by the Fund. Loans totalling above 25% of the quota, in the credit tranches, are subject to increasing conditions and review. Loans must be repaid, or repurchased, within three to five
years of the original purchase and are subject to established service charges.

Stand-by Arrangements were first introduced in the Fund in 1953 and have become "the most common form of financial assistance by the Fund" (Gold, Stand-by, p. 37). As defined by the IMF, the stand-by arrangement is

"a decision of the Fund by which a member is assured that, in accordance with the terms of the decision, the member will be able to purchase the currencies of other members from the Fund during a specified period and up to a specified amount" (Gold, Stand-by, p. 3).

The approval of a stand-by arrangement assures the member that the Fund will not question or review the member's request for the loan unless the member fails to meet previously established performance criteria.

The Fund defines performance criteria as "specific policies, including quantified elements, in a member's program the observance of which will give reasonable assurance that the objectives of the stand-by arrangement are being realized" (Gold, Stand-by, p. 30). The Fund places heavy emphasis on the manipulation of the money supply and bank credit as elements in the formulation of performance criteria. Monetary stability is the best way of achieving high levels of employment and economic growth in the opinion of the Fund (IMF, Annual Report, 1962, p. 42). Stand-by arrangements are used to support stabilization programs, exchange reforms, and to sustain confidence in a member's currency. A stand-by arrangement also provides the member additional resources during seasonal economic difficulties (Gold, Stand-by, p. 36).
Fund resources have been actively used by both developed and developing states. World Bank loans are utilized almost exclusively by its Third World members. This is in accordance with one of the stated purposes of the Bank, to raise the productivity and standard of living in its members, i.e., to promote development (IBRD, Article I). Other purposes of the Bank, stated in its Articles of Agreement, are to facilitate investment, promote private foreign investment and, like the Fund, to encourage the "balanced growth of international trade and the maintenance of equilibrium in balances of payments" (Article I(i-v), pp. 51-52).

The organizational structure of the Bank is similar to that of the Fund. Governors are appointed by member-states, and the Executive Directors are composed of both appointed and elected Directors. The Board of Governors meets annually, while the Executive Directors meet frequently during the week in order to supervise the Bank's operations. The qualifications of Governors and Directors of the Bank are similar to those of their counterparts in the Fund. Again, the votes of Bank Governors and Directors are cast as a unit.

The voting formula in the Bank varies slightly from the formula in use in the Fund. Each member receives an initial 250 votes and then one vote for every share of Bank stock that it holds. The consequence of weighted voting in the IBRD is parallel to that in the Fund; the United States and Western European nations tend to dominate decision-making in the organization. The Bank's capital stock is available for subscription by members at one share equal to $100,000 (Article II, Section 2(a), p. 52). Minimum levels of member subscriptions are
determined by the Bank for each member; subscriptions beyond the minimum are also set by the Bank (Article II, Section 3, p. 52). Sources of funds for Bank loans are derived from payments on member's capital subscriptions, the Bank's own borrowing on the world market, and net earnings.12

The President is the chief executive of the World Bank. He is selected by the Executive Directors and serves as their chairman. He serves as "the chief of the operating staff of the Bank;" he conducts the "ordinary business of the Bank" (Article V, Section 5(b), p. 69). The President is also responsible for the operations of the Bank's departments which are classified according to function. The Project Departments accept or reject proposals submitted from the Area Departments which have responsibility for the selection and development of projects in their respective areas. The Economic Departments perform the economic analysis necessary for project evaluation (Hayter, p. 67). Other departments serve the administrative needs of the organization.

World Bank loans are designed to furnish credit for projects where the risk is considered too great for private lenders. Loans are extended at slightly more favorable terms than can be obtained on the commercial market. Several conditions govern the use of Bank credit (IBRD, Policies, pp. 203, 4-5). Bank loans must be used for productive purposes and, in most cases, to finance the foreign exchange needs of a project (Hayter, p. 48). If the borrower is not a government, the loan must be guaranteed by the borrower's government, or its central bank. Bank loans may not be tied to specific purchases, but loans must be
spent in any member country (IBRD, Policies, p. 5; Hayter, p. 48). The borrower must be unable to finance the project with funds from private lending sources. This condition is intended to promote private investment and enterprise. The reluctance of the Bank to lend to government-owned industries is also a result of this emphasis on private enterprise (IBRD, Policies, p. 16, 42). The Bank's emphasis on investment conditions and the impact of a borrower's fiscal policy on those conditions is also understandable given this emphasis. In recent years, Bank and Fund interests in monetary and fiscal policy have converged (Hayter, p. 83). Bank loans are typically used to finance infrastructure projects in areas such as power and transportation, although credits for agriculture and social infrastructure (e.g., education) are increasing. A project usually emerges from extensive consultations between Area Department staff and the member. The project proposal is then evaluated by the relevant Project Department and Economic Department before it is approved. Once implementation begins, funds are disbursed as they are required.

II. The United Nations Monetary and Financial Conference

Among the 44 countries invited to participate at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire in July, 1944, were the Soviet Union, Poland, Czechoslovakia, and Cuba. Prior to the inauguration of the conference on July 1, 1944, the Soviet Union participated in extensive discussions with the United States and Great Britain, initiators of the Bretton Woods
concept, and all four countries were included in the preliminary discussions which took place in Atlantic City, N.J. just prior to the meetings in Bretton Woods. It is clear from the previous discussion, then, that the architects of Bretton Woods expected to include Communist countries as an integral part of the institutions which would emerge from the conference. The United States and Great Britain perceived the Bretton Woods arrangements as the only means of avoiding the division of the world into rival economic blocs, and they regarded the Soviet Union as essential to the realization of this goal (NYT, 5/17/46). In an attempt to assure the universality of membership in the organizations created at Bretton Woods, specific compromises were made to accommodate the Soviet Union and other "state-trading" countries.

The Soviet Union, as the only officially socialist state represented at Bretton Woods, was an active and vocal participant in the proceedings which led to the formation of the IMF and the IBRD. The issues raised by the Soviet Union at Bretton Woods, and the concessions granted to it in the Articles of Agreement of both organizations, established the limits and possibilities for Communist participation in the two international organizations which persisted well into the first two decades of Bank and Fund operations, despite the failure of the Soviet Union to join either organization. An examination of Soviet demands at Bretton Woods is instructive in that some of the issues raised by the Soviets reappeared several times in the interactions between the Fund and the Bank and Poland, Czechoslovakia and Cuba.
A. Soviet Goals: Special Consideration

The points emphasized by the Soviet Union at Bretton Woods centered around four main areas: special consideration for state-trading nations and for states damaged by enemy hostilities and occupation during World War II; the size of quotas; the size of the gold portion of the quota and the disposition of that gold; and the amount of information required to be provided to the Bank and Fund. Although the majority of items in which the Soviet Union sought special consideration were related to its position as a war-damaged nation, two items pertained directly to its position as a state-trading economic system. The Soviet Union asked for special consideration when the Fund calculated the Soviet's monetary reserves. Since all reserves and banking activities were centralized in one state bank in the Soviet Union, the state bank needed to retain part of its reserves as working balances for its foreign trade transactions. The Soviet delegation also stated that since the states also had a monopoly over foreign trade and foreign trade pricing, the par value of the ruble was arbitrary, set by the state, and therefore, without international significance. Thus, the Soviets argued, there was no need for the Soviet Union to consult the Fund when changing the par value of the ruble (Article IV, Section 5(b) and (e)). In addition, Ed Mason claims that Article IV, Section 10 of the Fund's charter, which specifically prohibits the Fund from interfering "in the political affairs of any member; nor shall [the Fund] be influenced in [its] decisions by the political character of the member or members concerned," was included primarily to reassure
the U.S.S.R. (Mason, p. 27). A similar statement was included in the Bank's charter in Article IV, Section 10.

B. Reconstruction Assistance

Funds for reconstruction were a primary goal of the Soviets in the Bretton Woods deliberations. In fact, Mason claims that the Soviet Union wanted reconstruction to be the first priority of the IBRD (Mason, p. 21). In the Soviets' view, Great Britain and the Soviet Union were doing whatever was necessary to win the war and in pursuance of that aim were accepting assistance on any terms offered to them. The Soviets asserted that since they were bearing the major burden of the war (in their own calculations) they had a tremendous need for reconstruction funds in order to rebuild their devastated economy (NYT, 7/9/44 and 7/22/44). Consequently, the Soviet Union proposed that an additional part be included in the purpose of the IBRD (Article I) which would state that the Bank would provide capital "for reconstruction and restoration of the economies destroyed by the hostilities and for development." A modified version of this statement was included in Article I of the Bank's Articles of Agreement. In the section of the Bank's Articles dealing with "General Provisions Relating to Loans and Guarantees" (Article III, Section 1), the Soviets suggested that when lending to countries damaged by the war the "Bank shall take into consideration the special position of these countries in establishing for them the most favorable rates of interest, terms and conditions of repayment of such loans" (Bretton Woods, pp. 377, 1099). This suggestion was accepted in a limited sense by the other Bretton Woods
delegations (most of whom would have benefitted from the Soviets' suggestion) and incorporated in Article III, Section 1(b) where the Bank was instructed to "pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction" (Articles of Agreement for the IBRD, 1944, p. 56).

C. Gold

The Soviets' concern for reconstruction was evident in its position on the size of and terms of payment of the gold subscription for war-damaged nations (Article III, Section 3(d) of the Fund). The Soviet Union supported a plan which would permit the Bank and Fund to reduce or postpone by 25-50% the gold portion of the subscriptions of states whose "home areas [had] suffered from enemy occupation and hostilities," depending on the extent of damage suffered by the state" (Article II, Section 8; Bretton Woods, pp. 23, 33, 371). As M. S. Stepanov, leader of the Soviet delegation at Bretton Woods, stated, the Soviet Union was "very anxious to cooperate" but felt "entitled to special consideration" because the war had devastated its export capacity and created a need for the Soviet Union to conserve its foreign purchasing power, and thus, its gold. "Virtually all the invaded and occupied countries" present at Bretton Woods supported the Soviet position" (NYT, 7/13/44). The majority of the delegations on Committee I of Commission I at Bretton Woods did not agree with this proposal, however, and the Soviet proposition lost. Some concession was made to the Soviet position, however, in Article III, Section (d), allowing the Fund to set an alternate date for determining the net official holdings
of gold of war-damaged states. Net official gold holdings was then defined as excluding newly mined gold in devastated countries, another concession to the Soviet Union (NYT, 7/16/44).

Another area in which the Soviets' concern for reconstruction was evident was the area of charges applied to Fund and Bank loans and Bank guarantees (Fund Article V, Section 8, and Bank Article IV, Section 4 and 5). In the Fund, the Soviet Union wanted all charges paid uniformly by all borrowers regardless of the size of the borrower's monetary reserves (Bretton Woods, pp. 1087, 1090); the proposal was not adopted. The Soviets also proposed for the Bank that during the first ten years of Bank operations charges be limited to a range between 1/2% to 1% a year (Bretton Woods, p. 918). This proposal was amended to limit charges to between 1% and 1 1/2% a year (Article IV, Section 4(a) 5(a)). In summary, then, there was some support at Bretton Woods for the reconstruction goal of the Soviet Union, but this support was tempered by the perhaps more long-range goals of other delegations.

D. Quotas

Quotas were another area in which the U.S.S.R. exhibited a vigorous interest. Quotas were of intense concern at Bretton Woods because a state's voting power in both the Bank and the Fund was to be a function of its quota. The delegations at the conference seemed to agree on the proposal that every member should have a voice in the conduct of the affairs of the two organizations (Gold, Voting, p. 25). The formula adopted at Bretton Woods for both the Bank and Fund assigned each member one vote per $100,000 of its quota plus 250 "basic
votes.\textsuperscript{24} At first, the Soviet Union pressed to have its subscription reduced from the $1.2$ billion which was initially suggested. The Soviets sought to reduce the risk it would assume as a part of the Bank and Fund's lending operations (NYT, 7/20/44). On July 22, 1944, toward the end of the conference, the Soviet Union surprised everyone by announcing its decision to increase its subscriptions (and consequently, its share of the risk) to the original level of $1.2$ billion in both the Bank and the Fund. U.S. Secretary of the Treasury Morgenthau commented in a statement recognizing the Soviets' decision that

"By this move, the Soviet Union has carried even further its collaboration toward the success of this conference and toward assuring international collaboration in solving the post-war problems of the world. The solution of these future problems will have the inestimable support of the Union of Soviet Socialist Republics" (Bretton Woods, p. 1108).

The Soviets themselves stated that the move was prompted by a desire to accommodate the wishes of other delegations, especially the United States (Bretton Woods, p. 1111).

Others saw the Soviets' concession as having a more pragmatic, self-interested basis. One analyst reported that unofficially there was some expectation on the part of the Soviets that their increased subscription would enable them "to receive correspondingly more consideration for their applications for loans" (NYT, 7/24/44). The Soviet action was also viewed as "an important diplomatic victory" in that it strengthened the Soviets' position at the conference by demonstrating that the U.S.S.R. was willing to make concessions, also (NYT, 7/24/44). An increase in the Soviet quota (or subscription) also enlarged the
Soviets' percentage of the total quotas in both Bretton Woods organizations, and hence, increased the Soviets' percentage of the total votes in each organization. In the Fund, the new Soviet quota of $1.2 billion gave the Soviet Union 13.64% of the total quota in the Fund and 12.37% of the total votes, placing it third after the U.S. and the U.K. The new Soviet quota also gave the Soviet Union the right to appoint an Executive Director in each organization. What appeared to be a magnanimous Soviet gesture, therefore, would have brought decided advantages to the USSR if it had joined the IMF and the IBRD.

E. Provision of Information

The provision of economic information was perhaps the most sensitive issue at Bretton Woods in the view of the Soviet Union. The Soviets agreed in principle that economic information was vital to the success of the Fund (NYT, 7/11/44), but it was the specific content of that information that concerned the Soviets. Alternative D to Fund Article VIII, Section 5 was a list of information that the Soviet Union was willing to supply to the Fund:

1. gold holdings of Central Bank and the Treasury and their changes
2. gold convertible exchange holdings of the Central Bank and the Treasury and their changes
3. movement of capital
4. foreign trade data
5. other balance of payments items
6. rate of exchange and its changes
7. additional information with the consent of the member (Bretton Woods, pp. 267, 36).

The final list of required information in the Fund's Articles of Agreement (Article VIII, Section 5) appears as follows:
1. Official holdings at home and abroad of (1) gold, (2) foreign exchange.
2. Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.
3. Production of gold.
4. Gold exports and imports according to countries of destination and origin.
5. Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.
6. International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.
7. International investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.
9. Price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices.
11. Exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur.
12. Where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

Comparing the two lists it is clear that the Fund required much more detailed information than the Soviet Union was willing to supply. The primary difference between the two lists from the viewpoint of the U.S.S.R. was the information the Fund required on gold (nos. 1-4). Protection of information on gold production and transactions in gold was (and still is) regarded by the Soviet Union as necessary to its national security, particularly during wartime (NYT, 7/16/44). This conflict was not resolved until 1954. The Soviet Union was also opposed to the publication of official and unofficial Fund reports to members without the consent of the member involved (Fund Article XII,
Section 8). The Soviet Union was concerned that politically and economically sensitive information would be released in hostile quarters to the detriment of the Soviet Union. Again, the Soviets lost this argument (Bretton Woods, p. 1087). Despite lingering objections, the Soviet delegation signed the Bretton Woods agreements, citing the "friendly atmosphere" and spirit of cooperation which had prevailed at the conference (Bretton Woods, p. 1111). The leader of the Soviet delegation, M. S. Stepanov, even applauded U.S. Secretary of the Treasury Morgenthau for his "brilliant leadership" of the conference during the Soviet's speech to second the motion to accept the Final Act (Bretton Woods, p. 1112). In the Soviet Union's final statement at the Executive Plenary Session on July 20, 1944, however, Stepanov reiterated the U.S.S.R.'s major concerns throughout the conference: international cooperation to hasten reconstruction and the preservation of "mutual respect for the interests of the participating nations and the sovereign rights of other states" (Bretton Woods, p. 1208). In addition, the Soviet delegation asserted that they were "reserving the full right of the U.S.S.R. Government to make a free and independent study of the Draft..." and that their approval of the draft did not constitute "approval of the Draft in whole or in any of its parts on behalf of the U.S.S.R. Government."²⁷

F. Soviet Refusal to Join

This implicit warning was not heeded by enthusiastic and optimistic supporters of the two Bretton Woods organizations, and when the deadline for joining the organizations as original members passed
without the signature of the Soviet Union, these supporters remained optimistic about eventual Soviet entry. The Soviet Union, in a statement explaining why it had failed to take advantage of joining as an original member, merely commented that it "did not deem it appropriate to join the institutions 'at this time'" (NYT, 1/3/46). The foundation for the optimism of some Bretton Woods supporters was the Soviets' cooperative attitude during the Bretton Woods negotiations and the fact that the U.S.S.R. delegation had signed the agreements (NYT, 12/14/44, 12/28/44). Clearly, the statement made by the Soviet delegation about the meaning of their signature of the Final Act was universally ignored.

In March, 1946, three months after the deadline for original membership had passed, members of the new Bank and Fund extended a new conciliatory gesture to the U.S.S.R. Countries which had participated at Bretton Woods but had failed to join were invited to be observers of the first meeting of the organizations in Savannah, Georgia in March, 1946. The U.S. indicated its intention to introduce at that meeting a proposal to extend the period for Bretton Woods participants to join as original members (NYT, 3/3/46). Failure of the Soviet Union to enter the Bank and the Fund was considered by the U.S. to be a serious potential handicap to "stable and unrestricted world trade;" consequently, the U.S. sought to pressure the U.S.S.R. to join by tying Soviet membership in the Bank and Fund to U.S. aid to the Soviet Union (NYT, 3/3/46, 3/8/46). The Soviets responded by at first ignoring the invitation to Savannah and then sending a delegation to observe the proceedings which did not include a representative from Moscow (NYT, 3/8/46, 3/9/46), an
indication of the Soviets' negative position with respect to the new organizations. Observers began to speculate that the Soviet Union did not intend to join the Bretton Woods organizations at any time in the foreseeable future (NYT, 3/9/46). Nevertheless, the Board of Governors of both the Bank and the Fund agreed to a six-month extension of the limit for joining as an original member. This was done, in part, to facilitate Soviet membership. 29

An invitation was once again issued to the U.S.S.R. to participate at the next meeting of the two organizations in Washington, D.C. in September, 1946 (NYT, 8/28/46). The Soviets did not reply to this invitation and sent no observers to the meeting (NYT, 9/27/46). The mood of the Bretton Woods supporters altered at this point and no further "overtures" were made (NYT, 9/29/46). Fund officials were anxious to assure the Soviets that they would still be "received warmly" if they decided to join at a later date, 30 but Camille Gutt, newly appointed Managing Director of the Fund, was quick to express the prevailing attitude at the meeting that the failure of the Soviets to enter the Bank and the Fund "wouldn't make any great difference" (NYT, 9/2/46), a marked contrast to statements made by the U.S. in March of that same year (see p. 105). In fact,

"Some officials felt that Russia's absence from the fund would facilitate its operation by eliminating the problem which would be presented by integrating Soviet foreign-trade practices with those of capitalistic countries, and speed its organization and action by not having to wait for a 'decision from Moscow' every time a policy decision was made" (NYT, 1/3/46).
The atmosphere of international cooperation which had prevailed at Bretton Woods had dissipated, and the first signs of the Cold War appeared in the IMF and the IBRD.

The Soviets, on the other hand, felt that they had ample justification for abandoning membership in the IMF and the IBRD. First, the proposed quotas in both organizations, and their corresponding votes, did not accord any state a veto over Fund and Bank decisions and operations, an important factor in Soviet negotiations on the United Nations (Mason, p. 29). A second Soviet objection revolved around the required provision of economic information (see pp. 106-108, above), particularly information about gold reserves and gold production (NYT, 1/3/46). The prospect of acquiring loans for reconstruction, the primary motivation for Soviet participation at Bretton Woods, also seemed dim to Soviet officials. Bank resources appeared insufficient for the scale of Soviet post-war needs, even without the competition of other Bank members (NYT, 1/6/46). If the Bank, for example, had been able to finance Soviet reconstruction, Bank procedures which would have required the Soviets to permit unwelcome, and perhaps sensitive, investigations into the Soviet economy (Mason, p. 29). Finally, the goal of the U.N. Monetary and Financial Conference, international financial stability, could be enjoyed by the Soviets without the expense of Soviet resources, due to the restricted nature and effect of Soviet foreign trade. As one analyst commented, the Soviets could benefit from stable exchange rates "just as easily as an onlooker as a participant" (NYT, 1/6/46). The costs of Fund and Bank membership, therefore, outweighed the benefits in the Soviet calculus.
G. Evidence of Increasing Soviet Hostility

As was mentioned earlier, Cold War issues had intruded into the two international organizations by 1946. Conflicts had arisen between the Soviet Union, Great Britain, and the U.S. over a number of issues, including the United Nations, the administration of Berlin, and the Soviet occupation of Eastern Europe. Soviet interest in international cooperation dwindled as these conflicts worsened and multiplied (NYT, 10/7/46). The prevailing atmosphere of conflict made the Soviets understandably reluctant to entrust "any large part of her economic policy [and resources] to the Bank and Fund, in which the U.S. [was] regarded as dominant and where Russia would have no veto power" to protect its interests (NYT, 10/7/46). Soviet antagonism toward the Fund and the Bank surfaced during U.N. discussions of the arrangements that would make the IMF and IBRD affiliated agencies of the U.N. system. Bank and Fund supporters, particularly the United States, sought a special agreement with the U.N. which would insulate the lending operations of those organizations from the interference of what they considered to be a more "politicized" institution, the U.N. In keeping with the Cold War atmosphere at the time, one observer remarked, in effect, that this was understandable since the Soviet Union and its allies were members of the U.N. and were likely to use that organization to affect policy in its affiliated agencies (NYT, 8/16/47).

The U.S.S.R., joined by Norway, chose the Economic and Social Council of the U.N. General Assembly (EcoSoc) in August 1947, to begin its battle against special consideration of the IMF and the IBRD. In
a four-hour debate, the Soviets argued against an agreement in which
the U.N. would abdicate any rights to review and comment upon Bank and
Fund lending procedures and budgets, and claimed that such an agreement
would violate the U.N.'s charter. EcoSoc disagreed by a 13-3
majority.32 The Soviets pursued the issue next in the General Assembly
of the U.N. in October, 1947. In addition to its previous arguments,
the Soviet Union charged that a World Bank loan to the Netherlands for
reconstruction purposes was actually being used to support Netherlands
aggression in Indonesia (Mason, p. 58; NYT, 10/14/47). Ironically, the
Soviets also objected to provisions in the U.N. agreement with the IBRD
which would permit the World Bank to withhold important information
(Mason, p. 58). Finally, the Soviets accused the U.S., through its
voting strength in both the Bank and the Fund, of attempting to convert
both organizations into "instruments of its own foreign policy" (NYT,
10/14/47), and therefore, the Soviets claimed, the U.S. was trying to
ensure through these special agreements that the U.N. would interfere
in this process as little as possible (NYT, 10/14/47). These arguments
failed to convince the majority of the General Assembly, and the agree-
ments with the IMF and the IBRD were approved, with New Zealand, the
Soviet Union, Belorussia, and the Ukraine dissenting, and Austria and
Yugoslavia abstaining (NYT, 10/19/47).

It is evident from the foregoing analysis that the early relation-
ship between the IMF, the IBRD, and the Soviet Union was a complex one
which encompassed many issues and problems. The Soviets were the first
to provoke a conflict with the IMF and the IBRD. Its refusal to join
as an original member was initially perceived by the adherents of the
Bretton Woods agreements as an unfortunate decision but not as a hostile move in itself. It was the Soviet's persistent failure to make any conciliatory responses to the repeated gestures of the Fund and Bank and the intensification of the Cold War with the U.S. which eventually provoked the animosity of those organizations, and this animosity then began to permeate Fund and Bank relations with other Communist countries.
END NOTES

1 See Fund Article IV, Section 5(f), Bank Article III, Section 5(b), and Bank Article IV, Section 10. All references in this chapter made to the Bank and Fund Articles of Agreement refer to the Articles of Agreement of the International Monetary Fund and International Bank for Reconstruction and Development, published by the U.S. Treasury, Washington, D.C., in 1944.

2 See also the formulation discussion in Chapter 2.


6 See Mason, pp. 105-149.

7 New York Times, 9/30/48. All references to New York Times articles will refer only to the date of the article.


9 See Mason and Bretton Woods for details.


12 IBRD, Policies and Operations,

Poland, Czechoslovakia, and Cuba were not Communist at this time although, as will be seen later, many of their demands were similar to those of the U.S.S.R.

Horsefield, Vol. 1, and Gold, Membership and Nonmembership, p. 129.

Yugoslavia was also included in the Atlantic City and Bretton Woods meetings.

See also Gold, Membership, p. 472.

Gold, Membership, p. 472; New York Times (NYT), 1/10/46.

See also the NYT, 7/14/44; Gold, Membership, pp. 133-134.


NYT, 7/15/44; see also Gold, Membership, p. 141.

NYT, 7/21/44, 7/7/44.

The membership of Committee I of Commission I (on the arrangements for the IMF) were: Belgium, Brazil, Canada, China, Czechoslovakia, Cuba, France, Mexico, New Zealand, Norway, U.S.S.R., U.K., and U.S.

Fund Articles II, Section 3 and Article V, Section 3; Bank Articles II, Section 3 and Article V, Section 3. See also Joseph Gold, Voting and Decisions in the International Monetary Fund (Washington, D.C.: IMF, 1972), p. 78.

Gold, Membership, p. 136. The Executive Directors provide the day-to-day management of the Fund. Executive Directors are appointed by the members with the five largest quotas and elected by remaining members. The Articles of Agreement which emerged from Bretton Woods provided for a minimum of 12 Executive Directors (5 appointed and 7 elected).

The Soviets made final reservations on the following articles of the IBRD: Article I, Section 4; Article III, Section 1(b); and Article V, Section 11(b).

Bretton Woods, pp. 1208-1209. Also see NYT, 7/22/44.
28 Australia, New Zealand, Venezuela, Liberia, Haiti, El Salvador, Nicaragua, and Panama also did not take advantage of joining as original members. See NYT, 1/2/46.

29 Joining as an original member gave a country an advantage in that the quota agreement made at Bretton Woods would not be subject to further negotiations. Participants at Bretton Woods which did not join the Bank and Fund by the December, 1945 deadline would have to renegotiate their quotas. See NYT, 3/13/46, and Gold, Membership, p. 132.

30 NYT, 8/16/47.

31 NYT, 10/5/46.

32 NYT, 8/17/47. The Soviet Union and Belorussia dissented, and Czechoslovakia and New Zealand abstained. Yugoslavia cast an assenting vote but stated its dissatisfaction with several aspects of the agreement. See Mason, p. 54.
Chapter 6: CONFLICT IN THE BANK AND FUND: POLAND, CZECHOSLOVAKIA, AND CUBA

Of the four countries to withdraw from membership in the IMF and IBRD, three were Communist. Poland and Cuba were the first countries to withdraw voluntarily from the Bank and Fund, and Czechoslovakia was (and still is) the only case of compulsory withdrawal, or expulsion, from the organizations which were created at Bretton Woods. This chapter attempts to determine whether the fact that three out of four "failures" in the Bank and the Fund were a consequence of the fact that those members were Communist, state-trading countries.

The issues which led to the withdrawal of Poland, Czechoslovakia, and Cuba were the legacy of the conflicts and compromises of Bretton Woods. The Czech and Polish cases are excellent examples of the Bank and Fund's early efforts to resolve the ambiguities in their charters with respect to the place of state-trading members in the new international economic system devised at Bretton Woods. Czech and Polish experiences set the tone of Fund and Bank relationships with Soviet-style Communist countries, and Cuba's conflicts with the Fund testifies to the endurance of the attitudes adopted in the early years of Fund and Bank operations. The analyses which follow trace the factors which contributed to the rapid decline in relations between the IMF and IBRD and their Soviet-style Communist members.
I. Poland: The Destruction of Optimism

Poland was one of the 44 countries to sign the Bretton Woods agreements in 1944 and was thus one of the original members of the Fund and Bank (NYT, 12/28/45). Reconstruction was clearly Poland's primary motive for participating in the formation of both organizations. A statement made at Bretton Woods by the Polish minister in Commission II (on the IBRD) clearly indicates the goals of the Polish government. On July 13, 1944, Dr. Ludwik Grosfield noted his country's eventual need for development loans but cited the "appalling conditions caused by warfare and occupation" which made funds for reconstruction Poland's first priority.¹ In Grosfield's view, reconstruction loans from the Bank were vital to the health of the international economy so that all states would have an "even start for development" (Bretton Woods, p. 593). Poland joined the IMF and the IBRD, therefore, with the hope that those organizations would bear a significant part of its reconstruction burden.

In the process of liberation from the Nazi occupation forces, Poland had acquired a Soviet-style Communist regime. Since the Soviet Union closely supervised all actions of the new Polish government, decision-making processes in Poland tended to follow closely the Soviet pattern of a strong Leninist party operating according to the principle of democratic-centralism. The economy was designed and administered according to a central plan which was compiled in accordance with the directives of the top of the party structure and had the force of law. The fact that the Soviet Red Army had liberated Poland from the Nazis
severely limited the Poles' foreign policy options. Consequently, the Poles supported all Soviet initiatives both inside of and outside of the United Nations.

In keeping with the spirit of the agreements reached at Bretton Woods, several states which had suffered extensive damage from enemy occupation and hostilities during World War II were permitted in 1946 to defer part of their capital subscriptions to the IMF and the IBRD, and they were also permitted to delay the establishment of par values for their currencies.\(^2\) Poland was among the six nations which took advantage of the war damage clause which allowed those nations who qualified to defer payment of 1/2 of 1% of their capital subscriptions for a period of five years (NYT, 8/31/46).\(^3\) For Poland, the amount of its quota which could be deferred was $625,000. In the early days of the Bretton Woods organizations, then, it appeared as if Poland's expectations would be realized.

A. The Coal Loan

Poland's interactions with the Bank were not as auspicious. In the autumn of 1946, Poland made its first request for reconstruction assistance from the Bank. The Poles requested a loan of $600 million for general reconstruction purposes but was soon informed by World Bank officials that a loan of that magnitude was beyond the capabilities of the Bank's resources. The Bank proposed a smaller loan of $125 million to be used for the devastated coal industry. This loan would not only benefit Polish recovery but, due to the shortage of coal in Western Europe, would expedite recovery in that area as well.\(^4\) The Poles
submitted a second, revised request for $128.5 million for the coal industry in the spring of 1947 (Mason, p. 170). Poland's initial request was not unreasonable or unusual, however. Among other loan requests made to the Bank at that time were a $535 million request from the Netherlands, a $250 million loan application from Czechoslovakia, and a $250 million proposal from Ireland (NYT, 7/22/47).

Bank officials "made no secret of their enthusiasm for the Polish loan" (NYT, 11/5/47) for several reasons. First, as mentioned above, recovery of the Polish coal industry would also aid in the recovery of Western Europe. Bank assistance in Polish reconstruction, some analysts reasoned, could be a potential wedge between Poland and the Soviet Union for its assistance with exports which would otherwise have gone to Western Europe (NYT, 9/19/47, 11/5/47). As an original member of the Bank and Fund, many Bank officials felt that Poland was "entitled to most sympathetic consideration of her applications" (NYT, 9/7/47).

Problems with the Polish loan soon surfaced. A fact-finding mission sent to Poland during the summer months of 1947 recommended that the Bank make only a $45 million short-term loan to Poland for the coal industry. The Polish government was "clearly unhappy" with the 92.5% reduction in its original request and with the short repayment period attached (Mason, p. 170). The Polish government attempted to negotiate an increase in the final amount of the loan to $125 million (Mason, p. 170) and argued that Polish coal production would be "curtailed sharply at the end of 1948" if a loan sufficient for re-equipping its mines were not immediately forthcoming (NYT, 9/19/47). In addition,
Poland noted that while negotiations on its loan stagnated, other members had received their first loan and were in the process of negotiating for a second loan. In a statement which reflected the frustration and discontent with the Bank on the part of Polish officials, Polish Industry Minister, Hilary Minc, declared, "We claim what is due to us . . . ." He noted that the extent of devastation suffered by Poland during the war entitled Poland to priority in receiving reconstruction assistance, yet he noted that Poland had to wait "in a long queue of applicants" and had even been passed by in the first round (NYT, 9/14/47)! Examination of Bank records for this period indicates that this Polish claim was not an exaggeration. Several members of the Bank had received loans prior to 1950, as is shown below:

Brazil — 1 loan, totaling $75 million
Chile — 2 loans, $16 million
Colombia — 1 loan, $5 million
El Salvador — 1 loan, $16 million
Mexico — 2 loans, $34.1 million
Belgium — 1 loan, $16 million
Finland — 2 loans, $14.8 million
Netherlands — 9 loans, $222 million
Yugoslavia — 1 loan, $2.7 million
Australia — 1 loan, $100 million
India — 2 loans, $44 million.5

There were several reasons for the delay in the Polish loan. Bank officials were anxious to assure themselves, their members, and the international banking community that a loan to Poland was a good risk and likely to be repaid. Accordingly, the Bank was applying its definition of "sound banking standards"6 in its analysis of the Polish economy and its prospects. The Bank's definition of "sound banking standards" contained significant political content, despite the injunction against such in Article IV, Section 10. According to Bank

sources, "Political tensions and uncertainties in or among its member countries . . . have a direct effect on economic and financial conditions in those countries and upon their credit position." Political criteria were, thus, included in the definition of economic criteria, permitting the Bank to avoid, or ignore, the restriction set in Article IV, Section 10. As a result, Bank President J. J. McCloy instructed the four member fact-finding mission to Poland to include certain political conditions in its examination of the Polish economy (NYT, 6/11/47).

Poland's independence from the Soviet Union was the critical political criterion which influenced the Bank's decision NOT to lend to Poland any part of its $125 million request. Bank officials felt that it "could not ignore Poland's situation in the Russian sphere in considering a loan to [Poland] and . . . its ability to act independently of the Soviet in subscribing to World Bank conditions . . ." (NYT, 6/11/47). The Bank questioned whether Poland would be able to find the resources to repay its loan, given Soviet hostility to the Bank. Consideration of the Polish loan came to a halt when Poland failed to attend a conference of the committee of European economic cooperation to list Marshall Plan requirements (NYT, 11/5/47). At this point, Poland began to be "desperately worried" that its position as a member of the Soviet bloc would effectively preclude it from any future use of the benefits of membership in the IBRD, despite McCloy's assurances that the Bank "did not regard Communist governments as prima facie bad risks" (NYT, 3/3/49, 4/28/48).
Western private financial organizations played an important role in the Bank's evaluation of the Polish loan. One analysis of the situation concluded that it was the reluctance of Western investors to invest in Bank debentures if the Bank extended a loan to Poland which was the critical factor in the Bank's decision not to lend to Poland, rather than Poland's lack of independence from the Soviet Union (NYT, 11/5/47). The U.S., in particular, vociferously expressed its disapproval of the Polish loan. In their history of the IMF, Margaret deVries and J. Keith Horsefield describe how, in the early years of the Fund, it was a common practice for members to consult the Executive Director for the United States to get his concurrence before submitting a loan application. In the case of the Polish loan, the U.S. government made it quite clear that it would instruct its Executive Director to vote against the loan, and if the Bank still extended the loan, the U.S. would refuse to grant export licenses for the mining equipment necessary to the success of the Polish loan (Mason, p. 170). In addition, it was a widespread belief in the Bank that U.S. investors would be unwilling to invest in World Bank bonds if the Bank proceeded with the loan to Poland or other Communist countries (NYT, 11/5/47). The weight of Western opposition, therefore, was instrumental in the collapse of loan negotiations between the World Bank and Poland.

B. Other Problems with the Bank

Other issues contributed to the deterioration of the relationship between the IBRD and Poland. In September, 1948, Poland joined Czechoslovakia and Yugoslavia in criticizing the IBRD Annual Report as
biased toward Western European recovery. The three countries charged that political motivations had biased the Bank's evaluations of Eastern European loans and had resulted in a bias toward financing loans to Western Europe (NYT, 9/30/48). Bank President McCloy responded that Western European recovery was vital to the recovery of the international economy as a whole and that complete economic objectivity in Bank evaluations of the Eastern European economies was difficult because it was "impossible to determine where economics ends and politics begins" in post-war Eastern Europe (NYT, 9/30/48). Six months later, Poland alleged that the Bank's preference for Western Europe and the Bank's reluctance to finance the coal loan amounted to "economic warfare against Eastern Europe" in which the Bank was the instrument of the U.S. (NYT, 3/3/49). Poland further claimed in a meeting of EcoSoc that IBRD loans had been used to finance the French and Netherlands wars against Vietnam and Indonesia, respectively (NYT, 3/3/49). In February, 1950, Poland again joined Czechoslovakia and Yugoslavia in pressing for the representation of the PRC in the Bank and the Fund and the ouster of the Nationalist Chinese.\textsuperscript{10} The situation between Poland and the World Bank was rapidly degenerating.

C. Poland's Withdrawal

On March 14, 1950, Poland ended its problems with the Bank and Fund by withdrawing voluntarily from both organizations. It was the first withdrawal of a member from either organization since they began operations in 1946. Poland accomplished its withdrawal by informing the U.S. head of mission to Poland who then communicated this
information to the IMF and IBRD through diplomatic channels (NYT, 3/15/50). Poland subsequently sent the Bretton Woods organizations an official letter of withdrawal which focussed on three issues: the effort of the Fund to "force" devaluations upon its members, the alleged "subservience" of the Fund to the U.S., and the failure of the Fund to fulfill the spirit of Bretton Woods, i.e., to assist Poland in reconstructing its economy.11 Poland's Ambassador to the U.S., Josef Winiewicz explained that Poland had tolerated the faults of the Bank and Fund for so long only in the hope that it could effect a change in Bank and Fund policies (NYT, 3/16/50), but Poland's inability to obtain a loan after a four-year effort and recurring conflicts with both organizations convinced Polish authorities that they could have little or no effect on Bank and Fund policies. Furthermore, it appeared to the Poles that costs of membership would soon exceed the benefits; consequently, the Poles withdrew.

The response from the Bank and the Fund came quickly. The IMF and IBRD "rejected summarily" (NYT, 3/16/50) the Polish charges and cited some of their problems with that member, including Poland's reluctance to set a par value for its currency and its failure to contribute 99.9% of its $125 million subscription (NYT, 3/15/50). Officials in the IMF, IBRD, and the U.S. interpreted Poland's withdrawal as part of a Soviet effort to strengthen its control over its satellites by encouraging their withdrawal from U.N. agencies (NYT, 3/15/50, 3/16/50). Camille Gutt, Managing Director of the IMF at the time of the Polish withdrawal, characterized the Polish statement as the "familiar Kremlin line" (NYT, 3/17/50). Perhaps Mr. Gutt was recalling the Soviets'
comments during the U.N. debate on the affiliation agreements with the IMF and IBRD (see p. above). Relations with Polish members of the Fund's staff remained cordial, however, and the Fund's Board of Governors approved an exception to a Fund rule which required that staff members be nationals of Fund members in order to retain the six Polish members on the staff at the time (Horsefield, p. 263).

D. Summary and Analysis

Poland's relationship with the IMF and the IBRD began in a positive atmosphere and slowly disintegrated into mutual accusation. Poland's paramount aim in joining the Fund and Bank was to obtain aid for the reconstruction of its economy. The Final Agreement which emerged from Bretton Woods gave Poland every expectation of achieving this goal. By 1950, however, Poland recognized that reconstruction aid was not likely to be forthcoming in the near future, when it was most critical, and therefore, its primary reason for joining the Bank had disappeared. Poland felt that the Bank's reluctance to lend to Poland was due to a factor which Poland couldn't change: its status as a Soviet satellite. This attribute of the Polish political system was a given and could not be altered without significant and damaging repercussions to Poland's existence as an independent state. As long as Poland remained in the Soviet bloc, therefore, it appeared that it would be highly unlikely that Poland would share in the reconstruction funds being distributed by the Bank and Fund.

In this case, the Bank, in particular, used its resources both to punish Poland's behavior and to induce Poland to change its policies.
The Bank's reluctance and eventual refusal to fund the proposed Polish coal loan was an attempt by the Bank to punish Poland for its failure to pay in its subscription (despite the fact that other nations were also still in arrears) and for its faithful rendering of the Soviet line, both within the Bank and Fund and in the U.N. Poland's criticisms of Bank independence and its support of the PRC were perceived by the Bank as examples of the "Soviet line." IBRD behavior was also an effort to induce Poland to make at least some visible change in its foreign policy. Thus, the Bank was quite explicit in its explanation that it was the lack of Polish independence from the Soviet Union which led to a negative evaluation of the Polish loan.

Political considerations entered the Bank's decision not to lend to Poland during the period 1946-1950 in the evaluation stages. The fact-finding team sent to Poland in the summer of 1947 was specifically instructed to consider Poland's relationship with the Soviet Union in evaluating Polish economic conditions. The Bank's new definition of creditworthiness enabled the Bank to ignore the prohibition in its charter against consideration of political factors and include Polish-Soviet relations as an economic factor in the Polish economy. During the subsequent loan negotiations in Washington, D.C., it was the hostile attitude of one member, the U.S., and Polish comments at the Annual Meeting which contributed in great measure to the Bank's decision not to finance the coal proposal.

Poland's political attributes as a member of the Soviet bloc placed it in the political arena of Bank and Fund lending operations almost from the beginning in 1946. Ensuing Polish foreign policy
reinforced Poland's position in the political arena as is evidenced by the importance of Polish independence in the evaluation of, and eventual rejection of, the Polish coal loan. Transfer of Poland to the technocratic arena would have required either a major shift in Polish foreign policy (and a monumental change in Polish political reality) or a redefinition of the 1946-1950 boundary between the two arenas. Given the mutual suspicions and lack of precedents which characterized the early Cold War period, it is difficult to imagine either alternative as a realistic possibility.

II. Czechoslovakia: Cold War Antagonisms

Czechoslovakia actively participated in the creation of the IMF and the IBRD at both Bretton Woods and at the earlier meeting in Atlantic City, New Jersey. Although its government was not communist at the time of the U.N. Monetary and Financial Conference in 1944, Czechoslovakia shared many of the problems and concerns of the Soviet Union. Like Poland and the U.S.S.R., Czechoslovakia's initial motive for entering into the discussions at Bretton Woods was to encourage the other participants to provide for reconstruction relief for those nations which had been devastated by the war, including Czechoslovakia itself. Accordingly, Czechoslovakia supported Alternative B to the Fund's Article III, Section 3(d) which provided for a postponement of the payment of part of their quotas not to exceed nine months by war-damaged states (Bretton Woods, pp. 25, 233, 628). As was noted above (see p. 120 ), this alternative was accepted in part. The Czech
delegation also suggested a revision in the waiver clause (IMF, Article V, Section 4). Article V, Section 4 permitted the Fund to waive the requirements governing the maximum a member may draw if the Fund deemed it necessary. Passage of the Czech revision would have put more funds at the disposal of the war-damaged countries. This revision instructed the Fund to take into account the "exceptional requirements of members and also their records of avoiding large or continuous use of the Fund's resources" (Bretton Woods, p. 555, the emphasis is this author's). The underscored portion, which is the Czech's revision, was not accepted by the other delegations as part of the Final Act, although subsequent Fund behavior revealed no apparent reluctance by that organization to grant waivers in the early post-war period. Eight months later the U.S. revealed another effort of the Czechs to increase available assistance for reconstruction. Apparently, the Czech delegation was instrumental in "inducing" agreement on emergency financing of "commodity exports to war-devastated nations whose essential inventories had been wiped out by the enemy" (NYT, 3/14/45).

In Commission II at Bretton Woods (on the proposal for the IBRD), the Czechs continued to pursue its reconstruction goal. As part of the discussions on the purposes of the IBRD (Article I (i)(v)), Czechoslovakia submitted Alternative F which, in addition to exhorting the Bank to provide capital for sound and constructive international investment, instructed the Bank to "facilitate smooth transition from war to peace by increasing the flow of international investment" (Bretton Woods, pp. 368-369). Czechoslovakia's motives were especially apparent in their support of Alternative H to Bank Article III,
Section 4. The Czechs proposed that particularly during the early post-war period the Bank make loans for reconstruction and recovery purposes which would give war-devastated members some "breathing space" (Bretton Woods, p. 378). This proposal resembles the Polish idea of giving war-damaged states an "even chance for development" (mentioned on p. 119).

In spite of the relative lack of success of the Czech suggestions at Bretton Woods, the Czechs signed the Bretton Woods agreement as an original member, prior to the December 31, 1945 deadline (NYT, 12/28/45). At the first meeting of the Bank and Fund in Savannah, Georgia on March 8, 1946, Dr. Jan Viktor Mladek, Czech Minister of Finance, anxiously urged other members at the Savannah meeting to recognize the "'realities' of different social and economic institutions in various countries and not to overlook these 'fundamental differences' . . ." (NYT, 3/9/46). Conceivably, this statement was one of the reasons the Czechs took a leading role with the support of the U.S., Poland, and Yugoslavia in extending the period for original membership to December, 1946, in order to give reluctant participants from Bretton Woods, particularly the U.S.S.R., more time to evaluate membership in the IMF and the IBRD (NYT, 3/14/46). Czechoslovakia and Poland again joined the U.S. in promoting Washington, D.C. as the future headquarters of both the World Bank and the IMF (Horsefield, p. 130). The controversy over Bank and Fund agreements with the U.N. provided another indication of Czechoslovakia's willingness to cooperate with other Bretton Woods supporters in the early years of Bank and Fund operations. A Czech, Dr. Jan Papanek, chaired an EcoSoc special
committee which agreed to the major principles of the U.N.-IMF and U.N.-IBRD accords, especially the provision in which the U.N. agreed to waive its rights to make recommendations on Bank and Fund loans (NYT, 8/16/47). When the issue came to a vote in the September, 1947, session of EcoSoc, Czechoslovakia abstained (Mason, p. 54).

Czechoslovakia also benefitted from some of the concessions made at Bretton Woods. Czechoslovakia was one of the six war-damaged countries permitted to defer part of their subscription payment to the Fund and the Bank for five years. In fact, Czechoslovakia was one of only two states which were given special consideration and allowed to defer the full 2% of its initial subscription payment under Article II, Section 8(a) (the four remaining countries deferring payments deferred only 1/2 of 1%) (NYT, 8/31/46). As a war-damaged state, Czechoslovakia profitted from two of the concessions won at Bretton Woods, and its membership appeared to the Czechs to be justified.

The Czechs attempted to realize their second goal, World Bank loans to restore the ravaged Czech economy, in the summer of 1946. In August, 1946, Czechoslovakia applied for a reconstruction loan of $350 million from the World Bank. It was the second application for assistance made to the Bank, and Bank officials requested Czechoslovakia to supply the necessary data (NYT, 8/29/46; Mason, p. 171). As "prolonged and serious negotiations" (Mason, p. 171) continued a year later, the proposed loan was eagerly discussed in Prague newspapers with no reference to the possibility of "enslavement" — a concern expressed by the Soviet Union at Bretton Woods (NYT, 4/28/47). Failure of the Czechs to furnish information with respect to their plans for spending the loan
funds and strong signs of recovery in the Czech economy in 1946 ham-
pered progress in the negotiations between the Czech government and the

A. The Beginning of Conflict

As the brief description provided above indicates, Czechoslovakia's conflicts with the Bank and Fund began soon after those organizations commenced their operations and continued until Czechoslovakia withdrew from the Bank and Fund in 1954. In the follow-
ing account Czech problems with the IMF and the IBRD are examined indi-
vidually rather than chronologically since many of Czechoslovakia's
conflicts with the two organizations, while occurring simultaneously,
were actually separate issues. The sources of the Czech controversy in
the Bank and Fund are examined in detail in the following order:


2. Czech criticisms expressed during Bank and Fund annual
   meetings.

3. Czech failure to complete its World Bank subscription.

4. Revaluation of the koruna.

5. Changes in the value of the Fund's account in korunas.

6. Provision of required information to the IMF.

A Communist coup in Czechoslovakia in February, 1948, effectively
brought negotiations on the Czech loan to a standstill. Immediately
after assuming power, the new Communist regime began to institute
reforms which would ultimately transform the Czech political and eco-
nomic system into a model Soviet-style system with democratic
centralism and central planning as the organizing principles. Czech foreign policy throughout the post-war period had been staunchly pro-Soviet; therefore, Czechoslovakia after February, 1948, was an almost perfect example of a Soviet-style Communist regime.¹²

IBRD president McCloy, when asked about the status of the Czech loan after the coup, demurred by stating that although World Bank action on the loan had been "impaired" by the coup, it was still under consideration. He revealed that the Bank had been considering sending a fact-finding mission to Czechoslovakia (an essential step in the lending process) but that decision had been postponed pending a detailed investigation of post-coup Czech conditions (NYT, 3/3/48). There were significant pressures, both internal and external to the Bank, which opposed a loan to a Communist Czechoslovakia. In addition to doubts about Czech independence from the Soviet Union,¹³ there was some concern that a World Bank loan to post-coup Czechoslovakia "would enable her to finance the reorientation of her trade in heavy industrial goods to the East, particularly to the Soviet Union" (NYT, 11/2/47). In effect, a World Bank loan would give Czechoslovakia, in this view, the ability to pay for its raw material imports from the West with money instead of exports, leaving Czechoslovakian exports free to be employed in the Soviet Union's reconstruction effort. Other sources in the West also worried that the loan would facilitate Czech nationalization of foreign-owned business interests (NYT, 11/2/47). It is interesting that the Czech rejoinder to these expressions of apprehension did not include a criticism of their essentially political nature, but merely responded in kind by asserting that credits were
essential to Czech trade with the West and would actually prevent the Czech economy from absorption by the East (NYT, 11/2/47).

More damaging to the future of the Czech loan was the impact that the Communist coup had on individual members of the Bank whose cooperation was necessary to the success of the project, if and when it was approved. For example, inability to come to an agreement with importing countries after the February coup led Czechoslovakia to withdraw from a multi-member timber project proposal under consideration by the World Bank (Mason, p. 168). The strong, negative reaction of the U.S. to the Czech coup was even more detrimental to the prospects for a Bank loan to Czechoslovakia. Aside from Bank concern about the reaction of U.S. investors in Bank securities, it was generally rumored in Washington, D.C. "that the new Prague Government . . . had far less chance than its predecessor of receiving" the loan from the Bank (NYT, 2/27/48), because, as some U.S. officials privately declared, the U.S. reaction against the coup was so strong that U.S. "action to put a general barrier to all economic aid to a Prague under Communist control was quite likely" (NYT, 2/27/48). In an attempt to forestall accusations of violation of its charter in the face of these obviously non-economic objections to the Czech loan, World Bank President McCloy asserted that the definition of economic criteria included political events and political criteria when those political factors were likely to affect a member's ability to meet its obligations to the Bank. 15

The proposed World Bank loan was not the Czech's only source of funds stemming from its participation at Bretton Woods. According to the Fund's Articles of Agreement, any member in good standing with the
Fund had automatic access to an amount equal to 25% of its quota, the gold or reserve tranche. In 1948, as the prospects of a World Bank loan rapidly disappeared, Czechoslovakia availed itself of a portion of its reserve tranche ($6 million) to meet a temporary balance of payments crisis (NYT, 1/6/55; Horsefield, p. 226). Aside from declaring Czechoslovakia ineligible to use Fund resources, there was virtually nothing the IMF could have done to prevent Czech use of the reserve tranche, even if it had desired to do so.

B. Czech Proposals and Their Effects

Soon after Czechoslovakia's transition to a Communist government, relations between Czechoslovakia and the Bretton Woods organizations began to deteriorate. Evidence of Czech displeasure with the Bank and the Fund began to surface at the annual meetings of both organizations. At the 1948 Annual Meeting of the Bank and Fund, Czechoslovakia joined Poland and Yugoslavia in criticizing the apparent preoccupation of the Bank and Fund with the problems of Western Europe and the "insufficient attention" paid to the recovery of the Eastern European economies (NYT, 9/29/48). Although Czechoslovakia gave "qualified approval" to the annual reports of the two organizations (NYT, 9/29/48), it charged that both reports contained material that was "politically motivated" and that political considerations had actually entered the consideration of Eastern European applications for reconstruction assistance (NYT, 9/30/48). At the 1949 annual meetings, Czechoslovakia vigorously objected to the across-the-board devaluation of currencies then being
recommended by the IMF and suggested public sessions to give members an opportunity to air publicly their opinions on the devaluation dispute (NYT, 9/14/49). Czechoslovakia was fast becoming the outspoken leader for dissatisfied members within the IMF and IBRD.

Czechoslovakia pursued one of its special interests as a Communist country in its continual championing of the PRC in the Bank and Fund between 1950 and 1954. In February, 1950, the Executive Director representing Czechoslovakia, Poland and Yugoslavia (a Czech), objected to the Governor and Executive Director for China and claimed that only the Communist government of the Peoples' Republic of China had the right to represent China in both the Bank and Fund. The issue was sent to the Board of Governors which rejected the motion. With that decision, Mr. Sucharda, the Executive Director who initiated the challenge withdrew from any further participation in the Executive Directors or annual meetings (Gold, Membership, pp. 67-68; Horsefield, p. 258). The Czech delegation resubmitted the proposal to unseat the Nationalist Chinese to the entire Bank and Fund membership at the September, 1950, annual meetings. Yugoslavia, Poland, and India joined Czechoslovakia in supporting the proposal which was soundly defeated after the Philippines suggested that the motion was out of order due to its purely political nature (Horsefield, pp. 258-259; NYT, 12/30/53).

"Fireworks" erupted (NYT, 9/11/51) when the Czech representative, Jaroslav Docekal, introduced another motion to replace the Nationalist Chinese on the premise that 500 million Chinese had rejected the Nationalists in favor of the Communist-led PRC (NYT, 9/11/51). The motion was supported by Ceylon and India but was vigorously opposed by
the U.S., U.K., China, and the Philippines as "wholly provocative in purpose" (NYT, 9/11/51; Horsefield, p. 259). The membership of the IMF and IBRD voted, 43-3, to "postpone indefinitely" consideration of the motion, effectively defeating it (NYT, 9/11/51).

During the 1951 annual meetings Czechoslovakia sought to advance further the PRC's cause. The Czechs attempted to convince other members to pass a vote of censure of the U.S. on the grounds that the U.S. trade embargo of Communist China was in violation of the Bretton Woods agreements. In retaliation the U.S. representative "reminded" the Czechs that they still owed a significant portion of their subscription to the World Bank. The Czechs' motion was referred to the Executive Directors where it died (NYT, 9/13/51).

Czech dissatisfaction sounded again at the 1952 annual meetings. The Czechs repeated the charge of Bank "complete subservience" to U.S. foreign policy (NYT, 9/5/52) and renewed their efforts to oust Taiwan. The Czechs' allies on this unsuccessful occasion were India and Burma. At the 1954 annual meetings the by now familiar Czech motion to expel the Nationalist Chinese was accompanied by a U.S. motion to expel Czechoslovakia (see discussion below).

By 1953, Czechoslovakia's position in the IMF and IBRD had deteriorated. In December of that year Czechoslovakia became the first country declared ineligible by the Fund to use its resources. At approximately the same time, the World Bank threatened Czechoslovakia with involuntary suspension for failing to pay in the remaining portion of its subscription. The Czechs' disagreements with both the Fund and
the Bank were not resolved and in December, 1954, Czechoslovakia was expelled from both organizations.

C. Expulsion from the IBRD

Czechoslovakia's problems with the World Bank were focussed on its failure to pay in the remaining $625 thousand of its capital subscription within the five-year period allotted to it. In 1946, Czechoslovakia requested a five-year postponement on the payment of 0.5% of its capital subscription to the World Bank due to economic difficulties stemming from World War II (NYT, 12/30/53). The Bank discussed the problem of the Czech "default" of the 0.5% in 1951 but took no action at that time (NYT, 12/30/53). During the 1951 investigation of the Czechs' failure to meet this obligation, the Bank claimed that Czechoslovakia was in default for failing to complete its subscription within the five years as required in the Bank's Articles (Article II, Section 8(a)(i)). Czechoslovakia countered this claim by arguing that in terms of Article II, Section 8(a)(ii), there was no time limit specified for the payment of the remaining 0.5%.

Matters came to a climax at the September, 1953 meeting when Bank officials set December 31, 1953 as the deadline for payment of the subscription after which Czechoslovakia would be suspended from membership (NYT, 9/10/53, 9/13/53). As of January 5, 1954, the World Bank had received no communication whatsoever from Czechoslovakia and informed Czech authorities that failure to make payment by 12/31/54 would result in expulsion (NYT, 1/2/54, 1/5/54). Suspension from the Bank meant that Czechoslovakia could not participate in Bank business and could
not receive any funds from that organization. Czechoslovakia had no outstanding loans or loan applications with the Bank at the time, and there were no Czech nationals employed at the Bank. The Czechs had withdrawn from active participation in the Bank in 1951 (as a result of the dispute over PRC membership) so that suspension did not significantly alter Czech plans (NYT, 1/5/54). The IBRD expelled Czechoslovakia from membership on December 31, 1954, citing failure to complete its capital subscription as the reason for expulsion.

D. Expulsion from the IMF

At the end of May, 1953, the Czech government undertook a "drastic" revaluation of the koruna to counter inflation. The revaluation was particularly hard on bank accounts, including the Fund's account in korunas (NYT, 5/31/53; Gold, Membership, p. 345). In addition to countering inflation, the currency reform had two, more political purposes. The revaluation of the koruna virtually eliminated the value of Czech currency held by what the regime considered to be the anti-Communist middle class, the wealthy, and hoarders (NYT, 5/31/53). A "new" currency was created by designating a series of exchange rates which varied from 50:1 to 5:1 old korunas to new korunas (NYT, 5/31/53). The exchange rate for external or foreign transactions was also changed, appreciating from 50 korunas per $1 to 7.2 korunas per $1. All of this was accomplished without prior consultation with the Fund as was required in Article IV. The controversy which subsequently erupted between Czechoslovakia and the Fund centered on two issues: Did the change in the value of the koruna affect Czechoslovakia's international
transactions with other members, and was Czechoslovakia required to consult with the Fund in either case (Horsefield, p. 359)?

Czech officials argued that the change in the value of the koruna had no effect on its international transactions with other members of the Fund because Czech trade was state-controlled and not governed by world prices (Horsefield, p. 360). Thus, the prices used in Czech foreign trade were arbitrarily set through negotiations between Czechoslovakia and its trading partners and were not necessarily based on prevailing world prices. Czechoslovakia also explained that the majority of its trade transactions were also conducted solely in foreign currencies so that the value of the koruna was irrelevant. The Czechs then cited Article IV, Section 5(e) of the Fund's charter, which read:

(e) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund (IMF, Articles of Agreement, p. 6).

to support its contention that consultation with the Fund was not necessary since, as was described above, a change in the value of the koruna was purely of internal concern (Gold, Membership, p. 353). In fact, Czechoslovakia argued, Section 5(e) of Article IV was "included in the Articles in order to make membership available to socialist economies" (Gold, Membership, p. 353) which needed the flexibility contained in that section to realign their economies periodically. Further, the Czechs claimed that the clause "does not affect" in Article IV, Section 5(e) actually meant "does not adversely affect," and as none of its trading partners was complaining, Czechoslovakia assumed
that none of them had been adversely affected (Horsefield, p. 360). As for the question of whether Czechoslovakia should have consulted the Fund, i.e., whether Article IV, Section 5(e) applied or not, Czechoslovakia contended that

"The Fund had only such jurisdiction as had been conferred on it by the agreement of sovereign states, and if there was doubt about the meaning of a provision, it must be interpreted in a way that favored sovereign rights" (Gold, Membership, p. 352).

The Fund rejected Czechoslovakia's interpretation of Article IV, Section 5(e) and noted that the absence of complaints by Czechoslovakia's trading partners did NOT indicate the absence of adverse effects. The Fund asserted that, in fact, revaluation of the koruna would have a negative impact on trade on invisibles between Czechoslovakia and other Fund members (Gold, Membership, p. 359). Fund officials also refuted the Czech's argument that the revaluation of the koruna fell under the provision of Article IV, Section 5(e) at all. The Fund persisted in interpreting the Czech action in light of Section 5(f) of Article IV which stated:

(f) The Fund shall concur in a proposed change . . . if it is satisfied that the change is necessary to correct a fundamental disequilibrium (in the balance of payments). In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change (Articles of Agreement, p. 6).

The Fund argued that the Czech change in the koruna might have been considered a move to correct a fundamental disequilibrium in its balance of payments if it had not also been accompanied by a change in the relative price structure. Even if the price structure had not been altered, the Fund continued, the Fund could not determine whether the
devaluation was necessary to correct a fundamental disequilibrium because Czechoslovakia had not provided any economic data which the Fund could have used to evaluate the situation (Horsefield, p. 360). A request for such information was tendered to Czechoslovakia by the Fund at the end of 1953 (Horsefield, p. 360).

Czechoslovakia's revaluation of the koruna also generated several related problems in its dispute with the Fund. The change from "old money" to "new" created a definitional problem which complicated Czechoslovakia's relations with the Fund. On August 14, 1953, 2 1/2 months after the revaluation of the koruna, the Czech State Bank informed the Fund that its account in korunas had been devalued, as had all Czech bank accounts (Gold, Membership, p. 346). In response to the Fund's immediate and vigorous objections, Czechoslovakia restored the Fund's account in "old" money (Horsefield, p. 361). The Fund continued to object to this "ambiguous response" (Horsefield, p. 361) since the actual value of "old" korunas was unclear and thus, the Fund was unsure whether the value of its account had actually been restored. The value of "new" korunas again came into question when the Czechs made payments on their loan charges in "new" korunas (Horsefield, p. 360). Since the Fund had not recognized, or accepted, the Czech revaluation, it considered the "new" koruna a "non-existent currency," and therefore, not acceptable as payment on loan charges (Gold, Membership, p. 350). As a result, Czechoslovakia was considered in default for failing to pay the last two quarterly installments of its loan charges (Gold, Membership, p. 346).
Revaluation of the koruna not only revealed Czech and Fund differences in the interpretation of Article IV, Section 5(e), but also created doubts about the meaning of Article VIII, Section 5, on the provision of information (Articles of Agreement, p. 18). As was mentioned earlier in this section (see p. 141 above), the Fund felt that it was unable to determine whether the koruna's revaluation was necessary because Czechoslovakia had not complied with Article VIII, Section 5 in furnishing the Fund with information about its economy. Czechoslovakia explained that its refusal to provide information about its economy was due to reasons of national security. Czechoslovakia also claimed that, since all Czech international trade was conducted by a single organization, providing the required information would have actually violated Section 5(b) of Article VIII which excused members from providing information "in such detail that the affairs of individuals or corporations are disclosed." At four meetings of the Executive Directors, the Fund rejected the second of Czechoslovakia's defenses, and debated whether national security was indeed a sufficient justification for withholding the required information (Horsefield, p. 363).

In defense of its position, Czechoslovakia referred to an earlier case in which a member was permitted to violate one of the Fund's Articles on the grounds of national security. In 1950, the United States imposed restrictions on payments to the PRC and North Korea as part of its actions against those countries during the Korean War. The U.S. action was in violation of Article VIII, Section 3. The U.S. justified its position by citing the precedents set in GATT and the ITO,
and by claiming its sovereign rights. Frank J. Southard, Jr., the U.S.
appointed Executive Director, contended that

"a financial authority such as the Board (of Governors of the
IMF) was not a suitable forum for the evaluation of the need
for restrictions on security grounds. He suggested that the
Fund should merely note his Government's action . . . ." (Horsefield, p. 275).

The Fund yielded to the arguments of the U.S. but devised a policy to
guide Fund actions toward future violations of Article VIII. The new
policy required members violating Article VIII to: (1) inform the
Fund's Managing Director in advance of applying restrictions; (2) the
Managing Director would then advise the Executive Directors of the mem-
ber's decision and its reasons for applying restrictions; (3) if the
member was not informed by the Fund to cease restrictions within 30
days, the member would not be considered in violation of Article VIII;
and (4) the Fund reserved the right to review periodically the member's
decision and to recommend changes in that decision (Horsefield,
p. 276). With respect to Czechoslovakia, the Fund found that the Czech
situation differed from the U.S. decision in 1950 in that the Czechs
had not complied with (1) of the new policy — giving the Fund the
opportunity to judge in advance whether the refusal to provide informa-
tion was warranted by the circumstances (Horsefield, p. 363).

This controversy over the provision of data under IMF Article
VIII, Section 5 was intimately related to growing hostility between
Czechoslovakia and the United States. It was the U.S. Executive
Director, F. J. Southard, Jr., who initiated the procedure to declare
Czechoslovakia ineligible to use Fund resources on September 4, 1953,
claiming that Czechoslovakia had failed to fulfill its obligations to
the Fund, and therefore, was eligible for compulsory withdrawal (under IMF Article XV, Section 2(a); Articles, p. 30). Other Executive Directors appeared to view the U.S. proposal as precipitous and sought to resolve matters with Czechoslovakia. The U.S. responded by broadening its case against Czechoslovakia to include not only the Czech default on loan charges but the Czech failure to consult the Fund on the change in the value of the koruna and its refusal to provide information on its exports, imports, balance of payments, national income, and price indices (Horsefield, p. 362). On November 4, 1953, the U.S. successfully pursued the issue of Czechoslovakia's ineligibility in the Executive Directors meeting (Horsefield, p. 361).

The decision to declare Czechoslovakia ineligible on November 4, 1953 was achieved by a vote of the Fund's Board of Governors. The final tally was 86,665 to 0 for ineligibility, with three Governors abstaining who were entitled to cast a total of 12,700 votes (Gold, Membership, p. 367; Horsefield, p. 361). Since decisions in the Fund's Board of Governors were (and are) usually made according to the "sense of the meeting," the fact that the Czech ineligibility decision prompted a formal vote testified to the seriousness with which the Board of Governors regarded the issue. As in the Bank, Czechoslovakia was given until December 31, 1954 to settle the outstanding issues in its disagreements with the Fund or it would be expelled (Horsefield, p. 363; NYT, 9/29/54). Only Czechoslovakia and India opposed this decision; Burma, Ceylon, Finland, Iceland, Indochina, Iran, Jordan, Lebanon, and Yugoslavia abstained from voting on this measure (NYT, 9/29/54).
The Czech delegate, Julius Hajck, offered data on Czech national income but claimed that Czechoslovakia hadn't calculated price indices, and thus, was unable to provide such data to the Fund. He then invoked national security as a reason to justify withholding the remainder of the data mentioned by the U.S. Executive Director. Mr. Hajck alleged that provision of such information "would aid the United States in pursuing its 'hostile' trade policy" toward Czechoslovakia and would contribute to the "economic cold war" then being waged against members of the Soviet bloc (Gold, Membership, p. 356; NYT, 9/29/54). Czechoslovakia argued that international law entitled it to defend itself against such aggressive and discriminatory actions (Gold, Membership, p. 362). The U.S. representative continued to discount the Czechs' defenses, however, arguing that the provision of data was an obligation of membership that was essential to the operation of the Fund (NYT, 9/29/54). On September 28, 1954, on a motion by the U.S., the Board of Governors of the IMF voted to expel Czechoslovakia from membership, effective December 31, 1954, if Czechoslovakia had not fulfilled its obligations to the Fund by that time. The role of the U.S. Executive Director in both motions against Czechoslovakia indicated the deteriorating state of Czech-U.S. relations, and the U.S. can certainly be considered a contributing factor to the Czechs' ultimate withdrawal from the IMF. The Czechs made no further progress in its disputes with the Fund and was consequently expelled on the date stipulated in the motion (NYT, 1/6/55). The Czech government refused to recognize this action and sent a letter to the Bank and Fund withdrawing voluntarily (Horsefield, p. 363). As in the
Polish case, the five Czech members of the Fund's staff were retained (Horsefield, p. 363). Eighteen months had passed since the beginning of Czechoslovakia's disputes with the IMF.

E. Analysis and Summary

Czechoslovakia's relations with the IMF and the IBRD were an excellent example of the influences on lending policy of political variables in the Bank and Fund's environment which were not directly related to Bank and Fund operations. Early Czech transactions with the Fund and the World Bank, prior to the coup in 1948, had been relatively free of conflict, and Czechoslovakia seemed confident that its reason for joining the two organizations would be realized. Deterioration in Czech relations with the Bretton Woods organizations occurred simultaneously with the Czech Communist coup in February, 1948 and the intensification of the Cold War between Czechoslovakia and the United States.

The issues which formed the core of Czechoslovakia's problems with the IMF and the World Bank illustrated the contradictions of including state-trading members in two international organizations created along primarily capitalist lines. These contradictions, which surfaced during the Bretton Woods conference, had never been completely eliminated, despite Soviet input into all important discussions. The attitude toward participation of state-trading countries in the Bank and the Fund had undergone a significant shift since Bretton Woods, however, and this was evident in the way the Bank and the Fund interpreted those articles included in their charters specifically to ease state-trading
membership. Three articles of the charters of the Bretton Woods organizations which the Soviet Union had been particularly instrumental in composing were at the heart of the Czech controversy: Fund Article IV, Section 5, on changes in par values; Article VIII, Section 5, on the provision of information; and Bank and Fund Articles III, Section 3, on the payments of subscriptions. The wording of these articles was ambiguous; this permitted the Bank and Fund to interpret these articles in a manner detrimental to Czechoslovakia in 1954, and, in all probability, contrary to the intent of Bretton Woods. The interpretation of the Bank and Fund was certainly contrary to the intent of the Soviet Union during the conference.

Czechoslovakia's problems with the Bank and Fund were concentrated around the default, provision of information, and change of exchange rate issues. Yet Czechoslovakia was not the first country to confront the Bank and Fund with these problems. For example, at the time that the World Bank was investigating whether Czechoslovakia was in default on the remaining portion of its capital subscription, Nationalist China also had not paid in its entire capital subscription (NYT, 12/30/53). As discussed above, the U.S. had violated one of the Fund's articles in 1950. The procedure which was devised by the Fund to deal with future violations of Article VIII did not address the principle issue from which it had arisen: the U.S. violation of Article VIII. In essence, the procedure was merely a rubber stamp for U.S. misconduct. Czechoslovakia's status as a state-trading nation further complicated the information issue. In order for the Fund to determine whether the Czech national security defense was justified, the Fund would have
needed some of the very information the Czechs were withholding, and the Czechs would not release this information as long as the U.S., whom the Czechs considered to be the biggest threat to their national security, had access to such information. It was a stalemate which the Fund did not seem very anxious to break.

Finally, Czechoslovakia's insistence on its sovereign right to change the value of the koruna reflected the French argument of only six years before. The French refusal to comply with the Fund's demands resulted in the automatic ineligibility of France to use Fund resources. France remained ineligible for four years. Czech became ineligible to use the Fund's resources after only seven months and was expelled a year later, despite its concessions and continual efforts to resolve the conflict. Clearly, Czechoslovakia's problems with the Fund were not unusual, yet the consequences of those problems was unusual — Czechoslovakia was the only case of compulsory withdrawal from the IMF and IBRD between 1946 and 1980.

Czechoslovakia's problems with the Fund and the Bank originated in a combination of its ascriptive and behavioral characteristics. The question of the effect on the international economy of changes in the internal structure of the Czech economy was intricately connected with Czechoslovakia's ascriptive position as a state-trading economy. The Fund rejected the Czech argument that the revaluation of the koruna did not affect its international transactions on the basis of transactions in invisibles which could only be a very small part of trade which is monopolized by the state. Czechoslovakia's status as a Communist country after 1948; also affected its treatment in the Bank and Fund. In
the eyes of the Bank, Czechoslovakia was no longer a good credit risk, and therefore, was practically ineligible for reconstruction assistance, at least for the period in which it was most needed.

Given the issues with the Soviet Union at Bretton Woods, Czechoslovakia's (and Poland's) status as a state-trading nation almost insured that Czechoslovakia would have problems with the Fund. The centralized nature of a state-trading, centrally-planned economy was inconsistent (but not necessarily incompatible) with the structure of the international economy that was envisioned at Bretton Woods. The Articles of the Fund, in particular, contained many regulations which pertained to market-type economies, but there were few, if any, references to procedures found in state-trading countries. Centrally-planned economies were expected to adapt themselves as best they could to the international economic system founded at the U.N. Monetary and Financial Conference, and when the inconsistencies of these arrangements in their application to centrally-planned economies became apparent, procedures were altered to make them consistent with capitalist methods, as the Czech case demonstrates.

A behavioral characteristic, Czech relations with the U.S., had the greatest impact on Czech success, or lack of, in the Bretton Woods organizations. The mutual suspicion and hostility between Czechoslovakia and the U.S., which was perhaps the most influential member of both the Bank and the Fund at the time, generated in part the conflicts which led to the Czechs' ouster. In particular, Czechoslovakia's refusal to supply certain economic information was a
direct consequence of the Czechs' perception of U.S. hostility. The Cold War had once again penetrated the Fund and the Bank.

Czechoslovakia's alliance with the Soviet Union was a part of its foreign policy which Czechoslovakia could not change and in this context, should be considered as an ascriptive characteristic. Like Poland, Czechoslovakia had little choice but to maintain close and friendly relations with the Soviet Union. It is unclear today whether the Czech population would have continued to support a Communist regime without the threat of Soviet interference. In any case, Czechoslovakia could not have changed its relationship with the Soviet Union, and as a result, the Bank estimated that the probability of a Soviet-ordered Czech default was at least high enough to warrant extreme caution.

Political considerations thus entered Bank and Fund lending decisions at the evaluation, negotiation, and final decision stages, with the usual result being a decision NOT to lend. In this sense, the Bank used its refusal to extend assistance to Czechoslovakia as a means of punishing Czechoslovakia for its alliance with the Soviet Union and its hostility to the U.S., and as a means of inducing the Czechs to change at least their behavior toward the U.S. It is unlikely that Bank and Fund members and officials believed that Czech relations with the Soviet Union could have been substantially altered due to the strong position of the Czech Communist Party at that time and the presence of at least a marginal amount of support for the regime in the Czech population. Czechoslovakia, then, provides a clear example of the influence of political inputs, particularly foreign policy, into Bank and Fund decisions to lend.
III. Cuba and U.S. Influence

In 1948, when Cuba participated at the Bretton Woods Conference, Cuba was not yet a Communist country. At the time of Bretton Woods, and until 1959, Cuba was a loyal U.S. ally. The Cuban economy was capitalistic, and the political system was nominally a democracy. The Cuban economy during this period, 1948-1959, was heavily dependent on the U.S. for a market for its chief crop, sugar. As a result, Cuba's economy was particularly dependent on the goodwill of the U.S. and the condition of the international economy. It was in Cuba's best interests to join the Bretton Woods organizations since stabilization of the world economy was the primary goal of the Bretton Woods idea. Cuban relations with the IMF and the IBRD remained cordial during the first decade of Bank and Fund operations, but quickly disintegrated after Fidel Castro, leader of the 1959 revolution, proclaimed Cuba a socialist state in 1961. Cuba voluntarily withdrew from the World Bank and the IMF in 1964 after the Fund had instituted ineligibility proceedings against it.

Beginning in 1959, the Cuban economy entered a prolonged period of transition and disruption (Horsefield, p. 548). By 1960, Fidel Castro had begun to move Cuban society in the direction of a Soviet-type socialist state. This necessitated a corresponding shift toward the Soviet Union in Cuban foreign policy. The revolution, Cuba's subsequent shift toward socialism, and a pro-Soviet foreign policy had created a climate of uncertainty with respect to the future course and stability of the Cuban economy. By 1961, it was no longer clear
whether Cuba would be able to pay its debts, a condition abhorred by bankers (Hayter, p. 32). Cuba’s nationalizations of foreign- and privately-owned industries in 1960 focussed the attention of Western investors, including the World Bank, on the vastly magnified risks of investing in Cuba (Mason, p. 344). It was Bank policy to refrain from lending to any state which had nationalized foreign-owned property without adequate compensation; accordingly, the Bank ceased any further consideration of Cuban projects.

A. Cuban "Default"

Cuba’s problems with the Fund stemmed from a loan which the previous Batista regime had contracted. In September, 1958, Cuba made a $25 million drawing from the Fund which it had originally agreed to repurchase within six months.28 The Cubans requested, and were granted, three postponements—in March/April, 1959; March, 1960; and December, 1961. The normal period for the repurchase of a drawing was five years, and the Fund had extended this period only once since February, 1952. In December, 1961, Cuba arranged with the Fund to repurchase part of its drawing beginning in September, 1962 but in August of that same year wrote to request another postponement to March, 1963. In requesting this deferment in August, 1962, Cuba cited "unforeseen circumstances" which had disrupted the economy and made it unable to muster the resources to repay its loan (Horsefield, p. 548). Among these circumstances was a decline in the international market for Cuban sugar due to the total embargo placed on Cuban products by the U.S. in December, 1961. The Cuban regime estimated that its economic position
was improving such that it could begin to repurchase its drawing in 1964. The Fund refused the Cubans another extension, citing the rule that a drawing must be repurchased within five years of the drawing. Cuba was, therefore, required to repurchase its $25 million drawing by September, 1963.

The Fund had attempted to ascertain the Cubans' intentions with respect to default. On October 11, 1958, the Managing Director of the Fund sent a letter of inquiry to the Cuban government but received no reply. In the Report of the Managing Director of September 25, 1958, the Managing Director cited Cuba's failure to fulfill its obligations under the Articles of Agreement and thus, initiated ineligibility proceedings against that member (Gold, *Membership*, p. 345). Several charges were levelled against Cuba in the report, including

1. Cuba's neglect in repurchasing its 1958 drawing within the allotted five years, even though the charges had been paid,

2. the nonfulfillment of Cuba's extra subscription payment stemming from its acceptance of an increase in its quota,

3. the refusal of the Cuban government to furnish several pieces of information about its economy required under Article VIII, Section 5 of the Fund's Articles, beginning in 1959,

4. Cuba's unwillingness to provide information on its exchange practices since 1960 (Gold, *Membership*, p. 342; Horsefield, p. 549).

The fund again inquired about Cuba's intentions in December, 1963, and once again, Cuba did not reply. Managing Director P. P. Schweitzer recommended to the Fund's Board of Governors in January, 1964, that Cuba be declared ineligible to use the Fund's resources due to Cuba's
failure to fulfill its obligations as noted above. Using the Czech precedent, the Board of Governors set a date, April 15, 1964, to consider Mr. Schweitzer's proposal. On April 2, 1964, Cuba voluntarily withdrew from the Fund and the Bank (Horsefield, p. 549; Gold, Membership, pp. 344, 481).

B. Analysis and Summary

The immediate cause of the Cubans' conflict with the Fund was Cuba's failure to repurchase its drawing within the required time period. In that sense, the Fund's attempt to declare Cuba ineligible could be considered a punishment strategy, albeit a justifiable one. But there were other circumstances which contributed to the Cuban conflict with the Fund. The Cuban move toward the Soviet Union magnified fears about a possible Cuban default since Soviet hostility to the Fund had not abated. In addition, a Communist Cuba, with its concomitant nationalizations of all private foreign investment, threatened the financial interests of the largest member of the Fund, the United States. These two factors did not create a conciliatory atmosphere in the Fund.

On the opposite side, the Cubans perceived an atmosphere of increasing hostility, especially on the part of the United States. The Bay of Pigs invasion in April, 1960, the Missle Crisis in August, 1962 (which coincided with the last Cuban request for a deferment), and the embargo which began in December, 1961, were all perceived as acts of aggression initiated by the U.S. to destroy the new Communist regime. Since the U.S. was still the most influential member of the Fund at
that time, it was logical of Cuba to assume that U.S. hostility would extend to U.S. participation in the Fund and that future participation of Cuba in that organization would be fruitless.

It is interesting to speculate here about the effects that a different Fund strategy would have had. Edward Gonzalez contends that the Cubans' turn toward the U.S.S.R. was motivated by the intense and active hostility to the Revolution displayed by the U.S.\textsuperscript{29} The Cubans sought support for their economy from any source as it found itself increasingly isolated by the U.S. embargo. The Fund and Bank might have provided such support and thus, have retarded, or even prevented, subsequent Cuban dependence on Soviet aid. The influential position of the U.S. in the Fund precluded such a policy of inducement, however. The Cold War relationships of its largest member once again kept the Fund from adapting its procedures to the problems of a state-trading member.

IV. Bretton Woods and Communist Members: The Failures

The failure of the Bank and Fund to adapt to the requirements and problems of their state-trading members was due to essentially political factors. The Bretton Woods agreements provided little guidance for the fledgling organizations in their disagreements with Poland and Czechoslovakia, and as a result, what ambiguities existed in the Articles of Agreement were resolved in a manner consistent with the beliefs and training of Bank and Fund staff and the majority of Bank and Fund members. Even when the objective economic conditions in the
Soviet-style Communist members seemed favorable, the Bank and Fund's emphasis on lending to only "good risks" worked to exclude loans to their pro-Soviet members (NYT, 8/16/47) since those countries could not guarantee that Soviet actions would not interfere with their efforts to meet their obligations to the IMF and IBRD. This fact was especially true in the cases of the Polish and Czech cases in the early Bank and Fund years.

U.S. foreign policy also had an impact on Fund and Bank perceptions of their Soviet-style Communist members. Contrary to the beliefs of the IMF (Gold, Voting, p. 5), the Cold War did intrude upon the operations of the Fund and Bank through the actions of the U.S., the member with the largest subscription, quota, and votes in both organizations (NYT, 8/16/47). U.S. conflicts with the Soviet Union and Czechoslovakia in the U.N. and other arenas appeared in decisions of the Bretton Woods organizations when the U.S. opposed loans to Poland and Czechoslovakia from 1948 to 1950, and pushed for the expulsion of Czechoslovakia in 1954 despite evidence that the Czechs' actions were not without precedents in the IMF and IBRD. In the Cuban case, U.S. actions had contributed to the disruption of the Cuban economy which consequently hampered Cuba's ability to meet its repurchase obligations. In each of these cases, the U.S. position seemed to stress the letter of the Bretton Woods agreements rather than the spirit. Given the ambiguities of the passages included on behalf of the Soviet Union, adhering to the letter of the Articles of Agreement did not benefit the state-trading members of the Bank and the Fund.
The Bretton Woods agreements seem to be the only instance of reverse influence involving Communist countries. The provisions on payment of subscriptions and quotas, provision of information, and reconstruction aid were altered at the specific request of the Communist countries represented at the U.N. Monetary and Financial Conference. Despite these concessions to the Soviet bloc, at no time during the conference were any of the organizers' (the U.S. and the U.K.) fundamental principles abandoned in response to a Communist request. During the early years of Bank and Fund operations even the few concessions noted above were strictly interpreted so that the amount of influence wielded over Bank and Fund operations by Poland, Czechoslovakia, and Cuba was actually minimal.

Ascriptive factors appear to have had the greatest influence on Fund and World Bank policy. The structure of their economies and their pro-Soviet foreign policy alignment firmly placed the Soviet-style members of the Bretton Woods organizations in the political arena of decision-making and hampered their attempts to gain reconstruction aid. Foreign policy and economic structure were factors which these members could not alter.

Behavioral characteristics of these Communist members reinforced their placement in the political arena. Polish, Czech, and Cuban relations with the leading member of the IMF and the IBRD, the U.S., were at least theoretically flexible, and it was these countries' continual conflicts with the U.S. which placed them in the political arena. To some extent, however, these countries' relations with the U.S. were
constrained by the wishes of their strongest ally and patron, the U.S.S.R.

It can be concluded from this analysis that it was the primarily ascriptive characteristics of the Soviet-style Communist members which led to their lack of success in the IMF and the IBRD. Economic structure and foreign policy alignment were at the root of the Polish, Czech and Cuban controversies in the Fund and Bank. These were inalterable facts of Eastern European reality in the years immediately after World War II, and thus, it was highly unlikely that a shift in the boundary between the technocratic and political arenas would have occurred as a result of a change in either the ascriptive characteristics of these members or in Bank and Fund policy at that time.

The location of the Soviet-style members in the political arena affected Fund and Bank lending policies in the evaluation, negotiation, and final decision stages. Poland and Czechoslovakia were judged as poor investment risks in the evaluations of both the fact-finding mission and staff in Washington, D.C. because of their relationship with the Soviet Union. Negotiations with Czechoslovakia and Cuba over obligations were defined and influenced by U.S. behavior. In all cases the final decisions were not to the advantage of the Communist members. These decisions not to lend to or to expel the Communist member were in all cases an attempt by the IMF and IBRD to punish these members for their failure to give any indication of less than complete loyalty to the Soviet Union. Refusals to lend may also have been a type of inducement to Poland and Czechoslovakia to change their foreign policies insofar as those refusals to lend were phrased in a manner which
indicated that the possibility of Bank and Fund loans had not been completely eliminated, given certain Czech and Polish compromises.

In sum, foreign policy, an ascriptive variable in these cases, appears to be the predominant determinant of the arena into which a Soviet-style Communist member is placed. In these cases, a Soviet-based economic system and a pro-Soviet foreign policy created so many problems within the Bretton Woods system that withdrawal seemed to be the only alternative to Poland, Czechoslovakia, and Cuba. Any conclusion about the effect of a Communist ideology and political system on relations with the IMF and the IBRD, however, must be postponed until an investigation of the successful Communist cases is completed in the next chapter.
END NOTES


2 New York Times (NYT), 9/2/46.


8 Mason, p. 170. See also NYT, 9/7/47, 7/22/47, and 6/11/47.


11 See also Horsefield, p. 258; NYT, 3/16/50; and Gold, Membership, p. 342.

12 NYT, 5/31/53.

13 See the discussion about the Polish coal loan of this same period, p.

14 See the discussion of the Polish coal loan, pp. 122-123.

15 NYT, 2/27/48. See also the discussion on Poland, pp. 122-123.

16 NYT, 9/20/49. See also the IMF Annual Report for 1949.

17 NYT, 9/25/54.
18. There was a previous case of ineligibility in the Fund. France became automatically ineligible to use Fund resources in 1948 when it implemented an unauthorized change in the par value of the franc, a multiple exchange rate system and a number of discriminatory currency arrangements. See IMF Annual Report for 1955, p. 88, and Horsefield, pp. 200-204.

Ineligibility proceedings had been commenced against Cuba in 1964, but Cuba withdrew before these proceedings were completed. The Fund has avoided the use of the ineligibility provision in the Articles due to the suggestion of expulsion which might be implied by such an action. See Gold, Membership, p. 481, and IMF, Articles, Article V, Section 5.

19. Gold, Membership, p. 359. See also NYT, 5/31/53 for a discussion of the general reforms instituted in the Czech economy at this time.

20. IMF, Articles, p. 18; Horsefield, p. 363; and NYT, 9/27/54.


25. NYT, 9/29/54. India made plea on behalf of Czechoslovakia which "urged the governors to adopt 'an attitude of sympathy and tolerance' as they had done in the past when other countries had failed to fulfill one or another of the articles of agreement" (NYT, 9/29/54).


27. See Gonzalez.

28. This and the following discussion are taken from Horsefield, pp. 529, 548-549, unless otherwise noted.

29. See Gonzalez.
Chapter 7: SUCCESSFUL COOPERATION BETWEEN EAST AND WEST: THE MAVERICKS

Contrary to the predictions of the normative school (see Chapter 1), two Communist countries, Yugoslavia and Romania, have maintained a close and cooperative relationship with the IBRD and the IMF during their respective years of membership. Yugoslavia, an original member of both organizations, received 21 loans from the IBRD between 1950 and 1980, which totalled $2684.1 million, and received $290.45 million in five loans from the Fund during the same period. Romania received seven loans ($1502.8 million) from the Bank and two Stand-by Arrangements from the Fund ($159.13 million) during the eight years of its membership included in this study. Compared to the records of Poland and Czechoslovakia in both organizations, Yugoslavia and Romania's relationships with the IMF and IBRD can be considered "successes;" as Chapter 4 has shown, Yugoslav and Romanian cases also appear successful when compared to other members of the Bank and Fund.

At first glance, there appear to be few common characteristics in the Yugoslav and Romanian cases which might explain why both states have succeeded in utilizing the resources of the IMF and IBRD. Yugoslavia set a precedent in both foreign policy and socialist economic practice by first defying the Soviet Union and subsequently devising a unique economic structure combining elements of self-management, socialism and market forces. Indeed Yugoslavia is noted for its innovative practices in both politics and economics. Conversely, Romania is renowned for its lack of innovation, particularly with respect to its economic system. Throughout the period under
review in this analysis, Romania has steadfastly adhered to a "Stalinist" conception of a socialist economy. Romania has diverted from the Soviet bloc norm in terms of its foreign policy, however, although not to the same degree as has Yugoslavia.

The following analysis examines the relationship between economic reform (or the relative lack thereof) and Bank and Fund financial assistance in the two successful cases of Communist membership. Special attention is paid to the timing of such assistance so as to assess whether leverage was employed and if so, what type. In addition, these cases are inspected for common factors which would explain the success of these two particular cases.

I. Leverage in Yugoslavia, 1948-1974

Yugoslavia, because of its unique economic system of market socialism, is a particularly interesting case for the examination of IMF and IBRD aid leverage in Communist countries. Of all Communist states, Yugoslavia has diverged furthest from the Soviet model. This, coupled with the fact that Yugoslavia has received substantial amounts of aid from both the Bank and Fund, has led at least one analyst of the Fund to conclude that Bank and Fund aid leverage was a significant factor in the construction of Yugoslavia's unique "road to socialism."

There have been two distinct turning points in the evolution of market socialism in Yugoslavia. Workers' self-management was introduced by Tito on January 7, 1950, and reforms necessary to complete the transformation from an administratively-directed economy continued to
be passed with increasing frequency until early in 1954.\textsuperscript{1} The period 1949-1954 also roughly corresponds to a major shift in Yugoslav foreign policy. On June 28, 1948, the Cominform, led by the Soviet Union, officially ousted Yugoslavia from the Soviet bloc. This move was soon complimented by a total economic blockade which effectively halted Yugoslavia's ambitious industrialization program. It was at this point, July, 1948, that Tito turned to Western sources, including the Bank and Fund, for aid. Bilateral and multilateral aid from the non-Communist West was Yugoslavia's only source of economic (and military) aid until relations with the Soviet Union were repaired in 1954.

A second period of major reform in the Yugoslav economy occurred between 1960-1965.\textsuperscript{2} The goals of the initial stage of reforms in the 1950's had been exceeded for the most part (Yugoslavia had one of the highest growth rates in the world in the 1950s), but several inconsistencies and problems also had appeared which exposed the deficiencies in the first set of reforms. The second period of reforms, therefore, was intended to refine the operation of workers' self-management to permit freer operation of market elements in the Yugoslav economy. The set of concepts introduced at this time eventually became known as market socialism and was a response to the successes of the Yugoslav regime in the economic, political, and foreign policy spheres. In addition to the impressive growth in the economy, Yugoslavia's major domestic problem, competition between ethnic and regional groups, seemed to be receding, and Tito's policy of non-alignment had brought Yugoslavia international prestige which was disproportionate to its size and geographical significance.
A. The Formative Years, 1944-1950

Yugoslavia expressed an early and active interest in the proposals which later became the IMF and the IBRD. Both organizations represented a relatively rapid, inexpensive means of attaining recovery and development for Yugoslavia's ravaged, primarily agricultural economy. Yugoslavia participated in the United Nations Monetary and Financial Conference, therefore, for much the same reasons as its Communist brethren, but Yugoslavia perhaps placed even more emphasis on the potential for development assistance inherent in the idea of the IBRD.

Yugoslavia was an active participant at the Bretton Woods meetings and served on the committee which was responsible for determining Fund subscriptions and quotas. The documents and proceedings for the Bretton Woods conference record only two reservations made by Yugoslav delegations; both were withdrawn prior to the end of the conference. On December 27, 1945, Yugoslavia joined 27 other nations in signing the Final Agreements for the Fund and Bank and thus became an original member of both organizations.

Some of the concessions made to the Communist countries during the negotiations at Bretton Woods directly benefitted Yugoslavia during the early years of Bank and Fund operations. Foremost among these was the war-damage clause (Fund Article III, Section 3; Bank Article II, Section 8) which was a product of the ad hoc committee to Commission I on "Special Problems of Liberated Countries" on which Yugoslavia served. This clause permitted Yugoslavia to delay the establishment of a par value for its currency with the IMF and to defer payment of the
full 2% of its capital subscription to the Bank for five years due to the disarray in its economy, a direct result of World War II.\textsuperscript{4} In part, Yugoslavia's decision to defer its capital payment to the IBRD was also due to the uncertain status of approximately $80 million in gold which had been frozen in Allied banks at the beginning of the war (NYT, 8/31/46). The war damage provisions did provide Yugoslavia with extra time in which to reorder its economy while remaining a member in good standing in both the IMF and the IBRD.

In the controversy over UN agreements with the Fund and Bank, Yugoslavia's commitment to the new organizations was challenged. At the August, 1947 meeting of EcoSoc in which the Soviet Union first attacked the "special privileges" contained in the proposed agreement between the U.N. and the Bank and Fund, Yugoslavia expressed its reservations, but ultimately Yugoslavia cast an assenting vote.\textsuperscript{5} Yugoslavia did, however, introduce a resolution which proposed the creation of a subcommittee which would examine the Soviet allegations in detail (NYT, 10/19/47). In this manner, the Yugoslavs demonstrated their support of the Soviet bloc in the U.N. without significantly damaging their commitment to the Bank and Fund. This careful, almost neutral stance characterized Yugoslav behavior with respect to its interests as a Communist country until well into the 1950s.

B. Workers' Self-Management, 1950-1954

The concept of workers' self-management was formally introduced into the Yugoslav economy in June, 1950 after a year of
self-examination and doctrinal redirection. This major reform of the Yugoslav economy which purported the return of control of the factory to the worker was actually only one in a number of policy changes subsequent to the break with the Cominform and certainly was not the most desirable from the viewpoint of Western banking authorities who were skeptical about the authenticity of the break and the sincerity of these new reforms. IMF and IBRD assistance, therefore, was not overwhelming during this period.

Yugoslavia had sought World Bank assistance almost immediately after the war, tentatively requesting $500 million in January of 1948, and preliminary negotiations on that loan were in progress when the break with the Cominform occurred five months later. One year later, in June, 1949, the amount of the loan request had been revised to range from $50-$250 million. The Yugoslavs wanted the loan to replace the capital investments from the Soviet bloc which had been withdrawn in the summer of 1948 (NYT, 6/26/49), but Bank officials were apparently more interested in funding Yugoslavia as part of the timber project (designed to supply Western Europe) which at that time also included Poland. This scheme was considered feasible and "safe" by Bank officials on the basis that since the war Yugoslavia, "alone among the Iron-Curtain countries involved, [had] given evidence of its ability to complete the agreements with the Western European nations that [were] required to make the loan possible."8

Among the "evidence" mentioned above was certainly the dispute between Stalin and Tito, and Yugoslavia's subsequent turn to the West for assistance. In fact, Tito was actually soliciting U.S. support in
the World Bank, a move that was branded as a betrayal of Communism by the Soviet bloc. Confide

Confidence in the Yugoslav shift was heightened when in July, 1949, Tito terminated his support of the Greek Communist Revolution by closing off the Yugoslav border. Though this was justified by Tito in terms of Yugoslav security interests, the action was favorably received in the West. Yugoslavia's successful bid, with U.S. support, for a seat on the UN Security Council, a seat also sought by Czechoslovakia, in October, 1949 reinforced Western belief that Yugoslavia was now willing to conduct itself as a responsible member of the world community (NYT, 10/11/49; Johnson, p. 126-7).

Progress on the World Bank loan proceeded throughout the summer of 1949. A commission, led by A. S. G. Hoar, was dispatched to Yugoslavia by the Bank in August, prompting charges by the Soviet Union that Yugoslavia had become a "capitalist tool." This charge was vigorously denied by Tito who maintained that although Yugoslavia was willing to shift the emphasis of its economic program toward export industries at the suggestion of the World Bank, Yugoslavia would remain a Socialist state which would not tolerate any infringement on its sovereignty. The result of such cooperation, however, was the announcement in October, 1949 of both an impending $2.7 billion World Bank loan for timber and a $3 million loan from the IMF. Since the amount of the projected World Bank loan was well-below Yugoslav desires and had been preceded by only minor concessions (if they can be viewed even as concessions) in the foreign policy sphere, the Bank and Fund loans appear to be more of a reinforcement tactic than an attempt to induce or reward Yugoslav behavior.
In 1950 reform of the Yugoslav economy began in earnest. The new self-management system was designed to decentralize decision-making in the economic sphere by relying on enterprise workers to participate in enterprise decisions. The features of the old and new systems are detailed in Table 7-1. This reform was the culmination of 18 months of vigorous ideological debate and reevaluation initiated by the break with the Cominform.\(^\text{12}\)

In foreign policy, however, some retrenchment was occurring in 1950, partially as a reaction to the total lack of support from other Communist states, which surprised Yugoslav leaders, and partially in response to an unexpected delay in the progress of the IBRD loan.\(^\text{13}\) This foreign policy retrenchment took the form of renewed declarations of Yugoslav independence coupled with recognition of the new Communist regime in North Vietnam and support of the Czech motion to oust Nationalist China from both the Bank and Fund.\(^\text{14}\)

Despite the delay encountered in the early part of 1950, the World Bank loan announced the previous year was officially concluded in October, 1950, with the original terms intact. In granting this loan to Yugoslavia, the IBRD was disregarding its own prohibition against lending to members who had defaulted on, or had not repaid to date, loans to private lenders prior to World War II. Yugoslavia was one of seven members who fell into this category.\(^\text{15}\) Although this exception had not been made for Yugoslavia alone, the fact that a loan was made to Yugoslavia and not to Poland or Czechoslovakia, which did not have any outstanding defaults, makes this exception particularly interesting.
TABLE 7-1

YUGOSLAV ECONOMIC REFORM 1950-54

Features of Administered Economy — 1945-1950

1. State ownership of the means of production
2. Central planning
3. Administrative allocation of goods
4. Reliance on administrative rules
5. Administratively fixed wages
6. An all-embracing state budget
7. De-emphasis on consumption
8. Emphasis on collectivization in agriculture

Features of Workers' Self-Management Economy — 1950-1954

1. Social ownership of the means of production
2. Social planning
3. Market determined allocation of goods
4. Reliance on financial instruments
5. Free disposition of enterprise/collectives income
6. A budget for state administration, decentralized and separate from economic operations
7. Consumption as an independent factor of development
8. Agriculture organized as a business cooperative of peasants

In October, 1951, the World Bank announced its intention to extend a second loan to Yugoslavia in the following year. The loan was considerably larger than the first, $28 million, and appeared in the midst of an extensive period of economic and political reform which had been initiated in June, 1950. There also occurred in 1951 an interesting shift in Yugoslav foreign policy as Tito embarked on his policy of non-alignment which would ease the path of rapprochement with the Soviet Union in 1954.

Reform of the economy occurred at a rapid pace throughout 1951 in three basic areas of decentralization of decision-making: liberalization of foreign trade, reliance on market mechanisms, and liberalization of agricultural production. This reform was necessary, according to B. Kidrić, who was Tito's close advisor in economic matters, in order to redress certain problems and imbalances which were a product of the previous administered, centrally-planned economy. The most important of these problems were a decline in agricultural productivity, a shortage of consumer goods, a decline in the balance of payments, and an inability to obtain foreign credit.\textsuperscript{16}

In the area of foreign trade, Yugoslav officials took the first of several steps to liberalize foreign trade and to integrate Yugoslavia into the world economy. They began to experiment with agricultural exports and permitted enterprises engaging in foreign trade to retain a portion of their foreign exchange earnings.\textsuperscript{17} On December 30, 1951, as part of the Law on Planned Management of the National Economy, the dinar was devalued from 50 dinars per $1 to 300 dinars per $1. This was an attempt to bring Yugoslav prices in line with the world market
prices. At this time, what was essentially a multiple exchange rate system was introduced which used "price equalization coefficients" to regulate imports and exports through the process of assigning different coefficients to the value of various categories of goods (Horvat, "YEP," pp. 124-125; Dubey, p. 263). Finally, Yugoslav enterprises engaging in foreign trade were permitted to retain a portion of their foreign exchange earnings which they could use at their discretion.

Further decentralization in the domestic economy was pursued by the Yugoslavs in 1951, particularly in the areas of prices and planning. As Johnson states, during 1951, the Yugoslavs began in earnest to dismantle the command economy (Transformation, p. 144). In January, 1951 prices on a few selected products were made responsive to demand for these products (Johnson, p. 165) and by the end of the year prices of many industrial and mining products, as well as some foodstuffs, were determined by market forces. The purposes of this large-scale price reform were to bring Yugoslav prices in line with world market prices, to stimulate investment by increasing the prices of producer goods, and to generate savings through the increase in retail prices (NYT, 12/11/51; Horvat, "YEP," p. 110).

This increased reliance on the market for price determination also required an adjustment in the reliance of the economy on a centrally-determined economic plan. The Law on Planned Management of the National Economy, promulgated in December, 1951, replaced detailed central planning with planning of "basic proportions" in which "the amount and broad allocations of investment" were centrally determined, "while the decisions regarding quantity and quality of output and its price
were left to the enterprise" (Dubey, p. 31). As a result of both the change in planning and changes in the method of price formation, the relative efficiency of Yugoslav enterprises was now determined on the basis of cost accounting and profitability (Horvat, "YEP," p. 180-81).

Decentralization also extended to the agricultural sector, which was under much strain as the result of a bad harvest and resulting famine in late 1950 and early 1951. In order to stimulate agricultural production, the Yugoslav government began to experiment with agricultural exports (Horvat, "YEP," p. 124) and began to investigate alternatives to collectivism, including profit-sharing.

In terms of foreign policy, 1951 was a year in which Yugoslavia reaffirmed its political, ideological, and economic independence from the Soviet bloc, and increasingly, from the West as well. In January, 1951 the Yugoslavs concluded a Mutual Defense Agreement with the United States (Johnson, p. 126). This prompted one observer to note that the U.S. was regarded by Yugoslavs "almost as an ally." Tito, conscious of the continuing need for Western assistance, further cemented U.S.-Yugoslav relations during August in a speech in which he expressed Yugoslavia's desire for "the closest economic and other relations" with the West and stated that Western aid had been extended without requiring Yugoslav concessions (NYT, 8/10/51). By December, however, increasing problems with the flow of aid from the West led to a re-evaluation of Yugoslavia's international position. Boris Kidrić, in a speech to the Yugoslav Parliament, no longer expressed gratitude but spoke of Yugoslavia's "moral right" to Western aid because of its position as a buffer between East and West. The Yugoslav regime also
began to increase its contact with African and Asian nations as the first step in what became the non-aligned movement (Johnson, p. 135).

The presence of the Bank and Fund in Yugoslavia was evident throughout 1951. Yugoslavia's application for a second World Bank loan provided the Bank with the opportunity to conduct a thorough examination of the newly-emerging self-management economy. In April, 1951, the Bank cited Yugoslavia's annual trade deficits as the "last important obstacle to the approval of a second Bank loan to Yugoslavia."²¹ The Bank desired more evidence of Yugoslav actions to stabilize the economy before investing more Bank resources in that member. The IMF was also vitally concerned in the stability of the Yugoslav economy and dispatched a staff delegation to Belgrade for a six-weeks' stay in September, 1951, to begin discussions on monetary reforms with Yugoslav officials. These discussions included exchange controls, inflation, and a reasonable exchange rate for the dinar. Cheryl Payer claims that the economic reforms summarized above were a direct consequence of IMF pressure exerted by the IMF delegation (Debt Trap, p. 123). While Payer's assertions may be overstated, since many of the reforms occurred prior to the delegation's arrival in September, a number of reforms suggested by the Bank and Fund did occur shortly after the announcement on October 12 of a second Bank loan to Yugoslavia of $28 million in seven currencies and it was speculated that Yugoslavia would seek yet another loan from the IBRD. As was also discussed above, the dinar was revalued in December 1951 after "prolonged discussions" with the IMF and the value of the coefficient was adjusted for several products. In addition, the annual rate of capital investments in
Yugoslavia was cut by the regime from 28% to 20% of GNP as an explicit signal to Western aid agencies that Yugoslavia was willing to modify its industrialization program in order to ensure its feasibility.

Edward Mason, in his history of the IBRD, notes that the Bank loan to Yugoslavia, announced in October, 1951 and formally concluded a year later, served a purpose for the Bank as well as Yugoslavia. Mason asserts that Bank officials used the second Yugoslav loan to coax the Bank's Western European members into releasing the remaining 18% of their initial capital subscriptions. According to Mason, Bank officials claimed that an exclusively dollar loan to Yugoslavia might have had "adverse effects" on the New York market and that other hard currencies were necessary to offset these "effects;" in this endeavor the Bank's staff was successful.

The possibility of a third IBRD loan to Yugoslavia, hinted at in late October, 1951, dwindled in 1952 as the process of economic reform slowed and even reversed. In foreign policy as well, there were ambiguous signals emerging from Belgrade. Fund and Bank activity in Yugoslavia was minimal and no new loans were announced.

The progress of economic reform in Yugoslavia slowed considerably in 1952 with the appearance of problems previously associated with only market economies such as price gouging and cartels. The reimposition of controls in several sectors of the economy was designed to neutralize some of the negative effects of a quasi-market economy on a socialist society and to remind both Yugoslavs and the world that the goal of the regime was still Communism. However, decentralization of the economy continued in 1952, albeit at a reduced pace and the Law on the
Planned Direction of the Economy reinforced the devolution of economic decision-making to the Republics and local enterprises. Ultimately the Federal Government was to be responsible for producing laws and regulations on matters such as general economic planning and the national capital investment program.

Among the most notable of the few economic reforms which occurred in 1952 was the vesting of formal control in the Workers' Councils in all state enterprises (Dubey, p. 31). This signified the continued commitment of the regime to the infant self-management system. At the sixth Party Congress later that year, formal interest rates were introduced, a marked departure from a typical socialist economy, and declared to be a "characteristic of commodity production in general, not exclusively capitalism" (Johnson, pp. 165-166). Free market trading was established in agricultural products, foreign exchange, and some industrial raw materials. In foreign trade, the foreign exchange retention rate for enterprises was increased to 50% (Payer, p. 124).

Yugoslav foreign policy during 1952 continued the independent trend initiated in the closing months of 1951. A Yugoslav Communist Party warning to Yugoslavs and the world that the recent economic reforms were intended to create a more perfect socialist society, not a Western-style democracy, accompanied the imposition of restrictions on the scope of authority of workers' councils. Yet the Yugoslav position on Western European regional defense pacts had modified to such an extent that U.S. officials were giving consideration to the "possibility of requesting Belgrade to coordinate its foreign policy on certain issues with that of the West." One such issue was the
conflicting post-war claims of Italy and Yugoslavia on the city of Trieste (Rijeka). At a speech at Dolenski Toplice in September, Tito temporized, claiming that Italy and Yugoslavia should first seek to improve relations between them through cooperation on other matters. He explicitly responded to the hints of U.S.-Yugoslav policy coordination, saying that "tendencies' to extract concessions from Yugoslavia in return for economic assistance" were unacceptable insofar as Yugoslavia's continuing efforts to defend itself were also defending the West and therefore, should be considered sufficient repayment for any aid (NYT, 9/15/52). Clearly Tito intended to maintain a non-aligned position between East and West whatever the cost to Yugoslavia in terms of Western aid.

The IBRD announced its decision to finance a third loan to Yugoslavia in February, 1953. This loan, at $30 million, was the largest IBRD loan to Yugoslavia to date and was earmarked for the completion of several industrial projects. According to IBRD President Black, this loan was a consequence of the Bank-Yugoslav negotiations of the previous years in which the Yugoslav's ambitious original investment program was "relaxed at the suggestion of the [World Bank] mission" (NYT, 2/13/53).

Reports of a growing unemployment problem and rising prices accompanied the announcement of the third bank loan. Despite these problems, however, the pace of the reform process, begun in 1950, quickened in 1953. In order to facilitate the new investment program, the Yugoslav government introduced plans to decentralize the operations of the National Bank, which acted as central bank for Yugoslavia. Credit
would serve as the basic instrument of financing and would now be extended on the basis of performance rather than enterprise projections. As an intermediate step, a system of investment auctions was established in December, 1953 through which scarce investment resources were allocated to enterprises (Horvat, "YEP," p. 79; Dubey, p. 31). The introduction of interest rates and the creation of commercial banks were at once necessary to the decentralization effort and to the expansion of trade with the West.

Yugoslavia's desire to enhance and diversify its investment program was also evident in its decision to permit private foreign investment, on a very limited scale, in Yugoslav projects. Although the idea of permitting joint stock companies was debated, Yugoslav authorities were reluctant to authorize such a reform due to growing concern over Yugoslavia's rapidly increasing debt to the West.

In agriculture, where reforms had lagged behind other sectors of the economy, the principle of forced collectivization was abandoned in favor of a system which employed incentives and profits to increase production.27 The Law on the Reorganization of Peasants' Work Cooperatives, promulgated in March 1953, gave the Yugoslav peasant the option of dissolving the production cooperatives and returning the land to the individual members of the cooperative. The law established the maximum size of an individual plot of land at 25 acres, however (Horvat, "YEP," pp. 78-79; Dubey, p. 32). As one observer noted, the World Bank had been consulted in reference to these reforms in the agricultural sector, which the Yugoslavs insisted were not an
abandonment of socialism but merely a reflection of the futility, and counterproductivity, of the use of force (Jack Raymond, NYT, 3/23/53).

Yugoslavia maintained its cautious but resolute foreign policy stance between East and West throughout 1953. The credibility of this position was hampered, however, by the relative absence of contacts between Yugoslavia and the Soviet bloc. Acutely aware of this, Tito sought to repair the damage done to Soviet-Yugoslav relations in 1948, and Stalin's death in 1953 facilitated the reconciliation. The following year, 1954, was therefore a landmark for Yugoslav foreign policy as the preceding four years had been for economic policy.

Josef Stalin's death in 1953 removed possibly the largest impediment to a Yugoslav-Soviet reconciliation. Accordingly, in early 1954 Tito began to indicate his desire for a "normalization of relations" between the two countries while emphasizing the unique and independent course which Yugoslavia had chosen after the Cominform break in 1948.28 The first steps in the rapprochement with the U.S.S.R. were taken in the area of trade. The Cominform trade blockade had occasioned Yugoslavia's shift to the West for financial assistance in the summer of 1948; the blockade was terminated in September, 1954, with the conclusion of $10 million in trade contracts with Hungary, Czechoslovakia, and the GDR. Nearly one month later, Yugoslavia formally resumed trade relations with the Soviet Union in a short-term trade agreement to a $5 million barter exchange of nonstrategic materials. Although claims arising from the 1948 blockade hampered the progress of reconciliation, these trade agreements initiated a process which would culminate ten years later in observer status for Yugoslavia in the CMEA.29 Evidence
of Yugoslavia's increased solidarity with the Soviet bloc nations also appeared in international forums; most notable of these was Yugoslavia's support for Czechoslovakia in the IMF and IBRD during the controversy which led to Czechoslovakia's ouster from both organizations in September, 1954.

Tito was careful, however, to maintain cordial ties with the West, particularly the United States. In October, 1954, Yugoslavia concluded a settlement with the U.S. on the claims of U.S. citizens for seized or nationalized property. This settlement served three purposes: first, it released $47 million in gold frozen in U.S. banks; second, Yugoslavia was no longer in violation of IBRD regulations governing nationalized property; and third, the settlement gave concrete evidence of Yugoslavia's desire for amiable and cooperative relations with the West. Further, in a speech in October, 1954, Tito applauded Western aid efforts in Yugoslavia and noted that such aid had not imposed "any conditions harmful to Yugoslav sovereignty and independence" (NYT, 10/26/54).

The settlement of the Trieste issue, however, is perhaps the best evidence of Tito's desire to placate the West in the face of the growing cordiality with the Soviet Union. Throughout 1954, Tito stressed the importance of Trieste for Yugoslavia's military and economic relations with the U.S. and Great Britain. In October, negotiations on Trieste were concluded; although Tito was not satisfied with the outcome, he stated that the settlement was the "best Yugoslavia could achieve under the circumstances."30
In the economic sphere, the focus of the regime was on consolidation of previous gains. Decentralization of the banking system continued with the creation of communal banks to supplement the National and commercial banks (Dubey, p. 34). In foreign trade, the coefficient system was refined and enterprises were permitted to retain an increased share of their foreign exchange earnings. The reorientation of foreign policy in 1954 seems to have coincided, therefore, with the end of the first era of economic reform.

It is interesting to note that no additional Fund or Bank assistance was extended to Yugoslavia during 1954, and indeed, Yugoslavia would not receive another World Bank loan until 1961, and a Fund Stand-by Arrangement was not negotiated until 1961. Yugoslavia's attempt to balance its relations with East and West coincides, then, not only with a period of consolidation in terms of the economic reform process within the country but with a pause in its growing interactions with the Fund and Bank as well. This pause can be viewed as evidence of Yugoslavia's desire to reinforce its non-aligned status by reducing its dependence on Western institutions and the West's cautious reaction to an obvious Yugoslav move to conciliate its Communist brethren.

The first period of Yugoslav economic reform which instituted the workers' self-management system met with a positive, if skeptical at first, response from the Bank and Fund. The reforms enacted through the 1950-54 period were a direct consequence of the Cominform break in 1948 and would eventually extend throughout the entire society. Bank and Fund involvement in this reform process was not extensive in terms of frequency and size of loans. In fact, receipts from Yugoslavia's
three loans from the World Bank totalled $60.7 million, less than the amount India received in 1950 alone. In 1950, the Bank loan to Yugoslavia was sixth of the nine loans extended by the IBRD in that year. Yugoslavia's loan ranked sixth out of 16 Bank loans made in 1952, and third out of nine loans in 1953. In relative terms, therefore, Yugoslavia did not fare poorly in terms of IBRD assistance, although Yugoslavia certainly lagged behind other developing nations' receipts for the entire period.

In a more intangible sense, both organizations did contribute to the reform process in Yugoslavia, at least minimally, through the regular procedures for consultation established in both organizations' charters. It appears, however, that Bank lending during the period coincided more closely with the perceived position of Yugoslavia with respect to the Soviet bloc than to the magnitude and content of the reforms enacted in any given year and thus takes on the appearance of reinforcement until 1954, and perhaps punishment after. This is not unexpected, given the experiences of Poland and Czechoslovakia during the same period. Yugoslavia's association with the IMF and IBRD in the early Fifties, however, did demonstrate to both East and West that cooperation between both organizations and a Communist country was not inherently doomed to failure, but it would be another 18 years before that exampled would be trusted.

C. Market Socialism, 1960-1965

The second significant period of reform in Yugoslavia began with the "economic crisis" of 1960 and continued through 1965 with the
introduction and implementation of a major set of market-oriented reform measures. The late 1950s had been a period of some retrenchment for Yugoslavia, both politically and economically,\textsuperscript{32} and by 1960 the strains of the incomplete adaptation of market principles to a socialist economy had appeared. The rather incomplete nature of the reforms of the 1950s was particularly evident in the growing strains between the Yugoslav and world economies and this next set of reforms was intended to integrate more efficiently the Yugoslav economy into the international economic system (Crawford, p. 608). That such integration would also entail the inclusion of more market elements into the domestic economy soon became apparent.

In fact, the 1960-65 period was actually one of refining and implementing theories introduced during the first stages of workers' self-management. The 1960's reforms, then, were almost a "fine-tuning" of the new self-management system (this is especially true of the 1961 reforms) which, by 1965, had led to an almost qualitatively different economic system called market socialism. The 1961 reforms, therefore, were merely a prelude to the almost complete acceptance of the market principle evinced by the 1965 reform which was ostensibly designed to bring Yugoslavia into a more advanced stage of development.\textsuperscript{33}

It was during this time that Yugoslavia began to exploit fully the opportunities and resources offered by the IBRD and IMF, with the complete support of both organizations. Indeed, relations between Yugoslavia and these two agencies became so cordial that one observer noted in 1970, "The International Bank for Reconstruction and Development is [now] Yugoslavia's biggest foreign partner and
The initial hesitance to lend to a Communist country displayed by the Bank and Fund in the Fifties had completely disappeared by the end of this second period and has not reappeared to date.

The first, preliminary set of reforms toward a market socialist system began in 1961 and the need for such changes was attributed by experts, both in Yugoslavia and the West, to four causes. Perhaps the most obvious impetus to the 1961 reform was the boom and bust cycle which afflicted the Yugoslav economy in 1960. The recession of late 1960 certainly highlighted the problems inherent in the early self-management system and contributed to the growing pressure for change within the government and the academic community (Horvat, YES, p. 197; Horvat, "YEP," pp. 82, 126; Crawford, p. 613). For the most part, the root of the recession, however, was identified as the inefficient integration of the Yugoslav economy into the world economy through the foreign trade coefficient system (see p. 174). The coefficient system did not induce enterprises to produce more efficiently, but merely to compete for assignment of lower coefficients (Horvat, "YEP," p. 125). As a result, the dinar was overvalued by 30% (Horvat, YES, p. 197). In addition, dependence on raw material and machinery imports had also contributed to a growing balance of payments deficit — Yugoslavia's trade deficit reached $341 million by 1961 (Crawford, p. 613).

Two domestic factors also contributed to the call for reform in 1960 and 1961. The banking reform of the mid-1950s had been an attempt to decentralize the provision of credit to the local communities which, it was presumed, were better aware of local needs and resources. Critics in 1960 claimed, however, the decentralization of
banks had led to the complete take-over of bank credit policies by local governments (Horvat, "YEP," p. 134). Government and/or political interference in the self-management process soon emerged as a dominant theme of the critics of the economy. Another area of concern to the critics was the relative lack of "business discipline" displayed by Yugoslav enterprises and economic decision-makers. Sources within Yugoslavia began to recommend the adherence to standard economic laws (i.e., Keynesian theory) as a solution to the problems in the Yugoslav economy.35

The recession of 1960, therefore, began what was the first academic discussion of economic issues in Yugoslavia (Horvat, "YEP," p. 83). This discussion soon evolved into a planning vs. market debate in which the entire Yugoslav economic community, but most particularly academic economists, participated. The "planning school" (as coined by Branko Horvat) argued that decentralization had reached its upper limits and that planning was now necessary, along the lines of Soviet Five-Year Plans, to ensure an optimal distribution of resources which would emphasize the interests of society over the narrow interests of individual enterprises and communities. According to the "planning school," economic development should be the first priority of the economy, and this could be achieved most rapidly only through centralization.36 The "market school," on the other hand, argued that dependence on planning and centralization had brought about the current crisis and that even greater reliance on market mechanisms was needed to correct Yugoslavia's economic ills.37
The "market school" identified inefficient planning and imperfect market mechanisms as a consequence of the badly prepared and implemented reforms of the 1950s. These poorly constructed reforms, they argued, encouraged the financial irresponsibility of enterprises which resulted in inconsistent investment decisions and "wild" wage increases which were unrelated to increases in productivity. This caused Yugoslav prices to be out of line with world prices and consequently led, with the help of an awkward and inefficient foreign trade pricing system, to the current balance of payments deficit.

Tito accepted the "market school's" analysis and soon Yugoslav policy-makers were preparing another set of reforms for the economy. The bulk of the 1961 reforms attempted to correct the problems identified in the foreign trade sector. On January 1, 1961 the cumbersome coefficient system (which was, in effect, a multiple exchange rate system) was eliminated and replaced by a single rate for the dinar, 750 dinar to $1, which, although still considered too low by some experts (Horvat, "YEP," p. 197), was an effective devaluation of the dinar. Imports and exports would now be controlled through customs tariffs, quotas, export premiums, and tax rebates. Enterprise imports were further controlled through the foreign exchange retention quota which, in 1961, required an enterprise to "sell" its foreign exchange to the National Bank which could, in turn, sell up to 7% of this foreign exchange back to the enterprise. In addition, a full 1/5 of all imports were liberalized (Horvat, "YEP," p. 126). It was also at this time that Yugoslavia sought entry into the General Agreement on Tariffs and Trade (GATT), an organization devoted to the promotion of free
trade; Cheryl Payer even goes so far as to claim that the 1961 reforms were the "price" of Yugoslav acceptance into GATT (Debt Trap, p. 118), although the long, arduous debate between the planning and market schools makes this contention appear unlikely.

A series of reforms were also introduced in the money and banking sector of the economy. Banking was further decentralized in order to expand credit opportunities to enterprises while minimizing administrative interference from political authorities. Communal banks now became "basic and universal credit institutions" (Horvat, YES, p. 211) for enterprises. Reserve requirements of up to 35% of liquid deposits were used to control the expansion of credit and limits between 8% and 12% were placed on interest rates. Yugoslav authorities quite clearly felt that the solution to Yugoslavia's economic problems lay in control of the money supply and looked to credit policy as the means for manipulating money supply in a socialist economy (Horvat, "YEP," pp. 141-143).

In other areas, despite the criticism contained in the reports of the "market school," in 1961 "Workers' Councils became completely independent in determining wage rates and distributing income" (Horvat, "YEP," p. 115). This advance in the operation of the market was offset somewhat in 1961 by the rise of the number of administratively-controlled prices (Horvat, "YEP," p. 111).

Fund and Bank participation in the 1961 Yugoslav reforms took the form of advice and reinforcement. In 1961, Yugoslavia received its first Bank loan in seven years. At $30 million, it was seventh in terms of total receipts of the 20 loans made by the Bank in that year.
Earlier in 1961, the Fund participated as part of a consortium of Western donors which provided "financial assistance to Yugoslavia, in order to facilitate a comprehensive reform of its exchange ... system." Drawings on this $45 million SBA were made conditional on the implementation of certain elements in Yugoslavia's reform program. The Yugoslav Stand-by did not contain the customary prior notice clause which permitted the Fund to suspend further use of stand-by funds as this was deemed to be "detrimental to Yugoslavia's interests" (Horsefield, pp. 486, 489). Therefore, although Fund and Bank assistance did play a contributory role in the 1961 reforms, it would be difficult to attribute these measures solely to Bank and Fund actions as pressures for reform had been mounting within Yugoslavia for a long period during which there had been reduced interactions with both organizations. The form that the new measures took was the logical extension of the debate, again within Yugoslavia, between the planning and market schools although IMF and IBRD advice was frequently an input into final decisions on reforms. Due to training and lack of relevant literature and experience from non-Keynesian sources, the "market school" economists also naturally reflected the monetarist perspective that also dominated the Bank and Fund at that time. As a result, Yugoslav interpretations of the nature of both the problem and the solution during this second reform period were favorably received in the IMF and IBRD.

In the three years preceding the major reforms of 1965, the deficiencies of the 1961 reforms surfaced and evoked another round in the market versus planning debate. The boom/bust cycle which had produced
the 1961 reforms continued in 1962. Once again, Yugoslav authorities placed the blame on a set of "poorly prepared, partly inconsistent, and badly implemented" reforms (Horvat, YEP, p. 21). In a more fundamental sense, however, the reforms were indeed responsible for the unpredictable behavior of the Yugoslav economy. One of the major goals of the 1961 reforms was to integrate the Yugoslav economy more closely with the world economy, but this integration also exposed the economy to fluctuations in the economies of its trading partners (Schrenk, p. 203), and thus control over the economy was not completely in Yugoslav hands. Consequently, the Yugoslav balance of payments suffered moderate deficits throughout the Sixties. The Fund, in its efforts to reinforce the reforms, mitigated in part the 1962 deficit through the conclusion of a $30 million Stand-by Arrangement with Yugoslavia. As is customary with Stand-by Arrangements, the gesture had the effect of demonstrating the Fund's confidence in and support of the reforms passed by the Yugoslav government in 1961.

In 1963, the boom cycle continued, and a newly-promulgated constitution further enhanced optimism both at home and abroad. The 1963 constitution introduced few new reforms, but merely made formal the progress in workers' self-management which had occurred during the previous decade. The new constitution did extend self-management to business and non-profit organizations.42

Outside of the constitution, the most significant arena of reform was in credit policy. Refinements were made in credit policy which would permit monetary authorities to regulate the demand for credit as well as the supply (Horvat, YES, p. 213). Among the new measures were
regulations which stipulated that credit would be extended to enterprises only after evidence that a commodity transaction had taken place and that credit would not be extended for sales to final buyers (Horvat, "YEP," p. 135). The formative stages of a money market in Yugoslavia appeared during 1963 with the introduction of negotiable government bonds (Horvat, YES, p. 223).

The coincidence of even more market-oriented reforms with the fluctuations in economic performance initiated a demand for the re-introduction of central planning from a growing sector of the Party. At a January meeting in Zagreb, the Association of Economists and the Federal Planning Bureau criticized the new reforms, claiming that the market destroys socialist principles by placing the needs of the individual over the needs of the community (Horvat, YES, pp. 84-85). This dispute would react dangerous proportions for the Party by 1965.

In foreign policy, Tito continued to strive for cordial relations with both East and West. He attempted to play a moderating role in the growing Sino-Soviet split but was rebuffed by the Chinese who perceived Tito as partial to the Soviets. In the second half of 1963, Yugoslavia also opened negotiations with the Soviet bloc in order to obtain observed status in the CMEA. It was reported that the Soviet Union requested Yugoslavia to join as a full member, but Tito, citing his desire to maintain good trade relations with the West, remained firm, and Yugoslavia joined the organization as an observer in early 1964. Tito tempered his growing involvement with the Soviet Union, however, in response to a 1962 U.S. Congress action which prohibited the extension of Most-Favored Nation treatment to Communist nations. This would
have seriously damaged Yugoslav exports and consequently, Tito spent much of 1963 trying to convince U.S. officials of Yugoslavia's friendship and intention to remain non-aligned.43

As part of the Fund and Bank's discussion with Yugoslavia prior to the 1961 reforms, the Bank had agreed to a third loan. This loan was formally concluded in 1963 for $65 million. The loan was designed, in part, to improve Yugoslavia's railways. It was the second largest loan concluded by the Bank in that year and was the largest IBRD loan to Yugoslavia to date.

The economic upswing of 1963 continued into early 1964, but recession set in by the end of the year. Inflation increased dramatically, with consumer prices rising 4% in just ten weeks, and wage strikes were reported as Yugoslav officials attempted to control the tendency of self-management to lead to spiralling wage increases which only added to the inflation problem (NYT, 3/18/64; Horvat, "YEP," p. 83). In addition to, and partially as a consequence of, these problems, the balance of payments deficit grew steadily. As the economy steadily declined, recognition of the need for yet another set of reforms grew.44

Yugoslav officials endeavored to stem rising inflation in 1964 in three related areas. Tito identified the cause of the growing inflation as overinvestment in industrial capacity which had resulted in the under-utilization of plant capacity in several areas (NYT, 3/18/83). In an effort to resolve this problem, the central Investment Funds were abolished in 1964 and those monies transferred to the corresponding banks in local communities.45 This had the effect of allowing most
investment resources to respond to market forces. An additional attempt to control inflation was made through efforts to control the money supply. By mid-1964 Yugoslav officials had begun to restrict credit to both enterprises and consumers. The reserve requirement to banks was increased to the legal limit of 35%, a move which quickly curtailed new investment. By the close of 1964, the money supply had grown by only 28% and this continued to decrease until it reached a low of 4% in the first half of 1966. In a final effort to tackle the inflation problem, Yugoslav officials increased price controls and instituted a partial price freeze (Lang, p. 233).

In the foreign trade sector, a decline in exports and a sharp rise in imports in 1964 led Yugoslav authorities to impose additional restrictions on imports and to increase the tariff by 3% to 23% (OECD, 1966, p. 25; Horvat, "YES," p. 126). Foreign exchange was now allocated conditional on export sales and the system of export premiums and tax reductions for exporting enterprises was expanded, thus encouraging exports. While these measures did have the effect of reducing the balance of payments deficit, they also amounted to the reappearance of a multiple exchange rate system (Horvat, "YES," p. 126), a circumstance counter to the goals of the IMF (Articles of Agreement, Article VIII, Section 3).

The debate between the planning and market schools continued into 1964, but took on increasingly political overtones as the Party hierarchy split into the two camps. Criticisms of the "Stalinist methods of command" (NYT, 3/16/64) advocated by elements of the planning school surfaced at the very highest levels of the League of Communists (NYT,
3/16/64 and 9/22/64). Yet the general tone of the 8th Party Congress of the League, held in December, 1964, prompted some observers to speculate on Yugoslavia's "step eastward" (David Binder, NYT, 12/10/64). This domestic controversy, which would be resolved in 1966 with the ouster of Aleksander Ranković who led the planning school within the Party, 47 was reflected in Yugoslav foreign relations which simultaneously sought closer trade ties with the East while looking to Western economic theory for solutions to domestic economic problems. 48

The Bank and Fund continued to reinforce the direction of Yugoslav economic policy, both foreign and domestic, throughout 1964. The IMF opened negotiations for another Stand-by Arrangement which would ease the payments deficit, and the IBRD extended a sixth loan to Yugoslavia. The $35 million loan was ninth in total value of 28 Bank loans in 1964 and was extended to support various projects related to Yugoslavia's industrialization program. So, despite growing economic problems and increasing support for a command economy within Yugoslavia, the Bank and Fund continued to demonstrate their support, in part because the direction of reform continued to reflect a market orientation.

A third period of intensive economic reform began in early 1965. The pressure for reform (the nature of which was by no means agreed upon) had been mounting since 1962, and this pressure had been supplemented by increasing difficulties in the economy. In fact, pressing economic problems were the impetus behind the decision to proceed with another set of reforms so soon after the reforms of 1961. As was discussed above (pp. 193-195) the 1964 recession occasioned some serious discussion within Yugoslavia about the nature and direction of the
economy. The rate of inflation was climbing; the cost of living rose 24% in the first half of 1965 with prices and wages increasing by over 20%. Experts considered productivity to be below the level necessary to sustain Yugoslavia at a high rate of development. The growing balance of payments deficit ($205.4 million in 1964) worried financial officials both in Yugoslavia and abroad (Dubey, p. 38; Lang, p. 228; Horvat, "YES," p. 127).

Clearly, the 1961 reforms had not had their intended corrective effects. The 1965 reforms, thus, were not only designed to remedy persistent economic problems, but were intended to correct imperfections in the system which were due to over-experimentation throughout the Fifties and early Sixties. Experts recognized the preliminary and almost haphazard nature of previous reforms, and therefore the 1965 reforms were designed, in the opinion of Branko Horvat, as a "more radical and more consistent, edition of the 1961 reform" ("YEP," p. 83). That the new reforms were to follow the same general direction of 1961 was an indication that the ongoing "political battle" (Bićanić, p. 634) between the planning and market schools had once again been decided in favor of the "young economists" (NYT, 10/20/65) of the market school. "The Reform" of 1965, as it came to be called, therefore was a response to economic and political pressures.

On July 23 and 24, 1965, 25 laws, two decisions and two recommendations were promulgated by the Yugoslav government (Vukmanović, p. 5). These laws constituted the beginning of a three-year period of reform which established market socialism in Yugoslavia. The reform was explicitly intended to adjust the Yugoslav economy to the new, "higher"
stage of economic development which it had attained largely as a result of war-time reconstruction and the self-management system (Macetić, p. 41; Lang, p. 228). Despite the successes of the Fifties, the recent dislocations in the economy were attributed to the fact that the institutions and procedures employed in economic decision-making were more suitable to an earlier stage of economic development. As the noted Yugoslav economist Branko Horvat comments,

"Almost overnight a backward Balkan country reached a European standard of economic development, and an administrative economy was transformed into a market economy. At the same time responsible authorities often lacked the necessary understanding of how a modern market economy operated" ("YEP," p. 87).

The Yugoslav conception of a "developed" model of the Yugoslav economy, which represents the ideal to which the 1965 Reform aspired, is presented in Table 7-2. The Reform, therefore, was intended to move from the "extensive" pattern of industrial development typified by other Soviet bloc economies to a more "intensive" pattern of development which assigned a greater role to consumption and which would more efficiently utilize Yugoslav resources and productive capacity.52

There were four themes employed by the regime to promote the Reforms: decentralization, de-étatization, de-politicization, and democratization (Bičanić, p. 643). In effect this slogan reflected the secondary goal of the Reform, which was to achieve intensive development through reliance on the market and stabilization of the economy.53

In the opinion of the market school, of course, these two intermediate goals were linked: stabilization could only be achieved on a lasting
### TABLE 7-2

MODELS OF THE YUGOSLAV ECONOMY, 1953-1965

<table>
<thead>
<tr>
<th>Model of the Undeveloped Economy</th>
<th>Model of the Developed Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Maximized growth at any cost</td>
<td>Growth constrained by profitability</td>
</tr>
<tr>
<td>2. Centrally-planned investment</td>
<td>Induced investment, decisions made by enterprises</td>
</tr>
<tr>
<td>3. Priority given to production</td>
<td>Priority given to consumption</td>
</tr>
<tr>
<td>4. Planned, administered prices</td>
<td>Market prices</td>
</tr>
<tr>
<td>5. Monopoly central planning</td>
<td>Polycentric planning</td>
</tr>
<tr>
<td>6. Income redistribution by the state</td>
<td>Income redistribution by producers</td>
</tr>
<tr>
<td>7. Administrative decision of flows of goods, labor, capital</td>
<td>Goods, labor, capital flows decided by economic factors</td>
</tr>
<tr>
<td>8. Foreign trade autarky</td>
<td>Integrated into the world market</td>
</tr>
<tr>
<td>9. Inflationary tendency</td>
<td>Deflationary tendency</td>
</tr>
</tbody>
</table>

basis through reliance on market mechanisms (a view shared by the IMF and IBRD).

Although many elements of a market economy were incorporated into the Yugoslav economy during the self-management period, market mechanisms were by no means the dominant factor in economic decision-making prior to 1965. The 1965 Reforms were intended to remedy this situation by extending the role that market mechanisms played in the economy. Yugoslav economic authorities believed that allowing the operation of more competitive market conditions would enhance the efficiency of Yugoslav enterprises, both domestically and abroad (Mačesić, p. 42; Horvat, YES, p. 21; Lang, p. 230, Hawlowitsch, p. 125). In practice this meant reducing, and eventually eliminating, government (or administrative) interference and control in areas such as prices and disposition of enterprise income (Mačesić, p. 42; Lang, p. 230; Horvat, "YEP," p. 85). This was the meaning of deétatization. Also, prior to 1965, many decisions had been made by government authorities with reference to local political necessities rather than according to economic criteria. By relying on "objective" market mechanisms it was hoped that economic decision-making would become apolitical, or de-politicized (Bićanić, p. 636; Horvat, "YEP," p. 85).

Domestically, the Reform focused on price formation, enterprise decision-making, planning, and banking institutions and investment. As was the intention of the reforms passed in July, 1965, prices would henceforth "be formed economically, and (would) depend on relations between supply and demand, not only on the home market but also on the international market" (Vukmanović, p. 12). Accordingly, beginning that
same month a "radical" restructuring of the entire pricing system was conducted with the new domestic prices of most goods based on prevailing world market prices. Price subsidies to enterprises and to consumers, in the form of lower than market rates on rents, public transportation and electricity among others, were drastically reduced or eliminated. Administrative interference in price formation was not completely eliminated, however. The central government still determined the prices of selected "essential goods" such as raw materials and some semi-finished goods (Schrenk, p. 121; Vukmanović, p. 9). Price ceilings were imposed on goods such as meat, electric power and communal services within ten days of the announcement of the Reform in July (NYT, 10/20/65; Mačesić, p. 46). The price freeze of March, 1965 was replaced by a new freeze in July, when prices on 90% of all goods were increased and then frozen (OECD, 1966, p. 8; Lang, p. 234; Horvat, "YEP," pp. 111-112). This was done to prevent any drastic and uncontrolled jump in prices which might have occurred as a result of the announcement of the Reform, but it also demonstrates that unqualified commitment to the market ideal was not yet a reality.

Reform of the banking system served two purposes: to streamline an increasingly cumbersome and inefficient institutional framework and to harmonize the system for distributing credit and investment with the newly proclaimed market principles. Prior to 1965, the institutional structure in Yugoslavia appeared as follows:

- National Bank
- 3 Specialized banks for investment, agriculture, and foreign trade
- 6 Republic Banks
- 200+ Local banks (OECD, 1966, p. 10).
These banks were characterized by the essentially political or administrative character of their decision-making. The vast majority of these banks operated only in the territory of the government which had established them (Mačesić, p. 51), and therefore were easily "captured" by local political interests. In two reforms (March and August, 1965), the number and types of banks were reduced to the following:

- National Bank
- 8 Investment banks
- 61 Commercial banks
- 39 "Mixed" banks, performing a variety of functions (OECD, 1966, p. 10; Mačesić, p. 53).

In order to reduce the amount of political control exerted on these banks by local political units, no one "founder" of a bank was permitted to hold more than 10% of the total number of votes on the bank's mortgaging board (Mačesić, p. 10).

One of the primary concerns of the Reform was the allocation of scarce investment resources. Once again, the goal was to minimize administrative and political interference in investment decisions. Control of investment funds was not vested in enterprises and banks, the latter being conceived of as "autonomous economic, which collect the free resources of the economic organizations ... and allocate such resources where they will produce the best economic results (Vukmanović, p. 30). In keeping with the shift in priorities toward consumption envisioned by the Reform, opening investment to market forces was also intended to decrease the level of investment, and investment declined by 5% by October, 1965 (Bičanić, p. 633; Dubey, p. 38; NYT, 10/20/65) after the availability of credit sharply declined.
In keeping with the market orientation of the 1965 Reform, the primary goal of the Reform in the foreign trade sector was to integrate the Yugoslav economy into the international economy (Horvat, "YEP," p. 21; Dubey, p. 18). Yugoslav authorities believed that abandoning the relatively autarkic policy emphasis of previous years was a crucial step in eliminating the balance of payments deficit which had recently appeared (Bićanić, p. 643; Lang, p. 230; Horvat, "YEP," p. 127). The first step in this integration process was to make Yugoslav goods competitive by bringing the price of Yugoslav goods into line with world market prices and then permitting prices to fluctuate according to the pressures of the world market (Bićanić, pp. 638, 642; OECD, 1966, p. 8). As was mentioned above, this task was accomplished in July as part of the Reform of the internal price system.

Three adjustments in the value of the dinar formed an integral part of the reforms in the foreign trade sector. Accompanying the proclamation of the Reform was an announcement of a currency reform in which 100 "old" dinars would be equal to one "new" dinar (NYT, 7/25/65; OECD, 1966, p. 8). At the same time, the system of export premiums and tax subsidies, which effectively constituted a multiple exchange rate system, was abolished in favor of a single, unified exchange rate. The new exchange rate also represented a devaluation from the old rate of 750 dinars per one dollar to 1250 dinars per one dollar. These currency adjustments were a necessary first step in attaining full convertibility of the dinar by 1970, a stated goal of the Reform (NYT, 10/20/65; Horvat, "YEP," p. 127).
Another crucial step in the integration of the Yugoslav and world economies was the reduction of foreign trade protectionism. Quantitative restrictions were removed on 25% of all imports, particularly raw material imports, and the customs tariff rate was decreased from 23% to 11%. These measures were designed to expose Yugoslav enterprises to increased competition from abroad which, it was hoped, would have the effect of increasing enterprise efficiency.

Decreased administrative control over economic decision-making at all levels had important implications for the behavior of enterprises and the role of planning in the Yugoslav economy. One of the main consequences of the Reform, and also one of its goals, was to increase the decision-making autonomy of the enterprise, particularly with respect to the distribution of enterprise income (Horvat, p. 223; Maćesić, p. 42; Schrenk, p. 25). Enterprises were now permitted to disburse freely between investment and wages a full 70% of their income; the remaining 30% was designated for the use of the social community (Bićanić, p. 638; Vukmanović, p. 28). As a result, not only were prices freely formed, but wages and investment were also made responsive to market forces. The need for and effectiveness of central planning was almost completely eliminated. Planning would now be "multicentric" with inputs from all levels and sectors of the economy, rather than a monopoly of the central government (Horvat, "YES," p. 83), and would be indicative, not compulsive.

This package of "laissez-faire inspired" reforms (Horvat, YES, p. 27) was favorably received by the Bank and the Fund. A $70 million loan was made by the IBRD to Yugoslavia for transportation projects.
For the most part, IBRD monies were designated for projects, such as the Belgrade-Bar Railway Project, which were intended to facilitate the delivery of exports to major Yugoslav ports. This was consistent with the foreign trade emphasis of the Reform. The IMF also contributed to the reform process through the conclusion of an $80 million Stand-by Arrangement with Yugoslavia. This agreement demonstrated the Fund's confidence in the new reforms to potential leaders worldwide and to Yugoslavia's creditors. Funds from this Stand-by Arrangement benefitted Yugoslavia in addition to the confidence it inspired in international financial circles. The IMF loan was used to bolster Yugoslav foreign exchange reserves against any unexpected drains which might have resulted from the reforms (Horvat, YES, p. 127; OECD, 1966, p. 4).

The Fund's support of the 1965 Reform went beyond financial assistance, however. IMF officials had been consulted about the details of the Reform beginning in 1964. This has led one analyst, Cheryl Payer, to conclude that the Fund played more than an advisory role in the Reform and had actually orchestrated a large part of it (Debt Trap, p. 132) as a condition of extending monetary aid. This conclusion is misleading, however. Yugoslav economic thought since the Cominform break had been distinctly monetarist, a position also adopted by the Fund. Economic experimentation in Yugoslavia had always emphasized monetary policy primarily because fiscal policy was almost non-existent in Yugoslavia until well into the Seventies. The Yugoslavs' conception of the causes of their economic problems was couched in monetarist terms so that the solutions devised, such as restriction of bank credit and emphasis on controlling the money supply, reflected that
perspective. That the Yugoslav and IMF perspectives coincided was not a matter of coercion but of coincidence based in part on circumstance and in part on cooperation. Once the Yugoslavs had rejected the Soviet model, which occurred prior to Bank and Fund involvement in Yugoslavia, the Keynesian model used by the Bank and Fund was one of the alternative examples on which Tito and his party could rely for relevant economic theory in constructing a new Yugoslav economic order. In addition, the Soviet bloc's embargo forced Tito to seek development aid from the West and therefore, ensured that he would at least consider the advantages the Keynesian model had to offer Yugoslav economic thought. Furthermore, the multinational character of Yugoslav society and the need for popular support in the face of a Soviet "threat" gave additional weight to the consideration of any alternative which could possibly aid in defusing the potentially dangerous "nationality" issue; the impersonal forces of the market and decentralization were two such alternatives. It can be concluded, therefore, that economic reform in Yugoslavia was not enacted solely in return for aid. Historical circumstance and coincidence played key roles in the direction of Yugoslav economic reform. The need for economic assistance due to the embargo and the political need for decentralization ensured that the IMF's perspective and advice would be given serious consideration by Yugoslavs in search of new structures, but it did not guarantee that the market alternative would be chosen (Albania is an example of another possible alternative). The fact that market socialism was selected was due to a deliberate decision of the Yugoslavs which was
made in accordance with local conditions and needs, of which recon-
struction and development aid were only a part.

The strong support of the Bank and Fund for the course of Yugoslav
economic development since 1950 took the form, therefore, of reinforce-
ment rather than inducement or reward. The pattern of Yugoslavia's
relationship with both organizations tended to be one in which Yugoslav
officials sought technical advice and financial support from the Bank
and Fund for reforms which had been previously debated and tentatively
accepted. Both periods of major reforms were preceded by at least two
years of intense debate within Yugoslavia, and consequent Bank and Fund
assistance was of a frequency and level which does not suggest that the
Yugoslavs were unusually well-rewarded if they had indeed adopted
reforms in conformance with IMF demands. This conclusion is further
confirmed when one notes that the period during which Yugoslavia
received a steady, high flow of aid, 1970-1980, was a period of rela-
tively little major reform. Between 1970 and 1980, the World Bank
loaned Yugoslavia $2306.9 million, whereas Yugoslavia received only
$270.7 million during the years included in this study. Yugoslavia's
Stand-by Arrangements to 1965 totalled $110 million but came to $135.25
Yugoslav authorities actually retreated slightly from the market orien-
tation of the Sixties and adopted a "convergent planning approach"
which is purported to guard against the "anti-social" effects of a mar-
et system. To date, convergent planning has not resulted in a
marked turn toward a more typical form of central planning, however,
and the basic elements of market socialism remain intact. Given these
facts, one can conclude that Bank and Fund loans were intended to reinforce what appeared to be a desirable, or at least familiar, course of events.

II. Leverage in Romania: Adaptation and Reinforcement

Romania became the fifth avowedly Communist state to join the IMF and the IBRD, but at the time of Romania's entrance into both organizations in 1972, only one other Communist state, Yugoslavia, remained. Like Yugoslavia, Romania's relationship with the Bank and Fund has been very cordial, but unlike Yugoslavia, the minimal amount of economic reform which has occurred in Romania since 1972 has been in the direction of recentralization with an expanded role for political intervention in economic decision-making.

Romania's economic structure and policies are excellent examples in many ways of a typical socialist economy found in a Communist country. The Romanian economy has been described as "one of the most tightly controlled and centrally directed economies in Eastern Europe." A system of comprehensive central planning is expedited by the state, which in turn, is directed by the Romanian Communist Party. The political and economic aspects of economic decision-making are almost completely fused in Romania, and this principle is actually enforced by law. Economic development has been the primary economic goal of the Ceausescu regime which assumed power in 1965, and the state has been designated by Ceausescu as the "agent and executor of development policies and programs." This has led to a growing
"bureaucratization" in the economy which in recent years has been identified by the regime as a hindrance to further development (Graham, p. 82).

In terms of development strategy, Romania, like other members of the Soviet bloc, chose a strategy of "extensive" development. In this strategy, emphasis is placed on the industrial sector of the economy and saving at the expense of consumption. An extensive pattern of development also relies on a substantial shift of labor from the agricultural sector of the economy to industrial jobs. During this period, the economy is also relatively autarkic, relying on domestic production as much as possible to conserve scarce foreign exchange. Romania's development program exhibited all of these characteristics into the late 1970s. The economy was characterized by high levels of investment in new industrial facilities (Jackson, "Perspectives," p. 273; Ioța, p. 105). Although the agricultural sector was secondary in terms of Romanian economic priorities, modernization of agriculture was attempted through the familiar method of collectivization and investment in farm machinery. Autarky, or as the Romanians express it, economic independence, was an integral part of Romania's push for development, and the Romanian government consistently attempted to minimize the foreign trade sector until the mid-1960s (Gamarnikow, p. 182; Jackson, "Perspectives," p. 299, and "Industry," pp. 888-889, 940). In addition, central planning was explicitly identified by Romanian authorities as an integral part of that independence (Ioța, p. 103).
Romania's economic independence was accompanied by an ever-increasing political independence. In the Sixties, Ceausescu slowly moved Romania from a position of reliance on the CMEA and Warsaw Pact, the economic and political arms of the Soviet bloc, and began to seek contacts with non-aligned states, and to a lesser degree, Western, capitalist states.\textsuperscript{68} This posture of political independence assisted Romania's development effort in that it engendered popular support for Ceausescu. This was necessary in order for the regime to endure in spite of the pressures created by the economic sacrifices required of the population by an extensive growth strategy.\textsuperscript{69}

Despite the appearance of invariability, the Romanian economy has undergone two periods of reform, at least by Romanian standards. Soon after his accession to power, Ceausescu instituted a re-examination of the Romanian economy. There ensued a discussion which concluded that the Romanian economy had progressed to a stage where an intensive development strategy would be more productive. The preliminary stages of this reform had barely been implemented, however, when a second set of reforms was effected which negated the effects of the first, for the most part. It was during this second period that Romania joined the Bank and the Fund and theoretically, became vulnerable to their "capitalistic" influences.

In the following section, a brief description of the aborted 1967 reform is provided as a background for evaluating Romanian reform actions in the 1970s. The 1967 reforms indicate the direction of Romanian economic thought prior to any contact with the IMF or IBRD.
In particular, an understanding of the 1967 reforms will place the influence of the IMF and IBRD on the 1978 reforms in perspective.

A. Aborted Reform, 1967-1972

By the mid-1960s, Ceausescu and other members at the top of the Romanian Communist Party hierarchy concluded that Romania had reached the limits of the extensive development strategy and would have to shift to an intensive pattern if the successes of the previous two decades were to continue.\textsuperscript{70} By 1966, this recognition of the need to streamline the administration of the economy was coupled with an increasing awareness that comprehensive development of the Romanian economy would require the most modern technology and equipment, and this meant increased participation in the international economy, particularly of the West.\textsuperscript{71} This increased interaction with capitalist and non-aligned states in economic matters was consistent with Romania's independent foreign policy position and therefore, reinforced Romanian independence.

Ceausescu identified excessive centralization and bureaucratization as the main obstacles to further economic development. Thus, the original thrust of the 1967 Reform contained a familiar element of decentralization. Public discussion of the reforms focused on the need to strengthen the decision-making authority of both local administrative organs and enterprises themselves.\textsuperscript{72} This seeming trend toward self-management was deceptive, however. What was actually intended by the reform was to make planning and control more efficient and effective through a diminution of bureaucratic "red tape" which appeared to
hinder effective decision-making, particularly with respect to foreign trade. De-bureaucratization, not decentralization, was the actual goal of the 1967 Reform (Rohleder, pp. 119-121).

It was at the 9th Party Congress of the RCP in July, 1965 that the need for some type of economic reform was officially recognized (Rohleder, p. 116). The issue was quietly debated by the Party hierarchy until the Central Committee meeting of October, 1967, at which the outline of the Reform was introduced (Gamarnikow, p. 183). The "Directives of the Central Committee of the Romanian Communist Party on the Perfecting of Management and Planning the National Economy," the actual blueprint for the Reform, was formally approved by the Party in December, 1967, and initiated a reform period which endured until 1972.73

Decentralization in the context of the 1967 Directives did not mean the devolution of final decision-making authority to the enterprise, as in the Yugoslav case, but merely bringing management closer to production. Prior to 1967, minority officials had assumed an active role in the daily management of enterprises, and the inevitable delays and inefficiency frequently associated with this practice resulted (Smith, p. 38; Gamarnikow, p. 213). The Directives assigned strictly supervisory roles to the ministries, such as the drafting of plans, and placed responsibility for routine daily decisions with the enterprises (Kaser, p. 177). For the first time, the enterprise was permitted to retain up to 10% of its profits to dispose of freely (Kaser, p. 189), and enterprises and local authorities were now to participate in the
planning process, albeit in a very minor capacity (Smith, p. 36; Iota, p. 102).

Within the enterprise, the Directives hinted at a rudimentary form of workers' self-management. The Directives advocated replacing one-man management of enterprises in all sectors with a form of collective management (Smith, p. 38). The manner in which "collective management" was defined approximated an early stage of self-management as practiced by Yugoslavia between 1950 and 1953. In April 1968, Boards of Management were introduced, which were composed of 5-21 members, of whom 1-5 were elected by enterprise employees. In October 1971, these numbers were revised so that the Boards now consisted of 9-25 members with 3-11 elected members. These boards only possessed minimal advisory powers and were often dominated by political appointees (Kaser, p. 184; Rohleder, p. 117; Gamarnikow, p. 209).

Creation of industrial and agricultural controls was the most notable innovation of the Directives. Centrals were administrative units which were intended to operate like branch holding companies at a level between the ministries and enterprises (Rohleder, p. 118; Gamarnikow, p. 208). According to Alan H. Smith:

"The central would, in consultation with the ministry and their economic bodies, estimate targets for its output and assortment plan, the volume of deliveries to the market and other centrals, exports, indices for cost reduction, imports, inputs of materials, and its financial plan" (Romanian Economic Reforms, p. 38).

The central linked enterprises which produced similar outputs or which were at different stages of production of the same good (Rohleder, p. 118). Ceausescu emphasized that centrals were production bodies
intended to unify and concentrate production into larger units, not merely another type of administrative, coordinating body (Smith, p. 40). The creation of centrals did coincide with a reduction in the number of industrial and agricultural units in Romania, a phenomenon not frequently associated with decentralization (Kaser, pp. 177, 186).

The Directives assigned a marginally increased role to price and credit levels, although this new role in no way approximated a free market. Bank credits were introduced to aid investment financing, and the price system was revised (Smith, pp. 38-39; Gamarnikow, p. 213; Rohleder, p. 119). In addition, the miniscule private sector of the Romanian economy benefitted from some relaxation of control which permitted private businesses to hire labor at a fixed minimum wage (Kaser, pp. 190-191). It must be emphasized again, however, that these measures were NOT intended to initiate a market economy in Romania.

Finally, the Directives called for substantial revisions in the foreign trade system. In September 1969, the Ministry of Foreign Trade was reorganized to perform coordinating functions only, and by 1970 only three foreign trade enterprises remained under the Ministry's control; the others had been absorbed by the relevant industrial ministries. A new foreign trade bank was also created to handle foreign currency and foreign investment transactions. This was accompanied by a revised foreign trade pricing system and an export premium of 4-6%. 74

The geographical distribution of Romania's trade was shifted towards capitalist and Third World countries in order to obtain the equipment and technology needed to support the new, intensive phase of Romanian development and to increase Romania's independence from the
CMEA (Montias, pp. 871-872; Brada, p. 1264). The Romanian government also sought short- and medium-term credits from commercial and private lenders in the West to increase its investment supply (Montias, p. 872; Smith, p. 37; Jackson, "Industry," pp. 893, 912). Marvin R. Jackson estimates that Romanian foreign debt had increased by $1 billion between 1965 and 1970, the peak year of Romanian borrowing from Western sources (Jackson, "Industry," pp. 893, 889). It was also during this period that Romania began to experiment with joint ventures, the first Soviet bloc country to do so. The Foreign Trade Law of 1971 permitted foreign firms to invest in jointly-owned ventures with Romanian enterprises. Foreign firms were limited to a 49% share of investment, but repatriation of profits and equity was sanctioned.75

The Directives originally set December 31, 1969 as the deadline for implementation of the reforms. This deadline was subsequently delayed three times to December 1972 when the reforms were abandoned (Gamarnikow, p. 209). This delay is directly attributable to the political struggle which the reforms had initiated within the Party and between Party members and the State bureaucracy. The Directives represented a compromise between these forces which desired a reduction in the number of centrally-determined indices, greater use of incentives and levers, and the use of profits as a measure of success, and members of the state apparatus who wanted even more centralization (Smith, p. 37). Consequently, the compromise represented by the Directives was inconsistent; the reform contained elements of both centralization and decentralization. Enterprises were given more decision-making authority without the instruments to implement it (Smith, p. 39;
Gamarnikow, pp. 184, 207). The Party/State apparatus debate continued even after the Directives were issued and the bureaucratic opposition which resulted effectively delayed, then destroyed, the entire reform process (Smith, p. 40; Gamarnikow, p. 183).

As the preceding analysis indicates, early attempts at economic reform in Romania only made marginal adjustments in economic structure and policy. The economic reform of 1967 was never intended to be comprehensive. What was desired by Ceausescu was merely an "improvement" in economic efficiency, not a complete overhaul of the structure of the economy (Kaser, p. 173). The fact that the retention of central planning was never in doubt and mandatory indicators continued to be imposed on enterprises attests to the incremental nature of the Directives (Rohleder, p. 117; Gamarnikow, pp. 208-209). Thus, when the reform stalled and finally yielded to a renewed centralization effort, there were very few changes to be made.

B. Recentralization, 1973-1977

Romania's economic structure when it joined the IMF and IBRD in December 1972 (NYT, 12/6/72) differed very little from its economic structure of the Sixties. Beginning in 1973, Ceausescu embarked on a course to bring the Romanian economy to a level comparable to that which prevailed in Western Europe. As had been recognized but not acted upon in the Directives, a strategy of intensive development was vital to the achievement of this goal (Ioța, p. 105). "Multilateral development," which was the term given to the intensive development of all sectors of the economy, was explicitly linked to the acquisition of
the most modern scientific and technological techniques and equipment. This goal would require hard currency, however, and earnings of that commodity had not reached desired levels in the previous years (Smith, p. 37). Ceausescu concluded that remobilization of the Romanian economy was necessary (Jackson, "Industry," p. 890); consequently, the reforms of 1967, already delayed, were deemed too costly and were abandoned in favor of recentralization.

In part, recentralization was an attempt by the RCP hierarchy to reassert control over the state bureaucratic apparatus, which was also a goal of the 1967 Directives. Toward this goal, management of the economy was consolidated by merging Party and State administrative positions (Smith, p. 41; Ioța, p. 102), and the economy was directed according to a unified national plan, a partial reversal of the intention of the Directives (Ioța, pp. 102-103; Smith, p. 41). As a result, the number of compulsory indicators were increased, centrally allocated products increased from 180 in 1973 to 720 in 1974, and investment allocation was recentralized (Smith, p. 43; Jackson, "Industry," p. 891).

Institutionally, the power of the centrals to direct enterprise activities was enhanced at the expense of the ministries. While this may appear to be a movement toward decentralization, it was actually an attempt by Party officials to bypass recalcitrant state bureaucrats to bring production closer to the technical staff (Smith, pp. 42-43). Although the amount of earnings retained by enterprises was raised to 40% in 1973, many of the other administrative rights which had been extended to enterprises by the Directives were rescinded. The number
of enterprises and centrals was reduced; only 102 of the 207 centrals which existed in 1972 remained active in 1973.\textsuperscript{78}

Centralization also occurred in the foreign trade sector. Ceausescu realized that multilateral development could only progress through participation in the international economy but desired to minimize the effects of that participation (Ioța, p. 109; Montias, p. 878). This could only be accomplished, in the Party's view, by restoring control over foreign trade enterprises to the Ministry of Foreign Trade and reducing the number of enterprises engaged in foreign trade activities. By 1975, all but four foreign trade organizations were placed under the Ministry's control, and the number of foreign trade enterprises was reduced from 56 in 1972 to 40 in 1975.\textsuperscript{79}

Romania's foreign trade continued to shift away from the CMEA countries between 1973 and 1977. The largest portion of this geographical shift in trade went to Third World states to whom Romania was able to export its manufactured goods and thus maintain a trade surplus (Montias, p. 874; Jackson, "Industry," p. 912). Increased economic interactions with the Third World at the expense of both the West and the Soviet bloc also lent credence to Romania's quest for independence. However, trade with the developed capitalist countries also expanded such that, according to one estimate, imports from and exports to those countries accounted for 47.3% of total Romanian trade in 1973 (Montias, p. 872). This growth in trade with the convertible currency countries was primarily in imports and, therefore, led to an increase in Romania's trade deficit. Romania financed this deficit through credits from Western financial sources so that Romania's foreign debt grew by

Romania's foreign policy also reflected a shift toward the West and the Third World. During this period, Romania applied for membership in the Group of '77 and was only granted observer status due to its membership in the Warsaw Pact. At the same time, Romania expanded its contacts with the West. For example, Romania served as an intermediary between the U.S. and North Vietnam during the peace negotiations and assisted in the arrangements for Henry Kissinger's trip to China (NYT, 12/5/73, 7/25/71). In the year prior to its entrance into the IMF and IBRD, Romania was granted Most-Favored-Nation status by the United States, a sign of the growing cordiality between the two states (NYT, 7/25/71).

Romania joined the IMF and the IBRD at the onset of the recentralization period and since that time has been referred to as the "spoiled child" of these two organizations (Jackson, "Perspectives," p. 261). Romania's application for membership was facilitated by its earlier negotiations to join the GATT in 1971 (NYT, 7/25/71), and its achievement of eligibility for the U.S. Export-Import Bank and the U.S. Overseas Private Investment Corporation (WSJ, 9/22/72). Romania's efforts to participate in these facilities was clear evidence of its desire to cooperate with all states in the international economy. Consequently, the membership of the IMF and the IBRD approved Romania's entrance by an "overwhelming margin" in December, 1972, and in the next five years Romania received $626.2 million in 13 IBRD loans and an IMF Stand-by of $95 million. Clearly, the decision to recentralize
did not hamper Romania's relations with both organizations, although the "liberalizing" nature of the 1967 reforms may have induced the Bank and Fund to believe that this reversal of policy was temporary.

Romania's membership did require some adjustments on the part of the Bank and Fund, however. According to the Articles of Agreement of the Fund (Article VIII, Section 5), provision of information regarding key economic indicators and the balance of payments was a condition of membership, as was regular consultation with the Fund's staff (Article VIII). It was assumed that Romania had agreed to these conditions when it accepted membership (NYT, 12/6/72). Yet information on export and import flows was (and is) considered a state secret in Romania (Brada, p. 1269) and Romania has refrained from releasing any information on its balance of payments and other financial transactions (Jackson, "Industry," pp. 889, 892, 906). The Fund has respected Romania's desire for discretion with respect to its financial affairs and has not divulged any of the information provided by Romania in pursuance of its membership requirements. In addition, like Yugoslavia, Romania received its first World Bank loan without settling outstanding debts to foreign citizens from World War II, a violation of the Articles. This issue was "permanently" settled in 1975 when Romania compensated such bondholders at 40% of the face value of the bonds (NYT, 6/26/75). Apparently, such problems were not considered serious enough to hamper Romania's loan applications in the Bank and the Fund.

In March 1978, the Romanian government announced a set of economic reforms which were scheduled to be implemented beginning in 1979 (Smith, p. 35). This new set of reforms resembled in many respects the
1967 Directives (Smith, p. 52) and thus appeared to be a minor departure from the recentralization trend of the previous five years. A decline in industrial performance beginning in 1976, coupled with a devastating earthquake in 1977, provoked Party and State economic authorities to examine once again the direction of the Romanian economy (Smith, p. 54; Jackson, "Perspectives," pp. 263, 301). Despite the rhetoric which favored a shift toward intensive development which had prevailed among Romanian economic authorities since 1967, economic policy had actually reflected an extensive strategy of development. Yet objective conditions clearly indicated that an extensive development program was no longer productive in the Romanian context. The rate of investment was declining, a labor shortage began to emerge as available labor resources in agriculture dwindled, and popular pressure for increased consumer goods mounted (Jackson, "Perspectives, pp. 274-275, 286-288; Smith, p. 54). Increasing trade deficits and growing difficulties in attracting credit also contributed to the realization within the RCP that implementation of an intensive development strategy had now become a necessity (Smith, p. 54).

Workers' self-management, briefly mentioned in the 1967 Directives, was one of the major themes of the 1978 reforms. Workers were once again able "to participate in the profits of enterprises and to improve the functioning of the economic system through greater use of self-management techniques" (IBRD, p. xxxiii). The 1978 measures were intended to give the workers' committees instruments, such as financial levers, which would enable them to carry out their responsibilities. These responsibilities were still limited to the
"supervision of centrally determined objectives," and to a lesser
degree, to provide the regime with feedback from the lower levels of
the economy. Ceausescu did not intend to institute workers' self-
management as practiced in Yugoslavia, but rather to increase the
amount of information available to the regime, increase productivity,
and enhance the power of the Party apparatus, much as the 1967
Directives had intended.84

Increasing productivity, a necessary part of intensive develop-
ment, was a second major goal of the 1978 economic adjustments. Incen-
tives were identified as a major tool in accomplishing this goal. In
1978, net output and profits replaced gross output as the primary indi-
cator in determining the level of incentives (Jackson, "Perspectives,"
p. 295; Smith, p. 47). Monetary incentives were thus directly linked
to productivity, especially reduced costs (Smith, p. 50). Another type
of incentive, personal gardens, was also quietly expanded (Jackson,
"Perspectives," pp. 295-297). These changes in the incentive system
were designed to link workers more directly to their production in
order to raise the output per worker.

Augmenting worker self-management and the changes in the incentive
system were changes in the banking system. Banks were now empowered to
finance centrally determined investments, and credit levers were to
replace partially budgetary financing from the central government
(Smith, pp. 47-49). Together, these three sets of reforms, self-
management, incentives, and credit levers, gave the appearance of a
significant decentralization of the economy. This was not the case,
however.
As was true in 1967, the 1978 reforms were actually only a minor adjustment in the structure of economic decision-making in Romania. The single, national plan remained the predominant instrument of economic policy, although the 1978 reforms called for more lower level input into the plan (Smith, pp. 41, 43, 50, 51). Indicators, which determined enterprise profitability, also continued to be centrally determined, as were investment priorities and decisions (Smith, pp. 35, 43, 52).

Foreign trade received a high priority in the 1978 reforms, as it had since 1967. In the 1970s, the Ceausescu regime targeted chemicals and metallurgical products, rather than agricultural goods, as industries for development as exports (IBRD, p. 2; Jackson, "Perspectives," p. 298). Romania's export performance in these areas had been steady and chemicals and metallurgy promised to assist Romania's drive for multilateral development. Romanian economic authorities continued to encourage in a limited way joint venture agreements with Western corporations. Nevertheless, "foreign competition in internal Romanian markets [was not] considered important for improving the efficiency of Romanian firms" (Jackson, "Perspectives," pp. 298, 300), and the magnitude of the joint venture experiment was restricted. This increased participation in the international economy, the 1977 earthquake, and the decline in productivity led to a rapid increase in Romania's foreign debt after 1975 and large trade deficits were registered in 1978 and 1979 (Jackson, "Perspectives," p. 275).

Fund and Bank support of the Romanian development effort continued throughout this period. The IMF concluded a Stand-by Arrangement with
Romania in 1977 (WSJ, 9/13/77) and the $64.13 million loan was made available to Romania in 1978 in support of its stabilization program. This loan, therefore, was intended by the Fund to reinforce the general direction of the 1978 reforms. Romania also received $876.5 million in 14 loans from the IBRD between 1978 and 1980 to finance projects in the tire, pork, fruit, and hydroelectric industries. It is interesting to note that these projects support agricultural exports; obviously, the IBRD felt that Romania's export strength still resided in its agricultural products and until 1980, at least, the Bank was hesitant to invest in the new export target areas. The Bank loans, then, were an inducement to the Romanian government to refrain from neglecting the agricultural sector.

As the preceding analysis indicates, reform in Romania has been incremental, never significantly deviating from the basic model of central planning. Despite Romania's steadfast adherence to a non-capitalist model, the Bank and Fund lent Romania $1502.8 million and $159.13 million, respectively, in just eight years. It would be a mistake, however, to conclude that the two organizations supported or approved Romanian economic policy during this period. Bank and Fund lending in this case was actually an example of a variation in reverse inputs. Since both institutions aspire to the organizational goal of universal membership, the relative absence of Communist countries from their memberships has been a persistent concern. Romania was the first member of the Soviet bloc to seek membership in the IMF and IBRD since Czechoslovakia's withdrawal in 1954, and consequently served as a crucial example, or test case, of the two organization's ability to
accommodate orthodox centrally-planned members. The Bank and Fund were more willing, therefore, to adapt their procedures to Romania's special needs and conditions.86

One example of the cooperative attitude of the Bank and Fund toward Romania occurred in 1979. Critics contended that the World Bank's analysis of the Romanian economy, published in 1979, looked as if "it was written by the Rumanian government . . ." and that the Bank "placed politics ahead of credibility" (WSJ, 8/10/79). Sources reported that the Bank's professional staff were "chagrined" by such "imaginative fiction" (WSJ, 8/10/79); the report was based on official Romanian statistics which experts agreed were notoriously unreliable (Jackson, "Perspectives," p. 261).

As the example above illustrates, the IMF and IBRD were acutely aware of the somewhat public nature of Romania's experiences in both organizations. They were prepared, therefore, to focus on the strengths of Romania's economic system,87 and minimize its weaknesses and the fact that it contradicted the prevailing organizational ideology in both institutions. As one member of the IMF staff described it, Romania's membership in the IMF has been a "learning experience" for both parties and one from which, in 1980, the Fund felt it had the most to learn.88 Bank and Fund lending was thus an attempt to retain Romania's membership—an example of reverse influence with aspects of inducement.
III. The Successes

In terms of aid receipts, Yugoslavia and Romania have had very successful relationships with the IMF and especially with the IBRD. This is in contradiction to the assertions of the normative school, which would predict that Yugoslavia and Romania would encounter opposition and hostility in both organizations due to their Communist ideology and non-capitalist economic structures. Yet, as was the case for Poland, Czechoslovakia, and Cuba, it appears that foreign policy position with respect to the Soviet Union had more impact on the Bank and Fund than did economic or political structure.

Yugoslavia and Romania differ markedly in their domestic political and economic arrangements but share two important characteristics. Yugoslavia possesses a relatively open political system and a market-oriented economic system; Romania's political system is one of the most authoritarian and closed in the Communist bloc and, its economic system is almost a textbook example of an administrative, centrally-planned economy in the world. The successes of both countries in the IMF and IBRD, thus, cannot be explained by the fact that both are Communist because of the very different way in which that term is operationalized in both countries. What the two regimes do share are an unusual level of popular support (for an Eastern European regime) and an independent foreign policy with respect to the East/West conflict.

In the Yugoslav case, it was only after the Bank and Fund were convinced that the break with the Cominform was genuine that they agreed to lend, and even then, the first Bank loan to Yugoslavia was
for a project which was designed to aid Western European recovery. These loans were reinforcing in nature; both the 1953 and 1965 reforms had been vigorously debated for at least 12 months before support was sought from the Bank and Fund, although in 1965 both organizations did provide assistance in formulating the details of the new policies. In both cases, however, the resulting policies were a logical extension of previous developments within Yugoslavia.

Romania's independent foreign policy had been established almost a decade prior to its application for membership in the IBRD and IMF. As with Yugoslavia, Romania's foreign policy did not raise concern in the Bank and Fund that Romania would default in the face of pressure from the Soviets; such concern was a part of the Bank and Fund's reluctance to lend to Poland and Czechoslovakia in the early 1950s. Further, because of its very orthodox Communist political and economic structures, Romania's successful experiences in the IMF and IBRD could serve as an inducement to other Communist states to join both organizations and thus, bring the Bank and Fund closer to achieving their goal of universal membership. As a result, Romania was able to influence at least minimally Bank and Fund procedures as the cost of its continued membership.

Problems with debt management, one of the potential costs of active participation in the international economy, became increasingly evident in Yugoslavia and Romania only after 1978-1980. Yugoslavia's public external debt amounted to $1.8 billion in 1967 and $2.4 billion in 1973, but by 1980, that figure had risen to $18 billion. In addition, the balance of payments deficit rose to $2.1 billion in 1980.89
Similarly, Romania's external debt to the West alone increased from $5.8 billion in 1980 to $9 billion in 1981. Romania's balance of payments deficit also exceeded $2 billion in 1980. This sharp increase in indebtedness in both Yugoslavia and Romania paralleled the trend in the Third World and can be largely attributed to the coincidence of sharply increased oil prices and the onset of recession in the U.S. and the EEC (WSJ, 10/20/81). To date, both countries have been able to withstand the uncertainty and debt caused by increased interaction in the international economy because of the domestic popularity of their regimes, which allows these regimes to institute often unpopular austerity measures. This support may wane if the austerity period persists, however, and there is some evidence that this is already the case in Romania (WSJ, 10/20/84). In any event, membership in the "capitalist" Bank and Fund has not become a focus of debate in either country as government officials struggle to revive their flagging economies.

The factor of time and experience cannot be excluded when reviewing the reasons for Yugoslav and Romanian success in the Bank and Fund. By 1960, the Bank and the Fund had clarified their roles and established procedural precedents. Both organizations were more secure and confident in their roles as international lending agencies, and were more willing to take chances and to tolerate unusual circumstances. Also, the massive influx of newly independent states in the membership of the IMF and IBRD forced these institutions to adapt to a wide variety of economic structures and problems. Yugoslavia and Romania have
provided the Bank and the Fund with valuable experience upon which both institutions are likely to rely in the future.
END NOTES


7 The following account is taken from articles in the New York Times unless otherwise noted.

8 NYT, 7/16/49.

9 NYT, 5/5/49. According to this account, Yugoslavia "has asked the United States through its representative on the bank to take a friendly attitude" toward Yugoslavia's application for a loan. See also NYT, 5/23/49.

10 NYT, 7/11/49; Johnson, p. 126.

11 The following is taken from the NYT, 7/29 - 10/11/49.


15 Mason, p. 157; Johnson, p. 30; NYT, 10/10/54. The remaining six states were Greece, Brazil, Peru, Bolivia, Ecuador, and Costa Rica. Brazil received two World Bank loans totalling $31 million in 1949 and 1950.

16 NYT, 4/7/51; Horvat, YES and "YEP."

17 NYT, 4/27/51; Horvat, "YEP." p. 124. For the following discussion, see articles in the NYT, 4/7 — 12/29/51, unless otherwise noted.

18 NYT, 12/29/51; Horvat, "YEP," pp. 78, 124; Dubey, p. 263.

19 C. L. Sulzberger, NYT, 4/7/51.

20 NYT, 12/30/51, 1/13/51.

21 See NYT articles for 4 — 12/51.

22 Mason, p. 112.

23 NYT, 2/12/52, 3/16/51. Unless otherwise noted, the following discussion relies on articles from the NYT; see Footnote 21.


25 NYT, 1 — 3/52.

26 NYT, 2/13 — 7/8/53.

27 NYT, 3/23/53; Bičanić, pp. 636-637; Johnson, p. 144; also the discussion earlier in this chapter.
NYT, 2/1/54, 9/7/54; Johnson, p. 139. It is interesting to note that this renewed interest occurred soon after the ejection of Milovan Djilas from the Party provoked Party leaders into emphasizing the socialist nature of Yugoslav society.

See also Dubey, p. 19; Horvat, "YEP," p. 121.

NYT, 4/9 - 10/7/54. Yugoslavia, which claimed the entire city of Trieste, received 10 square miles of Zone A and all of Zone B in the settlement.

Horvat, "YEP," p. 125; NYT, 1/5/54, 2/9/54.

Crawford, p. 612.

Lang, pp. 223, 228.


Tajnikar, pp. 78-81.

This and the following discussion of the market school are derived from Horvat, "YEP," p. 84, and YES, p. 23.

See Horvat, YES, p. 20, and "YEP," p. 82; Payer, p. 129; Dubey, p. 264; Schrenk, p. 225.


See Hawlowitsch, p. 125, and Horvat, "YEP," pp. 134, 137, and YES, p. 211, for further discussion of monetary reforms.


See also Horvat, "YEP," p. 143, and YES, p. 20; Bičanić, p. 634; Schrenk, p. 18.

See NYT, 4/12 - 6/9/64, and Horvat, YES, p. 191, and "YEP," p. 83, for discussion of these issues.

Branko Horvat attributes the cause of the 1965 reforms directly to the 1964 recession. See YES, p. 198, and "YEP," p. 83.


47 See NYT, 1/10 – 7/22/66.

48 See NYT, 5/15/64 and 12/27/64 for examples.

49 NYT, 7/25/65, 10/20/65; Bičanić, p. 634; Horvat, "YEP," p. 85; Dubey, p. 38.


52 See also Bičanić, p. 640; Dubey, p. 38.

53 On the market goal, see Mačesić, p. 42; NYT, 10/20/65; Horvat, YES, p. 21 and "YEP," p. 83; Schrenk, pp. 119–121. On the stabilization goal, see NYT, 7/25/65; Hawlowitsch, p. 131; Bičanić, p. 634; Lang, p. 230; Horvat, "YEP," pp. 85–86; Dubey, p. 38.

54 See Dubey, pp. 39, 18; Horvat, YES, p. 198; Bičanić, p. 638; OECD, 1965, p. 5.

55 After the 1965 reforms, rents in Yugoslavia increased by an average of 100%, while the prices for public transportation and electricity increased 45% and 50%, respectively. See NYT, 10/20/65; Mačesić, p. 44.


57 Dubey, p. 18; OECD, 1966, p. 8; Schrenk, p. 26; Bičanić, p. 642; NYT, 7/25/65; Lang, p. 235; Mačesić, p. 49; Vukmanović, p. 12.


59 Lang, p. 235; Dubey, p. 18; Horvat, YES, pp. 198-199; Payer, p. 132; OECD, 1966, p. 8; Bičanić, p. 643.

60 Horvat, "YEP," p. 130. See also Mačesić; Dubey; Horvat, YES, Bičanić.
61 See Lang, pp. 235-237; Bićanić, p. 641; and Dubey, p. 17, for discussion of specific policies stemming from the Reform.

62 See the following for analyses of convergent planning: Tyson, Yugoslav Economic System; Tajnikar; Tyson, "Continuity;" Dubey; Schrenk; and OECD, Economic Surveys: SFRY, 1972-1975.


Ceausescu claims an extensive strategy was necessary for rapid development and justifies this by referring to the high growth rate of the Romanian economy since 1950 (Ioţa, p. 104).

67 Tsantis, p. 3.


74 The preceding discussion is taken from Brada, pp. 1265-1266.

75 Rohleder, p. 119; Kaser, p. 182; Smith, p. 37; Brada, p. 1264. Nichols, pp. 740-741, lists the regulations governing Romanian joint ventures as follows:

1. 51% Romanian participation is required.
2. Joint ventures may be concluded with centrals only.
3. The joint venture contract is reviewed by the State Planning Committee, the Ministry of Finance, the Ministry of Foreign Trade, the Ministry of Labor, the Foreign Trade Bank, and approved by the Council of Ministers.
4. Foreign partners must prepare one and five year plans.
5. A premium is placed on joint ventures in export and high technology industries.
6. A reserve fund of 25% of invested capital is created.
7. A 30% tax is levied on profits with a rebate on reinvested profits.
8. Profits and equity can be repatriated.

76 Ioța, pp. 100-109; Graham, p. 81.


78 Kaser, p. 177; Clayton, p. 142; Smith, pp. 42, 46; Jackson, "Industry," p. 891.

79 Brada, pp. 1269-70; Jackson, "Industry," p. 891. Brada cites a U.N. analysis which suggests that perhaps Romania possessed more foreign trade organizations than was profitable for its volume of trade so that centralization was actually a productive decision ("Strategy," p. 1271).

Wall Street Journal (WSJ), 12/6/72.

Romania's IBRD loans ranked as follows (out of the total number of loans extended by the IBRD in that year):

<table>
<thead>
<tr>
<th>Year</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>15th/48</td>
</tr>
<tr>
<td>1975</td>
<td>6th/52</td>
</tr>
<tr>
<td>1976</td>
<td>11th/52</td>
</tr>
<tr>
<td>1977</td>
<td>13th/54</td>
</tr>
</tbody>
</table>

Romania's ranking on its Fund Stand-by Arrangements in 1976 was 2nd out of 19.

Emphasis remained on increasing inputs rather than increasing productivity, and manufacturing industries were still heavily favored over consumer industries. See discussion in Jackson, "Industry," p. 938, and Iloța, p. 105.

The preceding discussion is derived from Smith, pp. 35, 51.

Romania's standings with respect to total IBRD loans for each year were:

<table>
<thead>
<tr>
<th>Year</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>9th/46</td>
</tr>
<tr>
<td>1979</td>
<td>11th/44</td>
</tr>
<tr>
<td>1980</td>
<td>9th/48</td>
</tr>
</tbody>
</table>


Interview with Mr. L. A. Whittome, Director, European Department and Mr. Tyler, both of the IMF, 9/5/80 and 11/24/80.

For example, in its 1979 report, the World Bank remarks that state control of productive resources had given Romania relatively greater ability to mobilize its resources for reconstruction and development (Tsantis, p. 5). A similar comment was made by Mr. L. A. Whittome of the IMF in an interview conducted on 11/24/80.

Interview with Mr. L. A. Whittome, 11/24/80.


WSJ, 10/20/84; NYT, 11/4/81.
Chapter 8: COMMUNIST COUNTRIES IN THE IMF AND IBRD: CONFLICT AND COOPERATION

The International Monetary Fund and the International Bank for Reconstruction and Development were designed in 1944 to facilitate the operation and growth of the international economy. When the organizations began operations in 1945, only three Communist countries appeared on the membership roster, despite both institutions' professed goal of universal membership. By 1955, only one Communist country, Yugoslavia, remained, and in 1979 total Communist membership numbered only two. It was the purpose of this analysis to examine the experiences of the five Communist states which have been members of the IMF and IBRD as examples of the operations of political factors in Bank and Fund policies and decisions to lend.

There are two conflicting claims in the literature regarding the possible political nature of the Bank and Fund. The technocratic school of analysis contends that Bank and Fund decisions, due to their technical nature, are strictly apolitical and are made with reference to established economic and technical criteria. The normative school disagrees and asserts that the dominant philosophy of Bank and Fund founders at Bretton Woods, laissez-faire capitalism, is reflected not only in the charters of the two financial institutions but in all aspects of their operations. Analysts in the normative school predict that members whose economic ideologies are inconsistent with, or hostile to, laissez-faire capitalism would encounter difficulties in obtaining assistance from the IMF and IBRD. In practice, therefore, the presence of political influences in decisions to lend by both
organizations would increase both the potential costs and the uncertainty encountered by prospective borrowers. This could conceivably alter the potential borrower's behavior with respect to the lending organization (e.g., result in a decision not to apply for a loan).

In order to examine the influence of political variables in Bank and Fund lending policies and operations, two arenas of decision-making were posited into which decisions to lend by the IMF and IBRD may be placed. Decisions to lend which are made solely with reference to technical or economic criteria would be located in the technical arena, whereas decisions made according to political factors such as foreign policy or ideology would be placed in the political arena. In reality, the boundary between the two arenas is not obvious. The evidence does indicate, however, that the political arena in the IMF was not large in relation to the technical arena. This implies that decisions in the Fund are more likely to be made with reference to criteria such as GNP and the status of the balance of payments than a member's regime type or number of votes in the IMF. Members of the Fund could therefore proceed with some assurance that their given political characteristics would not unduly prejudice the Fund's assessment of their application for financial assistance.

There are three types of influences into lending decisions formulated in this analysis: ascriptive, leverage, and reverse. Ascriptive inputs are characteristics of the borrower which the borrower cannot easily alter, such as regime type. Leverage influences take several forms: punishment, reward, inducement, and reinforcement, through which the lender seeks to influence the behavior of the borrower.
Reverse influences reflect the extent to which the borrower is able to influence the policies and operations of the lender. It is through these inputs that the existence of the political arena can be traced.

The fact that some states receive a level of Bank and Fund aid which is not consistent with their performance on selected economic variables does testify to the existence of a political arena, even a very small one, in both the IMF and IBRD. Decisions to lend to the five Communist members of the Bank and Fund (Poland, Czechoslovakia, Cuba, Yugoslavia, and Romania) are located in the political arenas of both organizations by virtue of the fact that these countries either received no funds at all or received an above-average level of loans. Those states which did not receive any loans from the Bank and Fund were considered to be unsuccessful examples of Communist experiences in those organizations, and the two states which received frequent and large loans were classified as successful examples of Communist membership.

At the United Nations Monetary and Financial Conference at Bretton Woods, N.H., held in July, 1944, several concessions were made in the Articles of Agreement to accommodate potential Communist members. These provisions concerned primarily the provision of economic information to the IMF, the size of quotas, and the payments of subscriptions. Although the U.S.S.R. did not join either organization, the Communist countries which did enter the Bank and Fund did benefit from these concessions — some of the few examples of reverse influence discovered by this inquiry.
From the analysis of the experiences of all five Communist members of the IMF and IBRD, it is clear that it was not ideology or economic structure but the status of the individual Communist member's relations with the Soviet Union which most influenced Bank and Fund decisions to lend. Poland, Czechoslovakia, and Cuba had very close, positive relationships with the U.S.S.R. during their terms of membership and also received no assistance from either the Bank or the Fund; eventually, each withdrew from both organizations. These were the failures. Although the conflicts between these states and the Bank and Fund were couched in terms of violations of their membership obligations, similar violations by members who were antagonistic to the Soviet Union were overlooked. Bank and Fund withholding of financial assistance was therefore a punishment for the three states' reliance on Soviet assistance and support, both military and economic.

Other factors which contributed to the rather hostile relations between the Bank and Fund and their Communist members in the early 1950s were the international political and economic environments of the time. The Cold War had reached a period of intense hostility, and trust between East and West was at a minimum. Bank and Fund reluctance to lend to Communist countries in the early 1950s had its roots, therefore, in the fear that since the Soviet Union was not a member of either organization, and consequently not bound by their rules and procedures, it would encourage its satellites to default on their obligations or otherwise disrupt Bank and Fund activities. In addition, the IMF and IBRD were only in the first decade of their existence, and it is conceivable that this lack of experience and the experimental nature
of the entire Bretton Woods system was manifested in an unwillingness to bend the rules (although there were cases during this period where regulations were suspended; see Chapter 6). Finally, at the time of the Bank and Fund's disputes with Poland and Czechoslovakia, both countries were relatively isolated from the international economy; therefore, these countries' impact on the environment of the IMF and IBRD was minimal.

There were no incentives, then, for the Bank and Fund to make allowances for the special needs of their Communist members during the 1946-1959 period. Indeed, during this time both organizations pursued an essentially confrontational policy with respect to their Communist members. Since this attitude was essentially in accord with the views of the dominant members of both organizations (the U.S., U.K., France, and Italy), as well as the majority of the membership at that time, and the potential impact of the Communist members on Bank and Fund operations was negligible, the costs of a confrontational policy were rather low for both the IMF and the IBRD. Consequently, both organizations were free to reduce the internal stresses caused by Communist membership (particularly by Czechoslovakia) and to pursue in an open manner their organizational goal of a capitalist-oriented free trade system.

Both of the countries with successful relationships with the Bank and Fund, Yugoslavia and Romania, were not "typical" Communist countries in the one area which had proven critical to Czech, Polish, and Cuban experiences with the two international organizations: relations with the Soviet Union. Yugoslavia began its independent, non-aligned foreign policy posture in response to the Soviet-induced Cominform
break of 1948. Experimentation with a novel economic structure, workers' self-management and market socialism, began soon after. The latter concept incorporated many economic principles and policies which were consistent with the Fund's and Bank's organizational philosophy and rendered the Yugoslav economy more comprehensible to Bank and Fund staff, and Fund financial assistance to Yugoslavia, once officials in that organization were satisfied that developments in Yugoslavia were not a ruse, gradually increased to a level above what would normally be expected for a country with Yugoslavia's economic characteristics. This assistance was primarily intended to reinforce existing developments in Yugoslavia's economic policy rather than to initiate new policy since concurrently developed economic thought in Yugoslavia was formulated with the advice and cooperation with the Fund and was also considered appropriate to the Fund's aims.

As can be seen from the preceding discussion, Bank and Fund policy with respect to Communist countries followed a rather isolationist position during the 1960s. While the sole Communist member of both organizations was cordially treated and accommodated, unlike others in the previous decade, the IMF and IBRD did not actively solicit the membership of other members of additional Communist countries during this period. Indeed, Cuba was expelled from membership during this period. Cuba's expulsion, however, was the culmination of events and trends of the earlier 1950s period, owing as much to Cuba's defiance of perhaps the cardinal rule in both the IMF and IBRD, repayment, as to the suspicion and hostility harbored by the U.S. toward Castro's revolution. Mutual disregard characterized relations between the Bank and Fund and
the Soviet bloc during the 1960s, and no new efforts were made to accommodate centrally-planned economies (which Yugoslavia was not) until Romania's entrance in 1972. In addition, reforms in the Yugoslav economy, which brought it to full market socialism, required little alteration in IMF and IBRD rules and procedures, and Yugoslavia's policy of non-alignment enabled both organizations to demonstrate their theoretical neutrality with respect to ideology without any significant effort on their part. The IMF and IBRD, therefore, were able to isolate Yugoslavia from the more general attitude of the major members of those organizations toward Communist countries.

Romania's membership in the Bank and Fund after 1972 demonstrates a new period of cordiality in Bank and Fund orientations toward Communist membership. Romania's strained relations with the Soviet Union preceded its membership in the IMF and IBRD by several years, and therefore, there was little cause for concern in the Bank and Fund that the Soviets would have undue influence over Romanian economic policy. Though the structure of the Romanian economy was unfamiliar to Bank and Fund staff (and indeed, was antithetical to capitalism) and showed little sign of significant reform, Bank and Fund assistance to Romania was steady and generous. In this case, any concern or objection the Bank and Fund might have had over Romania's centrally-planned economic structure was overridden by the organizational imperative of universal membership.

Universal membership once again became important because Communist states were no longer considered to be merely peripheral participants in the international economy, and desire to integrate those economies
more closely in world trade was expressed by both East and West. Potentially, active participation by the Soviet bloc in the international economy could have a significant impact on Bank and Fund operations (as the early 1980s would prove); consequently, inclusion of those countries as members of the IMF and IBRD once again became an attractive, if not necessary, proposition. Integration of Communist countries into the international economy was necessary in order to prevent the uncontrolled disruption of that system. Membership in the IMF and IBRD, theoretically, would give the Communist countries a stake in the preservation of the economic system which those institutions support and would also enhance Fund and Bank management of that system.

As a consequence of this change in environment, Romania became a test case for the ease with which the Bank and Fund could accommodate traditional centrally-planned economic systems. Failure of the IMF and IBRD to retain Romanian membership would have had serious consequences for the future of the universal membership goal; loans to Romania, therefore, were extended to induce it to remain in both organizations. Thus, the Fund and Bank were eager to adapt to Romania's unusual circumstances, and as a result, Romania exerted reverse influence on the IMF and IBRD due to the unfamiliar nature of its economy and the renewed emphasis of both organizations on the need for universal membership.

The 1970s were thus a period of cooperation with Communist members for the Bank and the Fund, especially when the experiences of Yugoslavia during that period are considered in addition to Romania's (briefly discussed in Chapter 7). This change can be attributed to the
fact that the environment of the IMF and IBRD had changed; the lessening of tensions brought about by détente had temporarily eclipsed the Cold War atmosphere of hostility between East and West, and the increased participation of Soviet bloc countries in the international economy altered the incentives for the IMF and IBRD in favor of cooperation with Communist members.

Experience was also a factor in the growing cordiality of the Bank and Fund toward Communist countries. The IMF and IBRD, by 1980, had had over 35 years' experience as assistance agencies, and their continued existence, for the most part, was assured; consequently, both organizations were less constrained by their regulations and the wishes of their memberships. Bank and Fund interactions with Yugoslavia and Romania had become increasingly amicable and prosperous, and the performance of Soviet bloc states in terms of repayment of international debts had dispelled many of the two organizations' earlier apprehensions about the reliability of Communist states. The Bank and Fund were now willing to integrate Communist countries into their operations because they had learned that the political and economic systems of these countries were not a threat or barrier to either those organizations or the international economy as a whole.

In addition, perhaps the changes of the 1970s were also a consequence of an alteration in the goals of the IMF and IBRD. The relatively smooth integration of non-capitalist countries in a free-trade, capitalist international economic system and the reflection of this trend in IMF and IBRD membership may have altered the goal of the Fund and Bank from one of a world populated only by capitalist-type
economies to at least a world which was familiar to IMF and IBRD staff, and therefore, controllable. To speculate even further, it could be argued that the dominant goal of the Bank and Fund had always been one of maximizing control over an unpredictable environment, and thus, increasing Communist membership is a rational response to changes in that environment; the fact that the Fund was created specifically to prevent the destructive actions which led to the Depression of the 1930s lends credence to this notion.

A. Summary

In summary, the results of this analysis indicate that foreign policy position was the dominant attribute influencing World Bank and IMF actions toward their Communist members from 1945 through 1980. Communist countries which asserted their independence from the Soviet Union fared much better in terms of actual loan receipts than Soviet satellites in both the IMF and the IBRD. The refusal of the Bank and Fund to lend to Soviet satellites was leverage used by these institutions to punish those countries for their close relations with the Soviet Union. The probability of repayment was a dominant concern in the decisions of the Bank not to lend to Poland and Czechoslovakia due to the hostile nature of the Soviets' attitude toward both organizations at the time, as well as the general level of tension between East and West during the immediate post-war period. Leverage in the cases of the independent Communist countries took the form of reinforcement of some desired activity. In the case of Yugoslavia, this was the reform of the economy toward market socialism; for Romania,
reinforcement of a reverse type was used to convince Romania to remain in both organizations.

It is interesting to note that the experiences of Yugoslavia and Romania differed in some respects from the treatment accorded to several Latin American countries during this same period. Leverage in these two cases followed a pattern of reinforcement and reverse leverage, respectively, while analysts of Bank and Fund policies in Latin America claim that punishment and reward were more typical of the use of leverage in that area.\(^1\) According to Teresa Hayter, leverage was used by the World Bank as punishment and reward in several instances in South America, most particularly in Brazil and Chile. There are several reasons which could account for the differences in treatment received by Latin American and Communist members of the Bank and Fund. Primary among these factors is the position of each group relative to Cold War issues. During the 1945-1980 period, Latin American countries were considered by the major Western members of the Bank and Fund to be securely within the Western, and more specifically, United States', sphere of influence. With the exception of Cuba after 1960, none of the Latin American members had close relations with the Soviet Union, and most had close trade ties with the United States. Since the foreign policies of these states were never really in doubt, there was no need to "woo" the Latin American countries for purposes of assuring universal membership in the Bank and Fund. In addition, the economies of the Latin American countries were predominantly capitalist and highly integrated into the existing structure and arrangements of the international economy.\(^2\) The resources of the Bank and Fund were also
an essential part of the development efforts of several Latin American countries which were unlikely to desire the consequences of seeking alternative assistance through the Soviet Union. Consequently, the Latin American countries were, in effect, a "captured" audience whose circumstances differed significantly from those of the Communist members of the Bank and Fund. Thus, the differences in Bank and Fund treatment of the Communist and Latin American countries can be explained by the foreign policy advantages of Communist membership which would accrue to the major Western members of the IMF and IBRD, the economic advantages to the IMF and IBRD of enhanced control and certainty, and the specific requirements and opportunities of the economics of the Communist states which decreased the dependence of these states on Bank and Fund resources.

Fund and Bank relations with their Communist members can be classified into three periods: confrontation, isolation, and cooperation. From approximately 1945 through 1959, the Fund and Bank were relatively unreceptive to the special conditions and needs of their Communist members. This was due not only to concerns over the independence of these countries' financial decisions from the Soviet Union but also the antipathy with which these countries were regarded by the organizations' major members. By 1960, all but one of the Communist countries which had joined the Bank and Fund had withdrawn. The remaining member, Yugoslavia, was carefully and cordially treated, but no effort was made by either organization to encourage further Communist participation. Yugoslavia was an isolated case, therefore, both in terms of its
status as the only Communist member of the Bank and Fund and the unique nature of its economic system.

A decided shift occurred in Bank and Fund attitudes toward Communist membership during the 1970s. Romania, whose centrally-planned economy was conservative even by Soviet standards, was actively courted by the Fund as an example of the Fund's ability to accommodate a more "typical" Communist member. By 1970 the international environment had changed, both politically and economically, and these new conditions provided sufficient incentives for the IMF and IBRD to readjust their policies toward centrally-planned economies. This new attitude on the part of the Bank and Fund may have significant implications for the future of both organizations.

B. Prospects

The IMF and IBRD are now entering a new phase of their operations with respect to Communist membership and the needs of non-capitalist economies. The Fund and Bank seem willing, and even eager, for additional Communist participation in their operations. The Communist countries, for their part, have also become aware that, in most instances, the benefits of membership in the IMF and IBRD tend to outweigh the costs. The potential costs of membership, increased foreign debt, loss of secrecy, and increased vulnerability to fluctuations in the world economy, are very real and, depending on a Communist state's priorities, may be insurmountable. The benefits are numerous, however. Membership in the IMF and IBRD eases interactions with other members of the international economic system, and these interactions are
increasing at a rapid pace, particularly for the PRC, Poland, and Hungary. Bank and Fund facilities furnish a source of hard currency to finance participation in the international economy at a relatively low cost and also provide opportunities for access to new export markets (again, of special interest to Poland, Hungary, and the PRC). Finally, membership in the IMF and IBRD offers relatively low cost assistance for many of the persistent economic problems present in many Eastern European nations as well as a means of reducing financial dependence on the Soviet Union (a fact which must appeal to the Soviets as well).

As the costs of membership in the IBRD and the IMF decrease and the benefits increase, it is probable that more Communist nations will express an interest in joining both organizations. This renewed interest in the Bank and Fund is likely to be pursued only cautiously at first. However, the trend has already begun. By 1983, three more Communist states had either entered the Fund or had made application for membership: the PRC, Poland, and Hungary. The PRC and Hungary stand to benefit from the export financing and market development advantages of Bank and Fund membership, and Poland should also benefit from the opportunity to reschedule its mounting debts through the coordination of these organizations.

The treatment that these new members are likely to receive, as this analysis demonstrates, will depend on the prevailing conditions in the environment of the IMF and IBRD. In the past, the tensions of the Cold War period significantly influenced relations of the IMF and World Bank with their Communist members. When tensions were especially high between East and West, the environment of the Bank and Fund was not
 conducive to extensive cooperation with their Communist members. Poland, Czechoslovakia, and the PRC, however, are entering the Bank and Fund at a time when these organizations' environment significantly differs from that which Poland and Czechoslovakia encountered during the immediate post-war years. As stated above, the emphasis in the Bank and Fund's present environment seems to have shifted away from Cold War issues toward management of the international economy. This shift in emphasis also entails the recognition that the Communist bloc is an integral part of that economy. If this emphasis persists, new Communist members can anticipate experiences in the Fund and Bank similar to Romania's or Yugoslavia's. On the other hand, should conditions change and tensions between East and West once again come to dominate international political and economic relations, the Communist countries could expect increasing tensions in their relations with the World Bank and the IMF as well. However, it is unlikely, even under conditions of renewed tensions, that the atmosphere within the Bank and Fund would make it difficult for Communist countries to remain as members. Universal membership will continue to be an important goal for the IMF and IBRD, and this goal will be reinforced by the desire of the Bank and Fund, formally embedded in the Articles of Agreement, to manage the international economy. Given these goals and the increasingly interdependent nature of the international economy, the Bank and Fund are unlikely to exclude deliberately Communist countries.

The nature of the relationship between the IMF and IBRD and their Communist members in the near future, therefore, will most likely be a result of a combination of factors including the status of the Cold War
and the Bank and Fund's assessment of priorities in their environment. Past successes and failures of the Bank and Fund in their relations with Communist members will also surely influence future policy with respect to those members. It remains to be seen which of these factors the Bank and Fund will select to guide their decisions in meeting the challenges confronting them in the next decade.

2 Dependency analysis characterizes the integration of the Latin American economies into the international economy as inherently a dependent relationship which primarily benefits "Northern" (i.e., Western industrialized) states to the detriment of "Southern" (dependent) states. See Chapter 2.
BIBLIOGRAPHY


