CONCLUSION

On the basis of per capita income, the countries of the world today are divided into three categories, namely, the high-income countries, the middle-income countries and the low-income countries. The low income countries also called 'Less-developed Countries' are characterized by low degree of industrialization, primary producing occupational structure, heavy dependence on exports of primary products, existence of dualism, high disparities of income and wealth, large economic control of multinational corporations and above all, most of them have been former colonies of foreign power.

These countries aspire to catch up with the growth standards of the developed countries. A high growth rate requires huge resources which could be provided from within in the form of domestic savings and investments. These countries by definition have low capital base and have inadequate domestic savings and investment. These countries have low per capita income which implies low consumption standard. In fact, a large part of the population may be living at the subsistence level, thereby, leaving very little or no scope of forced savings i.e., by way of reducing consumption. Thus, it results in a savings - investment gap. In order to fill this gap i.e., to supplement the domestic savings reliance has to be placed on external savings. This creates
a foreign exchange or import-export gap. The model embracing these aspects is called 'Dual-Gap' model. Though this model is not free from limitations, however, it lays down the basic issues relating to the development finance of the less developed countries. These external savings (which are asked from abroad to supplement domestic savings) could take various forms e.g., loans, grants and aid. In fact, these countries have been taking development assistance in all these forms. Except grants, no other form of external assistance comes free of charge. It carries with it the interest payments and amortization charges, which are also called debt-servicing charges. As a result of their huge development requirements, these countries have borrowed from various sources and are faced with a heavy debt-burden while their debt burden is heavy, but their development requirements have not come to an end. They not only need more development finance rather they need it at softer terms and conditions. Such financial assistance could be obtained from governments of the other countries. But such intergovernmental assistance cannot be obtained in any amount and in an united manner. It was in this perspective that various multilateral agencies were developed in the post Second World War period e.g., the World Bank and International Monetary Fund etc. The World Bank gives assistance for projects while IMF gives assistance for balance of payments purposes and organises international monetary affairs.
The IMF was not the first attempt to organise the conduct of international monetary affairs. The monetary system that prevailed before the emergence of IMF was International Gold Standard which means an international monetary standard where all participating countries have legally defined unit of account in terms of gold. It is a mechanism whereby local currencies are kept equal in value to gold and each other. The external value of their currencies are fixed through the medium of gold.

The Gold Standard was put into operation in 1821 but in 1870's America, Germany, France and many others came on the gold standard. India joined the gold standard in 1900. By 1914 the gold standard was pre-dominant with the exception of China, Mexico and some other countries. The system worked perfectly well till 1914. But with the outbreak of war, the gold standard was suspended to avoid balance of payments deficits and also to prevent the export of gold falling into the hands of enemies. But the suspension of the gold standard during the interwar years and after created chaotic conditions in different countries. To bring some order in these chaotic conditions, there was a strong desire for the restoration of gold standard. Ultimately in mid 20's more than 40 countries returned to gold standard some at their pre-war parity while others at a devalued level. The new gold standard was less efficient than the old one because various nations started placing greater emphasis on employment and price stability.
With the onset of great depression in 1930's, the boom was over in major industrial countries of Europe, industrial activity ceased. Decline in US income, output imports, and exports and increase in American tariff affecting the volume of World Trade adversely. This resulted in the same trend in other countries. This led to the abandoning of the gold standard and was first initiated by Britain and then followed by other countries. The gold standard was completely abandoned by late 1930's.

With the abandonment of gold standard, a vacuum was created in the field of international trade and payments. It was recognized that this monetary disorder of the world could be corrected only by mutual agreement and cooperation. Sharing such convictions, experts in the United States and United Kingdom prepared comprehensive plans for international monetary cooperation. This led to the formation of International Monetary Fund in 1944 at Brettonwolds, New Hampshire. But IMF came into operation actually in 1959.

The main objectives of IMF were to promote exchange stability, orderly exchange arrangements, to re-establish a multilateral system of trade and payments to provide means for international adjustments, to facilitate expansion and balanced growth of international trade. The basic functions of IMF were to lay down rules for the conduct of international finance and to provide short and medium-term
assistance for overcoming short-term balance of payments deficits.

IMF believes in the par value system whereby the value of each member's currency was fixed in gold. Ten percent variation in the par values can easily be done without a prior approval of the IMF, however, for a greater variation, a member has to take permission from the IMF. These rules were in force till 1973 after which IMF permitted each member country to peg its currency with either a single major currency or a basket of currencies or allow it to float independently. The role of gold was reduced substantially and instead, it was replaced by Special Drawing Rights (SDRs) as an international unit of account.

The Fund at present has 146 members, accounting for 90 percent of total world production and 90 percent of world trade. Members' quotas in the Fund amount to approximately SDRs 61.06 billion (April 1983). Quotas are used to determine the voting power of the members, their contribution to the Fund's resources, their access to these revenues and their share in the allocation of SDRs.

The Fund provides assistance under various heads e.g., Reserve Tranche, Credit Tranches, Compensatory financing, buffer stock financing, supplementary financing, oil facility, Trust fund, enlarged access policy and the extended facility.
The assistance provided under these heads is for different purposes. Out of all these, Extended Facility occupies a placing significance here. This kind of assistance is provided under special kind of circumstances of balance of payments difficulties viz., serious payments imbalances due to structural mal-adjustments in production, trade and prices or an inherently weak balance of payments position preventing the pursuit of an active development policy. Under this facility the member is required to submit detailed statement of policies and measures for the first and subsequent 12-month periods. The drawings may be made in instalments extending over a period of up to 3 years and subject to performance clauses relating to implementation of key policy measures.

Two countries which have availed the extended facility in the recent times are Mexico and India. A careful examination of the Mexican case reveals that at the time of applying for loan the Mexican economy was suffering from general economic crisis, inflation was 90 percent, large scale unemployment, 70 percent devaluation of peso against US dollar had taken place. There was already a heavy debt-burden on commercial borrowings so much so that 60 percent of the export earnings were being spent on interest payments on past debts and still it was not able to meet its debt obligations. The oil boom of 1979 could not help the Mexican economy out of this economic crisis but it did result in a basic change in
the attitude of US towards Mexico. This was mainly because the US found oil and gas supply at its doorstep. As a result of the oil diplomacy, the US did provide rescue operations to reduce the intensity of financial crisis in Mexico. US also agreed to reschedule its loan with Mexico. This, however, proved inadequate for a highly debt ridden economy like Mexico. Mexico applied for an extended facility with the IMF. A loan of $3.9 billion was granted by IMF to Mexico in 1982 under the extended facility but IMF sanctioned this loan only on US insistence. This loan was not meant to cover the balance of payments deficits — a purpose for which loan under extended facility is normally extended to member countries. This loan was given to help the Mexican economy out of the general economic crisis. It was for this reason that the loan conditions in Mexican case were quite tough. Some of these conditions were: to slash the public sector deficit from 16.5 percent of the GDP to 8.5 percent in 1985, to phase out the country's triple exchange rate system, to achieve trade surplus of $8-10 billion to bring down the inflation rates from 110 to 70 percent. The recent Mexican experience indicates that Mexico cannot fulfill these conditions as the public spending has increased, a $4 billion national emergency programme has been introduced to create 5-7 lakh jobs. These factors will contribute to more inflation rather than reducing it. Thus in case of Mexico, such a loan will only aggravate the debt-burden.
India also applied for a 5-billion SDR loan to IMF under extended facility to overcome balance of payments deficits arising out of increased import bill of petroleum products. This loan was sanctioned by IMF and it was to be availed in instalments over a period of 3 years 1981-84. This was the biggest loan that IMF gave in its history. This loan, therefore, has resulted in a controversy among economists. Some view this loan as a timely respite to meet foreign exchange crisis while others view it a sell-out of economic sovereignty of the nation at the hands of the IMF. They feel that the conditions attached to the loan are tough and IMF is trying to seize India's economic and political sovereignty. Some of the important conditions on the loan are: encouraging investment and production in private sector, export orientation, import liberalization, upward revision of prices in agricultural and key industrial production, subsidies on foodgrains distribution to be contained, tight monetary and fiscal policy to check inflation, ceilings on non-concessional foreign loans, commercial borrowings of not exceeding 1.4 billion SDRs and finally, continuous consultation between IMF and Indian Govt. on general economic policies.

A careful examination of the conditionality aspect and also the views of the critics indicates that conditions are attached to all loans and to all countries whether developed or underdeveloped. However, high conditionality has been associated in general with the underdeveloped countries. The
conditionality may look harder for less developed countries because their capacity to adjust is weaker than that of developed countries.

The loan taken by India was for a genuine balance of payments difficulties. The conditions attached to India's loan from IMF are not adverse because many of these conditions have already been a part of the Sixth Plan (1980-85). The critics' arguments have been examined in the light of economic trends during 1981-84 with regard to balance of payments position, foreign exchange reserves, import-export, monetary and fiscal policy and prices. All these trends during the loan period indicate a definite improvement in balance of payments position and foreign exchange reserves. The imports have shown a decline and exports have shown an increase in 1983-84 over the last year. The money supply has increased but this is not entirely due to IMF loan but other factors as well e.g., to meet the season's demand for credit etc. Besides, the prices which were declining earlier have started increasing. But increase in prices are not entirely due to increase in money supply but other factors e.g., delayed monsoon, drought conditions in some states, etc. However, an utmost caution is needed both with regard to the growth of money supply as well as prices. The debt-servicing burden calculated does turn out to be heavy. Moreover, this debt service burden has to be weighed against the benefits likely from IMF loan to India. First of all, the debt burden
from IMF loan is less than the debt burden that would have arisen if such a loan had been transacted with the private banks, because the latter carries higher interest rates. Besides, the loan has definitely added to the depleting foreign exchange reserves and also helped in improving the balance of payments position. It has also shown a definite change in the import and export trends in the positive direction. No doubt, a more interesting exercise would be to estimate the returns from this loan and then perform the cost-benefit analysis. However, in the absence of such statistics, it is not possible to undertake such an exercise. But available figures do not support the critics' views about the IMF loan to India. The cases of India and Mexico are not strictly comparable because the background leading to IMF loan in the two cases is entirely different. Besides, India's creditworthiness in the international market is definitely stronger than that of Mexico.

What is significant is that in case of Mexico, US pressurized IMF to sanction a loan of 3.9 billion dollars while in case of India, US opposed the sanction of loan and when IMF finally sanctioned the loan, US abstained. This abstention has a diplomatic perspective which can be analysed in terms of US foreign policy towards Third World countries in general and India, in particular. This defence for abstention is that India's balance of payments position is no bad, since India's chances of getting aid from other sources e.g., World Bank and IDA, are remote, therefore,
such a loan on easy terms and conditions will provide India aid or quasi-aid for an overall expansion programme. But this IMF loan is not meant to provide and but to overcome balance of payments deficits. US rather suggested India to go for commercial loans.

But the main reason why US opposed IMF loan to India lies in the fact that by asking India to go to commercial loans, it would enable US banks to make middleman's profits. Politically, India is the most populous country in the Third World and being the propagation of non-aligned principles, the other Third World countries have respect for India. Therefore, between USA and USSR, the balance of power lies with India. USA has been adopting all kinds of pressure tactics to bring India in line with US policies. This includes arming of Pakistan, nuclear assistance to China, instigating Sri Lanka, supporting Khalistan movement in Punjab etc. These have posed a great threat to India's political independence. India's refusal to go in line with USA has created US antagonism against India.

Besides US has used aid as an instrument of its foreign policy. The Reagan Administration is not in favour of giving aid and assistance on soft terms to less developed countries. No doubt, those countries which are America's friends get liberal bilateral and multilateral aid. But those countries
which do not go in line with US have no right to ask for soft aid. US general attitude is to reduce its contribution to World Bank, IDA etc. This has created a very panicky situation for poor borrowers. It was in this perspective that the concept of New International Economic Order was proposed, so that softer loans could be made available to poor countries. But such a suggestion has yet to take final shape.