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Toward Universal Membership

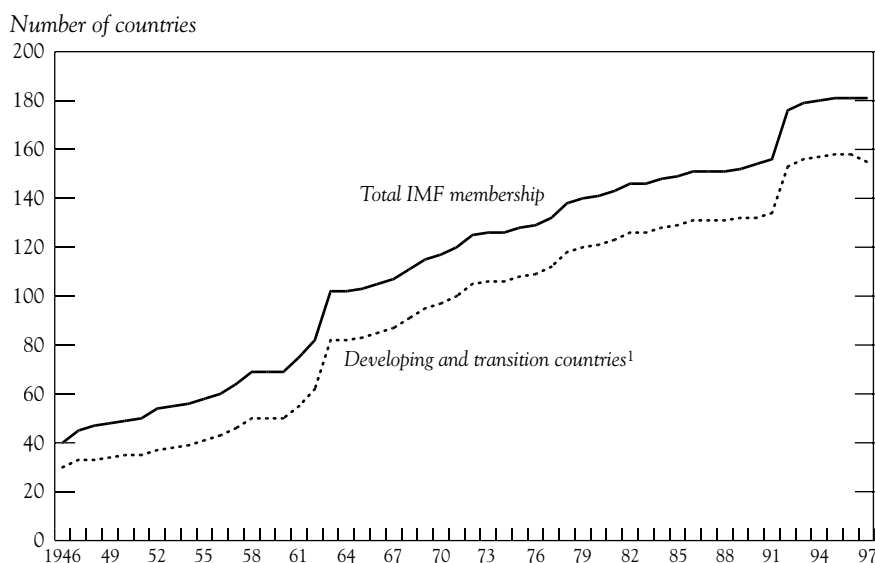
Global membership for the IMF was not always a widely shared ideal. In the months leading up to the Bretton Woods conference in 1944, Harry Dexter White had to work hard to convince his colleagues in the U.S. government that the Soviet Union and other socialist countries should not be excluded simply because of objections to their economic systems. At the same time, he labored (with only temporary success) to convince Soviet leaders that joining the Fund was in their interests. Meanwhile, the other major proponent of founding the IMF, John Maynard Keynes, was skeptical of the whole idea of bringing developing and small countries into the planning process. The conference, he feared, would be a “most monstrous monkey house” in which delegates with little to contribute would get in the way of the leading men.¹ Remarkably, despite these and other fears that diverse interests would doom an overly broad organization, most of the independent nations allied against the Axis in World War II did come to Bretton Woods, and in the next two years 40 countries became “original members” of the IMF.²

Those 40 countries, even without the Soviet Union, were broadly representative of the immediate postwar world economy. More than three-fourths of them would later be classified as “developing” rather than “industrial” countries, so the mix in that dimension was similar to that of the 1980s (77 percent non-industrial in 1946, and 87 percent in 1986; see Figure 19.1). Half of the original 12 Executive Directors in the Fund came from nonindustrial countries, 2 of which (China and India) were among those with the five largest quotas and thus were

¹White was the de facto leader of the U.S. delegation at Bretton Woods, under Treasury Secretary Henry Morgenthau, Jr. His wartime efforts to foster postwar economic cooperation with the Soviet Union, which were fully supported by the U.S. government, were later interpreted by some critics as disloyal to U.S. interests; see Boughton (2001). For his views on Soviet participation in the Fund and his meetings with Soviet delegates, see the 1942 “White Plan” in Horsefield (1969), Vol. 3, esp. pp. 72–73; Vol. 1, pp. 77–78; and “Pre-Bretton Woods Meetings—Master file; Meetings with the Russian Delegation, Jan.–May 1944,” in IMF/CF. The quotation from Keynes (the Chairman of the British delegation) is from a letter of May 30, 1944, to Sir David Walley; see Moggridge (1980), p. 42.

²For a thorough discussion of the principles of Fund membership and of the early case history summarized below, see Gold (1974). On the decision by the Soviet Union not to join the Fund, see Mikesell (1951); Bernstein (1993); James and James (1994); and James (1995), pp. 68–71.

Figure 19.1. Membership in the IMF, 1946–97



¹See footnote 3 in the text for an explanation of the taxonomy of countries.

entitled to appoint their own Directors (see Chapter 20).³ Those statistics, however, mask a distinct imbalance of power and some troubling gaps. The six industrial countries with seats on the Executive Board held 69 percent of the voting power. The United States alone controlled one-third of the vote and thereby had a veto over the most fundamental decisions. Most of Africa was still colonized and ineligible for membership. Germany, Japan, and their wartime allies had not been invited.

The development of the Cold War after the Berlin blockade of 1948 and the Communist victory in China in 1949 further restricted the scope of Fund membership. China continued to be represented in the Fund by the Nationalist government, which decamped to the island province of Taiwan and no longer controlled the mainland. Poland, another original member, withdrew in March 1950 under pressure from the Soviet Union, claiming that the IMF had become “a sub-

³This taxonomy of countries, which is also used in Figure 19.1, was adopted by the Fund in 1979 and modified in 1992 and 1997. The 1979 scheme divided countries into two primary categories: industrial and developing. At that time, 21 countries were classified as industrial; in 1989, Greece and Portugal were reclassified from developing to industrial, raising the latter total to 23. The 1992 revision added a third category: “former centrally planned economies,” redubbed the following year as “countries in transition.” No industrial country was reclassified in that shift. In 1997, the industrial country terminology was replaced by “advanced economies.” The new category comprised the 23 industrial countries plus Israel, Korea, Singapore, and two other “territorial entities”: Hong Kong and Taiwan Province of China. Here, “nonindustrial” comprises all member countries that were not classified as industrial or advanced.

missive instrument of the Government of the United States.”⁴ Czechoslovakia, yet another original member, was required to withdraw at the end of 1954 for its failure to provide the information required for an evaluation of exchange rate policy. At that point, the only member country that lay east of what Winston Churchill had called the Iron Curtain was Yugoslavia. Socialist but largely independent of the Soviet Union, Yugoslavia remained a member throughout the Cold War and developed a large part of its international trade with the non-Socialist west. Romania, the geographic buffer between Yugoslavia and the Soviet Union, joined the Fund in 1972, and the unification of Vietnam in 1975 gave the Fund another Soviet ally as a member. However, no other CMEA or Warsaw Pact country joined the Fund until the 1980s.⁵

Membership in the Fund expanded slowly through the 1950s (Figure 19.1), punctuated most dramatically by the readmission into the world community of most of what the original Articles of Agreement collectively called “the enemy.” Italy joined in 1947, followed by Germany and Japan in 1952. Spain, which also had been isolated for its Axis sympathies during the war, joined in 1958. By 1960, the main industrial countries had become an interest group with some cohesion, irrespective of the former conflict. The “Group of Ten,” or G-10, still held 66 percent of the voting power in the Fund and took on for itself the role of guiding the evolution of the international monetary system.⁶

⁴Letter from Poland’s ambassador to the United States, J. Winiewicz, to the Managing Director (Camille Gutt), dated March 13, 1950; circulated as Executive Board Special No. 141 (March 15, 1950), in IMF/CF (C/Poland/780 “Withdrawal from Membership”). Poland had been represented at Bretton Woods by officials of the multiparty Government in Exile, based in London. When the war ended, the Provisional Government of National Unity was formed in which the Communist party played a dominant but not exclusive role. The National Unity government joined the Fund in 1946, but it collapsed in December 1948, when the Soviet Union imposed a single-party system on Poland. It was that Stalinist government that withdrew from the Fund.

⁵The Council for Mutual Economic Assistance (CMEA; also known as COMECON) was established in 1949 to promote economic development through trade between the centrally planned economies of central and eastern Europe and the Soviet Union. It became the main mechanism for organizing trade and settling payments balances within the region until the demise of central planning in the early 1990s. Yugoslavia, an original member of the Fund, was an associate member of the CMEA economic alliance but did not join the Warsaw Treaty Organization (Warsaw Pact) military alliance. Romania was a member of both but did not permit Soviet or other Warsaw Pact troops to be stationed or conduct military exercises on its territory. Because of Romania’s stance of independence on foreign policy, any action it took in defiance of Moscow (such as joining the Fund) was likely to entrench Soviet opposition to similar moves by other members of the alliance. For more on Romania’s relations with the Fund, see Chapter 8, above, and de Vries (1985), pp. 908–09. Cuba withdrew from Fund membership in 1964, some eight years before it joined the CMEA. The history of Vietnam’s relations with the Fund is covered in Chapter 16.

⁶On the composition and origins of the G-10 and other “Groups” discussed here, see Chapter 4. The voting percentage listed here includes the votes of Denmark and Iceland, which were not in the G-10 but were in the same Executive Board constituency as Sweden. For the monetary role of the G-10 in the 1960s, including the “Basel Agreement” on currency stabilization, the General Arrangements to Borrow (GAB), and the creation of the SDR, see Horsefield (1969), Vol. 1, pp. 483–84, 509–14, 543–45, and 587–92; Vol. 2, pp. 518–21; de Vries (1976), Vol. 1, Part One (on SDRs); Solomon (1982), Chapters 4 and 7; and James (1995), pp. 163–74.

Table 19.1. Accession to Fund Membership, 1979–89

Date	Country (Number of members)
November 15, 1979	St. Lucia (139)
December 28, 1979	St. Vincent and the Grenadines (140)
April 17, 1980	(People's Republic of China seated)
September 29, 1980	Zimbabwe (141)
September 28, 1981	Bhutan (142) and Vanuatu (143)
February 25, 1982	Antigua and Barbuda (144)
March 16, 1982	Belize (145)
May 6, 1982	Hungary (146)
August 15, 1984	St. Kitts and Nevis (147)
September 24, 1984	Mozambique (148)
September 13, 1985	Tonga (149)
June 3, 1986	Kiribati (150)
June 12, 1986	Poland (151)
September 19, 1989	Angola (152)

Although the G-10 and its subgroups dominated the scene in and around the Fund in the 1960s and 1970s, the seeds of countervailing influence were beginning to grow. As most of the colonies of European powers gradually gained independence, they all soon joined the Fund. From 1960 to 1978, Fund membership doubled, from 69 to 138 countries. Most of those new members were developing countries in need of financial assistance, and many were newly independent and also in need of technical assistance and training. Developing countries formed their own groups—the G-24, the G-77, and, within the Fund's Executive Board, the G-9—to speak out for their interests and to formulate common responses to G-10 initiatives. Despite their swelling ranks, however, developing countries still held just 36 percent of the voting power at the end of 1978.

From 1980 to 1990, all of the remaining nonmember countries in Africa joined the Fund (Table 19.1).⁷ In each of these cases, membership had been delayed by internal or external conflicts. Zimbabwe joined in 1980, shortly after the fall of Ian Smith's minority government and the renaming of the former Rhodesia by the newly elected government of Robert Mugabe. Mozambique joined in 1984 after the government signed a peace accord with South Africa and began to move away from Soviet influence. And Angola (1989) and Namibia (1990) joined after a regional peace accord brought a lull in the Angolan civil war and independence (from South Africa) to Namibia.

This period also brought a wave of new members from very small countries. Four island countries in the Caribbean Sea (St. Lucia, St. Vincent and the Grenadines, Antigua and Barbuda, and St. Kitts and Nevis), three Pacific island countries (Vanuatu, Tonga, and Kiribati), plus Bhutan and Belize; all were smaller than most earlier Fund members, and each one joined with a quota of less than SDR 10 million.

⁷Eritrea, which became a member in 1994, was then part of Ethiopia.

The 1980s, like the 1950s, were years of gradually increasing Fund membership. The Soviet Union and most of its satellite countries stayed away, although officials from several countries (including both the Soviet Union and North Korea) made informal inquiries about the requirements of membership. Switzerland also stayed away. Although the Swiss National Bank participated in the G-10, the GAB, and the Enhanced Structural Adjustment Facility (ESAF), and its officials attended even the restricted sessions of the Interim Committee as observers, the Swiss population remained opposed to membership in multilateral organizations.

Not until the 1990s would the IMF become a truly universal institution, with more than 40 new members including Switzerland and all of the countries once in the Soviet Union (more than 180 members in all) and only a handful of isolated countries (notably North Korea and Cuba) remaining outside.⁸ The modest expansion of the 1980s, however, belies the importance of the changes that were beginning to occur. In April 1980, China's representation in the Fund moved from the Taiwan Province to Beijing and effectively raised the population of the Fund by more than a billion people. Hungary became a member in 1982, and four years later, Poland rejoined the Fund. Economically, the sphere of Soviet influence was being split openly between the countries that were heavily dependent on the Soviet Union's dwindling resources and the reformers that were turning increasingly to the west. The remainder of this chapter chronicles the events that propelled three key socialist countries into the Fund in the 1980s and that laid the groundwork for the even greater transformations of the 1990s.

China

The IMF's decision in 1980 to recognize the People's Republic of China (PRC), based in Beijing, rather than the Republic of China (ROC), based in Taipei, as the government of China came nine years after that of the United Nations.⁹ That delay reflected not just the different roles of the United Nations and the Fund but also an ambivalence about China in the international community and about the Fund in Beijing. To relate the history of China's role in the Fund requires an explanation of that ambivalence, and that in turn requires starting the story at Bretton Woods.

For more than 30 years, the ROC had governed only Taiwan Province of China but had claimed to represent the entire country. The PRC had governed the mainland and had claimed sovereignty over Taiwan as well. The Executive Board of the Fund was of course not called upon to try to resolve that dispute. Its 1980 decision involved neither the admission of a new member nor the termination of an exist-

⁸On the entry of Russia and neighboring countries into the Fund following the collapse of the Soviet Union in 1991–92, see James (1995), pp. 576–85.

⁹The terms "Republic of China" and "Taiwan," which were in standard usage in the Fund at the time of the events described here, refer to the government in control of Taiwan Province of China. Their usage here is purely historical and is not intended to imply legitimacy.

ing membership, but only the recognition of a different government to represent the member. It concluded a tangled history of shifting allegiances in the international community, and it began a period of close economic relationships between a once-isolated country and a world that was eager both to trade with it and to understand it more fully.

Nationalist China, 1944–50

China was an original member of the Fund, represented at Bretton Woods by a delegation chaired by the finance minister in the ruling Nationalist government, Hsiang-Hsi Kung. It had the third largest quota until 1959, and thus was one of the five countries entitled to appoint an Executive Director. Yee-Chun Koo, then the vice minister of finance, was appointed in 1946 and served until July 1950. But China's position in the Fund was complicated from the outset, first because of the lingering effects of the Japanese occupation on the Chinese economy, then because of the civil war that resulted in economic chaos, hyperinflation, and finally—following the defeat of the Nationalist army by the Communists—the establishment of the PRC by Mao Zedong on October 1, 1949.

In December 1946, the Executive Board granted China an indefinite delay in reporting a par value for its exchange rate, agreeing that it qualified for such a delay under a provision in Article XX of the Articles of Agreement that covered countries that had been occupied by the enemy during World War II.¹⁰ The effect of this delay, which continued in force until 1970, was that China initially paid in only a token portion of its quota. When the PRC completed taking control over the mainland in October 1949, the former government (the ROC) took up residence at Taipei on the island then known in the west as Formosa and later as Taiwan. From then on, since both the PRC and the ROC claimed to represent all of China, in most cases (with the exception discussed below) they both rejected proposals under which each would be seen as having sovereignty only over the territory that it effectively controlled at the time. Because the majority of the Fund membership did not yet recognize the PRC as the legal government of China, the ROC continued to represent China in the Fund. Koo was succeeded in 1950 by Beue Tann, who served as Executive Director for China for the next 20 years.

Lowering the Profile, 1950–72

The PRC, through its foreign minister, Zhou Enlai, notified the Fund in August 1950 that it considered the PRC to be the sole legal government of China. Zhou, however, did not ask that the PRC be seated, but only that the ROC be

¹⁰This provision was included in the Articles in response to proposals submitted by the Chinese delegation, who did not feel that they would be able to comply immediately with the more general requirements for stable currency values. See Horsefield (1969), Vol. 1, p. 110; and Young (1965), pp. 310–12.



In front of the two negotiating teams in Beijing, Tun Thin (Director, Asian Department), and Wang Weicai (Vice President, People's Bank of China) sign a protocol for transferring representation at the IMF to the People's Republic of China, April 4, 1980

ousted.¹¹ Within the Fund, on several occasions from 1950 through 1954, Czechoslovakia moved (first in the Executive Board and then through the Board of Governors) to expel China from membership. These overtures, supported on one or more occasions by Poland, India, and Yugoslavia, were all rejected.¹² After Czechoslovakia left the Fund in December 1954, no further formal efforts were made to expel China until the early 1970s.

In spite of the continuing participation by the Taiwan authorities in the work of the Executive Board, and the initiation in 1952 of regular consultations with China (along with other members availing themselves of the transitional provisions of Article XIV; see Chapter 2), in other ways the ROC's role in the Fund was quite limited. In particular, China's quota did not increase along with those of other members, and the country was ineligible to use Fund resources until the authorities paid in its initial subscription.

As for quotas, when the first general augmentation was carried out in 1959, the ROC did not consent to its proposed increase (Horsefield, 1969, Vol. 1, p. 451). Since the original quota had been calculated on the basis of the total size of the Chinese economy, and since the ROC no longer controlled the mainland, an increase would have been difficult to justify. The effect of that decision was that China's quota was no longer in the top five, so it no longer qualified to appoint an Executive Director. Nonetheless, the quota remained large enough to enable the ROC to elect Tann to represent a single-country constituency. That arrangement remained in effect until the authorities again declined to consent to an increase in China's quota as part of the general review of 1966. Korea and Vietnam then joined China's constituency, which continued to be represented by Tann. China's relative quota fell further in 1970, after which the Philippines was brought into the fold. By 1971, China's share in Fund quotas had dropped from 7.2 percent in 1946 to 1.9 percent (twelfth largest).

In 1964 the Taiwan authorities decided to regularize their position in the Fund by communicating a par value and paying in the gold subscription decreed by the Articles of Agreement. This required an assessment of the value of the country's official holdings of gold and U.S. dollars as of September 12, 1946, which turned out to be just under \$600 million.¹³ China's gold subscription was fixed at 10 per-

¹¹Reproduced in "China—Relations with the Fund," SM/73/238 (October 15, 1973), Attachment IV. The same document includes a summary of the efforts to expel China in 1950–54, described later in this paragraph.

¹²The 1950 and 1951 episodes are described in Horsefield (1969), p. 258. Also see Gold (1974), pp. 66–68.

¹³In 1942, the United States agreed to lend \$500 million to China (i.e., to the Nationalist Government) to help pay for the war effort and to help the government control inflation. This interest-free loan included \$220 million in gold that was shipped to China from 1943 to 1947. (More than two-thirds of the gold was shipped after the end of the war.) The rest, aside from a small amount dedicated to pay for textiles imported from the United States, was shipped in U.S. currency and notes. See Young (1965). Although part of the proceeds was used to finance war-related expenses, the bulk of it became the nucleus of China's postwar international reserves. (Most other external aid was linked to shipments of goods or provision of services.) The Nationalists retained possession of the remaining bullion and foreign exchange and removed it to Taiwan at the conclusion of the civil war.

cent of that amount, or \$59.7 million.¹⁴ However, no action to pay the subscription was taken at that time. At the end of 1969, China took another step by accepting membership in the newly created SDR Department of the Fund, but it declined to accept the allocation of SDRs to which it would have been entitled. Only in 1970 did the ROC finally activate its financial role in the Fund. That June, the authorities communicated a par value; in August, they paid the gold subscription in full (1.71 million ounces of gold, officially valued at \$59.81 million); and in September, they completed the process by crediting the Fund's account with the remainder of the quota in New Taiwan dollars.

Pressure on China and on its position in the Fund mounted in 1971, when the UN General Assembly voted (on October 25) to seat the PRC in place of the ROC. The ROC took the precaution a few days earlier of purchasing its gold tranche and thus withdrawing its reserve assets from the Fund. Although this action meant that China was neither a creditor nor a debtor in the Fund, members were required to repay gold-tranche drawings (i.e., to redeposit equivalent assets) within time limits prescribed in the Articles of Agreement. China thus retained an obligation that would have to be met even if the Fund followed in the UN's footsteps. The Fund, however, as an agency independent from the United Nations, was not legally bound by the action of the General Assembly, and it continued to recognize the ROC as representing China.

The government on Taiwan remained sensitive to the need to maintain a low profile and to recognize the limits to its economic power, as had been evident all along with respect to quota increases. From December 1971 until March 1972—the period surrounding U.S. President Richard M. Nixon's first visit to China—the Taiwan authorities even toyed with the idea of withdrawing from Fund membership and then reapplying as the representative of the much smaller territory over which it retained effective control. In February, the ROC's governor in the Fund, Kuo Hwa Yu, directly informed the Managing Director, Pierre-Paul Schweitzer, of that intention.¹⁵ That maneuver would have given rise to the possibility of a two-China solution under which the PRC could have applied for membership as the mainland government. It seemed, however, extremely unlikely either that the Board of Governors would have readmitted the ROC or that the PRC would have been prepared to apply under those restrictive conditions, and not long afterward the idea was dropped. In March, Peh Yuan Hsu, who in November 1970 had replaced Tann as the Executive Director, suggested that perhaps China's quota could be lowered. That idea also was dropped, since it would have required a formal vote by the Board of Governors and thus

¹⁴Article III required each original member to pay in gold the smaller of 25 percent of its quota (which would have been \$137.5 million for China) or 10 percent of its net official holdings of gold and U.S. dollars as of a date when the Fund determined it was ready to begin exchange transactions.

¹⁵Memorandums for files by Joseph Gold, General Counsel (February 3, 1972) and Frank A. Southard, Jr., Deputy Managing Director (March 14, 1972); in IMF/CF (C/China/000 "Status of China in the Fund").

would have raised the same politically sensitive issues as an application for readmission.¹⁶

The final step in lowering the profile was the loss of China's representation on the Executive Board. In May 1972, Indonesia indicated that it was prepared to form a constituency of southeast Asian countries. As Vietnam was expected to move to that group, the ROC was unable to retain enough votes to elect an Executive Director in that year's election. Hsu then announced his resignation, and he was replaced on the Board by Placido L. Mapa, Jr., of the Philippines. By the time the election took place that fall, Indonesia had assumed the leadership of a diverse constituency ranging across Asia, North Africa, and southern Europe. The group included all of the countries that had been grouped with China (the Philippines, Korea, and Vietnam), but not China itself. For the rest of the decade, the ROC was without an Executive Director to formally look after its interests in the Fund. Regular Article XIV consultations nonetheless continued. Contacts between the Fund and China during this period normally were through the ROC Embassy (later the Taiwan authorities' representative office) in Washington.

Impasse over Representation, 1973–77

In the fall of 1973, the representation issue was reopened when Ji Pengfei, foreign minister of the PRC,¹⁷ sent a cable to the Managing Director, H. Johannes Witteveen, during the annual meetings of the IMF and the World Bank. The cable reminded the Fund that the PRC was the sole legal representative of China and insisted that the ROC be expelled.¹⁸ Both directly and through member countries, the Fund then made a number of inquiries to the PRC to determine the extent of its interest in representing China in the Fund; that is, the extent to which it would be prepared to assume the obligations as well as the rights of membership.¹⁹ This approach led eventually to a meeting on November 2, 1973, at the United Nations in New York, between the Deputy Managing Director, Frank Southard, and Wang Runsheng, the PRC's ambassador to the United Nations.

These talks failed to resolve the impasse. The PRC authorities continued to insist that the expulsion of the ROC was a prior issue that had to be settled before

¹⁶Memorandum for files by Southard (March 24, 1972); in IMF/CF (C/China/000 "Status of China in the Fund").

¹⁷Names of PRC officials are given here in the modern Pinyin style, with the surname listed first. Names of ROC officials are given in the form in which they were used in the Fund at that time.

¹⁸"People's Republic of China—Communication with Managing Director," EBS/73/317 (October 1, 1973).

¹⁹Jacobson and Oksenberg (1990) conclude, on the basis of interviews with Chinese officials, that Ji's cable had been personally approved by Mao Zedong and that his approval indicated "that he countenanced Chinese participation in the IMF" (p. 63). They also note, however, that in June 1974, the ministry of finance and the ministry of foreign affairs prepared a joint report recommending against joining the Fund, and that the "top leaders agreed with this report" (p. 64). Whatever the authorities' intentions might have been in that period, they were not conveyed directly to the Fund.

discussions could take place on PRC membership, while the Fund maintained that the issue was one of representation rather than membership. In the view of Fund management, since China was already a member, the Executive Board had only to decide which government was entitled to represent the country in the Fund. Management was prepared to discuss representation, but the PRC would first have to indicate its intentions with regard to the requirements for membership, because the expulsion of the ROC as the representative of China would automatically subject the PRC to the Articles of Agreement.

The Fund had no further official contacts with the PRC for three years, until the PRC submitted a new protest against the ROC's credentials in September 1976. This complaint sounded superficially like those that had preceded it in 1950 and again in 1973, but it had a new urgency that reflected a dramatic change in circumstances in China. The economy was in a shambles after ten years of the Cultural Revolution, nearly a quarter of a million people had been killed by devastating earthquakes in July, and on September 9 the death of Mao Zedong had brought an effective end to the rule of the "Gang of Four." Although the extent to which China would now open its doors to trade with the West could not yet be foreseen, the country's new leaders were plainly standing at the sill.

Of even more immediate concern was that at the time of this new overture, the Fund was facing a decision that would materially affect China's financial position in the institution. Implementing an accord reached the preceding year, the Interim Committee agreed in January 1976 to proceed "without delay" (interpreted to mean that it should begin before the end of the year) with the restitution of one-sixth of the Fund's gold holdings to member countries, in proportion to quotas as of August 31, 1975. (See de Vries, 1985, pp. 625, 634, and 658–59.) That formula implied that China would soon receive 470,708 ounces of gold, which at the average price in 1976 (just under \$125 an ounce) would have been worth close to \$60 million on the open market.²⁰ Which authorities were to receive that gold, however, was an open question. On September 30, the president of the People's Bank of China, Chen Xiyu, sent a cable to Witteveen, once again protesting the Taiwan authorities' credentials to represent China and demanding on behalf of the PRC that the ROC be expelled from the Fund and not receive restitution of any gold.²¹

The PRC protest was placed on the Executive Board's agenda, in restricted session, on December 3, 1976. By this time the start of gold restitution was imminent—it had been delayed only until January, for technical reasons—and it was clear that the representation issue would have to be resolved before any gold could be restituted to China. The Managing Director proposed sending a reply to Chen,

²⁰Restitution involved the purchase of the gold by the member country at the official price of gold in the Fund (SDR 35 per ounce), with payment in the member's own currency. If the transaction raised the Fund's holdings of that currency above the quota (as it would in this case), the excess was treated the same as a credit-tranche drawing. That is, the exchange gave rise to an interest-bearing obligation subject to repayment within a specified period of time. Restitution thus was equivalent to a hard currency sale by the Fund to the member at the official price.

²¹The cable is reproduced in "China," EBS/76/465 (October 28, 1976).

seeking further clarification from the PRC as to whether they were prepared to formally accept the obligations of Fund membership. The September 30 cable had laid claim to China's "assets, rights, and interests" in the Fund but had made no mention of obligations.

The omission of any acceptance of obligations appears to have been quite deliberate. In the view of the Beijing authorities, the PRC had a legitimate claim to any assets held in the Fund on behalf of China (for which it was the sole legal representative), but it had no responsibility for any liabilities that might have been incurred (illegally) by the Taiwan authorities. What was less clear was the PRC's intention regarding the ongoing obligations of Fund membership, as set out in the Articles of Agreement. That issue was uppermost in the minds of the Fund's management in determining how best to respond to Chen's initiative, but it was quite subsidiary and well down the road as far as the PRC was concerned. A working group had been established in the central bank to prepare for possible negotiations with the Fund, but the Taiwan issue had to be settled first.²²

If the PRC was prepared to accept the obligations of membership, the Executive Board could then determine which government was the legitimate representative of China. Although there was little doubt that a definite indication of intentions would ultimately lead to the seating of the PRC,²³ a number of Executive Directors expressed uneasiness at the idea of requiring the PRC to make such a declaration while China was still represented at the Fund by the Taiwan authorities. At the December 3 meeting, the voting power was almost evenly divided between those Directors supporting Witteveen's proposal and those who argued that the Fund should accept the PRC proposal by immediately declaring the Taiwan authorities not to be the legitimate representative of China. But Witteveen managed to avoid bringing the question to a formal vote by agreeing to redraft the proposed reply more positively and to submit the redraft to the Board for further consideration.²⁴

The Executive Board met once more to resolve the China question on January 5, 1977, again in restricted session. The first issue on the agenda was whether to authorize the Managing Director to send the redrafted reply to Chen. The draft continued to stress the necessity of "knowing the full intentions" of the PRC government and indicated the desire of the Fund to resolve the matter "in an equitable and satisfactory manner," but it also now emphasized the "positive spirit" in which Executive Directors viewed the PRC's initiative, and it expressed the willingness of the Fund's management "to engage in any further discussions . . . at whatever time and place are convenient to your Government." After some discussion, that course of ac-

²²Based on background interviews with PRC officials.

²³In September 1976, the Fund had followed a similar procedure when the Socialist Republic of Vietnam had succeeded South Vietnam at the conclusion of the war in that country (see Chapter 16). The Fund first sought and obtained assurances from the new government that it was prepared to assume the obligations of membership, and then recognized it as the representative of the existing member country.

²⁴"Restricted Session—China—Relations with the Fund [Secretary's summary of discussion at EBM/76/159 (December 3, 1976)]," EBAP/77/54 (February 28, 1977). Also see the Managing Director's draft letter, in "China," EBS/76/465 (October 28, 1976).

tion was approved by a small majority, with a sizable number of Directors favoring an even more positive response: expulsion of the ROC prior to any further talks.²⁵

The Board then turned to the question of restitution of gold to China. The ROC—which, as discussed earlier, had not been represented on the Executive Board since 1972—was represented at this meeting by Martin Wong, minister of the ROC in Washington. On the surface, it would appear to have been easy for the Board to dispose of this question by agreeing to delay restitution until the representation issue was resolved. The barrier to that approach was that the Articles of Agreement require the Fund to provide equal treatment to all members. The Fund could not delay restitution to one country without good cause. If the PRC were to make a claim “of which the Fund could properly take cognizance,” in the words of the Managing Director (i.e., a claim made as part of a representation that the PRC wished to assume the obligations of membership on behalf of China), that legal difficulty would be covered. With the voting power still divided too evenly for the outcome of a formal vote to be predictable, the Board once again postponed deciding the matter. Five days later, however, the Board did finally take a decision: to retain the gold that was to be restituted to China until the question of representation was resolved or until April 1, 1977, whichever came earlier.²⁶ April 1 thus became in effect a deadline for the PRC to indicate its preparedness to assume China’s seat at the Fund.

In early March 1977, Chen responded to Witteveen’s letter by reiterating the PRC’s demands, by insisting that any disposal of China’s assets (implicitly referring to gold restitution to the Taiwan authorities) would be illegal, but also by inviting the Managing Director or his representatives to meet with the PRC’s delegation at the United Nations. The Fund responded quickly and affirmatively, and a meeting was arranged in New York for March 31.²⁷

The New York meeting was cordial, but it still did not resolve the differences of view. Zhou Nan, Counsellor to the PRC delegation at the United Nations, insisted that the Fund should first implement the UN Resolution of October 1971, which called on all UN agencies to expel the ROC.²⁸ Only then could the PRC enter

²⁵Nine Directors, with 55 percent of the voting power, expressed support for the Managing Director’s proposal; eight Directors, with 31 percent, opposed it. The other three abstained. “Restricted Session— . . . China—Relations with the Fund [Secretary’s summary of discussion at EBM/77/3 (January 5, 1977)],” EBAP/77/120 (April 26, 1977). Also see the Managing Director’s redrafted letter, in “China,” EBS/76/465, Sup. 1 (December 14, 1976).

²⁶“Restricted Session—China—Restitution of Gold,” EBAP/77/67 (March 11, 1977) [Secretary’s summary of discussion at EBM/77/5 (January 10, 1977)], pp. 7–8.

²⁷“China,” EBS/77/69 (March 9, 1977); minutes of EBM/77/34 (March 11) and EBM/77/41 (March 30); and letter from William B. Dale (as Acting Managing Director) to Lai Ya-Li (Ambassador from the PRC to the United Nations) (March 22); in IMF/CF (C/China/000 “Status of China in the Fund”). The same file contains the original of Chen’s letter, in Chinese.

²⁸“The General Assembly . . . [d]ecides to restore all its rights to the People’s Republic of China and to recognize the representatives of its Government as the only legitimate representatives of China to the United Nations, and to expel forthwith the representatives of Chiang Kai-shek from the place which they unlawfully occupy at the United Nations and in all the organizations related to it” (emphasis added). United Nations General Assembly, A/Res/2758 (XXVI), October 26, 1971.

into membership discussions. The Fund mission—headed by Tun Thin, Director of the Asian Department—pointed out that under the legal obligations of the Fund, if the ROC were expelled without the PRC simultaneously assuming the seat, China would cease to be a member and would have to reapply. In the meantime, the Fund would be obligated to pay any claims of the withdrawing member.²⁹ At the moment, the only claims were the gold that was to be restituted and an amount in the form of New Taiwan dollars equivalent to China's quota in the Fund. The Chinese delegation agreed to convey this information to the government in Beijing. There the matter would lie for the next three years, as no further initiatives were forthcoming.³⁰

Return to Beijing, 1978–80

By the end of the 1970s, several developments were combining to brighten the picture dramatically. First, U.S. President Jimmy Carter announced on December 15, 1978, that the United States was establishing full diplomatic relations with the PRC as of the new year, and would accordingly sever its diplomatic ties with the government on Taiwan. This announcement left the ROC with no effective international support for its claim to represent the people of China.

Second, economic policy in China was being substantially reformed as the country gradually awoke from the nightmare of the Cultural Revolution. Adjustment was proving difficult: the initial drive to expand in 1977 and 1978 had proved to be excessive and, in a number of sectors, misdirected; the authorities, preparing a new program of macroeconomic and structural adjustment, were more open to outside advice and technical assistance than at any time since the founding of the PRC. The Third Plenum of the Central Committee of the Chinese Communist Party, held in December 1978, affirmed this new openness and directed the economy on a course of modernization.

In pursuit of these new policies, Deng Xiaoping, then Vice Chairman of the Central Committee, made a state visit to Washington at the end of January 1979. Shortly thereafter Deng and other leading Chinese officials began speaking publicly about the new outward-looking strategy and about the possibility of PRC representation in the Fund and the World Bank. A month later, an informal mission from the Bank found a receptive environment in Beijing.³¹ In April, China established four “special economic zones” to promote exports to market economies. And China's openness was stressed in July 1979 by the PRC delegate speaking at the

²⁹Memorandum from Tun Thin to the Managing Director, with attached report (April 6, 1977); in IMF/CF (C/China/000 “Status of China in the Fund”).

³⁰On April 1, 1977 and again on April 11, the Executive Board decided to continue the postponement of gold restitution “for a reasonable time,” pending resolution of the representation issue. Minutes of EBM/77/43 (April 1, 1977) and EBM/77/51 (April 11).

³¹See Feeney (1989), pp. 239–40; Hsiung and Kim (1980), p. 239; Jacobson and Oksenberg (1990), pp. 70–74; “China Discusses World Bank Membership,” *Journal of Commerce* (February 27, 1979), p. 9; and minutes of EBM/79/35 (February 28, 1979).

annual meeting of the Economic and Social Council of the United Nations (ECOSOC) in Geneva. He noted the “bright prospects” for strengthened cooperation with the “development agencies” of the United Nations, a reference intended to cover the IMF as well as the World Bank.³² Finally, direct contacts between PRC and Fund officials resumed informally during the Annual Meetings in Belgrade that October.³³

Third, the Taiwan authorities, doubtless sensing the futility of attempting to hold onto their seat while the stage was being set for a new play, shifted their energies toward making a graceful exit from the scene. In January 1979, Martin Wong volunteered to help the Fund staff in reaching an amicable settlement of the dispute over representation.³⁴

The cooperation of the Taiwan authorities was potentially a critical element in the process, because the gold-tranche drawings made in the early 1970s were still subject to repayment. If the drawings remained outstanding when representation shifted to Beijing, then the PRC would have to assume the liability; but it had already indicated its reluctance to do so, on the grounds that the Taiwan government had no right to incur such obligations. One cooperative solution being discussed was for the ROC to repay its gold-tranche drawing and simultaneously redraw an equivalent amount. This new balance would constitute a reserve-tranche drawing under the amended Articles and thus would not be subject to an obligation to repay.³⁵ The Fund would still hold New Taiwan dollars equal to China’s quota, but there would no longer be a legal barrier to simply substituting the PRC’s renminbi for them. The Taiwan authorities seemed prepared to take that step, but only if the Fund restituted China’s gold to it as part of the deal.

These various threads culminated in a direct approach from the PRC to the Fund in February 1980, in the form of a visit by officials from the new Chinese embassy in Washington to inquire about procedures for their assuming China’s seat. From this point on, the representation negotiations would proceed smoothly except for a final hiccup on the restitution of gold. In a matter of just a few weeks, a mission team had been assembled to hold discussions in Beijing to discuss technical issues related to the rights and obligations of membership. These discussions—for which the Fund team was led by Tun Thin and the PRC team by the vice president of the People’s Bank, Wang Weicai—led quickly to a memorandum of understanding.³⁶ But then came the hiccup.

³²Memorandum from Jan-Maarten Zegers (Special Representative of the IMF to the United Nations) to the Managing Director (July 11, 1979), in IMF/CF (C/China/000 “Status of China in the Fund”).

³³Memorandums for files by Zegers (October 4, 1979) and Dale (October 10); in IMF/CF (C/China/000 “Status of China in the Fund”). Also see Jacobson and Oksenberg (1990), p. 72.

³⁴Memorandum from Gold and Tun Thin to the Managing Director (January 19, 1979); in IMF/CF (C/China/000 “Status of China in the Fund”).

³⁵The 1978 amendments replaced the term “gold tranche” with “reserve tranche.” The amendment to Article V limited a member’s repayment obligation, *inter alia* to drawings that were subject to periodic charges, which excluded drawings under the reserve tranche.

³⁶“China—Notification from the Government of the People’s Republic,” EBS/80/78 (April 7, 1980).

The agreement between the Fund staff and the Beijing authorities included an understanding that China's gold subscription would be restituted to the PRC, in return for which the PRC would assume the obligation to repay the outstanding gold tranche position. That solution, which required a diplomatic concession by Beijing but was financially favorable, would have bypassed the need for any further involvement by the ROC. On Friday, April 11, one week after the mission concluded its work in Beijing, the U.S. authorities suddenly proposed exactly the opposite combination: the ROC would get the gold in return for repurchasing the gold tranche position.³⁷ That proposal, which allotted about 40 percent of the net assets to the ROC instead of leaving it all to the PRC, was agreeable to the Taiwan authorities but thoroughly unacceptable to Beijing. As the Executive Board was set to decide the matter on Monday, there was little time to react. On Sunday, the PRC sent a strong message of protest to the Managing Director and to the U.S. Treasury. Nonetheless, the U.S. proposal carried on Monday by a narrow margin, and by Wednesday the ownership of the gold was transferred back to the ROC.³⁸

The PRC would have much preferred the earlier agreement, as much for the principle as for the money. Nonetheless, there was a larger principle—and a larger prize—at stake, which was the right of the People's Republic to represent China in the Fund, as it did already elsewhere. After making one final informal protest to the Managing Director about the way the matter was handled, the authorities dropped the issue for good.

The stage was now set for the recognition of the PRC as the representative for China in the Fund. With the gold issue out of the way, the Board's final consideration of the seating decision on April 17, 1980, was anticlimactic. While a few Executive Directors expressed regrets over the effect that the decision would have in isolating the Taiwan authorities, no one voted against it.³⁹ Cross, supported by a few others, expressed a wistful desire on behalf of the U.S. authorities to maintain "some form of association between Taiwan and the Fund." To that, George P.

³⁷The net value gold that was to be restituted to the ROC was approximately \$224 million, at the prevailing gold price and exchange rates. The increase in the reserve tranche position from repayment of the earlier drawings was about \$137 million (SDR 107 million). The effect of the U.S. proposal was to give the PRC the latter amount instead of the former. See attachment to a letter from Tun Thin to the PRC Embassy in Washington (April 23, 1980); in IMF/CF (C/China/652 "Restitution of Gold, 1976–1980").

³⁸In this final test of sympathy for the position of the ROC, seven Directors, with 42 percent of the voting power, supported the U.S. proposal: Sam Y. Cross (United States), Teruo Hiraio (Japan), Gerhard Laske (Germany), Costa P. Caranicas (Alternate—Greece), Robert J. Whitelaw (Australia), Bernard J. Drabble (Canada), and Mahsoun B. Jalal (Saudi Arabia). Eight Directors, with 31 percent, spoke in favor of postponing a decision (which implied that restitution would be made to the PRC): H. Onno Ruding (Netherlands), Paul Mentré de Loye (France), Gísli Blöndal (Alternate—Iceland), Joaquín Muns (Spain), Kadhim A. Al-Eyd (Alternate—Iraq), Abderrahmane Alfidja (Alternate—Niger), Semyano Kiingi (Alternate—Uganda), and Jacques de Groote (Belgium). Two Directors abstained, and four did not speak on the matter. Minutes of EBM/80/72 (April 14, 1980). Also see memorandum for files by Tun Thin (April 15, 1980); in IMF/CF (C/China/652 "Restitution of Gold, 1976–1980").

³⁹Joaquín Muns (Spain) reported that "one member of his constituency, Costa Rica, had expressed opposition."

Nicoletopoulos (Gold's successor as Director of the Legal Department) responded that once the PRC was seated, "all official relations under the Articles of Agreement with the Taiwanese authorities would cease," but "informal arrangements" could be developed. Moreover, it was agreed that the 16 staff members holding ROC passports could continue to work at the Fund.⁴⁰

After so many years of struggle with one of the most delicate diplomatic issues of the time, the Fund concluded by adopting a consensus decision and issuing a two-sentence press release:

The Executive Board of the International Monetary Fund has decided that the Government of the People's Republic of China represents China in the Fund. China's quota in the Fund is SDR 550 million.

The People's Republic, 1980–89

China moved quickly to strengthen its role in the Fund to a level commensurate with its status in the world economy. The most essential action in that direction was to raise the quota from the SDR 550 million just cited: a level that was unchanged from 1944. If China had received quota increases in the 1960s and 1970s equal to the average of other member countries, its quota would have been nearly four times as large. Even allowing for some initial exaggeration and for China's relatively slow growth in the interim, a major adjustment was clearly warranted.⁴¹ Accordingly, the Fund approved an ad hoc increase to SDR 1.2 billion (\$1.6 billion) in August 1980 and then a further increase in 1.8 billion (\$2.3 billion) as part of the Seventh General Review in December (amounts that were consistent with staff calculations using the standard quota formulas).⁴² With those increases, China had the eighth largest quota in the Fund, exceeded only by those of the Group of Seven (G-7) industrial countries, and had enough votes to elect its own Executive Director without having to form or join a multicountry constituency.⁴³

Borrowing from the Fund was not a high priority for China. Fund representation was soon followed by a similar action by the World Bank, and the Chinese authorities focused on obtaining a wide range of development and adjustment loans

⁴⁰Minutes of EBM/80/75 (April 17, 1980).

⁴¹China's initial quota, as agreed at Bretton Woods, reflected pressure from the United States to place China in the top five countries that were authorized to appoint Executive Directors (Mikesell, 1994, p. 37).

⁴²For the staff calculations, see memorandum for files of February 25, 1980, by Luc de Wulf (Senior Economist in the Asian Department); in IMF/CF (C/China/1210 "People's Republic, Quota Increase, 1980"). For the key discussion by Executive Directors, see minutes of meeting 80/1 of the "Ad Hoc Committee on Increase in Quotas—China" (August 5, 1980), in the same file.

⁴³In September 1980, the Board of Governors agreed to raise the number of seats on the Executive Board from 21 to 22, to accommodate China without squeezing out another developing country. In September 1981, the ad hoc quota increase granted to Saudi Arabia placed that country in eighth place, ahead of China. For the broader issues on quota increases, see Chapter 17.

from the Bank Group.⁴⁴ For the first half of the 1980s, China limited its use of Fund resources to a small stand-by arrangement in the first credit tranche and a loan from Trust Fund, both of which the Fund approved in 1981.⁴⁵ As economic reforms took hold and output began growing rapidly, China developed a balance of payments problem in the mid-1980s and undertook a second stand-by arrangement (also limited to the first credit tranche) in 1986. For most of the decade, however, China was a creditor in the Fund.

For China, the main benefits from Fund membership—other than access to the World Bank—were the general one of acceptance and recognition in the world community and the more specific one of access to the Fund’s information and data, technical assistance, and training. On numerous occasions throughout the 1980s, Chinese officials participated in courses and seminars at the IMF Institute in Washington. From 1982 on, Fund officials conducted several technical assistance and study missions to China on central banking, statistical, and fiscal issues; participated in World Bank seminars, missions, and related activities; held seminars and colloquia there (see, e.g., Hook, 1983); and (in 1983) organized a course in Xian on banking and monetary policy.⁴⁶ Although the amount of technical assistance to China was not disproportional in relation to that provided to other countries (see Chapter 20), this activity was particularly important for broadening and deepening the awareness in China of western economic thought and of the best financial and accounting practices in other countries.

Hungary

Knocking at the Door, 1946–80

At the end of the Second World War, Hungary was not yet under complete Soviet domination. The provisional government, established by the Allies with a dominant Soviet presence, sought to establish an independent economic course.

⁴⁴During the 1980s, China received 50 loans totaling \$5.3 billion from the International Bank for Reconstruction and Development (IBRD, the Bank’s regular lending arm) and 28 loans totaling \$3.3 billion from the International Development Association (IDA, the Bank’s concessional lending operation). For the history of China’s relations with the Bank, see Kapur, Lewis, and Webb (1997), pp. 24–25, *passim*.

⁴⁵The stand-by arrangement was for SDR 450 million (\$550 million, or 25 percent of quota) and was fully drawn in March 1981. That same month, the Fund disbursed a loan of just under SDR 310 million (\$380 million) from the Trust Fund. Chinese officials requested more substantial assistance from the Fund in 1982, but the Managing Director determined that the data did not meet the requirement for a “balance of payments need.” As discussed in Chapter 14, China later volunteered not to draw on the resources of the Fund’s concessional structural adjustment facilities. On the handling of the 1982 request, see attachment to note of May 12, 1982, from Donald K. Palmer (Deputy Director, Exchange and Trade Relations Department) to Nigel Carter (Personal Assistant to the Managing Director); in IMF/RD Managing Director file “India” (Accession 84/21, Box 2, Section 168).

⁴⁶See “People’s Republic of China—Staff Report for the 1989 Article IV Consultation,” SM/90/2 (January 2, 1990), pp. 31–32.

In spite of the Soviet Union's last-minute decision at the end of 1945 not to ratify the Articles of Agreement and join the IMF, Hungary almost immediately (October 1946) expressed interest in initiating discussions with the Fund. Before the Fund staff could pursue that initiative, however, it would have been necessary for the authorities to establish a measure of potential support from the countries who were already members.⁴⁷ That support was never likely to materialize, and it became increasingly unlikely as the Stalinist faction in Hungary began to consolidate its power in 1947. With the advent of the Cold War, the political environment of the late 1940s could scarcely have been more hostile to a country regarded as a Soviet satellite. After being told explicitly by officials in the U.S. State Department in 1948 that the United States would not support its application, Hungary dropped the issue and let it lie for nearly 20 years.⁴⁸

By 1966, the Hungarian authorities had determined that the time was ripe to take a few hesitant steps toward economic reform. The mainstays of what would become the "New Economic Mechanism" in 1968 would be modifications to the central planning process, designed to make production decisions driven more by demand, and the unification of the exchange rate near a market level. More generally, some officials—notably the man in charge of foreign exchange matters for the central bank, Janos Fekete—viewed Fund membership as an essential part of the reform process. Without Fund support, they reasoned, they could not maintain a level of international reserves sufficient to sustain the foreign trade without which growth would be stunted. Fekete regularly attended the monthly meetings of the Bank for International Settlements (BIS) in Basel, Switzerland, representing a central bank that had been a shareholder since the BIS was founded in 1930. At such a meeting in June 1966, he approached Joseph Gold, the Fund's General Counsel, to get information on the Fund's operations and policies, and to see if the time had yet come when the membership might be receptive to an application from Hungary. He got the information, but not much encouragement.⁴⁹

The main obstacle continued to be opposition from the United States, but the Soviet Union also was rather less than enthusiastic. Soviet leaders were reluctant to see CMEA member countries pursue independent economic policies that

⁴⁷At the time of the Bretton Woods conference in July 1944, Hungary was allied with Germany. The government therefore was not invited to participate and consequently was ineligible to become an "original member" of the Fund.

⁴⁸In October 1946, the Fund informed the Hungarian government that "the entry of Hungary in the International Monetary Fund is a question which would have to be cleared with the Foreign Offices and the Ministries of Foreign Affairs of the member countries," and advised the authorities to make inquiries on their own. A negative response to such an inquiry was made by the United States around the beginning of 1948. See letter of October 17, 1946, from Ernest de Selliers (Alternate Executive Director, Belgium) to A. Szasz (Economic Advisor, Legation of Hungary in Washington); and memorandum of February 4, 1948, from Roman L. Horne (Assistant Secretary) to V. Frank Coe (Secretary); in IMF/CF (C/Hungary/710 "Application for Membership").

⁴⁹See memorandum of July 12, 1966, from Whittome to the Managing Director; in IMF/CF (C/Hungary/710 "Application for Membership"). Additional information is from interviews.

reached out toward the West and that would require divulging data on trade and finance within the CMEA. Romania—always a CMEA maverick—was also considering applying to join the Fund, and Hungarian officials were concerned that a move in that direction by Romania would stiffen Soviet opposition and make it impossible for countries where Soviet troops were stationed to follow (see footnote 5, p. 965). Hungary could not afford to risk having a formal application rejected, but the authorities did decide to develop regular informal contacts with Fund staff.

Over the next 15 years, clandestine meetings took place with irregular frequency and in a variety of locations: normally Basel, Budapest, or Washington, but also anywhere else where discreet conversations could be held. On the Fund side, Whittome would be the key player, often traveling alone and in great secrecy.⁵⁰ On the Hungarian side, Fekete was also largely a lone wolf. But whatever the venue and no matter how strong the political opposition on both sides, both men seem to have had the full support of their superiors as they sought a way through the thicket.

Notwithstanding the difficulty of joining the Fund, the New Economic Mechanism was launched at the beginning of 1968, a year that would witness struggles between aspiration and repression in country after country around the globe. The Mechanism itself would be implemented in fits and starts (see Boote and Somogyi, 1991), and in the aftermath of the suppression of the Prague Spring, the program could no longer be seen as the nose of the camel pushing into the tent. Soviet opposition became intense, and Hungarian envoys to Moscow received stern warnings that applying to join the Fund would be inappropriate.

By the late 1970s, the balance of influence had begun to shift in favor of Hungary joining the IMF. On the domestic front, both positive and negative forces drove the country to take bolder steps. Positively, the New Economic Mechanism was replaced by a somewhat bolder reform package in 1978. By 1980, domestic prices of most traded goods—including petroleum—would be determined primarily by prices in world markets, and officials knew that the Fund could play an important role in helping them maintain that policy. Negatively, implementing reforms without external support had required a major increase in external debt, although very few people at the time had a clear picture of the extent of that problem. On the Soviet side, that country's ability to provide even backup economic support to its satellites had gradually weakened, and the invasion of Afghanistan in December 1979 further overextended Soviet resources.

Against this background, the international oil price and interest rate increases of 1979–80 had disastrous effects on the Hungarian economy. By the end of 1980, Hungary had more than \$10 billion in external debt, which was becoming more and more expensive to service as world interest rates rose. Without both external

⁵⁰Secrecy was not always maintained; on at least two occasions, Whittome's travels were leaked to the press. In April 1971, the *Washington Post* and other newspapers reported that the Fund had sent secret missions to Budapest in the late 1960s, and in March 1978 the *Financial Times* reported that a visit to Warsaw was being planned.

support and a reversal of expansionary domestic policies, the situation would become unsustainable.

Joining the Fund, 1981–82

The reform program that was initiated in 1978, combined with weakening Soviet influence and a deteriorating economic outlook, culminated in a decision in the fall of 1981 to apply for Fund membership. The government knew that an overture to the Fund would be opposed, not only by the Soviet leadership but by most other CMEA countries as well. Some officials also knew that Fund membership would force them to disclose much more economic data than they were accustomed to, and that the existing severe distortions in their national statistics would have to be acknowledged or somehow covered up. They had, however, no other way to avoid default and economic collapse. In September, Janos Kadar (head of the Communist Party since 1956) decided to take a chance and present Hungary's allies with a *fait accompli*. Fekete and his staff prepared the necessary materials in secret over the next few weeks, while the government took preemptive action to strengthen economic policy by devaluing and unifying the exchange rate (see Boote and Somogyi, 1991, p. 6). On November 4, Fekete arrived in Washington and handed the membership application to William B. Dale (who was serving as Acting Managing Director).⁵¹ On the same day, the government announced the coup by radio broadcast from Budapest, without any prior warning to the Soviets, and the Fund issued a press release in Washington. When no reprisals came, and Poland quickly followed suit (as recounted below), the authorities and the Fund moved quickly to complete the process and secure financial support.

From that point on, no complications or particular controversies arose in handling Hungary's application. Patrick de Fontenay (Senior Adviser in the European Department) led a team of Fund economists and lawyers to Budapest in late November to collect and analyze data, primarily to determine an appropriate quota. After sifting through data on economic activity that were measured partly on market and partly on barter terms, they concluded that "the relative economic position of Hungary would seem to fall between Finland and Romania."⁵² That finding suggested that a quota of SDR 375 million (\$435 million) would be reasonable, and the Executive Board readily accepted that recommendation in a brief meeting in early April 1982. Meanwhile, the Belgian authorities indicated a willingness to add Hungary to their constituency in the Fund (which then comprised Austria, Belgium, Luxembourg, and Turkey). Jacques de Groote, the Executive Director for Belgium, met with officials in Budapest in December 1981 to get that process under way. Once the Board of Governors completed its voting by mail, the deputy prime minister, Jozsef Marjai, went to Washington for the ceremonial signing of

⁵¹Minutes of EBM/81/136 (November 4, 1981), p. 30.

⁵²"Hungary—Calculation of Quota," EB/CM/Hungary/82/1 (February 24, 1982), p. 43.

the Articles at the U.S. State Department. On May 6, Hungary became a member of the IMF.

In Transition, 1982–90

While these steps were being taken, Hungary's economy was deteriorating even more rapidly than before, and the Fund was just beginning to discover how precarious Hungary's external payments position was. In addition to the other problems that had been building up for three or four years, Hungary's access to international bank loans was virtually cut off as the international debt crisis began to spread. Bridge loans from the BIS provided some relief (see Chapter 8), but financial assistance from the Fund was becoming an urgent priority.

De Fontenay returned to Budapest in September 1982, this time to negotiate a stand-by arrangement. Despite the central planning system and the limited role of the private sector and market incentives, the adjustment program was based on the conventional Fund conditionality: restraints on domestic demand through fiscal tightening and monetary control, and strengthening of the external current account through exchange rate depreciation and relaxation of disincentives in the export sectors.⁵³ In December, the Executive Board approved a stand-by arrangement in support of that program, allowing for SDR 475 million (\$520 million; 127 percent of quota) in drawings through the end of 1983. The Board also approved an immediate CFF drawing of SDR 72 million (\$79 million; 19 percent of quota) to compensate for a drop in the prices of exported goods. Hungary successfully carried out its policies in 1983 and drew the full amount as planned.

A second stand-by arrangement was successfully completed in 1984, but economic policy in Hungary then began to deteriorate again. Once commercial banks resumed lending to Hungary, the authorities seem to have decided that they did not need the Fund as badly as before. Starting in 1985, they were unwilling to adopt the degree of financial restraint or flexibility in exchange rate policy that would have brought additional Fund support. They did get a third stand-by arrangement in 1988, but they failed to adhere to the agreed policy conditions, and the final drawing was not allowed.⁵⁴ By 1989, the economy was on the brink of collapse, just as it had been eight years earlier.

Notwithstanding these difficulties, Hungary was gradually liberalizing the economy and inching along toward holding its first democratic elections in more than 40 years. When a Fund staff team (led by Gerard Bélanger, Division Chief in the European Department) visited Budapest in September 1989 to conduct Article IV

⁵³"Hungarian People's Republic—Request for Stand-by Arrangement," EBS/82/206 (November 10, 1982).

⁵⁴The second arrangement, approved in January 1984, was for SDR 425 million (\$440 million; 80 percent of quota) over 12 months. The third arrangement was approved in May 1988, for SDR 265 million (\$365 million; 50 percent of quota), initially over 12 months but later extended by three months. SDR 50 million of that amount was unused. When the last drawing was made in February 1989, Hungary owed the Fund SDR 475 million (\$625 million; 89 percent of quota).

consultations and begin discussions on a new stand-by arrangement, they were reasonably upbeat about the prospects. What they learned, however, led to a scandal that would serve as a painful reminder of what the country was trying to leave behind.

Throughout the postwar history of the Hungarian People's Republic, secrecy of economic data had been sacrosanct (or, as one senior official put it during an interview, an "illness"). Although Hungary traded and had extensive financial relations with western companies and banks, the government was not compelled on that basis to reveal the extent of its reserves or of its overall indebtedness to western or CMEA creditors, or even to its own parliament. As debts piled up in the late 1970s and the government sought to minimize the reported size of its burgeoning fiscal deficit, the extent of the underreporting of debt necessarily rose. By joining the IMF in 1982, the government undertook a commitment to disclose such information routinely in the course of consultations with the Fund. In practice, it found that commitment to be both inconvenient and increasingly difficult to meet.

Once the decision was taken in October 1989 to hold democratic elections, officials in the National Bank and the government began to worry that an end to official secrecy would expose the long-standing distortions in the data, that they would be held accountable for it, and that it would damage their electoral prospects. Shortly after Bélanger arrived in Budapest, the governor of the National Bank, Ferenc Bartha, invited him to a Saturday lunch and informed him that the government and the central bank had systematically and deliberately misreported economic data to the Fund from the beginning of its membership negotiations, right up to that time. On Monday morning, Bartha telephoned the Managing Director with the same message. The government, however, was prepared to come clean. He informed Camdessus that the government was going to announce to parliament imminently that data on the country's debts had been underreported since the mid-1970s. He invited the Fund to make a comprehensive reassessment of the country's statistics, and he asked that a new stand-by arrangement be negotiated on the basis of revised data.⁵⁵ Camdessus agreed, and Bélanger's team immediately went to work on that basis. Separately, the Fund sent a team of data specialists to try to reconstruct the actual numbers.

As the real data began to emerge, the staff realized that the stand-by arrangements of the 1980s had been based on fraudulent data and that the Fund's ability to assess policies and to determine appropriate conditionality had been seriously impaired. The falsification of data centered on an underreporting of domestic and external debts of the government and an overstatement of reserves and other official assets. Because the government had a long-standing practice of distorting those data publicly and to other creditors, it fell easily into doing so to the Fund as well. The Fund, however, required complete accounting of monetary statistics, and the authorities had to devise a wide variety of compensating adjustments in other accounts, including banking data and the balance of payments. If the data had

⁵⁵Minutes of EBM/89/151 (November 20, 1989), pp. 36–37.

been reported correctly at the time, Hungary would not have been eligible to make several of the drawings that it had made under each of the stand-by arrangements of the 1980s.⁵⁶

When the actual data turned out to be inconsistent with the previous stand-by agreements, the Fund required Hungary to repay disputed amounts that were still outstanding before entering into a new arrangement.⁵⁷ The authorities agreed, and once the matter was fully resolved, the Fund approved a fourth stand-by arrangement in March 1990. Eleven days later, multiparty elections rejected most of the remnants of the old Communist Party and placed a democratic coalition in charge of Hungary's final transition to an open economic system.

Poland

December 13, 1981

When Alan Whittome awoke at the Victoria Hotel in Warsaw that Sunday morning, he expected to meet with his staff mission team to go over plans for the next several days of meetings with Polish government officials. He and his colleagues then would meet an old friend, Zbigniew Karcz (Director of the Foreign Department in the Ministry of Finance), for an afternoon of sightseeing. After three decades of absence, several years of hesitation, and one month of preparation, the process of getting Poland back into the IMF was finally under way. The rest of the team had arrived on Thursday and had begun collecting data and other information. Whittome (Director of the European Department) had arrived on Saturday and was expecting to take the discussions to the highest levels of government. It was not destined to happen. When he looked out the window, the tanks and armored personnel carriers of the Polish army were rumbling down Krolewska Street and into Ogród Saski park. He could not yet know what was happening—the phones were dead, the state television station was off the air, and CNN was years away from being created—but he had a front-row seat at the latest disastrous setback to Poland's overtures to the West. General Wojciech Jaruzelski had declared martial law in a dramatic suppression of the surge toward democracy that had begun in August 1980 with the recognition of Solidarity as a trade union

⁵⁶See "Hungary—Report on Noncomplying Purchases and Recommendation for Corrective Action," EBS/90/31 (February 21, 1990), Sup. 1 (March 6), and minutes of EBM/90/35 (March 14, 1990). Additional information on this episode is from background interviews.

⁵⁷The Fund's Articles of Agreement and supporting Executive Board decisions impose obligations on member countries to provide information that the Fund needs to conduct surveillance, safeguard the use of its resources, and other purposes. In 1984, the Board adopted specific guidelines on the provision of information related to performance criteria and other conditions on the use of the Fund's general resources; "Misreporting and Noncomplying Purchases under Fund Arrangements—Guidelines on Corrective Action"; Decision No. 7842-(84/165), November 16, 1984; published in *Selected Decisions*. Hungary was not the first member to be out of compliance with that decision, but this case was by far the most extensive and widespread, and it was the first in which the Board declined to grant a waiver for the required early repayment of affected credits.

independent of the Communist Party. Whittome's mission ended before it began, and Poland would not rejoin the Fund for another 4½ years.⁵⁸

Outside the Fund, 1950–80

After withdrawing in 1950 (see above, p. 964), Poland began exploring the possibility of rejoining the IMF as early as 1957, soon after the government of Władysław Gomułka began implementing economic reforms aimed at moving beyond the Stalinist era. At that time, the main obstacle was the opposition of the U.S. government. U.S. officials were sympathetic to Gomułka's tentative overtures, as evidenced by the decision of President Eisenhower to extend grants and credits to Poland for food imports. But when an official delegation raised the question of Fund membership with the U.S. State Department, they were rebuffed.⁵⁹ They did not give up, however, and on at least two occasions in 1957 and 1958, Polish officials met with the Managing Director, Per Jacobsson, to obtain information related to membership and to maintain contacts with the institution.⁶⁰

Informal contacts continued occasionally through the 1960s, while Gomułka's regime gradually slipped into repression and eventually crumbled. After Edward Gierek replaced Gomułka at the end of 1970 and initiated new reforms and new openings to the West, Poland began making more serious inquiries at the Fund but still did not attempt to join. Relations with the United States were improving dramatically,⁶¹ but Gierek faced strong opposition from the Soviet Union that he appears to have been unwilling to resist. Meanwhile, Gierek's attempt to link the Polish economy more closely to the West was turning out badly. A large-scale industrial development effort, financed largely by loans from commercial banks, was faltering while increases in international interest rates were making the loans more and more expensive to service. When massive strikes broke out in the summer of 1980 in opposition to long-overdue increases in meat prices and in support of the establishment of Solidarity as an independent trade-union and political force, Gierek could no longer hold onto either the economic or the political reins.⁶²

⁵⁸Getting home was a small drama in itself: small, at least, in relation to the political background. The airport was closed to commercial flights, and the roads and railways were tightly controlled by the military. The staff spent the next four bitterly cold days confined to their now-unheated hotel while Karcz worked to make diplomatic arrangements for a safe departure. Finally on Thursday, another old friend and dedicated advocate for Polish membership in the Fund, Professor Stanisław Rączkowski of the Warsaw School of Economics, was able to put them on a train (also unheated). After many stops and several inspections by soldiers, the staff team eventually reached Prague, where they were able to board westbound flights.

⁵⁹Throughout this section, unattributed references to internal discussions are based on background interviews with Polish officials.

⁶⁰See "Note for the Files" by Per Jacobsson (May 2, 1958); IMF CF (C/Poland/710). That note also suggests that U.S. Treasury Secretary Robert B. Anderson was more receptive and encouraging than his compatriots in the State Department.

⁶¹President Nixon went to Warsaw in 1972, and he received Gierek at the White House two years later. In 1977, President Carter visited Poland.

⁶²For an overview on Poland's economic difficulties in the 1970s and 1980s, see James (1995), pp. 563–73.

Rejoining, 1981–86

After the riots, General Jaruzelski became the effective head of government and almost immediately intensified the pace of economic decentralization. To further that effort, a group of young economists led by Leszek Balcerowicz issued a highly publicized report advocating wide-ranging reforms within the existing political system.⁶³ Externally, talks began with official bilateral creditors in Europe on rescheduling debts, and efforts to rejoin the IMF turned serious. Meanwhile, throughout the first half of 1981, the government struggled to keep communication open with both official and private creditors and to avoid defaulting on external debt (see Chapter 8).

Polish officials—at least those in the vanguard of reform—viewed Fund membership as a crucial step for normalizing external relations, but they were receiving mostly negative signals from Soviet leaders on how such a step might be received in Moscow.⁶⁴ The U.S. authorities were encouraging them, as were Fund staff. After several months of hesitation, an opportunity suddenly appeared: Hungary was about to submit a formal application to the Fund. If Hungary faced no immediate reprisals from across its eastern border, then perhaps Poland could also move boldly. Hungary’s announcement was made on November 4, 1981; two days later, Jaruzelski gave his cabinet ministers the go-ahead for Poland to follow suit. On November 10, Karcz arrived at the IMF and hand-delivered a letter from the minister of foreign affairs to the Managing Director, formally applying for membership for the Polish People’s Republic.⁶⁵

The declaration of martial law the following month did not completely halt the membership process. Poland’s application remained active, but the Fund postponed plans to send a full membership mission, as it became increasingly clear that the United States and other NATO countries would strongly oppose any move to admit Poland.⁶⁶ Whittome wanted to push ahead, but the Managing Director was reluctant. Although admission to membership required only a simple majority of votes cast, and therefore no country held a veto, it was deemed unlikely that other Executive Directors would support an application by Poland as long as the U.S.

⁶³Balcerowicz (1994) provides a summary and retrospective. Also see Blejer and Coricelli (1995), esp. pp. 33–35.

⁶⁴James (1995, p. 566) cites an account by Jaruzelski indicating that Andrei Gromyko (foreign minister of the Soviet Union) had expressed opposition during a meeting in the Crimea in August 1981. Whittome, however, received secondhand reports that same month suggesting that Soviet officials generally were not opposed to Polish membership. See memorandum from Whittome to the Acting Managing Director (August 28, 1981); in IMF/RD Deputy Managing Director file “Poland, 1982” (Accession 85/99, Box 5, Section 229).

⁶⁵The letter, dated November 6, 1981, is in IMF/CF (C/Poland/710 “Application for Membership”).

⁶⁶In January 1982, an emergency meeting of NATO foreign ministers in Brussels endorsed the imposition of sanctions against Poland, including the suspension of trade credits and the postponement of debt rescheduling negotiations. The communiqué made it clear that economic cooperation between Poland and the major western powers depended on an end to what it called the “systematic suppression” of human rights through Soviet intervention.

government objected.⁶⁷ Nonetheless, secret talks continued between the staff and the Polish authorities throughout 1982.

The darkness before dawn came in the first half of 1983, when the continuation of martial law, the banning of Solidarity and all trade unions, and the strong reaction of the U.S. government led to the suspension of contacts between the Fund and Poland. Jaruzelski made the first conciliatory gesture in July, by lifting the formal declaration of martial law. Paris Club creditors, including the United States, responded in November by reopening talks on rescheduling debts. The real breakthrough then came in July 1984, when Poland submitted to U.S. pressure and agreed to grant amnesty to Solidarity members and release all political prisoners from jail. The Reagan administration, after much internal debate,⁶⁸ finally announced in December that it was informing the Polish government “that an atmosphere has been created that the United States hopes will permit the reactivation of Poland’s membership in the International Monetary Fund.”

Despite these public assurances, the U.S. authorities were still ambivalent and ideologically divided, and the Managing Director remained reluctant to push strongly for an early resolution. Several staff visits were made to Warsaw in 1985, but Whittome’s initial hope that the process could be completed in time for a final approval by the Fund’s Governors during the Annual Meetings in Korea was dashed. De Larosière insisted that technical talks be thorough and not be hurried, and the full membership mission did not begin until mid-September, just barely ahead of the meetings in Seoul.⁶⁹

Throughout this period, the United States was far from being alone in its lack of enthusiasm for Poland’s membership application. When Polish officials began

⁶⁷The Fund’s rules are ambiguous regarding procedures for handling controversial membership applications. Applications are submitted to the Managing Director, who places them on the agenda of the Executive Board. The Board recommends quotas and other terms and forwards the application to the Board of Governors for a formal vote. As Gold (1974, pp. 19–24) explains, the Fund’s rules include no explicit provision for interrupting that chain of events, but Rule D-1 “seems to authorize the Executive Directors to refuse to go on with the procedure of admitting an applicant, at least for the time being” (p. 21). Rule D-1 includes the following: “When a country applies for membership in the Fund, the application shall be placed promptly before the Executive Board, and a reasonable time shall be allowed for discussion and preliminary investigation by the Executive Board before a decision is reached to proceed with the formal investigation. . . . If the Executive Board decides not to proceed with its formal investigation of an application for membership, it shall report that decision to the Board of Governors with the reasons for the decision.” In this case, no decision was taken, but the Board did not object to the Managing Director’s strategy of dragging out the process of “preliminary investigation.”

⁶⁸U.S. Treasury Secretary Donald T. Regan recounted in his memoirs that he objected that summer when the President’s National Security Advisor, Robert C. McFarlane, authorized the State Department to discuss Poland’s application with the Managing Director. Regan noted with apparent pride that “Poland did not become a member of the IMF during my tenure” (Regan, 1988, p. 323).

⁶⁹Memorandums from Whittome to the Managing Director (December 21, 1984, and April 2 and April 10, 1985); in IMF/RD Deputy Managing Director file “Poland, 1985” (Accession 90/104, Box 10, Section 415).

approaching western governments regarding the possibility of joining their constituencies on the Fund's Executive Board, they were rebuffed wherever they turned. No one, it seemed, wanted to join forces with the Communist government in Warsaw. Even the Belgian authorities—who had welcomed Hungary into their fold in 1981 and who were Poland's first choice in this regard—and the Dutch, who had represented Romania since 1972, resisted any further tipping of the balance in their seats.⁷⁰ It gradually became evident that even if Poland did join soon, it would probably join Cambodia, Egypt, and South Africa in the ranks of members that were not welcome at that time to participate in the election of Executive Directors (see Chapter 20).

At the technical level, the application began to work its way smoothly through the bureaucratic process. The size of Poland's quota became a contentious issue when it turned out that the staff's standard technical calculation yielded an unusually wide range of plausible values—from SDR 630 million to 780 million—owing both to uncertainties about data quality and interdepartmental disputes on how to apply the data. A quota near the high end of the range would have placed Poland near Austria in the Fund hierarchy and well above Hungary, Romania, and Yugoslavia (see Appendix II to Chapter 17). Concerns over the political implications of relative status and over the expectation that Poland would soon request to draw on Fund resources made management reluctant to endorse a figure that high. European Department staff felt that Poland deserved a quota around 750 million, but the final staff paper for consideration by the Executive Board recommended a quota of about 700 million. The membership committee of Executive Directors (chaired by Hans Lundstrom of Sweden) further reduced the recommendation to SDR 680 million (\$780 million), which the authorities reluctantly accepted in March 1986.⁷¹

With that last sensitive issue settled, the Executive Board and then the Board of Governors proceeded quickly to readmit Poland as a member of the Fund. No votes were recorded against the resolution, though the United States—reluctant to the last—abstained. On June 12, 1986, a delegation headed by the minister of finance, Stanisław Niekarcz, signed the Articles of Agreement at the U.S. State

⁷⁰Some Fund officials expressed concerns internally that Poland, Hungary, and Romania might band together to form a constituency. That move could have upset the structure of the Board by preventing the Francophone African countries (the existing constituency with the smallest voting power) from garnering enough votes to elect an Executive Director. The Polish authorities, however, sought to reach out to the West, and they never seriously contemplated forming a Socialist constituency. See memorandum from Whittome to the Managing Director (December 12, 1985); in IMF/RD Deputy Managing Director file "Poland, 1985" (Accession 90/104, Box 10, Section 415). In the event, Poland's quota was small enough that the three countries would have fallen just shy of the total required to gain a seat on the Board.

⁷¹See memorandums from Walter O. Habermeier (Treasurer) and Whittome (December 5, 1985), with responsive notations by de Larosière, in IMF/RD Deputy Managing Director file "Poland, 1985" (Accession 90/104, Box 10, Section 415); EB/CM/Poland/85/1 (December 20, 1985); letter from Lundstrom to Karcz (February 13, 1986), in IMF/RD Deputy Managing Director file "Poland, 1986" (Accession 91/260, Box 5, Section 339); and letter from Karcz to Lundstrom (March 10, 1986), in IMF/CF (C/Poland/710 "Application for Membership").

Department and brought to a successful close one of the longest membership processes in Fund history.⁷²

The Last Years of Communism, 1986–89

Joining the Fund brought Poland immediately closer to the West, but another three years would pass before the country was able to fully rejoin the world economy. As expected, Poland did not participate in the 1986 election of Executive Directors. For the next two years, an official from the Polish embassy in Washington was assigned an office at the Fund to serve as a liaison with the government, and an official from the finance ministry represented Poland at the Executive Board meeting concluding the Article IV consultations. That awkward arrangement lasted until 1988, when Italy agreed to accept Poland into its constituency (along with Greece, Malta, and Portugal).⁷³

A more concrete result of the limited international acceptance of Poland was that the Fund was not yet willing to provide financial assistance. The U.S. government let it be understood that it would not support a request for a stand-by arrangement, and the Fund's management discouraged the Polish authorities from pursuing the matter. Meanwhile, financial discipline continued to worsen in Poland, and by the end of 1988 the economy was approaching a state of total collapse. With output declining and price inflation escalating, the last Communist-dominated government decided to open the political process to the growing ranks of its opponents. In April 1989, Prime Minister Mieczysław Rakowski agreed to hold open elections. When those elections were won by Solidarity and other non-Communist parties, a newly resurgent Poland wasted no time in moving toward massive reforms.

The incoming prime minister for the newly elected government, Tadeusz Mazowiecki, wrote to Camdessus on September 9, even before his appointment had been confirmed by parliament, to request a stand-by arrangement.⁷⁴ Mazowiecki also persuaded Leszek Balcerowicz—the author of the 1980 reform plan mentioned above—to cancel plans to spend the academic year as a visiting professor in England and to become his deputy prime minister and minister of finance. Balcerowicz had a wide range of western academic contacts, including

⁷²This case involved the longest period in which an application remained active (1981–86). Three countries that participated in the Bretton Woods conference—Liberia, Haiti, and New Zealand—declined to ratify the Articles, did not become original members, and later joined the Fund on the basis of new applications. Liberia applied in 1948, but in 1950 it declined to accept the Fund's offer of membership. A subsequent application was submitted in 1961, and Liberia became a member in 1962; see Gold (1974), p. 32. Similarly, Haiti applied in 1949, but the government decided in 1950 not to join. Haiti reapplied in 1952 and joined the following year. New Zealand applied in April 1961 and joined four months later.

⁷³Only one Article IV consultation was held during 1986–89, concluded in October 1986. The second consultation was concluded in 1990, in conjunction with Poland's request for a stand-by arrangement. In 1992, Poland moved to the newly formed constituency headed by Switzerland.

⁷⁴Letter, in IMF/CF (C/Poland/1760 "Stand-by Arrangements, January 1989–January 1990").

Harvard Professor Jeffrey Sachs, who now would become a leading advisor on economic reform.

The Fund also wasted no time in responding. Massimo Russo, who had succeeded Whittome as Director of the European Department, went to Warsaw a few days after Mazowiecki's letter arrived, to begin discussions on how the Fund might help. The following week Camdessus met with Balcerowicz and other officials during the Annual Meetings in Washington. The authorities, especially Balcerowicz, were convinced that a rapid move toward market equilibrium was essential to overcome the endemic rigidities in the economy and to shorten the inevitably painful transition phase. To general skepticism, Balcerowicz publicly set January 1, 1990, as his deadline for getting a comprehensive stabilization and reform program in place. Russo and Peter C. Hole (Assistant Director in the European Department) then returned to Warsaw and negotiated a stand-by arrangement based largely on Balcerowicz's shock treatment for the economy. That program would soon become known famously as the "big bang": rapid adjustment of prices to market-clearing levels, immediate reduction or termination of regulations restricting private sector economic activity, a strong incomes policy aimed at rolling back the excessive wage awards of the preceding two years, and early stabilization of monetary and fiscal policies. Privatization of state enterprises and development of private financial markets were also planned, but those actions were scheduled to be phased in more gradually (see Balcerowicz, 1994, and Sachs, 1993).

In one of the most remarkable and dramatic economic turnarounds of the whole transformation of central and eastern Europe, Balcerowicz and his team succeeded in getting most of these major reforms approved by the end-year deadline. The currency, the zloty, was made convertible at a dramatically high unified rate of 9,500 a dollar (approximately the level recommended by Fund staff).⁷⁵ Price controls and the resultant shortages of goods were virtually eliminated, the budget deficit was sharply reduced by cutting or eliminating subsidies on consumer and other goods, monetary discipline was established, and trade barriers were reduced. In three months, the rigidities of the past 40 years, the ambivalent international response of the past three years, and the skepticism of September were all swept aside. On February 5, 1990, the Fund's Executive Directors, in a strong tribute inspired by what was clearly an historic moment, "unanimously expressed their admiration of the Polish authorities for their courage, imagination, and determination in introducing an unprecedented program of radical transformation of the economy," and approved a stand-by arrangement for SDR 545 million (\$720 million; 80 percent of quota).⁷⁶ Whatever hurdles remained to be cleared, Poland was on a steady course toward market liberalization.

⁷⁵The value of the currency was to be supported by a \$1 billion stabilization fund, financed by a group of industrial countries and administered through those countries' Executive Directors at the IMF. The fund was established but was never drawn upon.

⁷⁶Minutes of EBM/90/15 (February 5, 1990), p. 13.

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