IMF STAFF REPORT CRITICIZES APARTHEID

An International Monetary Fund economic team reported on May 19 that South Africa must ease the impediments and restrictions governing the labor market in order to avoid serious imbalances in the economy over the medium term.

The team also recommends that the allocations of government expenditure to black education and manpower training be stepped up sharply because they have been inadequately funded up to now.

The report by the team represents the IMF management's first criticism of apartheid.

Citing impediments on the geographical mobility of black workers as a serious problem, the study produced by the team says that in general this regulatory system is based on noneconomic considerations. The appraisal by the IMF concluded that there was no clear prospect of improvement in this area.

The IMF acknowledged progress in removing legal impediments to black promotions in industry. But it said that progress to a more racially diverse skilled labor force is impeded by a large discrepancy in existing skills and in government expenditure on education and training between race groups. It cited a 1979/80 estimate by the nongovernmental Institute of Race Relations showing a ratio of almost 13:1 between expenditure on white and black school children. There were also large discrepancies between race groups in terms of access to technical and vocational training. The study also reported slim prospects of reducing the gap in the foreseeable future.

The report by the IMF team, which visited Pretoria last February and March, represents the first criticism of apartheid on economic grounds by the IMF. The study represents a response to requests by several executive directors made at an IMF meeting last November 3, during which the executive board approved a $1.1 billion loan to South Africa.

The chief author of the study was Leslie J. Lipschitz, a South African now working for the IMF's European Department.
Policy Implications

The study was cited approvingly by nearly all executive directors at the June 20, 1983 mid-term review of South Africa's standby program. Thus critical monitoring of two chief aspects of apartheid -- pass laws and educational discrimination -- is now likely to become a subject of discussion between the IMF and South Africa in future annual consultations.

Furthermore, if South Africa ever approaches the IMF again for a new standby, progress in dismantling these pillars of apartheid is likely to be made a criterion of the program. It is certain that the conclusions of the study will be cited by executive directors, and that progress in implementing them will be considered one test of South Africa's cooperation with the Fund.

This conclusion implies that South Africa may be found ineligible for future standby arrangements unless it is prepared to dismantle major elements of apartheid.

The Fund's other major loan window, the Compensatory Financing Facility, is not subject to the same program conditions. However, the trend in recent IMF decisions is to link access to the CFF to the member country's general pattern of cooperation with the Fund in an attempt to find solutions to the member's economic difficulties. If there is no progress in implementing the findings of the IMF's study, that may also be cited against a South Africa request for the CFF.

Legislative Implications in the United States

Section 303 of the IMF quota increase bill now before the House of Representatives requires that the United States Executive Director to the Fund actively oppose future loans to countries which practice apartheid. It also contains an economic preamble that reads: "The Congress hereby finds that the practice of apartheid results in severe constraints on labor mobility and other highly inefficient labor supply rigidities which contribute to balance of payments deficits in direct contradiction of the goals of the International Monetary Fund."

The House Banking Committee approved the section on May 9. The anti-apartheid language had originally been introduced as a separate bill by Rep. Julian Dixon, Democrat of California and chairman of the Congressional Black Caucus.

The news that the IMF itself has criticized apartheid on economic grounds corroborates the position of the House Banking Committee and deflects the administration's argument that retention of the section will politicize U.S. involvement in the IMF.

The Congressional Black Caucus on July 18 sent a letter to Speaker Tip O'Neill saying that its nineteen votes would be available for the IMF replenishment only if Section 303 is retained. They are in an unusually strong position because the administration is had considerable difficulty mustering enough votes in support of the IMF quota increase.