The International Monetary Fund (IMF) has recently stepped up efforts to deflect widespread criticism regarding its mishandling of financial, debt and poverty crises. The Fund's recent attempt to respond publicly to its critics, "Common criticisms: some responses", in question and answer format, is not more convincing than previous ones. In the following pages, we reprint the IMF's responses, along with rebuttals of each question.

Reality bites:
A rebuttal of the IMF's "Common criticisms: some responses"
This rebuttal reflects the views of the organisations that co-authored it, which are only a fraction of the Fund’s critics.

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Sole responsibility rests with the authors. Comments are welcome.

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*Many thanks to Chien Yen Goh for his valuable contribution.*
Do IMF-supported programs impose austerity on countries in financial crisis?

IMF's Response

No. A country in financial crisis is likely to face a period of austerity whether or not it approaches the IMF. An IMF program reduces the extent of the belt-tightening needed and aims to bring about a quicker rebound in incomes than would otherwise be the case.

- Countries don’t seek IMF loans when their economies are in good shape. They come to the IMF when, through some combination of bad luck and bad policies, they have already run into deep financial difficulties. This has been the case with IMF programs for the past 50 years, from Peru in 1954, to South Korea in 1997, to Argentina today.

- To blame the IMF for hardships that countries in crisis face is to blame the doctor for the patient’s illness! The fact is that the IMF’s financial support, which is made available at lower interest rates than the private markets would charge at that point, reduces the adjustment the country would have to make otherwise. During the Asian crisis, both Korea and Thailand would have faced either outright default or a far more precipitous fall in the values of their currencies than what occurred (making it more expensive for them to import goods and to repay their external debts).

- ‘Battlefield medicine is never perfect’. That’s why IMF advice in crisis situations is not cast in stone but revised frequently in light of circumstances. For example, the IMF doesn’t always recommend tighter budgets. In the Asian crisis, all countries ran substantial fiscal deficits during 1998, reflecting the quick turnaround in the IMF’s policy advice once the scale of the crisis became known. The period since offers many other examples of IMF advice for fiscal easing, such as: the 2003 program with Guyana; the 2002 programs with Mongolia and Ecuador; the advice in the April 2003 World
Economic Outlook to industrial countries to maintain accommodative monetary policies and to avoid contractionary fiscal measures; and the advice to Asian countries in March 2003 to maintain an expansionary fiscal stance to the extent their circumstances permitted.

- IMF programs, even when they involve cuts in government spending, make provision for social safety nets. Countries are advised to cut spending on unproductive uses and to reallocate those expenditures to cushioning the impact of financial crises on the poor, for example through continued spending on health and education.

SEE ALSO:

CRITICS’ REBUTTAL

A country in financial crisis is likely to face a deeper and more prolonged period of austerity if taking advice, loans or bailouts from the IMF. IMF programs address such crises by attempting to restore “investor confidence,” meaning that foreign investors suffer proportionally far less than domestic populations.

The IMF says: “Countries don’t seek IMF loans when their economies are in good shape.”

According to the narrow definitions of a sound economy used by the IMF, few countries are in good shape. The IMF was originally conceived to provide short-term financing to help countries overcome temporary deficits (not enough hard [easily-convertible] currency to pay for imports) and support the value of the currency. It expanded its mandate in the 1980s to provide loans for indebted countries conditioned on the restructuring of their economies. In 2002, over 70 countries received such loans. By arguing that countries come to the IMF only when they run into deep financial troubles, the IMF is ignoring the fact that most borrowers must obtain the “seal of approval” of an IMF program; without it, private banks, bilateral agencies, and other multilateral institutions will usually not consider a country creditworthy. In other words, once a country has borrowed from the IMF, it must be able to demonstrate a significant “recovery” or continue satisfying IMF conditions if it is to have any hope of attracting any credit or capital. According to a report by the IMF’s own Independent Evaluation Office, over a third of current IMF borrowers are “prolonged users”. The Philippines, for example, has agreed to successive IMF programmes since 1967 and is only starting to consider ‘graduating’ in 2004. One of the reasons cited by the Independent Evaluation Office for prolonged use of IMF resources is “…deficiencies in program design and implementation [that] can lead to persistence of balance of payments problems.”

In other words, IMF advice has failed to achieve its core mission and since accepting its advice, countries have seen the health of their economies worsen.

IMF says: “To blame the IMF for hardships that countries in crisis face is to blame the doctor for the patient’s illness!” But to not take some responsibility for the hardships that countries in crisis face is to deny that the IMF typically ignores the early warning symptoms, misdiagnoses the problem, prescribes the wrong medicine and nearly kills the patient! Although the IMF’s financial support is concessional—given at below-market interest rates—it comes with harsh conditions related to all aspects of a country’s economy. For example, during the Asian financial crisis in the mid-nineties, the IMF conditioned Indonesia’s bailout on reducing money supply and increasing

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3 See Paul Krugman’s assessment of the Argentine crisis: “IMF officials—like medieval doctors who insisted on bleeding their patients, and repeated the procedure when the bleeding made them sicker—prescribed austerity and still more austerity, right to the end.” *New York Times* (January 2, 2002).
interest rates to as high as 80 percent. The currency still lost more than three-quarters of its value, and the high interest rates resulted in countless bankruptcies, massive unemployment and an increase in poverty. Malaysia, by contrast, imposed restrictions on currency flows withstanding widespread opposition from the IMF and private investors. Malaysia emerged from the crisis with the smallest percentage of lost output among the five "front-line" economies (Malaysia, Indonesia, Thailand, South Korea, and the Philippines).4

**IMF:** "'Battlefield medicine is never perfect’. That's why IMF advice in crisis situations is not cast in stone but revised frequently in light of circumstances." On this point, the IMF mumbles an admission that some of its advice in crisis has been wrong, and offers a few examples where the prescription has been allowed to vary slightly. The Fund has allowed, after vociferous criticism, a less tight budgetary discipline in some cases, but its has strictly adhered to fiscal austerity, privatization, and trade and financial liberalization despite evidence that such measures have failed to facilitate growth.

**IMF programs, even when they involve cuts in government spending, make provision for social safety nets.** The IMF typically forces cuts in government spending, the privatisation of state-owned enterprises and the imposition of cost recovery schemes (charging the full market price of a service). Privatization is often done before safety nets are functioning and cost recovery schemes, even with exemptions for the poorest, have been shown to exclude the most vulnerable. Social safety nets themselves are not beyond the IMF scalpel. In the IMF advice to Canada in 1994 and 1995, it advised strongly that Canada restrict further participation in the unemployment insurance programme. While it was not forced to do so, unlike IMF borrowers, Canada followed this advice, putting more unemployed workers deeper into poverty. Social safety nets, even if functioning, do not compensate for the failure of economic policies to generate employment and increase incomes.

**SEE ALSO:**

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4 East Asia: Recovery and Beyond World Bank (June 2000) as quoted in Growth May Be Good for the Poor – But are IMF and World Bank Policies Good for Growth? Center for Economic and Policy Research (August 2000).
IMF-supported programs are intended to help a country adopt policies that will help it regain market confidence and thereby have access to private capital, which are essential for growth and jobs.

- When a country is facing a balance of payments crisis and the private sector, such as banks and other lenders and investors, are not willing to lend to it, the country turns to the IMF. The IMF and the rest of the official community (the World Bank, individual governments) face a choice between helping a country in a crisis situation or cutting off support for the country. If a county adopts corrective policies that will help put it on a sustainable path in the long-term, the IMF supports a country because cutting off financing would worsen the situation, and the poor would be particularly hard hit.

- IMF support to a country includes: (i) advising the country on what the appropriate policies should be; (ii) providing resources to the country to tide it over its difficulties. Corrective policies will restore investor confidence, so that capital will once again flow into the country. This should not be seen as "favoring" bankers and elites.

- Capital inflows and sustained foreign investment benefit the country as a whole because they generate growth and create jobs. In countries where the financial sector has been particularly hard hit, restoring the banking system to normal functioning is key to safeguarding the deposits of the citizens of the country and resuming bank lending to private businesses.
In 1960, the richest 20% of families in the world earned 30 times more than the poorest 20% of families. This gap has more than doubled since then¹.

Half of the world's 100 biggest economies are now multinational companies².

Employment by the world's 400 largest corporations dropped from 40 million in 1970 to 23.4 million in 1989³.

What does the IMF have to do with creating the winners and losers of the global economy? The concentration of wealth within countries and the global economy is in part a result of IMF's promotion of access to private capital and attention to a particular kind of "market confidence" — that of wealthy investors and corporate executives (as opposed to the small farmer and street vendor).

Who has been shown to win from IMF bailouts? Foreign bankers. Who has been shown to win from portfolio investment flows? Foreign bankers. Who has been shown to win from rapid financial liberalization? Foreign bankers and corporate elites. Who has been known to routinely recommend against capital controls that would ensure longer-term, more stable investment? The IMF.

The IMF points out that countries come to it as a 'lender of last resort'. Countries therefore have no choice but to accept the terms and conditions of the IMF, even if they know that they are inappropriate and will not lead to a 'sustainable path'. Without an IMF program in place, a country may not even be eligible for official development assistance, since the IMF acts as a gatekeeper for financial flows to indebted countries. The IMF argues it steps in because the absence of funds would worsen the situation. While this indeed may be true, the IMF's conditions for the financing have harsh social implications, and when the results of its programs are examined, it is clear that the patient - the impoverished population - is made worse by the medicine. It is not so much that the IMF wishes to harm the poor, as the fact that its measure of health is "investor confidence." The putative science that insists that investor confidence will ultimately make the patient better off is never examined.

Capital inflows and sustained foreign investment do not always generate growth or jobs. As a result they do not necessarily benefit the country as a whole. Foreign firms often harm competing domestic firms rather than stimulate them. As well, most foreign direct investment (FDI) goes to a small handful of developing countries and is concentrated in sectors such as extractive industries, which have proven negative social and environmental consequences. In citing the example of FDI in the banking sector, the IMF neglects the fact that the liberalization of domestic banking sectors, which it mandates, has typically resulted in an increased role for multinational banks that tend to lend more to foreign companies, reducing available credit for the domestic private sector⁴.

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² Ibid.


Does the availability of IMF lending encourage "moral hazard"?

**IMF'S RESPONSE**

*We take concerns about moral hazard seriously, but evidence suggests the extent of moral hazard induced by the existence of IMF lending is small.*

- **Like any other form of insurance, the existence of IMF lending does raise moral hazard concerns.** That is, it does make it more likely that the possibility of an IMF 'bailout' will make borrowers and lenders behave in imprudent ways and thus make crises more likely. But is this effect big enough to outweigh the benefits to countries from having in place a financial safety net? Evidence, including studies by IMF staff, suggests the answer is 'no'.

- **Creditors who have bet on IMF 'bailouts' to preserve the value of their risky investments have been proven wrong.** Foreign investment in Russia in 1998 was termed a 'moral hazard play'; there was a widespread market perception that the Fund (and the official community, more generally) would, if necessary, provide additional resources in order to prevent a crisis. But this play turned out to be a bad bet for investors. Likewise, investors have suffered large losses in other financial crises as well, suggesting that private creditors do end up facing the consequences of their lending decisions.

- **On the debtor side, it is difficult to imagine that countries borrow imprudently because they believe that they can always rely on IMF money to bail them out of a crisis.** If for no other reason, the sheer scale and depth of economic crisis that emerging markets have faced in recent decades makes it highly unlikely that countries would ever want to find themselves in a crisis situation.

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1 Moral hazard is a term used when analyzing the effects of insurance. It refers to the idea that the very provision of insurance raises the likelihood of the event that one is being insured against. This is because insurance reduces the incentives for the insured party to take preventive measures. (see Lane and Phillips).
intervention during the Asian financial crisis have been proved wrong by the region's rapid recovery. Even without mentioning the social cost, the fact is that a country can recover more quickly without IMF prescriptions (see example of Malaysia page 1.3).

**The IMF says that private investors do take losses in some cases (therefore they cannot or should not be encouraged to take risks by the prospect of an IMF bailout).** While speculators as a whole do take losses in major financial crises, they would take more without the IMF's involvement. This means they also take more gains the rest of the time (when there is no crisis) thanks to the prospect (idealised or not) of the IMF 'safety net', which leads them to take more risks, therefore increasing instability.\(^2\) On balance it is questionable whether private investors "do end up facing the consequences of their lending decisions". If they did, why would the IMF have devoted so much time and effort to designing a 'sovereign debt restructuring mechanism' (SDRM) to force private investors to share the burden when a country defaults on its debt?\(^3\) It is doubtful that this is due to the IMF realizing the moral questions raised by encouraging, or at least rewarding high-risk, high-return speculation. This is not to contest the need for an impartial mechanism to ensure that creditors share the risks and responsibilities when they lend money.

**IMF says: “prospect of an IMF bailout does not lead countries to borrow imprudently because they do not want to end up in a crisis situation".** There is no evidence that countries are deterred from imprudent or excessive borrowing by the prospect of a major crisis. Surely the last $8 billion loan to Argentina as it neared default in 2001, 2012...

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1. **Responding to financial crisis: better off without the IMF?** The case of Jamaica \(\text{Colin Kirkpatrick & David Tennant (2002). The study suggests that the financial crisis was the result of IMF/WB prescribed liberalisation of the financial sector.}\) http://www.devinit.org/findev/Fd-wp38.doc

2. **Stanley Fischer** blames crises on 'irrational exuberance' of investors as an alternative to the moral hazard explanation and says the role of the IMF is to make investors more rational. But is it not rational investor behavior to overspeculate if they know there is a lender of last resort that will, even indirectly, bail them out?

3. **The fact that the IMF’s proposition was repeatedly watered down and finally rejected by the US Treasury (and private banks) is a good illustration of what decision-making by ‘consensus’ means at the IMF.**
encouraged by the U.S. government and the IMF, cannot be considered
"prudent"—never mind "moral"—on either the lender’s or the borrow-
er’s part. The IMF (Kenneth Rogoff, the departing Chief Economist, in
particular) often argues that it is not encouraging moral hazard on the
debtor side because it always get repaid – but not always by the right
debtor. The IMF gets repaid by governments, who have used the IMF
loans to pay-off foreign private ones.

While it is true that the IMF always does get paid, it is not just because
it is a merciless creditor but also because it is lending and re-lending
almost perpetually to some countries, with unclear criteria. This is called
‘prolonged use of Fund resources’ (see Section 1) officially, and ‘ever-
greening’, less officially. Countries use new IMF loans to repay old IMF
debts, therefore delaying default indefinitely. Or, as suggested by a
study co-authored by Kenneth Rogoff, they repay some creditors with
other creditors’ loans.4

SEE ALSO:

Moral hazard in IMF loans, how big a concern Kenneth Rogoff, Finance & Develop-
ment (September 2002).

4 The Democratic Republic of Congo (formerly Zaire) is a recent example. In 2002
it repaid the IMF nearly $600 million in arrears on debt incurred under dictator
Mobutu, with a loan from Belgium, France, Sweden and South Africa. This loan was
in turn repaid with a new IMF loan for ‘Poverty Reduction’. See para 1, Box 2, p.
29 in Democratic Republic of Congo: Enhanced Initiative for HIPC – Decision Point
Does the IMF obstruct debt reduction for the poorest countries?

**IMF’s Response**

No, the IMF favors debt relief, but debt relief in itself will not be sufficient to reduce poverty and to help countries grow.

- The IMF has supported initiatives to reduce the outstanding external debt of 27 countries by about two-thirds. This debt relief has helped these countries increase annual social expenditures from about 6 percent of GDP in 1999 to about 9 percent of GDP in 2002, more than three times the amount of debt service. According to Jubilee USA, this means, among other things, that:
  - in Uganda, school enrollment has tripled;
  - in Mozambique, about half a million children have been vaccinated against deadly and preventable diseases;
  - in Honduras, children have 3 extra years of free primary education.

- But debt relief is a means to an end, not an end in itself. Debt reduction may not help economic growth or poverty reduction if the resources made available are wasted or debt relief is offset by reduced aid. In some cases, debt cancellation may damage the country’s credibility as a borrower, so that it may be unable to attract future loans. The IMF therefore wants debt relief to be part of a comprehensive approach to financial assistance and to accompanied by policies that promote sustained growth, poverty reduction, and external viability.

- In addition to debt relief, the international community is committed to providing official development assistance (ODA) and trading opportunities to developing countries. While industrial countries currently provide about $52 billion per year in ODA, and at the Monterrey conference in 2002 committed to giving $15 billion more, it is estimated that an additional $50 billion per year will be needed to meet the Millennium Development Goals. Under the WTO’s
Doha Round on trade (also known as the development round), industrial countries have committed to opening up their markets to developing country exports, especially in agriculture and textiles.

SEE ALSO:
100 Percent Debt Cancellation: A Response from the IMF and the World Bank IMF & World Bank (July 2001).


CRITICS’ REBUTTAL

Yes, the IMF has yet to cancel the uncollectable debt of the poorest countries.

The existing IMF/World Bank debt relief scheme, the Heavily Indebted Poor Countries (HIPC) Initiative, will reduce some debt, for some 27 countries, some time. Since the scheme’s debut, in 1996, only eight countries of the 27 have reached the “completion point,” when they are supposed to have achieved a lasting exit from “unsustainable” debt burdens. But at least three of these countries – Uganda, Mauritania and Burkina Faso – still had “unsustainable” debt burdens even after receiving the full HIPC treatment (The Bank and Fund define sustainable debt to a level where a country can service remaining debt in full. Human development needs are ignored). Uganda, in fact, looks set to return for its third HIPC helping. Four countries will end up paying more in debt service after full debt relief under the IMF/World Bank programme than before they started. The other countries are still in an “interim” period, having qualified for some debt relief, but still under the supervision of IMF and World Bank structural adjustment programs. Over half of countries in the programme have had their HIPC debt relief delayed because they have been judged by the IMF to have fallen out of compliance with at least one of the many conditions laid down by the institutions. After a country falls ‘off track’, its deadline for “graduating” from HIPC gets pushed into the future. According to IMF projections, even after these countries get back ‘on track’, only about half of them will have “sustainable” debt burdens at their completion points. In other words HIPC will have been a failure, even on its own terms, for half of the countries it was supposed to benefit.

But debt relief is in any case insufficient. Debt cancellation is a must as the debt is a result of an unfair economic system. Soaring interest rates, for example, have meant that the original debt has already been repaid many times over. Much of the debt on the books is arguably illegitimate—contracted by authoritarian rulers, used for oppressive purposes (consider the irony of the ANC government paying off the apartheid regime’s debts), lent by agencies and banks in service of Cold War political agendas, siphoned off by corruption and exorbitant contractors’ fees, often used for failed or useless projects. Debt cancellation is a key step to recognizing the responsibility of the lenders in creating the situation in the first place. Whereas debt cancellation cannot be the only international effort to fight poverty, and will not achieve significant progress if the IMF retains control over a majority of countries’ economic policies, it is a critical first step. Indeed, the question of debt is a pressing moral question for the wealthy countries, for even apart from the arguments of the debt’s legitimacy there is the always present question: how do we justify demanding that impoverished countries with ever-growing debt burdens, poverty rates, and premature death continue to make enormous payments to wealthy institutions controlled by wealthy people in wealthy countries that do not need the money? That institutions that claim to prioritize “development” and “poverty reduction” should even hesitate to cancel the debt, much less obstruct it year after year, should be unthinkable.

SEE ALSO:
World Bank/IMF Status of Implementation.
http://www.worldbank.org/hipc/

Jeffrey Sachs to Poor Nations: ‘Forget Debt, Spend on AIDS’ Emad Mekay, Inter Press Service (August 2, 2002).
Is the IMF dominated by the G-7 (especially the U.S. Treasury)?

**IMF’S RESPONSE**

No. It’s true that the bulk of the IMF’s financial resources are provided by the G-7, but decisions on policy and country matters are made by consensus among IMF shareholders.

- **The IMF’s shareholders are its 184 member countries.** The voting power of individual IMF members is based on their subscriptions (quotas). The United States has about 17% of the total voting power.

- **Most IMF decisions reflect not a formal vote but a consensus** in the IMF’s Executive Board, the body that makes the institution’s day-to-day decisions. The Board’s procedures provide each Executive Director, irrespective of how large or small a vote he/she has, the same opportunities for their views to be heard. While legally most decisions require only a simple majority (51%), in practice, almost all decisions in the IMF get broad support, indicating that if a vote were held, the majority would be much higher.

- **Some of the most important decisions, for example, increasing the size of the IMF’s resources or determining charges on borrowings from the Fund, require a 70% or 85% majority.** Clearly, the United States and/or a coalition of industrial countries could veto such decisions. But so could a bloc of developing countries since, as a group, these countries represent about 37% of voting power in the Executive Board.

- **One of the features of the IMF is that divisions seldom break down along “North-South” lines.** Several Executive Directors represent “creditor” countries (industrial countries) as well as borrowing countries and therefore try to strike a balance between both points of view. On many issues, the large shareholders do not hold a common position, and there are also many issues where creditor countries
a growing tendency in recent years to act as a self-appointed steering group or 'Directoire' of the IMF.\(^1\) The Executive Boards of the World Bank and IMF, in charge of day-to-day decision-making, do not give all countries an equal opportunity to represent themselves. Seats and votes are allocated to countries according to an outdated formula designed to fulfill goals of the winning powers after World War II. The formula has not evolved to reflect evolving political and even economic realities with the result that the formula currently fails to perform even its purported role of reflecting the economic size of countries in the world economy. The 46 Sub-Saharan African countries have just 2 Executive Directors (EDs) on the Fund Boards to represent them all, while 8 countries have a single Executive Director each. Rich countries currently control over 60 per cent of the votes at the IMF (close to one-half for G7 countries) while Sub-Saharan countries have 4.4% of voting power).

The US government has a veto on decisions requiring a super-majority. While the IMF is not just a foreign policy or economic tool for the US, this means that in practice the US often get its way (examples include the US insistence that the IMF should lend to Russia in the late 1990s despite no chances of success for the program, and the conditions tied to the bailout of South Korea during the Asian financial crisis, opening up the auto sector, a US foreign policy goal in place for years, accomplished courtesy of the IMF).

The IMF claims a group of developing countries "could veto such decisions" in the Board too. Not only is this not comparable to a single member having a veto, but in practice this is also irrelevant because so many of developing countries are collectively represented by rich countries’ Directors. And the resolution of potential conflicts in a constituency is for each Director to decide but he/she cannot split his/her vote.\(^2\)

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2. Ibid.
The fact that decisions reflect not a formal vote but a ‘consensus’ in the Board is a fig leaf. It means that voting occurs informally, with large vote holders able to exert considerable influence over discussions. This informal procedure has limited the effectiveness of efforts to try to make representatives more accountable to citizens in their home countries. For example, the US Executive Director is required to formally publicise how she votes on some issues; however, since she only rarely formally votes this has not aided transparency. In this context, claims that divisions seldom break down along North-South lines are difficult to verify because minutes of the Executive Board are not public.

The IMF says proposed changes to its voting structure would not necessarily provide for ‘truly democratic representation’, thereby justifying a status quo. “However a structure based on voting powers reflecting demographic importance or providing a greater weight to the principle of equality of states, would certainly be more appropriate than the archaic system currently in place. The IMF considers this would be dangerous, as it would give too much power to borrowers to determine lending policies, and risk leading the Fund to bankruptcy. This paternalistic view assumes borrowers are short-sighted and irresponsible, with no sense of the common interest (or even their own medium- and long-term interest). The point of a reform of voting powers is not to create imbalances, but to correct existing ones.

See also:

Human Development Report 2002: Deepening democracy in a fragmented world


http://brettonwoodsproject.org/sapimf.html

Reform proposals for the governance structure of the international financial institutions

Open statement on steps to democratise the World Bank and the IMF
http://brettonwoodsproject.org/ifigovstat.html
Is the IMF unaccountable?

**IMF’s Response**

No. The IMF is accountable to its shareholders, the 184 countries who are members of the institution. In recent years, the IMF has also tried harder to explain its activities to, and take into consideration the views of, NGOs, academia, labor organizations, parliamentarians, and other groups.

- The IMF is accountable to the 184 member governments who are our shareholders. Every year, at the Annual Meetings, representatives from member countries (Governors of the IMF) meet to discuss the outlook for the world economy and the role of the IMF in the international monetary system. Day to day input from member countries is provided by the Executive Board of the IMF, which is in session year round, and meets about three times a week.

- It is sometimes argued that the IMF is not accountable to civil society in member countries. We believe that sovereign governments are, and must be, in the first instance accountable to their respective civil societies. The IMF cannot interfere in the domestic political process of member countries—if it did, it would be accused of violating the sovereign rights of nation states. At the same time, the IMF maintains an active dialogue with civil society organizations, labor groups, parliamentarians and others.

- The IMF encourages member countries to involve stakeholders in designing economic policies, so as to build broad ownership across society for the policies. For example, a key feature of the poverty reduction strategies in the low-income countries is the participation of civil society organizations, parliamentarians and other groups in the design and implementation of these strategies. The hope is that by involving these groups, the voices of the poor will be heard and reflected in the policies that have a direct effect on them.
Transparency is an important vehicle for fostering accountability, as it opens up decisions to greater scrutiny. The IMF promotes transparency in its members’ policies, and the IMF website contains a vast array of economic information on countries. Globalization is playing a positive role as the growing integration of countries and peoples (and the internet) makes information more accessible to poor people in remote parts of the world, thereby empowering them in their efforts to hold decision makers accountable.

The IMF has also become much more transparent about its own work. Browse our website to see how much information there is or read our Annual Report.

The IMF is a learning institution. The Independent Evaluation Office (IEO) undertakes assessments of IMF work—particularly major areas where the IMF has been criticized. For more information visit their website: http://www.imf.org/external/np/ieo/index.htm

CRITICS’ REBUTTAL

The IMF is unaccountable to those it claims to help.

Decisive meetings and loan negotiations are still held behind closed doors with a limited range of actors, transparency on crucial documents is scarce and affected citizens have no possibility to hold the Fund accountable for its operations. National parliaments are also rarely, if ever, consulted on government activities on the IMF Board.

As described above the IMF is more accountable to a handful of its shareholders (rich countries) than to the 160 others—the ones which must actually accept and implement IMF policies. The IMF claims that it cannot be accountable to citizens directly because this would mean interfering in domestic political processes. But this contradicts frequent IMF pressure on countries to take measures that actually violate their own legislation and bypass democratic processes. For example the IMF recently pressured the Argentine government for a swift price hike of key public utilities without an open, public debate of the social impact, in contradiction of a 2002 law. Argentine civil society groups sent a complaint to the IMF’s evaluation office but were told that this issue is beyond its remit.

The IMF claims to be encouraging citizen participation in the design of poverty reduction strategies. But it has admitted there is no connection between the objectives of these national strategies and its own programmes, which makes participation meaningless. In practice loan negotiations rarely involve stakeholders other than Finance ministries officials.

While some progress has been made in recent years on transparency, much more needs to be done. Releasing a larger quantity of long, often incredibly complex and technical documents in English does not necessarily “empower [people] to hold decision makers accountable”.

In terms of transparency of member countries for example, IMF reports on countries economies are not systematically published. The IMF claims to be promoting transparency but at the same time allows countries (as in the case of Argentina recently) to keep secret some conditions on its assistance (with the practice of confidential ‘side-letters’), when these would “undermine the authorities’ efforts to prepare the domestic groundwork for a measure, […] for example, measures affecting key prices”. Similarly the Board has rejected propositions to circulate draft loan agreements before they are approved, which would contribute to public debate and accountability.

As for transparency of the Fund itself: invitations to “browse [their] website to see how much information there is or read our annual report” are of limited use. The question is not how much information there is but how useful, comprehensible and timely it is. Key information such as the
agenda and minutes of the Executive Board is still not publicly available.

Finally the IMF has still a long way to go before it becomes a ‘learning institution’. While the existence of an evaluation office represents progress, it is still heavily dominated by former IMF and World Bank economists and does not challenge the core economic paradigm that underlies the IMF’s thinking and operations. Similarly the belated acknowledgment by the Fund that measures to open capital markets in poor countries are potentially harmful have only modified assumptions about pace and sequencing, not the desirability of the policy itself.

SEE ALSO:
IMF transparency still lagging on crucial issues
http://brettonwoodsproject.org/imftransupdate

http://www.publications.parliament.uk/pa/cm200001/cmselect/cmtreasy/162/16202.htm
Why does the IMF believe that countries benefit from globalization?

**IMF’s Response**

The IMF believes that globalization, if properly managed, can be a force for good for countries.

- Even those discontented with globalization recognize that it has scored some notable successes in the second half of the 20th century:
  - In Europe and the United States, average incomes quadrupled over this period. And with economic growth came better health and nutrition: life expectancy increased by more than ten years.
  - Progress was by no means limited to industrial countries. In some developing countries, the rise was even more dramatic. In Korea, for example, average incomes increased more than ten-fold, so that Korea was able to join the ranks of the industrial countries. Life expectancy in developing countries, while still lower than in the industrial world, rose by over 20 years on average.

- The IMF believes that globalization can continue to confer such benefits if it is managed to avoid some of the risks:
  - Trade liberalization is good for growth, but workers in some sectors—both in industrial and developed countries—get hurt in the short run. There must be ‘social safety nets’ to assist these workers and their families.
  - Some developing countries will see further big gains from trade liberalization only if the developed countries reduce the subsidies they provide to certain sectors of their own economies, particularly their agricultural sectors.
  - At the same time, there are substantial opportunities for trade
among developing countries, which would be beneficial for them.

- While trade liberalization is good for growth, financial globalization must be approached with caution. Liberalization of capital flows in the 1990s brought with it volatility and financial crises. We therefore support a cautious approach to capital account liberalization. Foreign direct investment appears to be beneficial to growth and more stable than other kinds of capital flows; we therefore support FDI.

- Many of those portrayed in the media as "anti-globalization activists" are in fact not against globalization. Rather, they, like the IMF, want to shape globalization to raise its benefits and lower its costs.

SEE ALSO:


Global Trade Liberalization and the Developing Countries IMF (November 2001).

http://www.imf.org/external/pubs/cat/longres.cfm?sk=15469.0


Critics’ Rebuttal

The IMF sees globalization as a win-win game, but the convenient reference to average figures for the whole second half of the 20th century masks distinctions that would lead to totally different results and interpretations. It is acceptable to say that economic integration has occurred steadily through this period, but the process has differed in the last two decades from previous ones.

The move from import substitution or communism or welfare state models to structural adjustment, market economy and a rollback of the welfare state after 1980 cannot be ignored. And growth rates, income inequality and welfare indicators for the two periods are quite different. A comparison between the first (less globalized) and the second (more globalized) period shows that:

- growth rates have been higher in the first than in the second period;¹
- Most countries registered a sharp slowdown in progress towards higher life expectancy in the second period as compared to the first. (Slowdown that cannot only be explained by the AIDS pandemic);²
- Progress in reducing infant mortality during the second period was also considerably slower than during the first.³

While living standards in rich countries have increased over the last 50 years this cannot be presented as a result of ‘globalisation’. These countries (and this applies to countries such as South Korea too) have – at least initially—favoured strong interventionist industrial policies combined with strong protection in one way or another of their internal markets, export subsidies, and a tendency to huge budget deficits. Quite the contrary of what the IMF usually presents as ‘sound economic policy’.

1 The Two Faces of Globalization: Against globalization as we know it Branko Milanovic, World Bank (March 2003) p.13.
3 Ibid.
Moreover, the International Labour Organisation (ILO) recently stressed that “In 20 industrialised countries, more than 10 per cent of the population lives below the poverty line.” Average levels of incomes do not reflect inequality. In the US the top 1% of the population owns more wealth than the bottom 90%. At the global level inequality has increased dramatically (see page 2.2) The assets of the 200 richest people in the world are more than the total income of 41% of the world’s people. A 1% tax on the wealth of these 200 people could fund primary education for all the world’s children who lack access to schooling (UNDP, Human Development Report 1999).

The IMF maintains that the rising tide lifts all boats, refusing to acknowledge that while some people on the yachts peer contentedly over the harbor, they are sitting too high to see the millions of dinghies that are sinking. Again there is ample evidence (in UNDP’s Human Development Report 2003 for example) that in the last decade many countries have seen their situation get worse in terms of poverty and hunger, child mortality, life expectancy or school enrolment.

Global justice movement activists have complained long enough about being misportrayed under the oversimplistic designation of ‘anti-globalization’. Not all activists are against all aspects of globalization; indeed many of them insist on using the term “corporate globalization” to specify the model they oppose. In that sense, the statement quoted is accurate. But its failure to specify to whom the benefits should flow and for whom the costs should be lowered is telling. Although the IMF would doubtlessly answer “the poor, of course” when the question is put to them, the fact remains that IMF policy has been precisely geared to lowering the costs of globalization and increasing its potential benefits for corporations and wealthy investors. The illusion the IMF wishes to perpetrate is that what benefits the rich will also benefit the poor—the “trickle-down” fallacy—or that even if the two groups’ interests do diverge, they can be made harmonious. When a choice has to be made about whether a policy will expose the powerful or the vulnerable to harm, the IMF has always chosen to protect the powerful. Is it any wonder that millions of activists around the world are not inclined to suddenly trust the Fund’s assurance that we are all working for the same goals?

Most activists in fact disagree with the IMF’s conception of globalization as an unstoppable, natural phenomenon that simply needs to be better managed or shaped to benefit all. They also strongly question the role that the IMF has played, is playing and should play in the global economy. Rather than just being managed or shaped to raise benefits and lower costs, globalization should be significantly changed, and in some respects reversed, because it is neither viable nor sustainable. The benefits under the current model go to a shrinking share of humankind, based in a small number of countries, at the expense of increasing costs for the rest and for the environment.

The model embeds a fundamental flaw as free trade and investment rules are increasingly used by large transnational corporations to circumvent democratic processes at the local level, preventing people whose lives are most affected by the processes from having a say on how they should be shaped. Institutions created to establish and enforce the rules of the game such as the IMF are structurally and intellectually biased towards the interests of a few, while blatantly failing the poor and marginalized. Therefore the IMF can hardly present itself as a good ‘manager’ of globalization. Rather it has been one of the engines of a particular form of globalization, systematically using its leverage on borrower countries to promote or impose it.

SEE ALSO:
Kicking away the ladder Ha-Joon Chang, Anthem Press (2002).
Empty promises 50 Years Is Enough Network, (July 2003).
http://www.50years.org/promises
Why does the IMF encourage developing countries to reduce trade barriers when industrial countries don't?

**IMF’s Response**

*Regardless of what industrial countries do, developing countries would benefit from liberalizing, especially among themselves.*

- **Trade creates a win-win situation.** IMF and World Bank studies have estimated global welfare gains of $250 billion to $680 billion annually from the elimination of tariff and quota restrictions on merchandise trade in both industrial and developing countries. Gains to developing countries from such trade liberalization would far outweigh annual aid budgets.

- **Countries that have liberalized have seen better growth performance than those countries that have closed off their economies.** The history of the former communist states is testimony to that. China and India are two countries that have liberalized at their own pace. Both have seen a remarkable growth performance in recent years, which has helped lift millions out of poverty. Outward orientation and the gradual relaxation of controls on domestic and international trade have played an important role.

- **It is true that some developing countries would make further big gains from trade only of developed countries reduced their subsidies.** However, just because industrial countries do not practice policies that are economically sensible and morally responsible, is no reason for developing countries not to do so.

- **Even if industrial countries do not reduce barriers to trade, there are substantial opportunities for liberalizing and expanding trade between developing countries themselves.** At present, most of the trade in the world occurs among industrial countries. Trade between developing countries remains an untapped
source of mutual benefit for developing countries.

SEE ALSO:
Market Access for Developing Country Exports IMF & World Bank (September 2002).

Critics’ Rebuttal

The mismatch between the question and the answer in the first paragraph is very interesting: the question is why the IMF advises trade liberalization to developing countries, even when industrial countries do not open their markets. The answer mentions studies that find “global welfare gains” can be obtained from reduction of barriers in both, developing and industrial countries. Even with such a scenario, the answer fails to explain how welfare gains would be distributed among countries.

The prediction of global welfare gains to justify support of trade liberalization is not new. The IMF’s policy “advice” to poor countries has long rested on those assumptions. In the last few years, however, the IMF, the World Bank and even the World Trade Organization have been forced to recognize that those gains did not happen as predicted. But the Fund’s statement suggests not only that it sees no reason to be held accountable for those mistakes, but also that it should and will continue to make the same discredited predictions, regardless of the likelihood that countries will reap the same disappointing results.

But the models on which the IMF relies in order to estimate gains from trade liberalization have come under heavy criticism. Prominent economists such as Dani Rodrik have concluded that “There is no convincing evidence that trade liberalization is predictably associated with subsequent economic growth.”

A basic problem with the models used by the IMF is that the underlying assumptions are unrealistic. These assumptions do not accord with historical realities of how developed countries industrialized, nor do they accord with the realities of developing countries, thus tending to downplay the negative effects of trade liberalization on their national production structures (levels of output, employment, degree of industrialization, wage levels and level of technology). For instance, a common assumption of the models is that competition from cheaper imports will induce local firms to be more competitive. Actually, history offers a great deal of evidence of developed countries that industrialized under high tariff and import protection (e.g. the US and the UK), and of countries that liberalized too fast and suffered de-industrialization and job losses. Many African countries fall in the latter category. Other misleading assumptions usually embedded in IMF models are that trade liberalization would lead to increased productivity; and that there is full employment.

As for the examples of India, China and other East Asian countries, ever since they managed to achieve high rates of growth, the Bretton Woods Institutions have tried to parade them as a case of successful IMF and World Bank-led trade liberalization. The side of the story that the IMF will not tell is that the limited number of countries that benefited from liberalization in promoting economic growth had been able to build up domestic productive capacity through strategic government intervention, before liberalization took place. The active pursuit of industrial plans was key for these countries to build physical, financial and human resource infrastructures that would enable them to take advantage of a source of mutual benefit for developing countries.

1 The global governance of trade as if development really mattered Dani Rodrik (July 2001) p. 11. See also Rigged rules and double standards Oxfam (2002) p. 130: “It would doubtless be possible to arrive at different results by changing these reference years and indicators. Any number of outcomes might emerge. In itself, this would suggest a case for extreme caution in interpreting results. But the strong suspicion emerges that reference years and countries have been carefully selected, and the interpretation of data presented, to produce a systematic bias in favor of a positive association between openness and growth.”
2 Kicking away the ladder Ha-Joon Chang, Anthem Press (2002).
carefully and flexibly sequenced liberalization, when it occurred. Instead of that, rapid and premature trade liberalization rather than liberalization at the borrowing countries’ “own pace,” is the standard in IMF policy advice. Moreover, IMF conditions have often further restricted the policy space enjoyed by borrowing countries in to hard negotiated obligations within the WTO.

The IMF says: It is true that some developing countries would make further big gains from trade only if developed countries reduced their subsidies. However, just because industrial countries do not practice policies that are economically sensible and morally responsible, is no reason for developing countries not to do so.

First of all, the assumption that developing countries would make big gains if rich countries reduced their subsidies is controversial and rests on dubious grounds. A whole category of subsidies is considered "non trade-distorting" and is not, thus, subject to reductions under the WTO regime. This has enabled developed countries to comply with their commitments in subsidy reductions by simply shifting from one to another category of subsidy support, with overall levels of support not only failing to go down but, in some cases, actually increasing.

The latter part of the response is a vivid display of the IMF’s hubris, as it takes on the roles of scientist and moral philosopher. The question of what is “economically sensible” is a relative one—it depends on the context one finds oneself in. If the most powerful players do not practice policies that ensure that markets for the products of developing countries are open, and the conditions for selling them at a convenient price are forthcoming, then it is certainly not “economically sensible” for them to open their markets. By claiming that certain policies simply are sensible, regardless of context, the IMF dons the mantle of hard science—claiming objective certainty—when in fact economics, dealing with contingent human behavior, is at best a social science. The claim to absolute knowledge in the realm of the social sciences can only be described as ideological dogmatism.

Even more striking is the “moral responsibility” claim, which suggests the IMF has found a new area of expertise, ethics, on which to advise country governments. It is hard to understand why, by refusing to prematurely open their markets to competition with heavily subsidized imports, developing country governments might be morally irresponsible to the populations that would suffer dislocation and de-industrialization as a result. Instead, moral irresponsibility characterizes the IMF advice that continues to push them in this direction.

SEE ALSO:


Does the IMF care about human rights?

IMF's Response

Yes, by supporting sound, transparent economic policies and encouraging governments to engage in a constructive dialogue with civil society, the IMF contributes to promoting economic human rights.

- Rule of law and transparency are important for creating a culture in which human rights are valued. Not only does greater transparency improve the environment for decision making, it also improves the ability of citizens to hold their leaders accountable. Deregulation of the economy (simplifying administrative procedures, eliminating red tape and waste) reduces opportunities for corruption and creates a level playing field for the citizens of a country, thereby promoting the civic rights of individuals.

- The participation of the poor in the development process is an important dimension of promoting the rights of the poor and vulnerable. It is also a key objective of poverty reduction strategies in low-income countries. For example, the poverty reduction strategy for Burkina Faso centers on economic security, health and food security, environmental security, and individual and political security. Other countries, including Nicaragua, Bolivia, Cambodia, Cameroon, Tanzania, Uganda, and Vietnam also place emphasis on human rights in their poverty reduction strategies. (For further information on countries’ poverty-reduction strategies, go to http://www.imf.org/external/np/prsp/prsp.asp.

• Other organizations, such as the UN High Commissioner for Human Rights, Amnesty International, and Human Rights Watch, are charged directly with defending human rights. The IMF’s mandate is to promote global financial stability and to reduce poverty, thereby contributing indirectly to advancing human rights.

See also:

The International Monetary Fund and Human Rights Sérgio Pereira Leite, Le Monde (September 4, 2001).

CRITICS’ REBUTTAL

The IMF cares more about investor rights than human rights. It fails to take into account the implication of its policy advice and conditionality on human rights.

• Rule of law and transparency are important for creating a culture in which human rights are valued. This is true, yet the IMF does not follow its own advice. The IMF itself is poorly governed. There is no transparency in decision-making, nor in the policies it insists upon from its client governments. Board meetings are closed, and minutes are not published. Seven shareholder countries control nearly 50 percent of the formal votes in the 183-member organization.

• Deregulation of the economy, as advised by the IMF, goes much deeper than eliminating red tape. Deregulation in the form of forced and rapid privatization has been shown to increase corruption. Reductions in public sector expenditures also open the door to petty corruption as civil servants wages stagnate. The IMF fails to take into account the impact of its conditions, advice and loans on people’s rights.

• The participation of the poor in the development process is an important dimension of promoting the rights of the poor and vulnerable. Unfortunately, the poor do not participate in the determination of IMF Poverty Reduction and Growth Facility loans. Even those organizations that are consulted in the process are usually invited only to speak to budget priorities and gauges of poverty, and are almost always excluded from discussions of macroeconomic policy (such trade and investment liberalisation). See WDM, Focus on the Global South, Results.

• Other organizations, such as the UN High Commissioner for Human Rights, Amnesty International, and Human Rights Watch, are charged directly with defending human rights. As an inter-governmental organization, the IMF is bound by obligations enshrined in international human rights covenants, and has a mandate to ensure it does not undermine or disable government’s abilities to realize their human right obligations.

SEE ALSO:
http://www.twinside.org.sg/title/experts.htm

http://www.unhchr.ch/Huridocda/Huridoca.nsf/e06a5300f90fa0238025668700518c4a/24cc2af22187550fc1256aa40058dbb8/$FILE/G0114801.pdf

http://www.hart.oxi.net/bookdetails.asp?id=512&bnd=0
50 Years Is Enough: U.S. Network for Global Economic Justice was founded in 1994, on the 50th anniversary of the creation of the IMF and World Bank. It brings together over 200 U.S. organizations dedicated to the fundamental transformation of those institutions.
www.50years.org

The Bretton Woods Project works as a networker, information-provider, media informant and watchdog to scrutinise and influence the World Bank and International Monetary Fund (IMF).
www.brettonwoodsproject.org

Through research, analysis, networking, public education and advocacy, the Center of Concern works to advance more just, sustainable and authentically human development for all, especially for the marginalized and those in poverty.
www.coc.org

Halifax Initiative is a coalition of Canadian development, environment, labour, human rights and faith groups that works to fundamentally transform the international financial system and its institutions to achieve poverty eradication, environmental sustainability and an equitable re-distribution of wealth.
www.halifaxinitiative.org

Reality Bites: A response to the IMF’s “Common Critisims: Some Responses”