An insider's look at the IMF

By Joe Lopez
15 April 2000

In the lead up to this weekend's quarterly meeting of the International Monetary Fund in Washington, a revealing article, written by a former leading official of the World Bank, has been published criticising the IMF's policies during the financial crisis in Asia and its record in Russia.

Joseph Stiglitz, currently a professor of economics at Stanford University, and chief economist at the World Bank from 1996 until November 1999, has provided an “insider's” view of the IMF in the latest edition of *The New Republic*.

With protestors gathering in Washington for this weekend's meeting, Stiglitz began by pointing to some of their main criticisms of the IMF.

“They'll say the IMF is arrogant. They'll say the IMF doesn't really listen to the developing countries it is supposed to help. They'll say the IMF is secretive and insulated from democratic accountability. They'll say the IMF's economic ‘remedies' often make things worse—turning slowdowns into recessions and recessions into depressions. And they'll have a point. I was chief economist at the World Bank from 1996 until last November, during the gravest global economic crisis in half a century. I saw how the IMF, in tandem with the US Treasury Department, responded. And I was appalled.”

According to Stiglitz, the seeds of the Asian crisis were planted in the early 1990s when, under pressure from the IMF and the US Treasury, countries in the region opened their capital markets leading to a flood of short-term capital and the creation of a real estate bubble followed by a rapid capital outflow when the bubble eventually burst.

Stiglitz was by no means critical of all the IMF measures. He maintained that austerity measures imposed on Latin American countries in the 1980s were correct as government deficits had blown out. In Asia, where most governments were already running budget surpluses, the situation was different. However, the IMF “barely blinked, delivering the same medicine to each ailing nation that showed up on its doorstep.”

“I thought this was a mistake. ... The problem was not imprudent government, as in Latin America; the problem was an imprudent private sector—all those bankers and borrowers for instance, which gambled on the real estate bubble.

“Under such circumstances, I feared, austerity measures would not revive the economies of East Asia—it would plunge them into recession or even depression. High interest rates might devastate highly indebted East Asian firms, causing more bankruptcies and defaults. Reduced government expenditures would only shrink the economy further.”

Stiglitz went on to describe his frustration as he sought to convince those in charge of the IMF that their policies were wrong.

“I shouldn't have been surprised,” he continued. “The IMF likes to go about its business without outsiders asking too many questions. In theory, the fund supports democratic institutions in the nations it assists. In practice, it undermines the democratic process by imposing policies. Officially, of course, the IMF doesn't ‘impose' anything. It ‘negotiates' the conditions for receiving aid. But all the power in the negotiations is on one side—the IMF's—and the fund rarely allows sufficient time for broad consensus-building or even widespread consultations with either parliaments or civil society. Sometimes the IMF dispenses with the pretense of openness altogether and negotiates secret covenants.”

Stiglitz is by no means an opponent of the profit system. In the final analysis his differences with the policies of the IMF are rooted in conflicts between different sections of global capital. The IMF in essence represents the interests of finance capital, both American and European. The concerns of layers such as Stiglitz are driven by the dangerous impact that rapid and increasingly speculative movements of finance capital are having and will have on economic growth and the economic and political stability of capitalism. These concerns were drawn out in his comments on the IMF's conduct in Indonesia.

“As the crisis spread to Indonesia, I became even more concerned. New research at the World Bank showed that recession in such an ethnically divided country could spark all kinds of social and political turmoil. So in late 1997, at a meeting of finance ministers and central bank governors in Kuala Lumpur, I issued a carefully prepared statement vetted by the World Bank: I suggested that the excessively contractionary monetary and fiscal program could lead to political and social turmoil in Indonesia. Again the IMF stood its ground. The funds managing director, Michael Camdessus, said there what he'd said in public: that East Asia simply had to grit it out as Mexico had. He went on to note that, for all the short term pain, Mexico had emerged from the experience stronger."

Stiglitz continued: "But this was an absurd analogy. Mexico hadn't recovered because the IMF forced it to strengthen its weak financial system, which remained weak years after the crisis. It recovered because of the surge of exports to the United States, which took off thanks to the US economic boom, and because of NAFTA. By contrast, Indonesia's main trading partner was Japan, which was then, and still remains, mired in the doldrums. Furthermore, Indonesia was far more politically and socially explosive than Mexico, with a much deeper history of ethnic strife. And renewed strife would produce massive capital flight (made easy by relaxed currency-flow restrictions encouraged by the IMF). But none of these arguments mattered. The IMF pressed ahead, demanding reductions in government spending. And so subsidies for basic necessities like food and fuel were eliminated at the very time when contractionary policies made the subsidies more desperately needed than ever."

In his analysis of the Russian crisis, Stiglitz's main criticism is that "shock therapy" imposed from the early 1990s simply created the conditions for the looting of the Russian economy.

"The rapid privatisation urged upon Moscow by the IMF and the Treasury Department had allowed a small group of oligarchs to gain control of state assets. The IMF and Treasury had rejiggered Russia's economic incentives, all right—but the wrong way. By paying insufficient attention to the institutional infrastructure that would allow a market economy to flourish—and by easing the flow of capital in and out of Russia—the IMF and Treasury had laid the groundwork for the oligarchs' plundering. While the government lacked the money to pay pensioners, the oligarchs were sending money by stripping assets and selling the country's precious national assets into Cypriot and Swiss bank accounts."

For Stiglitz, the IMF measures are the result of "wrong policies" and outmoded economic theories and models. He claims that IMF economists consist of third-rate graduates who would receive an F grade in a university test if they prescribed the policies actually carried out in Thailand.

Stiglitz himself is too much a product of the academic economic establishment and far too deeply committed to the profit system, for which most of "bourgeois economics" is an elaborate defence, to go beyond an "incompetence theory of history" and to seriously question the foundations of the capitalist economy. But he is nevertheless perceptive enough to at least acknowledge that the "wrong policies" always seem to end up serving the same interests.

Criticising the secrecy of the IMF and the US Treasury he posed the question: "To what extent did the IMF and the Treasury Department push policies that actually contributed to the increased global economic volatility? ... Were some of the IMF's harsh criticisms of East Asia intended to detract attention from the agency's own culpability? Most importantly, did America—and the IMF—push policies because they or we believed they would benefit financial interests in the United States and the advanced industrial world? And, if we believed our policies were helping East Asia, where was the evidence? As a participant in these debates, I got to see the evidence. There was none."

Stiglitz's article is something of a wake-up call to the leading representatives of global financial capital that the continued imposition of harsh austerity measures and the havoc caused by violent capital movements will have major consequences for the stability of the profit system and that some accommodation should be made to the issues raised by the protests.

He concluded with a warning that "if the people we entrust to manage the global economy—in the IMF and in the Treasury Department—don't begin a dialogue and take their criticisms to heart, things will continue to go very, very wrong. I've seen it happen."