

Supplement 10

The New York Times (April 24, 2009)
Op-Ed Contributor

First, Reform the I.M.F.

By MARK WEISBROT

The International Monetary Fund turns 65 this year. Until the current economic crisis, it had reduced its workload drastically to a near-retirement level — its total loan portfolio plummeted by 92 percent in four years. But like many senior citizens, the Fund has kept working past retirement age — and is now expanding its responsibilities.

The I.M.F. has a track record that seems to have been almost completely ignored in discussions of a proposed \$750 billion increase in its resources. Nearly 12 years ago, a financial crisis hit Thailand, South Korea, Indonesia, the Philippines and Malaysia. The word “contagion” became part of the financial reporting lexicon as the crisis spread to Russia, Brazil, Argentina and other countries.

The I.M.F.’s response was roundly criticized at the time. Jeffrey Sachs, then at the Harvard Institute for International Development, called the Fund “the Typhoid Mary of emerging markets, spreading recessions in country after country.”

In the Asian crisis, the I.M.F. failed to provide desperately needed foreign exchange when it was most needed; it then imposed policies that worsened the downturn. It did the same in Argentina, and lent tens of billions of dollars to prop up an unsustainable exchange rate, which inevitably collapsed along with a record sovereign debt default. After that experience, many middle-income countries piled up reserves so that they would never have to depend on the Fund again.

No one at the I.M.F. was held accountable for the mistakes that caused so much unnecessary unemployment, lost output and poverty. Nor were any major reforms introduced. The Fund has 185 member countries, but a handful of rich members — mostly the U.S., Europe and Japan — have a solid majority, and the U.S. Treasury is the Fund’s principal overseer.

The I.M.F. claims that it has changed. But a look at nine “standby arrangements” — its basic short-term loan agreement — negotiated since last September reveals some of the same mistakes it made in the last crisis. All the agreements provide for spending cuts, despite the I.M.F.’s avowed commitment to a worldwide fiscal stimulus.

El Salvador has signed an agreement with the I.M.F. that prevents it from using expansionary fiscal policy — as the United States is now doing — to counter a downturn. Since El Salvador uses the U.S. dollar as its currency, fiscal policy — increased spending or lower taxes — is practically the only tool it has to fight a recession that is practically inevitable as the U.S. economy continues to shrink.

Pakistan has agreed to significant spending cuts, as well as raising interest rates, despite negative demand shocks to the economy. Ukraine also has had to battle with the Fund over public spending cuts, despite the fact that G.D.P. is falling by 9 percent this year and the country has a low public debt.

These and other examples indicate that in spite of the world recession, the I.M.F. is willing to sacrifice employment, and increase poverty, in pursuit of other goals. A country can always reduce a trade deficit by shrinking its economy, since that causes households and businesses to import less.

The main purpose of I.M.F. lending in the current crisis should be to enable low- and middle-income countries to do more of what the rich countries are doing: adopt stimulus packages that counter the downturn. Most countries can do this if they do not run into balance-of-payments problems.

Governments should not commit more money to the I.M.F. without requiring that it revisit its recently negotiated agreements and adopt serious reforms that will require accountability and changes in policy.

Mark Weisbrot is codirector of the Center for Economic and Policy Research in Washington.