BRETTON WOODS project
Critical voices on the World Bank and IMF

The IMF

Conditionality and Power
or
Can the Leopard change its spots?

Tunis, 2 December, 2014

The Bretton Woods Project

- A networker, information-provider, media informant and watchdog to scrutinise and influence the World Bank and International Monetary Fund (IMF)
- London based NGO that works with groups around the world
- *Bretton Woods Observer* – quarterly critical on the IFIs
- *Bretton Woods Bulletin* – quarterly update on the IFIS

Understanding conditionality

1. How does the IMF work?
   History, governance, geopolitics and the voice of rising powers and poorest states
2. Conditionality – lending into crisis
   IMF model of reform: structural adjustment a thing of the past?
3. IMF - political or technical?
   Embedded ideology
4. IMF – history of resistance

History

- July 1944: Bretton Woods Conference in the United States
  - set the tone of international economic cooperation
  - Covered the IMF, IBRD, and trade (GATT/ITO)
- April 1945: Conference on the UN Charter
- December 1945: Signing of WB & IMF articles of agreement
- Key division: Finance ministers versus Foreign Ministers

IMF roles

- The IMF's current roles:
  - Surveillance – producing information, including on macro-financial linkages
  - **Crisis prevention and management (lending)**
  - Technical assistance
- Original purpose: overseeing fixed exchange rate system and gold standard (Bretton Woods System)
- **Criticised for excessive conditionality when lending to poor countries and not enough power over rich country policies**
- Historically pursued trade and financial liberalisation through its conditionality

Power & purpose

"They sit in judgement on governments, using their financial clout to influence economic policy in scores of developing countries"

The Economist, 1994

"The British returned from [the first WB/IMF annual meeting] feeling that the Fund and the Bank were little more than schemes of the United States to gain control over world trade."

Robert Oliver, Early Plans for a World Bank. Princeton Studies in International Finance, 29, 1971

IMF Governance (I)

- IMF executive board
  - Day-to-day oversight
  - 24 chairs, 8 (or 9) held by Europeans
  - Weighted voting, decision by “consensus”
- IMF management
  - European managing director
  - American 1st deputy managing director
  - Japanese 2nd deputy managing director
  - Chinese 3rd deputy managing director
  - 1 additional DMD from the rest of the world

IMF Governance (II)

- Executive board role:
  - signs off on all loans and conditions
  - reviews and comments on all staff reports
  - Public Information Notices (PINs) summarise board discussions and decisions
- Important to remember politics at the board:
  - colonial powers exert influence over programmes of their former colonies
  - "chilling effect" of developing countries unwilling to speak out

IMF Governance (III)

Big 5 countries

- USA – 16.75%
- Japan – 6.23%
- Germany – 5.81%
- UK– 4.29%
- France – 4.29%

- Each country represented by 1 Executive Director

Sub-Saharan Africa

- 44 countries
- 5.0% of votes

- 2 Executive Directors between them all

IMF Governance (IV)

Board votes in imbalance

- Netherlands – 6.7%
- Canada 3.7%
- Denmark – 3.5%

- China – 3.9%
- India – 2.9%
- Brazil – 2.7%

Changes in the last 6 years

- "Advanced economies" went from 61.9% to 57.8%
- African countries from 5.7% to 5.6%
- Board to become all elected
- But, 2010 changes still not implemented, US Congress will not approve them

IMF Governance reform

"… this reform process is crucial to ensuring the IMF's viability. Any modest result, which simply tinkers at the margins, would call into question the relevancy and the legitimacy of the Fund. Developing countries, or many among them, would go their own way, were the perception to arise that reform will not happen or that we will be left with a purely cosmetic reform. We will seek self insurance by building up high levels of international reserves, and we will participate in regional reserve-sharing pools and regional monetary institutions. *The fragmentation of the multilateral financial system, which is already emerging, will accelerate.*"

Brazil Finance Minister, Guido Mantega, April 2007

IMF Governance

- Deliberately Opaque
  - voting rarely occurs
- Real power expressed informally
  - Veto power expressed through tacit agreements
- One voice, many faces
  - All concrete decisions taken by board
  - Post-modern IMF has emerged (and learned lessons of the World Bank)

What is conditionality?

- Conditions attached to lending to countries suffering Balance of Payments require “adequate safeguards” to ensure money is repaid
- Loans come with conditions attached
- Imposed because IMF is Lender of Last Resort

Conditionality since 1980s: Structural Adjustment

- IMF began to expand its conditions to include policy prescriptions designed to adjust the structure of borrowers' economies

1)Stabilisation

2)Liberalisation

3)Deregulation

4)Privatisation

Loans

- Funding for lending to countries suffering Balance of Payments require “adequate safeguards” to ensure money is repaid
- Loans come with conditions attached
- Imposed because IMF is Lender of Last Resort – when there is nobody else to turn to

IMF – a reformed character

"Structural adjustment? That was before my time, I have no idea what it is. We don't do that anymore."

Christine Lagarde, April 2014

Really?


WORLD
ECONOMIC
FORUM

IMF = It's Mostly Fiscal (or used to be)

- 'Envelope' containing fiscal freedom within spending/deficit constraints
- For middle income countries, special focus on labour 'deregulation' and reducing public sectors
- Finance sector to open up and permit foreign penetration
- It's always the country's fault!

Changing times

- New instruments
- Less pressure for reform – on poorest
- New rhetoric
  - Role of women in economy
  - Problems of inequality
  - Excessive cuts (mainly in rich countries), or the ‘fiscal multiplier’ debate
  - Tax and stability: extractive industry

Changing, but how much?

- Lending driven by rich country interests
  - IMF the “junior partner” in Troika
- Many reforms very familiar:
  - Privatisation (if anything left to privatise)
  - Tax and subsidy reform: ↑VAT, ↓corp tax
    - Support to poorest via untested schemes
  - Labour deregulation
  - Social spending reductions

Changed? Some arguments

- IMF policy advice “continues to stress the importance of fiscal consolidation”
  - (Broome 2014, assessing four sample sets of countries with SBAs such as Tunisia’s)
- “The global financial crisis and the great recessions have not led to a ‘Berlin Wall’ moment for the IMF’s doctrine on fiscal policy” (Ban 2014)
- “Where change did occur, its causal generators could be found … in part in the emerging economic powers’ creative leveraging of institutional for a both within and outside the Fund” (Ban and Gallagher, 2014)

New IMF much like the old

- Still advocates cutting into crisis
  - IEO Nov report reveals 2010 reversal
- New fiscal expansionism only prelude to need for more fiscal consolidation in future (WEO 2012)
- Greece, Latvia, Spain, Ireland show fiscal adjustment via price and wage suppression preferred, pro-cyclical approach
- Capital Controls <u>not a regular tool</u> of macro policy

IMF changed, to be stronger

- 33 new agreements since 2010
- Surge in resources and demand for them
- IMF changes were about institutional survival/relevance (failed to foresee crisis) and need to address crises in rich countries and regions risking slowing global growth
  - IMF on its knees in 2006/7

Lessons to challenge IMF

- IMF is a political animal
- Advocacy & reform to conditionalities needs outside pressure to be heard
- IMF represents international powers but cooperates with local interests: especially financial and political elites
- Stopping conditionalities requires stopping the national government from being able to accept and implement

… back to the Leopard

“Si nous voulons que tout reste tel que c'est, il faut que tout change***”***

Le Guépard

Giovanni de Lampedusa
1958