The IMF: Shrink it or Sink it: A Consensus Declaration and Strategy Paper

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(The following document was collectively drafted over a period of two months by representatives of organizations that attended the "Strategy Session on the International Monetary Fund" at the Institute for Policy Studies in Washington, DC, on the occasion of the IMF-World Bank Spring meeting during the third week of April 2006. It is being circulated globally for endorsement in advance of the critical Fall meeting of the Bretton Woods institutions that will be held in Singapore on Sept. 13-20, 2006. The document, with its list of endorsers, will be presented to governments attending the meeting. It is meant as the opening salvo of a global campaign, the other elements of which are a conference on the future of the Fund in Singapore on Sept. 17 and alternative events in nearby Batam, Indonesia, on Sept. 15-19.

Initial endorsers: Institute for Policy Studies; Sisters of the Holy Cross Congregation Justice Committee; Focus on the Global South; Jubilee South; 50 Years is Enough; Gender Action; Nicaragua-US Friendship Office; Solidarity Africa Network; Development Gap; Citizens' Action for Essential Services; Intercultural Resources-Lokayan; Jerry Mander, co-director, International Forum on Globalization.)

The International Monetary Fund is perhaps at its most vulnerable state in years. It is suffering a triple crisis--a crisis of legitimacy, a budget crisis, and a role crisis--that is unparalleled in its 62 years of existence. These circumstances provide critics of the Fund with an opportunity to radically shrink, disempower, if not decommission it altogether. If not seized, this opportunity can slip by, and circumstances might come together to reinvigorate and save the Fund.

Ten years ago, the Fund was flying high, arrogant in its belief that it knew what was best for developing countries. Today, the Fund is an institution under siege, hiding behind its four walls in Washington, DC, unable to mount an effective response to its growing numbers of critics.

Crisis of Legitimacy

The Fund's reversal of fortune stems mainly from the Asian financial crisis, which brought down the famed tiger economies in the summer and fall of 1997. The Asian crisis was the "Stalingrad" of the IMF, and it never really recovered from it. As Dennis de Tray, a former IMF official who was serving with the World Bank in Jakarta at the time of the crisis, put it, "Fund lost its legitimacy then, and it never recovered it."[i]

The Fund suffered three devastating hits during the crisis. First, it was seen as being responsible for the policy of eliminating capital controls that many of the governments of East Asia followed in the years preceding the crisis. This policy of capital account liberalization did attract billions of dollars of speculative capital in the years from 1993 to 1997, but it also ensured that there would be no barriers to the outflow of capital during the panic in the summer of 1997, when about $100 billion left the economies of Indonesia, Philippines, Thailand, Malaysia, and South Korea in a few short weeks.

The second hit was the widespread perception that the multibillion rescue packages assembled by the IMF for the afflicted countries did not actually go to rescuing the economies but to pay off foreign creditors and speculative investors. Citibank, for instance, though heavily overexposed in Asia, did not lose a cent in the crisis. This scandalous development led to strong criticism of the IMF, even from free-market partisans such as George Shultz, former Secretary of State under Richard Nixon, who said that the Fund was encouraging "moral hazard" and should therefore be abolished.

The third blow to the Fund sprang from the results of the stabilization programs it pushed on the crisis economies. With their wrongheaded emphasis on cutting back on government spending in order to fight inflation, these programs actually

accelerated the descent of these economies into recession.

The Asian financial debacle gave impetus to an ongoing review of the structural adjustment programs that the Fund, along with the World Bank, had imposed on over 90 developing and transition economies since 1980. Few of these had succeeded in bringing about the growth, reduction in inequality, and decrease in poverty that the countries undertaking these programs had been promised. Indeed, IMF "shock therapy" programs in Russia and Eastern Europe added millions of people to the poverty rolls in the 1990s.[ii] So dismal were the results that the Fund's extended structural adjustment program had to be renamed the "poverty reduction and growth facility."

Then, in 2002, with the Fund still reeling from the Asian financial crisis, Argentina collapsed, defaulting on $100 billion of its $140 billion foreign debt. Perhaps more than any other country in the world, Argentina had followed to a "t" the neoliberal prescriptions of the IMF, including radical deregulation, radical tariff liberalization, and financial liberalization. The Fund was also the strongest supporter of Argentina's currency board, which tied the supply of pesos, Argentina's currency, to the dollars in circulation in the country. When this mix of policies unraveled in 2001 and 2002, so did the IMF's credibility since it had thrown in billions of dollars in stabilization loans in support of them.

The aftermath of the crisis was even more damaging. When Nestor Kirchner was elected president of Argentina in 2003, he declared that his government would repay its debt to private creditors, but only at 25 cents to the dollar. Enraged creditors told the IMF to discipline Kirchner, but, with its reputation in tatters and its leverage eroded, the Fund backed off from confronting the Argentine president, who got away with the radical write-down of Argentina's debt to the international private sector.[iii]

With another set of actors - developing country governments - Argentina's next move, along with Brazil, shattered the Fund's image of being an indispensable lender of last resort: Both governments paid off their all their debts to the Fund, enabling them to declare independence from an institution that is much hated in Latin America.

Budget Crisis

The crisis of legitimacy has had financial consequences. In 2003, the Thai government declared it had paid off most of its debt from the IMF and said it would soon be financially independent of the organization. Indonesia ended its loan agreement with the Fund in 2003 and recently announced its intention to repay its multibillion dollar debt in two years.[iv] A number of other big borrowers in Asia, mindful of the devastating consequences of IMF-imposed policies, have refrained from new borrowings from the Fund. These include the Philippines, India, and China. Now, this trend has been reinforced by the recent moves of Brazil and Argentina, which, in paying off all their debts and declaring financial sovereignty, have implicitly asserted that they do not want to borrow again.

What is, in effect, a boycott on the part of its biggest borrowers is translating into a budget crisis since over the last two decades the IMF's operations have been increasingly funded from loan repayments by its developing country clients rather than from the contributions of wealthy Northern governments, which deliberately shifted the burden of sustaining the institution to the borrowers. The upshot of these developments is that payments of charges and interests, according to Fund projections, will be cut by more than half, from $3.19 billion in 2005 to $1.39 billion, in 2006 and again by half, to $635 million in 2009, creating what Ngaire Woods, an Oxford University specialist on the Fund, described as "a huge squeeze on the budget of the organization."[v]

Role Crisis

The erosion of the Fund's role as a disciplinarian of debt-ridden countries and an enforcer of structural adjustment has been accompanied by a futile search to find a new role.

An attempt by the Group of Seven to make the Fund a central piece of a new "global financial architecture" by putting it in charge of a "contingency credit line" to which countries about to enter a financial crisis would have access if they fulfilled IMF-approved macroeconomic conditions fizzled out when it was pointed out that the spectacle of a government seeking access to the credit line could itself trigger the financial panic that the government sought to avert.

A proposal to set up an IMF-managed "Sovereign Debt Restructuring Mechanism"-an international version of a Chapter 11 bankruptcy mechanism that would provide countries protection from creditors while they came out with a restructuring plan-collapsed owing to objections from South countries that it was too weak and opposition from the US, which feared it would curtail US banks' freedom of operations.

At the recent 2006 spring meeting of the IMF, the Fund was tasked to monitor relations among countries associated with global macroeconomic imbalances-that is massive trade surpluses or trade deficits-but the mandate was extremely vague. If anything, this reflected the desperation of the G 8 countries in searching for a role for an international economic bureaucracy that had become obsolete and irrelevant.

Why We Must Act Now

The current moment, when the IMF is most vulnerable owing to its triple crisis, is the most opportune time to launch a campaign to disempower it-to "shrink," if not decommission it.

Three factors are present which could work in favor of success in this campaign.

First, as noted above, the Fund's major developing country clients are fed up and with it and want out.

Second, the US elite is, more than ever, divided on the Fund, with a significant number of conservatives wanting to shut it down. The last time the Fund's financial resources came up for replenishment at the US Congress in 1998, the measure barely squeaked through. It is doubtful that a replenishment measure would pass today.

Third, the US and key European countries have had major differences in their policies towards the IMF. Key European governments, for instance, wanted to use the IMF to get Argentina to pay off the mainly European bondholders. The Bush administration, on the other hand, was cool to the idea, anxious to prevent Fund resources from bailing out European speculators.[vi] In another recent expression of divergence, the European governments were positive towards setting up the IMF-managed Sovereign Debt Restructuring Mechanism; the US torpedoed it.

In short, the three pillars on which the Fund stood for over sixty years-a belief in its indispensability on the part of developing countries, an "internationalist consensus" among the US elite, and the "transatlantic consensus" among the European and US elites-have been eroded significantly, opening up real possibilities for a global civil society campaign to disempower or decommission the Fund.

An Indispensable Lender of Last Resort?

While an increasing number of individuals and groups working on the IMF agree on its increasing dysfunctionality, there are some that are hesitant to call for putting it out of business owing to their feeling that there is still a need for a "lender of last resort" for developing countries.[vii]

This is no longer a viable role for the IMF.

For many Asian countries, a regional institution, which understands the complexities of a region better than the Fund and which would thus be less indiscriminate in imposing conditionalities, is the answer. The Asian Monetary Fund (AMF) that was vetoed by Washington and the IMF during the Asian financial crisis would have filled this role. Indeed, with the "ASEAN Plus Three" arrangement, the East Asian countries may now be moving in the direction of setting up such a regional financial grouping.

There is also movement in Latin America towards a regional institution that would have as one of its functions serving as a source of capital and as a lender of last resort: the Bolivarian Alternative for the Americas (ALBA), pushed by Venezuela, Bolivia, and Cuba.

But, one objection goes: East Asia and Latin America have significant capital resources to serve as a pool for a regional lender of last resort. But what about capital-poor Africa? This is the concern that has made many African governments reluctant to distance themselves from the Fund.

First of all, the principal need in Subsaharan Africa, as for most countries of the South, is genuine debt cancellation without external conditionalities, not the bogus HIPC ("highly indebted poor country") laced with IMF -style conditionalities. This would include the African countries' debt to the IMF, which the Fund has stubbornly opposed, though it grudgingly agreed recently to cancel the debt owed to it by 19 HIPC countries. As for the issue of who would serve as lender of last resort for Africa, this is important, but the IMF's awful record of bad advice and bad policies in this area hardly qualifies it to continue to serve this role.[viii] As one specialist has noted, not only is Africa becoming the refuge of policies that have failed elsewhere, but they are being implemented by Fund staff that are either less experienced or of lower caliber.[ix]

Instead of relying on the IMF, African governments could possibly draw on the cooperation of relatively capital-rich developing countries such as China, Venezuela, India, and South Africa to set up a regional institution that would serve as a lender of last resort However, learning from their experience with the North and the IMF, they should insist on equitable, no-strings-attached arrangements with these governments, which will not be easy, since some of them are just as exploitative as Northern interests.

But Africans have no choice but to gain control of the resources of their rich continent - through debt cancellation or repudiation, or through alliances with potential sympathetic allies in Venezuela and others who have already cut their ties to the Fund - and mobilize these resources for development instead of allowing them to hemorrhage out of Africa in the form of massive debt repayments to the big creditors, the World Bank, and the IMF.

The Consequences of Letting the Moment Slip by

The IMF is currently down and out, but its capacity to bounce back must not be underestimated. As yet unforeseen circumstances may push the US and the European countries to reconstitute a united front to revive the agency. Or the US may keep it on life-support to serve as de facto arm of Washington's unilateral policies, for instance, to discipline China into revaluing the renminbi to solve the US's balance of trade problem.

In other words, we do not have the luxury of being able to stand by and enjoy the sight of the Fund writhing in agony. We must assist in delivering it to the fate it richly deserves.

Campaign Demands and Activities

To achieve the strategic goal of disempowering the IMF, the Campaign should urge South country governments not to enter into new loan agreements with the Fund.

The Campaign should also urge governments to unilaterally repudiate debts claimed by the Fund.

We should ask countries on bogus or ineffective debt-relief schemes like HIPC, which are supervised by the IMF and the World Bank, to leave these programs altogether.

Similarly, the Campaign should ask governments on Poverty Reduction Strategy Programs (PRSPs) to dispense with the advisory and management services of the Fund and Bank and review the commitments they have made under these programs, if not abandon them unilaterally. Systematic exposure of the negative impact of Fund and Bank conditionalities on production, jobs, wages, income, gender equality, public health, public services, and the environment will be a critical task. The IMF's Poverty Reduction and Growth Facility seems especially vulnerable at this point, and a focused campaign to shut it down stands a chance of success, which could then build momentum for other initiatives.

Congressional or parliamentary oversight and budgetary provisions and practices should be used to call hearings and

conduct audits on the IMF in the US, Europe, Japan, and South countries. Withdrawal of membership from the IMF might be an issue that can be floated to attract both official and civil society interest. Holding a forum on this issue in a lead country, for instance, Argentina, could trigger similar fora in other countries. This could be coupled with the holding of civil society referenda on continued membership in the IMF, such as the exemplary one conducted on Brazil's membership in the Free Trade of the Americas in 2002. Indeed, where the possibility of victory is present, we can push for parliaments to take a vote on whether or not to withdraw from the IMF.

A major conference on alternatives to the IMF on the issue of lender of last resort should be organized for 2007, with comprehensive research work undertaken this year in preparation for this event. As a curtain raiser for this conference, the Campaign will sponsor a day-long seminar on alternatives to the Fund in Singapore during the fall meeting of the IMF-World Bank in September of this year.

A central operational principle of the campaign is to provide different participating organizations with the opportunity to join the campaign at their "comfort level." Some governments and organizations, for instance, may not yet be prepared to endorse a call to withdraw from the IMF but may be willing to withdraw from a PRSP or call for the shutting down of the PRGF.

The Challenge before Us

In his classic work, The Structure of Scientific Revolutions, Thomas Kuhn showed how paradigms evolve from frameworks that trigger a quantum leap in knowledge to hindrances to further advance in science. Similarly, the IMF transmogrified from a vital institution contributing to global growth and stability in the two decades following the Second World War to an 800-pound gorilla blocking the route to sustainable development for the billions of the world's poor in the last three decades. Had this obsolete institution been terminated during its 50th year in 1994,

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- 22 million Indonesians and one million Thais would have been saved from falling under the poverty line owing to the capital account liberalization policies it had imposed on the East Asian countries;

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- Argentina, the poster boy of IMF-style neoliberalism, would have been saved from the tragedy of having over half of its people unemployed and living in poverty;

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- Thousands of people in Malawi would have been saved from the starvation and malnutrition that stemmed from the IMF's forcing Malawi to "commercialize" its food procurement and stabilization agency, a move that led to its bankruptcy.

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- 100 million people in Russia and Eastern Europe would not have had a free fall into poverty courtesy of IMF shock therapy programs.

Global economic governance is important, but it is a system in which the Fund as it is currently configured no longer has any positive role to play. The Fund's assuming stabilizing functions in a volatile world of unregulated global finance has been consistently torpedoed by its strongest member, the United States, while its serving as a lender of last resort has been systematically undermined by the conditionalities it imposes on its borrowers, which have exacerbated poverty and inequality and institutionalized economic stagnation.

Disempowering the Fund will not lead to global financial and fiscal chaos, as Wall Street would have us believe. On the contrary, disempowering the Fund is a conditio sine qua non for the creation of a truly just, rational and effective system of global financial governance. IMF conditionalities doom developing countries to crises and deeper poverty. IMF "rescue" programs do nothing except rescue the big creditors while saddling people with recessionary stabilization programs. The IMF, indeed, has no interest in curbing the power of the global speculators, and so long as it remains in a position of power, blocking genuine global financial reform at the behest of Wall Street, there will be more financial crises, more insecurity for people, and less accountability on the part of finance capital.

Like old nuclear reactors, the IMF is dangerous and, many argue, must be retired. The optimum solution to the problems posed by such Jurassic institutions is to decommission them. But if this is not yet possible at this point in the case of the Fund, then its power to do harm and its reach must be drastically curtailed.

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[i] Comments at lunch seminar on the IMF and the World Bank, Carnegie Endowment for International Peace, Washington, DC, April 21, 2006.

[ii] United Nations Development Program (UNDP), Human Development Report (New York: Oxford University Press, 2003), pp. 33-65.

[iii] Kirchner, however, continued to pay Argentina's debt to the Fund in full.

[iv] "President Says IMF Debt to be Repaid in Two Years," Jakarta Post, May 26, 2006.

[v] Ngaire Woods, "The Globalizers in Search of a Future: Four Reasons why the IMF and World Bank Must Change, and Four Ways they can," CDG (Center for Global Development) Brief, April 2006, 2.

[vi] See Walden Bello, "Synthesis Report on the E Forum on International Regulation," Focus on the Global South and Pacific Action Research Center, Hong Kong, December 2005.

[vii] See George Soros, On Globalization (New York: Public Affairs, 2002).

[viii] See Ngaire Woods, The Globalizers: the IMF, the World Bank, and their Borrowers (Ithaca: Cornell University Press, 2006), pp. 141-178.

[ix] Woods, comments at lunch seminar on the IMF and the World Bank, Carnegie Endowment for International Peace, Washington, DC, April 21, 2006.

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