Lifeline or death-knell: what will the IMF offer?

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In with the old

Leaders of the world's richest countries at the G20 summit in London in April 2009 were resolute: if the global economic meltdown is to be reversed, the management of international finance must change.

No longer can governments afford to be complacent about the lack of market regulation. Credit, once available on tap, needs checks and balances, and probity must guide the pursuit of growth.

In their public utterances several leaders distanced themselves from a school of financial thought considered until recently by many to be sacrosanct.

Known as the Washington Consensus, its devotees have for several decades preached a formula for economic success based on deregulation, privatisation, the liberalisation of the trade and financial markets, and lower corporate taxes.

UK Prime Minister Gordon Brown was the most outspoken critic: 'The Washington Consensus is over… the old world has gone,' he said. 'We have got to build a new consensus on economic development for the future, and we have got to send the message to every country that doing nothing is not an option.'

US President Barack Obama, acknowledging that the Washington Consensus had enjoyed the support of some of America's leading economists and policymakers, admitted: 'We just went through a couple of decades where there was an artificial complacency about the dangers of markets going off the rails.'

The market was the most effective mechanism for creating wealth and distributing resources, he said, but 'if it's completely unregulated… it can end up in a very bad place.'

In the face of such sentiments, it would be reasonable to assume that the Washington Consensus would by now be consigned to oblivion. Reports of its demise, however, may be much exaggerated.

For the tool that the G20 has chosen to bring about reform is the International Monetary Fund, for many years a leading exponent of the Washington Consensus, forcing its edicts on many of the world's poorest countries.

Its determination to instil the orthodoxy in those seeking its help leaves the IMF today standing accused of systematically prioritising deregulation in developing countries at the expense of the poor and vulnerable.

New research commissioned by Christian Aid reveals how in sub-Saharan Africa the IMF has stuck to a uniform set of recommendations for countries in which it has intervened, more or less regardless of the specifics of their economies.

Based on naïve and inappropriate assumptions, these recommendations have in many cases precipitated stagnation rather than salvation.

The IMF's dismal record, however, was held to be of little or no account by the G20. Instead, it received a massive vote of confidence in the form of the trebling of its resources, ostensibly to help countries most vulnerable to the economic crisis.

The ironies of the situation abound. The present economic meltdown is the direct result of excessive financial-market deregulation, and above all of the liberalisation of international financial flows[1] – policies the IMF has systematically pushed, particularly in the developing world, for the past 30 years.[2]

The world's rich economies have responded to the crisis with massive bail-outs of their banking system and increasingly their industries; the IMF has historically sought to prevent any such measures being taken by poorer countries facing similar difficulties.[3]

The question that must now be asked is, what strings will the IMF attach to the largesse it dispenses? Will it learn from the lessons of the past, or is it beyond reform?

One rule for the rich…

The boosting of the IMF's resources by US$500bn, largely made up of loans from a number of G20 countries, will give it US$750bn to lend to crisis-hit middle- and low-income countries.

It can also issue up to US$250bn of special drawing rights (SDRs) from an international reserve. In addition, the G20 said US$1bn could be made available from the sale of IMF gold reserves to help low-income countries. Campaigners led by Bob Geldof say US$5bn should be raised specifically for African countries.

With its new-found wealth, the IMF has seen its profile exalted, unconditionally, despite its close association with the *laissez-faire* 'growth not redistribution' emphasis of the Washington Consensus.

This unconditional exaltation is both surprising and alarming. Surprising, because prior to the financial crisis, there was unanimity among rich and poor countries alike that the IMF needed to be overhauled as it was failing in its core tasks of effective surveillance and crisis prevention.

Its decision-making structures have also been criticised for singularly failing to give developing countries an effective voice.

The exaltation is also alarming because, without reforming the IMF's current practices – a history of bias in favour of orthodox liberalisation, deregulation, and pro-cyclical (boom and bust) fiscal and monetary policies – giving it more resources could do more harm than good to those it is intended to help.

Moreover, since the financial crisis broke, the IMF has shown through pronouncements and deed that it has not jettisoned the duplicity that has characterised its activities: one set of policies for the rich and another for the poor.

This was manifest recently when EU governments received the blessing of IMF Managing Director Dominique Strauss-Kahn when they wanted to help viable institutions with capital injections and the absorption of bad debts.

In contrast, Turkey recently suspended negotiations with the IMF about a rescue loan because of demands it faced over government spending and tax. However, talks have resumed after the IMF indicated it would place less emphasis on evaluating a borrower's 'structural performance' – another term for measures such as spending cuts.[4]

In its 2009 World Economic Situation and Prospects report, the United Nations Conference on Trade and Development (UNCTAD) expressed concerns that the IMF remains locked in a pro-cyclical fiscal and monetary policy mode.

When it comes to Africa, it seems the IMF's language remains rooted in old, discredited policies.

Speaking at a recent African Union summit, IMF Deputy Managing Director Takatoshi Kato said it was crucial that all countries in the region protected 'hard-won improvements in economic fundamentals'.

These he listed as 'more sustainable debt levels, lower inflation, liberalised trade and structural reforms that enabled the first period of sustained growth in the region in decades'.

Rich countries, however, have committed to cutting interest rates dramatically and printing and spending an enormous amount of money to stave off the threat of serious recession – even at the risk of inflation and high debt.

IMF blandishments on behalf of the G20 against the world's poorest countries following suit will have a distinctly hollow ring.

Taxing development?

The IMF has a history of imposing 'orthodox' policies on low-income countries that limit the ability of governments to address broader development goals. One area of analysis that has been largely neglected is the influence it has on tax policy.

Tax is increasingly recognised as of fundamental importance to development. Not only are the revenues required for social spending and investment, giving poorer citizens a greater share in the country's wealth; tax is also the core link between a state and its citizens.[5]

Academic research demonstrates the importance of the role tax plays in precipitating the emergence of effective political representation, and in persuading states to respond to their citizens' demands.[6]

New research commissioned by Christian Aid examines the recommendations the IMF has made on tax over more than a decade in 18 sub-Saharan African countries.

In compiling a unique data set of the recommendations made, economist John Marshall shows how the IMF systematically emphasised reductions in corporate and trade taxes and the expansion of VAT.

This was despite the likelihood that these measures would widen the gap between the haves and the have-nots, and despite the fact that IMF researchers had already warned that such measures result in far lower revenues in low-income countries.[7]

In addition, says Marshall: 'Looking at how little policy recommendations differ across time and country reveals that many of the central tenets of the tax consensus are uniformly promoted by the IMF regardless of important country-specific characteristics. Consequently, many countries are failing to realise the critical economic, social and political benefits associated with effective and inclusive taxation.'[8]

Conclusions

While there is some evidence that IMF policy advice has improved in recent years, grave questions still remain over its suitability as a tool for helping the world's poorest countries.

The IMF is now entrusted with a huge task; donors must monitor its activities rigorously to ensure that it provides the necessary support without imposing damaging conditions.

The G20 mandate is an opportunity for the IMF to position itself as a champion of best practice in developing countries – but before that can happen, it must fundamentally reappraise the policies it has hitherto pushed.

The need for reform is urgent. Without that reform, the funds it has at its disposal will end up in reserve holdings or as debt repayments rather than assets in the war against poverty.

If the IMF is to play a meaningful role in countering the economic crisis, it must be seen to embrace greater financial transparency as a means of promoting stability, the expansion of real investments and the minimisation of tax avoidance.

In addition, it must review the tax policy advice and technical assistance it gives to poor countries. That is essential if such countries are to be able to access adequate financial resources in order to build stable economies and help the poorest in their societies.

The challenge is immediate. It cannot be met by harking back to policies that have been found wanting.

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1 *The Morning After the Night Before: the Impact of the Financial Crisis on the Developing World*, Christian Aid, 2008.
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3 Joseph E Stiglitz, *Globalisation and its Discontents*, W W Norton 2002.
4 'Known for tight spending, IMF may have to loosen reins after G-20 windfall', *New York Times*, April 4, 2009, www.nytimes.com/2009/04/05/world/05imf.html?ref=business
5 *Death and Taxes: the True Toll of Tax Dodging*, Christian Aid, 2008.
6 D Brautigam, O H Fjeldstad and M Moore (editors), *Taxation and State-Building in Developing Countries: Capacity and Consent*, Cambridge University Press, 2008.
7 T Baunsgaard and M Keen, *Tax Revenue and (or?) Trade Liberalization*, Working Paper WP/05/112, International Monetary Fund, 2005.
8 J Marshall, *One Size Fits All? IMF Tax Policy in Sub-Saharan Africa*, Christian Aid Occasional Paper No. 2, 2009.