

CHANGES AND CONTINUITIES IN THE ROLE OF THE IMF: AN ASSESSMENT

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1 – INTRODUCTION

In 1944, under the main lead of the United States, the International Monetary Fund (IMF) was created. The basic aim of this new institution was presiding a virtually fixed international exchange system. The Western powers, victorious after the Second World War, believed that the world economy could prosper based on international trade growth, for which it was important to go beyond protectionist policies. The creation of GATT (General Agreement on Tariffs and Trade) in 1947, the proposal for the creation of the ITO (International Trade Organization) having failed, should put an end to this, providing tariff rate cuttings in all member states. On the other hand, the IMF would grant loans to the countries with occasional difficulties in the balance of payments, in order to prevent exchange devaluations from being used by governments to maintain the desired export levels. Making a profit in the international trade based on exchange devaluations (a very common practice before the 1939 War) was regarded as unfair competition and an undesirable disruptive element in the economic order.

The truth is, however, that the IMF itself and other international organizations (such as the World Bank) ended up being used as pawns in a geopolitical game, where the most powerful players were the wealthiest countries. That game was (and still is) one in which rich and powerful countries are in constant movement in order to subordinate, politically as well as financially, poor countries or countries with an increasing financial or political development.

As from 1944, several factors have affected the role played by the IMF in international financial relations geopolitics. This report briefly outlines and assesses the main changes – some of which are currently occurring – undergone by the role of the IMF as a political instrument with influence over international financial relations.

2 – INITIAL ADAPTATIONS

According to the Fund's Articles of Agreement, the institution should place resources at its members' disposal, "giving them the opportunity to adjust the disequilibrium in their balances of payments without resorting to measures that might be pernicious for national or international prosperity" [1]. There were no provisions for interferences in the states' internal policies. As from 1952, however, the IMF started to enter into the so-called 'standby agreements' [2]. By virtue of these, the IMF began to earmark resources for those

countries which followed its 'advice'. This was the first example of geopolitical use of the IMF, since the institution was not (and is not) controlled by member states holding equal voting power. Therefore, following the Fund's advice meant, in practice, following the most powerful members' advice. And this aimed, in short, at entangling poor countries in deeper financial straits to rich countries' advantage.

After that first phase, when the IMF was making use of standby agreements, the institution underwent further adaptations. In the face of the first deficit sustained in a hundred years, President Richard Nixon decided to close the Gold Window in 1971, which led to an exchange fluctuation trend. This, in a way, prevented the IMF from operating effectively – as an institution that should aim at keeping exchange rates steady, which is not compatible with an exchange fluctuation environment.

Attempting to prevent excessive exchange fluctuations, rich countries' governments did not reform the IMF, did not agree on IMF new rules, but started to hold separate meetings instead, combining strategies with one another to coordinate measures concerning the exchange area. This was one of the main reasons for the beginning of the G3, G5, G6 and G7 meetings. Two significant meetings of rich governments for the coordination of exchange rate policies took place at the luxurious Plaza Hotel in New York (in 1985) and at the Louvre, in Paris (in 1987).

With those initiatives by rich and powerful governments to agree – at luxurious and closed-door meetings (the one held at the Plaza had indeed a secret character) – on exchange rate policies (generally implemented through coordinated dealings between central banks), the IMF was practically left without a significant role to play regarding international financial relationships. Over the long term, nonetheless, the IMF managed to create several mechanisms in an attempt to legitimate its existence. In this process, the Fund was no more than an instrument in the political game on which powerful countries exercise their influence so as to favor policies that serve their own geopolitical interests and those of the big privately-owned economic groups which they support. This being to the detriment of peoples' well-being, and the fair and environmentally sustainable development. And for its staff the IMF is, obviously, a source of high salaries and very advantageous pensions, which accounts for their fighting in favor of the continuity of the institution.

3 – OTHER ADAPTATIONS

One of the mechanisms created by the IMF, back in the 1970s, in an attempt to legitimate its existence after the closing of the Gold Window had been decreed, was what they called 'Extended Fund Facility' (EFF), created in 1974 [3]. Through that credit modality, the IMF offered longer-period loans to countries that needed 'fundamental economy restructuring'. This meant that, in order to be granted an EFF loan, a country would have to submit a (generally) 3-year 'structural adjustment plan', thus consolidating further interference than was possible under standby agreements, which (typically) had a one-year cycle, with quarterly repayments, being of assistance in the balance of payments short-term crises.

Nevertheless, the element that most contributed to IMF legitimation before rich countries was the role played by this institution in the context of the 1980s debt crisis. As it is widely known, the oil-producing countries (politically organized in the Organization of the Petroleum Exporting Countries – OPEC) had attempted to change the game of international trade, agreeing on price rises in 1973 and 1979. This resulted in these countries' accumulating reserves in dollars, which were then deposited in banks with a multinational presence. Such banks, in turn, recycled those resources in the manner of loans to developing countries. The debt crisis exploded in 1979 with the dramatic rise in the American interest rate, under the US central bank which acted in defense of their currency, affecting all those who had debts in dollars. In short, the debt was greatly increased which resulted in a considerable 'drain on debtor countries' resources, stemming from an unilateral act (an interest rate increase by the US).

In 1982, Mexico announced they could not pay their increased debt. In order to deal with indebted nations and those in financial straits, as in the case of Mexico, the IMF and the World Bank started to put into practice the 'Structural Adjustment Programmes', which correspond to a set of reforms called the 'Washington Consensus', access to credit becoming conditional on their implementation. But, as it is widely known, such adjustments only benefited creditors, not debtor states. That is to say: they did not foster the debtor countries' growth; what is worse, they made their situation more difficult.

Argentina is an example of this: it followed the outline of reforms contained in the Structural Adjustment Programmes and ended up in a serious economic crisis, which it could only overcome after refusing to pay its debts, and standing up to the IMF and World Bank and challenging other external creditors' interests. It was categorically refusing IMF's demands (even temporarily refusing to make repayments to the institution and other creditors, and refusing to increase interest rates, reduce public expenditure, and increase public services tariffs) that Argentina experienced a radical change and became the fastest-growing country in the continent.

During the 1980s, the IMF managed to acquire yet another power resource, besides the conditionalities imposed through standby agreements, the EFF and the Structural Adjustment Programmes. This new resource was the authority it ended up conferring on itself to act as a 'rating super-agency', informing international capitals on the 'good' or 'bad' conduct of developing countries dependent on external capitals. Thus, the IMF also became the *de-facto* leader of a true international creditor/investor cartel.

After the fall of the Berlin Wall in 1989, and throughout the 1990s, the IMF also managed to grant itself a role in managing programmes that facilitated the restructuring of controlled economies to the market system. Moreover, it sought to influence policies in Asian countries where it ended up contributing, in fact, to the 1997 Asian crisis. The IMF was highly criticized on account of the bad advice given to Asian countries, but it saw a fresh chance to try and reassert its legitimacy when, at a G8 meeting held in mid-2005, rich countries – in response to pressures, even from the civil society – announced their support for the 100 per cent cancellation of debts incurred by 19 African and Latin American states [4] to the IMF and the World Bank

4 – RECENT DEVELOPMENTS

4.1 – Policy Support Instrument

Before late 2005, attempting to seize the opportunity to legitimize itself through a significant participation in the debt cancellation initiative, the IMF proposed the creation of a new credit modality they called ‘Policy Support Instrument’ (PSI). In October 2005, the IMF announced a pilot PSI for Nigeria.

This new instrument actually enables the Fund to continue directly influencing developing states’ policies, since it imposes external control mechanisms. According to the IMF itself, Nigeria’s PSI will help “develop a distinct and safe public policy structure, strengthen institutions, and secure a governance structure conducive to private sector activities” [5]. In other words, this is a programme (ill)disguised as in-depth structural adjustment, which favors the opening and expansion of new markets to private companies’ advantage.

By recently passing the G8’s proposal to cancel poor debtor countries’ debts, which resulted in the ‘Multilateral Debt Relief Initiative’ (MDRI), the IMF is clearly seeking further ways of self-legitimation - retaining its potential usefulness as regards policy control, even over those extremely poor countries.

4.2 – The Medium-Term Strategy

On the other hand, given the general perception that the IMF has rendered a poor and relatively bad service, and that it could prove more useful as an instrument in the geopolitical game of the rich and powerful, by dealing the cards of world economy, some efforts have been made to ‘reform’ the institution, adapting it to the political needs of an altered international scene. In September 2005, Rodrigo de Rato, IMF Managing Director, submitted his ‘Report on the Fund’s Medium-Term Strategy’ [6]. Shortly afterwards, in April 2006, de Rato released the ‘Report on Implementing the Fund’s Medium-Term Strategy’ [7]. This ‘Medium-Term Strategy’ was also approved in April 2006 by the IMF Monetary and Financial Committee, an internal body that resolves on the institution’s policy paradigms.

The content of both documents on the ‘Medium-Term Strategy’ is basically the same: they suggest a new ‘structural’ role for the IMF, in the context of a global economic system characterized as more complex and greatly modified, in relation to the one prevailing during the Cold War. It is a trick to set up the IMF as the leading actor in the current scene of world economy, not as a mere ‘supporting actor’ with no major part to play.

Obtaining that new role as the ‘star’ in international economic relations became yet more pressing for the IMF in the face of the advanced repayment by its major debtors (Brazil and Argentina) in December 2005. This led to the Fund sustaining an internal deficit, deriving from a fall in their revenues, having stopped receiving the interest that its major debtors would have paid over the long term.

The decisions made by Brazil and Argentina to make early payments are obviously criticizable (and they were actually criticized by civil society) since they corroborate rather than challenge the subordination implicit in the acknowledgement of the debts. On the other hand, the early payment also served the purpose of ‘neutralizing’ (partially, at least) the IMF acting as a rating super-agency – and market indicator – which is especially important (in the case of Brazil) in a year of elections.

The IMF’s ‘Medium-Term Strategy’ describes its new role as involving the following tasks:

- (a) Intensification and expansion of surveillance activities – which would include: global surveillance; multilateral consultation; financial markets surveillance; setting up of policy standards and codes; regional surveillance; surveillance of countries; and communication strategy;
- (b) Monitoring and assessment of policies in ‘systemic economies’, that is, economies regarded as ‘advanced’ and potentially able to cause external shocks or fast international or regional transmission of changes in economic-strategic positions;
- (c) Thorough monitoring and control over emerging markets economies;
- (d) Enabling the IMF itself to deal more efficiently with questions regarding the capital account liberalization in different countries;
- (e) Turning the IMF into a more efficient instrument of policy control in low-income countries; and
- (f) Dramatically increasing the IMF’s role in providing technical assistance and training, within the frame of ‘Article IV consultations’ [8], so as to further the efficiency of the institutional reform processes in the various countries receiving aid from the Fund.

Moreover, the ‘Medium-Term Strategy’ provides for an internal budget reform and – most importantly – for a redistribution of voting shares among member states. It is currently under consideration to allocate greater voting shares to fast-growing countries or countries of strategic significance, such as: China (currently holding 2.94 per cent voting power), South Korea (currently holding 0.76 per cent), Mexico (currently holding 1.20 per cent), and Turkey (currently holding 0.45 per cent). Brazil’s voting power (currently 1.41 per cent) would supposedly not be altered in absolute terms, although any alteration in the quotas will obviously affect the relative position of each individual member. Apart from that, it is a fact that the hegemony of countries such as the US (17.08 per cent of the voting power), Germany (5.99 per cent) and France (4.95 per cent) will not be broken.

4.3 – What lies behind the Medium-Term Strategy

Behind the new IMF’s venture – its ‘Medium-Term Strategy’ – there lies the vision of a global economic system (comprising trade and financial relations) which has gained greater complexity and new actors, though not a clearly predictable role. These new conditions

engender uncertainty and are therefore worrying for the maintenance of power positions currently held by the most outstanding actors.

Part of that vision was described by the president of the Central Bank of England, Mervyn King, in a speech on the IMF's reform, delivered in New Delhi in February 2006. As King put it:

"The single most important difference between the old world [prior to globalization] and today's world is that, in the former, the financial position of a country was captured by the size of its current account surplus or deficit; now the financial position is best measured by the size and composition of its national balance sheet". [9]

One of the issues King most emphasized in his speech was the existence of 'links between national balance sheets', a reference to the fact that the international transmission of economic shocks or economic movements has turned into a source of vulnerability and a crucial issue in today's world.

The 'Medium-Term Strategy' supports itself on an image of the international system mainly modified by the following factors: (a) the growth of China and other Asian economies such as India and Japan, which have strategic interests of their own and accumulate huge reserves with which they meanwhile finance the American fiscal deficit, being also able to become regional or global credit sources under independent geopolitical strategies; (b) the renewed political importance and economic potential of energy/oil-producing countries, which means that they could develop independent international financial co-operation strategies as well, as shown by the debates on the creation of a Southern Bank and the purchase of part of the Argentine debt by Venezuela; (c) increasing opening of capital accounts in a greater number of countries, which makes the 'composition' of balances of payments especially relevant, more so than the existence of deficit or surplus; and (d) the danger that the US might be forced to make an abrupt adjustment, in the face of a possible yuan valuation (Chinese currency).

In short, the IMF is eagerly seeking – and it might find – a new opportunity to play a relevant role as an actor in international economy geopolitics. The current context of international economy has new actors who are somewhat 'out of the script' – especially China and energy/oil-producing countries, which have gathered new political force over the past few years and have an 'agitator' in the person of Hugo Chávez, currently aided in that role by Evo Morales.

The IMF turns all this into a conjunction of systemic vulnerabilities arising from globalization and which today would characterize the global economic system. Furthermore, the IMF suggests that the permanence of such vulnerabilities, only submitted to the G8's political management, represent an excessively high risk, especially for the US. The economic vulnerabilities would result from greater interdependence between national economies and from marked disparities of economic/strategic positioning of states and companies, with potential for unleashing unexpected crises.

The IMF appears as a great and capable political orchestrator and technical creator of a new economic order, in which serious crises could be anticipated and prevented, by virtue of its role as an agency in charge of the surveillance and external control of poor nations' economic policies – and currently in charge of fast-growing countries, but those acting 'out of the script', such as China and several countries from the Latin American bloc.

5 – FINAL REMARKS

A multilateral resolution on the IMF's internal reforms shall be adopted at the annual meeting to be held by the institution and the World Bank in Singapore in September 2006. What the 'Medium-Term Strategy' proposes is, in essence, to transform the IMF into a 'global financial police', able to prevent crises and maintain strategic economic advantage positions for the most powerful. Investments in infrastructure – energy (oil, gas, waterpower, etc.), water resources and sanitation, transport, telecommunications, and carbon uptake services and food security (soybean, etc.) – undoubtedly appear as strategic cores in that context.

Brazil has stood out worldwide as one of the major creators of the G23 as from the 5th Ministerial Conference of the World Trade Organization held in Cancun, Mexico, in 2003. It was that bloc's (G23) political strength which probably most contributed to the failure of the Doha Round, full of drawbacks for developing countries. It is high time for the Brazilian Government to adopt open leadership as regards international finance as well, following the example of some of its neighbors, rather than falling into the hands of the Finance Ministry and Central Bank's officials, who negotiate agreements with international financial institutions behind closed doors, virtually without being accountable to the public. This has resulted, as it is common knowledge, in a series of reforms – even high primary surplus - that prevent the maintenance of desirable public investment levels.

Brazil cannot accept IMF's intervention, nor its role of rating agency with power to facilitate or deny the country's access to external credit. Also, Brasil must not accept reforms granting the IMF more power, turning it into a 'global financial police' with surveillance super-powers and the mission to financially 'halter' China and many other countries.

It falls to the Brazilian Government, aided by its allies, to undertake diplomatic efforts in order to publicly refuse the current proposal concerning the strengthening of the IMF which intends to transform the institution into a global financial police, at the service of powerful states. A proposal regarding the reform of international financial co-operation structures should take into consideration the existing inequalities and injustices in international economic relations as well as the irresponsibility of their major beneficiaries, which are private interest groups whose investments, supported by institutions like the IMF, intensify injustices and cause irreparable damage to the environment.

NOTES

[1] Document available at: <http://www.imf.org/external/pubs/ft/aa/aa.pdf>

[2] See: <http://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm>

[3] See: <http://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm>

[4] Including: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guiana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tajikistan, Uganda and Zambia. See Press Release No. 05/286 December 21, 2005. available at: <http://imf.org/external/np/sec/pr/2005/pr05286.htm>

[5] See: IMF, Press Release No. 05/229, October 17, 2005. Available at: <http://imf.org/external/np/sec/pr/2005/pr05229.htm>

[6] See: IMF, 'The Managing Director's Report on the Fund's Medium-Term Strategy', September 15, 2005. Available at: <http://www.imf.org/external/np/omd/2005/eng/091505.pdf>

[7] See: IMF, 'The Managing Director's Report on Implementing the Fund's Medium-Term Strategy', September 2005. Available at: <http://www.imf.org/external/np/pp/eng/2006/040506.pdf>

[8] The 'Article IV consultations' are provisions contained in the corresponding article of the IMF Articles of Agreement regarding the surveillance of member states' exchange rates policies. According to Article IV, Section 3: "Each member shall provide the Fund with the information necessary to such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies."

[9] King, M. 'Reform of the International Monetary Fund', February 20, 2006. Available at: <http://www.bankofengland.co.uk/publications/speeches/2006/speech267.pdf>