Le Monde diplomatique

> August 2022

International Monetary Fund: 'We're paid to be the bad guys'

Three little letters the world came to hate: IMF

It was set up to stop economic crises leading to war, but nearly 80 years on, it's turned into a bastion of neoliberal orthodoxy. Whose interest does the International Monetary Fund really serve?

by Renaud Lambert

The International Monetary Fund's (IMF) headquarters are in the heart of Washington, a stone's throw from the White House, Lincoln Memorial, Treasury Department, Organisation of American States (OAS) and Federal Reserve (the Fed), as well as the State Department, World Bank and Victims of Communism Museum (1).

The IMF was established after the second world war, at the same time as the World Bank, with the aim of ensuring that international economic imbalances did not lead to new conflicts. It originally had a dual mission: coordinating monetary policy during postwar reconstruction and helping countries facing a sudden cash shortage with loans from a fund to which all its members contributed.

But over the years it has turned into a bastion of neoliberal orthodoxy. The 'structural adjustments' it demands in exchange for assistance — privatisation, deregulation, austerity — can have a substantial impact on the lives of people in the countries concerned, including the affordability of healthcare, education and even food. As a result, it is now one of the most hated organisations in the world.

'You don't stray from the official line'

That may explain the IMF's paradoxical relationship with the press. Though the IMF boasts of its 'transparency' and 'openness', I was warned that all interviews would be off the record and all quotes would have to be approved or even edited. The press officer recorded all the interviews, but as one of my interviewees glanced repeatedly at the dictaphone on the table, I wondered if it was there as a reminder to him or to me. After a couple of days, I was left in no doubt that the IMF was not under threat of internal rebellion. Lara Merling of the Boston University's Global Development Policy Center said, 'People at the IMF are very career-conscious. You don't climb the ladder by straying from the official line.' And most of the people I talked to probably have a bright future.

The IMF takes good care of its 2,400 employees. Department directors earn $320,000-400,000 a year, economists $100,000-200,000, specialised or administrative assistants (the lowest-paid) $42,000-63,000. Most salaries are net (only its US staff pay income tax) and the benefits are generous: social security, pensions, remote working, sabbaticals, healthcare for family members—and even access to meditation rooms.

It's a matter of getting countries to show willing, of making sure that they are committed. Governments that ask for the IMF's help are usually so desperate for money they'll agree to anything

IMF employee

These people, who come from some 160 of the Fund's 190 member countries, have studied at the world's leading universities and all speak the same language — a variant of English (the lingua franca of the markets) whose idioms — 'stakeholders', 'best practice' and 'externalities' — reflect a neoclassical economist's worldview. It's also full of in-house jargon, often reduced to acronyms — one of the many invisible barriers that separate the IMF from the rest of the world. Visitors can expect to hear sentences such as 'The MD discussed the IV (institutional view) on CFMs (capital flow management measures) and MPMs (macroprudential measures) with NGOs.'

Political scientist James Raymond Vreeland's 2007 book on the Fund begins, 'The IMF is well known throughout the developing world ... Yet, the IMF is less familiar to average citizens in the developed world' (2). When it was published, the IMF was facing an existential crisis. The bitter medicine it prescribed had caused most countries to turn their backs on it. An ad from Cristina Fernández de Kirchner's presidential campaign in Argentina promised to build 'a world where your children and their children have never heard of the IMF'.

'A shadow of its former self'

The IMF's new lending commitments to countries in trouble — the Fund's main raison d'être — had fallen from $110bn in 2003 to less than $18bn in 2007. It was 'a shadow of its former self', wrote economist Mark Weisbrot, who had long criticised its role in the growth of inequality (3). France's Dominique Strauss-Kahn, on his appointment as IMF managing director in September 2007, was given the task of cutting the payroll — just a few months before the great financial crisis of 2007-08. 'It was ridiculous', said an IMF employee who (like many I spoke to) asked to remain anonymous. 'They were offering people huge incentives to leave — and some of those who did leave had to be rehired almost immediately.'

The crisis that had been brewing on Wall Street spread to Europe, destabilising Spain, Ireland, Italy, Portugal and, in particular, Greece. This put the IMF back on centre stage and its name became as familiar in Europe as in the global South. Fifteen years after Vreeland's book, these three letters evoke the same image worldwide: that of a financial bogeyman. Graffiti in the European capitals mirrors that in the global South. One example spotted in Lisbon in 2011, after an IMF team arrived in Portugal, reinterpreted its initials as standing for 'Injustice, Poverty, Hunger'.

'The IMF has a bad reputation, which is unfair,' people told me in interviews, formal and informal. The IMF prefers to dwell on the principles put forward at the 1944 Bretton Woods Conference, which led to its foundation: policy coordination, reciprocity and mutualisation (pooling of resources). Nearly 80 years on, these same principles supposedly guide its activities, which consist of 'monitoring' and 'assistance'.

'[Every year,] under article IV [of the Articles of Agreement, IMF teams visit] each member country to discuss its economic situation in the context of our surveillance mission,'said Christoph Rosenberg, a German economist serving as assistant director of the communications department. 'In most cases, our teams are received by the finance minister and the governor of the central bank.' After their discussions, the IMF publishes an analysis of the country's economic situation and the Fund's recommendations. This year's recommendations for France, published in January at the end of an 83-page report, include going ahead with President Macron's proposed pensions reform (though noting 'popular opposition'), implementing a multi-year budget consolidation (ie cutting government spending) and liberalising 'non-tradable services' (including public ones).

'Some countries are placed under close monitoring if our teams see problems ahead. For other countries, it's more of a formality,' an IMF economist said. In 2007 Greece was in second group and the IMF's report was confident: 'The Greek banking sector appears to be sound and has thus far remained largely unaffected by the financial market turmoil.' Two years later, the euro crisis revealed the fragility of the Greek economy.

Assistance or domination?

Some of the assistance the IMF gives its members is technical. In many cases the need for such assistance is an after-effect of colonisation: though countries became sovereign on gaining independence, many were left with no state apparatus worthy of the name. An IMF employee said, 'In the course of assistance missions in Africa, I have found myself giving English lessons to senior civil servants. Sometimes, you arrive in a country and discover they're doing the national accounts on Excel. Others may not even have PCs. We end up writing their annual reports for them.' He was surely aware that this kind of assistance looks very like domination.

The most important assistance the IMF provides is loans. Any member state with balance of payments problems can apply for financial aid, for instance when it doesn't have enough hard currency to repay its debts or buy food for its population, as is currently the case in Sri Lanka (4). 'Typically, it starts with a phone call to the mission chief. They say, "Can we talk?",' Rosenberg told me. This initiates preliminary discussions, during which the Fund outlines the conditions under which it will consider intervening. 'IMF loans are conditional on a programme of structural adjustments aimed at resolving the problems that triggered the crisis.' And to ensure that over time the country in difficulties does not lose its determination to reform, IMF payments come in tranches; if the country doesn't keep its promises, payments stop. 'We're not in the charity business,' Dominique Strauss-Kahn said when he was IMF managing director (5).

Originally, IMF loans were not subject to 'conditionality', but this has become a key characteristic. The first loan agreement, signed with Peru in 1954, was only two pages long; the agreement signed with Greece in 2010 ran to 63. The IMF's conditions today extend to the size of the civil service payroll, the reform of state-owned enterprises, the social security system, privatisation etc. The treatment it prescribes is 'very harsh, with little or no pain relief: basically it's battlefield surgery,' (6) writes Michel Camdessus, managing director from 1987 to 2000. The IMF believes financial 'sickness' only affects countries that are already ailing and that surgery is the best course of treatment.

IMF teams spend around two weeks in each country, during which they meet the governor of the central bank and representatives of the economy ministry and national statistical agency to familiarise themselves with the country's circumstances. They then draft, in collaboration with the government, a letter of intent which the government sends to the IMF. Rosenberg described this is as 'a kind of contract' that they draw up together.

A now famous photo from 1998 suggests otherwise. It shows Camdessus standing over Indonesia's President Suharto as he signs a letter of intent. Joseph Stiglitz, former chief economist at the World Bank (1997-2000), observes that Suharto seems powerless, forced to hand over his country's economic sovereignty to the IMF in return for financial assistance (7).The impression given is that the Indonesian government had no hand in the letter, as is often the case.

'Getting them to show willing'

Letters of intent may be a kind of contract, but they do not constitute an international agreement. In many countries, such agreements are subject to parliamentary ratification and therefore debate — which the IMF prefers to avoid. The IMF's executive board decided in 1979 that letters of intent should avoid 'language having a contractual connotation'.

So when countries agree to implement extremely difficult reforms before receiving a single dollar, it is always 'of their own free will'. An IMF employee commented, 'It's a matter of getting them to show willing, of making sure that they are committed.' It's rare for countries to balk at the IMF's demands. 'Governments that ask for the IMF's help are usually so desperate for money they'll agree to anything.' Some may also take advantage of the fact that negotiations with the IMF are confidential to ask it to 'demand' reforms they wouldn't otherwise dare implement. 'It's so common some people in this building actually take pride [in it] and say we're paid to be the bad guys,' one employee said.

Letters of intent eventually come before the IMF's executive board. The UN General Assembly's 'one country, one vote' principle doesn't apply here: instead, voting rights reflect financial contributions to the Fund. The US has a veto as its contribution has always exceeded 15%, the threshold for a blocking minority on important decisions. A curious leftover from a bygone age is that seven countries have an official spokesperson on the board: the US, France, the UK, Germany (since 1960), Japan (1970), Saudi Arabia (1978) and China (1980).

The other 17 seats are occupied by executive directors who represent changing coalitions of countries with no particular geographical links. This year, Ireland's executive director also represents Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Canada.

The executive board's decisions are not put to a vote until unanimity is certain. 'I like to think that's because of the quality of the preliminary work, the continual dialogue between the board and the senior management,' Camdessus writes. 'In short, because of the fact that administrators involved in the institution's day-to-day work come to share a common wisdom and broadly similar views, wherever they come from' (8). Vreeland suggests another interpretation: 'Opposition to the US by smaller countries cannot be expressed through block voting but must be voiced individually. The power of the US, not only at the IMF but in general, may discourage such opposition' (9).

By this stage, the IMF's senior management and executive directors have discussed the programme of reforms extensively, and a few minor modifications make it possible to achieve the all-important consensus. Two hours after the board gives the go-ahead, the first tranche of cash is transferred to the recipient country's account.

Cracks in the facade

Yet despite such careful preparations, things sometimes go wrong. If the executive board fails to agree or backroom negotiations don't reach a satisfactory conclusion, disasters *can* happen. In the final vote, an executive director may go for the nuclear option: abstaining. This is no trivial matter. The principle of unanimity is preserved, but it tarnishes the myth of an 'international community' bound together by expertise and a will to cooperate. And the cracks in the facade are spreading.

'The IMF is a technical institution [with] detailed rules and criteria ... [Lending] is based on a series of procedures; it is not done arbitrarily. But when the political priorities of the countries that have control in terms of voting power make themselves felt, they often lead the Fund to disrespect its own rules and procedures,' said Paulo Nogueira Batista Jr, an executive director from 2007 to 2015 (10). He abstained from an executive board vote at least twice: once on Greece and once on Ukraine.

Ukraine asked for the IMF's help in 2008 and 2010. The austerity measures the Fund demanded were so harsh that President Viktor Yanukovych (2010-14), who was close to Russia, halted their implementation in 2013. The IMF suspended payments. In what was clearly a geopolitical struggle, Russia intervened with a loan of $3bn in December 2013. After the 2014 Maidan protests, when Yanukovych was replaced by the pro-Western Petro Poroshenko, the IMF suddenly became more accommodating and authorised a loan of $18bn.

Normally, a loan of this size — only agreed under exceptional circumstances — would require the recipient to satisfy numerous conditions: it should not be at war (though Ukraine was already fighting in the Donbass); it should declare its commitment to the reforms required by the IMF (though as Nogueira Batista Jr told me, ‘since the 1990s, everyone knew the Kyiv government tended to make promises in the morning and go back on them in the afternoon’); and it must be capable of repaying the loan. On this last point, the IMF’s technical departments had well-founded doubts and in 2015 the Fund finally wrote off 20% of Ukraine’s debt and agreed to reschedule repayments — a gesture *Le Monde* called ‘highly political’ (1 September 2015).

When the loan term ended, the IMF again showed flexibility. Kyiv was due to repay the amount it owed to Russia by 20 December 2015 or be declared in arrears to sovereign creditors. In such circumstances, the IMF’s rules require payments to be suspended, but on 8 December its chief spokesman Gerry Rice announced, ‘The IMF’s Executive Board met today and agreed to change the current policy on non-toleration of arrears to official creditors.’ On 21 December Kyiv defaulted on its debt to Russia, but IMF assistance continued.

Greece’s unsustainable debt

When Greece turned to the IMF in 2010 its debt was no more ‘sustainable’ than Ukraine’s. ‘Normally, the Fund shouldn’t have agreed to intervene without a restructuring of the debt,’ Nogueira Batista Jr said. ‘But the Europeans — especially the French and Germans — were determined to protect their banks, which were Greece’s creditors. They delayed the discussion on restructuring until their banks had recovered every euro.’ The IMF chose not to interfere. When Greece in 2015 elected a prime minister hostile to austerity, Alexis Tsipras, ‘the situation became political,’ Nogueira Batista Jr said. ‘I was one of the few people who asked “Can we not hear that the Greeks have voted against the programme?” But the reply was that “France and Germany are democratic countries too, and have elected governments which feel we should not bail out countries that behave irresponsibly”.’

In one case, the IMF’s responsibility to its member states apparently dictated that it should break Greece; in the other, it had a duty to show generosity to Ukraine. Nogueira Batista Jr said, ‘They kept telling us “Ukraine is a priority. We must intervene”.’ Yet Russia is an IMF member too. An employee said, ‘The Fund could have chosen not to interfere in a conflict between two full members.’ That’s the stance it has taken on Venezuela, claiming that it is not in a position to determine who is the country’s legitimate president — the democratically elected Nicolás Maduro or the US-designated Juan Guaidó. The IMF’s position was clearer after the 2002 coup: as soon as Hugo Chávez’s democratic government was overthrown, the IMF announced it was ready to work with the putschists (11).

It’s hard to imagine the US agreeing to give up so powerful a tool. That’s why attempts to revise executive board voting rights rarely satisfy anyone outside the Western bloc. The biggest changes were agreed in 2010, revising the US's voting rights down from 16.7% to 16.5%, China's up from 3.8% to 6%, and India's from 2.3% to 2.6%; European countries were the biggest losers. But it took the US Congress six years to ratify these changes. 'That finally happened when Secretary of State Hillary Clinton took over from Treasury Secretary Timothy Geithner,' said an executive director who asked to remain anonymous. 'In other words, when what was considered to be an economic issue became a geopolitical one.'

Geithner explained that the renegotiation of voting rights had been part of a global offer by the US to China, which included building a 'G2' forum where the world's two economic giants could coordinate; promoting the yuan as an international reserve currency; and reducing inequalities within the IMF. 'But China would have had to accept being the junior partner.' The trade war started by Donald Trump has not given it any greater incentive to swallow that bitter pill. Many observers feel the conditions are no longer right for a significant revision of voting rights.

'We, the BRICS [Brazil, Russia, India, China, South Africa], realised that, contrary to commitments made by the Europeans and the US at G20 level during the 2008 crisis, reforms wouldn't happen. So we decided to go our own way,' said Nogueira Batista Jr. Since 2010 China has tried to create new financial institutions such as the Asian Infrastructure Investment Bank, especially at regional level. Is this grounds for hope? 'No one is throwing stones at the Winter Palace here,' said the executive director. 'It's more like a British TV drama where one posh person is trying to murder another.' For the moment, the institutions China has established, mostly in their infancy, follow the same rules as the IMF, except for 'conditionality'.

'Liberalisation has made crises worse'

Nevertheless, in 2020 global debt (public and private) rose by 28%, reaching 256% of global GDP. In these circumstances, the current level of IMF lending will not be enough. An employee told me that 'the financial liberalisation policies we have imposed for years have only made the crises worse.' Because every increase in the Fund's resources leads to a change in voting rights, resources can't increase without agreement on revising voting rights. 'It's as if the fire had grown but the firefighters' hose had stayed the same.'

Debts will have to be restructured. This is theoretically possible: the IMF has made a speciality of it, using its powers of persuasion to force lenders to negotiate. However, half the debt of poorer countries today is owed to China, which shows little sign of wanting to coordinate with an institution that has kept it at arm's length until now. China could decide the conditions under which it will provide 'assistance' to countries in crisis unilaterally. IMF staffers are dismayed at the prospect.

In 2000 Stiglitz condemned the IMF for its role in the devastation caused by neoliberal globalisation. If the IMF's goal was to serve the interests of the financial community, then its actions made sense; otherwise, they seemed contradictory and intellectually incoherent. Twenty years on, the IMF is still sweet on the financial sector, but it's clear that it is also guided by a second consideration: the West's geopolitical priorities. It doesn't have much room for manoeuvre.

In 2021 the IMF's current managing director, Kristalina Georgieva, faced an internal inquiry over allegations that while at the World Bank she had pressed staff to alter a report in a way that favoured China. The economic press spread rumours of her resignation or called for it. According to Stiglitz and Weisbrot, this was in fact an attempted coup led by the US. What had Georgieva done wrong? She had fired the IMF's deputy managing director, an American named David Lipton, while according to *The Economist* her predecessor Christine Lagarde had been 'content to be the IMF's public face while Mr Lipton handled much of the day-to-day management' (12). When the coup failed, US treasury secretary Janet Yellen made Lipton a senior counsellor at the Treasury, putting him in charge of all things IMF. Officially, Georgieva is still in charge; in reality, she has been defeated. 'At the end of the day,' Weisbrot says, 'the IMF is the US Treasury.'

RENAUD LAMBERT

Renaud Lambert is deputy editor of *Le Monde diplomatique*.

Translated by Charles Goulden

(1) My warmest thanks to Dominique Plihon for his help with this article.

(2) James Raymond Vreeland, *The International Monetary Fund: Politics of Conditional Lending,* Routledge, New York, 2007.

(3) Mark Weisbrot, 'The IMF has lost its influence', *The New York Times [https://www.nytimes.com/2005/09/22/opinion/the-imf-has-lost-its-influence.html],* 22 September 2005.

(4) Éric Paul Meyer, 'Sri Lanka plunges into crisis', *Le Monde diplomatique,* English edition, July 2022.

(5) Quoted in 'Riz Khan — Does the IMF help or hurt the poor nations? [https://www.youtube.com/watch?v=TUtSqQDCIVY]', Al Jazeera English, broadcast 9 October 2010.

(6) Michel Camdessus, *La scène de ce drame est le monde: Treize ans à la tête du FMI* (A real-world drama: 13 years as head of the IMF), Les Arènes, Paris, 2014.

(7) See Joseph E Stiglitz, *Globalization and Its Discontents,* WW Norton, New York, 2002.

(8) Michel Camdessus, op cit.

(9) James Raymond Vreeland, op cit.

(10) He represented Brazil, the Dominican Republic, Ecuador, Guyana, Haiti, Panama, Surinam, Trinidad and Tobago, Cape Verde, Nicaragua and East Timor.

(11) See Ignacio Ramonet, 'The perfect crime', *Le Monde diplomatique,* English edition, June 2002.

(12) 'The IMF undergoes structural reform [https://www.economist.com/finance-and-economics/2020/02/15/the-imf-undergoes-structural-reform]', *The Economist,* London, 15 February 2020.