### April/May PF Evidence Packet

#### Resolved: The benefits of the International Monetary Fund outweigh the harms.



https://www.economicshelp.org/blog/glossary/imf/

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### Introduction

#### Creation of the IMF

Gordon Gray and Thomas Wade 18, Director of fiscal policy and Director of financial services policy, respectively, 10-23-2018, "U.S. Participation in the International Monetary Fund (IMF): A Primer," AAF, https://www.americanactionforum.org/insight/u-s-participation-in-the-international-monetary-fund-imf-a-primer/

History

The Great Depression, the most severe financial crisis of the 20th century, caused worldwide gross domestic product (GDP) to fall an estimated 15 percent in the early 1930s and international trade to contract by 14 percent. Between 1929 and 1933, more than 5,000 banks failed. In many countries the impacts were felt until (and contributed to) the Second World War. The collapse of the international financial system caused by the combination of the Great Depression and the Second World War spurred the need to rebuild a more resilient global financial system.

In 1944, the U.S. government invited Allied nations to send representatives to a conference on international monetary policy at Bretton Woods in New Hampshire. John Maynard Keynes of the British Treasury and Harry Dexter White of the U.S. Treasury were the driving forces behind the conference. (Interestingly, White was later confirmed to have been a Soviet informant). The purpose of the conference was to promote open markets; U.S. Treasury Secretary Henry Morgenthau declared the conference would end economic nationalism.

The Bretton Woods conference resulted in the creation of the IMF, the International Bank for Reconstruction and Development (IBRD), and a number of other recommendations for international cooperation. The key element to the conference was the introduction of a system for convertible currencies at fixed exchange rates, pegged to gold, with the dollar redeemable for gold at $35 an ounce. The IMF oversaw this currency exchange system, and it also controlled access to the IBRD (as membership of the IBRD was not possible without membership of the IMF). The IBRD was the key international body financing reconstruction via loans in the wake of the Second World War.

The Bretton Woods system persisted until the 1970s, when the United States unilaterally ended the convertibility of the U.S. dollar to gold in what was known as the Nixon shock. At this point the IMF’s mission shifted to supporting the still-current system of floating exchange rates, where the market itself determines currency values relative to each other.

#### The role of the present day IMF

Gordon Gray and Thomas Wade 18, Director of fiscal policy and Director of financial services policy, respectively, 10-23-2018, "U.S. Participation in the International Monetary Fund (IMF): A Primer," AAF, https://www.americanactionforum.org/insight/u-s-participation-in-the-international-monetary-fund-imf-a-primer/

The IMF Today

As Sundeep Reddy put it, “You can really think of the IMF as a cross between the United Nations, which has 187 nations on it and a global financial regulator.”

Activities

The IMF classifies its activities into three categories: surveillance; lending; and technical assistance.

The IMF’s key goal is to foster economic stability and global growth in such a manner that staves off or at least mitigates the adverse impacts of economic crisis. Monitoring is the primary goal and surveillance is the manner by which the IMF collects data that it then uses to assess the appropriateness of a country’s economic policies and the likely impact on other nations. The IMF also provides policy advice aimed at crisis-prevention – a country may have sound internal economic policies but could still benefit from assistance in global macroeconomic activities, including financial regulation or the flow of capital. The IMF also plays an important role in the global response to money laundering and terrorism.

The IMF lends to countries with balance-of-payment difficulties, and in this regard it acts as the de facto global lender of last resort. The IMF has had to intervene with emergency cash injections a number of times for governments incapable of paying their bills, most recently Argentina in early 2018. Countries obtain IMF loans under significant caveats, however, under the IMF policy of conditionality. These conditions are usually in the form of either collateral or a requirement to adjust economic policy, and as a result there is considerable stigma attached to requiring bailout by the IMF associated with the loss of sovereignty.

Technical assistance and training is the third category of support the IMF provides, helping countries raise public revenues, modernize banking systems, develop strong legal frameworks, and enhance the reporting of macroeconomic and financial data.

Membership

Any nation can apply to join the IMF and 189 countries are currently on the List of Members. All IMF members are IBRD members and vice versa. Significant but not complete overlap is also found with the membership of the United Nations; only North Korea, Andorra, Liechtenstein, Monaco are UN members without being IMF members.

Leadership

A Board of Governors heads the IMF, with a governor and alternate governor for each member country, which meets annually. Although officially the most significant power of the IMF is vested in the Board of Governors, in practice it delegates most of its authority to an Executive Board of 24 Executive Directors. Eight Executive Directors are fixed, with representatives from the United States, China, Germany, France, Japan, Russia, Saudi Arabia, and the United Kingdom remaining on the board permanently; the other Executive Directors serve as part of a geographical rotation. The Executive Board is led by a Chairman who also serves as Managing Director, with Christine Lagarde currently serving in this role. Since the IMF’s inception, a European has been Chairman of the Executive Board, while an American has been president of the World Bank, although this system is under some pressure for reform.

#### The quota system

Gordon Gray and Thomas Wade 18, Director of fiscal policy and Director of financial services policy, respectively, 10-23-2018, "U.S. Participation in the International Monetary Fund (IMF): A Primer," AAF, https://www.americanactionforum.org/insight/u-s-participation-in-the-international-monetary-fund-imf-a-primer/

IMF Financing and Voting Share: The Quota System

The voting share of member nations is tied to members’ financial commitments to the IMF, specifically to each member’s “quota.” The quota defines a member’s fundamental relationship with the IMF. Among other considerations, member nation’s quota determines:

The maximum financial obligation of a member country to the IMF;

The voting power of a member; and

The maximum amount of financing assistance a member may ordinarily access.

The quota itself is determined through a formula based on a member nation’s relative position in the global measures of four variables: GDP, openness, variability, and reserves. A member nation’s quota is denominated in Special Drawing Rights (SDRs). SDRs are in IMF parlance a “reserve asset,” which provides members a claim on other currencies. The IMF is careful to note that the SDR is not a currency, but it is the basic unit of account for the IMF. The value of an SDR is determined daily on the basis of the exchange rates for a basket of currencies, specifically the U.S. dollar, the euro, the Chinese renminbi, Japanese yen, and pound sterling. As of October 18, 2018, $1 equaled SDR 0.717796.

Members “pay” their quotas by depositing 25 percent of their quota with the IMF in a widely circulated currency or in SDRs. Members satisfy the remaining 75 percent of their quota by issuing a promissory note to the IMF but held in a financial institution of the members’ choice, typically their central bank.

In exchange for these deposits and commitments, members are credited with SDRs equal to their commitments.

### Pro

#### The IMF is good for COVID and the U.S. economy

Jeff Cox 21, finance editor for CNBC, 4-1-2021, “U.S. working with IMF to provide $650 billion in currency aid to countries hit by pandemic,” CNBC, https://www.cnbc.com/2021/04/01/us-working-with-imf-to-provide-650-billion-in-currency-aid-to-countries-hit-by-pandemic.html

The Treasury Department is working with the International Monetary Fund to help provide up to $650 billion in currency aid to countries hit hardest by the Covid-19 pandemic.

An announcement Friday from Treasury indicated it is aiding the IMF toward an allocation of $650 billion in Special Drawing Rights that would “help build reserve buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth.”

SDRs are reserve assets that countries can use to supplement their foreign exchange assets, such as gold and U.S. dollars.

The Treasury announcement indicated that the SDR allocation is within the level the department is allowed to allocate without congressional approval. Treasury Secretary Janet Yellen and Sen. John Kennedy, R-La., recently had a heated exchange over the SDR issue during a public hearing.

Essentially, the agreement would allow countries to exchange their SDRs for U.S. dollars. Global demand for American currency has been a recurring issue throughout the pandemic and has resulted in the Federal Reserve also to engage in a robust dollar-swap program around the world.

Treasury would exchange SDRs for dollars that it keeps in the Exchange Stabilization Fund. That in turn would require the government to borrow more money and incur some coasts, namely the difference between the interest on the SDRs and Treasury rates.

“This potential implicit cost is much lower than the benefits of a strong global recovery,” the department said in the release.

“Addressing the long-term global need for reserve assets would help support the global recovery from the COVID-19 crisis. A strong global recovery would also increase demand for U.S. exports of goods and services—creating U.S. jobs and supporting U.S. firms,” the statement added.

#### The IMF is key to a US led rules based global order

David Ignatius 15, foreign affairs columnist from the Washington post with degrees in political theory and economics, 12-22-2015, "A strengthened IMF benefits the U.S. and the world," Washington Post, https://www.washingtonpost.com/opinions/a-strengthened-imf-benefits-the-us-and-the-world/2015/12/22/69862e04-a8d5-11e5-bff5-905b92f5f94b\_story.html

Overlooked in the circus of national politics this past week was a small victory for U.S. global leadership and common sense — in the bipartisan agreement to restore full U.S. support for the International Monetary Fund.

This move, part of what’s known as “quota reform” of the IMF, should have been a no-brainer when it was proposed five years ago. The modernization plan will expand the voting power of emerging economies such as China and India in the IMF and modestly reduce that of European countries. It will double the IMF’s capital available to assist troubled economies.

It was the United States that drafted this formula for broadening and updating the global financial architecture after the 2008 meltdown. The idea was to give a greater voice to the rising economies and to increase the IMF’s ability to rescue weak ones. A broader, stronger IMF will bolster the system that has kept the world economy solvent, more or less, since 1945. It will also reinforce U.S. leadership of global finance.

But this sensible IMF reform, first discussed during the presidency of George W. Bush, got caught on the barbed-wire fence of U.S. politics. Congressional conservatives saw it as a symbol of imaginary “black helicopters” of global governance and refused to vote for the necessary funding. To many foreign leaders, this blockage was a worrying sign of how domestic infighting was enfeebling the United States and impeding its traditional role of global leadership.

The basic question was whether the United States still had the “right stuff” to lead. As Treasury Secretary Jack Lew explained in an interview Monday: “If the U.S. didn’t follow through at the IMF, how could the system as we built it remain strong?”

China pounced on U.S. indecision and launched the Asian Infrastructure Investment Bank as an alternative to the U.S.-led IMF and World Bank. As long as Congress was blocking the United States’ own plan for IMF reform, Beijing’s pitch was hard to resist. “What was driving countries to look for a new mechanism was a question of whether the U.S. was prepared to work with the old mechanism,” Lew said.

The Ukraine crisis offered a dramatic example of why the IMF is important. As Russia tried to squeeze Kiev financially after it invaded Crimea, Ukraine’s only practical source of financial support was an IMF loan. That should have made the case for the IMF’s importance, but not to congressional right-wingers.

Lew said he’s had hundreds of conversations with congressional leaders about funding the IMF since he became treasury secretary two years ago. The necessary legislation was attached to a half-dozen bills, only to collapse because it was deemed “too controversial.” Finally, on Friday, the logjam broke and the IMF funding was approved as a rider to a broader spending bill. The heroes in this story, in addition to Lew, are the House and Senate Republican leaders, Rep. Paul Ryan (Wis.) and Sen. Mitch McConnell (Ky.).

“Promise made, promise delivered,” said a relieved IMF Managing Director Christine Lagarde in a telephone interview Monday. She said that by ratifying the IMF reforms and helping to double its capital, the United States has given the fund the “big bazooka” it needs to help ailing economies at a time when “the economic horizon is not exactly rosy.” Just as important, she said, the move is “a reaffirmation of U.S. leadership” of the institutions that foster a rules-based global order.

#### The IMF is good for the economy – South Africa loan proves

Danny Bradlow 20, SARCHI Professor of International Development Law and African Economic Relations, University of Pretoria, 7-28-2020, "The IMF's $4bn loan for South Africa: the pros, cons and potential pitfalls," Conversation, https://theconversation.com/the-imfs-4bn-loan-for-south-africa-the-pros-cons-and-potential-pitfalls-143553

What are the upsides of the loan?

The most important benefit is that South Africa is getting $4.2 billion at about 1.1% interest. This is a very cheap source of funds. If the government tried to raise the same amount either on domestic markets or from other international sources it would pay a considerably higher interest rate – the current rate for government bonds of comparable maturity is about 7%.

The second potential benefit is that the IMF loan will catalyse other funds for the country. In other words investors in South Africa and abroad will interpret the IMF’s action as an expression of support for South Africa and this will give them the confidence to invest in South African debt. Given that foreign investors hold about 30% of South African government’s rand denominated debt this boost to confidence could be important. It will both reduce the incentive of these investors to sell their government bonds, potentially pushing up interest rates, and enable the government to issue new debt if needed.

The third benefit is that by helping to stabilise South Africa’s situation, it will limit the damage that may be inflicted on the neighbouring countries. This, in turn, could help South African exports and thus help preserve jobs and income in South Africa.

#### The IMF bolsters post-COVID US and developing economies

Meg Lundsager 20, public policy fellow at the Wilson Center and formerly U.S. executive director and alternate executive director at the International Monetary Fund, 4-12-2020, "A stronger IMF will bolster the US recovery," TheHill, https://thehill.com/opinion/finance/492384-a-stronger-imf-will-bolster-the-us-recovery?rl=1

All indications are that global economic recovery from the COVID-19 pandemic will be a daunting challenge. The International Monetary Fund (IMF) is already stepping up to help emerging markets and developing countries by approving several emergency loans. This will complement the actions of Congress, the Trump administration and the Federal Reserve to implement far-reaching programs to support U.S. economic activity. These measures will help restore demand and enable businesses to rehire, and consumers to spend, once the pandemic subsides.

The global economy will benefit when the U.S. economy reopens. But U.S. households and businesses may be slow to return to previous spending levels, including on imports.

Emerging market and developing countries will be particularly hard hit, first by the human toll of the pandemic and then by their inability to deploy the same powerful monetary and fiscal policy tools that the United States and others are implementing.

Fortunately, Congress included funding for the IMF, World Bank and other international institutions in the CARES Act. These institutions are responding quickly to the many countries requesting loans and are evaluating further steps they can take.

Given the severity of the pandemic and its aftermath, the United States should take the initiative and propose additional increases in IMF funding to further strengthen the IMF’s crisis response powers. A faster recovery in emerging market and developing countries will add to demand for U.S. goods and services.

The benefit of using the IMF and other multilateral institutions is that other countries, who provide more than 80 percent of the IMF’s budget, will be contributing to the response. As the IMF’s largest member, the United States retains significant influence over lending policies. Many U.S. priorities have become IMF priorities, including countering corruption, money laundering and terrorist finance; improving transparency in government budgets; and reforming weak financial sectors.

#### The IMF is the financial crisis firefighter

Jonathan Masters and Andrew Chatzky 20, deputy managing editor for the Council on Foreign Relations, 8-20-2020, "The IMF: The World’s Controversial Financial Firefighter," Council on Foreign Relations, <https://www.cfr.org/backgrounder/imf-worlds-controversial-financial-firefighter>

The IMF has been called the world’s “financial crisis firefighter,” relied on by member countries to deal with crippling sovereign debt and prevent contagion from spreading through the global financial system.

A member country—there are 189 members as of 2020—typically summons the IMF when it can no longer finance imports or service its debt to creditors, a sign of potential crisis. The fund will extend the government a loan and help organize a new debt-repayment schedule that the country can manage. In exchange, the member agrees to implement IMF reforms designed to rectify its balance of payments and restore foreign exchange reserves in its central bank. The lending conditions are designed not only to guarantee the repayment of loans but also to ensure the money borrowed will be spent in line with the stated economic objectives. The IMF cannot force its will on member countries; countries accept the fund’s conditioned financial assistance on a voluntary basis.

Historically, much of the fund’s work has been done in developing countries, including interventions in Argentina, Brazil, Indonesia, and Mexico. However, the 2008 global financial crisis and subsequent European debt crisis required major bailouts in advanced eurozone economies, such as Greece, Iceland, Ireland, and Portugal, for the first time.

#### The IMF can help with climate financing

Fiona Harvey 21, award-winning environment journalist for the Guardian, 1-24-2021, "Helping poorest tackle climate crisis will boost global growth, says IMF head," Guardian, https://www.theguardian.com/environment/2021/jan/25/helping-poorest-tackle-climate-crisis-will-boost-global-growth-says-imf-head

Helping the most vulnerable people to cope with the climate crisis can boost the global economy during the Covid crisis and governments should make this a priority, the head of the International Monetary Fund has said.

Kristalina Georgieva said international responses to the pandemic must urgently take account of the need to adapt to the impacts of extreme weather and other climate shocks, as well as reducing greenhouse gas emissions.

Otherwise, the world risked billions of dollars of economic damage in the near future, as most countries were unprepared for the effects of a rapidly heating climate, she warned.

“The good news is that it can be win-win-win-win,” she said. “Building resilience can be good for nature and ecosystems; it can be good for economic growth; at a time when economies have lost low-skilled jobs, it boosts job creation; and the fourth win is that it can bring health benefits [such as reduced air pollution].”

Georgieva pledged help from the IMF to countries hit by the climate crisis, and to those seeking to fulfil the Paris agreement.

“What we want is for countries to think of the IMF as a source of help, and not be afraid to come to us,” she told the Guardian. “We want to build buffers to these shocks for countries that are highly vulnerable.”

These measures could not wait, she warned. “The impact of a changing climate is already upon us, hitting vulnerable countries and vulnerable people most severely. These are countries that are often already experiencing economic and social problems.”

The IMF is the global international financial institution set up alongside the World Bank and in parallel with the UN, and other institutions at the end of the second world war, to support global trade.

It has been heavily criticised in the past for imposing “structural adjustment programmes” on poor countries that harmed their public sectors, including public health systems, and for promoting aggressive privatisation and other stringent measures, while ignoring social and environmental considerations.

Georgieva, who took over her role in October 2019, shortly before the pandemic struck, signalled that she wanted a different direction for the IMF.

“The IMF can do the right thing,” she said. “What the IMF brings is incredible ambition, analysis, policy and financial skills to transition to a new climate economy.

“We are the only institution that regularly takes the pulse of regional, national and global economy. We recognise that climate change is a macro-critical factor.”

Georgieva said the IMF stood ready to help countries decarbonise their economies in line with a goal of reaching net zero emissions by mid-century.

“The mandate [of the IMF] is not changing, not becoming something else, but incorporating growth, employment and financial stability. There is no question that climate change matters to growth, employment and financial stability.”

Georgieva was speaking ahead of a global summit on climate adaptation, at which world leaders and top officials – including the UN secretary-general António Guterres, British prime minister Boris Johnson, French president Emmanuel Macron, German chancellor Angela Merkel, Indian prime minister Narendra Modi and the US climate envoy, John Kerry – will meet virtually to discuss global preparedness for the impacts of the climate crisis.

Protecting and improving infrastructure, from flood barriers to mobile telecoms for early warning systems, could add 0.7% to global economic growth in the next 15 years, and create millions of new jobs around the world, if governments were willing to take such actions, Georgieva said. “Every $1 invested [in adaptation] brings $4 to $7 in damage prevented,” she noted.

Many of the measures needed, from adapting buildings and improving transport networks to restoring natural features such as coastal mangrove swamps and upland forests, would be labour-intensive, she added.

Georgieva, who is Bulgarian, has a history of pushing climate up the agenda of key institutions she has helped to lead.

At the World Bank, where she served in senior roles from 1993 to 2010, and again as chief executive then acting president from 2017 to 2019, she was noted for including climate in key policies.

At the European commission, where she was commissioner for humanitarian issues then international development from 2010 to 2016, she emphasised the need to coordinate climate policy with overseas aid.

Georgieva will build on the work of her IMF predecessor, Christine Lagarde, now president of the European Central Bank, who also pushed for more action on the climate.

The role of international institutions in the global heating crisis was highlighted at the Paris climate summit in 2015, but their record has been mixed. Campaigners have warned that too much of their focus, particularly in the recovery from the pandemic, is still on propping up the fossil fuel economy.

Climate finance – aid to poor countries to help them reduce emissions and adapt to the impacts of extreme weather – will be a key pillar of the UN Cop26 climate summit, to be hosted by the UK this November.

The UN recently called on rich countries to fulfil their promise of $100bn a year in climate finance to the developing world, with international institutions expected to play a key role.

At the Climate Adaptation Summit, to be hosted by the Netherlands on Monday, Boris Johnson is expected to say: “It is undeniable that climate change is already upon us, and is already devastating lives and economies.

“We must adapt to our changing climate, and we must do so now. I’ll be making the need for a resilient recovery a priority of the UK’s G7 presidency this year.”

#### The IMF is helping with climate resiliency

Andrea Shalal 21, reuters reporter covering international economics, 1-25-2021, "IMF to intensify focus on climate change's economic impact, Georgieva," U.S., https://www.reuters.com/article/imf-climate-idINKBN29V0A7

The International Monetary Fund views climate change as a fundamental risk to economic and financial stability, its chief said on Monday, mapping out the IMF’s plans to help focus investments in green technologies that will boost global growth.

IMF Managing Director Kristalina Georgieva told the Climate Adaptation Summit that global economic output could expand by an average 0.7% annually over the next 15 years and millions of jobs could be created if carbon prices rose steadily and investments expanded in green infrastructure.

“We see climate as a fundamental risk for economic and financial stability, and we see climate action as an opportunity to reinvigorate growth, especially after the pandemic, and to generate new green jobs,” Georgieva said.

She said the IMF was taking action in four areas to accelerate the transition to a new low-carbon and climate-resilient economy.

Georgieva said the Fund would launch a new “Climate Change Dashboard” this year to track the economic impact of climate risks and the measures taken to mitigate them, a key step to ensuring the needed shift.

“Climate resilience is a critical priority,” she said. “This is why we place it at the heart of what do, this year and (in) the years to come.”

The Fund is also integrating climate factors into its annual economic country assessments, also known as Article IV consultations, focusing on adaptation in highly vulnerable countries, and carbon pricing in its assessment of large emitters, Georgieva said.

In addition, she said the IMF is adopting enhanced stress tests and standardizing disclosure of climate-related financial stability risks in its financial-sector surveys, and expanding its training and support to help central banks and finance ministries take climate considerations into account.

The World Bank, the largest multilateral funder of climate finance, boosted funding for adaptation projects to 50% of its total climate finance over the past four years, and plans to maintain that percentage for the next five years, World Bank President David Malpass told the same event on Monday.

In addition to funding projects addressing coastal erosion, increasing crop yields and building cyclone-resistant infrastructure, the Bank was also investing in early warning and evacuation systems, better social protection, and weather observation, he said.

### Con

#### IMF loans are bad – they implement reforms that hurt local economies

Jonathan Masters and Andrew Chatzky 20, deputy managing editor for the Council on Foreign Relations, 8-20-2020, "The IMF: The World’s Controversial Financial Firefighter," Council on Foreign Relations, <https://www.cfr.org/backgrounder/imf-worlds-controversial-financial-firefighter>

The IMF has drawn vocal criticism over the years. In his 2002 book, Globalization and Its Discontents, Nobel Prize–winning economist Joseph Stiglitz denounced the fund as a primary culprit in the failed development policies implemented in some of the world’s poorest countries. He argues that many of the economic reforms the IMF required as conditions for its lending—fiscal austerity, high interest rates, trade liberalization, privatization, and open capital markets—have often been counterproductive for target economies and devastating for local populations.

The fund has also been criticized on the basis of overreach or “mission creep.” William Easterly makes this case in his 2006 account of the failures of Western aid to the undeveloped world, The White Man’s Burden. While he acknowledges some IMF successes in firefighting financial crises in Mexico and East Asian countries in the mid-1990s, he criticizes many of the fund’s interventions in severely impoverished countries, particularly in Africa and Latin America, as overly ambitious and intrusive. In addition, he describes many of the fund’s loan conditions and technical advice as out of touch with ground-level realities.

In recent years, the IMF’s work in more advanced economies has drawn ire as well. Greece has been the most high-profile example, as troika-imposed austerity measures deepened the country’s economic contraction. In July 2015, popular discontent led to a “no” vote in a referendum on whether to accept the IMF’s loan conditions, which included raising taxes, lowering pensions and other spending, and privatizing industries. The government subsequently ignored the results and accepted the loans. However, the Greek case also saw the IMF soften its stance on austerity, at least compared with the European Commission and ECB. In 2016, senior IMF economists argued that more austerity would be counterproductive, and in 2018 the fund raised the alarm about the unsustainability of Greece’s debt burden, putting it at odds with the rest of the troika.

However, others dismiss the suggestion that the IMF’s approach changed. In 2016, the Guardian’s economics editor, Larry Elliott, wrote that “the IMF’s remedy for Greece and Portugal during the Eurozone crisis has been straight out of the structural adjustment playbook: reduce public spending, cut salaries and benefits, insist that state-owned enterprises return to the private sector, reduce minimum wages, and restrict collective bargaining.”

#### Loans are just a temporary solution – they can’t correct an economy

Danny Bradlow 20, SARCHI Professor of International Development Law and African Economic Relations, University of Pretoria, 7-28-2020, "The IMF's $4bn loan for South Africa: the pros, cons and potential pitfalls," Conversation, https://theconversation.com/the-imfs-4bn-loan-for-south-africa-the-pros-cons-and-potential-pitfalls-143553

What are the downsides?

The most significant downside is that the loan is denominated in foreign exchange. Thus South Africa has to bear the risk that if the rand depreciates, the loan and the interest on it will become more expensive. Given the state of the South African economy, this is not an insignificant risk.

But it’s important to keep in mind that the IMF denominates the loan and the repayment obligations in Special Drawing Rights. These are the IMF’s special form of money and its value is made up of a composite of a basket of currencies. These include the US dollar, the euro, the Japanese yen, the Chinese renminbi and the pound sterling. The values of these currencies tend to fluctuate against each other so that some appreciate while others depreciate. This helps mitigate the foreign exchange risk that South Africa must bear.

The second risk is that if South Africa does not use the funds from the IMF wisely, the country’s economic situation will deteriorate and it will struggle to pay back the debt.

If this happens or the pandemic lasts longer than anticipated, the country could be forced to seek additional support. In either case South Africa’s negotiating position would be significantly weaker.

#### The IMF hurts the economies of developing countries

Mark Weisbrot 19, co-director of the Center for Economic and Policy Research in Washington and the president of Just Foreign Policy, 8-27-2019, "The IMF is hurting countries it claims to help," Guardian, https://www.theguardian.com/commentisfree/2019/aug/27/imf-economics-inequality-trump-ecuador

When people think of the damage that wealthy countries – typically led by the US and its allies – cause to people in the rest of the world, they probably think of warfare. Hundreds of thousands of Iraqis died from the 2003 invasion, and then many more as the region became inflamed.

But rich countries also have considerable power over the lives of billions of people through their control over institutions of global governance. One of these is the International Monetary Fund. It has 189 member countries, but the US and its rich-country allies have a solid majority of the votes. The head of the IMF is by custom a European, and the US has enough votes to veto many major decisions by itself – although the rich countries almost never vote against each other.

To see what the problem looks like, consider a recent IMF loan. In March, Ecuador signed an agreement to borrow $4.2bn from the IMF over three years, provided that the government would adhere to a certain economic program spelled out in the arrangement. In the words of Christine Lagarde – then the IMF chief – this was “a comprehensive reform program aimed at modernizing the economy and paving the way for strong, sustained, and equitable growth”.

But is it? The program calls for an enormous tightening of the country’s national budget – about 6% of GDP over the next three years. (For comparison, imagine tightening the US federal budget by $1.4 trillion, through some combination of cutting spending and raising taxes). In Ecuador, this will include firing tens of thousands of public sector employees, raising taxes that fall disproportionately on poor people, and making cuts to public investment.

The overall impact of this large fiscal tightening will be to push the economy into recession. The IMF’s projections are for a relatively mild recession until next year, but it will likely be much deeper and longer – as often happens with IMF programs. Unemployment will rise – even the IMF program projections acknowledge that – and so will poverty.

One reason that it will likely turn out much worse than the IMF projects is that the program relies on assumptions that are not believable. For example, the IMF projects that there will be a net foreign private sector inflow into the economy of $5.4bn (about 5% of GDP) for 2019–2022. But if we look at the last three years, there was an outflow of $16.5bn (17% of GDP). What would make foreign investors suddenly so much more excited about bringing their money to Ecuador? Certainly not the recession that even the IMF is projecting.

There are other implausible assumptions and even some that result from accounting errors, and sadly they all go in the same direction. It seems that the program’s “expansionary austerity” – something that almost never happens – is unlikely to make Ecuador into a world-famous exception, where the economy grows as aggregate demand is slashed.

The program also seeks to reshape the economy in ways that, to many Ecuadorians, would appear to be political. The central bank will be made more autonomous; public assets will be privatized; and labor law will be changed in ways that give employers more unbridled power over workers. Some of these changes – for example, the separation of the central bank from other government decision-making – will make economic recovery even more difficult.

All this is taking place under a government – elected in 2017 on a platform of continuity – that seeks to reverse a prior decade of political reforms. These reforms were, by measures of economic and social indicators, successful. Poverty was reduced by 38% and extreme poverty by 47%; public investment – including hospitals, schools, roads, and electricity – more than doubled as a percent of the economy. But the prior government was a leftwing government that was more independent of the US (by, for example, closing down the US military base there).

One can imagine what this looks like, as the Trump administration now gains enormous power in Ecuador not only through the $4.2bn IMF loan, but also $6bn from related Washington-based multilateral institutions such as the World Bank and Inter-American Development Bank. (This totals about 10% of Ecuador’s annual GDP – equivalent to more than $2.1tn in the US.)

Actually, we don’t have to imagine much, since the new president, Lenín Moreno, has aligned himself with Trump’s foreign and economic policy in the region. At the same time, his government is persecuting his presidential predecessor, Rafael Correa, with false charges filed last year that even Interpol won’t honor with an international warrant. Other opposition leaders have fled the country to avoid illegal pre-trial detention – in the case of former foreign minister Ricardo Patiño, for making a speech that the government did not like.

Since Washington controls IMF decision-making for this hemisphere, the Trump administration and the fund are implicated in the political repression as well as the broader attempt to reconvert Ecuador into the kind of economy and politics that Trump and Pompeo would like to see, but most Ecuadorians clearly did not vote for.

All this provides even more reasons why there needs to be serious reform at the IMF, starting with making it more of a multilateral institution, as it pretends to be. In the past 20 years, the US Congress – which has to approve funding increases for the IMF – has on rare occasions intervened to eliminate some abuses. In the early 2000s, for example, millions of poor children in Africa gained access to primary education and health care because the US Congress made it impossible for the IMF and World Bank to require their governments to charge user fees for these basic needs – as these institutions had been doing for years.

In the coming weeks, the IMF will almost certainly choose a new, affluent white European to head the institution. Progressive members of Congress, who care about what US foreign policy does to the rest of the world, should weigh in with some demands for reform.

#### The IMF is ineffective at supporting developing economies

Peter S. Goodman 2020, global economic correspondent for The New York Times, 11-1-2020, “How the Wealthy World Has Failed Poor Countries During the Pandemic”, NY Times, https://www.nytimes.com/2020/11/01/business/coronavirus-imf-world-bank.html

On the other side of the world in Washington, two deep-pocketed organizations, the World Bank and the International Monetary Fund, vowed to spare poor countries from desperation. Their economists warned that immense relief was required to prevent a humanitarian catastrophe and profound damage to global prosperity. Emerging markets make up 60 percent of the world economy, by one I.M.F. measure. A blow to their fortunes inflicts pain around the planet.

Wages sent home to poor countries by migrant workers — a vital artery of finance — have diminished. The shutdown of tourism has punished many developing countries. So has plunging demand for oil. Billions of people have lost the wherewithal to buy food, increasing malnutrition. By next year, the pandemic could push 150 million people into extreme poverty, the World Bank has warned, in the first increase in more than two decades.

But the World Bank and the I.M.F. have failed to translate their concern into meaningful support, say economists. That has left less-affluent countries struggling with limited resources and untenable debts, prompting their governments to reduce spending just as it is needed to bolster health care systems and aid people suffering lost income.

“A lost decade of growth in large parts of the world remains a plausible prospect absent urgent, concerted and sustained policy response,” concluded a recent report from the Group of 30, a gathering of international finance experts, including Lawrence Summers, a former economic adviser to President Barack Obama, and Treasury secretary in the Clinton administration.

The wealthiest nations have been cushioned by extraordinary surges of credit unleashed by central banks and government spending collectively estimated at more than $8 trillion. Developing countries have yet to receive help on such a scale.

The I.M.F. and the World Bank — forged at the end of World War II with the mandate to support nations at times of financial distress — have marshaled a relatively anemic response, in part because of the predilections of their largest shareholder, the United States.

#### The IMF causes inequality

Sam Pizzigati 20, co-edits Inequality.org. His recent books include The Case for a Maximum Wage and The Rich Don’t Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class, 1900-1970., 1-11-2020, "New Leadership for the IMF, Same Old Hypocrisy?," Inequality.org, <https://inequality.org/great-divide/new-leadership-for-the-imf-same-old-hypocrisy/>

What do we want from people in authority? Not much. We want them to not just say the right thing. We want them to do the right thing. That goes especially for people in authority we can’t vote in or out, those people who run the giant institutions that can hold so much sway over our lives.

Kristalina Georgieva has run one of these mighty institutions — the International Monetary Fund — since this past fall. Earlier this week, Georgieva said all the right things about the staggering economic inequality that continues to plague us. She delivered a clear and reasoned call for higher taxes on the world’s rich.

“At the top of the income distribution,” Georgieva noted, “our research shows that marginal tax rates can be raised without sacrificing economic growth.”

The new IMF chief coupled this call for a big tax bite on high incomes with a pitch for big spending hikes on health, education, and other programs that can help build better “social cohesion.”

Georgieva’s words made headlines the world over. People listen when the IMF speaks. The 75-year-old institution ranks as one of the world’s most influential economic entities, functioning, the Guardian explains, “as the global lender of last resort, bailing out countries in financial difficulty and issuing policy advice alongside its interventions.”

People listen particularly closely when the IMF seems to be changing that advice. From the early 1980s into the 21st century, the advice the IMF proffered essentially ignored inequality. IMF officials advised developing nations to woo the rich, not tax them, and keep social spending modest.

The advice IMF managing director Georgieva delivered this week would have shocked those IMF officials. They preached that nations only develop economically when they give “free markets” free rein, when they privatize and deregulate, when they offer investors a “labor flexibility” that keeps workers off picket lines and thankful for any job that may come their way.

Follow our rich people-friendly advice, IMF officials regularly assured struggling nations, and you’ll live to see bright, sun-shiny days. Over the course of decades, struggling nations accepted that advice — they had no choice if they wanted an IMF loan package — but that promised bright future never materialized. Instead, the nations that accepted the IMF’s austerity counsel watched living standards droop for the great mass of their populations while new waves of wealth cascaded into the pockets of their most fortunate.

At the IMF, researchers noticed all this, too. About a decade ago, they began producing a series of reports and analyses that detailed the dangers of ignoring growing divides between the wealthy and everyone else. Back in 2011, for instance, two IMF economists marshalled evidence that directly challenged the conventional wisdom on inequality as an unavoidable consequence of economic progress.

“Do societies inevitably face an invidious choice between efficient production and equitable wealth and income distribution?” the economists asked. “Are social justice and social product at war with one another? In a word, no.”

In 2014, an IMF policy paper concluded that the recommendations the IMF drops on struggling nations ought to take inequality into account and work to blunt inequality’s “adverse effects.”

IMF researchers the next year revealed “an inverse relationship” between gains for the rich and economic growth. The higher the income share of the affluent in a society, they showed, the lower the growth rate, a finding based on an analysis of the economic experience of 159 nations between 1980 and 2012.

“We find,” the researchers summed up, “that increasing the income share of the poor and the middle class actually increases growth while a rising income share of the top 20 percent results in lower growth — that is, when the rich get richer, benefits do not trickle down.”

In 2017, a 130-page IMF research guidance “warned that excessive inequality could “polarize politics” and made the case for “significantly higher marginal tax rates on top income earners.” The average top income tax rate on the developed world’s wealthy, IMF fiscal affairs director Vitor Gaspar pointed out, had since 1981 dropped from 62 to 35 percent.

Earlier that same year, IMF research had explored why inequality poses such a threat to economic health. In nations with wide income gaps, an IMF working paper related, levels of trust fall precipitously, with far-reaching consequences. People who trust one another, the paper noted, turn out to be “more likely to collaborate in trade, innovation, and entrepreneurship.”

This week’s pronouncements on inequality from IMF managing director Georgieva rest, in other words, on years of IMF research on the economic and social toxicity of concentrated income and wealth. So can we now expect to see, under her leadership, a new “woke” IMF that firmly rejects the austerity policies the IMF began so zealously pushing four decades ago? Can we expect this new IMF to take the global lead in the charge against economic policies that keep inequality so devilishly entrenched?

Unfortunately, no. We’ve seen this movie before, and it didn’t end happily.

Georgieva’s predecessor — Christine Lagarde, currently the president of the European Central Bank — actually spent a good chunk of her stint as IMF’s managing director making the same critique of inequality we’re hearing now from Georgieva.

In 2014, Lagarde warned that “rising income inequality” is casting a “dark shadow” across the global economy.

“Seven out of 10 people in the world today live in countries where inequality has increased in the last three decades,” she added. “And yet we know that excessive inequality stops growth, inhibits inclusion, and undermines social capital.”

An accurate and thoughtful appraisal. But at the IMF operational level, despite these noble sentiments, precious little changed during Lagarde’s tenure at the IMF summit. IMF officials continued to push struggling nations to adopt keep-rich-people-smiling policies — and egalitarian watchdogs worldwide took notice.

The IMF “now concedes,” Oxfam analysts noted in 2017, that countries don’t need to accept greater inequality to grow economically. Yet the IMF’s “policy advice fails to match its research and rhetoric.”

Oxfam documented that failure with a close assessment of 15 IMF policy initiatives around the world. Those assessments showed an IMF not “taking its own concerns seriously about the economic threats of inequality.”

“We see the IMF recommend policies that will knowingly increase inequality,” the Oxfam analysis explained. “They then offer measures to compensate the losers of such policies — often the most vulnerable. If the IMF is serious about the macro-economic concerns inequality provokes, then they should begin with policies that attack inequality rather than mitigating harm caused by their advice.”

“It is time for the IMF to cast its influence well beyond words into policies and programs,” Oxfam concluded. “A far more radical overhaul is needed in the way it does business.”

A year later, another egalitarian global watchdog, the Jubilee South Asia Pacific Movement on Debt and Development, found no sign of that overhaul.

International financial institutions like the IMF, the Jubilee group charged in 2018, are still pressing nations to privatize public services, cut social spending, and limit taxes on the financially fortunate. The “more unorthodox” recommendations that IMF research reports have put forth — increasing public investments, enacting taxes on wealth and financial transactions — “do not seem,” the Jubilee activists noted, “to have made a dent” on actual IMF policy.

In effect, the Jubilee South Asia Pacific critique added, international financial institutions like the IMF have become “the emperor insisting he is wearing new clothes.” They give us “pronouncements of change and reform” while they “pursue the same neoliberal path that brought us to where we are now – in an inequality trap that stretches across generations, past and present.”

The European Network on Debt and Development would follow up the Jubilee South Asia Pacific with a study that compared the conditions on IMF loans to 26 countries in 2016 and 2017 to loans the IMF had approved in 2011 to 2013. In 23 of the 26 loans, the study found, IMF loan programs were continuing to “oblige borrowers to implement austerity.”

“The IMF has changed its rhetoric on inequality and social inclusiveness, but its operations continue to impose the same harmful policies of the past,” the International Trade Union Confederation’s Lara Merling summed up last year in Lagarde’s final months as the IMF’s top exec. “If the IMF is truly concerned about growth that benefits ‘the many,’ it needs to stop promoting policies that have time and time again hurt working people.”

Will Lagarde’s successor, Kristalina Georgieva, now deliver the break from the IMF past that Lagarde could not? The early signs don’t seem promising.

This past Tuesday, on the same day Georgieva pledged the IMF to “tackling inequality,” the Washington, D.C.-based Center for Economic and Policy Research updated its analysis of the IMF’s latest loan deal with Ecuador. That austerity agreement, notes CEPR senior research fellow Andrés Arauz, is leaving Ecuador with “lower per capita GDP, higher unemployment, and increased macroeconomic instability,” outcomes “all tragically unnecessary.”

“Ecuador had no need for this ‘belt-tightening,’” adds Arauz. “The IMF program is actively undoing a whole series of reforms and policies that contributed to generating economic growth, lowering unemployment, and reducing inequality and poverty.”

Why has so little changed at the IMF? Australian analysts Christopher Sheil and Frank Stilwell have speculated on the persistent gap between what the IMF has been professing in public and doing in private.

On the one hand, Sheil and Stilwell note, the uplifting IMF rhetoric about fighting inequality could be a somewhat cynical attempt to “to distance the institution” from its decades-long history of exacerbating economic inequalities. The rhetoric “offsets” criticism of that history, without forcing the institution to actually change anything. Other IMF critics have dubbed this approach “organized hypocrisy.”

On the other hand, the IMF’s professed commitment to fighting inequality could be completely genuine. The failure to implement that commitment could simply reflect the “internal struggle and institutional inertia” that invariably frustrate attempts at change in large organizations.

Or the ongoing gap between what the IMF says and does could reflect the reality that the IMF answers ultimately to the nations with the world’s largest economies. And if these powerful nations have leaderships that play nice with rich people — we’re looking at you, the USA, UK, China, Russia, and France — global economic institutions will continue to pay no more than lip service to the economic importance of greater equality.

Researchers at the IMF can’t change those leaderships. That burden rests on us.

#### The INF causes lower growth rates

Axel Dreher 2006, ETH Zürich (Swiss Federal Institute of Technology), Switzerland, "IMF and economic growth: The effects of programs, loans, and compliance with conditionality," World Development, https://www.sciencedirect.com/science/article/abs/pii/S0305750X06000210

In theory, the IMF could influence economic growth via several channels, among them being advice to policy makers, money disbursed under its programs, and its conditionality. This paper tries to separate those effects empirically. Using panel data for 98 countries over the period 1970–2000, it analyzes whether IMF involvement influences economic growth in program countries. Consistent with the results of previous studies, it is shown that IMF programs reduce growth rates when their endogeneity is accounted for. There is also evidence that compliance with conditionality mitigates this negative effect, while the overall impact, however, remains negative. IMF loans have no robust statistically significant impact.

#### Four reasons the IMF is bad for inequality

Timon Forster et al 19, Doctoral candidate in International Relations, Freie Universität Berlin, 7-17-2019, "IMF says it cares about inequality. But will it change its ways?," Conversation, https://theconversation.com/imf-says-it-cares-about-inequality-but-will-it-change-its-ways-120105

The impact of IMF programmes

In our work, we detail how IMF lending arrangements affect the income distribution in borrowing countries.

First, the IMF set expenditure reduction targets for borrowing countries. These so-called austerity measures were meant to balance the budget. But cuts in government spending can widen income inequalities because low-income households often depend on government transfers. For example, a lending programme with Togo mandated such reforms between 2008 and 2011. Over this period, income inequality rose by 3.7% (from 0.379 in 2007 to 0.393 in 2012).

Second, the IMF repeatedly mandated the removal of restrictions to trade and financial flows. Policies promoting international economic openness can increase demand for skilled labour in developing countries. But low-skilled labour typically loses out, and income inequality increases. Financial development and capital account liberalisation also favours individuals with access to financial capital and services.

In developing countries, these tend to be people with high incomes. For instance, Sri Lanka had to establish a flexible exchange rate regime to qualify for financial assistance in 2001 (which lasted until 2005). Under the tutelage of the IMF, the Gini coefficient of disposable income increased by 5.6% between 2000 and 2006.

Third, the IMF typically called for reforms on monetary policy, initiated the privatisation of financial institutions, and specified targets for the inflation rate. These measures can increase investor confidence, the benefits of which are mostly felt by individuals with high incomes. For example, in 1982, a lending arrangement with Guatemala included restrictions on the growth of bank lending to the private sector, domestic credit, and credit to the public sector. One year after the programme ended, in 1985, the income Gini was 0.482. This was 0.8% higher than when Guatemala negotiated lending terms with the IMF in 1981.

Finally, IMF targets limiting the provision of new external debt can force governments to reduce social spending since they are unable to fund it. These lower the income share of poor populations who depend disproportionately on government transfers. For instance, IMF-designed reforms for Indonesia in 1998 included criteria to limit external debt. In 2004, after the programme terminated, income inequality had increased by 1.6% .

These findings show that the policy reforms prescribed in lending programmes affect income inequality in multiple ways. Indeed, the Fund appears to have heard the criticism of its policy prescriptions and now devotes considerable attention to inequalities.

But an Oxfam report evaluated IMF pilot projects that were supposed to incorporate inequality analyses and failed to find evidence of policies promoting lower inequality.

More work to be done

At their most recent annual Spring meeting in April, the IMF and World Bank hosted a seminar ‘Income Inequality Matters’, discussing ways to achieve inclusive growth.

If the IMF is serious about reducing inequality, then it needs to carefully consider the types of conditions included in lending programmes. The 2030 Sustainable Development Goals (SDGs), to which the Bretton Woods institutions remain committed, offer a window of opportunity to address what is one of the most pressing issues of the day.

With just over a decade left to achieve the SDGs, it’s high time the IMF put words into practice regarding tackling inequality to right its wrongs of the past.

#### IMF programs fail

Axel Dreher 2006, ETH Zürich (Swiss Federal Institute of Technology), Switzerland, "IMF and economic growth: The effects of programs, loans, and compliance with conditionality," World Development, https://www.sciencedirect.com/science/article/abs/pii/S0305750X06000210

7. Summary and Conclusion

“Our primary objective is growth” (Michael Camdessus, former IMF Managing Director, Statement before the United Nations Economic and Social Council in Geneva, July 11, 1990, cited in Przeworski and Vreeland 2000).

As has been shown in several studies, with respect to this objective, IMF programs are a failure. This paper provided further evidence. While supporting previous results on the negative relationship between IMF programs and economic growth, there is some, albeit weak, evidence that compliance with IMF conditionality does increase growth rates once taking account of sample selection. In any case, the effect of compliance is quantitatively small compared to the overall reduction and depends on the proxy employed for compliance. Since IMF loans and compliance are controlled for in the empirical analysis, the remaining negative impact of IMF programs might probably either be due to “bad” advice given by the IMF or the moral hazard it induces with its borrowers. To further disentangle the components reflected by the program participation variable remains an interesting area for future research.

The results have implications for the design of conditionality. Whether or not the IMF should impose conditions on sovereign countries has been highly debated from the very beginning of the IMF’s operations. 35 It has recently been shown that its conditions do not influence economic policy (Dreher and Vaubel 2004b). The empirical results of this paper have shown that if compliance with conditionality has an impact on growth at all, this impact is quantitatively small. As one interpretation of this result, conditions imposed by outside actors might be circumvented, even if the officially agreed criteria have been met. To some extent, the results of this paper support Dollar and Svensson (2000), who show that governments which are inclined to reform must be identified and can not be created by international organizations. In order to lend more effectively, it would therefore be most important for the IMF to detect factors influencing ownership and thus the willingness to reform. Arguably, if the IMF would support reform-minded governments, its loans might make a difference (even if its advice might not).