Is the Growing Criticism of the International Monetary Fund Justified?

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To answer this question, this essay will begin by providing a brief history of the International Monetary Fund (IMF), and then explain the role of the organisation in the world today. Moving on, a number of criticisms that have been levelled at the IMF in recent years will be outlined. After this, each criticism will be discussed to discover whether they are justified. Then a counter argument will be provided to these criticisms, before concluding that although the IMF seeks to protect the economic interests of client states when implementing its programmes, the criticisms that are levelled at the organisation are in many ways justified due to the unnecessary hardship that they cause to the citizens of those states.

"It is important to note that IMF programmes are not designed to increase the welfare of the population. They are designed to bring the external payments account into balance…. The IMF is the ultimate guardian of the interests of capitalists and bankers doing international business" (Kari Polanyi Levitt, cited in Torrie, J. 1983, Introduction).

As the above quote from the Emerita Professor of Economics at McGill University Montreal neatly summarises, the IMF is an international organisation that causes much debate. The IMF is an organisation that was set up as part of the Bretton Woods Agreements in July 1944. It was then, interestingly, not primarily designed to engage and implement the lending and structural adjustment programmes in developing countries that it has been involved with in recent times, but was instead primarily intended to "monitor and help maintain pegged but adjustable exchange rates" in the industrialised world. This was to be achieved through the fund lending to developed countries whose currency had fluctuated and dropped below a set band that members had agreed to, in order to shore up the currency (Vreeland, 2007, pp.5-8). With the demise of the Bretton Woods system of adjustable pegged exchange rates in the early 1970s, the IMF reverted to being an organisation of international lending in the developing world. It is their actions and policy decisions in these countries that have attracted much criticism.

One of the primary criticisms of the IMF is that some see it as being driven by a neo-liberal economic agenda. Some authors, such as Carty (cited in Latin American Bureau, 1983, pp.49-69) and Klein (2007) have argued that this is driven by the "Chicago Boys." These are economists who have studied under the hugely influential and fierce proponent of free market economics, Milton Friedman, at the University of Chicago. Both authors argue that economists who subscribe to Friedman's economic worldview of free markets, free trade, less regulation, cuts in social spending, and less tax on capital, have had an undue influence in policy decisions that have been made by the IMF in the past. Both authors also suggest that in favouring these particular policies, the IMF has favoured the capitalist class over society as a whole.

Another of the main concerns often directed towards the IMF is that the organisation is controlled by the major, developed capitalist countries, and private financial institutions. For example, voting power in the IMF is determined by a quota system of voting rights, determined by the amount of Single Drawing Rights (SDR's) a country has, which is based on financial contributions to the fund. This has led to a situation where the economically wealthiest countries can contribute more to the fund; thereby they have greater voting influence on policy. Currently, according to IMF statistics, the five countries with the largest voting power are the United States, Japan, Germany, France, and the United Kingdom (IMF, 2011). With important decisions requiring an 85% majority (Vreeland, 2007, p.41); the

United States effectively has a veto over all decisions, having 16.723% of voting shares (IMF, 2011). In conjunction with this, Vreeland (2007, pp.46-47) suggests that private financial institutions also provide "supplemental financing" to countries through IMF negotiation, and seek favourable conditions for their industry in return.

By far the most prominent criticism of the IMF has been directed at the conditionality attached to the loans that it provides. Conditionality refers to a process where loans are provided to a country on the basis that they follow strict policy conditions that are set down by the IMF to correct their balance of payments problems. Under this system the loan recipient country must comply or risk losing the financial support of the organisation. Conditionality normally involves "fiscal and monetary policy measures, exchange rate policy, public sector reform, trade liberalisation, and financial sector and labour market reforms" (Zhang, 1998, p.43). The criticisms of conditionality often centres on the fact that the policy programmes that the IMF prescribes for loan recipients often hit the poorest sections of society most, whilst benefiting the capitalist class, purportedly to stimulate economic activity in the country.

So, are these criticisms based on ideology, voting power, and conditionality, justified? An analysis of each argument in turn allows us to assess each on its own merits. The suggestion that the IMF's policy choices are driven by ideology can be backed up by evidence. The policy direction that the IMF has given to many countries in return for "loans," can be in many ways seen as neo-liberal. For example, in return for assistance from the IMF to combat a banking debt crisis recently, Ireland has had to introduce what could be judged as neoliberal policies by pushing through "reductions in public sector numbers, social benefits and programme spending" (Lenihan and Honohan, 2010, p.3). As the Irish economy is one of the most open in the world, one would have thought that there would be no need for neo-liberal policies, however, to increase Ireland's openness they agreed to "promote service sector growth through vigorous action to remove remaining restrictions on trade and competition" (Lenihan and Honohan, 2010, p.9). Further policies such as a cut in the minimum wage, the introduction of water charges and a property tax, and the proposal to increase student contributions to third level fees, all of which were outlined in the Irish government's letter of intent to the IMF, could be described as neoliberal. These policies as such have been replicated in many countries that the IMF has provided loans to. As these policies are generally seen to benefit the capitalist class, without taking account of the social harm they may create, it can be argued that the criticism that the IMF is ideologically driven is justified.

The second of the major criticisms to be levelled at the IMF is that control of the organisation is in the hands of a few developed capitalist countries. As pointed out in the discussion on the control of voting quotas in the IMF, the United States does have an effective veto over the policy decisions of the organisation. This voting power, in conjunction with the voting power of the other developed capitalist countries, can lead to their effective monopoly over the policy direction of the fund. This leads to the argument that the five major capitalist economies (the G5) control all decision making within the IMF and base their policy decisions on what is in their interests. This argument is supported by Breen (2010, pp.5-6) where he proposes that through a system of "logrolling," G5 countries cooperate to influence decisions. Whilst technically other countries do have a say in the running of the IMF, and with a board made up of twenty member countries, it could be argued that the G5 do not have control of the organisation. However, the reality of the situation is that with their collective diplomatic influence the G5 countries can push their policy platform through. The fact that the voting system in the IMF is unfairly weighted in favour of wealthier countries means that this criticism can also be justified.

In relation to the third criticism of the IMF, that of conditionality, it could be argued that the conditionality that is attached to loans provided by the fund serve the interests of the more developed capitalist countries. For example, by imposing policies such as trade liberalisation, privatisation of public services, and financial sector liberalisation, the IMF paves the way for multinational corporations from developed nations to gain a foothold in developing nations, at the expense of indigenous industries. In conjunction with this, the conditionality that is imposed, in relation to cuts in social spending, increased privatisation in health and education, the imposition of water, and property taxes, generally affects the poorest sections of society. The issue of conditionality can also mean a loss of sovereignty for the country accepting the loan. So, in spite of public pressure to choose different policy options, such as policies that would create jobs through public expenditure, or would introduce a more progressive tax system that shared the burden of a financial crisis amongst all sectors of a society, countries have their hands tied by IMF conditionality.

The above criticisms of the IMF are comprehensive; however there are some counter arguments. For example, in relation to the IMF following a neo-liberal agenda, it could be pointed out that the organisation is simply following the prevailing orthodoxy in the economic world in seeking to promote more free market based systems. As more and more countries move towards market based economies each year since the fall of the Soviet Union, it could be argued that the IMF's agenda is merely a reflection of the dominant economic discourse in the world. In relation to voting power in the IMF, it could be argued that it is only fair that those who contribute most in SDR's have the most voting weight on the board. Also, in relation to conditionality, it can be argued that it is necessary to impose conditionality upon countries that receive IMF loans, otherwise those countries could continue to act in a similarly financially reckless manner that led to them requesting a loan in the first place. Finally, to counter all other criticisms about the IMF and its actions, the organisation only enters a country and gives its assistance when requested by a host country.

In conclusion, this essay has sought to analyse whether or not the recent criticisms of the IMF are justified. Through a discussion of three major criticisms of the organisation it was argued that the neo-liberal ideological agenda, the control of the policy agenda by wealthy countries, and the conditionality attached to the loans it provides, all form the basis of worthy criticism. In particular, the fact that the IMF's structural adjustment programmes negatively affect the poorest sections of the societies of countries, suggests that the criticisms are wholly justified. The counter arguments to the criticisms that this essay provided do go some way in explaining the choices the IMF makes. However, there are always other policy options for it to take, options that put less of a burden on the poorest sections of societies, and benefit less the wealthier capitalist countries, which would perhaps leave the IMF open to less criticism in the future.

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