The IMF and American Power

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ANDREA LAGNA, AUG 9 2012

The controversial letter of resignation by Peter Doyle – a senior official at the International Monetary Fund (henceforth IMF or the Fund) – is very cryptic in its contents and style.[1] It stands at the interstice between a short political economic analysis and a mere 'rant' about his personal working experience. However, no matter how ambiguous the resignation letter might be, Doyle clearly states that the IMF failed to issue a timely warning about the 2007 global financial meltdown and the current Eurozone sovereign debt crisis. In so doing, he directs our attention at one important aspect: the IMF is unable to represent an attentive, independent and critical arbiter in today's world affairs. Why is this the case?

The Fund is 'in trouble' because it does not represent a place for collective action, but constitutes an executive agent of US power and its global projections vis-à-vis other economies. Throughout its history, the IMF mended the faults of the American hegemonic order by maintaining its original mission whilst at the same time developing new areas of intervention.[2] However, despite these developments, the Fund never fulfilled its potentially universal role. Let us unpack the historical events in order to better appreciate this point.

The IMF came into existence in December 1945 and began its operations in March 1947. This Institution was part and parcel of the so-called Bretton Woods system, an international monetary and financial regime which was primarily conceived under US hegemony. During the Bretton Woods negotiations, the British delegation – under the leadership of John Maynard Keynes – advocated the construction of a global clearing union to compensate balance-of-payments disequilibria as well as the adoption of a truly international reserve unit. However, these ideas clashed with the American hegemonic project and, in the end, a 'gold-dollar standard' was established. Here, the US dollar was pegged to gold and all the other national currencies were in turn pegged to the dollar – in other words, the US dollar was as good as gold.[3] The IMF was an essential constituent of this US-centred monetary order by providing *mutual assistance* to those member countries that experienced fundamental disequilibrium in their balance of payments.

Then, the 'dollar glut' emerged in the 1960s. Non-resident dollars were floating around the world, causing troubles to the US balance of payments and the ability to back up dollars with gold. Echoing Keynes' initial proposal during the Bretton Woods negotiations, advanced economies proposed the creation of an international reserve asset issued by the IMF. These came to be known as special drawing rights (SDRs). Unfortunately, SDRs, adopted in 1969, failed to challenge the importance of dollar reserves.[4] Hence, the Fund added up a new function to its operations: it became the *issuer* of an 'aborted' world currency.

Whilst SDRs were failing in their purpose, the US administration, under the presidency of Richard Nixon, announced the end of the gold-dollar parity on August 15, 1971. By that time, the US Treasury had already understood that the global expansion of American banks – occurred as part and parcel of Eurodollar markets during the 1960s – ever more enhanced the ability to sell dollar-denominated assets abroad.[5] Hence, the circumstances were conducive to establish a flexible monetary regime based on the 'pure dollar standard', a scenario which dramatically enhanced US power in the global economy.[6] In fact, Nixon's decision freed the US from the discipline of the gold-dollar parity and the balance-of-payments deficit. To be exact, the deficit was not solved but simply left unchecked as European and Japanese governments were slowly accepting to accumulate dollar-denominated assets rather than dumping them on the market.[7] After all, American financial markets and their London-based satellites were supposedly deep and liquid to provide good rates of return.

However, it took a while until American finance and the pure dollar standard began to function organically. In fact, the possibility for American financial markets to absorb global flows of funds was hindered by an adverse domestic scenario marked by inflationary pressures and economic stagnation. As a result, the US hegemonic design of 'financialisation' was constantly under threat by outflows of capital and the declining value of the dollar. But the 'monetarist' turn of the Federal Reserve (FED) in August 1979 marked a new trajectory in US history. The FED deflated the domestic economy by letting interest rates increase dramatically, therefore curbing inflationary tendencies.[8] In so doing, it consolidated American financial power in the global economy – that is, US power exerted through financial and monetary means.[9] The US now represented a safe haven for global capital flows by providing liquid and innovative financial markets. These markets were embedded in an anti-inflationary environment which, above all, was guaranteed by a subordinated working class.[10] In a word, the pure dollar-standard order gained global confidence. What is more, American financial power came to represent a benchmark for other societies (e.g. Europe) to address their own class-based tensions by financialising their economies and imposing the neoliberal discipline of working class subordination and welfare state dismantling.[11]

Unfortunately, whilst the 1979 monetarist 'coup' of the FED helped Western economies come out of the 1970s crisis in a financialised guise, its skyrocketing interest rates set the stage for the debt crisis in the Third World.[12] At this point, the IMF failed to advance a thorough critique of American financial power and the adaptation of its financialised practices across the Western world. On the opposite, the Fund adhered to the discourse of global market efficiency and simply accepted the US-led financialisation at face value. It is in this context that the IMF revealed its third sphere of intervention: it became an *intermediary* between the economic policies of the so-called Washington Consensus and the developing world. In fact, after Mexico defaulted in August 1982, the IMF – together with the World Bank – led the structural adjustment programmes for the debtor countries. The IMF recipe combined the removal of restriction on current and capital accounts, the liberalisation of domestic financial systems, the dismantling of labour market rules, the de-indexation of wages and so on.[13]

Ironically, the liberalisation of financial markets in developing countries did not give the results that the Washington Consensus had forecast. In fact, emerging markets suffered from large capital flights and financial contagion, as demonstrated by the Mexican and Asian crises of the 1990s.[14] Hence, in this critical context, the IMF developed a fourth operational mode: *lender of last resort* in international crises. For instance, the Fund recently exerted this function for Greece, Portugal and Ireland.

In sum, the IMF supported the American hegemonic order by correcting its deficiencies through four overlapping functions. This is the reason why the Fund is today unable to attentively and critically monitor global affairs. What is to be done? It is clear from its modus operandi that the IMF is afflicted by a lack of universality in its mandate. In a word, the Fund does not represent a place for collective action, but an executive branch of American financial power and its allies. Hence, a reform of the IMF implies reconsidering the reproductive modalities of US power in the era of financialisation, so that this Institution could finally fulfil a truly universal mission.

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[1]The letter was published by CNN at http://cnnibusiness.files.wordpress.com/2012/07/doyle.pdf [accessed in August 2012]

[2]. See Aglietta, M. (2000), 'The International Monetary Fund and the International Financial Architecture',*CEPII Document de travail No. 2000-08;* http://ideas.repec.org/p/cii/cepidt/2000-08.html [accessed in August 2012]. Aglietta identifies four core (and overlapping) activities that the IMF developed throughout its history: i) mutual assistance between member states; ii) issuer of an 'aborted' world currency; iii) intermediary between the

Washington Consensus and emerging markets; iv) lender of last resort in various international crises.

[3]. Amidst the many resources on the Bretton Woods negotiations and the history of international financial affairs, see Helleiner, E. (1996), *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s,* Ithaca: Cornell University Press.

[4] On the history and current role of SDRs, see Wilkie C. (2011),*Special Drawing Rights. The First International Money*, Oxford: Oxford University Press.

[5] Konings, M. (2008), 'The Institutional Foundations of US Structural Power in International Finance: From the Re-emergence of Global Finance to the Monetarist Turn', *Review of International Political Economy*, 15:1, p. 35-61.

[6] Gowan, P. (1999), *The Global Gamble: Washington's Faustian Bid for World Dominance,* London: Verso, p. 21.

[7] Hudson, M. (2003), *Super Imperialism. The Origin and Fundamentals of U.S. World Dominance ,* London: Pluto Press, p. 348-350.

[8] It is important to note that the monetarist turn failed in its theoretical principles. But, the manoeuvre was nonetheless successful in curbing inflation and normalising the American society in line with the construction of the 'dollar-Wall Street regime'. About how this happened, see Konings, 'The Institutional Foundations…', op. cit.

[9] Peter Gowan defined these phenomena as the 'dollar-Wall Street regime'. See Gowan, *The Global Gamble,* op. cit.

[10] Panitch, L. and S. Gindin (2008), 'Finance and American Empire', in *American Empire and the Political Economy of Global Finance*, ed. L. Panitch and M. Konings, London: Palgrave Macmillan, p. 34.

[11] About Europe vis-à-vis American financial power, see Ryner, M. (2007), 'US Power and the Crisis of Social Democracy in Europe's Second Project of Integration', *Capital and Class,* 93:7, p. 7-26. On neoliberal discipline, see Harvey, D. (2005), *A Brief History of Neoliberalism*, Oxford: Oxford University Press.

[12] Dumenil, G. and D. Levy (2005), 'The Neoliberal (Counter-)Revolution', in *Neoliberalism. A Critical Reader*, ed. Alfredo Saad-Filho and Deborah Johnston, London: Pluto Press, p. 17.

[13] For a classic work on the Third World debt crisis, see George, S. (1988),*A Fate Worse Than Debt: The World Financial Crisis and the Poor,* New York: Grove Press.

[14] Harmes, A. (2001), 'Institutional investors and Polanyi's double movement: a model of contemporary currency crises', *Review of International Political Economy*, 8:3, p. 389-437.