The Case of the International Monetary Fund and the 2008 Global Financial Crisis

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In 2008, a speculative mortgage crisis originating in the United States (US) turned into a full-blown financial crisis, which then spread well beyond the US borders, becoming a global financial crisis (GFC) (Broome, et al., 2012; Stockhammer, 2015). Even after more than half a century's experience overseeing national and international economic affairs, the key financial institution responsible for preserving the stability of the global economy, the International Monetary Fund (hereinafter IMF or the Fund), was unable to prevent or even forecast the worst financial crisis since the 1930s (Livingston, 2009). This dissertation demonstrates that the IMF has been closely related to international economic and political developments since its creation in 1944, reflecting the underlying assumptions of its most influential member states when it comes to generating policy advice. This research identifies the two different types of IMF member states, namely its contributors, such as the US or the United Kingdom (UK) and its borrowers, such as Argentina and Greece. Bearing in mind these remarks, it will be examined here the extent to which the Fund has been able to learn the lessons from the 2008 GFC, within the broader context of global governance.

At the onset of the GFC, many commentators such as Crouch (2011) and Stiglitz (2013) suggested that the crisis would serve as an opportunity to question the beliefs underpinning the economic theory of neoliberalism and its obsession towards self-regulating markets. In contrast, Ortiz- Ospina and Roser (2016) argued that thanks to the rapid growth resulting from economic liberalisation, a significant number of people had been taken out of poverty. Fast economic growth and less poverty can be perceived as positive signs of a healthy world economy. However, a closer inspection shows a somewhat different picture. Maxton and Randers (2014: 73) highlight that despite decades of rapid economic growth, wealth inequality has been widening. According to Credit Suisse (2016: 11), "while the bottom half of adults collectively own less than 1% of total wealth, the richest decile (top 10% of adults) owns 89% of global assets, and the top percentile alone accounts for half of total household wealth".

Wealth inequality matters since it is closely related to the GFC. Stockhammer (2015: 936) provides sufficient evidence to show that a key factor behind GFC was the "interaction of deregulation of the financial sector with the effects of rising inequality". According to Livingston (2009), Piketty (2014) and Stockhammer (2015), lower wages, rising inequality and an increasing availability of condition-free loans led poorer families to spend significantly more money than what they were earning, and, particularly in the US, many low-income families were re-mortgaging their properties in order to finance consumption. In short, even if the US economy appeared to be growing, growth was financed by debt. This worked with increasing house prices but when the trend reversed, the conditions were ripe for a perfect economic storm. The GFC showed that although the global economy, as a whole, experienced a period of fast economic growth, economic inequality became a vulnerability, which undermined that growth, to the extent that the entire global economy collapsed.

Kannan et al., (2014: 249) note that "Credit growth during the expansion preceding financial crises is higher than during other expansions, and this is associated with higher-than-usual consumption as a share of GDP (Gross Domestic Product) leading up to a peak". This is precisely what happened in the US just before the crisis spread globally becoming a GFC. Moreover, this is what the IMF failed to highlight *before* the crisis began.

This indicates that if the IMF was genuinely interested in fulfilling its role towards preserving the stability of the global financial system, the GFC should have triggered a period of major reform within this key international organisation, in order to prevent a reoccurrence of the crisis. IMF's Managing Director at the time Dominique Strauss-Kahn (2011, cited in International Monetary Fund, 2011: non-paginated), stated that 2008 was "a year of humility". Also, almost a decade after the GFC, IMF's Director of Communications, Gerry Rice, still acknowledges that "reducing inequality can help to support durable growth, while well-designed redistributive policies do not hamper but can even support growth if appropriately designed" (Rice, 2017, cited in Sheil and Stilwell, 2017: non-paginated). Yet, at the same time, in 2017 the organisation is advising Greece, a country with deep financial problems, to "take further decisive steps to privatise state assets—including in the area of energy, where costs remain high due to extensive state interference" (International Monetary Fund, 2017b: 30). IMF's Managing Director and Director of Communications, respectively, suggest a change of focus from pursuing growth and privatising everything at any cost towards understanding an economic reality by which the growing gap between the rich and the poor has a direct impact on economic stability. However, IMF's policy advice appears to be in conflict with the proposed 'new approach'. The conflict between the Fund's apparent narrative of change, distancing itself from the blind belief in self-regulating markets and its financial policy advice suggest there are some significant tensions within the organisation.

The specific research problem concerning this study is IMF's post-2008 GFC conflict between narrative and policy advice strategy. The key aim of this dissertation will be answering the following research question: To what extent has the IMF learned the lessons from the 2008 GFC?

Historical Background to the Problem

The Great Recession

In 1928, during his annual Message to Congress, US President Coolidge stated: "no Congress of the United States ever assembled, on surveying the state of the Union, has met with a more pleasing prospect than that which appears at the present time". (Coolidge, 1928, cited in Woolley and Peters, 2017: non-paginated). Less than a year after Coolidge's reassuring message, the US economic boom of the 1920s was abruptly brought to an end by the 1929 Wall Street crash, leading to banks failing, major businesses collapsing and followed by high unemployment (Kalb et al., 2007). The US economic downturn eventually turned into a full-blown recession, spreading beyond the US borders and becoming the Great Depression.

Galbraith (1997: xii) describes speculative episodes, such as the one that triggered the 1929 Wall Street crash, as a "basic and recurring process": stock prices go up, attracting buyers' attention, as a result of which prices continue increasing as well as the optimism of those benefiting from this ongoing process until suddenly, there is a crisis of confidence. What follows a serious crisis in the stock market is a spread of the crisis to the 'real' economy. Piketty (2014) notes that simultaneously with the speculative events of 1929, there was also a significant increase in the share of the upper decile in US national income, by far, the largest increase in the 20th century. Livingston (2009: 38) adds that while the upper decile in US national income was enjoying a significant wealth rise, it became more attractive for those able to do so to speculate at Wall Street than to invest in goods' production, this led to an increase in unemployment, followed by a decrease in wages. The highest peak of wealth inequalities in the history of 20th century US, preceding 1929 Wall Street crash, is relevant to this study because the next peak of wealth inequalities in the US was in fact in 2008, just before the GFC (Piketty, 2014). It is crucial to make a comparison between the Great Depression and the 2008 GFC since paradoxically, the country where both crises originated, the US, became IMF's main shareholder when the organisation was established, and continued having, by far, the highest voting power within the organisation after the 2008 GFC (International Monetary Fund, 2017d). Stiglitz, (2013: 290) argues that what in the end pulled the US out of the Great Depression was increased government spending "in anticipation of the Second World War". The Great Depression ended earlier in Germany for the same reasons, the country was expanding its military in preparation for war. Both examples showed in a way a sort of 'inadvertent Keynesianism' (Heywood, 2011: 103).

The birth of Keynesianism

Writing during the 1930s Great Recession, British economist John Maynard Keynes (1936) argued that the best way to secure a stable economy is by ensuring a sustainable level of demand for goods and services, which can only be achieved by reaching a high level of employment. Keynes suggested that the negative effects of economic crises can be alleviated with active governmental policy responses. Keynes' *General Theory of Employment, Interest, and Money* (1936) was a head-on challenge to the pre-1929 Wall Street crash belief in the efficient nature of self-regulating markets to allocate resources better than governments. Keynes' message was clear: if left alone, markets will simply follow the business cycle, which inevitably leads to boom and bust periods. Keynes proposed to address the instability of markets with an active role for governments in regulating markets and producing effective and redistributive economic policies.

Based to a significant extent on Keynes' ideas, during the 1940s nation states from across the world started to create a formal institutional architecture for global governance, willingly transferring a degree of decision-making power to newly created global institutions. This being said, the existing power relations at the time were skilfully built into the newly created international organisations. This dissertation will return to that crucial point in due course.

In 1944, representatives of the US, the UK and 42 other states met at the UN Monetary and Financial Conference at Bretton Woods to establish the institutional architecture for the post-war international financial and monetary system (Salvatore, 2016: 593). The most significant outcome of the Bretton Woods process was the creation of three new bodies, the International Monetary Fund (IMF), The International Bank for Reconstruction and Development (IBRD), better known as the World Bank, and The General Agreement on Tariffs and Trade (GATT), later succeeded by the World Trade Organization (WTO) (Heywood, 2011).

Keynes had initially proposed the creation of a global bank, believing that one of the main reasons for international financial crises was the trade imbalance between nations (Monbiot, 2008). Keynes proposal included providing financial loans to states experiencing a deficit, in exchange for charging those states a certain interest for receiving loans. Keynes also recommended charging interests to states that created a large surplus. The proposed system would discourage large trade deficits or surpluses. The money coming from interests would serve as the financial funding for Keynes' 'International Clearing Union' (Temin, 2010). Steil (2013) notes that senior US Treasury Department official, Harry Dexter White, had a different idea to resolve the problems facing the global economy. White proposed the creation of an International Stabilisation Fund, which instead of charging interests to countries generating a trade surplus, would request a specific percentage of each country's economy, in order to finance the Fund's operations. In return for financial support, the new Fund would allocate a number of votes directly related to the size of each economy. The IMF was formally established in 1944, seeking to "build a framework for economic cooperation to avoid a repetition of the competitive devaluations that had contributed to the Great Depression of the 1930s" (International Monetary Fund, n.d. c: non- paginated).

In 1944, at the very heart of the newly created IMF, was the 'fixed exchange-rate system', which involved the obligation of the US to maintain the price of gold fixed at $35 per ounce. Subsequently, the other IMF members were expected to anchor their own currencies to the price of the US Dollar (Salvatore, 2016: 593). The idea behind this policy approach was that financial speculation would be less likely to destabilize the economy under a fixed exchange-rate system' (Salvatore, 2016: 560). With IMF's creation, states agreed to transfer a degree of sovereign economic power to a global financial actor, which in return promised to "ensure the stability of the international monetary system" (International Monetary Fund, n.d. a: non-paginated). The IMF did not reflect exactly the type of institution that Keynes had in mind. Nevertheless, the new type of economic policies brought, for the following three decades, "fast growth, stable prices and rising equality" (Centeno and Cohen, 2011: 3). For almost three decades after the Second World War, Keynesianism constituted the dominant paradigm for understanding the determination of economic activity.

The birth of neoliberalism

Simultaneously with the emerging new monetary order, underpinned to some extent by Keynesianism, a parallel way of thinking was slowly unfolding, supported by a number of economists who believed that state intervention could only have a negative impact on economic growth: the political theory known today as neoliberalism was thus born. At the core of neoliberalism is the belief that the economic future should not be shaped by governments pursuing *collective* goals, but by the interaction of *individual* decisions taken within the framework of free-markets. Friedman (1951: 4), for instance, an early and strong supporter of neoliberalism, equated free-markets with individual freedom, suggesting that "by leaving the ownership and operation of economic resources predominantly in private hands, they preserve a maximum of individual freedom and liberty". Neoliberalism is also characterised by a strong belief in the effectiveness of economic competition as an essential tool for social organization (Harvey, 2011: 2; Hayek, 2010 [1944]: 38). There is a strong individualistic conviction at the heart of neoliberalism, suggesting that governments do not have responsibilities towards people, only people should be responsible for the choices they make (Friedman, 1978). Broadly speaking, for neoliberals, there is a minimal role for national governments, which should only protect citizens against fraud and serve as facilitators towards deregulation, economic liberalisation and privatisation, transferring as much as possible public services and activities to the private sector (Friedman, 1978). Free markets and free trade are paramount for neoliberals and where markets do not exist, for example in relation to water education or healthcare they "must be created, by state action if necessary" (Harvey, 2011: 2).

The 1970s Neoliberal turn

The post-war 'economic-boom' and optimism suffered a major setback in the early 1970s. There was a significant number of overlapping crises, which unfortunately, this dissertation cannot discuss in detail, although it is important to mention briefly at least some of them. First of all, the US started facing for the first time since 1945 serious raising international competition, as a result of which, decreasing international confidence in the US dollar led dollars' holders to demand an exchange of their dollars for gold (Reus, 2009). Moreover, as a result of US policies in the Middle East in support of Israel, the Organization of Arab Petroleum Exporting Countries (OAPEC) announced an oil embargo against the US, UK and other major industrialised powers, triggering the so- called 1973 OAPEC oil crisis. Also, 1973- 1974 marked a two-year 1973–74 stock market crash, affecting all major stock exchange markets across the world, particularly the London stock exchange and the New York stock exchange. What must be stressed here is that in a simplistic way, 'government intervention', thus Keynesianism, was blamed as the culprit to the economic and political crises of the 1970s, as a result of which, a significant paradigm shift marked IMF's policy approach for the following decades. One particular policy response in that period was in 1971, when US President Nixon unilaterally "announced a 'temporary' suspension of the dollar convertibility into gold" (International Monetary Fund, n.d.c: non- paginated). By 1973 the major currencies began to float against each other and since then "IMF members have been free to choose any form of exchange arrangement they wish" (International Monetary Fund, n.d.c: non- paginated). Departing from the 'Bretton Woods fixed exchange-rate system' was only the beginning of a completely new chapter in the history of the IMF and the global economy as a whole.

The new approach materialised under the broad umbrella of the so-called Washington Consensus (Williamson 1990). Babb (2012: 274) notes that since the two major international financial organisations at the time, the IMF and the World Bank were based in Washington, the term 'Washington Consensus' started being used in order to refer to these two institutions' new practice of conditionality. The practice of conditionality involves providing financial assistance to member states on the condition that borrowing countries implement certain economic policies (Babb, 2012). Thus, the IMF started making loans to governments in financial distress in exchange for policy reforms.

Not everyone agreed with the thinking behind the neoliberal Washington Consensus. The UN's*World Commission on Environment and Development* (World Commission on Environment and Development, 1987: 63), for instance, strongly argued that "austerity programmes laid down by the IMF as a prerequisite for extending credit to meet short-term balance-of-payments needs became particularly onerous after the debt crisis". Furthermore, the same report added that "Latin American natural resources are being used not for development or to raise living standards, but to meet the financial requirements of industrialized country creditors" (World Commission on Environment and Development, 1987: 67). In spite of some criticism towards the 'neoliberal turn', which was clearly reflected in IMF's conditionality policies, the Washington Consensus marked the shape of things to come in global economic governance.

This chapter highlighted the way in which the crises of the 1930s and 1940s led towards a new understanding that economic, political, and social issues were interrelated and as such had to be addressed with policies integrating a broader approach. It was in that context, during the post-war consensus, that a new architecture of global governance was created, including international institutions with a mandate to prevent and resolve international problems. One of those institutions is the IMF, an “international agency responsible for ensuring global financial stability” (Stiglitz, 2013: 76). Nevertheless, a number of crises in the 1970s marked a new transnational paradigm shift away from Keynesianism and towards a new type of economic liberalism called neoliberalism, with the IMF reflecting this new paradigm in the way it has operated ever since. Neoliberalism endorsed a minimal role for national governments that led to deregulation, economic liberalisation, and privatisation with a strong belief that economic growth equates with economic stability. The next chapter will identify the implications that the ‘neoliberal turn’ had on the global economy.

The IMF and the 2008 Global Financial Crisis

The Argentine Great Depression

In 2000, unwittingly following Coolidge’s 1928 example, noted in chapter 1, Argentine President de la Rúa gave his national Christmas message forecasting that 2001 would be a great year for his country (de la Rúa, 2000, cited in Cufré, 2017). De la Rúa’s ‘prediction’ was based on a loan from the IMF, which, according to him, would allow his country to steer out of financial difficulties and secure a bright future for the Latin-American nation (Nemiña, 2012). Argentina was deeply in need of IMF’s financial assistance. Nonetheless, the Fund’s loan had been agreed following the underlying principles of the Washington Consensus. Babb (2012: 274) notes that since the neoliberal turn of the late 1970s, IMF’s strong commitment to its practice of conditionality implied that “if the borrower was found to be out of compliance, the lender had the right to suspend disbursements”. This is precisely what happened to Argentina in 2001. The South American country missed the deficit targets imposed by the IMF, and in December 2001 the Fund, setting aside its responsibility towards preserving financial stability, decided to stop releasing its previously agreed loan (Bustelo, 2001).

Coolidge had based his 1928 positive economic forecast on the assumption that a fast growing economy could be equated with a healthy economy. In contrast, President de la Rúa based his prediction on the hope that an IMF loan would help his country through an already existing economic crisis. It may seem inadequate to compare these two examples in such different contexts. However, there is one key similarity, which must be mentioned here; the roots of US growth and the cure for the Argentine economy were both intrinsically self-defeating and based on wishful thinking. The 1920s US economic boom pursued a blind belief in everlasting growth (Heywood, 2011), hardly the ideal recipe for a stable economy. Similarly, while the Argentine economy was in desperate need of financial support, the conditions attached to IMF’s loan required the borrowing country to reduce its deficits in order to meet the Fund’s targets. The deficit reduction demands were not *because* the Argentine economy was growing, but *in spite* of an economic crisis. The efforts employed by Argentina to reduce its deficit led to lower tax revenue and higher public expenditure, thus in the end, increasing the deficit. As a result, the Fund suspended its loan for Argentina when the country needed IMF’s help the most (Bustelo, 2001). The Argentine economy collapsed only days after the IMF announced it was ending its lifeline credit. President de la Rúa resigned in December 2001, half-way through his presidential term (Cufré, 2017; Joyce, 2013).

It would be unreasonable to argue that the IMF was the only culprit for Argentina’s economic meltdown in 2001. Nevertheless, it is important to acknowledge that its response to the crisis worsened the problem. In 2003, the Fund published a report evaluating the lessons learned from the Argentine crisis. The report found that the IMF had been complacent during the economic boom of the 1990s acknowledging there were evident vulnerabilities present in the Argentine economy even during years of significant economic growth. Nevertheless:

“there was little sense of urgency to address these vulnerabilities at that time, given the widespread eagerness to interpret the boom as the onset of an era of permanently higher growth founded on structural reforms and sound macroeconomic policies” (International Monetary Fund, 2003: 67).

In other words, the IMF had been guilty not only of failing to fix the roof while the sun was shining; it appeared to have been under the illusion, that the fast growing Argentine economy of the 1990s would continue growing indefinitely.

The 2001 Argentine economic crisis is relevant to our interest in IMF's relationship with the 2008 GFC because the Fund's own views of its handling of the crisis show the extent to which the IMF missed a precious opportunity to reassess its understanding of economic cycles of boom and bust. Had the Fund learnt its lessons from the Argentine crisis, its acknowledgement that the crisis had been poorly addressed should have triggered a process of institutional reform. This could have prevented the global events of 2008, or at least provided adequate warnings before the GFC begun. Nonetheless, the Argentine Great Depression, and IMF's involvement with it were considered by the Fund as an isolated failure, as if the economic premises of a Latin American country were different from those of the global economy.

In 2005 IMF director of research at the time, Raghuran Rajan (2010), warned emphatically that there was a toxic combination of high housing prices around the world and increasingly excessive rewards in global financial centres for high risk taking. In response to Rajan's warnings, former Secretary of the US Treasury, Lawrence Summers, suggested that Rajan's concerns were based on a "slightly Luddite premise" (Summers, 2005, cited in Knight, 2005: 387). For the sake of clarity, the Luddites were nineteenth century weaver and textile workers who allegedly destroyed machinery they perceived to be threatening their jobs (Jones, 2006). Summers' attack on Rajan's warning went further: he contended that too many rules could actually damage the positive outcomes of 'financial innovation' (Summers, 2005, cited in Hirsh, 2013: non-paginated). Rajan's warnings were not an isolated development, Hindmoor and McConnell, (2013), identified another twelve economists that linked US house prices instability with the possibility of an economic downturn. Nevertheless, the IMF firmly supported Summers' stance on the matter, as its 2005 Global Financial Stability Report suggests:

"The resilience of the global financial system has further improved in the past six months, largely because of solid global economic, buoyant financial markets, and continued improvement in the balance sheets of the corporate, financial, and household sectors in many countries" (International Monetary Fund, 2005: 1)

IMF's positive prospect for the global economy was based on a flawed and over simplistic premise. Economic growth was perceived as the only important element needed for a resilient global financial system. However, how widely was economic growth being shared and which financial risks were being taken in order to achieve it? Was growth fuelled by investment or by debt? All of these questions appear to have been irrelevant at the time for the IMF, to the extent that there was a widely shared belief at the time that "major crises were unlikely and the IMF would not need to play the role of 'global fire-fighter'" (Independent Evaluation Office, 2014: 18). It is particularly concerning that only a year before an economic crisis of such magnitude, the organisation responsible for preserving the stability of the global financial system was suggesting that 'major crises were unlikely'. 2007's IMF seems to be a prime example of what Hindmoor and McConnell (2013) describe as a lack of strategic foresight, raising fundamental questions regarding the organisation's capacity to understand the global economy and act accordingly. As late as 2007, when evaluating the state of the US economy, the IMF suggested that "recent fiscal developments in the United States have been considerably more favourable than expected" (Swiston et al., 2007: 54). The main reason for the IMF to make that assumption was that "the (US) Administration's goal of halving the deficit by 2009 was achieved three years early" (ibid: 54). Once again, that particular report highlights IMF's obsession with assuming that a country able to reduce its deficit, which is a desirable development, can be equated with having a sustainable economic strategy. Although if the US was able to half its deficit three years early it was 'thanks' to an increase in its citizens' debt.

The Global Financial Crisis

According to Dooley and Hutchison (2009) the roots of the GFC can be traced to 2006 US subprime market, when house prices started to decline. The subprime market is the market where mortgage credit is provided to borrowers with questionable credit history (Stockhammer, 2015). Hahnel (2015) explains in minute detail how the subprime market evolved in the US. Concisely, for half a century, US mortgage providers used to assess the credit worthiness of every potential borrower and make a decision based on that initial assessment regarding whether or not to grant a mortgage. Banks used to dedicate significant attention to consider each mortgage application, since banks would be holding every loan as an asset in their books for the duration of the mortgage, sometimes for up to three decades (Hindmoor and McConnell, 2013). However, financial de-regulation allowed banks to sell mortgages off to further creditors almost immediately after granting a mortgage. The first perverse incentive which Hahnel (2015) highlights is the fact that banks, as well as the new actors in the mortgage industry, started taking higher risks. One of the key new buyers of those mortgages was Wall Street. To complicate matters further, Wall Street started dividing each mortgage into smaller parts and packaged parts from different mortgages into something called "securitized debt instruments", and then re-sold once again those packages to investors inside as well as *outside* the US (Hahnel, 2015). Thus, when the housing bubble burst in the US, "the US sub-prime crash in 2007 that gave way to the global 'credit crunch' of 2007-2008, turned into a wholesale global financial crisis in 2007-2008" (Broome, et al., 2012: 4).

How did the speculative subprime crisis spread to the real economy? It is essential to mention here a specific US policy created in order to address the speculative problems of the 1930s. In 1933, the Glass-Steagall Act "strictly separated deposit-taking commercial banks from the 'investment' banks whose wild speculation had caused the Great Depression" (Merriman, 2014: non-paginated). In 1999, the Glass-Steagall Act was repelled, allowing US commercial and investment banks to merge once again. In short, since 1999, deregulation allowed US banks to 're-invest' their customers' savings into risky financial operations. It is essential to reiterate that IMF's mandate is limited to offer policy advice to member states, it has no enforcement power, other than interrupting loans when a borrowing country is perceived as not complying with its demands. Nevertheless, in the specific case of the US, it is clear that the Fund did not foresee the financial crisis; as late as 2007, the Fund was still praising the positive impact that US financial stability was having on the global economy (International Monetary Fund, 2007: 10).

IMF's ex-ante response to the Global Financial Crisis

The IMF may have been downsizing just before the GFC, however, the crisis truly became a game-changer for the Fund. Referring to the GFC, Dominique Strauss-Kahn, IMF Managing Director, stated "today is the proof that the IMF is back" (Strauss-Kahn, 2008 cited in Grabel, 2011: 808). According to the IEO, the Fund was able to quadruple its resources and "lent almost $400 billion to 38 countries to help them deal with the crisis" (Independent Evaluation Office, 2014: 18). Stockhammer (2015: 937) argues that as a direct result of the GFC "the principles of neoliberal free-market economics were suspended for a few weeks". Not only had the IMF suddenly become 'relevant' once again, national governments and central banks were 'back' as well. Piketty (2014: 472) describes the phenomenon at the time as "the crisis of 2008 and the return of the state". The scale of the crisis was so large, and private banks and financial sectors so poorly prepared for it, that only central banks could rescue the 'too big to fail banks'. Moreover, only central banks could increase the IMF budget. Vulnerable countries such as Greece and Spain were saved by what Heywood (2011: 108) called "the biggest bailout in the history of modern finance", mostly financed by the European Central Bank and the IMF.

Only the power of the state could increase IMF's resources or provide direct and strong financial assistance to crumbling economies. Yet, high profile politicians such as former UK Prime Minister Blair, insisted that public policies which favoured the 'big state' were "doomed to fail" (Blair, 2010: 686), using the neoliberal argument that governments should empower individuals, so they can make their own choices instead of taking decisions on behalf of their citizens. Paradoxically, the GFC showed that the neoliberal adventure could not be saved by free-markets but by national governments instead. Even after the GFC, Blair (2010: 666), continued insisting "the market' did not fail. One part of one sector did".

The particular 'sector' of the market which failed happened to trigger a financial crisis which led to a sharp increase in global unemployment of over 30 million people between 2007 and 2010, leading to a decade of austerity (International Monetary Fund, 2010a). Blair downplayed the importance of the financial crisis. In contrast, UK Prime Minister at the time of the crisis, Gordon Brown, argued that 'the old Washington consensus is over' (Brown, 2009, cited in Weisman and Macdonald, 2009). However, to what extent was the Washington Consensus truly 'over'? IMF's first reaction to the crisis was in line with Brown's initial assessment. The Fund's Managing Director at the time, Dominique Strauss-Kahn (Strauss-Kahn, 2011, cited in International Monetary Fund, 2011: non-paginated), accepted that "what we have learnt over time is that unemployment and inequality can undermine the very achievements of the market economy, by sowing the seeds of instability". The GFC appeared to be leading to a new paradigm shift. Immediately after the crisis, IMF's Managing Director showed signs he understood that the policies the organisation had been pursuing since the late 1970s had led to unsustainable growth. Nevertheless, unless the new understanding reached the political leaders representing the Fund's contributors, and help them to understand that unemployment and inequality deserve as much attention as the pursuit of economic growth, it cannot be argued that meaningful learning has taken place at the Fund. The next and final chapter will finally answer the key question concerning this dissertation. To what extent has the IMF learned the lessons from the 2008 GFC?

The IMF in the aftermath of the Global Financial Crisis

Chapter 2 explored IMF's ex-ante performance in relation to the GFC. This chapter will focus on the Fund's mid-term and ex-post approaches, evaluating the extent to which the IMF implemented any positive changes as a result of the GFC. As chapter one showed, the crises of the 1970s had an enormous impact on the way the IMF operates, leading to a paradigm shift by which the neoliberal ideology materialised into the policy approach of the so-called Washington Consensus. In 2008, the neoliberal ideas that had been shaping most of the global economy were challenged by the GFC (Crouch, 2011). Yet, has the Fund departed from the Washington Consensus as a result of the 2008 GFC? We now have evidence to suggest that repelling policies such as the 1933 Glass-Steagall Act, which in the US separated responsible savings from speculative financial transactions, greatly contributed towards the 2008 financial crisis. Crouch (2011: 163) argues that the GFC shows "the neoliberal model has now met its own crisis in the recent banking and finance debacle. Neoliberalism is wearing out, as all models do". However, the fact that neoliberalism was challenged by the GFC does not automatically mean that the IMF departed from the Washington Consensus in a permanent and meaningful manner.

Neoliberalism: fantasy versus reality

Confronted with strong empirical evidence against the claim that self-regulating markets are more effective for allocating resources than national governments' regulatory policies, in a long lecture in defence of free-markets, Zanotti (2013: non-paginated) argued that:

"Numbers and data are a false conception of reality. Reality does not consist of numbers, data and facts. Reality consists in being able to evaluate the social situation in the light of true ideas which are the fruit of the deepening of intellectual abstraction".

Unwittingly, Zanotti (2013) acknowledged that at best, the true source of neoliberal 'wisdom' is intellectual abstraction. The claim that we can fully understand the world surrounding us by the art of contemplation is not new. After years of deep philosophical consideration, over 2,000 years ago Aristotle reached the 'conclusion' that the Earth was at the centre of the universe (Theodosiou, et al, 2010). As a result of empirical observation and thanks to technological innovation, in 1609 Galileo was able to prove that in fact, the Earth goes round the sun, which in turn is at the centre of our solar system (Moody, 1951). In other words, there is a *reality*, which is independent from our beliefs, regardless of how strong these may be. Empirical enquiry can help us evaluate the extent to which our beliefs are related to reality or otherwise. It may seem improper to find Aristotle's and Galileo's rival astronomical theories mentioned in a dissertation focused on IMF's role within the 21st century international political economy. However, it is crucial to make a clear distinction between Aristotle's *assumptions*, based on his limited astronomical knowledge and Galileo's *conclusions*, based on empirical enquiry. Neoliberalism belongs to the former category. A good example to support this claim is Wesbury's (2014: non-paginated) suggestion, when after three decades of financial de-regulation the global economy collapsed, yet he argued that what we really need is "faith that the free-market actually works". Westbury is not alone in ignoring the extent to which the GFC highlighted the illusory nature of free-markets' fundamentalism. Gregory (2015: non-paginated), for example, produced a report for the Organization for Economic Co-operation and Development (OECD) arguing "the most successful anti-poverty movement in history is called 'the free market'". Moreover, Salsman (2013) contended that it was governmental intervention in markets that triggered the GFC and subsequent recession. Salsman added that the best solution for the global economy would be further deregulation.

IMF's mid-term approach towards the Global Financial Crisis

In terms of IMF's immediate action to ameliorate the negative effects of the 2008 GFC, there was an important departure from its past practices: it offered an unprecedented level of fiscal stimulus, with its Managing Director, Strauss-Kahn, requesting the Fund's staff to keep conditionality for loans as low as possible (Independent Evaluation Office, 2014). Also, thanks to its Emergency Financing Mechanism (EFM) the IMF was able to start approving loans within 48-72 hours after agreement between the Fund and each national government agreement (Gutner, 2015: 11).

The apparent change of direction for the IMF was also reinforced by a significant number of reports published during, as well as long after the GFC. For instance, in 2016 IMF's Finance & Development Team published a report entitled *'Neoliberalism, oversold?'* (Ostry et al., 2016: 38), arguing that the neoliberal agenda, resting on the two planks of increased competition, achieved through deregulation and a smaller role for the state, achieved through privatisation, instead of delivering growth, had actually "increased inequality, in turn jeopardizing durable expansion". Inequality matters because, according to another IMF report, produced by its Strategy, Policy, and Review Department (Dabla-Norris et al., 2015: 7) recent evidence shows that an increase in the income of the richest 20% percent leads to lower GDP, while an increase to the income of the bottom 20% can actually increase GDP. The report clearly states that when the top earners gain a disproportionately higher share of the wealth produced in any one country, this has a negative impact on the overall economic growth and financial stability (Dabla-Norris et al., 2015).

In particular relation to national public debt, Ostry et al. (2016: 40) stated that:

"Faced with a choice between living with the higher debt—allowing the debt ratio to decline organically through growth—or deliberately running budgetary surpluses to reduce the debt, governments with ample fiscal space will do better by living with the debt.".

In short, IMF's Finance & Development Team's report warns about the risks involved with the obsession of reducing public debt when it is not a good time for doing so.

Conflicting signals between continuity and change

Connolly, (2015: 2) contends "the process of lesson-learning is often a temporary phenomenon and does not necessarily equate to sustained change over time". Regrettably, this is what happened to the Fund soon after the global economy started recovering from the negative effects of the GFC, showing clear signs that IMF's 'transformation' had been short lived. Some sections of the IMF continued using the post crisis narrative of change, suggesting that the Fund had learned the lessons, yet, in terms of policy implementation, it was almost as if the crisis had never happened (Güven, 2012). IMF's IEO (Independent Evaluation Office, 2014: 1) acknowledged that although the Fund's calls for global fiscal stimulus in 2008-09 had a significant and positive impact in the global economy, as soon as 2010 the Fund quickly reversed its strategy by asking some of its member states to shift back again towards fiscal consolidation. Austerity policies started being endorsed in order to reduce national deficits, only two years after the worst financial crisis since the 1930s and while unemployment remained high (Independent Evaluation Office, 2014). Stiglitz (2013: 290) compares IMF's obsession with post-2008 austerity measures with medieval doctors who believed in bloodletting, but "when the patient did not get better argued that what they really needed was another round". The IMF is not alone in its denial of the negative effects of the blind belief in self-regulating markets. Westbury (2014: non-paginated), for instance, claimed that we should look at the bright side of things and focus on the fact that the last forty years represent thirty-five years of growth. Westbury (2014) ignores the fact that as a direct result of the GFC, globally, unemployment reached a high record number of at least 210 million people (International Monetary Fund, 2010a). Furthermore, Stiglitz (2014, cited in Oxfam, 2014: 2), stresses the fact that it is the poorest members of society who suffer the most toxic effects of economic crises and high unemployment, especially in terms of unequal opportunities and outcomes in life.

Returning to Connolly's (2015) suggestion that a post-crisis period of lesson- learning does not necessarily lead to sustained change over time, it is important to identify the key barriers which prevented the IMF from transforming the GFC into an opportunity to reassess its approach and be better prepared for future crises. This study identifies at least two key vulnerabilities at the heart of the Fund, its lack of enforcement power and its intra-organisational tensions.

The first vulnerability noted here relates to the fact that even if the Fund had advised the US government, for instance, to continue imposing on its banks a separation between savings and speculative investments, the Fund has no power to impose financial regulatory policies on any member state. In other words, had the IMF been able to identify the financial risks being taken in specific developed countries, such as the US or the UK, the Fund had no means to enforce any kind of financial policy other than simply provide its unenforceable advice. This takes us to the next crucial vulnerability at the heart of the IMF, related to its governance structure.

There are three significant aspects in terms of the Fund's intra-organisational tensions. First, there are two different types of IMF member states, contributors, and borrowers. This creates a conflict of interests, since the Fund has contrasting responsibilities towards its two types of members. In short, the fund finds itself in the difficult position of representing its contributors, demanding their money be repaid, simultaneously with representing its borrowers, the countries which are asked to repay loans. The second intra-organisational tension relates to IMF's quota system, which reflects the size of each country's economy and allocates voting power accordingly. As such, the largest economy, namely the US, has by far the largest voting power within the IMF. This leads to a serious limitation when the Fund requires to 'speak truth to power', since its main shareholder happens to be the country which triggered the two most serious financial crises in the last hundred years. Kumhof and Rancière (2010) produced an outstanding paper for the IMF, which links both the 1929 Great Depression and the GFC with the US. Yet, the stated IMF working paper the does not connect the indentified link with the irony of US being IMF's main shareholder.

Third, IMF's organisational tensions also reach the Fund's internal structure. Setting aside its member states, the GFC highlighted the fact that the IMF is not a monolithic institution. As such, different sections of it learned the lessons from the GFC to considerably different degrees. For instance, in 2015 IMF's Strategy, Policy, and Review Department published *Causes and Consequences of Income Inequality: A Global Perspective* , (Dabla-Norris, et al., 2015), quoting and praising US President at the time, Barack Obama, who described widening income inequality as the "defining challenge of our time" (Obama, n.d., cited in Dabla-Norris, et al., 2015: 5). Yet, Nunn and White (2016: 207) note that operational guidelines for IMF staff state that income inequality is "clearly secondary to concerns with growth and/or fiscal discipline". Furthermore, while the IEO (Independent Evaluation Office, 2011: 7) acknowledged how wrong it had been for the Fund to praise the US for its "light-touch regulation" and recommended other countries to follow the US/ UK pre-2008 financial approach, a number of directors from IMF's Executive Board cautioned that it is the responsibility of each member state to implement "stability orientated policies" (Independent Evaluation Office, 2011: 45). This illustrates the extent to which the IMF not only has been unable to transform the GFC into an opportunity to learn and prevent further crises, it has also been unfit to assimilate the post-2008 approach in a consistent manner.

It would be unfair to argue that the IMF returned to 'business as usual' as soon as the most toxic effects of the GFC appeared to have been addressed and resolved. There were some innovations at the Fund which deserve to be mentioned, such as meeting the "increasing financial needs of countries hit by the global financial crisis" or providing "risk analysis and policy advice to help member countries overcome the challenges and spillovers from the global economic crisis" (International Monetary Fund, 2016: non-paginated). Yet, this is a lukewarm approach, since it has a clear tendency towards addressing the *consequences* of the GFC, while ignoring the real *causes* behind it. On the one hand, the IMF has returned to demand conditions from countries which are not always in a position to commit to these. On the other hand, there is little mention of addressing the actual causes of the GFC, or advising the country where the crisis originated, the US, or any other major economies on any type of 'structural adjustments' needed. In short, the areas of the globe that triggered the GFC are still dictating to developing countries, suffering the crisis' spillovers, how to run their smaller economies.

The reasons behind paradigm continuity

Broome et al., (2012: 3) ask a fundamental question in the context of the GFC: why is it that sometimes a crisis serves as a driver of change in global governance and why is it that sometimes it does not? Stiglitz, (2013: 227) has an answer to that specific question and captures in a nutshell the contemporary state of affairs at the Fund. Stiglitz suggests that even with the prospect of further crises, or perhaps thanks to that prospect, struggling weak economies in developing countries have no other option than opening their markets to Western financial firms. Also, Western creditors want to be repaid, as such, the IMF chooses to give priority to its key shareholders, instead of assisting countries in financial need. Hence its advice for Greece, for instance, to enhance its privatisation efforts in order to increase the "potential for Foreign Direct Investment (FDI) flows" into the Greek economy (IMF, 2017b: 30). This illustrates further IMF's contradiction between its post-2008 narrative of change and its policies of continuity.

Back to the main question concerning this dissertation. To what extent has the IMF learned the lessons from the GFC? While the answer to this important question begins to emerge here, it also becomes clear that there are many aspects to this answer. The IMF has shown, at least to some extent, its openness after the GFC to start questioning certain assumptions it held during the last four decades. Yet, change has so far only materialised in a narrative way but not in policy terms (Nunn and White, 2017). The IMF has been able to show it has learned that 'one size fits all' policies are inadequate, but for all the wrong reasons; it publicly recognises that wealth inequalities compromise economic growth and can create the conditions for economic crises (Ostry et al., 2016), it also acknowledged that reducing the national debt in a way which affects public services will further increase economic and financial instability (Ibid), yet the policy 'advice' for Greece, a country in serious economic difficulty, is explicitly to increase its privatisation efforts and cut expenditure in public services (International Monetary Fund, 2017b).

Furthermore, there does not seem to be any economic policy advice for significant change for the advanced economies, where the riskiest financial 'innovation' has been taking place (Güven, 2012: 879). This includes the US, the single country that triggered the GFC (Gutner, 2015). The examples of Greece and the US clearly illustrate the relationship of subordination between rich and poor countries; rich countries provide resources for the IMF to assist countries in financial difficulty, however, there is a clear conflict of interests within the IMF, since the voting power is closely related to the level of contribution each country provides to the organisation. As a whole, the IMF likes to portray itself as an independent organisation (Lagarde, 2015). Yet, each member state has a voting power that reflects its relative position within the global economy. As such, the Group of 7 (G7), Canada, France, Germany, Italy, Japan, the UK and the US, for instance, collectively controls forty-five percent of all votes at the IMF, although it only accounts for four percent of the Fund's membership (Blomberg and Broz, 2006). It follows that if developed countries create a financial crisis, and developing countries find it more difficult to deal with the consequences of that crisis, the country or countries which triggered the crisis continue being able to hold the upper hand in terms of voting power within the Fund. The IMF learned the lessons of the GFC to the extent that its organisation's structure allowed it to do so. The Fund's intra-organisational tensions and its ambiguous governance structure limited the extent to which the Fund was able to change.

This dissertation has exposed neoliberalism as a theory based not on the results of empirical enquiry but as a consequence of at best, intellectual abstraction. There is significant evidence available to suggest that a global economy based on neoliberal policies expecting stability has more to do with fantasy than with reality. Is there sophistry behind neoliberalism or simply a blind and unfounded faith in the effectiveness of self-regulating markets? Crouch (2011: viii) claims that Neoliberalism is "not as devoted to free-markets as it is claimed, it is actually devoted to the domination of public life by great corporations". Unfortunately, it is beyond the scope of this dissertation to evaluate the extent to which free-market fundamentalists truly believe that further de-regulation can prevent yet another global financial crisis. Yet, being fully aware of the real causes behind the 2008 GFC, we can evaluate the extent to which the international organisation responsible for ensuring global financial stability, the IMF, has been able to learn the lessons from the crisis, and materialise those lessons into real change.

Gutner (2015: 21) argues that the Fund "adjusted some of its long-standing views on appropriate economic policies". However, Gutner does not acknowledge that those views appear to have been 'adjusted' within departments which only produce IMF research but have no significant impact on policy making at the Fund. For example, Gerry Rice, IMF's Director of Communications clearly accepts that "increasing the income share of the poorest can boost growth, but raising the income share of the richest can actually harm growth" (Rice, 2017, cited in Sheil and Stilwell, 2017: non-paginated). Yet, Nunn and White (2017: 206) highlight that when providing specific guidance, the IMF explicitly reminds its staff that "while inequality is accepted as a potential challenge to growth, the guidance is clear that this is a secondary and subordinate consideration". In other words, the Fund's obsession with economic growth has remained unaltered after the GFC, even when departments and high profile members of the IMF expressed their wishes for a change of direction.

The change in narrative does not seem to have had a major effect on IMF's lending activities either, or on its lack of enforcement mechanisms. Yet, it is crucial to put these developments into context. The IMF is not the global bank which Keynes proposed in the 1940s. Keynes' International Clearing Union was supposed to address the trade imbalance between nations (Monbiot, 2008; Temin, 2010). From the onset, IMF's main creditor was the US, and as such, in the historical context of the immediate aftermath of the Second World War, the US, via the IMF 'helped' European nations to rebuild their infrastructures and economies so they could in turn buy American goods and services (Dooley, 2013, cited in Boston University, 2013). As IMF's main creditor, the US is also the Fund's most powerful shareholder, with a virtual power to veto any IMF policy which does not meet US's interests (Gutner, 2015: 20). The most likely reason behind IMF's inability to learn the lessons from the 2008 GFC is deep within its governance structure: as chapter 1 shows, the Fund was created not long after the Wall Street crash triggered the Great Depression, yet, its most influential shareholder was the US, the country where the crisis started. Eight decades later, another speculative crisis, started in the US sub-prime market and despite spreading to the rest of the world, still left the US with the largest amount of voting power at the IMF. The global political economy has changed significantly since the 1940s, yet the IMF still reflects the economic balance of power of the time when it was created. In order to counteract this fact, China set up the Asian Investment Infrastructure Development Bank (AIIB) in 2014, and the fast emerging economies of Brazil, Russia, India, China and South Africa (the BRIC countries) established the New Development Bank also in 2014 (Gutner, 2015: 20). Thus the IMF appears to have become only one layer of the complex architecture of global economic governance.

Boin (2009: 367) argue that the evidence available "strongly suggest that the crises of the future will be increasingly transboundary in nature". The increasingly interconnectedness of financial services within the global economy suggests that more than ever before there is a need for an international organisation which can truly preserve the stability of the global financial system. There is a strong tension between the *desirability* of an effective international organisation with a legitimate and democratic mandate to preserve the stability of the global financial system and the *reality* in which each state individually, or small groups of states collectively, with similar economies, understandably, only seem to support the type of approach which protects their own self-interests. Global economic governance has broadened, yet, the new players, such as the Asian Investment Infrastructure Development Bank (AIIB) or the New Development Bank are not showing any interest towards doing what the IMF has so far failed to do: address the global economy as a whole, thus creating the conditions for global financial stability. All that new players are doing is attempting to counteract IMF's approach towards protecting the interests of their own key shareholders. In other words, new global financial players seem to mirror the IMF in other areas of the globe.

Conclusion

To what extent has the IMF learned the lessons from the 2008 GFC? If we interpret change as an essential element resulting from a learning experience, then we can conclude that IMF's learning from the GFC has in fact been limited. From the onset, there are many contradictions at the heart of IMF's governance structure, such as voting power being linked to economic power. At the Fund, developed countries have the power to shape the direction of the organisation. In contrast, developing countries, which suffered the negative effects of the GFC by no fault of their own, depend on IMF's funding, on the conditions imposed largely by the developed countries where the GFC originated. More importantly, IMF's post-2008 approach appears to be focused on helping developing countries suffering the negative effects of the GFC, without addressing the real causes of the crisis, such as the lack of separation between the financial sector and the real economy. A return in the US to policies such as the 1933 Glass-Steagall Act, which strictly separated savings from speculative financial operations would be a reasonable start towards preventing Wall Street from triggering the next financial crisis. The very way the IMF has been established in the 1940s limits its capacity for lesson learning. With a complete lack of enforcement power, even if it wished to do so, it cannot make countries become more financially stable. At the same time, it would be unrealistic to expect developed countries, such as the US or the UK to give up their privileged dominant position over developing countries. Yet, this dominant position represents a real threat towards a reoccurrence of the global financial crisis.

This Masters dissertation evaluated the extent to which the IMF has been able to learn the lessons from the 2008 GFC. This study has exposed neoliberalism as a theory untethered from reality. Yet, it has also been indicated here, supported by evidence, that neoliberalism has been precisely the economic theory underpinning IMF's practices for over four decades (Crouch, 2011). The GFC brought to the fore the fact that financial de-regulation combined with economic inequality became two key vulnerabilities which undermined the global economic system to the extent that the entire global economy collapsed. Furthermore, not only did neoliberal practices not lead to the promised outcomes of increasing prosperity; what is worse is that at the individual level, it has been the least well-off members of society who suffered the most with respect to the effects of ill-advised deregulatory policies and irresponsible financial risk-taking (Stiglitz, 2013). At the international level, it has been developing economies that found it the most difficult to deal with the GFC and not the developed countries which triggered the crisis in the first place (Dufour and Orhangazi, 2016).

The same reasons which made the Fund unable to perceive that the financial risks taken in developed countries were compromising the stability of the global financial system have also become barriers for the IMF to learn the lessons from the GFC. Its lack of enforcement power, in turn made it impossible for the IMF to fulfil its key responsibility towards preserving the stability of the global financial system.

In terms of its intra-organisational tensions, the two types of IMF member states, namely its borrowers and contributors, generated a significant conflict of interests for the Fund, between addressing the needs of countries in financial difficulty, IMF's borrowers, and meeting the objectives of developed countries, IMF's contributors. Because of its quota system, the latter have largely more voting power than former. In terms of the Fund's lack of enforcement power, at present, the fund can only impose policy changes in return for financial assistance, although paradoxically, the IMF is completely powerless towards developed economies, which happen to be precisely the countries where the GFC originated.

The main aims of this dissertation have been met, in terms of answering its key research question and contributing to the literature on the topic. This study did not only answer its main research question, it has also identified major vulnerabilities at the core of the IMF, which prevented it from learning the lessons from the GFC. This being said, it remains to be seen if the conflict between different sections of the Fund will be resolved, leading to the development of a more modern and effective organisation, better prepared to meet new challenges or, to the contrary, the tensions may alternatively lead to IMF's further decline.

Based on empirical evidence, this dissertation shows there is not only scope for, but also a fundamental need for significant institutional change at the Fund. Moreover, any future and meaningful change of approach within this organisation must also involve giving economic inequality as much importance as generating economic growth. Yet, this will create further tensions within the Fund, since this will be threatening the dominant position of its main shareholders in the world economy.

There is still another key area for improvement highlighted in this research, which the IMF must consider if it wants to remain a relevant international organisation: The global political economy has changed significantly since the 1940s. Nevertheless, the IMF still largely reflects the economic balance of power of the time when it was created. Unless it is prepared to meet the challenges brought by the 21st century, its very existence is at stake. The GFC raised questions regarding whether or not the IMF is fit for purpose. The Fund's present conflict between its post-2008 narrative of change and policies indicating continuity raises a fundamental question, which signals a clear direction for further research on this topic: To what extent is the IMF still relevant in the 21st century? There is no doubt that an international organisation overseeing the global economy and preserving its stability is highly desirable. However, this study shows that the IMF in its present form is unlikely to meet fully its key roles. Yet, the whole picture is far larger than IMF's capacity or otherwise to change and show it has been able to learn the lessons from the GFC. If or when the Fund is prepared to assimilate a robust approach towards tackling economic inequality, it will also be essential to integrate other key 21st century challenges in a meaningful manner. The global economy does not exist in a vacuum, and as such, international cooperation involving other financial institutions as well as organisations focused on other fields such as education or health will be crucial. It is understandable that the Fund gives so much importance to what it believes are sound economic principles, yet unless it coordinates its efforts with other international bodies it will not succeed. There is a long road ahead indeed for the IMF if it is truly interested in fulfilling its key responsibility towards preserving the stability of the global financial system.

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