Critiques of the IMF

Prof. Jeffrey Frankel

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Critics say “The IMF made serious mistakes -- what better evidence could one want than the severity of the 1997-2001 crises in emerging markets? -- and needs to be reformed.” But in what specific direction do critics want the IMF to move?

Frankel’s Law: For every plausible and devastating-sounding critique of the IMF, there exists an opposite critique that is equally plausible and that sounds equally devastating. Here, the most common pairs:

2. Need more exchange rate stability, including institutional commitments like currency boards or dollarization to restore monetary credibility, rather than government manipulation of the exchange rate.

3. Need more resources made available for IMF emergency programs, bailouts, debt forgiveness (HIPC), and new loans; there was no good reason based in economic fundamentals for the East Asians to suffer the sudden reversal of capital inflows.
4. The moral hazard problem is the ultimate source of the crises. Investors & borrowers alike are reckless when they know they will be bailed out by IMF & G7.

5. Need to adopt capital controls, to insulate countries from the vagaries of international investors.
6. Need financial openness, so countries can take advantage of international capital markets.
7. Need easier monetary & fiscal targets; IMF programs have too much expenditure-reduction, inflicting needless recessions.
8. Need tighter macroeconomic discipline, since monetary & fiscal profligacy is source of balance of payments problems; private investors can’t/shouldn’t be persuaded to keep their money invested in countries lacking sound policies.

9. Need more customization of conditionality to individual country circumstances; E. Asia did not have the macro problems familiar from Latin America
10. Conditionality in cases like Indonesia got too far into local details (e.g., clove and plywood monopolies). Need standardized and strict rules-based pre-certification in order for a country to qualify for IMF assistance.

11. Should concentrate loans among poor countries, rather than those that are successfully developing and able to attract private capital. Place more emphasis on poverty reduction in each country program
12. Need less subsidy in loans, and to charge higher interest rates, close to private market rates. In any case, leave poverty reduction to the World Bank.

13. US has disproportionate influence in the IMF.
14. The IMF is directed by European socialists. US needs to exercise more influence (US Congress).

The odd-numbered points contradict the even-numbered points. But you can’t have both more and less exchange flexibility, both larger and smaller bailouts, more open and more closed financial markets, both looser and tighter macro policies, both more and less customization of conditionality. To generalize, the odd points seem to be what anti-IMF demonstrators have in mind, and the even-numbered points tend to be raised by US Republicans and the Meltzer Commission. But sometimes it is hard to tell. Jeff Sachs supported the Meltzer Commission report, and the George W. Bush White House pushed a large bailout of Argentina through the IMF in 2003 despite a lack of the usual conditions. Both sets of critics readily agree on one thing: they hate the IMF.