Devesh Kapur, "The IMF: A Cure or a Curse" *Foreign Policy* Summer (1998): 114-129

The IMF was totally wrong about Asia. Less than a year after the IMF praised the sound fundamentals of Asia, they had to decry Asia's fundamental as severely wanting. Its mistake on predictions, however, did not keep it from intervening and prescribing policies. Founded in 1944, the IMF played a modest but important role in maintaining stable exchange rates for two decades. As the world went off the pegged exchange rates, the IMF found clientele in poor countries, to which commercial banks were unwilling to lend. Until the mid-1980s, the Fund programs focused on generally short-term lendings emphasizing currency devaluation, budget cuts, higher taxes, and limited credit injection into the economy. Critics questioned this single-minded focus on reducing budget deficits, which, combined with the complexity of local politics, produced socially regressive and economically myopic results. The advent of the Latin American debt crisis in 1982 marked a turning point for the Fund, which became the equivalent of a debt collector for commercial banks and expanded its mandate to promote structural reforms. 1) The cost of adjustment for the crisis was asymmetrically borne by the debtors, and the debt-collector role inevitably undermined the institution's credibility. 2) Responding to the criticisms of the Fund programs, the IMF began to demand specific cuts and increases and added poverty alleviation and governance issues (e.g. corruption) to its agenda. Although more rhetoric than reality existed in these changes, the IMF did move beyond simple fiscal and monetary adjustments. Out of the Latin American crisis, the Washington Consensus, which many LDCs pursued. So, when the Mexican crisis of 1994 erupted, everyone was caught offguard, and the IMF organized the largest package ever (because of the U.S. bordering Mexico). Instead of admitting it was wrong, the Fund blamed a generic lack of transparency as the cause of the peso crisis. More interestingly, the IMF began advocating unfettered global financial market through promotion of capital account liberalization. For the Asia crisis, the IMF again blamed internal causes of problems, such as balance of payments deficits, explosion of property and financial markets, mismanaged exchange rate regimes, etc. This deflected attention from the fact that the IMF had previously praised the conditions in the countries and the fact that these countries had successfully endured destabilizing international events in the 1970s and 1980s on fairly transparent crony capitalism. The fundamentals of these countries were not bad; the key problem was the unforeseen impact of the global capital flows combined with high domestic savings rates, tempting inexperienced business executives and corrupt politicians. In any case, the IMF disbursed packages of $17 billion for Thailand, $43 for Indonesia and $57 for Korea, linked to conditions far beyond the IMF's mandate. While the objectives underlying some conditions were laudable, others manifested lack of institutional restraint. For example, the condition for Korea demanding speedy liberalization of the automobile and financial markets reflected the pressures from major shareholders—Japan and the U.S. Based on these problems, Kapur advances four conclusions. 1) The global financial system facilitates "the transmission of financial disturbances far more effectively than ever before." Countries should open up their markets commensurate with their institutional and regulatory capacities. 2) Moral hazard applied to the IMF as well as to borrowers and creditors. Because there is little downside to the programs for fund's major shareholders, its management or staff, steady unrestrained expansion of institutional objectives occurs. The IMF is the first to get in and the first to get out of crises, reducing its financial risks. And because the membership of the IMF consists of structural debtors and structural creditors, the essence of the institution as a cooperative has diminished. The IMF, thus ends up imposing conditions that the creditor countries would never consider imposing on themselves (e.g. labor market flexibility and European countries). 3) The continued expansion of the IMF's power and mandate is bad for debtor nations, the global financial system and the IMF itself. The increase in the scope of the Fund's programs leads to "taxation without representation" in which the IMF takes over the management of a country in crisis without accountability. The increase in the number and complexity in conditions leads to longer negotiation and implementation time, reducing effectiveness of the programs. 4) In general, by placing the burden of adjustment solely on the debtor countries, the IMF prevents fundamental adjustment to the status quo, founded on old financial architecture, and leads to ineffective regulation of international finance. "It promotes virtues of democracy—while deeming them impractical, if not downright dangerous, for multilateral governance. It derides and discourages state intervention in economic affairs—while insisting on its right to restructure from top to bottom the economies of the LDCs. And it rejects the need for international controls on capital as invidious—while asserting the need for those on labor to be obvious."

How the IMF Works: The IMF was founded in 1944 as a part of the BWS to promote ER stability, monetary cooperation and expansion of international trade by serving as the lender of last resort. Each member makes contributions to the IMF—quotas—according to its share of the global economy. The weighting also determines the member's voting power and borrowing capacity—drawings. The drawings entitle each member to equal amount of other countries' currencies (e.g. for the U.S. Japanese yen or the German mark). The U.S. has drawn on 28 different occasions, most recently a $3 billion drawing in 1978. As a country's drawings become larger relative to its quotas, it must meet more exacting standards or "conditionalities." Failure to meet them results in suspensions, renegotiations or even cancellations of the program. The size of the IMF's quotas has grown from the initial $9 billion to $200 billion in 1997. **A friend in need**: Obviously, political pressures undermine IMF's effectiveness. For example, France with the Francophone Africa; the U.S. with the Middle East; and Belgium, France, Germany and the U.S. with Zaire. **Ignorance versus Hyperbole**: The hostility of the U.S. Congress toward the IMF is only matched by it ignorance of how it actually works. The U.S. has actually made a small profit (of a little under $100 million annually) from membership in the IMF. The Congress not only has the power of the purse over U.S. quota increases, it can attach conditions to the IMF programs.