Jeffrey Sachs, "The IMF and the Asian Flu" *The American Prospect* March/April (1998): 16-21

THESIS

The IMF, loyal to financial orthodoxy and mindful of creditors to the neglect of debtor countries, often pours oil on the flames. The IMF also systematically hides its mistakes and claims credit for successes not of its own. The IMF should, however, be reformed—greater transparency, better international oversight and freer competition in policymaking for developing countries—rather than eliminated.

SUMMARY

Even though the Asian countries had sound fundamentals—budget surpluses, high saving rates, low inflation, and export-oriented industries—foreign creditors began to withdraw money from Asia because of growing concerns about currency overvaluation, bank scandals, and weak real estate markets. To prevent the crisis, the major banks should have come together in mid-1997 to underscore their collective interest in avoiding a self-defeating panic. Instead, the IMF worsened the panic with its dire public announcements and its proposed medicine—economic austerity measures. The countries' stock and the currency markets plummeted after the IMF entered the scene. / Sachs compares the IMF staff to the British empire's placement of senior officials in the Egyptian and Ottoman finance ministries. These developing-country governments around the world rarely move without consulting the IMF staff (or they risk their lifelines to capital markets, foreign aid and international respectability). IMF's power rests on three bases: IMF is the instrument by which the U.S. Treasury intervenes in developing countries (e.g. Mexico, Korea); countries welcome the opportunity to sign a "contract" with the world community, represented by the IMF; the IMF has a carefully constructed image of infallibility. IMF has programs in about 75 countries and closely track them, unlike the U.S. Treasury. Therefore, the IMF staff is fairly autonomous in developing world with little supervision from the U.S. or anyone else, especially in the poorest countries, for which U.S. has no interest. In high-profile cases, through the IMF, U.S. has a disproportionate control over a large sum of money (disproportionate to the U.S. contribution) to be lent without congressional meddling. This immense authority of a secretive international institution is good for U.S. policymakers and bad for developing countries. While acceptance is purportedly voluntary, refusal of the IMF programs has grave consequences for the refusing country's economy and standing. The institution is also not a truly international organization. The executive board, made up of the finance ministers of all member countries, only rubber-stamps and has weak oversight over the staff. In addition, the U.S., Japan and the EU have a comfortable combined majority in the weighted voting system. / "The IMF's mask of infallibility hides a record of mediocrity punctuated by some truly costly blunders." Internal criticisms are suppressed. Some examples are: Bolivia 1985–the IMF nearly torpedoed the government's successful effort to stabilize the economy but later took credit for the stabilization that resulted from Bolivia's own debt relief program with the help of the U.S. Poland 1989–the IMF had dismissed the idea of stabilization fund, which was taken up by the U.S.; the IMF claimed credit for the resulting stabilization of hyperinflation. Estonia 1992–for the CIS, the IMF recommended a common ruble currency with 15 independent central banks! Estonia introduced its own currency without the support of the IMF. The IMF paraded Estonia as a success story and castigated the failure of the other 14 countries following the flawed IMF policy. In Bulgaria 1996 and Mexico/Argentina 1995, the IMF blindly applied the traditional medicine—budget cuts, interest rate increases and a credit squeeze—without really understanding the crisis. Other questionable judgments follow: The IMF rejected the idea of debt relief for seven years until the U.S. finally shifted position. The IMF-WB initiative on debt relief for Highly Indebted Poor Countries (HIPC) was long delayed. The IMF seriously missed the boat in the former Soviet Union, failing to prevent hyperinflation and to address linkages between corruption and economic turmoil. The IMF rejected stabilization funds for transitioning economies, when they could have been useful. / The IMF needs to be held accountable for its actions, failed forecasts and the details of its programs. The institution should be reformed, not eliminated. Prescriptions: 1) All IMF documents should be made public and open to scrutiny. 2) The executive board should start overseeing the staff rather than rubber-stamping. 3) The IMF's artificial monopoly on policymaking in the developing world needs to stop. The developing countries should be given more ownership of the programs.