

22/05/2000

`IMF made E. Asia recession deeper, longer and harder'

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WHEN Prime Minister Datuk Seri Dr Mahathir Mohamad took to task the Bretton Woods institutions - the International Monetary Fund (IMF) and the World Bank - for causing more harm than good to developing countries, his views were disregarded and he was labelled a "mad man".

Dr Mahathir, the outspoken leader of a developing country, supposedly did not know what he was talking about. After all, the IMF and World Bank had been in the "business" for almost 50 years. They should know their job better. Right?

Well, not so as it turns out. And what's worse, the Fund does not even follow its own advice on transparency and openness.

One of "the Insiders", Mr Joseph Stiglitz, former chief economist and vice president of the World Bank, in a chilling account of the "workings" of the IMF, is "appalled" at the handling of the "gravest economic crisis in a half-century".

Stiglitz, who had a front row seat in the World Bank, says that during the East Asian crisis, "not only was the IMF not restoring economic confidence in East Asia, it was undermining the region's social fabric".

As a professor of economics at Stanford University, a post from which he took leave to serve the US President's Council of Economic Advisers and then the World Bank, he says: "Quite frankly, a student who turned in the IMF's answer to the test question 'What should be the fiscal stance of Thailand, facing an economic downturn?' would have gotten an F!"

Even as the crisis spread and evidence was mounting that the IMF cookie-cutter policies were not working, "the IMF barely blinked, delivering the same medicine in each ailing nation that showed up at its doorstep".

East Asian countries, unlike the Latin American nations, were already running up budget surpluses. Citing examples, Stiglitz said that in Thailand, the Government was running up such large surpluses that it was actually starving the economy of much needed investment in education and infrastructure, both essential to economic growth.

The East Asian countries already had tight monetary policies and inflation was low and falling. In South Korea, for instance, inflation stood at a respectable 4 per cent.

Under such circumstances, the austerity measures shoved down the throats of these countries would not revive the economies but plunge them into recession or even depression. And this the IMF certainly did as the high interest rates choked the necessary credit to the firms, causing unnecessary bankruptcies and defaults. And reduced government expenditures shrank the economies even further when stimulus was what was needed.

To have cited the "success" of its policies in Mexico is "an absurd analogy", says Stiglitz. The then managing director of the IMF, Mr Michel Camdessus, maintained that East Asia simply had to grit it out, as Mexico had, adding that for all the short-term pain, Mexico had emerged from the experience stronger.

Mexico had not recovered, Stiglitz maintains, adding that the IMF had forced the country to strengthen its weak financial system, which remained weak for years after the crisis. Mexico had recovered because of a surge in exports to the US. But the situation in East Asia was different. Japan, the major market, was in the doldrums.

Writing in The New Republic on "What I learned at the world economic crisis", Stiglitz says secrecy, poor expertise, inexperienced staff, wrong

diagnosis, arrogance, an undemocratic process and a lack of transparency are commonplace in the IMF.

The IMF likes to go about its business without outsiders asking too many questions. The Fund and US Treasury Department, which was active in deciding on the policies in developing countries during the crisis and used the IMF as part of its foreign policy tool, "made sure there was no open debate and then proceeded blindly along with their policy options".

Stiglitz points out that in theory, the Fund supports democratic institutions in the nations it assists. In practice, it undermines the democratic process by imposing policies. He does not have very flattering words for the US either when he says: "... the culture of international economic policy in the world's most powerful democracy is not democratic".

Even more frightening is the fact that those with direct democratic accountability were kept in the dark. The US Treasury Department is so arrogant about its economic analyses and prescriptions that it often keeps - much too tight - control over what even the US president sees.

Open discussion, Stiglitz argues, would have raised profound questions that still receive very little attention in the American press: To what extent did the IMF and the US Treasury Department push policies that actually contributed to the increased global economic volatility?

He points to the US Treasury's push for liberalisation in South Korea in 1993 over the opposition of the Council of Economic Advisers (Stiglitz was a member of the Council then). The Treasury won the internal White House battle, he says, but South Korea and the world paid a very high price.

Were some of the IMF's harsh criticisms of East Asia intended to detract attention from the agency's own culpability, he asks, and more importantly, "did America - and the IMF - push policies because we, or they, believed the policies would help East Asia or because we believed they would benefit financial interests in the US and the advanced industrial world?

"And if we believed our policies were helping East Asia, where was the evidence?"

As a participant of these debates, Stiglitz says, "I got to see the evidence. There was none".

The mathematical models used by the IMF were frequently flawed and out of date. Those who accused the Fund of adopting a cookie-cutter approach to economics, he says, were right. Country teams, who are more likely to have first-hand knowledge of the five-star hotels than of the villages that dot the countryside, are known to compose draft reports before visiting the countries.

IMF "experts" believe that they are "brighter, more educated and less politically motivated" than the economists in the countries they visit. But, Stiglitz says, "economic leaders from these countries are pretty good - in many cases brighter or better educated than the IMF staff, which frequently consists of third-rank students from first-rate universities".

Stiglitz, who has taught at the Oxford University, MIT, Stanford University, Yale University and Princeton University, says the IMF almost never succeeded in recruiting any of the best students.

The region has come out of the depths of the crisis but it is not quite over it yet. Contrary to IMF assessments, countries are still struggling. While previously the IMF was secretive, now it provides a smokescreen to cover the poor track record of its policy achievements.

Close to 40 per cent of Thailand's loans are still non-performing. Indonesia is still in recession and unemployment rates remain high - in South Korea the rates are far higher than they were before the crisis.

Despite the mistakes made and the bitter pill offered to the crisis-hit countries, making their situation worse than it originally was, the Fund

is now taking credit for the "recovery" as testimony to the effectiveness of its policies. Of this claim, Stiglitz has this to say: "Nonsense!"

He points to the performance of Thailand, which adhered most closely to the IMF prescriptions, as worse than Malaysia's, the country which took an independent course. "All that the IMF did was to make East Asia's recession deeper, longer and harder."

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