IMF "mistakes" part of a long-developed program

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Press reports that the International Monetary Fund has admitted to "substantial mistakes" in its response to the Asian financial crisis appear to be somewhat wide of the mark.

In its report of an IMF review of its intervention, the *Australian Financial Review* quoted the IMF's admission that it had "badly misgauged" the severity of the downturn and gave the impression that the severity of government spending cuts and monetary policies had been reassessed.

The *Australian* also reported that the IMF had admitted to making "serious mistakes" in imposing its 1997 financial packages on the Asian "tiger" economies.

A study of what has actually been written, however, and the comments by IMF officials in response to questions on the report show that the IMF is a long way from acknowledging mistakes, let alone changing its policies.

Any doubts on that score were immediately settled by IMF Policy Development and Review Department director Jack Boorman in his opening remarks to a Washington press conference on the document this week.

"Let me say," he began, "that the paper says, in essence, that the policies the Fund recommended and which, to varying degrees the three countries--Indonesia, Korea, and Thailand--followed, were broadly appropriate to the circumstances given what was known as these programs unfolded."

Higher interest rates were needed to prevent currencies going into a downward spiral, tighter budgets were justified, based on assessments of the countries concerned, and the "emphasis on structural policies--financial sector reform, corporate restructuring, many of the other actions taken by the authorities in the context of these programs--was appropriate."

Turning to the widespread criticism of the IMF's insistence that interest rates be raised to defend currency values, Boorman was even more emphatic.

"The report concludes on this point ... that, in essence, if we were making these decisions again on monetary policy, on interest rate policy, we would, if anything, call for prompter and more aggressive action along similar lines."

And when asked what were the principal mistakes made by the Fund during the past 18 months, Boorman replied that with the wisdom of hindsight there should have been a "more aggressive tightening of monetary policy and raising of interest rates."

Asked about the social consequences of the IMF's policies, particularly in Indonesia where, as the questioner put it, "tens of millions were pulled below the poverty line", Boorman replied dismissively that the IMF had not considered these issues in the same depth as fiscal policy, interest rates and exchange rate policy and that: "We will at some point have to go more deeply into these questions."

The assertion that the IMF has somehow admitted to errors in the Asian crisis rests on a fundamental misconception--that its goal is to ensure economic growth or maintain living standards. In fact, as the IMF itself makes clear, its concern is not the advancement of social conditions but the health of the banks and financial institutions.

These goals were elaborated in another document entitled "The IMF's Response to the Asian Crisis" also issued this week. This document said "forceful, far-reaching structural reforms" were at the centre of its intervention in the Asian crisis. Their aim was to wipe out formerly protected national industries, banks and financial institutions in order to open the way for a greater penetration of international banks and corporations.

The programs arranged for the closure of unviable financial institutions, with the associated write down of shareholders' capital, the close supervision of weak institutions and "increased potential for foreign participation in domestic financial systems."

"To address the governance issues that also contributed to the crisis," the document continued, "the reform of the financial systems is being buttressed by measures designed to improve the efficiency of markets, break the close links between business and governments, and ensure that the integration of the national economy with international financial markets is properly segmented."

The IMF measures in the Asian crisis, which have imposed mass poverty and wiped out at least $1.5 trillion in wealth, were neither an aberration nor a series of mistakes, but the continuation of the so-called "structural adjustment policies" first developed in response to the debt crisis of the early 1980s.

Reviewing those policies a decade on, Jerome I. Levinson, a former official of the Inter-American Development Bank, noted that as far as US Treasury staff were concerned "the debt crisis afforded an unparalleled opportunity to achieve, in the debtor countries, the structural reforms favored by the Reagan administration. The core of these reforms was a commitment on the part of the debtor countries to reduce the role of the public sector as a vehicle for economic and social development and rely more on market forces and private enterprise, domestic and foreign."

A similar assessment was made by Sir William Ryrie of the International Finance Corporation, the private sector arm of the World Bank, who described the earlier debt crisis as a "blessing in disguise" because it forced the abandonment of "bankrupt" strategies such as import substitution and protection through which the debtor nations had attempted to foster the growth of domestic industry.

Now this program has been extended. When the current crisis broke, the IMF intervened with policies prepared well in advance aimed at the destruction of national-based systems of financial regulation, in order to ensure domination of global financial markets.