IMF-World Bank conflict over assessment of Asian crisis

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Divisions between leading figures in the World Bank and the International Monetary Fund over the response of global financial institutions to the Asian financial crisis were clearly on display at the World Economic Forum's East Asia Economic Summit held in Singapore this week.

In his address delivered on the opening day, IMF deputy managing director Stanley Fischer, while warning that there were still “very real risks”, told the conference that the world economy appeared to be “on the mend” and the Asian economies were reviving.

“We in the IMF,” he said, “are grateful to have been able to contribute to the turnaround, which has arrived far sooner than most had expected, and we are especially pleased that the more fundamental processes of structural reform embodied in IMF-supported programs are well under way in most of the region.”

But the senior vice-president of the World Bank, Joseph Stiglitz, adopted a different tone in his remarks delivered the following day. In what amounted to a rebuttal of IMF policies, based on high interest rates and economic contraction, he warned that there was a danger of drawing the “wrong lessons” from the emerging Asian economic recovery.

“People say, ‘Look at the recovery that has occurred, that means that the policies that were put in place were the correct policies'. Nothing could be further from the truth,” he told conference delegates.

Just because certain indicators suggested that a recovery was under way did not mean that the real economy had rebounded and the crisis-hit countries had still to return to the levels of gross domestic product, which they had achieved in 1997. In a direct criticism of the IMF measures, he said that the region had not been well served by the advice it had received during the crisis.

“Many within the region know that the policies pursued entailed excessively contractionary macro policy but their voices were not heard,” he said.

“I hope that the recovery ... will bring with it a renewal of self-confidence that allowed the region to forge three decades of unprecedented growth, stability and poverty reduction, based not on the dictums of the Washington consensus, but a deeper understanding of their own economies and societies.”

Stiglitz pointedly contrasted the IMF prescriptions with the much criticised policies of the Malaysian government which rejected the IMF prescription for a high-interest rate regime, and imposed capital and currency controls.

Malaysia, he said, had “deliberately tried to keep interest rates low” and had imposed certain kinds of capital controls and yet its recovery was among the fastest of the countries in the region”. These controls, which had been aimed at speculators, “did not have the adverse effect that people who wished Malaysia ill at the time had anticipated” and were “not an unreasonable experiment.”

In a television interview he said that the capital controls, roundly criticised by the IMF, had worked to stabilise speculative money flows as Prime Minister Mahathir said they would.

Turning his attention to Thailand, which has rigorously adhered to IMF demands, Stiglitz warned that it was encountering difficulties with its restructuring program because it was trying to reform the corporate and financial systems at the same time.

“If you have a large number of firms that are in very bad shape, it's very hard to restructure the financial system because as those firms go bankrupt the banks get into (further) trouble,” he said.

In his speech Fischer had pointed to what he called the IMF's “unofficial motto” of recent months that “complacency must be avoided” and that it was necessary to press ahead with “key reforms” and not allow a “business as usual attitude” to set in.

Stiglitz took issue with this as well. While much emphasis had been placed on financial sector “restructuring” as being necessary for recovery, he noted that five years after the Mexico crisis, the financial sector remained a “mess” and while exports had expanded, the non-tradable sections of the economy were very weak.

The conflict between Fischer and Stiglitz over policy prescriptions is ultimately rooted in conflicts between different sections of global capital.

The emphasis placed by the IMF on the need for deregulation of financial markets and high interest rate regimes to ensure “investor confidence”—the so-called Washington consensus—is an expression of the interests of the dominant sections of finance capital, both American and European.

However, there is concern that rapid and increasingly speculative movements of finance capital are undermining global economic growth and stability.

The differences over the assessment of East Asia reflect these wider issues. In the period from 1990 to 1997, the East Asian region provided a major prop for world economic growth. In that period the region accounted for some two thirds of new global investment and about half of world GDP growth.

Since the East Asian crisis, world economic growth has become dependent on the expansion of the US economy, which in turn has increasingly rested on the rise in share values on Wall Street and the inflow of capital into the US to finance the share market bubble and cover the widening US balance of payments deficit.

While the East Asian financial crisis resulted in a contraction of production in the region on a scale not seen since the 1930s, it had beneficial effects for the US, as finance capital poured into American markets seeking a “safe haven”.

However, this process is racked by an irresolvable contradiction. On the one hand, while US markets benefit from financial turbulence in the rest of the world, that very turbulence threatens to bring about economic contraction, leading to world recession and slump. On the other hand, a revival of economic growth in the rest of the world, could bring about an outflow of funds from the US, sparking a recession in the American economy.