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Less is more! Future prospects for the International Monetary Fund

Patrick Welter

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Centralised planning works no better on the global than on the national level.

Milton Friedman

Sixty years ago, in July 1944, delegations from 45 countries met in Bretton Woods in the United States (US) to discuss the monetary and economic order of the post-war era. The experience of monetary devaluations in the inter-war period and the consequent economic distortions influenced the discussions, which were dominated by the idea of international organisations working together to boost economic development. Bretton Woods heralded the birth of the International Monetary Fund (IMF) and the World Bank. The IMF was mandated to support a stable exchange rate system and to ensure that it was workable. If countries were experiencing short-run difficulties in paying for their imports with their export earnings, the Fund was to provide them with bridge loans. The World Bank was to ensure that adequate capital was available to finance reconstruction efforts after World War II.

More than 60 years on, and particularly in the aftermath of the series of financial crises in the 1990s, the Fund today acts as fire-fighter as well as pastor, expected to put out the

fires in the global financial system and lead countries in crisis on to a path of virtuous economic policy. Today the Fund is there essentially to enforce economic policy adjustments through its loans and, in doing so, stabilise the global economic and financial system. At the same time, the World Bank has developed into a global development organisation which increasingly pursues "soft" goals such as environmental protection, political participation and women's rights, over and above its purely humanitarian-motivated goal of development aid. The existence of both organisations is justified on the grounds that economic development within the framework of the international division of labour requires the helping hand of state bureaucracies.

With the growing integration of the global economy (generally described as globalisation), the IMF, in particular, finds itself in an unusual position. It is attracting criticism from two camps. Anti-globalisationists accuse it of pursuing a market-oriented strategy that exacerbates poverty in developing countries and reinforces, if not increases, economic imbalances in the world. On the other side are the advocates of globalisation, committed mainly to the liberal market economy, who accuse the IMF of over-estimating its own capability and interfering in the economic policies of innumerable countries – often not to their benefit. They claim that the Fund's expansive lending does not stabilise the global economy – in fact it destabilises it.

While there are commonalities in the criticism levelled from both sides, it only seems to point in one direction. The critics of globalisation would like to guide global economic integration on to the seemingly orderly tracks of a highly-controlled economy, in which environmental protection, rights to social benefits and the objectives of non-governmental organisations such as Attac are prioritised over economic development. For their part, the liberal critics of the IMF stress that it does not put enough faith in the market, that it proffers the eternal argument of an imminent global financial crisis as a pretext to intervene, and therefore stands in the way of finding free-market solutions to global economic problems – on the backs of people in developing countries. This liberal perspective does not accept that state planning at the international level should work better than at the national level, where it is usually a failure.

To justify the IMF's existence, one needs convincing arguments to prove that it provides public goods and resolves problems that the market cannot. This is not an easy venture, as the IMF raises problems which, at least to some extent, make a desired public good seem like a public evil. There are arguments to suggest that the IMF is itself part of the problem that it seeks to resolve, explaining why a substantial number of critics of the Bretton Woods institutions call for its abolition. This aspect will not be discussed here because the idea though tempting is utopian. The IMF offers governments, particularly those of the larger member states, the opportunity to exercise influence and the power to im-

plement political goals at the international level. For this reason it is unrealistic to assume that the Fund could be closed down in the foreseeable future. However, were its functions to be modified and pruned, it may be easier to get a better hold on the biggest problems caused by the IMF.

1. A historical outline – expanding through new tasks

Even before the end of World War II, there was talk in the US and the United Kingdom (independent of each other) about shaping the global post-war monetary order. In the summer of 1944, in Bretton Woods, New Hampshire, 44 countries agreed on what was essentially an Anglo-American draft and decided to create the IMF and the International Bank for Reconstruction and Development (IBRD), which today constitutes one of the five branches of the World Bank group. The institutions commenced operations in 1946.

The IMF and IBRD reflected the experiences of the 1920s and 1930s. At the time, protectionist devaluation competitions – attempts by governments to create advantages for their indigenous export industries to the detriment of other countries – were also cited as among the causes of the global economic crisis. Confronted by this scare scenario, delegates tried to find a solution that would ensure a thriving global economy and international trade in the post-war era. In the Bretton Woods system of fixed exchange rates and restricted capital flow (at least in the early years), the IMF was assigned the task of promoting international monetary

cooperation in the interest of trade. It was the Fund's responsibility to ensure that unavoidable adjustments of exchange rates were as smooth and seamless as possible. The Fund was also to provide short-term adjustment loans to settle balance of payment problems. In case a country with a fixed exchange rate temporarily found itself in a situation in which the export revenue was not enough to finance its imports, the Fund would pitch in and help out with loans. The World Bank, however, was assigned the task of offering financial support to reconstruct Europe, prompted by the thought that private financiers would not provide any capital at all or not enough capital for the politically unstable region. The IBRD, financed by member states, was to raise and secure capital in the market before lending it to member states for reconstruction projects. Both these Washington, DC-based organisations have long outgrown their original missions.

The early 1970s witnessed the breakdown of the Bretton Woods system of fixed and theoretically adjustable exchange rates. The US closed the gold window and the value of the American dollar was no longer linked to gold. The transition to more or less flexible exchange rates brought to an end the IMF's primary task of bailing out a country with balance of payments problems. When exchange rates are flexible, the problem of short-term balance of payment problems does not arise – if a country has a greater demand for imported goods (and therefore foreign currency) than foreigners have for the country's local goods and local cur-

rency, the domestic currency depreciates, curbing domestic imports. In other words, the Fund was no longer needed.

But international organisations do not go down easily. On the lookout for a new task, the IMF increasingly took on the role of advisor on macroeconomic adjustment for (mainly) developing countries. Advice was tied to lending to make it easier for a country to implement the structural reforms and adjustments that it proposed. This was a departure from the Fund's original mission insofar as the focus was now on financing the capital account, no longer the current account. In its quest for new tasks, the IMF was helped by the oil shocks in 1973/74 and the consequent macroeconomic imbalances in developing countries, which provided it with a new orientation virtually on the spot. In the mid-1970s, the level of the IMF's activities was further increased when its surveillance over member state economic policy was substantively broadened (Article IV consultations). In addition, the number of loans spiralled upwards. According to calculations by Roland Vaubel, economist from Mannheim, Germany, loans between 1970 and 1975 (taking inflation into account) had more than doubled and grew by a further 58% between 1975 and 1982. This was yet another instance of how innovative international organisations and bureaucracies can be when it comes to amplifying their fields of activity.

In the 1980s, the Fund expanded further on its new tasks. In 1982, Mexico's declaration of bankruptcy triggered the start

of the debt crisis in Latin America. The IMF loaned capital against conditions to enable Latin American countries to continue paying interest on their outstanding debts to the Fund and private banks and thus deferred a solution to the "debt crisis" at the cost of rising debt in Latin American countries. It was not until the late 1980s that solutions were agreed upon according to which private banks wrote off part of their loans and the rest was properly restructured (Brady bonds).

In the 1990s, the Fund was given the task of granting loans to East Europe to help the planned socialist economies with the transition to free-market democracies. Russia, in particular, was provided with large loans even though it did not meet the attached conditions and made virtually no progress on the path to a market economy based on the rule of law. At the same time, the Fund continued (and continues) financing the capital account both after, and sometimes before, the onset of a crisis – a practice it initiated in Latin America. It had ample opportunity to do this, as capital markets were becoming increasingly liberalised. During the peso crisis of 1994/95, the US pressurised the Fund to help Mexico meet its debt commitments. The practice was continued in Southeast Asia (Indonesia, Korea, Malaysia, the Philippines, Thailand; 1997), Russia (1998), Brazil (1998, 2002), Turkey (2001) and Argentina (2001).

Today, the Fund fire-fights in financial crises and has taken up the cause of medium-term structural adjustments to pro-

mote growth. Poverty reduction is the latest addition to its range of activities. The new tasks assumed by the Fund overlap with those of the World Bank.

The IMF currently has 184 members. It has capital of over 296 billion dollars comprising the contributions of the member states based on their economic strengths. That is slightly less that the 2003 German budget or about 0.83% of the gross domestic product (GDP) of all IMF countries. There are also special agreements under which the Fund can borrow about 47 billion dollars from 26 member countries. These funds can be used if its other resources are virtually depleted.

2. Criticism of the IMF

To understand the IMF's role in the global economy and associated problems, it is useful to draw an analogy. Imagine that you live beyond your means and are unable to pay your credit card bill. You raise a loan from a bank, which gives you money, provided you promise to pay back according to the repayment schedule. The IMF operates in a similar fashion. If governments and countries live beyond their means on borrowed money, it is only a matter of time before their creditors lose confidence, withdraw their capital and trigger a financial crisis. At this point, a government borrows money from the IMF. The Fund lends money on the condition that the government pledges to undertake economic reform. If you do not abide by the repayment schedule, the bank will take legal action and confiscate your car to obtain the money. However, if the government of a country in crisis does not meet its commitments, to whom does the IMF turn? There are no known cases of the Fund having confiscated cars in Russia or Brazil. In case of doubt, however, the countries do not have to wait for too long before being granted fresh loans.

The IMF's largely politically determined weakness to enforce conditions not only harms its reputation but also misleads borrowers into believing that the conditions it imposes are

not to be taken too seriously. Consequently, the Fund loses the only concrete tool at its disposal that gives it the leverage to attain its goals. While it is both understandable and desirable that the IMF's loans should be the prime target of public attention and criticism, its functions are not confined to lending. The following purposes are set out in the IMF charter: promote international monetary cooperation, facilitate the expansion and balanced growth of international trade, promote exchange stability, assist in the establishment of a multilateral system of payments and give confidence to members by making the Fund's resources available to them from time to time so that maladjustments in their balance of payments can be corrected without any extensive damage. In more concrete terms and, in the words of Stanley Fischer, the IMF's former First Deputy Managing Director, the Fund fulfils four functions in the broader sense: it undertakes surveillance of the global economy and the economies of its members, it provides technical assistance to its members, it serves as a permanent institution which provides the machinery for consultation and collaboration on international monetary problems and it lends to its member countries.

The IMF has attracted opposition from all political quarters – from left-wing anti-globalisationists at one end of the spectrum to liberal economists at the other. The criticism focuses on the IMF's tasks and the manner in which these tasks are executed by the bureaucracy. In many cases, the arguments are confused and often difficult to delink. For the pur-

poses of this discussion, however, it is helpful to distinguish between three forms of criticism – political critics of the Fund are bothered by the fact that non-elected IMF technocrats interfere in the politics of (not exclusively) democratically elected governments; economic critics finds fault with the economic policy pursued by the Fund in its role of advisor and lender; political-economic critics focus on how the Fund creates the problems it really should be solving.

2.1 Political criticism: presumptuous behaviour

Within the scope of its surveillance function, the IMF usually conducts an annual analysis of the economies of its 184 members and compiles relevant reports (Article IV consultations). These are discussed with the responsible parties in the member country (government, central bank) and finalised by the IMF directorate. The reports and their economic policy recommendations are not binding for member states. Since 1997, member states have been entitled to publish the reports and/or evaluations of the IMF directorate. As this implies a certain amount of public pressure on governments, IMF evaluations – particularly in developed western countries – are increasingly stimulating the economic policy debate. Of course, in these very countries the IMF competes with analyses compiled by the Organisation for Economic Co-operation and Development (OECD). Although competition generally enhances quality – of advisory services too – it is difficult to explain why tax payers in OECD countries are obliged to pay for two international research

institutes whose results are comparatively similar and which, moreover, compete with national policy advisors. In support of the IMF, it can be said that the Fund's publications provide better insights into the economic policy of a country than OECD country reports, which are subject to more intensive political editing. The former give a better idea of what remains to be done in a country and the possible bone of contention between the IMF and the respective government. A significant contributory factor here is the publication of IMF staff reports.

Other than its economic policy analysis, it is the lending facility that accords the Fund far greater political influence. It only lends money against certain terms and conditions tied to economic policy (conditionality). Based on the notion that a short-term loan intended to correct the balance of payments can only be successful if the causes of the perceived imbalance are removed, a credit tranche is paid only if certain conditions have been fulfilled, at least in theory. In concrete terms, capital outflow from a developing country can only be stemmed if the country's economic policy inspires investor confidence. Mere cash infusions either do not help at all or help only temporarily. Other IMF programmes target long-term structural reforms. The conditions imposed by the IMF range from the targets set for macroeconomic indicators such as economic growth, inflation or current account surplus to conditions governing fiscal policy such as higher taxes and lower budgetary deficits, to very detailed rules and regulations, for instance the privatisation of state com-

panies, closure of bankrupt banks and liberalisation of individual markets. Sometimes the Fund has even prescribed concrete prices for individual goods such as crude oil in an effort to get a grip on state subsidies. Since late 2002, when Horst Köhler, IMF managing director, was in office (he has now retired), the IMF has attempted to concentrate and reduce the number of conditions attached to loans, but it is still too early to assess the extent to which conditions can be limited in the long run. Rodrigo de Rato from Spain was appointed head of the IMF in early 2004, followed by Dominique Strauss-Kahn from France in 2007 Both have expressed their support for continuing with the reforms initiated.

In late 2003, the IMF had lent a total of 107 billion dollars to 56 countries. That was about 6% of the total GDP of the recipient countries. In having the power to impose conditions, around 2980 bureaucrats in Washington, DC, can influence the economic policies and living conditions of about 1.47 billion people or almost a quarter of the world's population. The presumptuousness is obvious. Jeffrey Sachs of Columbia University has roughly calculated that there are about seven Fund economists per member country; he believes that the IMF "is invested with too much power: no single agency should have responsibility for economic policy in half the developing world".

The IMF's "interference" in the borrower's economic policies also comes in for sharp criticism because it dilutes re-

sponsibility for the measures and undermines the political legitimacy of the decisions. It is a common cliché that unknown technocrats in far-off Washington, DC, impose an economic policy on the helpless Indonesian rice farmer, in which he has no say. While this description may be basically accurate, one must spring to the IMF's defence. Decisions on loan programmes are ultimately taken by the 24 representatives of the member states who make up the IMF's Executive Board, leaving us in no doubt that the community of member states itself bears responsibility for the Fund's decisions. It is also true that no member state is compelled to turn to the Fund. The Fund's "interference" by tying conditions to the loan is based on the premise that countries have voluntarily joined the IMF and, when in need, approach the Fund of their own volition. Criticising the strings attached can be likened to the complaint of the small borrower who would like to dictate the conditions to his bank under which he is to be given a loan on overdraft.

The counterargument to this is that developing countries can acquire private capital in international capital markets only if they have the seal of approval of IMF programmes, leaving them with no option but to abide by the IMF's conditions. Insofar as this theory is true, it exposes the weak foundation on which the accusation of "interference" rests. Seals of approval are acquired in one's own interest by voluntarily fulfilling certain conditions. The term "coercion" is out of place here.

Of course, the conditions attached to a loan must be in line with the task. If, in theory, the IMF is to provide temporary loans to straighten out balance of payment problems, one is entitled to ask whether and how long-term structural policy directives such as privatisation or labour market liberalisation can help improve a country's balance of payments. Balance of payment problems are primarily macroeconomic, for example, the result of a fiscal policy with an excessive deficit or a deliberately lax monetary policy. It is not always possible (and if, then only indirectly) to establish a correlation with microeconomic structural problems such as over-regulated markets or the inefficiency of state-controlled planned economies in financial markets. Yet the Fund has increasingly extended its lending conditions to include microeconomic directives, making it more vulnerable to criticism of its politics and morals and raising the question of appropriate behaviour on the part of an international organisation when dealing with sovereign states.

The IMF develops programmes when a country approaches it for help. Harvard economist Martin Feldstein feels, "The country is then the IMF's client or patient, but not its ward (…) A nation's desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation's political process." The reforms that the IMF demands in the adjustment programmes may be helpful and indispensable for the economic development of the borrowing country in the long-term, yet from the liberal point of view, this does not bestow

the Fund with the right to impose such conditions on countries if they seek nothing more than short-term bridge loans. "The IMF has replaced the gunboat", says the economist Sir Alan Walters.

It is primarily about the American gunboat. After all, the main financiers in the IMF have the greatest influence because they have most of the voting rights in the decision-making bodies. Based on the quotas, the countries in question here are the US (with a share of around 17.5%) and countries like Japan and Germany (around 6% each). As important decisions require a majority of 85%, the US is the only country with a blocking minority. According to the American economist Allan Meltzer, the fact that the IMF and the World Bank are based in Washington, DC, further reinforces American influence on the institutions. Meltzer addresses a concern expressed by John Maynard Keynes in Bretton Woods itself.

The considerable influence that the US executive has on the IMF allows it to circumvent unwanted domestic political resistance in the pursuance of its foreign policy. In 1995, President Bill Clinton's administration used a special American fund directly answerable to the administration (ESF, the Exchange Stabilisation Fund) and the IMF to assist Mexico with a package of 37.6 billion dollars (17.6 billion for the IMF account, in addition to loans granted by other institutions). In the 1990s, not least in response to US pressure, the IMF had to give repeated loans to Russia to the tune of billions

of dollars. The reasons were more political than economic. The IMF was used or misused in the attempt to stabilise the young Russian democracy and the accompanying corruption. Given the international concern about Russia and its nuclear weapons, the Russian government, until the rouble crisis of 1998, always knew how to obtain new lines of credit without really abiding by IMF conditions.

The extensive influence that the US and G-7 countries can exert on the IMF has politicised its work and not been conducive to its goals. From the political and, above all, American citizen perspective, it is in contravention of all democratic legitimacy when the administration bypasses Congress and governs through the IMF in foreign policy matters. Milton Friedman, Nobel laureate for economics, criticises the IMF: "We would never do with our money what the IMF and the World Bank have done." Yet in the case of Mexico and Russia, it was the US administration that was also responsible for spending the money.

The fact that the IMF was an extremely closed institution that published little about its work has helped politicise it over the years adding to the impression that it lacks democratic legitimacy. Only recently has the Fund been seen to make a special effort with regard to its public image in response to the criticism of its lack of transparency. However, it is dependent on the decisions of member states, who can decide what is to be published at their discretion. The bulk of the reports and assessments of the regular Article IV

consultations are now published. Most borrowers now even publish the "letters of intent" that describe IMF programmes and loan conditions. About half the IMF staff reports on programmes have been published since 2001. Although "sensitive" information is edited out, Fischer is right when he calls the recent efforts to make the Fund more transparent something of a "revolution".

2.2 Economic criticism

Criticism of the concrete economic policy recommendations and conditions laid down by the IMF is as varied as the general discussion on economic policy. The spectrum ranges from the left-wing critics of globalisation for whom the Fund preaches too much of the free market to libertarian Americans for whom it advocates too little of the same. Yet, a closer look reveals that the arguments often overlap. For example, anti-globalisationists and some libertarians complain that the Fund's harsh policy of fiscal and monetary discipline exacerbates poverty in developing countries. Not least in response to such criticism, the Enhanced Structural Adjustment Facilities (ESAF) was renamed the Growth and Poverty Reduction Facilities (GPRF), and the Fund moved even further away from its roots.

2.2.1 Missing the goal – empirical analyses

The criticism, sometimes more sweeping than not, is fuelled by the fact that the IMF's adjustment programmes often fail to achieve their goals. This is probably true. Frequent attempts at empirically documenting the effects of adjustment programmes on macroeconomic indicators such as economic growth, inflation rate or current account balance have had mixed results. Sebastian Edwards sums up one of the Fund's own studies dating back to 1989 by saying that the programmes had a statistically non-significant effect on the balance of payments, a non-significant effect on inflation, a significant positive effect on the current account and a significant negative effect on output. In Meltzer's words, the Fund is moving the current account towards balance by reducing output, income and imports. According to the study, this will be applicable for a brief period of one year. From a medium-term perspective, the results are more positive, even taking economic growth into account.

At any rate, the success of the IMF's medium- to long-term structural programmes remains uncertain. A study conducted by the American Heritage Foundation, the conservative think tank, reveals that the per capita income in countries that participated in the programmes rose by an average of 4% between 1986 and 1997. In developing countries that did not resort to IMF help, per capita income grew by an average of 24.1%. Other studies arrive at similar results.

The conclusions that can be drawn from these statistics are as uncertain as the data is informative. A standard of comparison is required to conduct a comprehensive analysis of, for instance, the impacts of IMF programmes on a country's economic growth – one must know how the economy would have developed without the programme. Even in normal cases, an assessment would be accompanied by considerable reservations and could only be an approximation. The difficulty is compounded in crisis countries – one would have to describe the development of an economic crisis in a particular country compared with actual development in a way that would allow verifiable statements to be gleaned about hypothetical economic growth without the Fund's intervention. This is virtually impossible. At any rate, simple country comparisons such as those drawn by the American Heritage Foundation are not enough to determine the success of IMF programmes. "Those countries not undertaking Fund programs are surely not an appropriate control group," wrote the economist Anne O. Krueger, prior to becoming the IMF's First Managing Deputy Director.

To this one must add that the studies cited here do not have the information that allows them to take into account whether and what extent the Fund's programmes are implemented at all. It therefore remains unclear whether poor economic development can be traced back to IMF conditions or is explained by the non-implementation of these conditions. It is a known fact that the conditions imposed by the Fund are often not adhered to. In 1983, for instance, the Fund launched

its programme to ease the debt crisis in Latin America. Edwards shows that with reference to the 34 country programmes conceived at the time, budgetary deficits were reduced in keeping with the IMF's specifications in clearly less than half the cases and the performance ratio was lower than was the case with programmes launched in the 1970s.

Against the background of this information, it is another figure that says more about the quality of the Fund's policies – the number of countries that have become permanent or long-standing IMF clients. At least it gives us an idea of whether the Fund's policies strengthen a country's resilience to crisis in the long term. A statistic from 2000 demonstrates that of a total of 124 countries, 95 have been receiving IMF loans for 10 years or more (Table 1). The study covers the period from 1949 to 1999. During these 50 years, four countries were supported by IMF loans for even 40 years or more.

Table 1
Number of years of being indebted to the International Monetary Fund

Less than	10	10 to 19	20 to 29	30 to 39	40 to 49
Number of countries	29	25	46	20	4

Period from 1949 to 1999, Source: International Financial Institution Advisory Commission (2000) and IMF

This statistic is not only indicative of just how much the Fund (with its structural programmes) has developed into a long-term lender, but also how the Fund's policies have not been particularly helpful in crisis-proofing countries. The experience of having received an IMF loan once raises the probability of the country resorting to another loan in the future. Dreher and Vaubel speak of a "dependency trap" and individual cases support this argument. The US and the IMF helped Mexico out with loans four times starting in 1976 – in each case after elections had been held in the country. Between 1971 and 1977, Peru made a total of 17 different arrangements with the IMF and continues to receive money. For Ed Feulner, this is proof of the IMF's failure to enforce its conditions and its tendency to continue lending to countries that have failed to abide by their commitments. Here we have further evidence of failed IMF policies.

2.2.2 An expansionary way out of a crisis?

Apart from attempts to assess the IMF's performance based on economic indicators, it is often said that the Fund's economic policy recommendations are generally wrong. Critics fault the Fund for usually preaching about reducing budgetary deficits, showing fiscal policy restraint and pursuing rigid monetary policy – often tied to the recommendation that countries carry out a controlled devaluation of their currencies. Income and demand fall and countries in crisis are driven directly into poverty. Jeffrey Sachs criticised the IMF at the end of the 1990s as the "Typhoid Mary of emerging markets, spreading recession in country after country." Ac-

cording to Sachs, the IMF tries to stabilise exchange rates by setting high interest rates, thereby "killing" national economies and further undermining confidence in crisis-stricken countries. It would be wiser to introduce a monetary and fiscal policy to galvanise demand and boost the economy. Sachs' criticism is untenable in economic terms.

Diverse factors are responsible for the crises that make countries turn to the IMF. In Latin America, the prime cause was excessive public debt – governments were living beyond their means on borrowed money. This was doomed to fail as they did not or could not bear the burden of interest and foreign investors were no longer willing to invest more money in these countries. High national debt was also responsible for the crisis in Mexico (1994/95) and Russia (1998), where the situation – much like in Asia, particularly South Korea in 1997 – was further aggravated by the fact that substantial capital was raised in foreign currency on a short-term basis thereby increasing the risk of sudden capital exodus from the country. In contrast to Latin America and Mexico, the debt problem in Southeast Asian countries was due less to the governments and more to private banks and companies that had incurred debts or raised capital abroad. The countries usually pursued an exchange rate policy based on the adjustable peg, which meant that although the currency was, as a rule, tied to the dollar, the exchange rate could be adjusted. In all these cases, the countries were hit by crisis, as capital was taken out.

The overriding task in such crises of capital outflow is to restore investor confidence. Tried and tested means include reducing budgetary deficits and/or tightening fiscal policy, reducing state expenditure and introducing a more stringent monetary policy so that higher interest rates keep investors in the country. This has been regularly recommended by the Fund and it cannot be faulted on this count. Devaluation of the (overvalued) currency is usually wise and unavoidable in order to arrest potentially excessive domestic demand and reduce untenable deficit levels in the current account. The IMF demanded devaluation (Thailand) or could not prevent it (Russia) and, in a second step, called for a stringent monetary policy to stabilise exchange rates. This policy is criticised on two counts. First, devaluation increases the debt burden in foreign currency (dollar) adding to the strain on the financial situation in the country and/or company. Second, devaluation intensifies the crisis as it is, above all, a signal to investors to withdraw their capital. Of course, financial markets in such crisis situations usually trigger devaluation themselves. Besides, devaluation is inevitable when the basic economic information about a country fails to inspire investor confidence.

The blanket criticism of the Fund's harsh policies – which, critics say do not fuel growth but drive people further into poverty – may be hackneyed, even popular, but not well-founded. Of greater importance is the view that the IMF invariably pulled out the wrong remedies during the Asian crisis. In contrast to Latin America in the 1980s, Southeast

Asian countries suffered less from a crisis of over-consumption than over-investment, igniting a discussion among economists about whether the IMF had recommended far too rigid a macroeconomic stabilisation policy for Asia. Feldstein believes this to be true at least of South Korea where the problems may have originated in the short-term debt but were not the outcome of an overvalued currency or exaggerated current account deficit. In 1998, the German Council of Economic Experts that assesses macroeconomic development, was critical of the fact that the Fund's macroeconomic programmes in Asia lacked credibility and ignored the core of the crisis, namely that banks were in financial distress.

The economist Rüdiger Dornbusch, however, also supports the IMF's approach in Southeast Asia, believing that its primary task had been to halt the fall of currencies and, given the large loans taken from the Fund, one had to show at least a "glimmer of fiscal conservatism". It is true that within a few months, the Fund eased its macroeconomic programmes in Asia, particularly fiscal policy requirements. However, whether this was in response to the criticism or as a sensible second phase of the stabilisation programme following the initial successes of confidence building is still unclear. It is also true that the Southeast Asian countries that followed the Fund's remedies recovered more quickly from the crisis than Indonesia, which was unwilling to swallow the prescribed pill.

2.2.3 From fixed to flexible exchange rates: the belated turnaround

"Had exchange rates been flexible, most of the famous crises of the last decade would either not have happened, or would not have taken the form they did." Fischer made this remarkable statement in October 2002, implying that the Fund took a long time to learn that flexible exchange rates can be a good thing.

In the Bretton Woods tradition, the IMF (stabilising exchange rates is included in its mandate) has supported countries far too often since the early 1970s to control the external value of their currencies by means of the adjustable peg. It was obviously not easy for the IMF to turn its back on the Bretton Woods system of fixed exchange rates. The reasoning behind this is that a mildly fluctuating exchange rate lends some stability to the economy while giving potential investors the security of knowing that the country will not allow devaluation spirals. Of course, exchange rates were eventually always adjusted, as a rule devalued, because the monetary policy had once again been oriented to national goals. Because of this scope for inflation, temporary, quasi-fixed exchange rates are attractive to governments of developing countries or emerging markets. The Fund has supported and tolerated such policies, more so because the renewed fixing of exchange rates was often a condition tied to a programme to counter inflation. Against the background of this experience, some countries have tied their currency tightly to, say, the dollar, by means of a currency board – a signal

to investors of their serious intent. A prime example of this tie-up was Argentina that tied the peso to the US dollar in the early 1990s and did not have to wait long for remarkable macroeconomic stabilisation and vigorous economic growth. The IMF encouraged the policy pursued by its "best student".

Fixed exchange rates place governments in a dilemma described as the "impossible trinity" – it is not possible to have fixed exchange rates, unhindered capital mobility and an independent monetary policy at once. If capital is to move freely so as to not alarm investors, monetary policy in these conditions must be oriented solely to the exchange rate. This can be helpful for a short time to break inflation expectations, but fixing the exchange rate increases the risk of the currency falling victim to the speculative attacks of financial markets. The probability of such attacks increases as doubts multiply about the course followed by the governments and the will to adhere to fixed exchange rates. Furthering this argument, a fixed exchange rate system ensures that monetary and other policies will do their duty. "Adjustable fixed rates do not leave any room for mistakes in economic policy," said Köhler in January 2001. This is now true of all fixed rate systems, even currency boards. Argentina had no option but to decouple the peso from the dollar in 2001, because an uncontrolled fiscal policy and national debt had resulted in capital flight. The IMF prolonged the crisis by hesitating for a long time before suspending loans to Argentina. What ultimately won the day was the realisation that

fixed exchange rates and even a currency board can only be maintained if the government agrees to cooperate.

The IMF learned a similar lesson after a painful experience in Turkey. Aware of the risk of fixed exchange rates, the Fund accepted the fact that the lira's external value would be tied to a Dollar-Euro basket in the disinflation programme of 1999. At the same time, however, it was agreed to devalue the lira on a monthly basis and gradually widen the permissible fluctuation band. The IMF had prepared an exit scenario to prevent the fixed currency from coming to an enforced and disastrous end. However, market reality was different. Following the bank crisis in November 2000 and a government crisis, the IMF applied pressure on Turkey and the lira was floated in February 2001.

Not until well into the 1990s did the Fund openly admit that flexible exchange rates minimised the risk of speculative attacks on the exchange rate per se. They do not, however, altogether exclude the possibility of a financing crisis, as evidenced by the case of Brazil in 2002. Market doubts about the sustainability of the country's fiscal policy were enough to drive capital out and effect a fall in the value of the real. Yet the trend of the past decade during which a growing number of developing countries have committed themselves to flexible exchange rates is to be seen in a positive light. There has been a decline in the risk of currency crises and a fall in the number of adjustable fixed rate systems, described by Friedman as "time bombs".

Flexible exchange rates educate reluctant governments in matters of reform. They do not only mean that currency markets have a permanent say over the government, they also increase the pressure on governments to give up economic policy experiments and provide for greater currency stability. Köhler's call that the Fund should no longer advance credits to prop up unrealistic exchange rates has consolidated the trend away from fixed rates. This can provide for more economic stability, despite greater flexibility in global exchange rates. Why it took the IMF decades to acknowledge the advantages of exchange rate flexibility remains an open question. Plausible but not yet proven is Friedman's assumption that the Fund adhered to adjustable fixed rate systems mainly because it wanted to secure its future. "You've got to have a system for which you will be needed." This is not true of flexible exchange rates.

2.2.4 Raise taxes, keep deficits – Keynesian manoeuvres

The IMF is criticised mainly by the opponents of globalisation who believe it has committed itself to the liberalisation of the economy. This platitude is not just astonishing, but patently wrong. While it is true that the IMF opposes anti-globalisation tendencies by urging greater leeway for the dynamic growth of international markets in its structural programmes, it is also true that since its foundation, regulation and planning have been intrinsic to the Fund and this is fundamentally contrary to the idea of the free market. The attempt to help stabilise currency markets by offering short-term loans is evidence per se of the notion that the economy

as a whole should be regulated and macroeconomic aggregates such as the current account or macroeconomic demand should be kept under control. This viewpoint that experienced its heyday during Keynesianism in the 1960s and 1970s quickly becomes a mechanical exercise which easily and often unwittingly disregards conditions that can encourage economic growth.

An economic policy based on regulatory and liberal principles is alien to this way of thinking. Such a policy would focus more on the legal parameters within which individuals should be able to conduct business freely. The Fund now finds itself on the horns of a dilemma. If its structural programmes focus on such framework conditions in a free economy, it is accused of political interference and the desire to extend its fields of activity beyond measure. And if it ignores institutional parameters, it is criticised yet again. While this is correct, it should not divert our attention from the IMF's core goal, which is precisely to control macroeconomic aggregates in the short run. This controlling mission should be criticised; it often causes the Fund to make policy recommendations reminiscent of Keynes, which liberals should reject outright.

Three examples illustrate this point. Thanks to a low taxation policy in the 1980s and 1990s, Ireland's economic growth made it the star of the European Union (EU). With the GDP growing annually at a rate of over 10%, the erstwhile "poor man" made considerable strides and, based on per capita

income, overtook the EU countries that had earlier been rich in comparison. The country's high budget surpluses also reflected its success. Ireland's growth was boosted further when it joined the European Monetary Union in 1999 and interest rates were lowered. The inevitable price to be paid for the recovery process was high inflation. At the end of the 1990s, the Irish government planned further tax cuts because it ultimately did not know what to do with the tax revenue – a sensible step, as tax cuts give citizens greater freedom over what they have earned and enhance the potential for economic growth. The measure was, however, rejected by the other European finance ministers and the IMF. The "no" of its European colleagues was a bitter experience for Ireland, yet it was understandable – governments in continental Europe, more than anywhere else, looked at Ireland with envy and worried about their benefits in the tax competition. The "no" of the IMF and other international organisations was a sign of confused thinking. Afraid that the Irish economy could overheat, the Fund demanded a restrictive fiscal policy, namely higher taxes, to curtail growth. Economic overheating was unlikely, as long as Ireland permitted the import of capital and immigration of people. It is anyway unclear why an economy should overheat when conditions are being laid for continued growth. Not to be able to see this, is evidence of plan-based thinking, where more importance is accorded to the rate at which macroeconomic indicators can change than to real economic conditions. It is proof of an overbearing wish to organise the economic world into assessable dimensions over which one can have control.

A second example is the manner of handling the European Stability and Growth Pact with which the IMF has an ambivalent relationship. On the one hand, the IMF reprimands the large EU countries for having breached the voluntary agreements to keep the budget deficit below 3% of the GDP and reminds them of the necessity of further consolidating their budgets. This is consistent with the IMF philosophy that high national deficits impede growth. On the other, the IMF warns of being too rigid when continuing with the efforts to reduce national deficits in difficult times. In November 2003, even the then IMF managing director Köhler considered it acceptable for the 3% limit to be exceeded in the coming year, provided this was accompanied by structural reforms in Germany. This is a short-sighted Keynesian view of things, whereby lowering the national deficit precipitates a fall in demand, which in turn jeopardises economic recovery. In recent years, experts have come up with another view – in conditions of crippling national debt, only a radical reduction in state expenditure and deficit can revive the forces of growth in the private sector. Obviously this line of thought has yet to catch on with the IMF.

A third example of skewed IMF analyses concerns the constant warnings from Washington, DC, that the high current account deficits in the US could collapse, causing the dollar to plummet sharply and resulting in a global economic crisis. The IMF has regularly emitted these warnings since the end of the 1990s, but they have yet to become reality. The value of the dollar has fallen considerably since 2001, yet the cur-

rent account deficit has grown. This comes as no surprise when the current account deficit (imports of goods and services exceed corresponding exports) is determined by whether and how much capital investors would like to invest in the US. Capital import into the US depends on how investors assess the country's economic prospects (compared with other economic spheres in the world) and how they view the prospects for interest rates. Even if Asian reserve banks are largely responsible for the increased flow of capital into the US in recent years, it is obvious that the US is still more attractive to investors than most of the world's other economic regions. How sensible is it then to take a high current account deficit as the sole evidence and conclude (as the IMF does) that a collapse is inevitable? History teaches us that it is possible to maintain a solid flow of capital and the consequent high current account deficits for a number of years without any problems. And what would happen if capital flow to the US were to dwindle? Nothing. The dollar would lose value, US exports boosted and the driving force of the economy shifted from domestic to foreign demand. This is a perfectly normal economic process comparable to the situation in which a private debtor puts in extra hours of work for a certain period to repay his debts. There is no doubt that the flexible American economy would not require much time to be able to cope with spontaneous restructuring and adjustment. However, the high current account deficit poses a problem for the IMF simply because it is there and it is large. This is not sound economics and can

be explained only by the Fund's fixation on macroeconomic dimensions.

Even more scathing than the political criticism is the economic criticism of the IMF. Not because the Fund usually preaches a stringent and usually desirable policy of austerity, but because, in all likelihood, the Fund has no obvious success with its programmes or at least the success cannot be adequately measured. It is, however, certain that the Fund keeps several countries dependent on aid programmes. This is not the intention of its economists, but these countries, despite all their pledges to introduce a free market economy, still cling to a macro-planning-based approach. It has taken the IMF decades to acknowledge the advantages of free exchange rates, yet its economic policy recommendations repeatedly testify to its belief that the economy per se must be steered in macroeconomic terms. The examples of Ireland, the stability pact and current account deficit illustrate this point particularly well. The pro-planning perspective creates confusion about the IMF's recommendations. On the one hand, the Fund is basically in favour of free markets; on the other, it always scents the need for intervention when free markets operate freely. What is even worse is that this pro-planning attitude is usually detrimental. First, because the IMF occasionally proposes counterproductive solutions to problems that do not exist and second, even more because with this attitude the IMF is constantly creating new fields of activity for itself. This brings us to the political-economic criticism levelled against the IMF.

2.3 Political-economic criticism

2.3.1 The Fund is growin

Judging by its size, the IMF has flourished since birth. It has survived the loss of importance following the collapse of the Bretton fixed exchange rates system. Its influence in the annual Article IV consultations has grown, as the task of supervising the economic policies of member states has been expanded since 1977. A large part of the IMF's working hours are spent in this activity. As for the Fund's new tasks in the field of resolving and averting financial crises, these have either been taken on by the Fund itself or have been transferred to the Fund by the political sector. The growth in importance is usually justified on the grounds that in an economically interwoven world it is inevitable that international organisations should have more tasks. The counterargument to this is that the IMF is seeking new tasks in its own interests as a bureaucracy. In other words, the IMF's growth would not be a sign of the greater necessity of its work, but rather a sign of more or less rampant proliferation. There is some evidence to support this theory.

At the end of 2002, the IMF had exactly 2978 staff members (1950: 444), of whom 297 were employees on short-term work contracts. The income of IMF personnel (after tax) is at least 50% higher than the income of comparable government employees in member states. From 1950 through 2001, the staff strength grew by an annual average of 3.8%; following the collapse of the Bretton Woods system in 1973,

staff expansion was slower than it used to be. Since 1950, the number of IMF member states has grown by an average of a mere 2.7% per year. The disproportionate relationship between the growth in staff and the number of member states should not necessarily suggest extravagance in the sense of a bureaucracy having developed a momentum of its own and that the means of control at the disposal of the shareholders (governments) are no longer sufficiently effective. The greater staff strength can also, for example, indicate the Fund's new and additional tasks or greater inefficiency caused by friction in an expanding authority. On the other hand, growth in staff numbers should be marginal if, over time, smaller and smaller states join the IMF and greater heterogeneity makes it difficult to reach agreements on new joint tasks.

Vaubel has conducted an econometric study of these correlations and arrived at the following conclusions:
1. The number of IMF staff workers depends to a significant degree on the capital share of the largest member states. The larger the share, the greater the incentive for these states to have effective control over the IMF.
2. The growth in IMF staff strength is not linked to the 'need' for its activities, if measured against the balance of payments problems facing member states with low currency reserves. The growth in the staff strength is independent of personnel costs, if measured by means of the relative wage costs of IMF staff.

3. The IMF grants more loans when a quota review is imminent. This can be an indication of the fact that prior to a potential rise in quota, the Fund would like to demonstrate just how much it relies on a fund top-up.

In summary, the conclusions suggest that the growth of the IMF is subject to factors other than a growing need for its activities in an ever closer global economy. There are arguments to endorse that the Fund has developed a life of its own as a bureaucracy. Its proclamations that the global economy and financial system require greater surveillance, crisis prevention or other activities that require its involvement, must be carefully reviewed and taken with a large pinch of salt.

2.3.2 Moral hazard – the IMF as a catalyst of financial crises

For governments, IMF membership is akin to an insurance policy. There is an international institution by their side to help them out with loans in times of currency or balance of payment crises. As in the case of all insurances, this comes with the problem of moral hazard. Moral hazard is what economists refer to when the behaviour of an insurance holder changes after he has taken out a policy so that there is a far greater likelihood of the event actually occurring against which he has insured himself. One can therefore assume that a comprehensive insurance policy (without deductible) makes one less careful when using one's own car. To some extent this is reasonable, as in overall terms insur-

ance can be cheaper than private precaution. However, the incentives can turn into the wrong incentives making the owner extremely careless or even deliberately casual when handling the vehicle.

Economists perceive an analogy with the IMF's drastic intervention in the currency crises of the 1990s. By demonstrating that it can help countries out of a spot with generous loan programmes and bail out creditors if necessary, they believe the Fund sets the wrong incentives for governments and investors, encouraging even more careless behaviour. The IMF provides subsidised loans as against market-determined interest rates and in doing so aggravates a financial crisis that it is supposed to prevent, or at least contain. This noteworthy argument forms the core of all criticism directed against the Fund because it reverses what has now become the common rationale for IMF activities. The Fund's existence is justified essentially on the grounds that global financial markets are inherently unstable and generate crises repeatedly. If, however, the argument of moral hazard holds true, then IMF intervention distorts the corrective mechanisms of the financial markets and aggravates the situation still further.

With regard to the IMF, the moral hazard argument comes in two different versions. First, there is the accusation that governments can, of course, always trigger a currency crisis by pursuing an expansionary monetary or fiscal policy. According to this line of thought, governments would pay less

attention to stability and, in their own interests, allow themselves large-scale economic policy experiments if they knew they could fall back on the Fund. Second, there is a strong suspicion that the IMF's aid programmes (Brazil and Russia in 1998) only delay currency depreciation, but do not prevent it. Private investors thus have enough time to withdraw their capital at a good exchange rate from the country concerned. When they know that they are secure, investors are misled into entering more risky, perhaps even more short-term foreign investments, adding to the instability of the global financial markets.

The accuracy of these suppositions is a moot point among economists. Concern was expressed about the volume of loan commitments made in the 1990s being markedly greater than earlier. In 1995, Mexico was promised an IMF loan amounting to 6.2% of its GDP, Korea 4.7% (1997), Indonesia over 5.1% (1997) and Russia over 5.5% (1998) – amounts significantly higher than earlier allocations. Horst Siebert, the German economist from Kiel, speaks of an exponential growth. This growth forms the basis of the assumption that investors and governments are feeling increasingly secure and consequently changing their behaviour.

However, moral hazard behaviour is difficult to prove. In terms of government action, IMF officers are happy to point out that in a crisis situation loan negotiations with the Fund are unpleasant and difficult enough to frighten governments. Thus wrong incentives would not be set allowing fiscal and

monetary policies to get out of hand. Of course the counter-argument is that governments can have extremely short-term horizons. It can be very tempting to initiate an expansive monetary policy just before the elections the negative fallout of which, such as currency devaluation, is felt only after the elections. In an econometric study, Dreher and Vaubel find evidence to support the supposition that governments increase their national deficits and allow the volume of money in circulation to grow quicker, the less their loan quota at the IMF has been exhausted and the greater the number of fresh loans received from the IMF in recent years. There is a suggestion of moral hazard here and an indication of governments being set the wrong incentives, given that IMF loans are, after all, subsidised.

Another controversial point is whether IMF protection can mislead private lenders in developing countries to make an excessive commitment and not pay adequate attention to the associated risks. Some economists claim that IMF loans are generally too small to bail out investors in developing countries or emerging markets and create a feeling of security. Moreover, the economist Peter Nunnenkamp, also from Kiel, argues that the flow of money invested in developing countries after the Mexican crisis was essentially in the form of equity capital investments, not bank loans. The latter would have been the case had banks become more careless about lending in the wake of the Mexico bailout. He goes on to say that after 1995, there was no lending boom

in developing countries overall, nor specifically in Southeast Asia, the region to be afflicted by the next crisis.

The suggestion of moral hazard can be tested elsewhere too. Should the hunch be proved true, financial market players would have to assess the borrowings of developing countries as less risky, if the IMF receives more money or has just proved that it is magnanimous when helping some governments. In such cases, the risk surcharge added to the interest on the borrowings of developing countries should be reduced. IMF economists Lane and Phillips have analysed this very correlation. They show that IMF decisions and announcements regarding loans to Mexico, Southeast Asia and Russia, for example, had no systematically verifiable influence on the market rate of interest charged on the borrowings of developing countries. Only in two cases – US Congress approval of IMF capital top-up in October 1998 and the Russian default in August 1998 – does the development of the interest rate provide us with (unclear) signs of moral hazard.

Is all this sufficient evidence to debunk the theory of IMF-determined moral hazard? No. According to Siebert's analysis, wrong behavioural incentives as a result of flaws in the institutional structure of economies can hardly ever be directly measured; they are always at the back of one's mind when one takes action. He believes that awareness of possible IMF aid acts as a constraint, implicitly influencing decisions. The damaging effects can only be seen in the long

term and are barely discernible in short-term economic data. Therefore there is much to say in favour of judging the IMF on the basis of the wrong incentives set by its policies, even if economists struggle to record these in figures, although clearly identifiable in theory.

3. IMF – abolish or reform?

Over the past decades, the IMF has developed into an important global economic player constantly expanding its purview. After the spectacular financial crises in the second half of the 1990s, during which the Fund played, to put it mildly, an unfortunate role, criticism of the IMF has become more vocal. Well-known economists plead for the Fund to be shut down altogether. What speaks in favour of this argument is that the IMF has lost sight of its original mission since the beginning of the 1970s and the trend towards flexible exchange rates makes balance of payments crises per definition less likely. Another reason to do away with the IMF would be that the problem of moral hazard would disappear from the world once and for all and there would be greater pressure on governments in developing countries or emerging markets to pursue independent, stability-oriented economic policies. Without IMF-generated distortions, the corrective and preventive mechanisms of the financial markets would work better and crises would be averted. Having to sacrifice lavish IMF loans could, in individual cases and for short periods, mean hardship, but in the medium term, it would have a more long-lasting effect on raising the standard of living in these countries than having them lurch from one crisis to the next. It seems utopian to believe that the IMF could be done away with in the foreseeable future.

However, many of the negative effects of the IMF's work could be avoided if the institution and its tasks were to undergo fundamental reform. It is therefore expedient to first be clear about the purpose that the Fund could serve today.

3.1 Ex-ante not ex-post

Based on a basic distrust of free markets, free international movement of capital and the fear of market instability, it is often claimed but not clearly proven that in a globalised economic world it is imperative to monitor and control currency markets if crises in the global financial system are to be prevented. An objective analysis asks the question of public goods that the Fund and only the Fund can provide, turning the spotlight on two functions: economic policy advice and crisis prevention/management.

In terms of economic policy advice, the IMF has undoubtedly attracted and continues to attract many good economists, even if one may not agree with all their proposals. Moreover, the IMF research department has elaborated important findings in the field of currency and financial relationships. Several former IMF economists have taken on political functions in developing and transformation countries and thus "transferred" knowledge about conditions for free market development. In principle, all this is to be welcomed. The quality and quantity of the IMF think tank notwithstanding, it is however in no way apparent that the Fund provides a pub-

lic good in respect of economic policy advice that could not be provided without public financing. The market for economic policy advice is large and well-developed and governments can find private consultants at any time. From a theoretical point of view therefore, it would be difficult to assign the IMF a special task that could justify its existence. Nevertheless, the IMF's research and advisory functions are not being criticised in principle – the bone of contention is that they are tied to loans. The IMF's obligatory suggestions are rejected because it attaches economic policy conditions to its loans.

Besides acting in an advisory capacity, the role of the IMF today is generally considered to lie in the prevention and management of financial crises. Given that international capital markets are becoming more open and integrated, the Fund is expected to douse the flames before the fire can spread. This explains IMF intervention in financial crises since the 1980s and more so since the mid-1990s. While there may be something to be said in support of this argument, it does not imply that the Fund should be issued a blank cheque entitling it to grant larger and larger loan packages. Financial crises in a country are primarily the result of a country's economic policy, which means that the responsibility for crisis prevention and management must lie first and foremost with the country's government. Should generous loans be given and this rule disregarded, the problem of moral hazard arises, heightening the risk of further financial crises. The IMF is then in danger of becoming an interna-

tional agency expected to correct the mistakes of national governments. Theoretically, the IMF's fire-fighting function should be limited to intervention only when a crisis in a particular country threatens to engulf other countries and the global financial system is in danger of plunging into an abyss ("systemic risk"). It is only in this respect that the theory of public goods can be used as justification for the IMF's existence.

A systemic risk is difficult to identify. Even in retrospect it is not clear whether the Mexican crisis in 1994/95 for example or the Southeast Asian crisis in 1997/98 would have led to a breakdown of the global financial system had it not been for IMF intervention, as was then feared. The task is made no easier by the fact that the G-7 governments, above all, apply pressure on the Fund and use it to nip apparent system crises in the bud. Faced with such political pressure, the Fund has the tendency to intervene more frequently than it should according to economic theory. A reform of the Fund should therefore set clear rules that would limit its interventions and loans to a healthy dose.

These basic considerations are countered by the argument that governments in developing countries are helplessly exposed to the international financial markets. Capital drifts from place to place. The argument claims that investors take unreasonable action and are quick to withdraw capital from a developing county, thereby sending the exchange rate into free fall and driving the people further into poverty. In this

view, the IMF is not a fire-fighter but a defence force that has to protect innocent governments and countries from evil investors. Needless to say, there is not much to support this standpoint. The governments of developing countries have all the instruments at their disposal to help them minimise the probability of speculative attacks on their currencies and their vulnerability to financial crises. The governments can turn their backs on fragile fixed exchange rates choosing instead to float the rates. They can orient the national monetary policy to price stability, which means a stable economy and makes the country attractive for investors planning for the long term. They can top up their currency reserves. They can forgo excessive national debt, as this tends to frighten or chase away investors and they can reinforce the national financial system through competition and appropriate regulation.

As a rule, currency and financial crises occur when short-sighted governments, thinking only of the immediate future, breach these fundamental rules. In its fire-fighting role, the IMF should ensure that such behaviour is not subsequently rewarded. Moral hazard behaviour can be avoided when governments are compelled to comply with conditions ex-ante (i.e. before a potential crisis) if they intend to ask for a loan at a time of crisis. It can also be avoided if strict limits are imposed on the term of a loan. Furthermore, to reduce moral hazard, IMF loans must be granted with interest, the rate being commensurate with the market rate in the respec-

tive country or, even better with a surcharge; in any case no longer subsidised.

Thus a decisive element of the IMF reform must be that ex-post conditionality is replaced with ex-ante conditionality. The IMF should announce the conditions it intends to impose and grant a bridge loan almost automatically to help a country tide over the crisis. This proposal has been worked out by the Meltzer Commission in the US among others. Such a change would bring many advantages. Governments would be required to pay more attention to the effects of their policies on the financial markets and so stabilise the global financial system and global economy. Private investors and banks will learn that capital investments in countries that do not comply with the conditions will not longer be secure thanks to IMF loan programmes. The private sector will consequently be more mindful and aware of the risks involved; risk surcharges will increase for countries with governments disinclined to stability. This differentiation too will set countries greater incentives to pursue a stability-oriented economic policy.

Further advantages can be expected when ex-ante conditionality replaces ex-post conditionality. Loans can be granted promptly as tedious and lengthy negotiations about the conditions to be imposed can be dispensed with. Not only does this help countries in crisis but also helps the Fund to revert to its original mission – providing short-term bridge loans without interfering in economic policy. Ex-ante condi-

tionality also means that governments decide for themselves whether they would like to launch certain reforms or not. A country abandons some policies and the Fund no longer gives the impression that it is coercing governments into adopting certain measures. Misunderstandings are avoided and acceptance of a stability-oriented economic policy strengthened.

The argument against a switch form ex-post to ex-ante conditionality suggests that the Fund needs loans to apply pressure so that its economic policy recommendations do not fall on deaf ears. Of course the argument is misleading. First, even after the reform, the Fund would only allocate a loan to countries that had done their homework. Second, it is not the task of the Fund to bribe governments with loans in order to mobilise them into implementing economic policy ideas.

What are the conditions that the IMF should impose on its members so that they can claim to short-term bridge loans? The countries should pursue long-term policies that help avert currency and financial crises, including, for instance, the decision to allow the exchange rate to float. Vaubel also suggests imposing limits on monetary expansion and a government's budgetary deficits. The Meltzer Commission mentions the commitment on the part of countries to open their financial markets to foreign banks and providers. It claims that integration in the global financial markets and consequent competition would reinforce the financial sys-

tem in developing countries and emerging markets and make them less prone to crises. The Meltzer Commission also proposes introducing appropriate regulation accompanied by the commitment to proper capitalisation of financial institutes. It further pleads for an updated, detailed and accurate publication of a country's total foreign commitments and asks for fiscal policy to be restrained so that IMF loans are not used to finance unstable budgetary policies.

The proposed reform would enable the IMF to essentially keep its lending facility separate from its economic policy advice with which the Fund could continue. Another task for the IMF would be to urge its member states to publish data about their debt burdens and financial markets and support this by setting standards. Greater transparency in the financial markets regarding conditions in a country would keep market players better informed and help to prevent a crisis. There has been movement in this direction in the recent past. A reform programme of this kind is premised on the belief that countries do not per se have to be protected from "the financial markets" but that the markets can help avert financial crises by penalising bad government policy. For market sanctions to take effect, it is imperative that the IMF only grant temporary loans and impose strict time limits.

It is equally important that the IMF refuses to help countries that have not fulfilled the conditions ex-ante, as it is the only means of applying further pressure on developing countries to come up with a sound economic policy. The course of

reform calls for persistency on the part of IMF officers and readiness on the part of IMF member states, especially G-7 countries, to refrain from taking hasty rescue action (Mexico, 1994/95) or granting repeated loans (Russia). If it cannot be avoided, a government should take such action outside the framework of the IMF, leaving the Fund's integrity and credibility of its actions intact.

In 1999, the Fund introduced the Contingent Credit Lines (CCL), a precautionary line of defence to render members more resilient to financial crises. It was considered the first step towards ex-ante conditionality. Member states, whose solvency had already been reviewed by the Fund, were to be given the opportunity to resort promptly to the loan facility, if threatened by the possibility of financial contagion spreading from other countries in crisis. The facility was a failure across the board, was never used and expired without much ado in November 2003. It failed because, in the final analysis, the IMF did want to attach conditions to the loans claimed under the CCL. Another reason was that the CCL competed with other IMF loan facilities and represented only a very small step towards ex-ante conditionality. Developing countries probably also feared that a CCL application alone would have been interpreted by the financial markets as a sign of their vulnerability to future crisis. If one takes all these special factors into account, there is no reason for the failure of the CCL to speak against the proposed reform of all IMF loan programmes presented in this paper.

3.2 Lender of last resort?

The frequency and volume of IMF loans would fall sharply if IMF loans were to be pragmatically limited to short-term borrowings subject to ex-ante conditionality. After all, the larger the number of countries opting for a policy of stability, the less the likelihood of currency and financial crises. This is not to say that such crises would not occur at all. Neither does this solve the problem of whether and how the Fund should intervene when the global financial system is threatened by systemic risk. The question is whether the IMF should be a lender of last resort.

The discussion is often confused because the term "lender of last resort" is interpreted in different ways. For some it is the task to ensure (if necessary by generating money) sufficient liquidity should there be a loss of confidence, so that theoretically solvent financial institutes and countries are not plunged into the abyss. For others, lender of last resort has more to do with limiting IMF lending solely to short-term liquidity assistance. The two interpretations have different implications for the IMF's future policy. The latter focuses on putting an end to extending the IMF's functions and would include the recommendation of the Meltzer Commission to attach ex-ante conditionality to IMF loans. The Commission describes the role of the IMF after such a reform as that of a "quasi" lender of last resort that grants loans to only solvent states to help them tide over liquidity

bottlenecks. In essence, this recommendation is to be welcomed.

However, the first interpretation goes much further. It sees an activist role for the IMF with regard to financial market control. In 1999, Fischer vigorously campaigned for such a solution. He justifies the necessity of having an international lender of last resort by pointing to extreme fluctuations in international capital movement – classic signs of financial panic. Fischer finds that an international lender of last resort could help to ease not only the impact of this instability but perhaps even the instability itself. He argues that the IMF fulfils this task, should continue doing so and even intensify its efforts so that capital can continue to move unhindered – a factor desirable for growth and wealth. If necessary, the IMF should top up its special drawing rights; in other words, create new international money to be able to provide adequate liquidity. Against the background of the deepening crises of confidence in the financial markets, a concerned Krugman plays the same tune when he writes that the IMF, despite all its shortcomings is “all that we have, and it is a lot better than nothing at all”.

The broad implications of the new understanding of the IMF’s future role has rightly drawn considerable criticism and seems to have been abandoned for the time being. Fischer adopts the classic interpretation of the lender of the last resort according to which, the lender should have unlimited liquidity to resolve a crisis. At national level, this task is

usually assigned to the central bank because it alone prints money and can create liquidity. By indirectly entrusting the IMF with this task and power the Fund would continue to have an adverse influence on the global economy. There would be more scope for the US and G-7 countries to use IMF loans for their power politics and more wrong incentives would be set as a consequence of IMF loans. One can only advise against this.

The economist Anna Schwartz also points out that as the decisions of the IMF's Executive Board are subject to the votes of executive directors who consult their national authorities, it is unable to respond quickly and check potential financial panic. She goes on to say that while the IMF itself requires weeks or months to come to a decision under the Emergency Financing Mechanism introduced after the Mexican crisis, central banks can respond within days if not hours. Moreover, in an ideal world, central banks are independent of governments and thus in a better position than the highly politicised IMF to judge the infusion levels of funds required in a crisis.

The fact that it would be difficult to define the limits of its tasks also goes against the IMF acting as a specific lender of last resort. If IMF member states suffer from classic financial panic, that is to say, a run on the banks, national central banks (perhaps after consulting each other) are expected to provide liquidity. The Fund has no role here. However, if it is a question of a financial crisis caused by a lax

monetary or fiscal policy, the governments of the crisis countries are required to take remedial action. If a government or the private sector is unable to repay its debts, it must negotiate solutions with the lenders. If banks or financial institutes become insolvent, the government must step in to ensure that the matter is properly resolved. Here too, there is nothing for the IMF to do; it cannot relieve a country of the painful and tedious consequences of a financial crisis. At best, according to Schwartz, the IMF can provide bridge loans in such cases, an activity that no longer belongs to the classic task assigned to the lender of last resort.

There remains the possibility of the IMF intervening as lender of last resort, in an attempt to contain the effects of potentially contagious financial panic or a financial crisis that could develop into a systemic crisis. This argument was referred to as the "tequila effect" after the Mexican crisis in 1994/95 and the "Asian flu" after the Asian crisis in 1997/98. The theoretical reasoning behind the fear of contagion is partly explained by the fact that when a particular country is hit by a financial crisis, investors will take a closer look at other countries too. To this extent, the danger of contagion yet again reinforces the fact that it is the country itself that is essentially responsible for averting the danger. "It is not contagion that makes countries vulnerable to a financial crisis. They are vulnerable because of their home-grown economic problems," writes Schwartz. Tying potential IMF loans to ex-ante conditionality sets the right incentives here. The theoretical reason behind the danger of contagion also

lies in the fact that the collapse of one or more large debtors in Asia, for instance, can have drastic repercussions on the balance sheets of international lenders. These will have to be borne; potential adjustments that must be made can only be negotiated between debtors and lenders. When loans are cancelled and a country faces liquidity bottlenecks, it is for the central bank to step in once again.

However one turns and twists the argument, it is difficult to find a specific role for the IMF in which it could, and should, project itself as lender of last resort. While readiness to lend money in a crisis may help to build confidence and stem financial panic, the price paid is that private investors will be bailed out and wrong incentives set, as has been the case in the past. However one would like to define the role of the IMF in a crisis, it seems expedient to shift from the ex-post to the ex-ante conditionality to minimise setting wrong incentives that foster crises.

3.3 Not a second World Bank!

When discussing the IMF's role as a saviour in a financial market crisis, one tends to lose sight of the fact that the IMF is reinventing itself elsewhere as well. In late 1999, probably as a reaction to the criticism of its apparently excessively harsh and 'economistic' policies, the Fund replaced its structural adjustment loans with a new facility geared towards poverty reduction and promotion of economic growth. This facility enables poor IMF member states to receive multi-

year loans at heavily subsidised interest rates. The loans are to be used for the promotion of poverty reduction programmes to be developed by the countries themselves under the auspices of the World Bank and the IMF. This is intended to strengthen "country ownership" and help bridge the gap between the IMF and developing countries – the target of the criticism by anti-globalisationists. The majority of IMF loans are now granted under this facility even if the volume of other loans is considerably larger.

The poverty facility does not mean that the IMF has done away with those tasks that have been converging with the activities of the World Bank since the 1980s, but that these have finally been institutionalised in a form of close cooperation. The IMF moves further away from its original mission, responsibilities are erased and there is greater leeway for bureaucratic expansion, a development that causes even more concern, given that earlier structural adjustment programmes are considered to have had varying degrees of success.

The IMF's expertise lies mainly in the fields of currency and financial markets. There is much to be said for the Fund exploiting its comparative advantages in these fields and leaving direct poverty reduction to the World Bank. If the Fund were to concentrate on its key task, namely to ensure that financial markets are operational, it would go a long way in reducing global poverty and stabilising global economic development and it would be the Fund's best contribution to developing countries.

4. Continuing on the old course

In recent years, the discussion about the reform of the IMF has quietened down. First because the world has not been shaken by any large financial crises in recent times, but also because the IMF has addressed some of the criticism levelled against it. It has become more open and transparent and allows itself more self-criticism. More than ever before, the IMF cherishes the view that flexible exchange rates are a tried and tested means against currency crises. It has reduced the conditions it attaches to loans and tightened the number of credit facilities. The Fund has now imposed penalty interest rates on the new loan facility (introduced in 1997) intended to help countries in times of acute capital loss; the penalty interest does not, however, exclude the possibility of subsidisation. By setting standards, the IMF has also helped ensure that member states promptly publish – qualitatively enhanced – information about economic and financial market development. Market transparency is boosted and investors are helped to better assess potential risks. The Fund has set up a new department for financial markets and is now more aware of financial risks; this is reflected in the programme to assess the stability of the financial sectors in member states.

Not all the projects initiated by the IMF have been successful. This is especially true of the precautionary credit line to strengthen the defence mechanisms of member states against financial crises. The Fund failed not only because of US opposition with the ambitious proposal to introduce an insolvency order for countries in an effort to lower costs for debt rescheduling in a crisis and accelerate the restructuring process. In this case, the IMF would have been assigned the role of insolvency judge or administrator – an unacceptable role, given the power hidden in such a task. The argument holds true regardless of any other advantages or disadvantages that an insolvency order may bring for countries. In contrast, the project implemented and supported by the US, namely to insert more collective action clauses in the bonds of developing countries, seems to be meeting with growing approval. Such collective action clauses represent a conscious attempt to curtail the property rights to bonds in the sense that in negotiations on debt restructuring, majority decisions among lenders are possible within a certain framework. This makes it easier to take remedial action against financial crises and, in contrast to an insolvency statute, is beneficial for countries in that it is a decentralised solution that governments and lenders can but do not have to resort to.

In terms of its concrete credit policy, the IMF seemed to set a landmark in 2001 by cancelling a loan due to be paid to Argentina on the grounds that the country's government was unwilling to make any serious attempt to tackle its eco-

nomic policy problems. This was the new Fund – the kind many had wished for. Yet the apparent move towards greater modesty lasted only a short time. 2002 was then the year for fresh loans for Turkey and Brazil to the tune of billions of dollars; Argentina has also received renewed financial support without any evidence of the country taking decisive steps out of the crisis.

The first remarks made by de Rato, the IMF's new managing director, on the future direction of the Fund, fit in with this ambiguous picture. Rato acknowledges in principle that progressive integration of capital markets allows countries to adjust to external shocks without having to overly rely on official aid. He believes, however, that crises are unavoidable in dynamic market economies and so the IMF must occasionally rush in to rescue a country with substantial financial packages. In rare cases it may also be necessary to intervene with extremely large financial packages to curb the risks posed to the international financial system. This sounds like an elegantly packaged "let's continue as we were". Nevertheless, Rato arouses hope for that the lending system will be reformed because he would like the IMF's "no" to governments requesting loans to be more frequent and transparent. De Rato also suggests reviewing the possibility of loans being tied to compliance with conditions ex-ante. However, his words about the role of the Fund with regard to poverty reduction – "We are just getting started" – sound like a threat.

Despite recent positive developments, there is reason to conclude that the IMF is continuing on its old course. It seeks and finds new tasks in the field of poverty reduction; concentrating on tasks related to the financial markets goes hand in hand with reform proposals that further underline the importance of the Fund in the global economy. Unfortunately, the G-7 and other countries continue to politicise IMF lending. There continues to be a need for a slim IMF with more faith in the markets and less in its supposedly higher understanding of planning and regulation.

5. Update – the IMF's medium-term strategy

Since the first publication of this book in 2004, the IMF has initiated a few reforms. At the Fund's annual meeting in late 2005, de Rato presented a medium-term strategy to guide it into the 21st century. At least in principle, the scathing criticism of the IMF during and after the financial crises in the 1990s has obviously not fallen on deaf ears. The most visible expression of the reform efforts to date have been the 'multilateral surveillance' and the decision to adjust quotas taken at the annual IMF meeting held in late 2006 in Singapore. Yet the IMF's reform proposals go far beyond the decisions taken so far. Going by the fundamental treatise of this paper that the IMF should step back further, many of the new efforts point in the wrong direction – the IMF is in the process of partial reinventing itself to justify its existence.

Officially, the reforms aim to help the IMF adjust to the challenges of globalisation. Of course the background to the medium-term strategy is also the crisis of the IMF itself, described by Mervyn King, the governor of the Bank of England in early 2006 as follows: "But if the mission of the Fund is not examined and the institution revitalised, it could slip into obscurity." In the wake of the experiences of the finan-

cial crises in the 1990s, several developing countries and emerging markets, especially in Asia, have started to build up their own currency reserves to emancipate themselves from the IMF and equip themselves for a crisis. At the same time, the idea of founding an Asian IMF that would set the seal on independence from the IMF is repeatedly floated in Asia. In the short-term and more dramatic from the IMF's point of view is, however, the fact that large debtors such as Argentina and Brazil have repaid their loans. This is in fact a positive development due not only to the extremely sound global economic development but also to the wish for self-reliance. The recent strong growth of the global economy, unencumbered by crises, meant that the IMF no longer had to grant many large loans. Growing globalisation of capital markets and the extremely expansive low interest policy in the large economic areas such as the US, Europe and Japan make it easier for developing countries to attract private capital, putting the IMF in an awkward situation. As it finances itself with the interest from its loans, it is now in financial distress.

Besides organisational issues, the medium-term strategy focuses on better and more targeted surveillance of economic policy in the member states, incorporation of financial market stability into the routine Article IV consultations, more attention to questions of appropriate exchange rates, expansion of advisory services to include multilateral rounds of talks and improvement of Fund policies with regard to poverty reduction as a tribute to the United Nations Millen-

nium Development Goals. How are these proposals to be assessed?

According to the medium-term strategy, the IMF's goal is shifting more and more towards poverty reduction and further and further away from its original mission. De Rato even praises the Fund for having created the opportunity for countries that are not in immediate need of IMF money to benefit from the institution's expertise, extending the Fund's activities beyond purely crisis situations. Even if the IMF repeatedly stresses the fact that these activities are conducted in close collaboration and shared with the World Bank, the Fund itself is developing into another development aid organisation.

In essence, it is useful for the Fund to set a new priority – financial markets – in its economic policy advice (Article IV consultations), inter alia. This target is an indication of the IMF adjusting to reality because the globalised economic world is driven more than ever by capital transfers and foreign investments that determine the balance of payments of IMF member states. To this extent, the IMF is reverting in a modern form to its original mission without of course seriously questioning the extent to which its role as fire-fighter is still in demand under the new conditions. King, for example, is of the opinion that the growth of international private capital investments and the build-up of currency reserves in many Asian countries has rendered redundant the idea that the IMF's primary task is to be lender of last resort.

It is a matter of concern that economic policy advice, hitherto directed at individual countries, will in future be conducted in multilateral form. This new concept is backed by the idea that developments and economic policy decisions in large countries can substantially influence other countries. The move towards multilateral talks under the IMF's auspices is expected to adapt economic policy advice to the reality of globalisation. In the rounds of talks, the IMF will campaign for its point of view, convince the countries involved of a 'common' position and, if possible, persuade them to undertake economic policy measures discussed and coordinated amongst themselves. In de Rato's words, it is also a question of developing an understanding of the tasks that the IMF can play as a forum for the implementation of joint policies.

The first of the multilateral rounds of talks began in 2006 with the participation of the US, China, Japan, Saudi Arabia and the European region. The theme of these consultations is the global imbalance that the Fund sees in the large current account deficit in the US and the policy of 'undervalued' currencies in Asia. There has been no talk of results so far. This example highlights the risks of politicising the IMF still further, an aspect that accompanies the new approach. As was the case with the new exchange rate orientation of the Fund in its Article IV consultations, the talks were also held in response to pressure from the US with a view to using the IMF to pressurise China into revaluating the Yuan, as desired by Washington, DC. Even if one were to initially dis-

regard the fundamental doubts about the prevailing analysis of global imbalances, there remains the question of the purpose served by the multilateral consultations. The commonly prescribed remedies for rectifying imbalances – more saving in the US, revaluation or floatation of the Yuan exchange rate, more structural reforms in Europe to foster more growth – are sufficiently well known and have been preached for years in international forums such as the G-7 and by the IMF. These measures have to be implemented in individual countries respecting the conventions of international law. New multilateral rounds of talks, in addition to the existing institutionalised international discussion forums, change nothing at first. The rounds of talks would promise success only if the IMF were to act as referee and could stipulate direct policy measures for the countries involved. However, this would be incompatible with the IMF's mandate and would contravene all understanding of a country's sovereignty. Without this referee function, however, the multilateral rounds of talks threaten to become a costly event without concrete results. They may serve as a forum for the most important IMF shareholders in which they can make a strong representation of their interests and can put some countries in the dock; they also serve the IMF by according it more power.

A fundamental criticism of the talks is that they target policy coordination among the countries involved and thus greater internationalisation of economic policy. In doing so they challenge the understanding that problems have to be resolved

locally and that an interwoven global economy should have no problems as long as each country does its homework in its own interest, replacing it with the notion that the responsibility for negative developments must be shared in one way or other. As history taught us, the experiences made so far with a coordinated international policy approach, such as the exchange rate discussions of the Plaza and the Louvre Accord, have not been promising. Such efforts are even more questionable, as they avoid desirable competition among countries for the best economic policy and accord the IMF's policy suggestions greater wisdom – something difficult to identify. The analysis of damaging global imbalances is not without controversy; by no means do all economists share the opinion represented by the IMF that the so-called imbalances conjure up dramatic corrections and distortions. What is certain is that the IMF secures its influence the more it adopts a pro-planning attitude, propagates the necessity of an internationally coordinated economic policy and spreads the credo that global economic development must be controlled.

Besides multilateral surveillance, of the reform proposals suggested by the IMF's medium-term strategy, the quota reform has been launched to date. Its essence is to adjust the weight of the Fund members to the changing realities in the global economy and to accord increasingly important economies the means to exercise greater influence on the IMF. The proposal is planned to foster greater acceptance of the Fund. At the annual meeting in September 2006, the

board of governors decided on a two-stage procedure. In a first step, China, South Korea, Mexico and Turkey were assigned higher quotas ad hoc. These countries were considered to be the most underrepresented. In a second step, the general rule determining the quotas of member states is to be adjusted. Concrete proposals in this regard have yet to be announced. Member state quotas do not only regulate the capital that countries are required to pay to the IMF but also the volume of possible short-term back-up loans and the importance of a country's vote in the IMF's governing bodies.

The quota reform has the potential of effecting long-term changes in the direction taken by the Fund. While it may appear to be nothing more than a technical procedure, it is an extremely significant plan. It is disturbing that the member states first resorted to an ad hoc solution instead of simply implementing whichever general distribution rule is currently valid. The IMF member state quotas are currently determined by a formula that takes account of a country's economic power based on its GDP, the openness of the national economy and the accompanying vulnerability to international economic crises as well as the size of the respective currency reserves. Based on the current allocation formula, it is not just emerging markets that are underrepresented in the IMF but even advanced economies like Germany. Rectifying such discrepancies was not discussed, at least not during the first stage of the quota adjustment. This reflects a clear resolve to re-tailor vote weightage in the IMF

according to politically stipulated criteria and not according to an abstract universal rule, explicable in economic terms – the first sign of quota adjustment further politicising the Fund.

The second indication is reflected in the efforts of the US and other countries to determine a country's quota more according to the GDP and less according to its economic openness or integration in the global economy. Because the weight of its vote allows the US to block any reform, it is highly probable that it will be able to assert itself. This would be a negative development in that the degree of openness in a country is the most important standard from which (based on the IMF's original mission) its possible balance of payment problems can be deduced. To undermine the importance of this standard would mean downgrading the IMF's original mission – helping out with balance of payment problems – and may contribute to re-orienting the Fund and broadening its fields of activity according to the political criteria in demand. Underlining the importance of the GDP conforms to the above-mentioned efforts to set up the Fund more as a global economic controlling and planning authority.

The third sign that the quota reform targets IMF reorientation is the suggestion made by the IMF itself that the basic voting rights of a country be at least doubled. Each country has an equal number of basic voting rights regardless of the above-mentioned distribution formula. The Fund justifies its

recommendation by pointing out that the permanent influence of economically small developing countries in Africa, for instance, must be secured. This aspect of the voting right reform aims to secure and cement the basis for the Fund's development policy activities.

All in all, the verdict on the IMF's medium-term strategy is clear. Instead of drawing the IMF's attention to its core tasks after the negative experiences of the past decades, it is being set up for new tasks. In this context, as the IMF is obviously expected to mediate between its member states, further politicisation of its work is foreseeable. It will move further from economic rationality and be drawn into international economic policy disputes. King, when delivering his IMF reform speech in early 2006, referred to Keynes, one of the fathers of the IMF. In King's words, Keynes warned of politicising the Fund and claimed that if this were to happen, the best thing would be for the Fund to fall into an eternal slumber and never be awakened.

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