On the 50th anniversary of the founding of the International Monetary Fund at the Bretton Woods Conference, it is time to ask whether the IMF fulfills its mandate of “providing (member countries) with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.” The answer is that the fund’s record is mediocre at best. It’s time for an overhaul.

To understand the basic problem with the IMF, it is useful to compare it with a U.S. bankruptcy court.

When Macy’s went into bankruptcy in January 1992, it needed three main things: a standstill on debt servicing; new working-capital loans to stay in operation until it could be restructured; and a plan of restructuring, including changes in operations and in the balance sheet. The standstill was automatic, upon filing of the bankruptcy petition. The new working capital was provided in a $600 million loan just three weeks after filing, because the new lenders were given priority in the repayments of the loans. Restructuring began immediately, and will be successfully completed soon with Federated Inc.’s takeover of Macy’s operations.

Notice several things. The judge did not decide whether to grant a debt standstill; the bankruptcy law provided for that. The judge did not provide the $600 million out of taxpayer dollars; the law provided for “administrative priority” to attract new private lenders. The judge did not design Macy’s restructuring plan, or put court officials into senior advisory positions in the department stores. The judge only oversaw the preparation of the plan to make sure that it conformed with the law.

When a debtor government goes into bankruptcy, by contrast, the IMF plays the combined role of bankruptcy judge, lender, adviser, and plan designer, and all behind closed doors. Bankrupt governments can’t go to the markets to get new working capital, since there is no system of priority lending. Governments don’t receive a standstill on debt servicing as a matter of law. They may receive a partial standstill (on loans to other governments), but only after a long wait and after an IMF green light. In most countries, the IMF staff basically writes the plan of adjustment, and hands it to government officials for signing. Strong governments can occasionally resist. But countries have no way to submit their own plans to the IMF Executive Board. Only the IMF staff can bring program proposals to the board.
The IMF’s monopoly position has had all of the classic effects that we expect from protected, coddled bureaucracies. Its programs are routinized, uninspired, and generally fall far short of what could be accomplished. The most novel and successful stabilization programs of the past 10 years, whether in Argentina, Bolivia, Estonia, Israel, Mexico, or Poland, are those that were designed mainly by country teams, often over the IMF’s initial objections (though the IMF later claimed credit).

In the vast majority of smaller and poorer countries, the stabilization episodes have been IMF-designed and administered -- with poor results. The record of failures in Africa is notorious. The Yugoslav financial tinderbox was allowed to burn in the late 1980s with miserable IMF advice. Since 1990, the fund has lost crucial opportunities in the post-communist countries, leaving many of these countries to suffer excessive declines in living standards and unnecessary financial destabilization.

The IMF failures betray a common pattern. The IMF is against stabilizing the exchange rate as a part of an anti-inflation program, even though a pegged, convertible exchange rate was part of all of the success stories just mentioned. The IMF is almost always against the early provision of working capital, in order to protect its own money. Macy’s waited three weeks for an infusion of funds; Russia had to wait more than a year.

The IMF takes little care to provide a standstill on debt servicing, letting countries be destabilized by pre-bankruptcy debt claims. The IMF is rarely energetic in overseeing debt restructuring deals, often simply standing by while individual creditors try to free ride on the concessions of others. And the IMF pays little attention to institutional reform of the monetary and financial system. Sure, it sends technical advisory missions, but it puts little emphasis on central bank independence or the development of financial markets for treasury debt.

Any serious overhaul of the IMF will end its monopoly position. We need Chapter 11-type procedures to enable countries in restructuring to borrow fresh working capital from the private markets rather than taxpayer dollars under IMF control. The trick would be to assign those new loans priority in the timing of the government’s debt repayments.

Similarly, a revamped IMF should oversee the process of implementing a workout program, but like a bankruptcy judge, it should mainly serve to bring the interested parties together in a law-bound setting to achieve an efficient workout, rather than to provide the monopoly of technical expertise on how to carry out the reforms. There is a world market for such expertise -- in investment banks, consulting firms, accounting firms and the like. Let all of this expertise, including the IMF staff itself, face the world market test.

Finally, the IMF’s secrecy must be ended. Virtually every loan document and bit of policy advice is stamped "confidential," and since the start of operations in 1946 not a single "confidential" document has been declassified. Rep. Barney Frank (D., Mass.) has recently been pushing hard to open up IMF documentation by making authorization of new U.S. funds for the IMF contingent on a more open policy. The IMF management has agreed to some initial steps in releasing some documents, though much more will be needed to ensure a real turnaround of the fund.
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