What’s Wrong With Globalisation?

A critique of the IMF’s role in a particular form of international economic integration.

The IMF’s policies, based on the outworn assumption that market’s know best, fail to allow for desirable government intervention in the market that would make *everyone* better off (XII).

The IMF is driven by the ideology that markets reign supreme and countries are expected to follow their guidelines without debate (XIV). This attitude is cringe-making because the IMF is called upon in the worst situations when a counry is faciing a crisis, but its remedies fail more often than they work (XIV). It’s policies lead to hunger and riots in many countries that accept their guidelines.

Even when the policies work, they disporportionally benefit the 1% at the *expense* of the 99%. And although the policies are questioned by economists in countries needing help, those economists are afraid to speak out for fear of losing IMF funding (XIV). According to the IMF, whatever suffering is incurred is a necessary part of the medicine countries need to experience on their way to being successful market economies (XIV). But much of the pain is pain for its own sake. Meanwhile, the developed nations continue the hypocrisy of insisting that developing countries open up their markets while leaving their own markets closed and protected (XV).

We all share a single planet, which means that we all need to abide by certain rules, but these rules must be seen to be fair, paying due attention to the 99% aswell as the most powerful 1%. And the rules must be arrived at by democratic processes (XV).

The Promise of Global Institututions

International bureaucrats, the faceless symbols of the world economic order, are under attack everywhere. The protests at the Seattle meeting of the World Trade Organisation in 1999 were a shock. Since then, the movement has grown much stronger and the fury has spread. And while riots and discontent with global economic policies has always been a feature in developing countries, it is new to see the turmoil spread to developed countries (p3). Something has gone horribly wrong, almost overnight.

Globalisation has given people in developing countries access to knowledge well beyond the reach of even the wealthiest in any country just a century ago (p3). Links have been forged through the Internet betweeen many previously disparate movements despite the opposition of many powerful governments. These movemenets see globalisation in such a different light to finance and trade ministers that it makes one wonder are they talking about the same phenomenon. However, it is the more narrowly defined *economic* aspects of globalisationthat have caused the most controversy especially because unelected global institutuions have been writing the rules (p10).

After the second world war, with the great depression in mind, the task for ensuring global economic stability was assigned to the IMF (p11). Since then, it is clear that the IMF has failed in its mission - to restore full employment in the countries it is supposed to be helping (p15). Rather, be prematurely pushing for market liberalisation, the IMF has increased global instability, and it has been no more successful in helping countries transition from communism to capitalism (p15).

It is important to remember that the IMF is a *public* institution established with money from taxpayers around the world. However, it does not report directly to citizens who fund it or those whose lives it affects. Rather, it reports to ministries of finance and to the central banks of the governments of the world (p12). Just like with the United Nations, the United States has effective veto in the IMF. And

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although the IMF was founded on the belief that markets often work badly, it has morphed into an institution that now champions market supremecy with ideological fervor (p12).

Today, it loans money to countries that engage in cutting deficits, raising taxes and raising interest rates – which all lead to contraction of economies (p13). The dramatic change in the ideology of the IMF came about during the Ronald Reagan and Margaret Thatcher era of the 1980s (p13). During this era, a purge happened in the IMF and World Bank that replaced most of the key positions with people who believed that markets, not government, wee the solutions to the problems of developing countrires (p13). During this time, the IMF went beyond lending for projects such as roads and dams and began providing structural adjustment loans loaded with IMF conditions. The IMF was supposed to limit itself to macroeconomics but it began to see *everything* going on in a country as part of its domain (p14).

Moreover, the IMF has the same answers for all countries it enters, regardless. Both the IMF and the World Bank could provide countries with alternative perpspectives and in doding so they might strengthen democratic process. But all to often, the last thing the ministries of finance in developed countries want for developing countries is a lively democratic debate (p15). Although the ideas and intentions behind the creation of international economic institutions were good ones, they gradually evolved over the years to become something very different. The IMF in particular started off with a Keynesian orientation, which emphasised market failures and the role of government in job creation but this was replaced by the free market mantra of the 1980s; part of the new “Washington Consensus” – a consensus between the IMF, the World Bank and the U.S. Treasury about the “right” policies for developing countries (p16). Together they have pushed capital market liberalisation despite there being no evidence that capital market liberalisation spurs economic growth (p16).

Most developed countries built up their economies by wisely and selectively protecting some of their industries until they were strong enough to compete with foreign companies (p17). And while blanket protectionism has never worked for those who have tried it, neither has rapid trade liberalisation. Small developing countries are like small boats that the IMF pushes out onto a rough sea before the holes in the hulls have been repaired, before the captain has received training, and before life vests have been put on board. Even in the best circumstances it would be likely that they would be overturned (p17).

The result for many around the world has been poverty and social, and political chaos. The IMF has made huge mistakes in all the countries it has been involved in. A successful economic program requires extreme care to *sequencing* – the order in which reforms occur, aswell as pacing – the speed with which reforms occur. Excessive austerity on the other hand always stifles growth (p18).

The underlying problem of the IMF and other global institutions is a matter of governance – who decides what they do? The institutions are dominated not just by the wealthiest industrial countries but by the top 1% of commercial and financial interests in those countries. It is not surprising that the policies of those institutions naturally reflect this consituency (p18). The head of the IMF is always a European while the head of the World Bank is always an American. They are chosen behind closed doors and they are never representative of the nations they are supposed to serve. The trade ministers in developed countries want the markets of developing countries opened up while keeping the markets in their respective countries closed and protected (p19). The finance ministers and central bank chiefs typically come directly from financial firms and after their stint in government they return to those firms. It is not surprising that these individuals naturally see the world through the eyes of the business community (p19).

The current system of the IMF is therefore one of taxation without representation. Left with no alternatives, no ways to express their concern, people press for change by rioting. It has become much clearer to those in global institutions that globaliseation, as it has been practised, has not lived up to its promise of greater economic, social and political stability for the 99% (p19).

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Globalisation in and of itself is neither good nor bad. It has been good for the people of East Asia who have been allowed to embrace it *on their own terms*, but for much of the world's population it has been an unmitigated disaster (p20).

What's missing in the process of globalisation is world government accountable to the people of each country that can guide the process in a similar way to how governments guide the process of nationalisation. Instead we have global governance without global government – one in which a few players dominate the scene on behalf of the 1% and those affected by their policy decisions are left voiceless (p21).

Globalisation can be reshaped to share the fruits of economic growth more equitably (p22).

Broken Promises

The marble atrium inside the main IMF building, graced with abundant flora, serves to remind visiting finance ministers from countries around the world that the IMF represents the centers of wealth and power (p23).

IMF programs are typically dictated from Washington and shaped by the finance ministers and central banks who make themselves comfortable in five star hotels in the world's capitals. There is more than symbolism in this attitude. In modern high-tech warefare, dropping bombs from 50,000 feet ensures that one does not "feel" what one does. Modern economic management is similar. From one's luxury hotel, one can callously impose policies about which one would thin twice if one knew the people whose lives one was destroying (p24).

Colonial mind-sets do not change over night and this is true for the developed nations as in the developing countries. Not everyone in the IMF is comitted to eliminating world poverty but an even bigger obstacle it places in the way of the poor is its blocking of any debate about strategies (p25).

Ethopia and the struggle between power politics and poverty

In 1997 the IMF suspended its lending program to Ethopia. But Ethiopia's macroeconomic "results" – upon which the fund is suppposed to focus – could not have been better. There was no inflation, in fact prices were falling. Output had gwown steadily since Prime Minister Meles Zenawi had ousted Mengistu. But Meles was having problems with the IMF (p26). Not only did Ethopia have a sound macroeconomic framework but the world bank had direct evidence of the competence of the government and it's commitment to the poor. It has dramatically cut back on military spending – remarkable for a government that had come to power through military means. So what seemed to be the problem? (p27). The IMF judged that Ethopia was over-reliant on foreign aid and that it should be putting money being donated from foreign countries into its reserves instead of spending it on schools and clinics (p28). But Ethopia had already devised plans in case foreign aid dried up and it couldn't see the logic of the IMF position. So what was the real problem? (p29). It turned out that Ethopia had repaid a loan to an American instititution earlier than the terms allowed – something that made perfect *economic* sense. But its sin was that it had not told the IMF it was repaying the loan early.

The IMF feels that countries receiving money from it have an obligation to report *everything*; not to do so is grounds for suspending programs, regardless of the reasonableness of the action. To Ethiopia, all this intrusiveness smacked of a new form of colonialism; to the IMF it was just standard operating procedure (p30).

The IMF wanted Ethiopia not only to open up its financial markets to western competition, but to divide its largest bank into several pieces. At the same time, U.S. megainstitutions like Citigroup are arguing that they must merge with other megainstitutions like Travellers to compete in the global marketplace

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effectively (p31). The IMF wanted too for Ethiopia to “liberalise” its financial market, that is, allow interest rates to be freely determined by market forces – something the United States and Western countries did not do until the 1970s when their markets were far more developed (p31).

To the IMF, a liberalized financial system is an end in itself and it is so certain about the correctness of its dogmatic positions that it has little interest in looking at actual experiences (p32).

Ethiopia resisted IMF demands to open it’s banking system for good reason. It had seen what happened when one of its East African neighbours gave into IMF demands – predicatably fourteen banking failures in Kenya between 1993 and 1994 alone. The Ethopian government worried that the IMFs advice would cause farming incomes to fall. Meanwhile, the IMF concluded that the Ethiopians were not seroius about reform and suspended the program. Despite that, world bank lending to Ethiopia tripled and the IMF eventually relented on its position (p32).

The IMF was clearly wrong about financial market liberalisation in Ethiopia but it would not listen to others, no matter how well-informed or disinterested. Moreover, the IMF never calls in outsiders for advice with contentious issues because it wants virtually all decision making done behind its closed doors (p33). Because of this secrecy, the IMF leaves itself open to suspicions that power politics, special interests or other hidden reasons not related to the IMFs mandate and stated objectives are influencing its insitutional policies and conduct (p34).

Lack of detailed knowledge about a country does not concern the IMF because it takes a ‘one-size-fits-all’ approach. And although the IMF does not claim expertise in development because its mandate is promoting global stability not redudeing poverty, it still weighs in heavily on development issues in every country it visits (p34).

Under market fundamentalism – in which markets work perfectly and demand must meet supply for labour – there cannot be unemployment. Therefore the problem cannot lie with markets, it must lie elsewhere with greedy unions and politicians interfering with the workings of the free market. For the IMF there is an obvious policy implication here – if there is unemployment then wages should be reduced (p35).

Appropriate policies for a developing country are far more likely to be crafted by highly educated first rate economists already in the country, deeply knowledgable about it and working daily on solving that country’s problems. Outsideres can play a role in sharing experiences of other countries and offering alternative perspectives on the economic forces at play. But the IMF does not want to tak on a role of mere advisor competing with otherw who might be offering their ideas (p36).

THERE ARE ALTERNATIVES to IMF-style programs that may involve a reasonable level of sacrifice wich is not based on market fundamentalism, programs that have successful outcomes (p37). A good example is Botswana which has managed a stable democracy since independence (p37). Botswana’s success rested on its ability to maintain a political concensus based on a braoder sense of national unity (p37). The government of Botswana collaborated with outside advisers to forge a workable social contract without the help of the IMF. The main reason for its success is that the government was very careful as to which advisers it looked to. But it wasn’t without blemishes. On one occasion the Botswanan government allowed the IMF to pick a director of research and that turned out to be a disaster (p37). However, the offficials in Botswana developed a warm relationship over 20 years with the advisers it selected in contrast to the vilification experienced by the IMF in most of the developing world (p37). But a crisis hit around 1981 caused by drought and the Botswana asked the IMF for help. Amusingly, the IMF could not come up with many conditions to attach to the fund because Botswana, with the help of it’s carefully selected advisers had already implemented many of the programs the IMF recommended over a 20 year period (p38). Also, the austerity the Botswanan’s had to endure caused nowhere near the cleavages in the society that the IMF had caused in other developing societies (p38). Since then, Botswana has not
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turned to the IMF for help. Both Ethiopia and Botswana are emblematic of the contrasts that mark the developing world, namely the contrast between what is and what might have been (p38).

The IMF is not particularly interested in hearing the thoughts of its "client countries" on such topics as development strategy and fiscal austerity (p40). Rather, its approach ito such countries has the feel of a colonial ruler (p40). Ironically much of the funds it gives goes to bailing out private sector creditors of those countries (p41). Even in the best cases the message is clear: the IMF is the font of wisdom, purveyor of an orthodoxy too subtle to be grasped by those in the developing world (p41).

Of course, the developing world now has its own economists man of them traiined in the world's best institutions. These economists have a significant advantage of lifelong familiarity with local politics, conditions and trends. But the IMF's mission creep gradually brought it outside its core area of competency in macroeconomics into structural issues such as privitization, labour markets, pension reforms and so forth (p42).

The IMF, of course, claims that it never dictates but always negotiates the terms of any loan agreement with the borrowing country. But these negotiations are one-sided negotiations in which all the power is in the hands of the IMF. Few economists outside of the IMF believe their excessive fiscal stringency makes any sense but the IMF has another way of using its position as a bully-pulpit – it advises private investors not to invest in countries. It has a special phrase to describe countries that raise even the slightest reservations about its programs – "off track" (p42).

A public announcement by the IMF that negotiations have broken off or postponed can send a highly negative signal to markets (p42). This signal would at best lead to higher interest rates and at worst a total cutoff of private funds. This gives the IMF enormous leverage, as the IMF well knows. During times of crisis, the IMF would say there is no time for debate. But its behaviour is little different in or out of crisis. Government leaders might therefore argue in private about what the IMF is doing but never in public. The IMF knows that too. And if the IMF becomes angered or annoyed even with these private misgivings it can cut off funding (p43).

The conditions imposed by the IMF very often lead to default on loan repayments (p43). Conditionality is a hotly debated topic in developing countries. And while the IMF argues that all loans have conditions attached, the conditions it imposes go well beyond the macroeconomic sphere into the political realm and even reduce the liklihood of loans being repaid (p44).

Moreover, the conditions the IMF imposes often weaken an economy in the short-run, making it harder for the country to repay short-term loans and distracting the country from dealing with more central problems in the economy (p44). The IMF uses conditions almost exclusively to push its own political agenda often insisting that elements of the economy such as the central bank be more independent of local politics and focus exclusively on inflation, for example. So, here we have the IMF partially under the influence of the U.S. treasury imposing political conditions on countries that most U.S. citizens would find unacceptable to themselves (p44).

Sometimes IMF conditions seem little more than an exercise of power (p45). In ints 1997 lending agreement with Korea, the IMF insisted on moving up the date for opening Korea's market to certain Japanese goods although this could not possibly help Korea address the problems of the crisis. To many outside the IMF represented acts of pure political might, extracting a concession, of limited value, simply as a demonstration of who was running the show (p46).

While conditionality engenders resentment, it does not succeed in engendering development and growth. Studies at the World Bank and elsewhere show not just that conditionality does not ensure that money is well spent but that there is little evidence that it works at all (p46). The way conditionality is imposed makes the conditions politically unsustainable. The people of a country abandon a new government coming to power to impose the conditions. Such conditions are seen by those outside the IMF as the intrusion of a new colonial power on the country's own soverignty (p46).

There is an irony in the stance of the IMF (p47). It tries to pretend it is above politics, yet it is clear that its lending programs are, in part, driven by politics. For example, the IMF made an issue of corruption in Kenya and halted its relatively small lending program largely because of the corruption it witnessed there. Yet it maintained a flow of money, billions of dollars, to Russia and Indonesia. To some outside the IMF it seemed while it as overlooking grand larceny, it was taking a grand stand on petty theft. It should not have been kinder to Kenya but it should have been tougher with Russia (p47).

We live in an unfair world and no one expects the IMF to treat a nuclear power the same way as it treats a poor African country of little strategic importance. But the very notion that one can separate economics from politics, or a broader understanding of society, illustrates a narrowness of perspective. If policies imposed by lenders induce riots, as has happened in country after country, then economic conditions worsen as capital flees. And such policies are not a recipe either for successful development or for economic stability (p47).

The standard IMF procedure before visiting a client country is to write a draft report first. This report is known as the boilerplate with whole paragraphs being borrowed from the report from one country and inserted into another (p47). On one occasion a word processesor failed to do a "search and replace" and the name of the country from which the proeport had been borrowed almost in it's entirity was left in a document that was circulated (p47). The alleged foulup confirmed in the minds of many the image of a "one-size-fits-all" approach (p48).

The IMF has a consultation, referred to as "Article 4", with every country in the world (p47). But the real Article 4 consultations, named after the charter that authorized them, are but a small part of the total surveillance program. While small countries often have to listen to the Article 4 evaluations, the United States and other countries with developed economies can basically ignore them (p47). For instance, the IMF was suffering from inflation paranoia during the 1990s and it prescribed lower interest rates for the U.S. economy even though the U.S. had been experiencing its low inflation and low unemployment at the same time. The U.S. ignored this advice, but had it implemented it, the U.S. would not have seen it's economic boom of the 1990s, which reduced poverty at an unprecedented rate and lowered crime rates. Unfortunately, for other countries around the world, they cannot afford to shun bad advice from the IMF (p48).

While the IMF argues that there is no time for consultation and debate during a crisis, it is important to rememeber that the IMF has been in African countries in particular for years. There is time for consensus building because the crises developing countries experience are often permanent and ongoing (p49). Participation matters and policies, and programs, in order to be successful must be owned by countries along with strong incentives for using funds well (p49).

Countries should be "put in the driver's seat" but too often with the IMF there are dual controls on the car in which the controls are really in the hands of the instructor (p50). Also, for the IMF, the idea that citizens in a borrowing country might also participate is simply too much! But when that gap between the IMF and citizens persists for too long, disillusionment sets in and there is growing discontents and eventually riots (p50).

In the United States and other successful democracies citizens regard transparency, openness, knowing what government is doing as an essential part of government accountability (p51). Citizens regard these as *rights*, not favours conferred by the government. By contrast, in the IMF style of operation, citizens are not only barred from discussions of agreements; they are not even told what the agreements are. Indeed, the prevailing culture of secrecy is so strong that the IMF keeps much of the negotiations secret from the world bank, even on joint missions (p51)!
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Today, in spite of repeated discussions of openness and transparency, the IMF still does not formally recognise the citizen's basic "right to know". There is no freedom of information Act to which and American, or a citizen of any other country, can appeal to find out what this international *public* institution is doing (p52).

The international economic institutions have thus escaped the kind of direct accountability that we expect from public institutions in modern democracies. The time has come to "grade" the international economic insitutions' performance and to look at how well or poorly they do in promoting growth and reducing poverty (p52).

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Freedom to Choose?

Fiscal austerity, privatization and market liberalization are ther three pillars of Washington Consensus advice. Privitization and market liberalization often make sense when done in the right way. The problem however, is that many of these policies become ends in themselves and rather establishing suitable frameworks and regulations, the IMF seems bent on giving the most marks to countries that enforce them the quickest (p53). Fiscal austerity is the same – when pushed too far it can induce recession. The IMF vigorously pursues all three policies in a manner that often imposes very real costs on countries ill-equipped to deal with them (p54).

Privatization

The problem is not so much that government is too big but that it is often doing the wrong thing. However, there are some important preconditions for privatization before it can contribute to a country's economic growth. And the way privatization is accomplished makes a great deal of difference (p54).

For example, in Morocco, an NGO had instructed local villagers on raising chickens – an enterprise that the village women could perform in addition to their traditional duties. But the IMF insisted that the government should not be in the business or raising chickens, so the government ceased selling them. The IMF simply assumed that a private enterprise would rush in to fill the gap. The death rate of chicks in the first two weeks is very high, and so when a new private enterprise started supplying chicks, it would not provide a guarantee. The villagers simply could not bear the risk that chicks might die in large numbers so they ceased buying them and a nascent industry poised to make a difference in these poor peasant's lives was shut down (p55).

What the IMF gets wrong is that governments provide services because of a failure of private industry. In the United States for example, the Federal National Mortgage Association, Fannie Mae, a government run agency was established because the private market did not provide mortgages at reasonable terms to low to middle income citizens. Of course, in developing countries the gap between what neither the government provides nor private industry will provide can be enormous, causing great suffering until the gap is filled somehow (p55).

In Cote d'Ivoire, France, the telephone company was privatized before either an adequate regulatory or competition framework was put in place. The private firm raised the prices so high that University students could not afford an Internet connection (p56). The IMF argues that regulatory frameworks and competition frameworks can be put in later but once a company gets a monopoly it has huge incentives to squelch regulation and competition and distort the political process along the way (p56). Whether private enterprise is more efficient than government in running services is debatable. What is certain is that it is more efficient at exploiting monopoly positions at the expense of consumers (p56).

The impact on employment has been the most prominent argument in the case both for and against privatization. Privatization more often destroys jobs than it creates new ones (p56). In industrial countries the pain of layoffs is somewhat ameliorated by the existence of unemployment insurance (p57). In the less developed countries there is typically no unemployment insurance. Urban violence, increased crime and social and political unrest are all manifestations of unemployment – something that private enterprise deny any culpability for.

Also, widespread social anxiety among those who manage to keep their jobs increases, as does a broader sense of alienation, additional financial burdens on family members with jobs, and withdrawal of children from school to help support the family (p57). Foreign buyers of a privatized firm especially feel a pressure to suit shareholders than the society in which the firm operates. In a nutshell, moving employees from low-productivity jobs to unemployment does not increase the country's income or the welfare of workers. Creating jobs in tandem with inevitable job destruction is not just a matter of pragmatism, it is a matter of principle (p57).

In developing countries today, privatization is jokingly referred to as “briberization” because when a government is corrupt, so will the process of privatization be corrupt. In selling off assets at knock-down prices a group of politicians can steal today what future politicians would skim-off anyway. Russia in particular provides a devastating case study of the harm of privatization at all costs, where private owners were more incentivized to strip assests rather than to use them to grow the enterprises (p58).

Liberalization

Liberalization means the removal of government interference in financial markets, capital markets and of barriers to trade (p59). Today, even the IMF agrees that it has pushed that agenda too far – that liberalizing financial and capital markets contributed to the global financial crises of the 1990s and can wreck havoc on a small emerging country (p59).

Trade liberalization is supposed to enhance a country’s income by forcing resources to move from less productive uses to more productive uses. But moving a country’s resources from less productive uses to zero productivity does not enrich a country and this is what happens under IMF programs (p59).

It is easy to destroy jobs and this is often the immediate impact of trade liberalization, as inefficient industries close down under pressure from international competition. IMF ideology holds that new, more productive jobs will be created as the old inefficient jobs that had been created behind protectionist walls are eliminated. But that is simply not the case – few economists have believed in instantaneous job creation, at least since the Great Depression (p59).

The most successful developing countries in East Asia dropped protectionist barriers carefully and systematically, phasing them out only when new jobs were created. China began removing protectionist barriers in the late 1990s – over twenty years after first moving to the market (p60). That American workers are so worried about the threat of liberalized trade to their jobs should lead to a greater undestanding of the plight of those workers in poor developing countries living on less than $2 a day (p60).

Trade liberalization simply leads to more unemployment and that is why it provokes such strong opposition. But the hypocrisy of those pushing for trad liberalization has no dout reinforced the hostility (p60). U.S. trade negotiators and the IMF often insist on a faster pace of liberalization, no matter what the pace is, and countries dependent on the IMF funds have no choice to acede to these demands (p62).

Matters are perhaps worse still when the United States acts unilaterally rather than behind the cloak of the IMF. Special interests in the United States bring an accusation against a foreign country. Then there is a review process involving the U.S. government alone. Sanctions are then brought against the offending country with the United States setting itself up as prosecutor, judge and jury (p62). The ill will that results is far out of proportion to any possible gain for the United States. The process itself does little to reinforce confidence in a just international trading system (p62).

Also, when it comes to opening up markets and lowering protectionist barriers at home in the United States, America demands that it be treated as if *it* were a less developed country (p63). The American demand for liberalization of financial markets serves the narrow interests of the financial community on Wall Street (p64). And while more advanced industrialized countries, with their sophisticated institutions, are learning the hard lessons of financial deregulation, the IMF is carrying this Reagan-Thatcher message to the developing countries. Countries that are particularly ill-equipped to manage what has proven to be a difficult task fraught with risks – even in the best of times (p65).

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In many ways, Captial market liberalization is even worse than trade liberalization (p65). Capital market liberalization entails stripping away the regulations intended to control the flow of hot money into and out of a country (p65). These are short-term loans and contracts that are no more than bets on exchange rate movements. This speculative money cannot be used to build factories or create jobs because companies do not make long-term investments using money that can be pulled out at a moment's notice (p65).

The IMF, in arguing for captial market liberalization, uses simplictic reasoning: Free markets are more efficient, greate efficiency allows for faster growth. Strikingly, the data does not even support the IMF's conclusions (p66). The IMF economists are supposed to be practical people, well-versed in the ways of the world but one fact remains clear – instability is not only bad for economic growth, but the costs of instability are borned disproportionately by the 99% (p67).

The Role of Foreign Investment

Foreign investment is not one of the three main pillars of the Washington Consensus but it is a key part of the new globalisation. Privatization, liberalization and macrostability are supposed to create a climate to attrract investment, including from abroad (p67).

There are some real downsides though. When foreign companies come in they often destroy local competitors, quashing the ambitions of smalll businessmen who had hoped to develop homegrown industry (p68). When Wal*Mart enters a community there are often protests from local first, who fear, rightly, that they will be displaced. Also, people living in small towns worry about what will happen to the character of the community if local stores are destroyed (p68). The same concerns are a thousand times stronger in developing countries.

However, the reason why companies like Wal*Mart are so successful is that they provide goods and services at a lower cost, which is all the more important in developing countries for people living on subsistence incomes (p68). But in the absence of strong competition laws, after the international firm drives out local competition it uses its monopoly power to raise prices. So, the benefits of low-prices are short-lived (p68).

Besides, many of the multinationals have done less to improve the working conditions of those living in developing countries than they might have. Only gradually have they learned the lessons that improving working conditions may actually enhance worker productivity and overall costs (p69).

Banking is another area where foreign companies often overrun local ones. The large American banks can provide greater security for depositors than do smalll local banks. Before the collapse of Argentina in 2001, the domestic banking industry had become dominated by foreign-owned banks. And while the banks easily provide loans to multinationals and even large domestic first, many smaller businesses complained of not being able to access credit, and that was pivotal in Argentina's collapse (p69). Within Argentina the problem was widely recognised, the government had taken some steps to fill the credit gap but government lending could not make up for the market's failure (p69).

Bolivia provides yet another example where foreign banks have contributed to macroeconomic instability. In 2001, a foreign bank that loomed large in the Bolivian economy suddenly decided, given the increased global risks, to pull back on lending (p70). The sudden change in the credit supply plunged Bolivia even faster and deeper into an economic downturn than falling commodity prices and the global economic downturn were already bringing about (p70).

Finance, however, is not the only area in which foreign direct investment has been a mixed blessing (p70). New investors persaude, often with bribes, governments to grant special privileges such as tariff protection in return for election campaign funding. Reinforcing the view in developing countries that it is perfectly OK for government to meddle and interfere when it suits big business (p70). In these cases, foreign direct investment comes only at the price of undermining the democratic process (p71).

The IMF's prescription for job creation is simple: Eliminate government intervention where it suits big business, reduce taxes, get inflation as low as possible and invite foreign entrepreneurs. In many cases, where abuses of foreign investment are kept in check, such as Singapore, Malaysia and China, foreign direct investment has played a critical role for the access to markets and new technology it brought along (p72).

Sequencing and Pacing

Perhaps of all the IMF's blunders, it is the mistakes in sequencing and pacing, and the failure to be sensitive to the broader social context, that have received the most attention – forcing liberalization before saftety nets are put in place, before there is an adequate regulatory framework, before the countries can withstand the adverse consequences of the sudden changes in market sentiment that are part and parcel of modern capitalism; forcing policies that lead to job destruction before the essentials of job creation are in place; forcing privatization before there are adequate competitio and regulatory frameworks (p73).

Many of the sequencing mistakes reflect fundamental misunderstandings of both economic and political processes, misunderstandings that are particularly associated with those who believe in market fundamentalism. They argue, for instance, that once private property rights have been established, all else will follow naturally – including the institutions and the kinds of legal structures that make markets work. They don't (p73).

The Washington Consensus policies are often referred to as "neo-liberal" where free, unfettered markets work perfectly (p74). Neo-liberal policy is a resuscitation of the laissez-faire policies that were popular in circles during the 19th century. From massive inequality to unliveable cities marred by pollution and decay, these free market policies have been widely rejected in more advanced industrial countries (p74).

Competition is always limited and information is fr from perfect, so well-functioning competitive markets can't be established overnight. In some cases, reforms in one area, without accompanying reforms in others, may actually make matters worse. This is the issue of sequencing. And ideology ignores these matters; it says simply to move as quickly to a market economy as you can. But economic theory and history show how disastrous it can be to ignore sequencing (p74).

The net benefits the IMF and World Bank promise do not materialize. Instead, government revenue is lowered and the 99% are little if any better off than before, and only a few local businessmen in developing countries – mafiosi and politicians, are much better off (p75).

If IMF strategies had simply failed to accomplish the full potential of development, that would have been bad enough. But the failures in many places set back the development agenda, bu unnecessarily corroding the very fabric of society. It is inevitable that the process of development and rapid change puts enormous pressures on society. That is why successful development pays careful attention to social stability because the riots that ensue tear at the country's social fabric (p76).

It is widely recognised today that there is a social contract that binds citizens together and also binds citizens with government. But in the green eye-shaded calculations of the IMF macroeconomics there is, too often, no room for these concerns (p77).

Trickle-down Economics

Part of the social contract entails "fairness", that the 99% share in the gains of society as it grows and the 1% share in the pains of society in times of crisis. The Washington Consensus argues that the best way to help the 99% is to make the economy grow. Proponents of this view believe in trickle-down economics (p78). Eventually, they assert, the benefits of that growth *trickle down* even to the poor. Trickle down economics was never more than a belief system, an article of faith (p78). During the 1980s as the economy grew in America, the 99% saw their real incomes decline (p78).

If trickle-down economics did not work in America then why would it work in developing countries? While it is true that sustained reductions in poverty cannot be attained without robust economic growth, the converse is not true: growth need not benefit all. It is not true that "a rising tide lifts all boats". Sometimes, a quickly rising tide, especially when accompanied by a storm, dashes weaker boats against the shore, smashing them to smithereens (p78).

Although there are economists who have won Nobel prizes for their belief in trickle down economics, the history of the past fifty years has, however, not supported this theory and hypothesis (p79). East Asian countries like South Korea, China, Taiwan and Japan showed that one could achieve rapid growth without substantial increases in in equality (p79).

Governments in the East Asia region took active steps to ensure that the rising tide did lift most boats, that wage inequalities were kept in bounds, that some education was available to all. Their policies led to social stability, which in turn contributed to an economic environment in which businesses flourished (P79).

Elsewhere, where governments adopted the Washington Consensus, the 99% have benefited less from growth. The IMF talks with pride about the progress of Latin America has made with market reforms over the past decade, but has said little about the numbers in poverty (p79). Not surprisingly, the phrase "trickle-down economics" has disappeared from the policy debate. Now the IMF talks about its focus on growth while paying lip-service to issues like female education and health (p80).

Priorities and Strategies

It is important not only to look at what the IMF puts on its agenda, but what it leaves off. Stabilization is on the agenda; job creation is off. Taxation, and its adverse effects, are on the agenda; land reform is off (p80). There is money to bail out banks but not to pay for improved education and health services, let alone to bail out workers who are thrown out of their jobs as a result if the IMF's macroeconomic mismanagement (p81).

The IMF rails against high tax rates that are imposed on the 1%, pointing out that they destroy incentives, but not a word is spoken about hidden taxes on the poor in developing countries such as sharecropping (p81). Land reform represents a fundamental change in the structure of society, one that those in the 1% who populate the finance ministries do not necessarily like (p81). Land reform preceded several of the most successful instances of development, such as those in Korea and Taiwan (p81).

Lack of financial sector regulation is a third source of instability around the world. Yet the IMF pushes for reducing regulations, at least until the East Asia crisis forced it to change course. At the same time, the IMF overemphasises inflation as a problem (p81). Of course, in regions such as Latin America where inflation was rampant it deserved attention. But an excessive focus on inflation led to high interest rates and high exchange rates, which created unemployment, not growth (p82). And while financial markets may be pleased with low inflation numbers, workers are not happy with the low growth and the high unemployment numbers (p82).

Understanding the choices requires understanding the causes and nature of poverty (p83). It is not that the poor are lazy as the IMF would have everyone believe, they often work harder and longer hours than those who are better off. Many are caught in a series of vicious spirals: lack of food leads to ill health, which limits their earning ability, leading to still poorer health (p83). Barely surviving, they cannot send their children to school, and without education, their children are condemned to a life of poverty. Poverty is then passed on from one generation to another (p83).

The poor feel that they are voiceless, and that they do not have control over their own destiny. They are buffeted by forces beyond their control (p83). They face health risks and continual threats of violence, sometimes from other poor people trying against all odds to meet the needs of their family, sometimes from police and others in authority (p83).

The only safety net for them in developing countries is family and community, which is why it is so important, in the process of development, to do what one can to preserve these bonds (p83). And while workers have fought for "decent jobs", the IMF has fought for what it euphemistically calls "labour market flexibility", which sounds little more than making the labour market work better but as it is applied is a code word for lower wages and less job protection (p84).

Trade liberalization *accompanied by high interest rates* is an almost certain recipe for job destruction and unemployment. Privatization, *unaccompanied by competiton policies and oversight to ensure that monopoly powers are not abused* can lead to higher, not lower prices for consumers. Fiscal austerity, *pursued blindly*, in the wrong circumstances, can lead to high unemployment and a shredding of the social contract (p84).

The middle classes have traditionally been the group that has pushed for the rule of law, that has pushed for universal public education, that has pushed for the creation of the social safety net. These are essential elements of a healthy economy and the erosion of the middle class has led to erosion of support for these important reforms (p84).

Also, the argument that says that unemployment must be due to unions or government minimum wages is simply wrong. Lower wages *might* lead some firms to hire a few more workers ; but the number of newly hired workers may be relatively fiew and the misery caused by the lower wages on all the other workers might be very grave (p85). Employers and owners of capital might be quite happy as they see their profits soar and they will endorse the IMF/market fundamentalist model with enthusiasm! (p85)

The results of the policies enforced by the Washington Consensus have not been encouraging (p86). Inside the developing world the questions run deep. Those who follow the prescriptions and endured austerity are asking: When do we see the fruits (p86)? Throughought the world people are asking, has reform failed, or has globalization failed? But a particular form of international economic integration was at the center of the reforms so that is an artificial question (p86).

The Washington Consensus reforms have exposed countries to greater risk, and the risks have been borne disproportionately.Sometimes the IMF and the World Bank have unfairly taken the blame for the messages they deliver – no one likes to be told that they have to live within their means (p87). But the criticism of international institutions goes deeper. Even reforms that are desirable in the long-run have to be implemented carefully. There *are* alternative stategies – strategies for instance which include land reform but do not include capital market liberalization, which provide for competition policies before privatization, which insure that job creation accompanies trade liberalization (p87).

There has to be broad support for reforms and if there is going to be broad support then the benefits must be more broadly distributed (p87). Economists can disagree about the anwers to questions but countries need to consider alternatives and, through the democratic political process, make these choices for themselves. It should be and it should have been the task of the international economic institutions to provide the countries with the wherewithall to make these informed choices on their own, with an understanding of the consequences of the risks of each (p88).The essence of freedom is the right to make a choice – and to accept the responsibility that comes with it (p88).

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The East Asia Crisis: *How IMF Policies Brought the World to the Verge of a Global Meltdown*

When the Thai Baht collapsed on July 2, 1997 no one knew that it was the beginning of the greatest economic crisis since the Great Depression – one that would spread from Asia to Russia and Latin America, and threaten the entire world. It became clear the the IMF's policies not only exacerbated the downturn but were partially responsible for the onset; excessively rapid financial and capital market liberalization was probably the single most important cause of the crisis (p89).

The crisis took most observers by surprise. Not long before the crisis the IMF even had a forecast of strong growth. So confident had the IMF been about the region that it assigned a loyal staff member as director of the region, as an easy preretirement posting (p90).

When the crisis broke out it was surprising to see how the IMF so strongly criticized the region. If these countries were so rotten then how had they done so well for so long? The countries had been so successful because they had not followed the dictates of the Washington Consensus (p91). The World Bank's Asian Miracle Study laid out the important roles the government had played, and these were far from the minimalist roles beloved of the Washington Consensus (p91).

In a curious dysjuncture, the IMF were loath to credit the governments for their successes over the past quarter of a century, but were quick to criticize them for their failings (p91). Whether one calls it a miracle or not is beside the point: the increases in incomes and the reductions in poverty in East Asia over the last three decades had been unprecedented(p91).

Thirty years previous thousands of backbreaking rickshaws were pulled for a pittance, in 1997 they were only a tourist attraction.The combination of high savings rates, government investment in education, and state-directed industrial policy all served to make the region an economic powerhouse (p92). The benefits of growth were shared widely with just one item in common with the Washington Consensus – macrostability (p92).

Trade was important but the emphasis was on promoting exports not removiong impediments to imports. The East Asian countries liberalized financial and capital markets only gradually. Government at the national and local levels helped create efficient enterprises. They designed education and investment policies to close the knowledge and technology gaps. East Asian governments also helped shape and direct markets (p92).

The IMF, however, put more pressure on deveoloping countries in the region to liberalize capital markets, as the crisis broke. The leaders of the Asian countries were terrified. They knew what could and should be done to prevent the crisis from developing but knew that the IMF would condemn them if they undertook those actions, and they feared the resulting withdrawal of international capital (p93).

In the end, only Malaysia was brave enough to risk the wrath of the IMF and while the IMF attacked them from all quarters, the downturn was shorter and shallower in Malaysia than in any other of the countries (p93). In Thailand, a speculative attack was to blame (p94). Speculators, believing that a currency will devalue, try to move out of the currency into dollars. But as traders sell the currency, the value is weakened – confirming the prophecy. Eventually, the currency plummets and the speculators are satisfied. They have bet right and made a nice profit. The magnitude of the returns can be enormous (p95).

If the crisis had a familiar pattern, so too did the IMF responses. it provided huge amounts of money to sustain the exchange rate at an unsustainable level and to bail out international banks that made bad loans (p95). During this time, the 1% inside each country took advantage – converted their money into dollars and whisked it abroad. The IMF would claim that imposing the condition that East Asian countries open up their captial markets was the right thing to do.But the breadth of the conditions meant that the countries had to give up part of their economic soverignty (p96). The IMF programs with all their conditions and all their money – failed. They were suppposed to arrest the fall in the exchange rates; but these continued to fall with not a flicker of recognition from the markets that the IMF had come to the rescue (p96).

The IMF quickly charged the countries with not taking the reforms seriously (p97). In each case it announced to the world that there wre fundamental problems that had to be addressed before a true recovery could take place. Doing so was like crying fire in a crowded theatre. Investors, more convinced by the diagnosis than the prescriptions – fled. Rather than restoring confidence that would lead to an inflow of capital into the country, the IMF criticism exacerbated the stampede of capital out (p97).

The IMF had become part of the countries' problems instead of their solution. Since then, ordinary people including government officials and business people simply refer to the social, economic and political storm that hit their countries as "the IMF" – the way one would say "the plague" or "the Great Depression". History is dated by "before" and "after" the IMF, just as countries that are devasteded by an earthquake or some other disaster date events "before" and "after" the disaster (p97).

In some cases, communities in Thailand, with the help of government, worked together to ensure that their children's education was not interrupted, with people voluntarily contributing to keeping their neighbour's children in school (p97). Because of this, the incidence of malnutrition did not increase (p98). Deteriorating conditions in on country helped bring down its neighbours and emerging countries that were dependent on natural resources were in deep, deep trouble (p98).Eventually every emerging market, even Argentina, which the IMF had held as its poster child for brining down inflation, was affected (p98).

How the IMF/U.S. Treasury Policies Led to the Crisis

The IMF and the U.S. Treasury believed, or at least argued, that full capital account liberalization would help the region grow even faster. The countries in East Asia had no need for additional capital, given their high savings rate but still capital account liberalization was pushed, and it was the single most important factor leading to the crisis (p99).

There was also ample evidence that capital account liberalization, pushed too quickly, imposed huge risks on developing countries (p100). The IMF and U.S. Treasury where now advocating the expansion of precisely those policies which underlay the increasing frequency of crises in the developing world. Surely there was some basis for their position beyond serving the naked self-interest of financial markets. They came up with the argument that capital account liberalization would enhance economic stability in the region (p100).

However, what captial account liberalization did was make the developing countries subject to both the rational and irrational whims of the investor community, to their irrational exuberance and pessimism. Keynes referred to these huge and often inexplicable swings in moods as "animal spirits". If the market says, as it effectively did after liberalization, build empty office buildings, then so be it; again, according to IMF logic, the market *must* know best (p101).

These buildings remain empty today, testimony to the risks posed by excessive market exuberance and the pervasive market failures that can arise in the presence of inadequate government regulation of financial institutions (p101). The U.S. Treasury, which , as the IMF's largest shareholder and the only one with veto power has a large role in determininging IMF policies, pushed liberalization too (p102).

At the onset, the IMF seemed to have misdiagnosed the problem. Given the impending recession in East Asia, the problem was not excess demand but insufficient demand. Dampening demand could only make matters worse. For more than seventy years there has been a standard recipe for a country facing a severe economic downturn. The government must stimulate aggregate demand, cut taxes, in crease expenditures, or loosen monetary policy. The IMF pushed exactly the oppostie course, with consequences precisely of the kind that would have been predicted (p103).

Today, the IMF admits that the fiscal policy it recommended was excessively austere. The policies made the recession far worse than it needed to be (p106). During the crisis, however, the IMF's first deputy managing director, Stanley Fischer, defended IMF policies, writing, in effect, that all the IMF was asking of the countries was to have a balanced budget! Not for sixty years have respectable economists believed that a country going into recession have a balanced budget (p106).

By continuing to adcoate contractionary policies the IMF exacerbated the contagion, the spread of the downturn from one country to the next. As each country weakened, it reduced its imports from its neighbours, thereby pulling its neighbours down (p107). Hence the term "beggar thy neighbour".

The whole point of the bailouts was to prevent a further decrease in the exchange rate. This itself seems peculiar given the IMF's otherwise seeming faith in markets: why not let market mechanisms determine the exchange rates, just as they determine other prices (p107).

Countries were told by the IMF that when facing a downturn they must cut back on their trade deficits and even build a trade surplus. With tariffs and devaluations ruled out, there were only two ways to build a trade surplus (p107).

One was to increase exports, but this is not easy, and cannot be done quickly particularly when the economies of your major trading partners are weak and your own financial markets are in disarray. Exporters cannot obtain finance to expand (p108). The other was to reduce imports by cutting incomes, that is, inducing a major recession (p108).

As the downturn spread around the world, slower growth in the region led to a collapse in commodity prices, like oil, and the collapse in those prices wrought havoc in oil-producing countries like Russia. The buzzword was *confidence*. A lack of confidence in one country could spread to a lack of confidence in emerging markets (p108). But more generally, the IMF's performance as market psychologist lfet something to be desired. Creating deep recessions with massive bankruptcies and pointing out deep-seated problems in the best performing region of the emerging markets are policies hardly designed to restore confidence (p109).

Today, the IMF agrees that the fiscal policies it pushed were excessively contractionary, but it does not own up to the mistakes of monetary policy. In East Asia, IMF bureaucrats, who were not politically accountable forced interest rate increases not ten but fifty times greater – interest rate increases of more than 25 percentage points (p109). At the heart of the analysis of the macroeconomy *should* have been an analysis of what an increase in interest rates would do to the chances of default (p110).

The consequences were precisely as predicted. The high interest rates increased the number of firms in distress, and thereby increased the number of banks facing nonperforming loans (p110). The increased distress in the corporate and financial sectors exacerbated the downturn that the contractionary policies were inducing. The IMF had engineered a simultaneous contraction in both demand *and* supply (p111).

In defending its policies, the IMF said they would help restore market confidence in affected countries. But clearly countries in dep recession did not inspire confidence (p111). They also argued that if interest rates were not increased the exchange rate would collapse and that would be devastating for the economy (p111). But the fact was that, for reasons that should hve been apparent, raising interests did not stablize the currency, and the countries were thus forced to lose on both accounts (p111).

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In effect, the IMF made the small businesses and other innocent bystanders pay for those who had engaged in excessive dollar borrowing – and to no avail (p111). The damage was done in East Asia. In Indonisia, an estimated 75 percent of all businessess were put into distress, while in Thailand close to 50 percent of bank loans became non-performing (p112).

The IMF's naïve geopolitical reasoning was costly and slow to reverse. In 1997, Japan offered 100 billion dollars to help create an Asian Monetary Fund in order to finance the required stimulative actions. But with Japan and China, as the major contributors to the fund, their voices would predominate, providing a real challenge to American "leadership" – and control (p112). It was not until the offer was scaled down to $30 billion that the U.S. Treasury and the IMF would allow it to be accepted.

But the IMF and US Treasury insisted that the money raised should not be used to stimulate the economies but for corporate and finanacial restructuring – effectively to bail out American and other foreign banks and creditors. The squashing of the Asian Monetary Fund is still spoken about with much anger in East Asia today (p113).

As the crisis worsened, the need for "restructuring" became the new mantra. Banks that had bad loans on their books should be shut down, companies that owed money should be closed or taken over by their creditors. The IMF focused on this rather than simply performing the role it was supposed to fill: providing liquidity to finance needed expenditures. But even this focus on restructuring failed, and much of what the IMF did helped push the sinking economies down futher (p113).

The IMF failed to understand how financial markets work and their impact on the rest of the economy. Its crude macroeconomic models never embraced a broad picture of financial markets at the aggregate level, but were even more deficient at the microlevel – that is, at the level of the company. The IMF did not take into account the corporate and financial distress to which its so-called stabilization policies, including high interest rates, contributed so strongly (p113).

The IMF also overlooked another critical lesson: the importance of keeping credit flowing. Rather, the IMF insisted that banks either shut down or quickly meet a capital adequacy ratio. This is the kind of mistake the first year economics students are warned about – "the fallacy of composition". When only one bank is in trouble, the insisting it meets its captial adequacy ratio makes sense. But when most banks are in trouble, that policy can be disastrous (p114).

Businesses soon found themselves without access to credit – the one glimer of hope for a recovery would now be squashed. Nowhere was the IMF's lack of understanding of financial markets so evident as in its policies towards closing banks in Indonesia. Predicatably, there was a run on the remaining private banks and a depression became inevitable (117).

With 75 percent of the firms in Indonesia in distress, and half of the loans in Thailand nonperforming, the corporate sector was entering a stage of paralysis. Firms that are facing bankruptsy are in a state of limbo: It is not clear who really owns them, the current owners or the creditors. But withouth clear owners, there is always a temptation for current management to strip assets. It was therefore imprative that bankruptcies and corporate distress be resoloved as quickly as possible, before stripping can occur (p117).

Unfortunately, the IMF conspired with ideology and special interests to dampen the pace of restructuring and asset stripping did occur (p118). The IMF's strategy for corporate restructuring was no more successful than its stratey for restructuring banks. It confused financial restructuring – sorting out who owns the firms, with real restructuring – the nuts and bolts operations of the firms (p118).

The IMF took the view that the government in Thailand should not take an active role in financial restructuring. However, government in Korea and Malaysia took an active role and sorted the restructuring isssues within two years. Restructuring in Thailand, which followed the IMF strategy, languished far behind (p118).

While the IMF provided some $23 billion to support the exchange rate and bail out creditors, far smaller sums to help the 99% were not forthcoming (p119). In other words, there were billions and billions for corporate welfare, but not the more modest millions for welfare of ordinary citizens (p119). Food and fuel subsidies for the 99% in Indonesia wrre drastically cut back, and riots exploded the next day (p119). As had happened thirty years earlier, the Indoesian businessmen and their families became the victims (p119).

Riots drive capital out of a country; they do not attract capital into a country. And like any social phenomenon, riots are predictable with a high degree of probability. The IMF should have known this. Around the world riots ensued when the IMF cut off food and fuel subsidies (p119).

A society that is rendered assunder by riots induced by cutting food subsidies just as it is plunging into a depression is not brought together when the food subsidies are restored. Indeed, the bitterness is all the greater: if the food subsidies could have been afforded, then why where they taken away in the first place (p120)?

To guage whether or not a recovery is happening, the IMF looks to performance on Wall Street, but there is no true recovery until workers return to their jobs and wages are restored to pre-crisis levels (p121). The very fact that the IMF focuses on financial variables not on measure of real wages, unemployment, GDP, or broader measures of welfare, is itself telling (p121).

Pain is not a virtue in its own right; pain by itself does not help the economy, and the pain caused by IMF policies, deepening recession, makes recovery more difficult. Take the pain; the deeper the pain, the stronger the recovery and subsequent growth. Unfortunately, the evidence does not support the IMF theory. It is not as the IMF claims that people are likely to be better off. The effects of recesssion are long-lasting (p122).

Malaysia was reluctuant to joine the IMF program, partly because its officials did not want to be dicated by outsiders but also because they had little confidence in IMF programs (p122). While there was a high level of nonperforming loans in Malaysia, the central bank had imposed strong regulations which had resulted in banks making provisions for these losses (p123). Moreover, Malaysia’s strong regulatory stance had prevented banks from exposure to foreign exchange volatility and had even limited the foreign indebtedness of the companies to which these banks lent (p123).

The IMF staffers were uncomfortable writing the report on Malaysia: how to formulate it without contradicting the mangaging director’s assertions and yet remain consistent with the evidence (p123).

China, while making economic policy decisions, was aware of the link between macrostability and its microeconomy (p126). And China recognised the links between economics and political and social stability. In all respects, China fully appreciated the systemic consequences of macroeconomic policies, consequences that the IMF habitually overlooked (p126).

It is no accident that the only major East Asian country, China, to avert the crisis took a course directly opposite that advocated by the IMF, and that the country with the shortest downturn, Malaysia, also explicitly rejected IMF strategy (p126).

Korea did not close down banks according to the standard IMF prescription, and the Korean government, like Malaysia’s took a more active role in restructuring corporations. Moreover, Korea kept its exchange rate low, rather than letting it rebound. Nor did Korea follow IMF advice concerning physical restructuring (p127).

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The IMF acted as if it knew more about the global chip industry than those firms who had made it their business, and argued that Korea should quickly get rid of the excess capacity. Korea, smartly, ignored theis advice. As the demand for chips recovered, the economy recovered. Had the IMF's advice been followed, the recovery would have been far more muted (p127).

In evaluating the recoveries, most analysts put Indonesia aside, simply because the economy had been dominated by political events and social turmoil. However, the political and social turmoil are themselves attributable to IMF policies (p127).

The IMF has never admitted its mistakes in monetary policy, nor has it even sought to explain why its models failed to predict the course of events so miserably (p129). It has not sought to develop an alternative intellectual frame – implying that in subsequent crises, it may well make the same mistakes. Part of the explanation for this is hubris: no one likes to admit a mistake, especially a mistake of this magnitude or with these consequences (p129).

Neither the IMF nor the U.S. Treasury wanted to think of their policies as misguided. They stuck to their positions in spite of overwhelming evidence of their failure (p129). In Asia, conspiracy theories abound about policies that were a deliberate attempt to weaken East Asia – the region of the world that had shown the greatest growth over the past 40 years. One can understand how this line of thinking developed (p129).

There is a simpler explanation – the IMF was not participating in conspiracy, but it was reflecting the interests and ideology of the western financial community. Modes of operation that were secret insulated the institution and its policies from the kind of scrutiny that would have forced it to adopt more appropriate policies (p130).

The basic strategy should always be to maintain the economy as close to full employment as possible (p130). But the IMF policies in East Asia had exactly the consequences that have brought globalization under attack. The East Asia crisis made vivid to those in more developed coiuntries some of the dissatisfaction that those in the developing world had long felt (p132).

What took place in Russiaa through most of the 1990s provides some even more arresting examples why there is such discontent with international institution, and why they need to change (p132).

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Who Lost Russia?

With the fall of the Berlin Wall in 1989, one of the most important economic transitions of all time began. But the transition from communism to capitalism in Russia has fallen far short of what the advocates of the market economy had promised, or hoped for (p133).

For the 99% living in the former Soviet Union, econimic life under capitalism has been even worse than the old Communist leaders had said it would be. Prospects for the future are bleak. The middle class has been devastated, a system of crony and mafia capitalism has been created, and the one achievement, the creation of a democracy with meaningful freedoms, including a free press, appears fragile (p133).

While those in Russia must bear much of the blame for what has happened, the Western advicers, especially from the United States and the IMF, who marched in so quickly to preach the gospel of the market economy must also take some of the blame (p134).

At the very least, they provided support to those who led Russia and many of the other economies down the paths they followed, arguing for a new religion – market fundamentalism – as a substitute for the old one – Marxism – which had proved so deficient (p134).

Incomes today are markedly lower than they were before the transition began and poverty is much higher (p134). The pessimists see the country as a nuclear power wavering with political and social instability. The optimists see a semi-authoritarian leadership establishing stability, but at the price of the loss of some democratic freedoms (p134).

It is clear that something has gone wrong, not only in Russia but also in most of the more than twenty countries that emerged from the Soviet empire (p135). The IMF and other Western leaders claim that matters would be far worse were it not for their help and advice. No-one knows. But what we do know is that certain political an economic judgement calls were maded, and we know that the outcomes have been disastrous (p135).

The IMF’s insistence on Russia maintaining an overvalued currency and its supporting that with billions of dollars of loans ultimately crushed the economy early on (p135). The leaders of the 1917 Revolution rrecognized that what was at stake was more than a change in ecnomics; it was a change in society in all of its dimensions. So, too, the transition from communism to a market economy was more than just an economic experiement (p135).

Part of the reason for the dismal results was the failure to recognise the centrality of these other components. In Eastern Europe and in the former Soviet Union when these “market reform” benefits failed to materialize in country after country, deomocratic elections rejected the extremes of market reform, and put social democratic parties or even “reformed” Communist parties into power (p136).

Since then, it is as if the market Bolsheviks, native true belivers, as well as the Western experts and evanglelists of the new economic religion who fklew into the post-Socialist countries, attempted to use a benign version of Lenin’s methods to steer the post-communism, “democrartic” transition (p136).

Seldom before had a country deliberately set out to go from a situation where government controlled virtually every aspect of the economy to one where decisions occurred through markets (p136).

There was one important difference between the transition from war to peace and from communism to a market economy: Before World War II, the United States had the basic market institutions in place, even thogh during the war many of these were suspended and superseded by a “command and control” approach. In contrast, Russia needed both resource redeployment and the wholesale creation of market institutions (p137).

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But both Taiwan and China have had truly impressive successes. Rather than prolonged transition recession, they had close to double-digit growth. The radical economic reformers who sought to advise Russia and many other countries on transition paid scant attention to these experiences, and the lessons that could be learned (p137).

It was not because they believed that Russian history made these lessons inapplicable. They studiously ignored the advice of Russian scholars, whether they were experts in its history, economics or society, for a simple reason: they believed that the *market revolution* which was about to occur made all of the knowledge available from other disciplines irrelevant (p138). What the market fundamentalism preached was textbook economics – an oversimplified version of market economics that paid scant attention to the dynamics of change (p138).

Activities that had meen necessary for the Soviet system to merely function led to the corruption that would only increase as Russia moved to a market economy. For example, entrepreneurial managers engaged in trades to enable themselves to fulfill government quotas, in the menanwhile getting a few more perks for themselves than they could have enjoyed on their official salaries (p138).

As in a market economy, under the Soviet system there were prices, but the prices were set by government fiat, not by the market (p138). Some prices, such as those for basic necessities, were kept artificially low – enabling those at the bottom of the income distribution to avoid poverty. Prices for energy and natural resources were also kept artificially low (p139).

For any transition to a market economy, the most important factors are legal and regulatory frameworks, to ensure that contracts are enforced, that there is an orderly way of resolving commercial disputes, that when borrowers cannot repay what is owed, there are orderly bankruptsy procedures, that competion is maintained, and that banks that take deposits are in a position to give the money back to depositors when they ask (p139).

In the nations with mature market economies, the legal and regulatory frameworks had been built over a century and a half, in response to problems encountered in unfettered market capitalism (p139). But in Russia, the reformists tried to take a short-cut to capitalism, creating a market economy without the underlying institutions, and institutions without the underlying institutional infrastructure (p139).

Unfortunately, neither a housing market nor a real safety net existed in the new Russia of 1989 (p140). Meanwhile, the most contentious debates were about the speed of reform: some experts worried that if they did not privatize quickly, creating a large group of people with a vested interest in capitalism, there would be a reversion to communism (p140). But others worried that if they moved to quickly the reforms would be a disaster. The former were called “shock therapists” while the latter were called “gradualists” (p141).

Ten years on, the wisdom of the gradualist approach was at last being recognised; the tortoises overtook the hares. The gradualist critics of “shock therapy” not only accurately predicted its failures but also outlined the reasons why it would not work (p141). Their only failure was to underestimate the magnitude of the disaster (p141).

If the challenges posed by transition were great, so where the opportunities. Russia was a rich country. While three quarters of a century of communism may have left a populace devoid of an understanding of market economics, it had left them with a high level of education, expecially in technical areas so important for the New Economy. After all, Russia was the first country to send a man into space (p141).

It followed that the transition would cause a burst of economic output, especially with the cutback on military spending which had absorbed such a huge share of GDP (p141). The stage was clearly set for a rise in the standard of living among the population. Instead, however, the standard of living in Russia and many other transition countries, fell (p142).

The “Reform” Story

In the enthusiasm to get on with a market economy, most prices were “freed” overnight. But some of the most important prices were kept low – those for natural resources (p142). With the newly declared “market economy”, this created an open invitation: If you can buy, say, oil and resell it in the West, you could make millions or even billions of dollars. So people did (p142).

Instead of making money creating new enterprises they got rich from a new form of old entrepreneurship – exploiting mistaken government policies (p142). Most Russians could not buy the enterprises being priviatized and privatization was supposed to be the first step in the process of restructuring the economy (p143).

Gross domestic product in post-1989 Russia fell, year after year. What had been envisioned as a short transition recession turned into one of a decade or more with no end in sight (p143). The devastation – the loss in GDP – was greater than Russia had suffered during World War II. In the period 1940-1946 the Soviet Union industrial production fell 24%. In the period 1990-1999 it fell by almost 60% (p143).

The stabilization/liberalization/privatization program was intended to set preconditions for growth. Instead, it set the preconditions for decline. Privatization, accompanied by the opening up of capital markets, led not to wealth creation but to asset stripping (p144).

It was all perfectly logical. An oligarch who has just been able to use politicial influence to garner assests worth billions, after paying only a pittance, would naturally want to get his money out of the country (p144).

Keeping money in Russia meant investing it in a country in deep depression, and risking not only low returns but having assets seized by the next government, which would inevitably complain, quite rightly, about the “illegitimacy” of the privatization process (p144).

The country was doing much of what the IMF was stressing (p144). But is easy to privatize quickly, if one does not pay any attention to *how* one privatizes: essentially giving away valuable state property to one’s friends. Indeed, it can be highly profitable for governments to do so – whether the kickbacks come back in the form of cash payments or in campaign contributions, or both (144).

Pressured by the United States, the IMF and the World Bank, Russia had privatized rapidly without taking the time to put in place an effective tax system (p145).The government created a powerful class of oligarchs and businessmen who paid but a fraction of what they owed in taxes, much less what they would have paid in virtually any other country (p145).

The government was virtually giving away its valuable state assets, yet it was unable to provide pensions for the elderly and welfare payments to the 99%. The government was also borrowing billions from the IMF and opening up its capital account which was leading to a one-way door that facilitated a rush of money out of the country (p145).

The 1998 Crisis

Due to recessions and depressions in Southeast Asia, which IMF policies had exacerbated, oil demand not only failed to expand as expected but it actually contracted (p145). The drop in prices had a particularly devastating effect on the Russian economy (p145).

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The switch to a market economy away from the military was supposed to allow redeployment of resources to produce more consumer goods, or more machines to help provide consumer goods (p146). But investment had halted and the country was not producing consumer goods.

And although unemployment was disguised, it was no less traumatic (p146): workers only pretended to work while firms only pretended to pay. Wage payments fell into massive arrears, an when workers were paid, it was often with bartered goods rather than rubles (146).

For the businessmen though, the overvalued exchange rate was a boon.They needed fewer rubles to buy their Mercedez, their Chanel handbags and their imported Italian gourmet foods. For the oligarchs trying to get their money out of the country the overvalued exchange rate help too. It meant that they could get more dollars for their rubles, as they squirreled away their profits in foreign bank accounts (p146).

Many investors believed that Russia was too big and too important to fail. As the New York investment banks pushed loans to Russia, they whispered about how big the IMF bailout would have to be (p147). The crisis mounted in the way that these crises so frequently do. Speculators could see how much in the way of reserves was left, and as reserves dwindled, betting on a devaluation became a one-way bet. They risked almost nothing betting on the ruble’s crash (p147).

In the weeks preceding the crisis, the IMF pushed policies that made the crisis, when it occurred, even worse. It pushed Russia into borrowing more in foreign currency and less in rubles (p147). The IMF believed that they wee smarter than the market – they were willing to bet Russia’s money that the market was wrong. Not only was the judgement wrong; it exposed the country to enormous risk: if the ruble did devalue, Russia would find it more difficult to repay dollar-denominated loans (p147). The IMF chose to ignore this risk and was therefore partly culpable for the eventual suspension of payments by Russia on its debts (p148).

The Rescue

The evidence of corruption in Russia was clear. The World Bank’s own study of corruption had identified that region as one of the most corrupt in the world. The West knew that much of the billions in loans would be diverted to the families of corrupt officials and their oligarch friends (p148).

It appeared though that there were two standards: small non-strategic countries like Kenya were denied loans because of corruption while countries such as Russia where the corruption was on a far larger scale were continually lent money (p148).

Russia’s exchange rate was overvalued so lending money to maintain that exchange rate was bad economics. Russia was a naturally resource-rich country. If it got its act together, it didn’t need money from the outside; and it if didn’t get its act toegther, it wasn’t clear that any money from the outside would make much difference (p149).

The World Bank was under continuous pressure from the Clinton administration to loan money to Russia (p149).

The Rescue Fails

Three weeks after a 300 million dollar loan was made, Russia announced a unilateral suspension of payments and a devaluation of the ruble. The surprise about the collapse was not the collapse itself but that the IMF was itself surprised. They had genuinely believed that their program could work (p150).

The IMF was then confronted with the facts – that billions of dollars that had been loaned were showing up in Cypriot and Swiss bank accounts just days after the loans were granted. Some people quipped that the IMF would have made life easier all around if it had simply sent the money directly into the Cypriot and Swiss bank accounts (p150).

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It was, of course, not just the oligarchs who had benefited from the rescue. The Wall Street and other Western investment bankers, who had been among those pressing the hardes for a rescue package,fled the country with whatever they could salvage (p151).

By lending Russia money for a doomed cause, the IMF had les Russia deeper into debt, with nothing to show for it. The cost of the mistake was not borne by the IMF officials who gave the loans, or America who had pushed for them, or the Western bankders and the oligarchs who had benefited from them, but by the Russian taxpayer (p151).

The Failed Transitions

Seldom has the gap between expectations and reality been greater than in the case of the transition from communism to the market (p151). The combination of privatization, liberalization and decentralization was supposed to lead quickly to a vast increase in production. Old, inefficient machines were supposed to be replaced as a new generation of entrepreneurs was created (p151).

These expectations for economic growth were not realized, not only in Russia but in most of the economies in transition. In fact the magnitude of the declines in incomes are so large that they are hard to fathom (p151).

There is a consensus that most individuals have experienced a marked deterioration in their basic standard of living, reflected in a host of social indicators (p152). While in the rest of the world lifespans were increasing markedly, in Russia they were over three years shorter. Given that the government was spending less on defense, standards of living should have increased even more than GDP (p152).

Increased Poverty & Inequality

The statistics ignore one of the most important successes: the benefits of the new democracy, as imperfect as it might be. But they also ignore one of the most important failures: the increase in povery and inequality (p153).

In 1989, only 2 percent of those living in Russia were in poverty. By late 1998, that number had soared to 23.8 percent, using the $2 a day standard. More than 40% of the country had less than $4 a day according to a survey conducted by the World Bank. Other post-Communist countries have seen comparable, if not worse, increases in poverty (p153).

A traffic jam of Mercedes in a country with a per capita income of $4,730 in 1997 is a sign of sickness, not health. The middle class in Russia has perhaps been the hardest hit (p154). The inflation first wiped out their meager savings. With wages not keeping up with inflation, their incomes fell. Cutbacks in expenditures on education and health further eroded their standards of living. Those who could, emigrated (p154).

All that portends badly for the future because historically, the middle class has been central to creating a society based on the rule of law and democratic values (p154). The communist system, while it did not make for an easy life, avoided the extremes of poverty, and kept living standards relatively equal, by providing a high common denominator of quality of education, housing, health and child care services (p154).

Russia today has a level of inequality comparable with the worst in the world, those Latin American societies which were based on a semifeudal heritage. And the prognosis for the future is bleak: extremes of inequality impede growth, particularly when they lead to social and political instability (p155).

How Misguided Policies Led to the Failures of Transition

Inflation: There is little evidence that lowering inflation below a moderate level increases growth. The most successful countries, like Poland, ignored the IMF's pressure and maintained inflation at around 20 percent through the critical years of adjustment. IMF's star pupils, like the Czech Republic, which pushed inlfation down to 2 percent, saw their economy stagnate. Also, the high interest rate clearly stifled new investment. Many of the new, privatized firms saw that they could not expand and switched to asset stripping (p156).

The tight monetary policies also contributed to the use of barter. With a shortate of money, workers were paid in kind – with whatever the factory produced or had available – from toilet paper to shoes (p157).

Flea markets were developed throughout the country as workers tried to get cash to buy the bare necessities of life but they masked huget inefficiencies . Barter is every bit as destricutive as high inflation in the way it interferes with the price system of an economy (p157).

Privatization: The IMF told Russia to privatize as fast as possible; how privatizatoin was done was viewed as secondary. But privatization in the absence of insitutional infrastructure, corporate governance, has no positive effect on growth (p157).

In Russia and other countries, the lack of laws ensuring good corporate governance meant that those who could get control of a corporation had an incentive to steal assets from the minority sharholders. Managers had similar incentives (157).

But in a world in which high interest rates and an overall depression make investments unlikely, local governments spend little time creating attractive "environments for investment" and focus instead on seeing how much they can extract from existing enterprises – just as the owners and managers of newly privatized firms did (p158).

In Russia it was a race to the bottom with incentives for asset stripping at every level. And when these privatized firms operated across many jurisdictions, authorities in one district reasoned, that they had better take what they could grab before others took bites out of assets (p158).

If a government privatizes corporations, but leaves banks in the state hands, or without effective regulation, that government does not create the hard budget constraints that lead to efficiency. Rather it leaves an alternative, less transpartent way of subsidizing firms – and an open invitation to corruption (p159).

Privatization, as it was imposed in Russia, undermined confidence in government, in democracy, and in reform (p159). A few friends and associates become billionaires while the country is unable to pay pensioners their $15 a month pension (p159).

The fact that these privatizations have no political legitimacy made it even more imperative that the oligarchs take their funds quickly out of the country before a new government that might try to reverse the privatizations came to power (p160).

The result was that the enterprises wre left on the verge of bankruptcy, while the oligarch's bank accounts were enriched (p160).

The Social Context: The officials who applied Washington Consensus policies in Russia failed to appreciate the social context of the transition economies (p160). Market economies entail a host of economic relationships – exchanges, and many of these exchanges involve matters of trust (p160).

Backing up this trust is a legal system. If an individual steals property from another, he can be brought to court. But in countries with mature market economies and adequate institutional infrastructures, individuals and corporations only occasionally resort to litigation (p161).

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Economists ofte refer to the glue that holds a society together as “social captial”. Random violence and Mafia capitalism are often cited as reflections of the erosion of social capital. But in countries like Russia random violence and mafia capitalism is everywhere (p161).

It is not just the misbehavour of a few managers; it is an almost anarchic theft by all from all. For instance, the landscape in Kazakhstan is dotted with greenhouses – missing their glass. But if the greenhouse is in any case fated to be destroyed then it makes sense for each to take what he can – even if the value of the glass is small (p161).

They way in which transition proceeds in Russia serves to erode this social capital. One gets wealthy not by working hard or by investing, but by using political connections o get state property on the cheap in privatizations (p161).

The social contract, which binds citizens together with their government, is broken, as pensioners see the government giving away valuable state assets, but claiming that it has no money topay their pensions (p161).

The IMF shunted aside issues of poverty, inequality and social capital. When confronted about this myopia of focus, it would say, “inflation is especially hard on the poor”. But its policy framework is not designed to minimize the impact on the poor (p161).

And by ignoring the impacts of its policies on the 99% and on social capital, the IMF actually impeded macroeconomic progress (161).

The Bolshevik Approach to Market Reform

Had the radical reformers looked beyond their narrow focus on economics, they would have found that history shows that most of the experiments in radical reform were beset by problems (p163).

It is easy to understand the forces that give rise to revolutions, but each produced its own political leaders who were either corrupted by the revoluton or took it to extremes. By contrast, the successful American “revolution” was not a true revolution in society; it was a revolutionary change in political structures, but it represented an evolutionary change in the structure of society (p163).

The radical reformers in Russia were trying simultaneously for a revolution in the economic regime and in the structure of society. In the end, they failed in both (p163). In effect, the radical reformers employed Bolshevik strategies. The Bolsheviks tried to impose communism on a reluctant country in the years following 1917. They aregued that the way to build socialism was for an elite to “lead”, often a euphemism for “force”, the masses into the correct path, which was not necessarily the path the masses wanted or thought best (p163).

In the “new” post-Communist revolution in Russia, an elite, spearheaded by international bureaucrats, similarly attempted to force rapid change on a reluctant population (p163).

In order to achieve efficiency, well-defined property rights are essential. Even if one distributed assets to someone who did not know how to manage them well, in a society with well-defined property rights that person would have an incentive to sell to someone who could manage the assets efficiently (p164).

The radical reformers believed that political processes wre governed in the same was as economic processes. If a group with vested interests in property could be created, it would demand the establishment of an institutional infrastructure and its demands would be reflected in the political process (p164).

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But it has always been the middle class that has demanded reforms that are often referred to as "the rule of law". The 1% usually do far better for themselves behind closed doors, bargaining special favors and privileges (p164).

Today in Russia we do not see demands for strong competition policy forthcoming from the oligarchs, the new monopolists. They only demand these policies when the government seek to deprive them of their monopolies (p164).

Likewise, demands for an open media came from oligarchs only when the government sought to use its power to deprive them of theirs. In most democratic and developed countries such concentrations of economic power would not long be tolerated by a middle class forced to pay monopoly prices (p165).

One of the reaons that it is I mportant to have an active and critical media is to ensure that the decisions that get made reflect not just the interests of the 1% but the general interest of society (p165). It was essential for the continuation of the Communist system that there not be public scrutiny. Likewise, neither the taxpayers in the West, to whom the international economic institutions are accountable, nor the Russian people who paid the ultimate price, know much about what is going on in Russia (p165).

Only now are we wrestling with the question of "Who lost Russia?" – and why. The answers, as we are beginning to see, are not edifying.

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Unfair Trade Laws and Other Mischief

The U.S. Treasury claims Russian economic policy as its own turf; turning aside any attempts to have an open dialogue, either within government or outside; and stands stubbornly by its commitment to shock therapy and rapid privatization (p166).

The Moldova elections in February 2000, in which the old communists got 70 percent of the seats in the Duma, were perhaps the most extreme case, but disillusionment with radical reform and shock therapy is now common among the economies in transition (p167).

There are, of course, some die-hard Communists, but some, perhaps many of those who have served in the Communist governments, are far from true believers. Instead, they are pragmatists who want to get ahead in the system (p167).

If these people carry over anything from the Communists days, it is a belief that the state bears a responsibility for taking care of those in need, and a belief in a more egalitarian society (p167). In fact, many of these ex-Communists have become what, in European terms, are called Social Democrats. In American political terms they are closer to old deal democrats (p167).

If there had been idealism in the beginning, the failures have led to cynicism. Putin has been embraced with seeming warmth, his KGB credentials just a moment (168). But as the prospects of success look increasingly bleak, the rhetoric has changed: the emphasis switched from confidence in the new system to fearing the threat of the alternative – back to Communism (p169).

It is clear that stabilization – at least as presented by the IMF – does not lead to growth. The U.S. treasury and the IMF entered into the political life of Russia. By siding so firmly for so long with those at the helm when the huge inequality was created trhough the corrupt privatization process, the USA, the IMF and the international community have indelibly associated themselves with policies that, at best, promoted the interests of the 1% at the expense of the 99% (p170).

The West's long-term interests would have been far better served had we stayed out of close involvement with particular leaders, and provided broad-based support for democratic processes (p171). This could have been done by supporting young and emerging leaders in Moscow and in the provinces who were against corruption and who were trying to create a true democracy (p171).

There are many in Russia and elsewhere who believe the failed policies were not just accidental: the failures were deliberate, intended to eviscerate Russia, to remove it as a threat for the indefinite future (p171). The policies were not totally altrusistic. U.S. financial and commerical market interests were reflected in the policies (p172).

For wall Street, nothing could be more sacrosanct than private property; no wonder then the emphasis on privatization. Their commitment to competition is far less passionate (p172). The former U.S. secretary of the treasury, Paul O'Neill engineered the global aluminium cartel and has worked to suppress competition with the global steel market (p172).

Notions of social capital and politicial participation may not even appear on their radar screen; they feel far more comfortable with an independent central bank than one whose actions are more directly under the control of political processes (p172).

The United States supports free trade, but all too often, when a poor country does manage to find a commodity it can export to the United States, domestic Americal protectionist interests are galvanized. What are officially called "free trade laws" are known outside the U.S. as "unfair fair trade laws" (p172).

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Selling products below cost is called dumping, and the duties are called dumping duties. But to most economists, the dumping duties are simply naked protectionism (p173).

Russia had a crash course in market economic and the West were the teachers. And what a peculiar course it was. On the one hand, they were given large doeses of free market, textbook economics. On the other hand, they saw *in practice* how their teachers departed from this ideal (p178).

They were told that trade liberalization was necessary for a successful market economy, yet when they tried to export aluminium and uranium and other commodities to the United States, the found the door shut (p173-178).

Evidently, America had succeeded without trade liberalization; or, as it is sometimes put “trade is good, but imports are bad” (p178).

If the West’s preaching is not taken seriously everywhere, we should understand why (p179).

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Better Roads to the Market

Poland and China employed alternative strategies to those advocated by the Washington Consensus. Poland is the most successful of the eastern European countries; China has experienced the fastest rate of growth of any major economy in the world over the past twenty years (p180).

Poland quickly realized that shock therapy was appropriate for bringing down hyperinflation, but was inappropriate for societal change. It pursued a gradualist policy of privatization, while simultaneously building up the basic institutions of a market economy, such as banks that actually lend, and a legal system that actually enforces contracts and processes bankruptcy fairly (p181).

Poland's former deputy premier and finance minister, Grezegorz W. Kolodko, has argued that the success of the nation was due to its explicit rejection of the doctrines of the Washington Consensus (p181). Poland did not do what the IMF recommended – it did not engage in rapid privatization, and it did not put reducing inflation to lower and lower levels over all other macroeconomic concerns (p181).

But Poland did emphasize such things as democratic suppport for the reforms, which entailed trying to keep unemployment low, providing benefits for those who were unemployed, adjusting benefits for inflation, and cereating the institutional infrastructure required to make a market economy function (p181).

Similarly, China's success over the past decade stands in marked contrast to Russia's failure. China's transition has entailed the largest reduction in poverty in history in such a short time span – from 358 million in 1990 to 208 million in 1997, using China's admittedly lower poverty standard of $1 a day (p182).

China's reforms began in agriculture, with the movement from the commune system of production to the "individual responsibility" system. It was an enormous achievement involving hundreds of millions of workers, accomplished in a few years. The central government did not have to force this change; it was willingly accepted (p182).

Regarding pricing, the Chinese came up with an ingenious two-tier price system, in which what a firm produced under the old quotas was priced using old prices, but anything produced in excess of the old quota was priced using free market prices (p182).

The system allowed full incentives *at the margin,* which, as economists are well aware, is twhere they matter (p183). Most important, the Chinese gradualist approach avoided the pitfall of rampant inflation that had marked the shock therapies of Russia and other countries under IMF tutelage (p183).

Millions of new enterprises were created in townships and villages and the Chinese government invited foreign firsm into the country. They came in droves and China became the largest recipient of foreign direct investment among the emerging markets (p183).

As safety nets were put into place and new jobs were created, it began the task of restructuring the old state-owned enterprises, downsizing them as well as all the government bureaucracies (p183).

The vast majority of Chinese live better off today than they did twenty years ago. Having said that, economic growth and development do not automatically confer personal freedom and civil rights (p184). But the Russians gave up their freedom while not gaining economically (p184).

Ultimately, growth and prosperity, widely shared are sufficient for long-run stability (p184). China recognised that if it was to maintain long-run social stability, it had to avoid massive unemployment. And many of its policies can be interpreted in that light (p184).

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Some money did go into sustaining inefficient state enterprises but China thought that it wsa more important, not only politically but also economically to maintain social stability, which would be undermined by high unemployment (184).

Twenty years after the transition began, state-run enterprises accounted for just 28.2 percent of industrial production. The contrast between what happened in China and what happened in countries like Russia, which bowed to IMF ideology, could not be starker (p185).

Township and village public enterprises were central in the early years of transition. IMF ideology said that because these were public enterprises, they could not have succeeded. But the IMF was wrong. The township and village enterprises solved the governance problem, a problem to which the IMF paid scant attention, but which underlay many of the failures elsewhere (p185).

Those in the townships and villages could see what was happening to their funds; they knew whether jobs were being created and incomes increased. And although there may not have been democracy, there was accountability. This helped to reduce the social upheaval that inevitably accompanies industrialization (p185).

The Czech Republic, on the other hand, received accolades early on from the IMF for its rapid reforms but it later became apparent that it had created a capital market which did not raise money for new investment. It allowed just a few smart money managers i.e. white collar criminals to walk off with millions of dollars of other's money (p186). The Czech Republic had fallen behind despite its huge advantages in location and the high level of education among its populace (p186).

One attribute of the success cases is that they are "homegrown", designed by people within each country, sensitive to the needs and concerns of their country. There is no cookie-cutter approach in China, Poland or Hungary. These and all other successful transitions were pragmatic – they never let ideology or simple textbook models determine policy (p186).

The successes in countries that did not follow IMF prescriptions were no accident (p187). The outcomes in China were precisely the opposite of what the IMF would have predicted. In economics, no prescritpion can be followed precisely, and policies must be predicted on the fact that fallible individuals working within complex political processes, will implement them (p187).

In the race between the tortoise and the hare, it appears tha the tortoise has won again. The radical reformers, wheither the star pubipls like the Czech Republic or the slightly unruly ones like Russia, have lost (p188).

Those who are responsible for the mistakes of the past have been forced to recognize the need for strong institutions, but they have little advice to offer on what that means or how it is to be achieved (p188). The only "growth" strategy proposed is that the country has to adopt policies that will repatriate the capital that had fled the country (p188).

Of course, that could mean making a permanent fixture of the oligarchs and the kleptocracy and crony/Mafia capitalism. There is no reason for them to bring their capital back because they can get good enough returns in the West (p188).

Sadly, for the most part, Russia must treat what has happened as pillage of national assets, a theft for which the nation can never be recompensed (p189). Russia's objective in the future must be to try to stop further pillage, to attract legitimate investors by creating a rule of law, and more broadly, an attractive business climate (p189).

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Russia has learned many lessons. In the aftermath of communism, many of its people swung from the old religion of Marx to the new religion of free markets. The sheen has been taken off this new religion, and a new pragmatism has set in (p189).

Some of those who took advantage of the system of eratz capitalism to become wealthy are working for a change to the rules, to make sure that what they did to others cannot be done to them. Some of the oligarchs, while they are not willing to risk their money in Russia, would like to entice others to risk more of theirs (p189).

With massive poverty, a few oligarchs, a devastated middle class, a declining population, and disillusionment with market procesess, there are not many reasons to be hopeful. The Russia now has a fragile democracy, far better than the totalitarian regime of the past (p193).

But the billions of dollars of IMF money may not just have enabled the corrupt government with its corrupt policies, they may even have reduced pressure for more meaningful reforms (p194).

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The IMF's Other Agenda

The International Monetary Fund's less than successful efforst in the 1980s and 1990s raise troubling questions about the way it sees the process of globalization. It has failed in its mission, and the failures are not just accidental but consequences of how it has understood its mission (p195).

Charles E. Wilson's famous remark "What's good for General Motors is good for the country" became the symbol of a particular view of American capitalism. The IMF often seems to have a similar view – "what the financial community views as good for the global economy is good for the global economy and should be done" (p195). This is because the prevalent free market ideology blurs clear thinking about how to address an economy's ills (p196).

Kynes identified a market failure – a reason why markets could not be left to themselves – that might benefit from collective action (p196). He showed why there was a need for global collective action, because the actions of one country spilled over to others. One country's imports are another country's exports. Cutbacks in imports by one country, for whatever reason, hurt other countrie's economies (p196).

Today, market fundamentalists dominate the IMF; they believe that markets by are large work well and that governments by and large work badly. We have an obvious problem: a public institution created to address certain failures in the market but currently run by econmists who have both a high level of confidence in markets and little confidence in public institutions (p196).

As a result, as we have seen, all to often the IMF forges policies which, in addition to exacerbating the very problems they seek to address, allows these problems to play out over and over again (p197).

The IMF undertakes massive interventions. Billions of dollars were spent trying to sustain the exchange rates of Brazil and Russia at unsustainable levels. The IMF justifies these interventions on the grounds that *sometimes* markets exhibit excessive pessimism – and the calmer hand of the IMF bureaucrat can help stabilize markets (p198).

It is curious that an institution committed to the doctrine that markets work well, if not perfectly, should decide that this one market – the exchange rate market – requires such massive intervention (p198).

The IMF has never put forward a good explanation either for why this expensive intervention is desirable in this particular market – or for why it is undesireable in other markets (p198).

Markets also exhibit excessive optimism, and it is not just in the exchange rate market that these problems occur. There is a wider set of imperfections in markets, requiring a wider set of interventions (p198).

The money the IMF spends on maintaining exchange rates goes into somebody's pocket – much of it into the pockets of speculators. In a sense, it is the IMF that keeps the speculators in business (p199).

Keynes had a coherent theory of contagion: the downturn in one country leads that country to import less, and this hurts its neighbours. The IMF while talking about contagion, took actions in the Asian financial crisis that actually acccelerated transmission of the disease, as it forced country after country to tighten its belts (p199).

The IMF clung to fiscal austerity as the antidote, claiming that was essential to restore investor confidence. So, because of the lack of a coherent and persuasive theory of contagion, the IMF had spread the disease rather than contained it (p200).

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How the IMF handles bankruptcy represents still another arena where it's approach is plagued with intellectual inconsistencies (p201). In standard market econonics, if a lender makes a bad loan, he bears the consequence as the borrower may well go into bankruptcy (p201).

Repeatedly the IMF programs provide funds for governments to bail out creditors. The creditors, anticipating the bailout have weakened incentives to ensure that the borrowers will be able to repay. This is the infamous moral hazard problem well known in the insurance industry, and, now, in economics (p201).

A bailout in the event of a crisis is like free insurance. The IMF defends its interventions saying that without the bailout a country will default and will not be able to get credit in the future. But capital markets are forward-looking; they look at risk going forward (p202).

A country that has discharged a heavy overhang of debt, even by defaulting, is in better shape to grow, and thus more able to repay any additional borrowing (p202). Eighteenth-century debtor prisons may have provided strong incentives for individuals not to go into bankruptcy, but they did not help get debtors reestablished (p202).

Russia, for example, had a massive debt default in 1998 and by 2001 captial began to flow back to the country (p202).

As the IMF's failures became increasingly evident, it sought new strategies, but the lack of coherency ensured that its quest for viable alternatives had little chance of success (p203). The IMF wanted the private sector institutions to be "in" on any bailouts. Not surprisingly, the strategy quickly proved to be both problematic in conception and flawed in implementation, with highly negative consequences for the countries targeted for the experiment (p203).

Now the IMF was handing power over its lending policies to the same individuals and institutions that precipitated the crises (p204). Only if the private institutions were willing to lend would the IMF be willing to lend. These lenders quickly saw the profound implications of the change, even if the IMF did not (p204).

The creditors suddenly had enormous leverage. A twenty-eight-year-old man in the Bucharest branch of an international private bank had the power to decide whether or not the IMF, World Bank and the EU would provide Romania with more than a billion dollars of money (p204).The IMF is supposed to have the expertise on these questions, not the twenty-eight-year-old bank officer in Bucharest (p205).

In 1999, the IMF's deputy manager, Stanley Fischer, proposed that the IMF expand its role to make it a lender of last resort (p205). There are some advantages to IMF lending; often it lends when the capital markets simply refuse to do so. But at the same time a country pays dearly for the "cheap" money it gets from the IMF (p206).

The IMF always gets paid back first so a rational private sector financial institution is gong to insist oa a higher interest rate to cover the higher likelihood of not getting paid back. A coherent theory of capital markets would have made the IMF more aware of this (p206).

The fact that a lack of coherence has led to a multitude of problems is perhaps not suprising (p206). The question is why the lack of coherence? Why dies it persits, on issue after issue, even after the problems are pointed out (p206)?

The explanation is that the IMF is also pursuing the interests of the financial community. This means that the IMF has objectives that are often in conflict with each other (p207). The tension is all the greater because this conflic can't be brought out into the open: if the new role of the IMF were publicly acknowledged, support for that institution might weaken, and those who have succeeded in changing the mandate almost surely know this (p207).

Thus the new mandate has to be clothed in ways that seem at least superficiallly consistent with the old. Simplistic free market ideology provides the curtain behind which the real business of the new mandate can be transacted (p207).

The change in mandate and objectives, while it may have been quiet, is hardly subtle: from serving global economic interests to serving the interests of global finance. Capital market liberalization may not have contributed to global economic stability, but it did open up vast new markets for Wall Street (p207).

It should be clear: the IMF never *officially* changed its mandate. But the IMF's behaviour should come as no surprise: it approached problems from the perspectives and ideology of the financial community, and these naturally were closely, but not perfectly, aligned with its interests (p207).

Looking at the IMF policies this way, its emphasis on getting foreign creditors repaid rather than helping domestic businesses remain open become more understandable. The IMF may not have become the bill collector of the industrialized nations but it clearly worked to make sure that they got repaid (p208).

The IMF worries that a default, by breaking the sanctity of contracts, would undermine capitalism. They were wrong in several respects. Bankruptcy is an unwritten part of every credit contract; the law provides for what will happen if the debtor cannot pay the creditor. So, because it is implicit in every credit contract, it does not violate the "sanctity" of the credit contract (p209).

But there is another, equally important, unwritten contract, that between citizens and their society and government, that is sometimes called "the social contract". While misguidingly working to preserve what it saw as the sanctity of the credit contact, the IMF was willing to tear apart the even more important social contract (p209).

In the end, it was the IMF policies which undermined the market aswell as the long-run stability of the economy and society (p209).

It is understandable then why the IMF and the strategies it foists on countries around the world are greeted with such hostility. The billions of dollars which it provides are used to maintain exchange rates at unsustainable levels for a short period, during which the foreigners and the 1% are able to get their money out of the country on more favorable terms (p209).

The billions are usedd to pay back foreign creditors, even when the debt was private. What had been provate liabilities were in effect in many instances nationalized. People's tax money is used to repay the IMF loans, whether or not they got much benefit from the money (p209).

At the same time, there seems to be no money around when it comes to finding the far more modest sums to pay subsidies for food or fuel for the 99%. No wonder there is so much anger at the IMF (p210).

If one sees the IMF as an institution pursuing policies that are in the interests of creditors, other IMF policies also become more understandable. Global financial stability wa arguably not only in the interests of the global economy but also in the interests of the financial markets; yet many of its policies almost surely contributed to global instability (p211).

In the East Asia crisis, the IMF and the U.S. Treasury quickly sought to blame the problems on the borrowing countries, and in particular on their lack of transparency. But it was clear that lack of transparency does not cause crises nor can transparency inoculate a country against crises (p211).

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In retrospect there was a “transparent” reason for this fouc on transparency: it was important for the financial community, the IMF and the U.S. Treasury to shift blame. As their recovery programs failed to work, the had further incentive to try to say the real problem lay not with their programs but elsewhere, with the afflicted countries (p212).

Closer scrutiny, however, showd that the industrialized nations were at fault in many othe ways; weak banking regulation in Japan provided an incentive for banks to lend to Thailand at such attractive rates that the borrowers could not resist borrowing more than was prudent (p212).

Liberalized banking regulatory policies in the United States and other industrialized countries also encouraged unwise lending – banks were allowed to treat short-term foreign lending as safer than long-term, and short-term loans wree among the important sources of instability in East Asia (p212).

These experts quietly slid over the fact that in a fully open and transparent market, one with perfect information, returns are low. Asia had been an attractive investment precisely because it was more risky (p212).

The international banks too found it convenient to shift blame and again the IMF and U.S Treasur joined in the attack. From the start, one should be suspicious of the IMF/Treasury arguments. Despite their attempt to get the major international lenders off the hook, the hard truth is that every loan has both a borrower and a lender. If the loan is inherently bad, the lender is as much at fault as the borrower (p213).

Moreover, banks in the Western developed countries were lending to the large Korean firms, knowling full well how leveraged many Korean firms were. The bad loans were the result of bad judgment (p213). Repeated IMF bailouts contributed to the lack of due diligence on the part of the lenders (p213).

There was an even more profound issue at stake. the U.S. Treasury had during the early 1990s heralded the global triumph of capitalism. Together with the IMF, it had told countries that followed the “right policies” – the Washington Consensus policies – they would be assured growth. The East Asia crisis cast doubt on this new world view *unless it could be shown that the problem wsa not with capitalism, but with the Asian countries and their bad policies*.

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The Way Ahead

This particular form of international economic integration has not been working for the 99%. It is not working for much of the environment and it has not been working for the stability of the global economy. The transition form communism to a market economy has been so badly managed that poverty has soared as incomes have plummeted (p214).

To some there is an easy answer: abandon globalization. But that is neither feasible nor desirable. Globalization has brought many benefits – East Asia's success was based on globalization. It has also brought better health, sa well as an active global civil society fighting for more democracy and greater social justice (p214).

As mentioned, the problem is not with globalization but with this particular form of international economic integration, and how it has been managed. The demand for reform is palpable and there has already been some change. But many critics of the international economic institutions are skeptical (p215).

They see the changes as simply the institutions facing the political reality that they must change their rhetoric if they are to survive. These critics doubt there is real commitment. Some critics are so doubtful that they continue to call for more drastic actions such as the abolition of the IMF. But were the IMF to be abolished, it would most likely be recreated in some other form (p215).

Globalization can be reshaped to realize its potential for good and the international economic institutions can be reshaped in ways that will help ensure that this is accomplished. But to understand how these institutons should be reshaped, we need to better understand why they have failed, and failed so miserably (p215).

If financial interests have dominated thinking at the IMF, commercial interests have had an equally dominant role at the World Trade Organization. Just as the IMF gives short shrift to the concerns of the 99%, the WTO puts trade over all else (p216).

Those who seek to prohibit the use of nets that harvest shrimp but also catch and endanger turtles are told by the WTO that such regulation would be an unwarranted intrusion on free trade. They discover that trade considerations trump all others, including the environment (p216)!

The international economic institutions genuinely believe that they are pursuing the general interest. In spite of the evidence to the contrary, many trade and finance ministers, and even some political leaders, believe that everyone will eventually benefit from trade and capital market liberalization (p216).

Many believe this so strongly that they support forcing countries to accept these "reforms" through whatever means they can, even if there is little popular support for such measures (p216).

The typical central bank governor begins his day worrying about inflation statistics, not poverty statistics. The trade ministers worries about export numbers, not pollution indices. Each group in society focuses on a part of the reality that affects it the most. Workers worrry about jobs and wages, financiers about interest rates and getting repaid (p217).

In public policy debates, few argue openly in terms of their own self-interest. Everything is couched in terms of general interest. But there is not just one market model. There are striking differences between the Japanese version of the market system and the German, Swedish and American versions (p217).

There are several countries with per capita income comparable with the United States, but where inequality is lower, poverty is less, and health and other aspects of living standards higher (p217). And
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while the market is at the center of both the Swedish and American versions of capitalism, government takes on quite different roles (p217).

In Sweden, the government takes on far greater responsibilities promoting social welfare; it continues to provide far better public health, far better unemployment insurance, and far better retirement benefits than does the United States. Yet it has been every bit as successful (p217).

Government can, and has, played an essential role not only in mitigating market failures but also ensuring social justice. And while there is vigorous debate in the United States and elsewhere about what the precise role of the government should be, there is broad agreement that government has a role in making any society, any economy function efficiently – and humanely (p218).

Some of these disagreements are about values – how concerned should we be about the environment; how concerned should we be about the poor; or how concerned should we be about democracy, for example, are we willing to compromise on basic rights such as the right to free association, if we believe that as a result the economy will grow faster (p219).

But the advocates of market fundamentalism still argue that the inefficiencies of markets are small and the inefficiencies of government are large. They see government more as part of the problem than the solution; unemployment is blamed on government setting too-high wages, or allowing unions too much power (219).

Social cohesion is important if an economy is to function: urban violence in Latin America aand civil strife in Africa create environments that are hostile to investment and growth. But while social cohesion can affect economic performance, the converse is also true: excessively austere policies predictably give rise to turmoil (219).

This is especially the case when it is believed that thee are massive inequities – such as billions going to corporate and financial bailouts, leaving nothing left for those forced into unemployment (p219).

Whatever stage of political and economic development a country is at, government makes a difference. Weak governments and too-intrusive governments have both hurt stability and growth. The Asia financial crisis wsa brought about by lack of adequate regulation of the financial sector. Mafia capitalism in Russia by a failure to enforce the basics of law and order (p220).

Privatized monopolies, without regulation are more capable of exploiting customers than state monopolies. The problem is that the IMF presents as received doctrine propositions and policy for which there is not widespread agreement (p220).

There is a massive amount of evidence against capital market liberalization. Likewise, there is no consensus about the gains from lowering inflation to lower and lower levels (p220).

The discontent with globalization arises not just from economics seeming to be pushed over everything else, but because a particular view of economics – market fundamentalism is pushed over all other views (p221).

The IMF feels it has little need to take lessons on board because it knows the answers; if economic science does not provide them, ideology – the simple belief in free markets – does (p222).

We cannot go back on globalization; it is here to stay. The issue is how can we make it work. And if it is to work, there have to be global public institutions to help set the rules (p222).

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Markets cannot be relied upon to produce goods that are essentially public in nature, like defence. In some areas markets fail to exist; governments have provided student loans, for instance, because the market, on its own, failed to provide funding for investment in human capital (p222).

Globalization has meant that there is increasing recognition of arenas where impacts are global. It is in these arenas where global collective action is required – and systems of global governance are essential. The United Nations can be thought of as focusing upon issues of global political security, while the international finanicial institutions, and in particular the IMF are supposed to focus on global economic stability (p223).

Global warming caused by industrial countries' use of fossil fuels, leadning to concentrations of greenhouse gases (CO_2), affects those living in preindustrial economies, whether in a South Sea island or in the heart of Africa (p223).

Also, an economic slowdown in one country might lead to slowdowns elsewhere. In 1998 the great concern was that a crisis in emerging markets might lead to a global economic meltdown (p223).

There are also global health issues like the spread of highly contagious diseases such as AIDS, which respect no boundaries (p223). The World Health Organization has succeeded in eradicating a few diseases, notably river blindness and smallpox, but in many areas of global public health the challenges ahead are enormous (p224).

International humanitarian assistance is a form of collective action that springs from a shared compassion for others. As efficient as markets may be, they do not ensure that individuals have enough food, clothes to wear, or shelter (p224).

The World Bank's main mission is to eradicate poverty, not so much by providing humanitarian assistance at the time of crisis as by enabling countries to grow, to stand on their own (p224).

In some cases the failures of global institutons have been grave; in other cases they have pursued an agenda that is unbalanced – with the 1% benefiting and many others actually being hurt (p224).

In setting the rules of the game, commercial and financial interests have seemingly prevailed within international economic institutions (p224). A particular view of the role of government and markets has come to prevail – a view which is not universally accepted within developed countries, but which is being forreced upon the developing countries and economies in transition (p225).

The IMF's actions affect the lives and livelihoods of billions throughout the developing world, yet they have little say in its actions. The workers who are thrown out of jobs as a result of the IMF programs have no seat at the table; while the bankers, who insist on getting repaid, are well represented through the finance ministers and central bank governors (p225).

The consequences for policy have been predictable: bailout packages which pay more attention to getting creditors repaid than to maintaining the economy at full employment (p225).

The most fundamental change that is required to make globalizaton work in the way that it should is a change of goverance. This entails a change in voting rights. Such changes are not going to be easy. The United States is unlikely to give up its effective veto at the IMF (p226).

The U.S. Treasury has tried to give the impression that it is the American taxpayers, its plumbers and carpenters, who pay for the multi-billion-dollar bailouts. But that is wrong. The money comes ultimately from the workers and other taxpayers in developing countries because the IMF almost always gets repaid (p226).

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Because these countries are poor, they simply cannot afford the kinds of staff tha the United States, for instance, can generate to support its postions at all the international economic institutions. Developed countries could fund a think-tank – independent from the international economic organizations – that would help them formulate strategies and positions (p227).

Short of a fundamental change in their governance, the most important way to ensure that the international economic insitutions are responsive to the 99% is to increase openness and transparency. Public pressure, especially from the middle class works powerfully (p227).

Transparency is even more important in public institutions like the IMF, the World Bank and the WTO, because their leaders are not elected directly (p227). Though they are public, there is no direct accoutability to the public.

At the WTO, the negotiations that lead up to agreements are all done behind closed doors, making it difficult – until it is too late – to see the influence of corporate and other special interests (p227).

Public scrutiny would either make the panels more sensitive to public concerns or force a reform in the adjudication process (p228). Central banks, though public institutions, have traditionally been secretive. Within the financial community, secrecy is viewed as natural – in contast to academia, where openness is the accepted norm (p228).

The billions of dollars in the cayman Islands and other such centers are not there because those islands provide better banking services; they are there because the secrecy allows them to engage in tax evasion, money laudering and other activities (p228).

Secrecy allows special intersts full sway. It also serves tohid their mistakes. As it is sometimes put “Sunshine is the strongest antiseptic”. Secrecy also engenders suspicions and such suspicions undermine the political sustainability of thepolicies. One of the demands of the protestors has been for greater openness and transparency (p229).

One of the important distinctions between ideology and science is that science recognizes the limitations of what one knows. There is always uncertainty. By contrast, the IMF nevr likes to discuss uncertainties associated with the policies it recommends, but rather, likes to projet an image of being infallible (p230).

Both the US Treasury and the IMF were furious when a report touched on some of their mistakes and got front-page coverage in the New York Times. Orders to muzzle the critics were issued (p230). The IMF never asked why its models systematically underestimated the depth of recessions – or why its policies are systematically excessively contractionary (p231).

The IMF tries to defend its stance of institutional infallibility, saying that if it showed it was wavering in its conviction it would lose credibility. But predictions that repeatedly don’t pan out make the IMF look rather less infallible, especially if the markets are as rational as it claims (p231).

Sometimes they say that discussing alternative policies would confuse the developing countries – a patronizing attitude that reflects deep skeptism about democratic processes (p231).

The IMFs hierarchical structure is used to ensure its prevailing worldviews dominate throughout the institution. The IMF is not a “learning organiization” like other institutions, and so it finds it difficult to learn and adapt when the environment changes (p231).

A broad consensus – outside the IMF – has developed that the IMF should limit itself to its core area, managing crises; that it should no longer be invlved in development or with the economies of transition

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(p232). The IMF is currently responsible for the collection of valuable economic statistics and but data it reports are compromised to make its programs seem to work and to make the numbers add up (p232).

Many governments have responded to this obvious conflict of interest by creating an independent statistical agency (p232).

In the aftermath of the East Asian crisis, and the failures of the IMF policies, there was a general consensus that something was wrong with the international economic systm and that something needed to be done to make the global economy more stable (p233).

But just as those in charge at the IMF did everything to shift the blame away from their mistakes and away from systemic problems, they did everything they could to curtail reforms, except to the extent that they resulted in more power and money to the IMF and more obligatons on the emerging markets (p233).

Around the world today there is a great deal of cynicism about the reform debate. As far as the “client countries” were concerned, the reform debate was a charade in which the politicians pretended to do something to redress the problems while financial interests worked to preserve as much of the status quo as they could (p234).

There was talk about “transparency, about “poverty” and about “participation” and the international economic institutions have better Web sites now. But these changes, as profound as they seem to those inside the institutons, appear superficial to outsiders (p234).

The IMF and world Bank still have disclosure standards far weaker than those of governments in democracies like the United States, or Sweden or Canada. They attempt to hide critical reports and it is only their inability to prevent leaks that often forces the eventual disclosure (p234).

Participating countries are now told that important matters such as the macroeconomic framework, are off limits for discussion. Shortly after the new managing director Horst Kohler took office, he undertook a tour of some member countries. In a visit to Thailand at the end of May 2000, he noted the dangers of capital market liberalization.

Neighbouring Indonesia quickly picked up on the opening, and by the time he visited t there in June, its government had announced plans to explore interventions into the capital market. But quickly, the Indonesians and Kohler were set straight by the IMF staff. So, capital market liberalization might be problematic but captial market interventions evidently are not on the table for those seeking IMF assistance (p235).

Some of the key reforms required for the international financial system are as follows:

1. Acceptance of the dangers of capital market liberalization, and theat short-term capital flows, hot money, impose huge externalities, costs borne by those not directly party to the transaction.
2. Bankruptcy reforms and standstills.
3. Less reliance on bailouts.
4. Improved banking regulation – both design and implementation – in the developed and less developed countries alike.
5. Improved risk management.
6. Improved safety nets.
7. Improved response to crises.

Questions need to be asked: is there something systematically wrong with its models? Or is the IMF trying to deliberately mislead policy making?

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Reforms at the World Bank have involved changes in philosophy in three main areas: development, aid; and relationships between the Bank and developing countries. They also stress living within one's budget constraints, the importance of education, including female education, and macroeconomic stability (p241).

It is possible to promote equality and rapid growth at the same time. And when governments took actions to promote exports and new enterprises, liberalization worked; otherwise it failed (p241).

Successful countries emphasize competition and enterprise creation over privatization. Overall, the successful countries have pursued a comprehensive approach to development. Economists on the left and right differ only as to whether changes should be obtained through government-led planning or unfettered markets (p242). In the end, neither worked.

Development encompasses not just resources and capital but a transformation of society. Conditionality, has we have seen does not work. It does not lead to better policies, faster growth or to better outcomes. There is a glimmering recognition within the IMF that conditionality has gone too far. Dozens of conditions make it difficult for developing countries to focus on priorities (p242).

Some argue that conditionality should be replaced with selectivity, giving aid to countries with a proven track record, allowing them to choose for themselves their own development strategies, ending the micromanagement that has been such a feature of the past (p242).

Recently, attention has focused on debt forgiveness, and for good reason. Without forgiveness of debt, many of the developing countries simply cannot grow. Huge proportions of their current exports go to repaying loans to developing countries (p243).

The Jubilee 2000 movement mobilized enormous international support for debt forgiveness. The movement quickly gained the backing of churches throughout the developed world. To them, it seemed a moral imperative, a reflection of basic principles of economic justice (p243).

When the IMF and World Bank lent money to the Democratic Republic of Congo's notorirous ruler Mobutu, they knew, or should have known, that most of the money would not go to helping the country's poor people but rather would be used to enrich Mobutu (p244).

It was money paid to ensure that this corrupt leader would keep his country aligned with the West. To many it doesn't seem fair for ordinary taxpayers in countries with corrupt governments to have to repay loans that were made to leaders who did not represent them (p244).

The global protests over globalizatation began at the WTO meetings in Seattle, Washington, because it was the most obvious symbol of the global inequities and the hypocrisy of the advanced industrial countries (p244).

While these countries had preached – and forced – the opening of the markets to developing countries to their industrial products, they had continued to keep their markets closed to the products of developing countries (p244).

While they preached that developing countries should not subsidize their industries, they continued to provide billions in subsidies to their own farmers. While they preached the virtues of competitive markets, the United States was quick to push for global cartels in steel and aluminium (p245).

Finance and trade ministers view globalization as largely an economic phenomenon, but to many in the developing world it is far more than that (p247). One of the reasons why globalization is attacked is because it seems to undermine traditional values (p247).

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Those responsible for managing globalization, while praising its positive benefits have shown insufficient appreciation of this adverse side – the trheat to cultural identity and values. This is surprising given the awareness of these issues within the developed countries themselves (p247).

People in small towns everywhere complain that large national retailers and shopping malls have killed their small businesses and their communities (p247). The pace of globalization matters: a more gradual process means that traditional institutions and norms can adapt and respond to the new challenges (p247).

Globalization, as it has been advocated, often seems to replace the old dictatorships of national elites with new dictatorships of international finance. Countries are effectively told that tif they don't follow certain conditions, the capital markets or the IMF will refuse to lend them money (p247).

They are forced to give up part of their sovereignty to let capricious capital markets, including speculators "discipline" them, thelling them what they should and should not do. So long as globalization is presented in the way it has been, it represents disenfranchisement. No wonder then that it will be resisted, especially by those who are being disenfranchised (p248).

On the other hand, globalization has helped hundreds of millions of peple attain higher standards of living, beyond what they, or most economists thought imaginable but a short while ago. The countries that benefited the most have been those that took charge of their own destiny and recognized the role government can play in development rather than relying on the notion of a self-regulating market (p248).

But for millions of people globalization has not worked. Many have actually been made worse off as they see their jobs destroyed and their lives become more insecure. They have felt increasingly powerless against forces beyond their control. They have seen their democracies undermined and their cultures eroded (p248).

Advocates of the free market tell us not to worry; that markts are self-regulating and given time, economic prosperity will resume. Never mind the misery of those whose lives are destroyed waiting for this so-called eventuality. As Keynes put it once "In the long run, we are all dead" (p249).

The free market ideology should be replaced with analyses based on economic science, with a more balanced view of the role of government drawn from an understanding of both market and government failures (p250).

Being able to buy Gucci handbags in a Moscow department store does not mean that the country has become a market economy. Development is about transforming societies, improving the lives of the 99% and enabling everyone to have a chance of success and access to healthcare and education (p252).

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