Study finds little change in the IMF's policy advice, despite rhetoric of reform

May 23 2016

A new study, the largest of its kind, has systematically examined International Monetary Fund (IMF) policies over the past three decades. It found that—despite claims to have reformed their practices following the global financial crisis—the IMF has in fact ramped up the number of conditions imposed on borrower nations to pre-crisis levels.

The crisis revived a flagging IMF in 2009, and the organisation has since approved some of its largest loans to countries in economic trouble. At the same time, IMF rhetoric changed dramatically. The 'structural adjustment programs' of austerity and privatisation were seemingly replaced with talk of the perils of inequality and the importance of social protection.

Researchers from the University of Cambridge's Department of Sociology collected archival material on the IMF's lending operations and identified all policy conditions in loan agreements between 1985 and 2014 - extracting 55,465 conditions across 131 countries in total.

They found that structural adjustment conditions increased by 61% between 2008 and 2014, and reached a level similar to the pre-crisis period.

The authors of the study, which used newly-available data and is published today in the *Review of International Political Economy*, say their findings show that the IMF has surreptitiously returned to the practices it claims it has abandoned: encroaching on the policy space of elected governments by enforcing free market reforms as conditions of lending. This is despite the IMF Managing Director Christine Lagarde rejecting concerns over the return of structural adjustment: "We do not do that anymore".

"The IMF has publicly acknowledged their objectives to include creating breathing space for borrowing countries, and economic stability combined with social protection," said lead author Alexander Kentikelenis. "Yet, we show the IMF has in fact increased its push for market-oriented reforms in recent years - reforms that can be detrimental to vital public services in borrowing countries."

Although the IMF claims its programs can "create policy space" for governments, structural adjustment conditions can reduce this space as they are often aimed at an economy's underlying structure: privatising state-owned enterprises and deregulating labour markets, for example.

"Our research suggests that structural adjustment is not a policy fad of the past," said co-author Thomas Stubbs. "The emphatic return of structural conditionality in recent years calls into question the IMF's 'we don't do that anymore' rhetoric. These reforms at the IMF are basically just hot air."

Many of these conditions continue to intrude on policy areas such as the labour market, despite claims to the contrary. Post-crisis, examples have included:

- The elimination of 4,000 civil service positions in Moldova in 2010.
- A 15% cut in pensions and raising of the retirement age in Romania, re-introduced as a 'binding' condition after it was struck down by the country's constitutional court in 2010.
- Extensive labour market liberalisation in Greece, including: the

precedence of firm-level over sector-wide pay agreements to reduce the power of collective bargaining; the reduction of minimum wages and employee dismissal costs.
- An increased retirement age in Portugal in 2012, followed by a realignment of public sector worker rights to "private sector rules", including job termination.

In recent years, the IMF emphasised its attention to poverty reduction and social protection, with increasing use of conditions that specify minimum expenditures on health, education and other social policies.

The researchers found that inclusion of social spending conditions had indeed jumped since 2012, mostly applicable to sub-Saharan African countries. However, after detailed analysis, the authors found that nearly half such conditions were not implemented. Yet those African nations with the weakest adherence to social spending conditions still consistently met, and often far-exceeded, the IMF's fiscal deficit targets.

"The IMF's well-advertised 'pro-poor' measures are only superficially incorporated into programme design, and are, at best, of secondary importance to stringent macroeconomic targets," said co-author Lawrence King.

Added Kentikelenis: "We have shown that the IMF has been particularly adept at introducing layers of ceremonial pretences of reform designed to obscure the actual content of its adjustment programmes. These gaps between rhetoric and practice in the IMF's lending activities reveal an escalating commitment to hypocrisy."

More information: *Review of International Political Economy*, DOI: 10.1080/09692290.2016.1174953

Provided by University of Cambridge