Available online at www.sciencedirect.com
ScienceDirect
Procedia - Social and Behavioral Sciences 116 (2014) 4135 – 4139
Procedia
Social and Behavioral Sciences

5th World Conference on Educational Sciences - -WCES 2013

The functionality of IMF programs in economics

Alexandru Ionescu[a] *,

[a]*Academy of Economic Studies, Bucharest, Romania*

Abstract

The International Monetary Fund (IMF) works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. IMF financing is available to give member countries the breathing room they need to correct balance of payments problems. A policy program supported by IMF financing is designed by the national authorities in close cooperation with the IMF, and continued financial support is conditional on effective implementation of this program. To help support countries during the global economic crisis, the IMF has strengthened its lending capacity and has approved a major overhaul of how it lends money. In low-income countries, the IMF provides financial support through its concessional lending facilities.

Selection and/or peer-review under responsibility of Academic World Education and Research Center.
Keywords: IMF programs, IMF policy, lending programs, critics of IMF programs;

1. Introduction

The importance of the International Monetary Fund resides in the intention of correcting the deficits of the foreign payments balances in the global economy in order to reduce monetary disequilibrium such as inflation or home currency depreciation. This desiderate is based on the intention of growing and strengthening the monetary cooperation at a global economy level and that of enabling trade development and exchanges. The IMF's doctrinaire elements which dominate the current actions are the market fundamentalism and its origins can be found in the economic liberalism. Although the liberal doctrine supports and mostly encourages the enterprising and speculative spirit, the IMF's actions accentuate the development inequalities of those countries which turn to IMF's resources towards the debtor countries where, most of the times, the competition and free market cannot manifest because of institutional causes. This is the reason why we need an incursion towards the doctrinaire elements which determined the institutional development of the International Monetary Fund.

2. Body

The International Monetary Fund's main objective is that of granting credits and loans to member countries having foreign payments deficits, under the condition of applying an economic reform and a series of structural adjustment policies. The financial resources provided to the member states come in the form of financial assistance programs (financial facilities) such as: stand-by agreements, financial adjustment facilities, extended financing

Corresponding name:Alexandru Ionescu Tel:0234 987 56 45
E-mail address: b22bay@yahoo.com

Selection and/or peer-review under responsibility of Academic World Education and Research Center.
doi:10.1016/j.sbspro.2014.01.904

facilities, compensatory financing facilities, credit lines, economic growth facilities and poverty decreasing facilities, facilities that regard the idea of reducing the external debts. Moreover, the IMF provides technical assistance and financial consulting, promotes macroeconomic policy measures (fiscal, monetary, social, exchange rates, liberalization), structural policies in order to stimulate the member states' economies and develop the social climate, financial and labor market reforms. IMF's adjustment programs come with their own costs. They lead to sufferings and privations in the case of both poor populations (by means of eliminating the subventions from the costs, by eliminating a series of social security benefits or reducing the growth of incomes) and unproductive industries (reducing budgetary subsidies).

The International Monetary Fund has been often perceived as the "main begetter" by the governments in order to exculpate themselves in front of the population that had been obliged to suffer a series of privations. Therefore, there have been serious incidents that followed the installation of the stabilization programs in the Latin American countries (Brazil, Argentina and Venezuela) and in the African ones. In 1997, Argentina warned the international creditors that it will not be able to pay the external debt interests unless they offered a credit line of over 2 billion dollars in order to guarantee a 4% economic growth rhythm in 1987. Brazil adopted the measure of temporarily postponing the payment of the external debt's interests [1]. The governments declared themselves as being "forced" to apply stabilization programs in order to obtain credits from the International Monetary Fund and the World Bank and consequently to have access to bilateral credits and the recommendation of their debt's terms of payment. The programs envisioned by the International Monetary Fund have been therefore perceived as "being nefarious for both the economic growth and the development", as always turning to an "austerity cure", to "the increase of poverty" and forcing "paying the debts which have been contracted by commercial banks" [2].

This criticism disappeared at the beginning of the 90s as a result of applying the Brady plan, which recommends a public sustain of the liabilities liquidation process. Hence, the International Monetary Fund and the World Bank offer financial facilities in order to encourage the abatement of debts; the Fund decides to keep as a provision 25% of the amount obtained as a result of a confirmation agreement or of an enlarged facility in order to finance the redemption funds or receivables exchanges. Another facility is that of increasing the drawing ceiling up to 40% from the share in order to guarantee the payment of interests for the debentures issued in exchange for the old banking receivables. Creditor banks offered three alternatives in order to pay the external debt: 1 – exchanging the credits into debentures for a total of 65% of these credits' total value, 2 – exchanging them for debentures of the same nominal value, but with a lower interest rate, 3 – providing new credits. The agreement provides that the new liabilities called "Brady" are to be guaranteed by means of bonds/tickets emitted by the American Thesaurus, and the restructured credits are to be guaranteed by loans of the International Monetary Fund from the World Bank and Japan also. As a result of signing this agreement, the value of the Mexican debt immediately rises on the secondary market. Costa Rica and the Philippine Islands sign similar agreements in 1989, Morocco, Venezuela and Uruguay in 1990, Nigeria, Argentina, Mozambique and Niger in 1992 [3]. The process of reducing and eradicating the debts of the developing countries was long and difficult especially because of these countries' high poverty and the disparity between their development rhythm and the one imposed by the international crediting organisms in order to pay back the debts. Another factor that was taken into consideration was the political one, which negatively interfered in the economic process. According to the International Monetary Fund's assessments, in the decade between 1975 and 1985 the developing countries saved almost 250 billiards stolen dollars in the Western banks. Almost 150 billiards went into the pockets of some dictators [13], hindering the resources allotment process and the implementation of the market economy's structures. During this period, the International Monetary Fund revised its attitude, prolonged the adjustment programs' length to three or four years, providing the possibility of renewing them and admitted the necessity of concessional credits for poor countries.

According to Patrick Lenain, the critics regarding the International Monetary Fund's conditioning are political and academic. The academic ones can be classified as it follows:

The "structural" criticism belong to the "development" economists (G. Myrdal, J. Robinson, J. Tinbergen, W. Brandt, W. Leontief, Dudley Seers, Gerald Helleiner, Arthur Lewis, W. Rostow, Hans Singer, Raul Prebisch) [4] who sustain the idea that the measures taken by the underdeveloped countries internally are primary, these being doubled by substantial changes in the structures and models that the international relations are based on; they reproach the International Monetary Fund with always applying the same reference pattern to all countries, regardless their particular situation and doesn't take into account the peculiarities of the developing countries. They state the fact that the IMF's adjusting programs are wrong about the objectives of developing countries, highlighting the macroeconomic reforms, while the real problems reside in the microeconomic management.

It is also taken into account the development of a functional market that would be able to establish the cost-price-productivity-income relation. The International Monetary Fund is also criticized as it anticipates devaluations, wanting to reestablish the external exchanges equilibrium, while these devaluations lead to a saturation of raw materials global markets and to a decrease of the courses.

These critics reproach the International Monetary Fund with always recommending some public expenses contracting measures, while these measures inevitably lead to a drastic decrease of the internal demand and especially to an annulment of public investment projects, such as the important infrastructures. The International Monetary Fund is also criticized because it encourages the systematic growth of the interest rates (this thesis is stated by economist like Polak, Mundell, Fleming or Dornbusch) so that it would encourage the population's savings and discourage the capital leaks, while the developing countries are less opened towards the retribution level as the financial system is not sufficiently sophisticated in order to offer attractive investments [5].

The "laissez-faire"'s criticism

Another category of academic criticism (Hayter, 1971) reproaches the IMF and the World Bank with praising liberalism and reducing the state's role, while the experience of the Asian dynamic economies (especially South Korea and Taiwan) would state the opposite side, saying that the state must play an important part through its industrial policy in rentable sectors. In the case of the four dragons – Hong Kong, Taiwan, South Korea and Singapore – the politic will played the main part in the economic success, different from case to case, according to an original formula called non-druggist interventionism [6]. On the other hand, these countries' experience shows that their development was made thanks to the close frontiers in front of imports, while the IMF and the World Bank recommend the integral free trade. Recent researches have questioned this Asian dynamic policies' vision [7], showing that there is not a clear relation between a fast economic growth and an industrial policy. Therefore, Hong Kong has registered a very fast economic growth in a total liberalist environment and in the absence of an industrial policy, which denotes that the stable macroeconomic environment associated with the entrepreneurial spirit promoted by authorities would rather be the reason for their success.

The "rightist" criticism addressed to the two institutions at Bretton Woods underlines that these are two huge bureaucracies and their main objective is to auto-perpetuate [8]. Therefore, it is considered that the International Monetary Fund doesn't incite enough towards liberalism and that it often recommends the growth of taxes in order to reduce the budgetary deficit, privileging the credit as an indicator for the monetary policy rather than an M1 aggregate (the monetary basis and scriptural money), appreciated by monetarists [9].

Mainly, any IMF program targets adopting microeconomic policies packages in order to equilibrate the balance of payments, strengthen the private sector, facilitate the access on the private capital market and attract investment that could generate economic growth.

The IMF's programs include, on the one hand, the monitoring of the adequate economic-financial policies and, on the other hand, the financial resources necessary for fixing the economic-financial difficulties. Once the necessary economic policies measures adopted, it is expected a high interest from the part of the foreign investors, the capital influxes contributing to the restructuration of the banking sector, the private sector, configuring the basis of a sustainable durable economic growth.

The existence of the IMF funds in countries with difficulties of the balance of payments does not protect the investors' risky placements; in these cases, the International Monetary Fund does not provide extra financial resources in order to prevent an imminent crisis except for the case when an economic reformation plan would be applied.

The current IMF's criticism is closely related to the economic period that humanity faces: the current economic crisis. Under these circumstances, the International Monetary Fund perceives itself as a creditor similar to the one during the last century's crisis period. The only difference is that the former IMF's interventions were punctual and moderate, the crediting necessities being limited to a group of countries in order to save the creditors' investments on certain markets that faced liberalization. Nowadays, the IMF's intention is to support the monetary-financial market institution inside the global market by means of convergent and congruent interventions with other institutions of the European Union, World Bank and other important international financial creditors.

In this consensus, the optics of the IMF's programs is the same, which refers to the process of crediting under certain conditions as long as respecting the conditionality assumed by national governments. The International Monetary Fund refreshes as a result of the current economic crisis, an increasing number of countries appealing to the IMF's resources or to its expertise regarding macroeconomic policies in order to guide economies and investments. Moreover, the fact that the IMF manages a huge gold provision, the most secure standard in case of macro and microeconomic disequilibrium, turns the IMF's voice in a golden one. The current and future economic stability is highly related to the identification of a restrictive frame in what regards the manifestation of the monetary-financial policies able to regulate both the world's finances and the planet's economic and social stability.

Although the International Monetary Fund reclaimed the problems related to the governing process and the lack of transparency from the developing countries, it seems that the IMF itself is assaulted by the same problems. It lacked some of the essential rules of democratic institutions, such as transparency, so that the citizens could see which are the debated aspects and also have time to react. Moreover, there were needed some regulations in order to prohibit the officials to migrate towards private companies, immediately after renouncing at the public services related to the International Monetary Fund; this type of restrictions are standard measures encountered in modern democracies, in order to reduce the appearance – or reality – of the existence of some conflicts of interests in order not to stimulate the employees to favor their potential future employers by means of some favorable decisions or regulations. There is a growing consensus regarding the fact that international public institutions such as the IMF, which moulds globalization, confront with a governing problem. The consensus also regards the conviction that the failures of these institutions are generated by these problems. The democratic deficiencies related to the management of these institutions contributed to their lack of legitimacy and this thing undermined their efficiency – especially when they took into consideration the aspects of the democratic governing [10].

Adopting the measures of the IMF's programs becomes obligatory in order to provide financial assistance which is considered to be necessary for implementing the market economy's rules, improving the internal and international business climate and obtaining economic growth. These programs are accompanied by substantial social costs, and this process sometimes affects the social cohesion, predisposing to compromises between the program established together with the International Monetary Fund and that specific country's governmental program. However, finalizing an IMF agreement strengthens that country's social position on the international financial markets, diminishes the country risk and creates substantial opportunities materialized under the form of a positive economic growth.

The International Monetary Fund is interested in the extent to which the conditionality on the member states' economic policies has been affected, focusing on adapting the conditionality to each member state's specific context, knowing the fact that there had been a series of critics regarding the International Monetary Fund in what regards the high number of conditionality not focusing enough on the fundamental objectives. The International Monetary Fund has in view the idea of focusing on pre-established criteria (ante conditionality) rather than on traditional conditions of crediting (post conditionality). Moreover, the structural reforms are to be monitored in the context of the implemented program, which is a more efficient method than that based on using some structural performance criteria, and this thing eliminates the discontinuity feature of the reform program initiated in the member states, especially those with low incomes [12].

Nowadays, the economies of the emergent countries and those of the developing countries have to deal with growing difficulties all over the world, because of the global economic crisis [13]. The most common problems are the following: the limitation of access to external financing because of reducing the international debentures, the sudden decrease of exports and the growth of materials' prices. As the crisis gets deeper and deeper, a higher number of countries will adopt restrictive economic policy measures. In this sense, IMF's financing could lead to an amortization of the economic and social costs generated by the global crisis and could even help preventing future crisis under the circumstances of signing some surveillance agreements (precautionary line) in incipient phases of the economic contraction.

Conclusions

The International Monetary Fund's reformation is highly necessary. The mistakes of the IMF are a result of their fundamentalist market conception. They ignore the fact that we cannot talk about a truly free market: there are financial regulations, consumer protection, standards etc. Therefore, we speak about a high number of limitations. Moreover, the market system couldn't exist without these laws and rules.

On the other hand, the main objective of the international institutions is not the global financial stability, but assuring the creditors' incomes, even at the price of some disequilibrium in other parts of the world. The individual interests, the mystery that covers the process of decision making and the lack of democracy characterize these institutions [11]. When it comes to the International Monetary Fund, there is no such thing as a system in which a person equals a vote, but a vote equals a dollar and not any dollar, but that from 1944. Under these circumstances, it is impossible to control the policies of the International Monetary Fund and those of other institutions.

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