

# The IMF after DSK

By [Mark Weisbrot](#)

Theme: [Global Economy](#)

Global Research, May 22, 2011

[Guardian](#) 19 May 2011

His arrest came at a crucial time for the IMF, which is supposed to be renegotiating the Greek bailout. Photograph: Tobias Schwarz/Reuters Now that Dominique Strauss-Kahn has resigned from his position as managing director of the International Monetary Fund (IMF), it is worth taking an objective look at his legacy there. Until his arrest last week on charges of attempted rape and sexual assault, he was widely praised as having changed the IMF, increased its influence and moved it away from the policies that – according to the fund’s critics – had caused so many problems for developing countries in the past. How much of this is true?

Strauss-Kahn took the helm of the IMF in November of 2007, when the IMF’s influence was at a low point. Total outstanding loans at that time were just \$10bn, down from \$91bn just four years earlier. By the time he left this week, that number had bounced back to \$84bn, with agreed-upon loans three times larger. The IMF’s total capital had quadrupled, from about \$250bn to an unprecedented \$1tn. Clearly, the IMF had resources that it had never had before, mostly as a result of the financial crisis and world recession of 2008-2009.

However, the details of these changes are important. First, the collapse of the IMF’s influence in the decade prior to 2007 was one of the most important changes in the international financial system since the breakdown of the Bretton Woods system of fixed exchange rates in 1971. Prior to the 2000s, the IMF headed up a powerful creditors’ cartel that was able to tell many developing country governments what their most important economic policies would be, under the threat of being denied credit not only from the fund but also from other, then larger lenders such as the World Bank, regional lenders and sometimes even the private sector. This made the fund not only the most important avenue of influence of the US government in low- and middle-income countries – from Rwanda to Russia – but also the most important promoter of neoliberal economic “reforms” that transformed the world economy from the mid 1970s onward. These reforms coincided with a sharp slowdown of economic growth in the vast majority of low- and middle-income countries for more than 20 years, with consequently reduced progress on social indicators such as life expectancy and infant and child mortality.

The IMF’s big comeback during the world recession did not bring the middle-income countries that had run away from it back to its orbit. Most of the middle-income countries of Asia, Russia, as well as Latin America, stayed away, mostly by piling up sufficient reserves so that they did not have to borrow from the fund, even during the crisis. As a result, even a low-income country like Bolivia, for example, was able to renationalise its hydrocarbon industry, increase social spending and public investment, and lower its retirement age from 65 to 58 – things it could never do while it was living under IMF agreements continuously for 20 years prior. Most of the IMF’s new influence and lending would land in Europe, which accounts for about 57% of its current outstanding loans.

As for changes in IMF policy, these have been relatively small. A review of 41 IMF agreements made during the world financial crisis and recession found that 31 of them contained “pro-cyclical” policies: that is, fiscal or monetary policies that would be expected to further slow the economy. And in Europe, where the IMF has most of its lending, the policies attached to the loan agreements for Greece, Ireland and Portugal are decidedly pro-cyclical – making it extremely difficult for these economies to get out of recession. The IMF’s influence on Spain, which does not yet have a loan agreement, is similar. And in Latvia, the IMF presided over an Argentine-style recession that set a world historical record for the worst two-year loss of output (about 25%) – a complete disaster.

To be fair, some changes at the fund during the tenure of Strauss-Kahn were significant. For the first time ever, during the world recession of 2009, the IMF made available some \$283bn-worth of reserves for all member countries, with no policy conditions attached. The fund also made some limited credit available without conditions, though only to a few countries. The biggest changes were in the research department, where there was tolerance for more open debate. For example, there were IMF papers that endorsed the use of capital controls by developing countries under some circumstances, and questioning whether central banks were unnecessarily slowing growth with inflation targets that may be too low.

But as can be seen from what is happening in the peripheral Eurozone countries, the IMF is still playing its traditional role of applying the medieval economic medicine of “bleeding the patient”. To be fair to both Strauss-Kahn and the fund, neither the managing director nor anyone else at the IMF is ultimately in sole charge of policy, especially with respect to countries that are important to the people who really run the institution. The IMF is run by its governors and executive directors, of whom the overwhelmingly dominant authorities are the US treasury department, which includes heavy representation from Goldman Sachs, and, secondarily, the European powers.

Until decision-making at the IMF undergoes a dramatic change, we can expect only very small changes in IMF policy. This can be seen most clearly in the current case of Greece: Strauss-Kahn was aware that the fiscal tightening ordered by the European authorities and the IMF was preventing Greece from getting out of recession; but while he pushed for “softer” conditions, he was powerless to change the lending conditions from punishment to actual help. That’s ultimately because the European authorities (European Commission and European Central Bank), not the IMF, are calling the shots – although Strauss-Kahn encountered plenty of resistance within the fund itself, too.

The voting shares of the IMF have changed only marginally, despite all the reforms of the last five years. The share of “emerging market and developing countries” – with the vast majority of the world’s population – has gone from 39.4% to 44.7%, while the G7 countries have 41.2%, including 16.5% for the US (down from 17.0% pre-reform).

But the voting and governance structure is not currently the main obstacle to changing IMF policy. At this point, the developing countries – and we should add in the victimised countries of the eurozone – are not using their potential influence within the fund. Their representatives are mainly going along with the decisions of the G7. If any number of these countries were to band together in a sizeable bloc for change within the fund, there could be some real reforms at the IMF.

Such an outcome can be seen from the last decade of struggle within the World Trade Organisation, where developing countries have often not accepted the G7 consensus, and

have successfully blocked the negotiation and implementation of rules that would hurt them – despite the fact that the WTO rules have been, from the outset, stacked against developing countries. It is true that the WTO operates by consensus rather than a quota-based voting structure, but that is not the key difference between it and the IMF. The key difference is in the role of developing countries and their representatives.

There is talk now of replacing Strauss-Kahn with an open, merit-based process of selection, breaking with the 67-year tradition of reserving the position for a European – most often, a French – official. At the moment, such change does not appear likely to happen. It would be a step forward, but it would be only a symbolic change, and the odds are good that the next managing director – of whatever nationality – will be to the right of Strauss-Kahn. Real change at the IMF is in the hands of the governments of most of the world – but only if they dare to organise it.

The original source of this article is [Guardian](#)  
Copyright © [Mark Weisbrot](#), [Guardian](#), 2011

---

**[Comment on Global Research Articles on our Facebook page](#)**

**[Become a Member of Global Research](#)**

Articles by: [Mark Weisbrot](#)

**Disclaimer:** The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)

[www.globalresearch.ca](http://www.globalresearch.ca) contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)