

ABSTRACT

Title: "IMF Programs, Adjustment and Growth"

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Session: Macroeconomic Stability I

IMF programs have always been controversial. The IMF itself argues that countries faced expenditures in excess of output by excessive amounts (i.e. with an unsustainable balance of payments deficit) have little choice but to make adjustments through expenditure-switching policies. They will need to make some adjustments with or without the IMF. To be sure, some output growth may need to be sacrificed in the short-run, but this is a necessary cost of achieving better growth and a more sustainable payments position for the medium-term. The IMF's critics make points such as the following. The adjustment programs are ineffective achieving neither higher growth nor more sustainable balance of payments positions in the medium-term. Or that a different set of policies would work better: that IMF depends too much on expenditure reduction (and on markets rather than controls) and not enough on supply improvements which take longer to achieve. And/or that adjustment falls unduly on the poor and hence incur social costs that are unacceptably high. Or, to take a different extreme, that IMF programs are a source of international disequilibria – i.e. the existence of IMF resources causes borrowers and lenders to behave more recklessly knowing that there is a safety net to catch them, the so-called "moral hazard" problem.

The proposed paper will examine IMF programs – both the theoretical underpinnings and the experience – and attempt to come to a more balanced view as to their effectiveness. The paper is organized in four main sections. The first discusses the nature of IMF programs: what are the key features of these programs and what are the theoretical and practical considerations determining whether they should work? The second section looks at the evidence about IMF programs. It is divided into two parts, one looking at more casual investigations of the “before and after” of these programs and the other taking up a number of econometric studies covering IMF and other adjustment programs. The third section will evaluate a number of proposals for the reform of the IMF. Again it is divided into two parts, the first examining proposals for changing the nature of IMF programs to make them more supportive of growth and poverty reduction while the second looks at grander redesigns for the role of the Fund, for example as a world central bank of an international bankruptcy court. The fourth section will provide a brief summary and attempt and evaluation of the desirability of various reform proposals.

The research reported in this paper is presented at the International Conference on Economic Recovery and Reforms on October 29, 2002 at the Imperial Queen's Park Hotel, Bangkok, Thailand.

The conference is organized by the Faculty of Economics, Thammasat University and the Bank of Thailand. While the paper focuses on issues that have been recognized by this International Conference, the author(s) is(are) responsible for the views expressed in the paper.