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Fund for nation-rape

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Dominique Strauss-Kahn, the managing director of the International Monetary Fund, is in the news. He is entitled to the presumption of innocence -- but the rape charges against him symbolize the IMF: an institution of privilege that routinely acts to the disadvantage of the vulnerable.

The IMF's founding purpose vanished when the system of fixed exchange rates collapsed in the early 1970s. But instead of closing up shop (no jobs for international bureaucrats in that!), the IMF switched to promoting development. That is, it became a welfare program for Third World governments (and, more recently, for Eastern Europe and even Greece).

The IMF spent decades subsidizing the world's economic basket cases. Few, if any, advanced because of its programs.

Worse, though the loans didn't pay off, they still had to be paid back -- and the IMF routinely imposed harsh austerity plans on borrower governments to ensure repayment, sparking riots around the world.

In theory, the IMF only helped governments that adopted wise policies to allow their economies to advance and grow -- but the agency often got "wise" wrong. It often focused on narrow accounting data, with perverse consequences -- such as forcing governments to raise taxes rather than cut spending.

Even when the IMF pushed for sensible reform, it was rarely a tough taskmaster. New loans routinely followed old, failed ones. For example, Peru negotiated 17 different programs in one seven-year period.

Years ago, economist John Williamson pointed to the problem of the IMF feeling pressure "to lend money in order to justify having it." Indeed, the IMF seems to measure success by making loans.

As a result, its cash often acted as a general subsidy for collectivist economic policies. (Williamson once defended the organization against the criticism that it was too market-oriented by pointing to its loans to several unreconstructed communist states.)

Indeed, the agency proudly disclaimed any bias against collectivist systems, pointing to "programs in all types of economies" which had "accommodated such nonmarket devices as production controls, administered prices and subsidies."

It sometimes seems to favor the most perverse policies. For instance, in the IMF's first 40 years, India collected more money from it than any other developing state -- at a time when India was pursuing a Soviet-style industrialization program.

Today, the organization's record looks less bad simply because there are fewer awful regimes to lend to after communism collapsed. But the fund has become a bailout king in Latin America, Asia and now Europe.

There is an even more insidious problem. The IMF's loans have often likely postponed reform -- allowing governments to keep going without making the tough changes that lead to long-term growth.

That appears to be happening in Greece now -- where the Fund has pushed more lending and a bigger bail-out (to the consternation of Germany, which is picking up much of the bill).

Strauss-Kahn may finally have done a true public service by focusing attention on the IMF. With America drowning in red ink, Washington should stop throwing good money at this pernicious *institution*.

Doug Bandow is a Cato Institute senior fellow; his books include (as co-editor) "Perpetuating Poverty: The World Bank, the IMF and the Developing World."