

THE CRISIS IS BACK, SO IS THE IMF*

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ABSTRACT

In the two decades preceding the year 2000, IMF-directed economic programs and policies increased the vulnerability of the economies of developing countries, and these programs were heavily criticized. All of these criticisms pointed out the need to restructure the Fund to make it more transparent, more unbiased, and more communicative. However, the current global economic crisis has resulted in the resurrection of the IMF in developing-country economies. Iceland, Hungary and the Ukraine applied to the Fund for Stand-By Arrangements, with conditionality clauses, supported by loans. However, they should keep in mind that it is generally accepted that IMF-supported programs have anti-growth effects; that irrespective of the country's circumstances, the Fund proposes identical remedies; and that the imposition of austerity measures negatively affects the lower-income segments of society. IMF officials frequently ignore the views of the officials of the debtor countries and the Fund's policies create moral hazard problems through the bailing out of international investors. Moreover, enforcing structural reforms without preparing the essential infrastructure and taking the necessary precautions negatively affects the economies of developing countries.

Keywords: IMF Programs, Developing Countries

KRİZ GERİ DÖNDÜ, IMF DE

ÖZET

Yirminci yüzyılın son 20 yılında IMF tarafından hazırlanan ve uygulanan ekonomik programlar pek çok gelişmekte olan ülke ekonomisinin kırılganlığını artırmış ve ağır eleştiriler almıştır. Bu eleştiriler IMF'nin daha şeffaf ve tarafsız bir şekilde yeniden yapılanması gerektiğine işaret etmişlerdir. Ancak mevcut ekonomik kriz ile birlikte IMF gelişmekte olan ülke ekonomilerinde tekrar canlanmaktadır. İzlanda, Macaristan ve Ukrayna krizin etkilerini azaltmak amacıyla IMF ile yapısal değişim koşulları içeren ve IMF kredileriyle desteklenen Stand-By anlaşmaları yapmışlardır. Bu ülkelerin göz ardı etmemeleri gereken gerçekler vardır: IMF programları ekonomik küçülmeye yol açar, farklı ülke koşullarına rağmen benzer reçeteler sunulur ve toplumların dar gelirli kesimleri daraltıcı politikalarla zarar görür. Ayrıca program uygulayan ülkelerdeki yetkilileri göz ardı etmesi ve uluslararası yatırımcıların kriz yaşayan ülkelere zarar görmeden ayrılmasını sağlaması IMF'nin eleştirildiği diğer konulardır. IMF programlarıyla dayatılan yapısal reformların gerekli altyapı hazırlanmadan hayata geçirilmesi program uygulayan ülke ekonomilerini olumsuz etkilemektedir.

Anahtar Kelimeler: IMF Programları, Gelişmekte Olan Ülkeler

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1. INTRODUCTION

The International Monetary Fund (IMF), founded with the aim of guarding global economic stability, turned out to be a global crisis maker after the collapse of the Bretton Woods system. In the last two decades preceding the millenium, IMF-directed economic programs and policies increased the vulnerability of the economies of developing countries. In some of these countries, such as Mexico in 1994 and Turkey in 2001, IMF-led programs paved the way for full-scale economic crises. In other instances, the Fund contributed to the severity of crises through its inappropriate remedies, the South East Asian crisis being the latest example of such an intervention and the subsequent impacts to the economies of the region.

After these failures, the need for restructuring of the IMF became a hot topic of debate between the years 2000 and 2008. Not only critics of the IMF but also the Fund itself admitted the need for restructuring.¹ The IMF, which has not been an active player in the world economy for the last eight years, appeared on the scene once again with the occurrence of the current economic crisis. The current crisis, seen as the most serious international economic crisis since the Great Depression, is certainly different from the emerging-market-crises of the late 20th century. It originated in the developed world, but its swift suffusion resulted in new IMF programs and packages for the developing world. The limited financial resources of the IMF, amounting about US \$ 250 billion, are insufficient to help ease the pains of the developed world. However, the developing economies, experiencing capital outflows as a result of this crisis, turned their faces to the Fund for immediate financial help. Iceland, the Ukraine and Hungary are three of the countries which have applied to the IMF thusfar, and Pakistan has made clear her urgent need for financial help from the IMF.²

The aim of this paper is not to evaluate the current economic crisis but to bring back to mind the general characteristics of IMF-led economic programs and the effects of these programs on the crises that have hit the developing world in the past. IMF programs have frequently aggravated the destructive effects of crises, and furthermore, the failure of the Fund in preparing appropriate economic programs, based on the specific needs of individual countries, has been recognized within IMF circles as well. It is generally accepted that IMF-supported programs have anti-growth effects; that irrespective of the country's circumstances the Fund proposes identical remedies; and that the imposition of austerity measures negatively affects the lower-income segments of society. Moreover, officials of the IMF often do not

¹ In April 2008, the Fund announced that it completed the voluntary separations phase of its organizational restructuring and it "would move forward speedily with its refocusing to strengthen its services to its global membership and to enhance its effectiveness." (IMF, 2008a:1).

² Hungary agreed to sign a Stand-By Arrangement, and on November 6, 2008 the IMF approved a 17-month SDR 10.5 billion Stand-By Arrangement for Hungary; Iceland agreed on an economic program supported by SDR 1.4 billion (US \$ 2.1 billion); and with the Ukraine, the IMF approved a two-year Stand-By Arrangement for SDR 11 billion (about US \$ 16.4 billion) (IMF, 2008b:1; IMF, 2008c:1; IMF2008e:1, IMF 2008f:1). During the publication process of this paper, the number of countries which applied for the IMF support rose, and in April 2009 G-20 countries decided to increase the resources available to the Fund to US\$ 1 trillion.

take the views of the governments of developing countries into consideration, and the Fund's policies create moral hazard problems through the bailing out of commercial banks and international investors.

2. THE IMF-SUPPORTED ECONOMIC PROGRAMS AND THEIR EFFECTS

The International Monetary Fund was founded in 1945. It was a product of Bretton Woods, however, it continued to survive after the collapse of the Bretton Woods system. The Articles of Agreement of the IMF state the purposes of the fund as follows (Zhang, 1998: 102-103):

- i. "To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- ii. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- iii. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- iv. To assist in the establishment of a multilateral system of payments in respect of current transaction between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- v. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- vi. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members"

Originally, the IMF was founded with the expectation that it could fulfill the duties of an organization that was needed for global economic stability. It was expected to "serve as the guardian of a system of 'fixed, but adjustable' exchange rate to prevent 'beggar-thy-neighbor' trade policies, and competitive devaluation" (Krueger, 1998: 1984). After the collapse of the Bretton Wood system, which was based on fixed exchange rates, IMF's ideology and its role in the world economy changed. It lost its major function as the guarantor of the fixed exchange rates among developed countries. According to Stiglitz, who has been one of the most prominent critics of the fund in recent years, although the IMF was "founded on the belief that markets often worked badly, it now champions market supremacy with

ideological fervor. Founded on the belief that there is a need for international pressure on countries to have more expansionary economic policies--such as increasing expenditures, reducing taxes, or lowering interest rates to stimulate the economy—today the IMF typically provides funds only if countries engage in policies like cutting deficits, raising taxes, or raising interest rates that lead to a contraction of the economy” (Stiglitz, 2002: 12-13). The demand for the IMF loans by advanced countries, which have access to other sources of credit, is low. Considering the fact that the last industrial countries that borrowed from the Fund were Italy and the U.K. in 1977, Spain in 1978, and Portugal in 1983, it would not be wrong to argue that in the last three decades Fund’s activities have been concentrated on underdeveloped and developing countries (Fischer, 1997: 23).

The IMF has always been criticized, but the intensity of the criticisms increased after the crises that hit different parts of the world economy in the second half of the 1990s.³ In this study, we present some of these criticisms. There is already a wealth of literature about the failures of the IMF, about the need to restructure it, and about the need for new international financial institutions. On the other hand, there is also a group of economists that supports the IMF and its pro-market ideology.

Generally, countries do not apply to the IMF unless there is a serious crisis situation. Lawrence Summers who served as the US Treasury Secretary from 1999 to 2001 describes the path of a developing country to an IMF program as going through stages reminiscent of the five stages of grief. “First, there is the denial that a crisis could be taking place. Second, we see anger, with a rush to blame speculators and other outside forces, and after domestically a change in government. Third, there is the bargaining: the desperate search for magic bullets that we saw, for example, in the pressure for a currency board in the depth of the crisis in Indonesia. Fourth comes despair, leading eventually to the decision to call in the IMF. Finally, in the fifth stage, there is acceptance and the agreement of a credible plan.” (Summers, 2000: 11). According to Barro and Lee, as of 2002⁴, a total of 725 programs were approved by the Fund over the last three decades. Of these 725 programs, 594 of them were short term and mid-term Stand-By Arrangements (SBA) and Extended Fund Facility (EFF) programs. In the 1980s, after the Latin American debt crisis, the number of short-term programs increased substantially. The number of programs declined in 1990s, but since larger countries such as Mexico, South Korea, Russia, Brazil, Argentina and Turkey, experienced financial crises the size of the loans increased considerably (Barro and Lee, 2002: 8). In the following pages, I aim to mention the Fund’s involvement in the economic programs that aim to stabilize the economies of individual countries, and to present arguments against and in favor of the Fund’s actions.

³ The most important crises of that period are the East Asian Crisis in 1997 and the Russian Crisis of 1998.

⁴ Since IMF has been quite silent since the crisis in Turkey, there can not be a considerable increase in the number of the programs approved by the Fund.

The two basic IMF programs, which were designed to deal with balance of payments' problems of the member countries are Stand-by Arrangements (SBA) and Extended Fund Facility (EFF). The typical SBA covers a period of 1 to 2 years. The legal maximum is 3 years. The first tranche drawings do not require strict conditionality, but the other drawings require strict conditionality. The repayments are scheduled between 3¼ and 5 years from the date of borrowing. The EFF programs were introduced in 1974 and the aim was to supply large amounts with longer term financing. They usually cover a period of 3 years and repayments are scheduled between 4 ½ and 10 years. Since the SBA and EFF programs do not cover very low-income countries, in order to provide long-term loans at subsidized rates to poor countries the Fund developed different lending programs. In 1986 the Structural Adjustment Facility (SAF) and in 1987 Enhanced Structural Adjustment Facility (ESAF) were established for this purpose. In 1999, the ESAF was replaced by Poverty Reduction and Growth Facility (PRGF). Since the interest rate charged for these programs is 0.5 percent and repayments are scheduled between 5 to 10 years after a five year grace period, they can be seen as aid activities rather than lending. In 1997, Supplementary Reserve Facility (SRF) was introduced. The aim was to provide the countries in crisis with short-term loans in large amounts at penalty rates. These loans were subject to policy conditionality. In April 1999, Contingent Credit Line (CCL) facility was introduced with an aim to enable the IMF to use its financial power to prevent crises in relatively sound economies (Hutchison, 2001: 9; Barro and Lee, 2002: 7-8; Fischer, 1999: F571). On October 29, 2008, the Executive Board of the IMF "approved the creation of the Short-Term Liquidity Facility (SLF) to establish quick-disbursing financing for countries with strong economic policies that are facing temporary liquidity problems" arising from developments in external capital markets (IMF, 2008d: 1).

Fischer states that IMF programs are designed to restore balance of payments viability. More generally, Fund programs are designed to restore macroeconomic stability, which is seen as a necessary condition for economic growth. Unlike Stiglitz, who argued that the IMF imposes its policies on countries in trouble, Fischer puts forward that programs are negotiated between the IMF staff and the government of the member country (Fischer, 1997: 23-24; Stiglitz, 2000a: 3). It was stated that the role of the IMF changed after the collapse of the Bretton Woods system, and that the IMF, despite its name, placed fiscal measures at the heart of the stabilization programs (Fischer, 1997: 24). For a country that suffers from high inflation, the balance of payments problem or a large fiscal deficit, fiscal tightening is an indispensable part of a Fund program. In this case, it is not a surprise to see the general agreement among economists about the Fund's success in improving balance of payments situations. Krueger, by referring to Edwards, states that, "the existing empirical evidence indicates that when compared with the years prior to the program or with a control group, IMF programs have resulted on average in: (1) an improvement in the balance-of-payments situation; (2) an improvement in the current-account balance; (3) a slight—although not necessarily significant—reduction in inflation; and (4) a short-run deduction in output growth (Edwards, 1989: 32)" (Krueger, 1998: 1993).

Similar results are presented by Haque and Khan in a survey summarizing the results of a number of cross-country empirical studies. They state: “The results of most of the cross-country empirical studies indicate that IMF-supported programs lead to an improvement in the current account balance and the overall balance of payments. Several recent studies indicate that the rate of inflation falls, but this change is generally not found to be statistically significant. In the case of growth, the consensus seems to be that output will be depressed in the short-run, but over time growth begins to rise”. They conclude that the “newer empirical results indicate that IMF-supported adjustment programs have been more effective in achieving their objectives than earlier analyses suggest” (Haque and Khan, 1998: 3, 19).

Fiscal austerity must result in improvement in current account and balance of payment situations. Therefore, in order to assess the success of IMF-supported programs other factors must be taken into consideration. Empirical evidence does not say much about the programs’ effects on inflation, and a short-run fall in growth is another common finding. It should be kept in mind that an increase in growth in the long run does not have to be the result of the Fund-supported program. Rather, it can be an increase despite the program. The list of the criticisms⁵ presented by Krueger can be helpful to assess the overall effects of the IMF-supported programs. The list includes (Krueger, 1998: 2000):

- i. the proposition of identical remedies irrespective of the country’s circumstances (i.e., one-size-fits-all approach),
- ii. the anti-growth effects of the programs,
- iii. the negative effects of the programs on the lower-income segments of the society,
- iv. the imposition of austerity on member countries through stabilization programs,
- v. the bailout of commercial banks and so the creation of moral hazard problems,
- vi. the market-oriented, free-enterprise philosophy of the Fund that ignores alternative solutions,
- vii. the lack of concern about the views of the governments of the developing countries; and
- viii. the lack of influence over the governments of the rich countries.

The one-size-fits-all approach of the Fund was highly criticized after the East Asian Crisis. The differences between Latin American and East Asian economies emphasized by many economists, and the similarity between the IMF’s receipts were put forward as the reason for the Fund’s failure in handling the East Asian crisis. In discussing the one-size-fits-all approach of the Fund, Fischer argues that

⁵ Krueger referred to Crook, Clive, 1991. “Survey: *The IMF and the World Bank*” *The Economist*.

“despite the frequent charge that the IMF adopts a one-size-fits-all approach, its programs support a remarkable variety of exchange-rate systems, from currency boards to free floating” (Fischer, 1997: 26). Similarly, Eichenbaum states that the evidence against the claim that “the IMF staff blindly applies the same simplistic Formula to all crises” is overwhelming (Eichenbaum, 1999: 122-123). Actually, the differences between two Turkish economic programs, which were initiated in December 1999 and May 2001, confirm what Fischer says. However, this does not say anything about the competence of the Fund. Trial and error is not a good strategy for the economies of developing countries.

Dornbusch points out that economic crises are not merely financial experiences. They involve large and lasting social costs. They bring about important redistribution of income and wealth problems (Dornbusch, 2002: 743). Therefore, the failure of a stabilization program can have long lasting negative social and economic effects on a society. Regarding the approach of the IMF, Stiglitz states, “It is important not only to look at what the IMF puts on its agenda, but what it leaves off. Stabilization is on the agenda; job creation is off. Taxation, and its adverse effects are on the agenda; land reform is off. There is money to bail out banks but not to pay for improved education and health services, let alone to bailout workers who are thrown out of their jobs as a result of the IMF’s macroeconomic mismanagement” (Stiglitz, 2002: 81). All the factors that are left off of IMF’s agenda affect the lower income segments of the societies. In addition, there is a general consensus that the Fund programs retard economic growth in the short run. The insistence on austerity results in recessions. The need for designing programs to increase growth over the medium term was also mentioned by IMF officials (Fischer, 1997: 26). The enormous fall in the rate of growth in Turkey in 2001 supports the validity of this criticism. However, in case of a currency crisis, Eichenbaum argues, in order to stabilize the current account, contractionary monetary and fiscal policies are the most effective ways. Therefore, criticising the IMF because it encouraged to pursue contractionary policies in case of currency crises lacks any scientific basis (Eichenbaum, 1999: 122-123). Similarly, Kenneth Rogoff, who served as Economic Counsellor and Director, Research Department of the IMF from August 2001 to September 2003, defends the IMF by arguing that the austerity claims are wrong. According to Rogoff, thanks to the IMF loans a distressed debtor nation tightens its belt less than it would have to in the absence of those loans (Rogoff, 2003: 40).

The IMF has been frequently charged with bailing the banks or countries out in case of a crisis. Eichenbaum argues that the Fund, by providing loans at below-market rates, does it indirectly. The IMF “helps provide the political cover for governments to raise the resources required to pay off loans and carry out bank bailouts. Unfortunately, the people who benefit from the bailouts aren’t the ones whose taxes are ultimately raised.” (Eichenbaum, 1999: 123-124). The debt crisis that hit the Mexican economy in 1982 created a belief on behalf of commercial

bankers that IMF would always bail them out.⁶ As a result of this belief, they did not feel the need for risk analysis before supplying credits for developing countries. Krueger states that “as contrasted with holders of equity or bonds, commercial banks do seem to have emerged with few losses” (Krueger, 1998: 2014). IMF bailouts clearly give rise to moral hazard; because the bailout, says Stiglitz, attenuates “incentives for lenders to engage in due diligence in their lending and for borrowers to have adequate cover for risks of Exchange rate changes” (Stiglitz, 2000b: 1462). Fischer defines the moral hazard concern as “a successful Fund loan -a bailout, in language that is often as misleading as it is vivid-will lead investors to exercise less caution than they should, in the belief that the Fund will always be there to ensure that they are repaid.” He states “the language is misleading in implying that the primary purpose of a Fund loan is to bail out the investors rather than help the country deal with a crisis 'without resorting to measures destructive of national or international prosperity'. It is also misleading in that most investors in all the recent crises have suffered very large losses. Nonetheless, the moral hazard concern is valid, and it is one good reason to seek to bail in the private sector.” (Fischer, 1999: F572). In the Turkish case, for example, international banks’ bad loans to Turkish banks were guaranteed by the Turkish treasury as a result of a provision imposed by the IMF in the additional stand-by agreement in December 2000 (Yeldan, 2001: 7). As stated by Eichengreen, those kinds of actions shield the private sector from losses, and this leads to more reckless lending. He puts forward that in the presence of government guarantees, international banks will be attracted by the high interest rates offered by emerging markets without being concerned about the risks of their lending (Eichengreen, 1999: 14, 42). The existence of these bailouts and government guarantees may be helpful to understand Goldberg’s results. She argues that even in periods of international financial crisis, significant or extensive retrenchments of the international claims of the U.S. banks are not observed (Goldberg, 2002: 173).

The market-oriented, free-enterprise philosophy of the IMF is another criticism that the IMF faces. According to Stiglitz, many cases of success stories around the world are the outcomes of policies, which were different than what the Washington consensus proposed. The main elements of the Washington consensus were fiscal austerity, privatization and market liberalization (Stiglitz, 2002: 53, 88). However, the developing countries, which have had high growth rates in the last two decades, have dirigist economic systems.

Although it has been argued that IMF programs are the products of mutual negotiations between the Fund and the member country, it is generally agreed that the Fund, which is the powerful side of the negotiations, imposes its actions on member countries. The IMF support comes with conditionality clauses.⁷ The Fund releases the loan in tranches so that it can control the behavior of the debtor

⁶ Mexico’s 1982 announcement that it would not be able to service its foreign debt started that decade’s Third World debt crisis and it turned the IMF into a debt-management agency. The era of officially led bailouts began after the Mexican debt crisis (Vasquez, 2002:545).

⁷ In case of the most recent Stand-By Arrangements with Iceland, Ukraine and Hungary also the support is accompanied by conditionality clauses.

governments (Rosas, 2006: 180). However, there are economists like Rogoff who argue that economic policy conditions attached to the IMF programs are not that bad, because those conditions actually replace the stricter discipline that would be imposed by the market forces (Rogoff, 2003: 40). In the negotiation process, the IMF ignores the views of the governments. It does not give enough time to the governments to consult with either parliament or with the organizations of civil society. However, in many cases, the economists of developing countries are "brighter and better-educated than the IMF staff." Moreover, their knowledge about their own countries is better than that of the IMF staff that "frequently lack extensive experience in the country" (Stiglitz, 2000a: 4). A similar point was also made by the Independent Evaluation Office of the IMF in its 2003 report. The Independent Evaluation Office (IEO), which was established by the IMF's executive Board in 2001 and which operates independently of the IMF's management, published an evaluation report in 2003. The report is basically about three recent capital account crises which took place in Indonesia, Korea and Brazil. It includes some general recommendations for the IMF, and the criticisms of the IMF's actions which can be useful for the purpose of this study. One of the recommendations is to take additional steps to increase the impact of surveillance. These steps include making staff assessments more honest and more accessible to the public and exploring the possibility of seeking second opinions from outside of the IMF. The report also implies that the IMF staff lack political economy skills which can be crucial in preparing and implementing programs. Another recommendation is to make changes in program designs. The programs should include possible risks and responses in case of unfavorable outcomes. (IMF, 2003: 51-54).

According to the IMF, it has contributed to the sustainable growth of its member countries by maintaining the stability of the international exchange and financial system, and by providing financial support and policy advice. However, one of the criticisms is that the Fund expanded its activities into too many unproductive areas and it caused more harm than good (Barro and Lee, 2002: 3). IMF programs include not only stabilization measures, but also structural reforms. Trade liberalization, price liberalization, privatization, the introduction of indirect means of monetary control, foreign exchange market liberalization, banking system restructuring, tax reform, subsidy cuts and changes in the structure of government spending are among the proposed structural changes (Fischer, 1997: 25). These structural elements of the Fund's program have also been subject to critics. The pace and order of these structural changes have serious effects on countries' futures. The actions of rapid privatization without preparing the necessary infrastructure relating to the issues of competition and regulation can result in private monopolies. As put forward by Stiglitz, the pace and manner of privatization policies that were vigorously pushed by the IMF are prone to incur very real costs on ill-equipped developing countries (Stiglitz, 2002: 54). Trade liberalization attempts that are urged before taking the necessary precautions to avoid mass unemployment in the affected sectors can bring serious social problems. The liberalization of capital markets without a strong financial sector has been and still is very likely to cause crises in many countries. The IEO report suggests that crises should not be used as

opportunities to force the governments to make urgent structural reforms in areas which are not directly related to crises (IMF, 2003: 53).

The largest 8 shareholders of the IMF are United States, Japan, Germany, France, United Kingdom, Saudi Arabia, China and Russia. The US holds 17.5 percent of the total IMF quotas. Japan holds 6.3 percent, Germany 6.1 percent, France 5.1 percent, UK 5.1 percent, Saudi Arabia 3.3 percent, China 3 percent and Russia holds 2.8 percent of the IMF quotas. The major shareholders have strong influences on the main decisions of the Fund. The important decisions require voting majorities of 85 percent. Therefore, US alone, and a group of three European countries have a veto power at the IMF. Under these circumstances it may be argued that IMF can function as a political organization controlled by its major shareholders, and more specifically it plays the roles which suited best to the national interests of the US. During the Cold War era, the countries which were important for the US for political reasons received IMF support, even though they did not show enough efforts to realize the required reforms. Argentina, Egypt and Zaire are the examples⁸. To put it in another way, a country, which has close ties with the major shareholders, is more likely to receive the IMF support. After the 1994 Mexican crisis, the loan received by Mexico amounted to \$US 17.8 billion, which was equal to 688 percent of Mexico's quota at the IMF.⁹ The influence of US over the IMF played an important role in securing this loan. In short, the greater political proximity and greater economic relations with the US or the European countries increase the probability and the size of the IMF loan programs (Barro and Lee, 2002: 5, 6, 12, 13, 31).

The IMF is forcing the member countries to increase transparency of their actions and policies. The Fund even produces transparency reports describing the extent to which a member country meets the standards for policy or data transparency. However, the IMF itself has a transparency problem. At the very beginning of IEO evaluation report it is stated that, "Some of the documents cited and referenced in this report were not available to the public at the time of publication of this report. Thus, they have not been listed in the bibliography. However, under the current policy on public access to the IMF's archives, some of these documents will become available five years after their issuance. . . . Certain other documents are to become available ten or twenty years after their issuance depending the series" (p. vi). This explanation reveals clearly that there is a transparency problem with the IMF. The IMF is making some negotiations with some governments, and some of the documents related to these negotiations are hidden from the general public of these countries. Given that governments in democratic countries are not the permanent operators of the state apparatus, their power of making hidden negotiations with an international financial institutions is

⁸ Being an economically weak NATO member Turkey has always been under the IMF surveillance, and it was bailed out by the IMF after the crisis that hit at the end of the 1970s.

⁹ The amount provided Turkey after the November 2000 crisis was equal to 600 percent of Turkey's quota in the IMF (IMF, 2001:1). The amount of the loan, agreed between Iceland and the IMF recently, is equal to 1190 percent of Iceland's quota in the IMF (IMF, 2008b:1); and the loan amount is equal to 1015 percent of her quota in Hungary's case (IMF, 2008f:1).

questionable. However, this secrecy affects not only the governments' liability, but also public confidence in the IMF. One of the suggestions of the IEO is that staff reports for Article IV consultations should be published so that the general public would be informed about the underlying rationale of the reforms that might be forced by the IMF. Moreover, the report states that the IMF programs should allow communication between the Fund, the governments, the public, and the other economic agents. Furthermore, in order to increase the degree of transparency, the letters of intent and any unfavorable information should be made public immediately (IMF, 2003: 52-53).

3. CONCLUSION

The IMF was founded in 1945 with the expectation that it could fulfill the duties of an international organization which could secure global economic stability. However, in the last three decades the Fund's activities have been concentrated on underdeveloped and developing countries. After the crises that hit different parts of the world economy in the second half of the 1990s, the intensity of the criticisms that the IMF faced increased. As a result of the most recent economic crisis which started in the middle of 2007 in the US, and which spread throughout the world in the following months, the IMF, which had been largely inactive since the beginning of the new century in the world economy, has recently been resurrected in the developing world. Iceland, Hungary and the Ukraine, which felt the negative effects of the crisis heavily, knocked on the IMF's door for technical and financial help. Nevertheless, the governments of these nations should neither forget nor ignore the effects of the IMF programs applied previously in different developing countries. Although IMF officials state that the Fund programs are designed to restore macroeconomic stability in countries with economic difficulties, austerity measures which usually accompany IMF-led programs have long-lasting negative social and economic effects on a society.

IMF programs do lead to an improvement in the current account balance and the overall balance of payments, yet they result in considerable declines in growth rates, especially in the short term. Although the Fund was founded on the belief that markets are prone to fail, its current actions are based on the belief of market supremacy. Due to the bailouts of commercial banks and international investors in the aftermath of crises, it is believed that the IMF programs create moral hazard problems. On the one hand, the Fund lacks influence over the governments of developed countries, while on the other hand, it zealously imposes its policies on Program countries. In addition to stabilization measures, IMF programs include structural reforms. However, enforcing structural reforms without preparing the essential infrastructure and taking the necessary precautions affects the developing-country-economies negatively. All of these criticisms, at the beginning of this century, pointed out the need to restructure the Fund in a way to make it more transparent, more unbiased and more communicative.

Before concluding this study, it should be stated that according to pro-IMF circles, criticizing IMF programs is easy, because it is difficult to determine what would have happened if there had not been such a program. As DeLong puts it, "Is

IMF support in a crisis a cure or a cause?...What if the IMF had lent more? What if it had lent less? What if it had imposed stricter conditions? What if it had been more lenient? And so on. Yet none of these counterfactual worlds are available for our inspection.” (DeLong et.al., 1999:257). Haque and Khan’s article covers studies that aimed to compare the actual outcomes of the programs with the counterfactual. But the counterfactual never happens in real life. The conflicting results of the studies covered by Haque and Khan show that it is never possible to answer the question of what would have happened in the absence of a Fund program. Since we are living in a world of uncertainty, the ex-post failure of a program cannot be assessed as a wrong choice ex-ante.

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