What's Wrong with the International Monetary Fund?

Civil Society Concerns

The Asian financial crisis and the continued poverty in the poorest countries are yielding sustained and increased criticism of the International Monetary Fund (IMF). Citizen groups have attacked the IMF's impact on the environment and people, and criticized its secretive decision-making process. Many critics have also pointed to the IMF's long history of "mission creep", the IMF's perpetual attempts to expand its power and influence over policy making in its borrowing countries. Once a "financial stabilizer" for countries facing short-term external imbalance, the IMF now prescribes policy in a wide range of areas, and for countries facing longer-term structural problems and development challenges. This has moved the IMF far away from its original function. This role expansion has happened without adequate improvements in the IMF's transparency and accountability, and has led to programs that harm the environment and people.

Environmental Destruction, Increased Poverty

The environment is one of the IMF's biggest casualties. The IMF turns a blind eye to the economic and social value of natural resources. Its focus on free trade and export-led growth leads countries to liquidate these natural resources as a quick way to earn foreign exchange. Its emphasis on balanced budgets leads to government cutbacks, and conservation programs are often the first to suffer. The IMF also places a premium on foreign investment, which encourages countries to lower environmental standards so they can attract more business.

While the IMF cites "reduction of world poverty" as one of its goals, its policies actually hurt the poor and exacerbate social inequality. IMF-mandated spending cuts lead to governments' elimination of social programs. They also lead to cost-recovery programs that increase the price of social services, putting health care and education out of reach for the poor. The IMF also encourages privatization, which is often governed solely by short-term revenue concerns. In many cases this has led to conversion of government enterprises into private monopolies, run by elites or foreign interests without local ties.

IMF policies also hurt workers around the world. The IMF has adopted a mantra of "labor market flexibility"—a euphemistic way of saying deregulation—as the way to encourage foreign investment and make countries more competitive. Deregulation leads to the abolishment of minimum wage and collective bargaining laws, so the poor end up working longer hours for less pay. It has negative effects on the economy as a whole: underpaid workers have little purchasing power, which contributes to shrinking of the economy, particularly for small- and medium-sized businesses. Workers in industrialized countries also suffer. Not only are they are forced to compete with cheap labor from developing countries, they also face a decline in demand for Northern consumer good in those same poor countries.

Governance for the Rich by the Rich

The IMF's "one dollar one vote" decision-making structure makes it an institution governed by and for rich countries. The world's seven wealthiest nations, the Group of 7, control nearly half the votes of the IMF Board of Directors. They use their clout to influence the IMF's policies, making them meet the needs of rich nations and not poor ones—the institution's main clients.

The IMF only responds to a select group of interests in its borrowing countries. It negotiates programs with a handful of government officials, usually from the finance ministry, central bank, and sometimes the planning ministry. The IMF excludes environmental ministries and members of parliament, even though they are affected by and expected to implement loan conditions. This process is fundamentally undemocratic.

The people who govern the IMF unduly influence what the institution discloses to the public. While the IMF makes more information about its programs publicly available than it used to, it remains secretive and unaccountable. It only releases loan documents after the loans have been approved, preventing the public from giving input. Board of Directors deliberations are secret and many staff reports and assessments are private.

The IMF has no independent, evaluation body to systematically assess the effectiveness of its policies and programs. The Board of Directors commissioned three external reviews since 1996, but it also determined the evaluators, the topics for review, and the terms of reference. The lack of an empowered, independent evaluation unit is a glaring gap in accountability for a publicly funded institution.

Until the IMF adopts major changes in the way it does business—reforming both its environmentally and socially shortsighted policies and its secretive decision-making processes—citizen groups will continue to protest.

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