Économie et institutions

23 | 2015
Varia

From IMF to the Troika: new analytical framework, same conditionalities

Daniela Magalhães Prates and Maryse Farhi

Electronic version
URL: http://journals.openedition.org/ei/5680
DOI: 10.4000/ei.5680
ISSN: 2553-1891

Publisher
Association Économie et Institutions

Electronic reference
Daniela Magalhães Prates and Maryse Farhi, « From IMF to the Troika: new analytical framework, same conditionalities », *Économie et institutions* [Online], 23 | 2015, Online since 30 December 2015, connection on 01 May 2019. URL : http://journals.openedition.org/ei/5680 ; DOI : 10.4000/ei.5680

This text was automatically generated on 1 May 2019.

Revue Économie et institutions

From IMF to the Troika: new analytical framework, same conditionalities

Daniela Magalhães Prates and Maryse Farhi

1. Introduction

1 [1]The IMF, originally one pillar of the Bretton Woods system, has assumed a more important role after this international agreement collapsed in 1973. Since the 1980s, one of the main functions of this multilateral institution has been bailing out countries during financial crises with emergency loan packages tied to conditionalities, often referred to as structural adjustment policies. As Andrade and Prates (2013) highlighted, these crises have become recurrent in the contemporary international monetary system, based on the fiduciary dollar as the key currency, on the top of the currency hierarchy, the floating exchange rate regime and almost free capital mobility.

2 The interplay of these features has fostered financial market integration and financial innovations (securitization, derivatives, etc.), leading up to the financial globalization setting, marked by higher volatility of capital flows, exchange rates, interest rates and assets prices, and a high degree of contagion, with financial turbulence spreading from the epicentre of the system to its periphery. These volatility and contagion, in turn, have a greater impact exactly on emerging economies[2] whose currencies do not perform any function of money in the international scale. Therefore, the features of the current international monetary and financial system have reinforced the asymmetries between the issuer of the key-currency and these countries, among which stand out the smaller policy autonomy and the higher vulnerability to external financial shocks[3].

3 It is possible to identify two different moments of the IMF´s performance in the post-Bretton woods era. The first one, from 1980 to the end of the XXth century, was mainly focused on emerging economies. The IMF made loans to countries in economic distress

conditioned to the implementation of certain economic policies, namely, the aforementioned conditionalities. These policies usually encompassed the following elements: reducing government borrowing by higher taxes and lower public spending, higher interest rates, structural adjustment by way of privatization, financial deregulation, and the capital account liberalization. Then, over that moment, the IMF had also the key role of spreading the Washington agenda through the imposition of these neoliberal reforms. These reforms, in turn, were also essential to the insertion of emerging countries in the financial globalization, among which stand out the last one, i.e, the financial openness. Yet, after the financial crisis of many Latin-American and Asian countries in the second half of the 1990s, early 2000s, the IMF has begun to recognize the volatile nature of capital flows and the role of external factors in emerging countries financial crises. At the same time, it has switched its preference from pegged exchange rates to floating exchange rates.

4 The second moment came in the aftermath of the global financial crisis of 2008, which has triggered the Eurozone crisis in 2010. Indeed, the IMF went through an "identity crisis" the years before the crisis, especially from the mid-2000s, when most of emerging economies paid off their debts (with this institution and private creditors) and emerged as creditors in the global economic system due to the policies of reserve accumulation as self-insurance balance of payment strategies. Indeed, to a great extent, these policies came as a response towards the trauma of having to resort to the IMF when they faced financial crises in the late 1990s.[4] In 2008, emerging countries accounted for 65 per cent of global reserves, against only 28 per cent in 1990 (Vernengo and Ford 2014, Aizenman, Lee and Rhee 2004; Rodrik 2006; Carvalho 2010).

5 Therefore, differently from previous crises episodes, these countries did not need to get IMF loans and were able to launch countercyclical policies in response to the crisis´ contagion despite their lower policy autonomy due to the position of their currencies at the lowest level of the currency hierarchy. Moreover, they also contributed to augment the resources available for the IMF's rescue packages. For instance, in April 2009, the G20, which encompasses the main emerging countries, committed US$ 750 billion directly to the IMF. Many of these countries also contributed to the new credit line launched at the height of the global crisis (New Arrangements to Borrow - NAB), increasing the available resources that contributed to the IMF sign some 35 new agreements since 2010 (Nissan 2015; Vernengo and Ford 2014).

6 In that second moment, the IMF was invited to take part in the operations to rescue the vulnerable economies within the eurozone, also sharing it´s financial burden. In this setting, the IMF joined forces with the European Central Bank (ECB) and the European Commission (EC) to form the so called Troika; or acted alone when loans were needed by countries outside the eurozone. The conditions imposed to all the rescue packages hired by European countries were pretty much the same as in the previous moment. However, the IMF analytical framework underwent changes in the quest to understand mainstream's macroeconomics failure to provide a suitable set of instruments to avoid and/or fight the global financial crisis as well as to deal with the new policy dilemmas developed and emerging countries faced in the post-crisis setting, among which the new boom of capital flows.

7 Hence, two intertwined questions arise regarding the IMF performance after the global financial crisis: to what extent the new IMF analytical approach and the related policy prescriptions differ from the ones prevailing before the global financial crisis? Has there

been a disconnection between the changes in the IMF analytical and normative approach and its practice, in other words, the policy conditionalities embodied in the eurozone rescue packages?

8 This paper aims at contributing to address these questions taking into account the US financial hegemony underlying the features of the post-Bretton Woods international monetary and financial system, namely, the fiduciary and flexible dollar at the top of the currency hierarchy and the almost free capital mobility. For that purpose, the IMF analytical and normative framework and the policy conditionalities embodied in its rescue packages are chronologically presented. Section 2 summarizes the evolving of these aspects from the IMF creation in 1944 to the threshold of the 2008 global crisis. Section 3 focuses on the IMF performance after this crisis. The forth section sums up the main conclusions of the paper.

2. Analytical framework and policy prescriptions before the global financial crisis

9 The International Monetary Fund (IMF) was created in 1944 at the Bretton Woods conference, New Hampshire, as one of the elements of the International Monetary System (IMS) in force from 1945 to 1973. This section presents a historical perspective of this multilateral organization from its creation to the threshold of the 2008 global crisis. Firstly, its performance during the Bretton Woods System is summarized, with emphasis on the building of its analytical framework and the emergence of conditionalities. Secondly, the role of the IMF from the collapse of Bretton Woods to 2007 is assessed.

The IMF under Bretton Woods: the adjustment approach and the emergence of conditionalities

10 The negotiations that came out with the so-called Bretton Woods system were based on the White and Keynes plans, presented, respectively, by United States (US) and United Kingdom (UK) representatives (Harry Dexter White and John Maynard Keynes) (De Vries 1987; Steil, 2013). The two plans had similarities, such as the support of capital controls, stable exchange rates and multilateralism in face of the interwar experience of destabilizing capital flows and competitive devaluations. Yet, three issues of discussion and divergence stood out: the international monetary standard; the mechanisms of external adjustment; and the new global monetary institution (Steil, 2013).[5] These divergences, in turn, were consequence of the two plans´ different underlying concepts.

11 The British proposal aimed at assuring policy autonomy for the adoption of national full employment policies. In this case, a liquidity-creation mechanism allowing countries to adopt expansive macroeconomic policies would be needed. Hence, they could face occasional balance of payments´ deficits without losing reserves and contracting domestic liquidity. The US' goals were different. Having emerged from World War II as the only developed country able to preserve its productive capacity and ability to export, the US was afraid of becoming the target of everybody else's exchange rate wars, beggar-thy-neighbor policies, protectionism and trade discrimination, as was the case in the 1930s. Trade liberalization and exchange rate stability, with the creation of cooperative

mechanisms of exchange rate adjustments, were among the most important demands of the United States in the conference (Carvalho, 2009).

12 Regarding all these issues, White´s proposals were victorious. Indeed, the Bretton Woods system mirrored United States´ interests, which emerged from the Second World War as the undisputed capitalist hegemonic power. The dollar convertible in gold became the international standard and the burden of balance of payment adjustment kept on deficit countries. Consequently, the international monetary system was still anchored in a key-currency and featured by a hierarchical and asymmetrical nature. Therefore, Keynes´ desire of establishing a non-hierarchical international monetary order with an international currency (the bancor) administered by a supranational institution (the International Clearing Union) and with symmetrical balance of payment adjustments in surplus and deficit countries continued to be a utopia (Keynes, 1980; Lichtensztejn and Baer, 1987; Skydelsky, 2000).

13 A global institution, the IMF, established along the lines of the International Stabilization Fund of White´s Plan, would promote international economic cooperation, provide its member countries with short term loans to finance current account deficits and authorize changes in its parities in case of “fundamental balance of payment disequilibria” (Lichtensztejn and Baer, 1987). Hence, the IMF would help to soften the external adjustment of deficit countries, avoiding deflationary process and enabling the maintenance of trade with other countries as well as high levels of employment and income, as stated in its Articles of Agreement. In order to fulfill this function, the new institution was endowed with a treasury to which all member countries contributed.

14 As Carvalho (2009) pointed out, the conference left open the crucial question of how exactly should the Fund operate and what the role of its treasury was. During the conference, two views were confronted. On the one hand, Great Britain and most of the participating countries supported that Fund’s resources should be considered a line of secondary reserves to be accessed, at a cost, by countries facing balance of payments deficits in a more or less automatic way. On the other hand, although not clearly spelled out at first, the US, as the only country running a surplus on current account transactions at the time and, by far, the greatest contributor the Fund’s treasury, was worried by the possibility of giving a blank check to deficit countries.

15 The conference did not solve this dispute, which was resumed after the Fund began its operations in 1947. The US insistence on limits to loans to countries running balance of payments deficits finally paid off when the Fund began limiting the duration of the IMF loans and imposing macroeconomic policy conditionalities on borrowers to guarantee repayment at the agreed dates. Therefore, actually, the IMF institutional practices have also mirrored the hierarchical and asymmetrical feature of the Bretton Woods system and US interests.

16 Hence, while the original goals of the IMF, stated in the article 1 of the Articles of Agreement[6], seemed to conciliate the US and UK goals, in practice, the results of the Bretton Woods conference didn’t reflect any kind of compromise. As the most important contributor to the Fund’s endowment, the US positions prevailed, shaping the size of the IMF´s treasury as well as its way of operation.

17 The Fund opened for operations with a volume of financial resources that could rapidly become insufficient to allow member countries to deal with balance of payments constraints. Moreover, soon after its start, the US began insisting, over and over, on the

need of limiting the maturity of loans, worried by the possibility of a quick depletion of the Fund's treasury if borrowers didn't repay their loans fast enough. Another US concern was the use of Fund's resources to prolong the disequilibrium instead of macroeconomic adjusting. But, in order to ensure the efficacy of these time limits on loans, it was necessary to remove any last trace of the notion that access to the Fund's resources was in anyway automatic. The borrowing country would have to give some guarantee that resources would be effectively used to promote a balance of payments´ adjustment in a reasonably short period of time. The notion of conditionalities[7] as well as the Stand By Arrangement (SBA), the Letter of Intent (LOI) and the performance criteria emerged in this context (Carvalho, 2009).

18 During the Bretton Woods System, conditionalities basically consisted of a set of macroeconomic policies that were supposed to reduce domestic absorption and restore equilibrium to the external accounts in case of temporary unbalance. If a fundamental disequilibrium due to "wrong" prices were identified, a change of the par exchange rate could be required. These policies were defined according to a macroeconomic model called financial programming[8], which specified a few macroeconomic identities and an even smaller group of behavioral relations connecting monetary policy variables to the balance of payments components (Carvalho, 2009; De Vries 1987).

19 The theoretical approach underlying the financial programming and the IMF´s programs of stabilization and adjustment in this period was a combination of three approaches: the elasticity approach, the absorption approach and the monetary approach to balance of payment adjustment[9]. The two last ones were mainly developed inside the IMF by economists of the research department, respectively, Alexander (1952) and Pollack (1957). As De Vries (1987, p. 16) explained:

> "The concepts, analytical framework, techniques, and methodologies that the Fund staff has developed over the years have almost always evolved out of an immediate practical problem that a member faced. For many problems, no readily available theory or doctrine applied to which the staff could resort (…) Thus, the staff using its practical experiences, expanded the boundaries of economic knowledge, especially in the 1950s and 1960s. It was, accordingly, in actual cases, that the absorption approach and, a few years later, the monetary approach to the balance of payments adjustment had their roots".

20 Summing up, according to the analytical framework proposed by the Fund, balance of payments deficits arose when macroeconomic policies overstimulate the economy, increasing its absorption beyond its potential output. Hence, the policy conditionalities that were imposed on borrowers consisted mostly of fiscal and monetary contractionary policies. Lower aggregate demand should reduce imports and raise exportable output surpluses, reducing the absorption of real resources and restoring balance of payments equilibrium. Yet, the elasticities approach continued to be reflected in the Fund´s emphasis on a member´s changing its exchange rates as to remain price competitive in the world markets (Carvalho, 2009; De Vries 1987).

21 According to Carvalho (2009), over Bretton Woods regime, the Fund was clearly not reformist. In other words, it did not assume as part of its mission to change the ways borrowing countries set their policies. Adjustment, not reform, seemed to be the Fund's motto.[10] At that time, imposing conditionalities could be better understood as an instrument to guarantee that loans would be repaid. The pressures coming principally from the US executive Directors pointed to the concern with the time a country could take to repay its debts and the postponement of attempts at equilibrating its balance of

payments, rather than a concern with default per se and even less with shaping domestic policies in borrowing countries.

22 Indeed, this adjustment approach was related to the very role of the IMF in that time. The IMF main clients were developed countries and this institution had a marginal role in the provision of international liquidity. The problem of dollar scarcity that featured this system´s first years was actually settled by the successful US´ strategy under the Cold War of supporting the reconstruction of Japan and Western Europe. The Marshall Plan, external procurements and the foreign external investments of US corporations enabled the financing of current account deficits and few countries needed to resort to the IMF (Block, 1980; De Vries 1987).

The changing role of the IMF after the Bretton Woods collapse

23 During the 1970s, the changing international environment due to the collapse of Bretton Woods and the oil shocks brought about changes in IMF´ conditionalities. The resulting balance of payments disequilibria were considered to be too large to be treated by the usual demand management policies that characterized the first decades of IMF's operation. In this context, in parallel to traditional macroeconomic conditionalities, the Fund also defined structural conditionalities, that is, the commitment to changes in the structure of institutions and incentives of the borrowing country (De Vries 1987; Carvalho, 2009).

24 Moreover, the collapse of the Bretton Woods exchange rate rules in the early 1970s freed member countries from the obligation to respect the Fund's determination on the setting of exchange rates. It also led developed countries to appeal to the international financial system for resources, in a context of floating exchange rates, instead of borrowing from the Fund. As a result, the Fund underwent an important change of character: from a cooperative institution, where countries could be lenders or borrowers in different moments, it became a financial intermediary, in which developed countries would only be lenders and emerging countries could only be borrowers (Carvalho, 2009). In the context of the Latin American debt crisis of the 1980s, the IMF became the manager of the negotiations between private banks and borrowers countries.

25 Structural conditionalities significantly increased the degree of intrusiveness on the countries´ political decisions and included the financial openness along with the adoption of other market-friendly reforms, among which foreign trade and domestic financial liberalization, privatization and deregulation of the labour market. Therefore, the IMF programs hired by Latin American countries after the debt crisis of the 1980s and by Latin American and Asian countries during the financial crisis of the 1990s were programs of adjustment (demand-management policies) and structural reforms. In some cases, as in the Asian crises of 1997/1998, conditionalities were extended to cover inclusive industrial policies, bankruptcy procedures, etc.

26 The active promotion by the IMF of "an open and liberal system of capital movements" (Camdessus, 1997: 4) reached its top just before the Asian financial crisis, when the Fund almost changed its Article of Agreement, including the capital account liberalization as a goal that should be pursued by its members, besides current account convertibility. This promotion, in turn, is totally in line with the interests of the United States (still the greatest contributor to the Fund's treasury) in the international monetary and financial system that has emerged after Bretton Woods, featured by the flexible and fiduciary

dollar and high capital mobility. Indeed, capital account liberalization enhanced even further the role of the American dollar as international reserve currency as the US hegemony in the post-Bretton woods era has been anchored in its financial power[11].

27 Ironically, the depth of the Asian crisis, which reached countries which had so far adopted macroeconomic policies in line with those recommended by the IMF, triggered changes in the IMF approach for capital flows to emerging countries. From the beginning of the 2000s, key IMF publications (Rogoff et al. 2004; Kose et al. 2006; IMF 2008) acknowledged the "feast and famine dynamic" of these flows and their potential risks and costs in terms of financial instability and overall macroeconomic volatility, but still gave capital account liberalization a prominent role for its "collateral effects": with open capital accounts, international financial markets could impose discipline on economic policies, unleashing forces that would result in better government and corporate governance and thereby lead to financial development.

28 Even within the camp of capital account liberalization advocates, however, there was a broad consensus that financial globalization should necessarily be combined with prudential financial regulation and risk management, and be carefully sequenced (e.g., Mussa et al. 1998; World Bank 2001). The IMF's "integrated" approach envisages a gradual and orderly sequencing of external financial liberalization and emphasizes the desirability of complementary reforms in the macroeconomic policy framework and the domestic financial system as essential components of a successful liberalization strategy. (IMF 2008, p. 3)

29 However, there were no clear criteria regarding the thresholds of financial liberalization, a criticism the IMF's Independent Evaluation Office[12] also raised (IMF 2005). Financial stability was assumed to be one of the key preconditions for liberalization, as the empirical results suggested, while financial globalization was assumed to be the best way to achieve this goal. In its "integrated" or "sequencing" approach, the IMF at the same time gave financial sector reform top priority when recommending the liberalization of the capital account (IMF 2008, p. 14). However, it remained rather unclear regarding the interdependencies between existing low financial stability, high reform efforts in this field, and simultaneous liberalization of the capital account (Priewe, 2011).

30 Yet, from the financial crisis of the 1990s, early 2000s on, emerging economies have begun to accumulate international reserves as a self-insurance balance of payment strategies (Aizenman, Lee and Rhee, 2004, Rodrik, 2006, Carvalho, 2010). As developed countries did in the 1970s, emerging economies also tried to make sure that they would not have to appeal to the Fund and subject themselves to intrusive conditionalities.

3. Analytical framework and prescriptions after the global financial crisis

31 Over 2004-2007 the IMF had fallen somewhat into disuse and faced an "identity crisis", when many borrowing countries have begun to repay their loans and to accumulate international reserves. Consequently, as pointed by Broome (2014), the IMF's income earned from loan interest and charges fell by 2007 to less than one-quarter of its average income during the period from 1998 to 2005, prompting the IMF to lay off 15% of its staff.

32 Yet, IMF´s fate has been turned around by the recent global financial crisis. From that point on, two unprecedented situations arose: i) the IMF focused its attention on the

advanced economies crisis; ii) it took part in the rescue of some of these economies in cooperation with the European Commission (EC) and the European Central Bank (ECB), the so called Troika - while until then the IMF had acted on its own.

33 While the Fund dealt with emerging economies, it acquired a notorious reputation as a staunch advocate of restrictive economic policies. In the academic literature, the IMF was seen as prescribing such policies regardless of the specific circumstances in countries that applied for loans to overcome balance of payments or foreign exchange problems. This perception also dominated the media coverage.

34 Since the crisis, the tone has changed. A debate about macroeconomic theory and policy within the mainstream has been triggered. The analysis of the IMF´s research department headed by Olivier Blanchard and some mainstream's economists joined the theoretical debate and kept pace with the various macroeconomic policies governments launched to deal with the negative effects of the crisis, beforehand considered unsuitable by mainstream economics. As Ban (2014) points out: "if you look closely, these changes (in the IMF analytical approach) can be traced to the IMF staff research". Recently, the IMF has been portrayed as moving toward being a critic of austerity, inequality and unrestricted capital movements.

35 There is substantial evidence that, after the crisis, the Fund has experienced a profound change in its advices and assessment of the international economy. Yet, only a little part of the new analytical approach translated into practice, as Vernengo and Ford (2014) also supported[13]. With hindsight, it is clear now that this movement did not occur in a straight line. In the following, its evolution will be traced in chronological order.

Rethinking the macroeconomic policy approach

36 By the end of 2008, with the aim of curbing the deepening of the crisis, the Group of 20 (G20)[14] recommendations and governments´ attention shifted from rescue of financial institutions in difficulty to the need to sustain aggregate demand. The IMF became a leading spokesman for coordinating fiscal stimulus in the more dramatic drop since the Great Depression of the 1930s.

37 At that time, it seemed that the lessons of the Great Depression had been learned, avoiding the mistakes of economic policy that had contributed to its depth and international scale. The final declaration of the G-20 meeting of November 2008 in Washington promised to "use fiscal measures to stimulate domestic demand, with quick effect". The G20 London Summit in April 2009 sent an unmistakable signal that the old Washington Consensus (Williamson 1990) was dissolving. Others considered that in fact it could already been declared 'dead', as British Prime Minister Gordon Brown put it by saying "This old world of the old Washington Consensus is over, and what comes in its place is up to us.... We must reshape our global economic system so that it reflects and respects the values we celebrate in everyday life"(Westmore, 2009). IMF Managing Director Dominique Strauss-Kahn emphasized that fiscal stimulus was being embraced as an integral part of countercyclical economic policies.

38 The fiscal policy proved to be essential for the recovery of the global economy, or, at least, to prevent further declines in the Gross Domestic Product (GDP) of advanced economies. In March 2009, in a staff position note, economists of the IMF (Freedman et al., 2009) reiterated the growing concern that the global economy was moving to a period

of deep and prolonged recession. As a result, "global fiscal stimulus is essential to meet the aggregate demand and restore economic growth. The IMF calls for these tax incentives to be adopted in all countries where this is possible, both in emerging economies, as in developed economies". By saying that it could not be possible everywhere, the IMF restricted its use because "although the combination of fiscal policy and monetary policy can give significant contribution to prevent a vicious cycle of recession and deflation, some countries have restrictions on funding, while others are limited by high levels of debt".

39 Regarding monetary policy, in the aftermath of the crisis, major advanced country central banks had to rely on unconventional measures to stabilize financial conditions and support aggregate demand, after the nominal interest rate rapidly met its zero lower bound. The IMF's April 2009 Global Financial Stability Report highlighted that "without a thorough cleansing of banks' balance sheets of impaired assets, accompanied by restructuring and, where needed, recapitalization, risks remain that banks' problems are likely to keep the credit capacity of the financial system too low to support the economic recovery". The measures differed considerably in their scope and included broad liquidity provision to financial institutions, purchases of long-term government bonds, and intervention in key credit markets. Some central banks, such as the Federal Reserve (Fed), the Bank of England (BoE) and the Bank of Japan (BOJ) purchased assets, with no timeframe set to reduce their assets while the ECB limited itself to extend three years loans to the banks. In an IMF staff position note, Klyuev et al. (2009) assessed that those measures "have contributed to the reduction in systemic tail risks following the bankruptcy of Lehman Brothers and to the recent improvements in market confidence and risk appetite, as well as to the bottoming out in G-7 economies. However, financial indicators suggest that some policies are proving to be more successful than others and central banks may need to take further actions if market conditions regress".

40 During the same period, the IMF dealt with the contagion effect of the global financial crisis in Central and Eastern European Countries (CEEC), which faced a sudden stop of foreign loans. This was done with an unprecedented cooperation with the EU, as many of these countries, like Hungary, Latvia and Romania, had already expressed their intention to join the euro. Lutz and Kranke (2010) considered the case of Latvia "paradigmatic of the profound disagreements between an austerity-demanding EU and a less austere IMF". The authors argued that "this represents a European rescue of the Washington Consensus". In the end, the IMF had to abide with the refusal of the Latvian government to devalue their currency and their choice to pursue the path determined by the EU in return for additional loans and the perspective of accessing the euro. As Blanchard (2012) pointed out lately "given the strong commitment of both Latvia and its European Union partners, the IMF went ahead with a program which kept the peg and included a strongly front-loaded fiscal adjustment."

41 Olivier Blanchard is one of the leading new Keynesians, who have driven the debate triggered by the economic crisis among mainstream economists with the intent of overcoming the flaws and errors of pre-crisis analysis and policies prescriptions. Indeed, a substantial part of the shift in the macroeconomic theory occurred within the IMF´s research department headed by Blanchard. This shift was comprehensive as "the global economic crisis taught us to question our most cherished beliefs about the way we conduct macroeconomic policy" (Blanchard, 2011, pg 1). Or, just ahead in the same text

"we've entered a brave new world in the wake of the crisis; a very different world in terms of policy making and we just have to accept it."

42 The first signs of the changing macroeconomic policy approach came to light in the London summit of the G20 in April 2009 that pledged the strength of financial supervision and regulation, indicating the recognition of the non-neutrality of financial markets and of the importance of macroeconomic regulation. However, only in February 2010, the IMF published the first paper addressing these issues, entitled "Rethinking Macroeconomic Policy" (Blanchard, Dell'Ariccia and Mauro, 2010), which stated that several of pre-crisis policy guidelines, usually recommended as solid macroeconomic policies, had significant flaws or were even wrong. Their paper underlined three essential problems. First, with inflation established around 2% in developed countries, nominal short term interest rates were settled at a very low level. When the need of an easier monetary policy arose, the nominal interest rate rapidly meets its zero lower bound, a liquidity trap situation. The proposed solution would be to set a higher inflation target, around 4%, as a way to keep nominal interest rates higher. Second, they pointed at the potential relevance of fiscal policy as a countercyclical tool, when monetary policy and quantitative easing reach their limits. Yet, in face of the already high levels of fiscal debt and deficit, it would be largely desirable to adopt a countercyclical approach after the crisis in order to create fiscal space. The third problem lied on the pre-crisis assumption of the non-neutrality of financial regulation in macroeconomic terms. Based on that experience, Blanchard et al. (2010) highlighted the need to go beyond a purely micro approach to financial regulation and supervision. The search for macroprudential policies was launched, driving mainstream economists to think about the architecture of post-crisis macroeconomic policy. The authors even admitted to consider non-commercial banks financial institutions as relevant agents to start or to spread financial crisis.

43 However, in November 2010, the Fund slipped back to its old beliefs and, wrongly forecasting a more sustained recovery[15], shifted away from recommending government stimulus, replacing it with a call to major advanced economies for fiscal policy austerity. This recommendation came in a very different setting than the immediate aftermath of the crisis. Since the second half of 2009, when the acute danger of another Great Depression appeared to have subsided, conservative convictions focused on fiscal consolidation came forcefully back. They acquired greater importance in the EU than in other advanced countries, causing considerable differences in their "post-crisis" economic policies. The Greece´s crisis reinforced the European option of completely abandoning countercyclical macroeconomic policies and establishing fiscal balance as their top priority.

The IMF as a member of the Troika

44 In May 2010, several months after the beginning of the Greek crisis, the European Monetary Union (EMU) pledged € 720 billion to the creation of a temporary fund for the redemption of fragile economies of the Eurozone (later transformed in a permanent mechanism), the European Financial Stability Facility (EFSF). The IMF provided up to € 220 billion to this entity, while the ECB announced that it would accept public securities of all countries in the EMU as collateral for loans. Hence, the Troika was created. According to Fritz et al. (2014), the IMF inclusion was peculiar "as the primary reason for Europeans to include the IMF was not the need for funds, but rather the idea to draw

upon the IMF's wide experience in designing and implementing rescue packages and adjustment programs in times of crisis". On the Fund´s side, it can be said that it was not exactly a choice to be made, as one of the most important of it´s *raison d´être* is precisely to provide liquidity to countries facing financial crises with emergency loan packages tied to conditionalities. It is worth noting that, while historically it acted on its own or with the BIS as representative of the creditors, in the Troika the IMF operated as a minor associate for the first time in its history.

45 In 2010, the IMF pledged some € 30 billion ($ 39 billion) of a total bailout package of € 110 billion to Greece, conditional on compliance with three key points set by the Troika: i) the Greek government had to accept a fiscal effort equivalent to 11% of GDP in three years, privatization of government assets and structural reforms; iii) payment of an interest rate close to 5%, much higher than the cost of financing of the other countries of the EMU; iii) in 2012, Greece should be able to finance itself in the market. The repayment of the bailout was scheduled to happen in several disbursements from May 2010 to June 2013.

46 This was followed by a second Troika´s rescue package of € 130billion, in March 2012, of which € 27 billion were provided by the IMF, conditional on the implementation of another austerity package, combined with the continued demands for privatization and structural reforms outlined in the first program. But it also required that most private creditors holding Greek government bonds should sign a deal accepting extended maturities, lower interest rates, and a 53.5% face value loss. It thus preserved the holdings of the IMF and the ECB of such bonds. Both rescue packages kept the country afloat and enable it to stay in the euro zone, but it came in exchange for harsh austerity measures that have deepened the Greek recession, currently in its sixth year, with skyrocketing unemployment rate.

47 Between the first and the second package to Greece, the Troika had to provide other ones to Ireland and Portugal, coming to the rescue of three countries in less than a year. Ireland had to agree to pay interest of 5.8% per year, lower than the 7% required in the Greece bailout, and undertake the herculean requirement to reduce its public deficit to 3% in 2015, which had reached 32% in 2010, including the bailouts of the banking system. Political turmoil over the required harsh measures led to early elections that resulted in the opposition´s victory. A new set of conditionalities was signed between the parties, providing some less stringent measures. As for Portugal, the deal carried similar conditions, but with the particularity that it had to be endorsed by the main opposition parties.

48 All rescue packages of the Troika were conditional on the adoption of measures of strong fiscal contraction, leading economies subject to it to deflation, hampering the reduction of its debt as a result of a decline in GDP and tax revenue. They were even harsher than the requirements of the IMF to emerging countries in the 1980s and 1990s (section 2). Here, the most peculiar feature of the nature of the crisis in the Eurozone stands up as culprit. The members of the EMU lost the ability to issue currency and can no longer have exchange rate adjustment. As Aglietta (2012, p. 20) highlighted: "The euro is, essentially, a foreign currency for all the countries in the Euro Zone. It imposes rigid exchange rates, regardless of their condition and underlying realities and deprives them of monetary autonomy. In this sense, the euro´s functions today is very similar to the role of the dollar to Argentina between 1991 and 2001, when the exchange rate was fixed by the Constitution at parity with the dollar". In these conditions, the required conditionalities lead to a much deeper economic contraction.

49 The failure of the first Greek rescue package seems to mark the end of the IMF´s call for fiscal austerity. For instance, in 2011, Blanchard (2011) declared that "In the age-old discussion of the relative roles of markets and the state, the pendulum has swung—at least a bit—toward the state". In May 2013, the IMF published an ex post evaluation (IMF, 2013) on the first rescue package to Greece, acknowledging that it made "notable failures" setting overly optimistic expectations for the country's economy and underestimating the effects of the austerity measures it imposed. As such, the fund said it lowered its own standards on debt sustainability, setting with the EMU too high lending levels for Greece, while not pushing hard enough on Greek debt restructuring. The report also points out that the IMF and its partners significantly underestimated how much various austerity measures, such as spending cuts, layoffs and tax increases, would impact the Greek economy, facing a deep recession and an extremely difficult time managing to pay back.

50 In a more analytical approach, the IMF World Economic Outlook (WEO) of October 2012 (IMF, 2012) pointed to miscalculations on the size of fiscal multiplier and concludes that, since the Great Recession, multipliers have been much higher than the roughly 0.5 previously assumed, in the range of 0.9 to 1.7. Blanchard and Leigh (2013) resumed this discussion, pointing at binding zero lower bound on nominal interest rates (also referred to as "liquidity trap") as an important factor to the negative short-term effects of a fiscal consolidation on economic activity. They found that, in advanced economies, stronger planned fiscal consolidation has been associated with lower growth than expected, with the relation being particularly strong (substantially above 1), both statistically and economically, early in the crisis.

51 Following the IMF's admission that austerity is more damaging than previously thought, a split opened up between the IMF and eurozone leaders, Germany's finance minister, Wolfgang Schäuble, and EC commissioner Olli Rehn have both taken issue with Christine Lagarde after she called for more caution on austerity. One key moment of the disagreement between them came during the negotiations for the second rescue package to Greece. Facing the inflexibility of European and particularly German representatives on imposing losses to private creditors, Lagarde declared "if you want the IMF to remain part of this, you'll have to do something" (Der Spiegel, 2012).

52 It is possible that the particularities of Spain´s rescue in 2012 were, at least in part, related to this disagreement. Spain had resisted asking for international help, after watching the requirements placed on Greece, Portugal, and Ireland. At EU insistence, Spain Prime Minister Mariano Rajoy only accepted what he described as a "line of credit", a banking bailout, not a sovereign bailout. Rajoy pointed out that, unlike the bailouts that went to Greece, Portugal, and Ireland, Spain's banking bailout came with no "conditionality". While the banks that received funding had specific conditions placed upon them, Spain itself had no new economic rules imposed upon it from outside and did not have to accept new cuts to the government's budget, after the austerity measures previously put in place (Minder et al., 2012).

53 Despite the IMF´s commitment to less austerity, Ms. Lagarde was at the negotiating table for a bailout in Cyprus in 2013. She accepted a plan that included the usual demands for austerity and reforms as well as an unfamiliar demand for a banking "bail-in" getting debt holders and uninsured depositors to absorb bank losses and to stump up new capital. Also for the first time in the history of the European Financial Stability Facility (EFSF) bailouts, banks were closed for nearly two weeks and capital controls imposed at the time

of its adoption. After a 2.4% drop in 2012, Cyprus´ GDP fell by 5.4% in 2013 and an 8.7% decline is forecasted for 2014 (The Economist, 2014).

54 A year later, the IMF’s internal watchdog, the Independent Evaluation Office released a report on macropolicies after the crisis (IEO, 2014) recognizing that “the recommended policy mix was not appropriate, as monetary expansion is relatively ineffective in boosting private demand following a financial crisis”. The policies resulted in “destabilizing spillover effects” in emerging markets including volatility in capital flows and exchange rates, and subsequent analysis including from the IMF has indicated that fiscal policy would have better boosted demand, the IEO said.

The new institutional view on capital controls

55 Regarding emerging economies, its main clients in the 1980s and 1990s, the IMF has also made a clear shift in its official position regarding the evaluation of capital controls. This change took place after many of these economies adopted measures to protect themselves against the massive inflow of capital induced by the quantitative easing monetary policies adopted in the US, UK and Japan. As such, it can be said that the new position on capital controls by this international organization represented a stamp of respectability to these measures and, as discussed below, an attempt to limit its scope.

56 After publishing many working and policy papers on this issue over 2010 and 2012 (IMF 2010, 2011a, 2012b; Ostry et al. 2010, 2011a), a new institutional view on capital controls was endorsed by the IMF in December 2012 (IMF 2012b), especially with regards to the regulation of capital inflows. Regulation of capital outflows continues to be seen by the IMF with much more caution, useful only during crisis periods and as a supplement to more fundamental policy adjustment (IMF, 2012a).[16]

57 The main concern behind the recent change in the IMF’s position is that these inflows may have a series of negative effects that could exceed the distortionary costs to the domestic economy, which have usually been highlighted as one of the main costs of capital controls. The negative effects associated with large capital inflows in this new view can be multiple: first, an appreciation of the domestic currency beyond the equilibrium level; second, the fiscal costs of an accumulation of foreign exchange (FX) reserves beyond the required level; third, the creation of inflationary pressures in the event of incomplete sterilization; and fourth, increased financial fragility due to the creation of bubbles in subsectors such as real estate or equity markets, which is magnified by maturity and currency mismatches related to short-term foreign inflows.

58 In an initial paper, a staff position note of February 2010 (Ostry et al., 2010) that has since received significant attention from academics and policy makers,[17] the authors clearly defined the application of capital inflow controls as a measure of last resort, when all other macroeconomic policies are exhausted: “We argue that if the economy is operating near potential, if reserves are adequate, if the exchange rate is not undervalued, and if the flows are likely to be transitory, then controls on capital inflows – together with macroeconomic policy adjustment and prudential measures – may usefully form part of the policy toolkit.” (Ostry et al. 2011b, p. 562).

59 Since its initial publication on the topic, the IMF has produced a series of policy and background papers in order to refine this new framework for capital controls (IMF 2010, 2011a, 2011b, 2012b; Ostry, 2011a), among which some especially focus on country studies

(IMF 2011a and 20011b). While these papers adhere to the strict formulation of macroeconomic preconditions that must be fulfilled, as cited above, they aim to define more clearly the terms and concepts for an adequate management of capital inflows. Moreover, they introduce some modifications with respect to the first papers, mainly in the sense of being less rigid with regard to these preconditions and the hierarchy of measures to be applied.

60 Much effort has been spent in these papers to give a clear cut definition for the regulation of capital flows to be designed as a temporary instrument and to be adopted only in exceptional circumstances and within a broader approach of capital account liberalization. First, capital controls are defined as measures discriminating between residents and non-residents. Instead of a functional concept, this jurisdictional definition, first introduced by Ostry (2011a, p. 11) and used in all subsequent IMF publications on the issue, was brought forward by the OECD in its Code of Liberalization of Capital Movements (2009). This definition considers capital controls to be subject to liberalization obligations only if they discriminate between residents and nonresidents.[18]

61 Based on this definition, in its "possible policy framework" (IMF 2011a, 5f. and 40f.) a clear-cut triple hierarchy between instruments to manage capital flows is established. They argue that macroeconomic policies should always be applied first and until exhaustion. They also outline a clear hierarchy between prudential regulations of the domestic banking system, which might affect cross-border flows that are intermediated by domestic financial institutions, and proper capital controls, defined as measures that restrict capital transactions between residents and nonresidents, as the latter might, from a welfare perspective, have a higher distorting effect than the former. Yet distinguishing between prudential regulation and proper capital controls is in many cases all but easy. For example, a measure limiting the exposure of domestic banks' foreign currency lending to unhedged domestic borrowers that discriminates on the basis of currency denomination instead of residency would count as prudential financial regulation, even though it would in fact have an effect on capital inflows and thus emulate a capital control measure.

62 This problem of an extremely narrow, jurisdictional definition has been somehow fixed by the introduction of the new term "capital flow management measures (CFMs)," used in all subsequent IMF publications, in place of "capital controls." Of special relevance here is the aforementioned "possible policy framework" (see IMF 2011a; also Ostry et al. 2011a) as much as the final version of this framework that defines a set of guidelines (IMF 2012b). Two explanations for the choice of this new term are provided: first, to avoid the pejorative term "controls," and second, to generate a broader definition that goes beyond the strictly legal definition of capital controls.

63 CFMs are thus defined as the sum of the measures specifically designed to limit capital flows. It comprises measures distinguishing between residency statuses and between currency denominations, as well as other regulations such as minimum holding periods and taxes on specific investments that are typically applied in the nonfinancial sector (IMF 2011a, 6, see also p. 40f.).

64 Even with this widened definition and a broader view of the concepts of proper regulation of the domestic financial sector and of cross-border flows, the IMF until the publication of its definitive policy framework (2012b), carried on insisting on this hierarchy, where the equal treatment of investors independently of their nationality is the highest priority. It also introduced a further distinction between measures that are

assumed to have the potential macroeconomic and multilateral effect of dampening currency appreciation, and other measures of a general prudential nature. While the latter may be used permanently, the former should be applied only as a second line of defense and only for limited periods of time. This highly confusing distinction (and, thus, the clear-cut triple hierarchy) has only been loosened in the final version of the IMF framework, where the authors admit the possibility of overlapping CFMs and Macroprudential Measures (MPMs), defined as prudential tools designed to limit systemic financial risk and to maintain financial system stability. For instance, when capital flows are the source of systemic financial sector risks, the tools used to address those risks can be seen as both CFMs and MPMs (IMF 2012b, p. 21). The same applies for the preference for price-based over quantity-based controls: whilst in the version of 2011, the former are seen as more transparent and thus superior compared to the latter, this distinction in the final version was dropped.

65 Although the new IMF's institutional view is only incrementally different from the one identified by the IMF's Independent Evaluation Office in its assessment disclosed in 2005 (IEO, 2005), enormous advances have been made by this institution in its position on the management of capital flows. The post-crisis approach goes into much greater detail on the nature of capital account liberalization, on the specific conditions for using capital controls as well as on the threshold of financial and economic development that need to be reached before this liberalization and on the sequence of this process (Gallagher, 2012). Moreover, the Fund has recognized the potential dangers of capital inflow surges in terms of increasing financial fragility, of limiting the space for macroeconomic policies, and thus the usefulness of capital controls (or CFMs) in certain circumstances.

66 At the same time, this new policy framework contains serious shortcomings. First, by defining CFMs as a temporary instrument embedded in an overall strategy of financial opening, the organization insists on the general advantages of financial liberalization, which set serious limits to emerging economies' policy space. Second, the asymmetric character in the global context lays most of the burden of reacting to capital flow surges on the receiving countries. Third, the Fund keeps defending the separation of a permanent prudential financial regulation (referred to as MPMs) and only temporary CFMs. In our view, this discrimination is not feasible especially in emerging economies whose currencies are characterized a limited acceptance at the international level which increases the potential harmful effects of international capital flows in terms of financial fragility and macroeconomic management.

4. Conclusion

67 The analysis carried out in the former sections showed that after the collapse of Bretton Woods, on the contrary of its original mission, the IMF performance reinforced the negative consequences of the hierarchical and asymmetrical feature of the International Monetary and Financial System to emerging countries positioned at the bottom of the currency hierarchy, among which a smaller degree of policy autonomy.

68 Indeed, the so-called Bretton Woods Institutions (IMF and World Bank), had contributed in a decisive manner to the building and strengthening of the current international monetary and financial system through the imposition of the neoliberal reforms, among which stand out the capital flows liberalization, a pre-condition for the insertion of many developing countries in the financial globalization setting, making them emerging

economies. Hence, the definition of CFMs as a temporary instrument is totally coherent with the Fund`s role as an instrument of US financial hegemony in the post-Bretton Woods era. Moreover, by rescuing countries facing financial crisis and preventing private debt defaults in the two moments analyzed, the IMF has supported the interest of international finance, contributing to this hegemony and to the maintenance of the fiduciary and flexible dollar standard.

69 However, after the financial crisis of the 1990s, early 2000s, that brought to light their higher vulnerability to the fickle nature of the capital flows, these countries have adopted the widespread practice of accumulating reserves as a self-insurance strategy, becoming independent from the Fund resources and enhancing their policy space. Consequently, the IMF´s role of extending loans to those countries was greatly diminished, threatening its finances and its very key role, at least for a while.

70 The global financial crisis of 2007/2008 and the subsequent euro crisis brought a revival of its role and funding. The option of some European countries of joining the monetary union to climb the currency hierarchy turned into a trap inasmuch it resulted in the loss of monetary sovereignty and, hence, of the very policy autonomy. These countries ended up victims of Troika´s rescue packages similar to those imposed by the IMF on emerging and developing countries over the 1980s and 1990s, in spite of their specificities, among which the impossibility to devaluate their currencies which would contribute to reduce the external imbalances underlying the euro crisis.

71 At the same time, the crisis had substantial consequences for the IMF´s macroeconomic theory and policy guidelines. The most radical change has been in the IMF's research on the need of including macroprudential aims in macroeconomic policies, followed by its views on capital controls, and its interventions in the austerity debate (Gallagher and Ban, 2014). More recently, it also addressed the question of the interconnectedness of global banks and the systemic risks posed by securitization (Basurto et allii, 2015). The changes in the IMF´s approach were at the root of its insistence to provide a debt relief to Greece in the 2015 negotiations. However, it is still soon to conclude that those changes may have long reaching effects, prompting important transformations in the mainstream ´s recommended macroeconomic policies.

72 On the other side, the inevitable question of the reasons of the great divide between the fund´s new image and public analysis, on one hand, and the conditionality attached to the rescue programs of countries in the eurozone, on the other hand, remains to be clearly answered by the IMF. Two major hypotheses must be considered.

73 The first one is that most of those programs were started at a time in which the IMF tended to accept EU decisions, major shareholder with the ECB in the EFSF, regarding the priority of fiscal consolidation. Yet, this hypothesis seems in contradiction with the fact that the Cyprus rescue package was designed and implemented in 2013, after the public admittance by the IMF of the negative effects of fiscal austerity in times of crisis.

74 The second concerns the possibility of internal divergences between the research department and the officers in charge of the definitions of the conditionalities and the follow up of the rescue packages. If we accept this hypothesis, it is premature to consider that "crisis-ridden countries that are keen to avoid punishing austerity packages can exploit this doctrinal shift by exploring the policy implications of the IMF's own official fiscal doctrine and staff research. They can cut less spending, shelter the most

disadvantaged, tax more at the top of income distribution and think twice before rushing into a fast austerity package." (Ban, 2014, p. 1)

75 Another point that deserves attention is the fact that, although the IMF regained relevancy because of the global financial crisis, its importance may be threatened as the reforms to give more powers to emerging economies in this international organization agreed by world leaders in 2010 can be indefinitely delayed by the lack of approval of the American Congress. Truman (2015) points that "after the Obama´s administration four failed attempts to win congressional approval of quota and governance reform for the IMF, it is time to recognize a difficult new reality". He concludes that either the IMF augments its funding and reforms its governing structure without full US participation or it loses relevance and clout. It´s no wonder if emerging countries are creating new multilateral development banks, such as the BRICS Development Bank or the Asian Development Bank as an alternative to World Bank and International Monetary Fund.

BIBLIOGRAPHY

Aglietta, M. (2012) "The European vortex", New Left Review 75, May/June, pp. 15-36.

Aizenman, J., Y. Jinjarak, et D. Park, (2010), International Reserves and Swap Lines: Substitutes or Complements? Working Paper N° 15804, National Bureau of Economic Research (NBER), Cambridge, MA.

Aizenman, J., Y. Lee, et Y. Rhee, (2004), International Reserves Management and Capital Mobility in a Volatile World: Policy Considerations and a Case Study of Korea. Working Paper N° 10534, National Bureau of Economic Research (NBER), Cambridge, MA.

Alexander, S. S. (1952), Effects of a devaluation on a trade balance, Staff Papers, International Monetary Fund (IMF), Washington.

Andrade, R. et D. Prates, (2013), "Exchange rate dynamics in a peripheral monetary economy", Journal of Post-Keynesian Economics (JPKE), v. 35, pp. 399-416.

Ban, C. (2014), Is There More Room to Negotiate With the IMF on Fiscal Policy? Working Paper n⁰ 9, Global Economic Governance Initiative (GEGI), Boston University.

Basurto, M.S., B. Jones, P. Lindner et J. Blankenheim, (2015) Securitization: The Road Ahead. International Monetary Fund (IMF), Washington. Available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=42583.

Blanchard, O. et D. Leigh, (2013), Growth Forecast Errors and Fiscal Multipliers, Working Paper n⁰ 13/1, International Monetary Fund (IMF), Washington. Available at http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf

Blanchard, O. (2011), The Future of Macroeconomic Policy: Nine Tentative Conclusions, International Monetary Fund (IMF), Washington.

Blanchard, O., G. Dell´Ariccia et P. Mauro (2010) Rethinking Macroeconomic Policy. IMF Staff Position Note. International Monetary Fund, Washington.

Block, F. (1980) Las orígenes del desorden económico internacional, México, Fondo de Cultura.

Broome, A. (2014), “Back to Basics: The Great Recession and the Narrowing of IMF Policy Advice”. Governance: An International Journal of Policy, Administration, and Institutions.

Camdessus, M. (1997), Global capital flows: Raising the returns and reducing the risks. Speech to Los Angeles World Affairs Council, 17 June.

Carvalho, F.C. (2010), The Accumulation of International Reserves as a Defense Strategy”, in Griffith-Jones, S., J.A. Ocampo et J.E. Stiglitz (eds.), Time for a Visible Hand: Lessons from the 2008 World Financial Crisis. Oxford, Oxford University Press.

Carvalho, F.C. (2009), Once again, in the question of IMF’S conditionalities. Instituto de Economia, Universidade Federal do Rio de Janeiro, Manuscript.

Chesnais, F. (1996), “Introduction générale”, in F. Chesnais (ed.) La Mondialisation Financière : Genèse, Coût et Enjeux. Paris, Syros, pp. 9-31

De Vries (1987), Balance of Payments Adjustment, 1945 to 1986. The IMF Experience, Washington, International Monetary Fund.

De Vries (1976), The International Monetary Fund 1966-1971. vol. 1: Narrative, Washington: International Monetary Fund.

Der Spiegel (2012), “Germany’s Ongoing Refusal to Forgive Greek Debt”, Der Spiegel, 26/11/2012. Available at http://ml.spiegel.de/article.do?id=869300

Dostaler. G. (2005), Keynes et ses combats. Paris, Éditions Albin Michel.

Ewing, J. (2013), “Euro Zone Crisis Has Increased I.M.F.’s Power”, The New York Times, 17/11/2013.

Freedman, C., M. Kumhof, D. Laxton et J. Lee, (2009) The Case for Global Fiscal Stimulus, Staff Position Note n^0 903. International Monetary Fund, Washington.

Fritz, B, S. Dullien et L. Mühlich, (2014), The IMF to the rescue: Did the euro-area benefit from the fund’s experience in crisis fighting? Paper presented at the 18th annual conference of the Research Network Macroeconomics and Macroeconomic Policies (FMM) on “Inequality and the Future of Capitalism”, October 30 November 1.

Fritz, B. et D.M. Prates, (2014), The new IMF approach to capital account management and its blind spots: lessons from Brazil and South Korea. International Review of Applied Economics, v.28, p. 210 - 239.

Horsefield, J.K. (1969a), The International Monetary Fund 1945-1965. vol. 1: Chronicle, Washington, International Monetary Fund.

Horsefield, J.K (1969b), The International Monetary Fund 1945-1965. vol. 2: Documents, Washington, International Monetary Fund.

IEO (2014), IMF Response to the Financial and Economic crisis: an IEO Assessment, October 8. Available at http://www.ieo-imf.org/ieo/files/completedevaluations/Full%20Text%20of%20the%20Main%20Report.pdf

IMF (2013), Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-by Arrangement, May 20, 2013. Available at http://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf

IMF (2005), International Evaluation Office Report: The Evaluation of the IMF's Approach to Capital Account Liberalization. Available at:
http://bit.ly/VuHjz5 (last access 10/12/2012).

IMF (2008), Reaping the Benefits of Financial Globalization", Occasional Paper 264, International Monetary Fund, Washington.

IMF (2010), The Fund's Role Regarding Cross-Border Capital Flows, International Monetary Fund, Washington.

IMF (2011a), Recent Experiences in Managing Capital Inflows – Cross-Cutting Themes and Possible Policy Framework, International Monetary Fund, Washington.

IMF (2011b), The Multilateral Aspects of Policies Affecting Capital Flows, International Monetary Fund, Washington.

IMF (2012a), Liberalizing Capital Flows and Managing Capital Outflows. International Monetary Fund, Washington.

IMF (2012b), The Liberalization and Management of Capital Flows – An Institutional View, International Monetary Fund, Washington.

Gallagher, K. (2012), The IMF's New View on Financial Globalization: A Critical Assessment, Policy Issues in Brief No. 2, Pardee Center, Boston.

Gallagher, K. et C. Ban, (2014), "The IMF's perestroika moment", The Washington Post, 12/17/2014.

Jones, C. (2011) "Lagarde Calls for Caution in Austerity", Financial Times, October 11 2011.

Keynes, J. M. (1980) Activities 1940-1944: shaping the post-War World; the Clearing Union. The Collected Writings of John Maynard Keynes, D. Moggridge (ed.), vol. XXV. London: MacMillan.

Klyuev, V., P. IMUS et K. SRINIVASAN, (2009), Unconventional Choices for Unconventional Times: Credit and Quantitative Easing in Advanced Economies. I M F, Staff Position Note. International Monetary Fund, Washington.

Kose, A., Prasad, E; Rogoff, K.; Wei, S-H (2006) Financial Globalization: A Reappraisal, Working Papers n⁰ 06/189, International Monetary Fund, Washington.

Lichtensztejn, S; Baer. M (1987) Fundo Monetario Internacional e Banco Mundial. São Paulo: Editora Brasiliense.

Krueger, A. O. (1983) Exchange rate determination. Cambridge: Cambridge University Press, 1983.

Lutz, S. et M. Kranke, (2010), The European Rescue of the Washington Consensus? EU and IMF Lending to Central and Eastern European Countries. Working Paper n⁰ 22, The London School of Economics and Science, London.

Minder, R., N. Kulish, et P. Geitner, (2012) "Spain to Accept Rescue From Europe for Its Ailing Banks", The New York Times, June 9.

Mussa, M., B. J. Eichengreen, E. Detragiache et G. Dell'Ariccia (1998) Capital Account Liberalization: Theoretical and Practical Aspects, Occasional Paper n⁰ 172, International Monetary Fund, Washington.

Nissan, S (2015) "As obituaries are written for the World Bank, the IMF set to become indispensable", Financial Times, May 11.

OECD (2009). Code of Liberalization of Capital Movements, Organization for Economic Co-operation and Development, Paris.

Ostry, J., Ghosh, A.; Habermeier, K; Chamon, M; Qureshi, M; Reinhardt, D (2010) “Capital Inflows. The Role of Controls”, Staff Position Note nº 10/04, International Monetary Fund, Washington.

Ostry, J., A. Ghosh, K. Habermeier, L.Laeven, M. Chamon, M. Qureshi, A. Kokenyne, (2011a), Managing Capital Inflows: What Tools to Use? Staff Discussion Notes nº 11/06, International Monetary Fund, Washington.

Ostry, J., A. Ghosh, M. Chamon, M. Qureshi, (2011b), Capital Controls: When and Why? Economic Review nº 59(3), pp. 562-580.

Polak, J. J (1957) “Monetary analysis of income formation and payments problems”, Staff Papers vol. 6, International Monetary Fund, Washington, p. 1-50.

Priewe, J (2011). Capital Account Management in Developing Countries Teaching Material, preliminary version, UNCTAD Virtual institute, Geneve.

Rodrik, D. (2006) “The Social Cost of Foreign Exchange Reserves”. International Economic Journal nº 20 (3).

Rogoff, K; Kose, A.; Prasad, E; Wei, S-H (2004) Effects of Financial Globalization on Developing Countries: Some Empirical Evidence, Occasional Papers nº 220, International Monetary Fund, Washington.

Skidelsky, R. (2000), John Maynard Keynes: fighting for Britain – 1937-1946 (Volume Three). London: Macmillan.

Steil, B. (2013), *The Battle of Bretton Woods*: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order. Princeton and Oxford: Princeton University Press.

Strange, S. (1986), Casino capitalism. Manchester: Manchester University Press. The Economist (2014), Injured island, March 8.

Truman, E.M. (2015) What Next to the IMF? Policy Brief nº 151, Peterson Institute for the Economics, January.

Vernengo, M.; Ford, K. (2014). "Everything must change so that the IMF can remain the same: The World Economic Outlook and the Global Financial Stability Report." Development and Change nº 45 (5), pp. 1193-1204.

Westmore, P. (2009) “G20 summit: end of the "Washington Consensus?” News Weekly, April 18.

Williamson, J. (ed.) (1990) What Washington Means by Policy Reform, Chapter 2 from Latin American Adjustment: How Much Has Happened?

NOTES

1. Based on information available until december 2014.
2. Fort the purpose of this paper, emerging economies are the developing economies that entered into the financial globalization setting.
3. On the hierarchical nature of the international monetary systems anchored on a key-currency, see Andrade and Prates (2013).
4. Besides the precautionary motive, another explanation pointed out by the literature for the extraordinary accumulation of international reserves, particularly in Asia, is to hold down domestic currencies in order to improve external competitiveness and hence promote exports (mercantilist motive) (see Aizenman, Jinjarak, and Park 2010).

5. For a detailed comparison of the two plans, see Steil (2013). On the Keynes plan, see Keynes (1980), Skydelsky (2000) and Dostaler (2005).

6. "The purposes of the International Monetary Fund are: (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 to current transactions 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 Fund's resources 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".

7. On the introduction of conditionalities in IMF loans, see Horsefield (1969a).

8. Financial programming just connects the result of the balance of payments (the variation of international reserves) with the balance sheet of the monetary authorities. Creation of money (the monetary liability of the central bank) finances the purchase of domestic assets (securities bought in the open market and the debt of the domestic banking system) and of foreign assets (international reserves). Thus, limits on the creation of money and on domestic assets´ the growth (assumed related to aggregate demand) should achieve balance of payments objectives (Carvalho, 2009). On financial programming, see De Vries (1976), pp. 363/368.

9. On these approaches, see Krueger (1983).

10. As already mentioned the main clients of the Fund in its first twenty years were developed countries, not willing to submit their economic structures to changes demanded by a multilateral institution (Carvalho, 2009).

11. See Strange (1986).

12. The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of Fund policies and activities. Under its Terms of Reference, it is fully independent from the Management of the IMF and operates at arm's length from the Board of Executive Directors.

13. Vernengo and Ford (2014) analysed recent edtions of the two main IMF reports – the World Economic Outlook and the Global Financial Stability Report – and policy advice attached to recent european country arrangements and concluded that "...even a most optimistic Reading of IMF reports and country arrangements disappoints. The power structure ultimately remains the same: the Fund continues to be a mechanism through creditor countries enforce contractionary policy on indebted countries" (p.1194).

14. The Group of 20 (G20) became the prominent agent in the international coordination of the response to the crisis, to replace the Group of seven richest countries in the world (G7).

15. IMF´s projections as of late 2009 indicated that economic growth in advanced economies would turn positive in 2010 and strengthen in the medium term.

16. The following paragraphs on the new IMF approach on capital controls are based on Fritz and Prates (2014). Due to limit of space, we focus on capital inflow regulation, as these have been in the center of the debate.

17. Rodrik (2010), commenting on the shift in the IMF's evaluation of capital controls, enthusiastically called this "an end of an era in finance."

18. Ostry (2011a, p. 11) state that there is no unique, generally accepted legal definition of capital controls, as in the broadest sense these are measures meant to affect the cross-border movement of capital. An explanation for the highlighting of this jurisdictive criteria is provided by the IMF (2011a, p. 45): "This prioritization of measures takes into account institutional and political economy concerns flowing from the general standard of fairness that a member expects that its nationals will enjoy as a result of its participation in a multilateral framework."

ABSTRACTS

Two intertwined questions arise regarding the IMF performance after the global financial crisis: to what extent the new IMF analytical approach and the related policy prescriptions differ from the ones prevailing before the 2008 global financial crisis? Has there been a disconnection between the changes in the IMF analytical and normative approach and its practice, in other words, the policy conditionalities embodied in the eurozone rescue packages? This paper aims at contributing to address these questions taking into account the US financial hegemony underlying the features of the post-Bretton Woods international monetary and financial system, namely, the fiduciary and flexible dollar at the top of the currency hierarchy and the almost free capital mobility.

L'action du FMI depuis la crise financière mondiale interroge ses performances sur deux questions interdépendantes : dans quelle mesure, le renouveau de ses analyses et les prescriptions de politiques diffèrent de celles prévalant avant cette crise ? Existe-t-il une déconnexion entre les changements analytiques et normatifs du FMI et sa pratique, plus précisément quant aux conditionnalités relatives aux politiques publiques préconisées dans les plans de sauvetage de la zone euro ? Cet article apporte des éléments de réponse à ces questions en les abordant au regard de l'hégémonie financière américaine qui sous-tend les caractéristiques du système monétaire et financier international post-Bretton Woods, à savoir, le dollar fiduciaire et flexible au sommet de la hiérarchie monétaire et la presque totale liberté de circulation du capital.

INDEX

Keywords: IMF (International Monetary Fund), financial crisis, financial globalization
Mots-clés: FMI (Fonds monétaire international), crises financières, globalisation financière
JEL Code F33 - International Monetary Arrangements and Institutions, F34 - International Lending and Debt Problems, F53 - International Agreements and Observance • International Organizations

AUTHORS

DANIELA MAGALHÃES PRATES

Professor at the Institute of Economics, University of Campinas, Brazil, and CNPq researcher.

MARYSE FARHI

Professor at the Institute of Economics, University of Campinas, Brazil.