To improve outcomes, IMF must take politics seriously
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Last year, shortly after being named managing director of the International Monetary Fund, Christine Lagarde delivered a speech at the Council on Foreign Relations in which she noted that the fund needs to look beyond purely economic factors in evaluating issues that may threaten macroeconomic stability in borrowing countries. Unfortunately, in its handling of the Greek debt crisis, the fund failed to implement Lagarde's more holistic approach and instead limited itself to economic considerations in addressing the country's woes. The results so far in Greece demonstrates the urgent need for deep reforms of IMF conditionality. In particular, moving forward, the fund must take the politics of economic adjustment seriously if it hopes to improve the outcomes of its programs.

IMF conditionality takes the form of policies that countries need to adopt in order to make their economies more competitive, in return for the fund's bailout loans. These policies, which include cutting spending, raising taxes, reducing inflation and adopting structural reforms, are frequently politically unpopular because of their initially painful impact. For obvious reasons, political leaders often shy away from implementing reforms that will antagonize voters. Vested interests that stand to lose from reforms can also seek to block them, further reducing the chances that the IMF-approved program will be fully implemented. The success or failure of an IMF country program, then, depends as much on whether the economic reforms are politically feasible as on the economic advice itself.

Over the past 20 years, a growing body of scholarship has led the IMF to accept this reality. The key term in these discussions is "borrower ownership," which refers to the notion that country leaders have to be committed to an adjustment program for it to succeed. It further implies that the fund should assess the degree of ownership as a precondition for lending. In 2002, borrower ownership was integrated as policy into the IMF's conditionality guidelines (.pdf), which state that "national ownership of sound economic and financial policies and an adequate administrative capacity are crucial for successful implementation of fund-supported programs."

The Greek loan agreement (.pdf) concluded in March did discuss the extent to which the government in Athens was committed to the adjustment program, but it failed to acknowledge that ownership can change. After Greece's general elections in April, the country entered a period of turmoil in which no party could put together a viable coalition government, necessitating a second round of elections. With unemployment at 20 percent and prospects for growth few and far between, voters blamed incumbents, and opposition parties were able to focus on the bailout as the source of Greece's woes. The rise of parties on both the far left and far right made reaching political consensus even more difficult.

The real tragedy is that these problems were not only predictable but predicted. Existing academic research on factors that affect the success or failure of IMF programs point to the enduring importance of domestic political concerns. Countries with coalition governments are less likely to successfully implement austerity, as are countries with entrenched special interests. We also know that elections represent a problem for IMF programs, as they create incentives for politicians to spend money to placate electoral constituents, gambling that the Fund will renegotiate a failing program afterward. Some of these findings emerge from the very studies undertaken by the IMF and its staff. Comparing the realities in Greece with these findings suggests that Athens will have great difficulty successfully implementing its austerity measures. This is in part because the Greek adjustment program is not in fact "owned."

What could have been done differently? Prioritizing borrower ownership would have meant agreeing to a slower pace of adjustment. Greece's ability to collect taxes is weak, so mandating the reform of revenue administration and a higher intake of funds in a short amount of time, as the bailout agreement required, is not politically feasible. Doing so more gradually would have benefited Greece in the long run by supporting the incumbent parties rather than undercutting them. Finalizing the bailout terms in March, when elections that could -- and in fact did -- change the country's level of commitment were on the horizon, also made little sense. Lending after the elections, and not before them, would have helped to ensure that national leaders were committed to adjustment.

Finally, taking borrower ownership more seriously would also benefit the IMF itself. Developing clear guidelines for how the political process in borrowing countries should shape IMF decisions on lending can help insulate the fund from pressure from other members. The reason that the IMF did not adopt a more cautious pace of reforms in Greece is simple: Eurozone governments chose to punish Greece for its profligacy, while also sending a message to Italy and Spain. More-detailed guidelines on how fund programs should be devised when there is incomplete ownership would have helped stave off pressure to insist on such draconian policies. Strengthening extant guidelines will reduce political interference and allow the fund to genuinely support borrower countries.

Lagarde inherited the Greek crisis, and the fund's response to it will define her legacy as managing director. But future reforms of conditionality that take borrower ownership seriously could also determine her impact on the fund and how it does business. Lagarde has prided herself on being a leader who is not afraid to say unpopular things. If she can make the political feasibility of economic adjustment a cornerstone of IMF practice, she could redefine the global economy and strengthen the safety net for the most vulnerable countries in our increasingly interconnected world.

Fonte: World Politics Review, 6 Sept. 2012. [Base de dados]. Disponível em: <http://www.worldpoliticsreview.com/articles/12308/to-improve-outcomes-imf-must-take-politics-seriously>.Acesso em: 6 Sept. 2012.