

International Disputes of the IMF: A Review

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ABSTRACT

This article mainly analyses whether its benefits outweigh its harms or whether its harms outweigh its benefits. It reviews the literature from the two aspects of conditionality and IMF's internal defects. It concludes that from the perspective of conditionality, the conditions put forward by the IMF to a country are too rigid and not targeted. The reduction of social expenditure required by it leads to more serious social problems. Judging from the defects of the IMF itself, the IMF may be used by the government as a tool to persuade voters to a certain extent. Thus, it may indeed lead to moral hazard. The IMF's position as both lender and supervisor makes its policies ineffective. Furthermore a large number of documents point out that the United States and the G7 do benefit from the IMF and have great power. Finally, the paper analyzes the role of IMF in avoiding default. The summary and analysis of this paper hopes to contribute to the research in this field.

Keywords: IMF, Conditionality, Geopolitical, Moral Hazard.

1. INTRODUCTION

1.1 Research Background

Since 2020, many countries have suffered from the economic recession caused by numerous enterprises being forced to close down and the soaring unemployment rate under the impact of COVID-19. In addition, the spending on the development of the vaccine and the cost of public health, the shortage of funds has made loans necessary for many countries. As an international organization with the ability to provide huge financial assistance and relatively low interest rates, the IMF is undoubtedly to be one of the options. However, there have been different comments on the IMF's crisis management in history (for example, handling the Asian economic and financial crisis). The debate on whether the IMF's benefits outweigh its harms or whether its harms outweigh its benefits continues to this day. Therefore, this paper aims to summarize the main slot points and the main supporting points of IMF and summarizes the existing literature to analyze these main points.

1.2 Research Significance

This paper selects 50 papers to analyze the main clash point on both sides, and summarizes the key slot points and pursuit points. This paper finds that the disadvantages and advantages are concentrated in two

points, and the overall trend is more inclined to the harms outweigh the benefits. Therefore, this paper selects 22 of the 50 articles and organizes the views and data of the predecessors of these main clash points and puts forward my own opinion as a small contribution to this century debate.

1.3 Research Framework

The framework of this paper is that the first part will be the introduction which includes the background and the significance of this paper. The second part is the research literature review and analysis of whether the IMF's benefits outweigh its harms or whether its harms outweigh its benefits. The third part is the summary and personal opinion based on the literature review.

2. LITERATURE REVIEW

This article randomly selected 50 papers after inputting the keywords IMF into the two paper searching platforms to refine predecessors' views. Among the 50 articles, the authors of exactly 20 articles (20%) prefer benefits over harms, while the authors of 30 papers (60%) prefer harms over benefits. Among the 30 articles, 12 (40%) are due to the IMF's conditionality, 11 (36.7%) are due to geopolitical factors, while the remaining 7 (23.3%) are due to other reasons.

Perspectives of 50 papers' authors

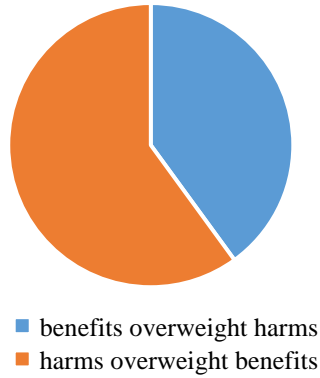


Figure 1. Perspectives of 50 papers' authors on whether the IMF's benefits outweigh its harms or whether its harms outweigh its benefits

The reasons why states the harms outweigh the benefits

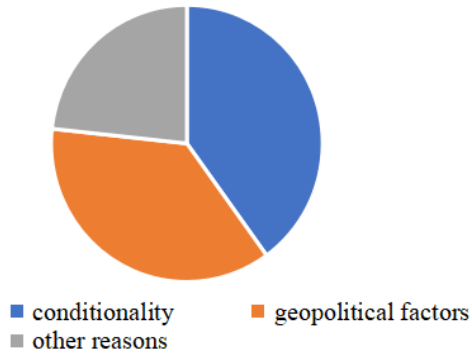


Figure 2. The main 3 reasons why states the harms outweigh the benefits

It can be seen that the overall trend tends to support more harm than benefit, while the main reason for holding this view is the IMF's conditionality and its loans are affected by geopolitical factors. This paper will mainly analyze the benefits and harms of the IMF from three aspects: the conditionality of the IMF, the IMF internal defects (including geopolitical factor) and the main supporting point of the IMF, which is effectively helping countries avoiding default.

2.1. Conditionality

2.1.1. The Inappropriateness of the conditionality

To analyze the inappropriate condition of the IMF, we will start from the overview of A sample of nine countries around the world that borrow from the International Monetary Fund and follow the policies of the International Monetary Fund. According to P kotsios and V kotsios, the International Monetary Fund provided loans to various countries, but people's lives actually

became worse. The study mainly examined social indicators such as health, education, employment, poverty and income inequality statistics in these countries to test the effectiveness of this statement. The results show that there are a large number of different social problems in these nine countries. Nine countries face this high poverty rate, five of them face income inequality and unemployment, and seven of them face low life expectancy, high infant mortality, and extremely low social expenditure, which can fully prove that the IMF has made people's lives worse [1].

Then we look specifically to countries that once through the Asia crisis and get loans from the IMF. CH Lee puts forward that the international monetary fund cannot provide objective evidence to prove that its conditions are actually conducive to the rapid and effective recovery of troubled economies from financial turmoil. Taking South Korea as an example, the author believes that the International Monetary Fund does not help South Korea recover from the economic crisis and repay its loans. On the contrary, the international monetary fund's fiscal and monetary tightening program makes it easier for foreign countries to acquire their native enterprise and nods to the special interests of foreign banks and enterprises. The author points out that the IMF should not be used to undermine the sovereignty of developing and borrowing countries to promote the interests of the International Monetary Fund itself or developed countries [2]. When both are analyzing the IMF's conditionality from the perspective of the Asian financial crisis, C sussangkarn pointed out that the IMF should not be blamed for Thailand's economic recession because the recession is caused as it is experiencing an economic crisis. What should be criticized about the International Monetary Fund is that it has a very wrong understanding of Thailand's economic recovery process from the beginning, which led to the combination of a series of wrong policies and a more serious crisis. First of all, the International Monetary Fund has too much market confidence in its plan. It even required Thailand to disclose foreign exchange information when its foreign exchange reserves are almost exhausted, which greatly reduces market confidence. Secondly, an internal assessment of the International Monetary Fund acknowledges that it may indeed misjudge the severity of the economic recession, which means that the IMF had distorted economic expectations and misled the market. Moreover, in terms of the privatization of state-owned enterprises, scholars pointed out that foreign acquisitions were promoted at the time of the weakest economy and the lowest Thai baht, which led to the domestic enterprises being bought with a very low price [3]. Besides the Asian countries, poor countries or HIPC are what this paper is focusing on too. H Kovach and Y Lansman review the conditionalities attached by the world bank and the International Monetary Fund to develop financing for the world's poorest countries. The

report shows that poor countries are facing unreasonable and increasing conditionalities. On average, poor countries face up to 67 conditions per World Bank loan. At the same time, the International Monetary Fund and the world bank often encourage poor countries to carry out highly controversial economic policy reforms, such as trade liberalization and privatization of basic services, which Britain, Norway and the group of eight have publicly expressed that this is inappropriate. However, the author's study found that among the 20 poor countries, 18 countries have attached conditions related to privatization to their development funds. These reforms often run counter to the aspirations of developing countries. They may also have a harmful impact on the poor and increase poverty [4]. Specific to an example, Kenya, was examined by DW githua on the impact of IMF/World Bank structural adjustment programmes on developing countries, proposed that they led to increased dependence of developing countries on rich countries, and concluded that IMF/World Bank structural adjustment policies exacerbated poverty and led to underdevelopment. Among them, social sectors such as health and education are affected by these austerities the most. Over the past two decades, Kenya's economy has generally declined, which has had a negative impact on almost all areas of development. He said that this was mainly due to the introduction of SAPs, which led to the reduction of government expenditure, the increase of government loan and debt repayment expenditure, inflation and unemployment, which impacted the economy. Non enrolment, repetition and dropout rates in education have increased. SAP has also exacerbated ethnic tensions, restructuring and violent conflicts, resulting in hundreds of deaths and thousands of displacements [5]. At last, I chose an article with a more micro perspective to analyze the impact of the IMF economic structural adjustment program on small enterprises in sub-Saharan Africa and concluded that IMF had a negative impact on small enterprises. I picked out three main reasons. Firstly, the trade liberalization implemented by the IMF led to an increase in import goods, high pressure of market competition, and the market share of small enterprises was easily squeezed out. Second, trade liberalization made it easier for enterprises to import materials which can be a beneficial effect. However, due to the depreciation of the domestic currency, the price of imported goods increased relatively, increasing costs of production. Secondly, financial and monetary reform and public sector restoring: the relaxed jurisdiction of the money market leaves the interest to the market for decision, which leads to an increase in interest rates, the company cannot afford loans, thus has to lay off staff or close down because there is no investment. Thirdly, deregulation. After reducing the government's subsidiary in basic goods, the collective purchasing power decreases. Coupled with the decontrol of price, it leads to a high level of inflation [6].

2.1.2. Social spending reduction caused by fiscal and monetary policy

A large part of the criticism of IMF conditionality comes from the great reduction in social expenditure. The first article discusses the impact of IMF on social spending and focuses on health expenditure. The research results also show that IMF significantly reduces health expenditure. Evidence shows that non-IMF supported countries increase health spending by \$0.45 of every \$1 donor while IMF supported countries only increase \$0.01 of every \$1 donor. Moreover, IMF programmed countries were 3.9 times more likely to cut health expenditure. All these evidences show that the IMF has seriously reduced the medical expenditure of recipient countries [7]. Another data is more intuitive, pointing out that IMF financial policy leads to a cut in health. Each extra binding IMF policy reform reduces health spending per capita by 0.248% [8]. However, the totally contrary figure shows in IMF's own report, which shows that during the five-year period of projects supported by the International Monetary Fund, education expenditure increased by about% of GDP while $\frac{3}{4}$ in terms of health, the added value accounts for about 1% of GDP. The article also compares low-income countries' education and health expenditure with IMF help and low-income countries without IMF help. The data shows that countries' per capita education and health expenditure with IMF help increases by about 4% every year. In countries without IMF help, the per capita education and health expenditure increases by about 2.5% every year [9]. Another example is closer to real-time. R Dumitriu and R stefanescu recently analyzed the IMF's help to economically damaged countries in covid-19. Firstly, the author analyzed that countries usually face the decline of foreign exchange investment and commodity exports under the influence of the epidemic. The shortage of funds makes countries have a higher risk of default. On the other hand, the international fund has provided debt relief to low-income countries affected by the epidemic and provided 8.8 billion US dollars in economic and financial support to 81 countries affected by the epidemic [10].

2.2. IMF internal defects

2.2.1. Moral hazard

The reason for the moral hazard to happen is that governments of various countries sign the agreement of the international monetary fund not only for the loans they provide but also to obtain bargaining chips for domestic voters. In addition, the IMF also plays the role of scapegoat, because once an arrangement takes effect after the government starts to implement policies that are not suitable for their own countries to win votes, its economic policy will be suggested and get close to the one favored by the IMF, leading to a complete bad policy.

This often leads to moral hazard [11]. For moral hazard, G Federico proposed that moral hazard is a problem only when the International Monetary Fund cannot promise to bind debtor countries' post-crisis participation constraints. If it is to be solved, the conditions must be formulated before the crisis and used as the exchange conditions for IMF loans after the crisis. However, attempts to reduce moral hazard may damage the IMF's ability to protect its resources afterwards. Therefore, if the IMF's commitment capacity is limited, the IMF may lead to the moral hazard of the debtor [12].

2.2.2. Awkward position of IMF itself

Some articles pointed out that the IMF should not consider the responsibilities of both lenders and supervisors. For example, S Marchesi and L Sabani pointed out that the dual role played by the IMF, both as a creditor and a supervisor of reform, has led countries to consecutively using IMF loans for a long time, but as the international monetary fund wants to maintain its reputation as a good supervisor and adviser, and extending the loan period can cover up its policy mistakes in recipient countries. However, the long-term use of IMF loans is harmful to a country. The author summarizes four disadvantages. Firstly, compared with temporary users, the conditions imposed on long-term users affect the average scope and nature of conditions. Secondly, lead to over optimism about the feasibility and effect of conditional reform. Thirdly, the IMF does not monitor more closely the performance of long-term programmes. At last, IMF officials generally have greater discretion over long-term users than temporary users in assessing compliance with agreed conditions. These problems lead to a high recidivism rate in the IMF program. Therefore, the author believes that its supervision function should be improved, limited to setting goals and regularly evaluating the achievement of goals, rather than implementing specific policies and measures [13]. Similar to the previous article, this article also mentioned the need to separate the role of the International Monetary Fund as a financial supporter from its role as an adviser to the process of globalization. However, the author analyzes it from different perspectives and mainly explains the failure of the IMF system from two angles to emphasize the failure of IMF conditions: Firstly, the inherent bureaucratic bias of the International Monetary Fund. Secondly, the inability of the International Monetary Fund to follow up the development of the management market process and adjust policies at any time [14].

2.2.3. Geopolitical factors

The distribution of voting power of the IMF and the one vote veto power of the United States have been discussed. Most scholars believe that European countries and the United States do benefit from it. However, MS

Edwards calculated through the model that there is little evidence that the influence from the United States will affect the possibility of reaching the IMF Agreement [15]. But the example has been shown in reality, on March 12, 2020, the Central Bank of Iran indicated that it would apply for a 5 billion dollars loan to the IMF to fight against the covid-19. However, some media reported that the United States had prevented the International Monetary Fund from issuing this emergency loan to Iran. Iranian President Rouhani officially accused that the practice of the International Monetary Fund is to "discriminate between Iran and other countries" [16], which confirms that the United States does have great power and veto power in IMF decisions.

Most scholars hold that the G7 and the United States make profits through the IMF. First, AF presbitero and a zazzaro assessed whether the strategy of the International Monetary Fund was driven by the political and economic interests of its major shareholders. By reviewing the literature, the author also found that the political similarity between borrowers and G7 governments affected their participation in IMF projects, especially in the case of a serious crisis. It also mentioned a very interesting opinion: the United States and other G7 governments use their great power to influence the decisions of the International Monetary Fund, reward foreign policy allies through the financial assistance of the fund, and protect the interests of their multinational enterprise by investing the fund's resources in countries in debt crisis [17]. Thacker and Strom C's views are similar to the above. They provide systematic evidence that politics does affect IMF loans and conclude that the United States is more concerned with attracting new allies and punishing defectors than rewarding loyal friends, Because the results show that moving to the United States in a clear international political space (as measured by the UN voting model) can significantly increase a country's access to loans from the International Monetary Fund, it has succeeded in doing so through multilateral channels such as the International Monetary Fund [18]. Of course, to demonstrate that the United States and the G7 are indeed using the IMF to attract allies or punish politically opposed countries, it is necessary to show that these allies can indeed obtain preferences. In this regard, n Jensen found that the number of conditions for closer allies of the United States is lower. [19]. Secondly, the author studies that the number of conditions depends on the voting mode of borrowing countries in the United Nations General Assembly. When the voting index increases from 0 to 1, the number of conditions is almost reduced by 9. The allies, Dreher, JE Sturm, and Jr Vreeland's survey show that members of the Security Council will also receive preferential treatment. Between 1992 and 2008, being a UNSC member can reduce conditions by 23 to 39 per cent. Therefore, the author concludes that the conditions in these countries are relatively relaxed because the main

shareholders of the International Monetary Fund want to exert influence on the Security Council [20].

2.3. Avoiding default

The IMF's main pursuit is that it can effectively prevent a country's sovereign default. First, VDV Koen and e de Jong stated the importance of preventing sovereign default. They proposed that debt restructuring is a clear signal that economic fundamentals are very weak and will even prevent creditors from resuming loans. When the International Monetary Fund intervenes, as long as the default can be avoided, The IMF plan can help a country show its willingness to reform and repay its debt to stimulate private capital [21]. I found two different voices about whether the IMF is effective in avoiding debt default. The first article discusses the impact of the adoption of International Monetary Fund (IMF) projects on sovereign default from an empirical perspective. The results show that the IMF's plan significantly increases the probability of subsequent sovereign default by about 1.5 to 2 percentage points, [22]. While another completely opposite article shows that the IMF has effectively reduced the default behavior. The results of the authors model show that the probability of sovereign default is about 3.5% points while IMF supported programs significantly reduce the occurrence of sovereign defaults by around 1.3% points [23].

3. CONCLUSION

This article mainly discusses whether the IMF's benefits outweigh its harms or whether its harms outweigh its benefits by consulting the research finding of relevant scholars. This paper combs the literature from the aspect of IMF's conditionality, IMF's self defect, and its impact on avoiding default. At present, a great among of studies has been accomplished in this field. This article summarizes the hard work of many scholars and puts forward my own views on the main clash points to make some contributions to the progress of this subject research. Currently, most scholars believe that the IMF's disadvantages outweigh the advantages, and the main reasons are focused on conditionality and geopolitical factors which I agree with both. First of all, the IMF's conditionality is indeed not targeted enough, which is specifically reflected in the requirement that African countries with extreme lack of health care and education and some underdeveloped low-income countries implement the reduction of social expenditure, which will undoubtedly lead to the serious social problems of high infant mortality and low expected life expectancy mentioned in the literature mentioned above. IMF's own article supplements effective data and holds the opposite perspective. Still, regardless of its credibility, the article compares low-income countries with low-income countries rather than with the world average, which is obviously to select favorable comparison standards to

reflect the effectiveness. Moreover, when its data results are different from those of most scholars, we have reasons to doubt whether it adopts special data calculation methods. Secondly, the IMF does have unreasonable conditions, such as opening the market, privatization and allowing foreign enterprises to acquire, which leads to a large number of domestic giant enterprises being acquired or their shares are purchased by multinational enterprises at a very low price. The transfer of sovereignty to other countries, facing the threat of foreign capital withdrawal at any time and losing economic dominance. In terms of implementing the IMF's supervision conditionality, I totally agree that it will be more effective to replace the implementation of supervision conditionality with monitoring the progress of setting goals. Given geopolitical factors, the above has summarized sufficient evidence to prove that the United States and the G7 use unfair voting rights to seek benefits for themselves. Some people object to the view that the United States contributes the most to the IMF, gives the most funds and deserves the highest voting power. However, the IMF can ensure that its voting power is less than 15% based on giving it the highest voting power to avoid the emergence of one vote veto. In an international organization, such obvious state privileges are certainly wrong. Finally, in the aspect of avoiding default, the paper lists two different data, which should be the result of adopting different calculation methods. This is also the future research direction, in my opinion. We should clarify effective statistical calculation methods to effectively extract data and objectively analyze the advantages and disadvantages of IMF.

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