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Populism versus IMF Conditionalities: Demand Management Policies in Present Regime of Globalization

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Populism versus IMF Conditionalities: Demand Management Policies in Present Regime of Globalization

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Abstract
The end of a bipolar regime after the collapse of the Soviet Union diverted the world economies to globalization regime, where economic freedom and liberalization were adopted as most powerful and popular philosophies of the economic welfare and development. The origination of a free trade regime, decentralization in public finance, and revival of the classical school of thought in economic policies are the natural outcomes of the global failure of centrally controlled economic planning experiences. Autonomy of the central banks, market-oriented exchange rates, convertibility of the currencies, privatization, deregulation, and free trade are the banners of classical economic thoughts in the present regime. Meanwhile, the International Monetary Fund (IMF) came into force when the world was divided into left and right arms. The IMF conditionality and recommended measures are still based on demand management mechanism where most of the advices belong to exchange rate mechanism (devaluation), increase in interest rate, increase in tax revenue, reduction in subsidies, transfer payments, so on. The core objective of this study is to review the IMF policies and practices in the contemporary world where supply-side policies and classical theories are regaining their importance in post-Soviet regime. Before any recommendation and contemplating the role of the IMF in the contemporary world, it will be appropriate to review and analyze the current practices of the IMF by three dimensions: History and cause of the creation of the IMF, its governance and financial structure, and its role in global economy and lending activities. The study suggests the change in the IMF governance structure and the coordination between World Trade Organization (WTO), World Economic Forum (WEF), and IMF policies.

Keywords: Supply-side policies; Liberalism; Demand management policies; Small government.

1. INTRODUCTION

The role of the International Monetary Fund (IMF) has been controversial since last 30 years, and its opponents argue against the IMF policies that are typically based on the following common intuitive:

- Some IMF policies may be antidevelopmental. In some countries, the deflationary effects of the IMF programs quickly led to losses of output and employment in economies where incomes were low and unemployment was high. Moreover, the burden of the deflation is disproportionately borne by the poor.
- In some countries, the IMF conditionality forced the curtailment in public health expenditures. Consequently, the underfunded public health systems demoralized the working conditions and fuelled a “brain drain” of medical personnel. The common people in those countries have to experience the dire consequences.
- It is generally apathetic or hostile to human and labor rights.
- It is a general opinion among the common people and political circles (particularly in opposition parties) that the IMF lending facilities have been used for politically motivated objectives. The IMF policy makers have been supporting military dictatorships friendly to American and European corporations. For instance, the Pakistan political parties and religious circles use the anti-IMF slogan in their election campaigns and claim that they will obtain freedom from the IMF.
- Argentina has always been considered a model country by the IMF in its compliance to IMF recommendations. This country has experienced a tragic economic crisis in 2001. According to the public
opinion in Argentina, it was a consequence of privatization of strategically vital national resources and “IMF-induced budget restrictions,” which undercut the government’s ability to provide basic facilities including health, education, and security.

- In African countries, the IMF policies and imposed restrictions have prevented spending on education and health. Consequently, they have undermined possibility of meeting the Millennium Development Goals (MDGs).
- Calin Popescu-Tariceanu, former Romanian Prime Minister, claimed that “Since 2005, IMF is constantly making mistakes when it appreciates the country’s economic performances.”
- Julius Nyerere, former Tanzanian President, claimed that “Debt-ridden African states were ceding sovereignty to the IMF and the World Bank.” He asked, “Who elected the IMF to be the ministry of finance for every country in the world?” (Mwakikagile, 2006).
- A number of civil society organizations have criticized the IMF’s policies for their impact on access to food, particularly in developing countries. Bill Clinton, former president of the United States, delivered a speech to the United Nations in October 2008. He criticized the World Bank and IMF for their policies on food and agriculture by stating “We need the World Bank, the IMF; all the big foundations, and all the governments to admit that, for 30 years, we all blew it, including me when I was president. We were wrong to believe that food was like some other product in international trade, and we all have to go back to a more responsible and sustainable form of agriculture.”
- Raghuram Rajan, former chief economist of IMF and former governor Reserve Bank of India (RBI), criticized the IMF for praising the monetary policies of the United States, which he believed were wreaking havoc in emerging markets. He had predicted financial crisis of 2007-2008 and criticized the IMF for remaining a sideline player to the developed world.

However, popular public views or political statements may not be necessarily trustworthy for sustainable economic policies for the nations. To explain popular public demands, a term of “populism” is widely used in the contemporary literature of economics and political science. It explains the phenomenon when political parties support those public demands that may be harmful in the long term. In recent years, academic scholars have produced definitions that facilitate populist identification and comparison. Populism is most common in democratic nations.

Political parties and politicians frequently use the terms “populist” and “populism” as pejoratives against their opponents. The provision of subsidies, support pricing, nationalization, and over employment in public sector are examples of populism. If the IMF provides loan to a country, then the country has to follow the terms and conditions imposed by the IMF. Moreover, in the presence of those terms and conditions, the popular public demands cannot be provided.

The core objective of this study is to review the IMF policies and practices in the contemporary world where supply-side policies and classical theories are regaining their importance in post-Soviet regime. Before any recommendation and contemplating the role of the IMF in contemporary world, it will be appropriate to review and analyze the current practices of the IMF by three dimensions: History and cause of the creation of the IMF, its governance and financial structure, and its role in global economy and lending activities. The study accomplishes this task.

2. HISTORY AND CAUSE OF THE CREATION OF IMF

During the great depression, countries sharply increased the tariff and non-tariff barriers to trade in order to enhance their domestic economies. The Second World War has further aggravated the economic miseries of European countries. At the end of the Second World War, every affected country has started the job of rebuilding its national economy. Moreover, avoiding from imports and enhancing exports were the focus of economic policies. This led to the devaluation of national currencies and a decline in world trade. This situation led to a collapse of monetary systems in international markets, which created a need of cooperation and a harmonized mechanism. The global economy had experienced two serious issues after the Second World War: (1) How to reconstruct the economy and (2) how to use and determine the value of currencies
for exchange of goods and services. The creations of the International Bank for Reconstruction and Development (IBRD) and the IMF are the results of that post war crisis. However, one cannot isolate the expanding role of leftists in those days, fall of colonialism, remapping of South Asia and Middles East, and inclination of capitalism toward the Keynesian-type fiscal policies that allow the public interventions in commodity pricing through taxation and subsidies.

The idea for the formation of the IMF was floated by Harry White and John Keynes in the Bretton Woods Conference in 1944, where 44 nations came together in New Hampshire. It came into formal existence in 1945 with 29 member countries (currently 189). There were two views on the role the IMF should assume as a global economic institution. American delegate led by Harry White foresaw an IMF like a bank that ensures the timely repayment of debts. Most of White’s plan was incorporated into the IMF mechanism. British economist John Keynes suggested that the IMF should be a cooperative fund to help the member countries in periodic crisis, and its major goal should be reconstructing the international payment system and to create conducive environment to facilitate trade and currency issues. This view was incorporated in the IMF’s mission that describes the objective of the IMF is to ensure the stability of the international monetary system. In this manner, the IMF is charged with overseeing the international monetary system to ensure exchange rate stability and encouraging members to eliminate exchange restrictions that hinder trade.

Upon the founding of the IMF, its three primary functions were as follows: to oversee the fixed exchange rate arrangements between countries, thus helping national governments manage their exchange rates and allowing these governments to prioritize economic growth, and to provide short-term capital to aid the balance of payments. This assistance was meant to prevent the spread of international economic crises. The IMF’s role was fundamentally altered by the floating exchange rates post-1971. It shifted to examining the economic policies of countries with IMF loan agreements in order to determine if a shortage of capital was due to economic fluctuations or economic policy.

The organization’s objectives stated in the Articles of Agreement are as follows: to promote international monetary co-operation, facilitate the expansion and balanced growth of international trade; promote exchange stability; make resources available (with adequate safeguards) to members experiencing balance-of-payment difficulties, assist in the establishment of a multilateral system of payments, and ensure sustainable economic growth and high employment.

According to the IMF itself, it works to foster global growth and economic stability by providing policy advice and financing the members, by working with developing nations to help them achieve macroeconomic stability and reduce poverty. The imperfection of private international capital markets provides the justification for official financing, without which many countries could only correct large external payment imbalances through measures with adverse economic consequences. The IMF provides alternate sources of financing.

From the academic point of view, the history of the IMF can be divided into five stages:

2.1. Stage I: Reconstruction of Global Economic Architect
After its inception in 1945, the IMF has become the key organization to rebuild international capitalism with the maximization of national economic sovereignty, which is defined as embedded liberalism. The end of colonialism in Africa and Asia in the 1940s has caused the increase in the IMF membership. Moreover, the IMF’s influence in the global economy steadily increased as it accumulated more members.

2.2. Stage II: Nixon Shock and End of Fixed Exchange Rate
The Bretton Woods system prevailed until 1971, when the United States government suspended the convertibility of the US dollar (and dollar reserves held by other governments) into gold. It led to the collapse of fixed exchange rates, and countries independently decided to choose their exchange arrangement. After that the IMF helped the countries in oil shock periods of 1973 and 1979.

2.3. Stage III: Global Reforms and Growing Debt
This regime started since the second oil shock in 1979 and ended with the fall of bipolar regime after the collapse of the Soviet Union in 1989. Currently, it has become a practice that when oil shocks lead to an international debt crisis, the IMF assists in coordinating the global response.
2.4. Stage IV: Unification and Transition in Europe
The dissolution of the Soviet Union has pushed the transitional economies to join the IMF in the 1990s, and the IMF membership reached at 189 that make up its near-global membership. The IMF plays a central role in helping the countries of the former Soviet bloc transition from central planning to market-driven economies.

2.5. Stage V: Economic Liberalism and Globalization
Currently, the collapse of the bipolar regime and technological advancement has led to the rapid growth in the cross-border movements of the people, ideas, and capital goods. World Trade Organization (WTO) and World Economic Forum (WEF) along with leading universities and multilateral institutions played a central role in the connectivity of people from different countries. This movement created fast growing liberalization, cultural transformation, and globalization. The cross-border flow of capital is one of the consequences of globalization. The credit crisis and the food and oil price shock in recent past indicate new challenges for the IMF, while implications of the continued increase of capital flows and its impact of the stability of the international financial system are still unknown. It implies the further prudence and change in the scope and policies of the IMF.

3. GOVERNANCE AND FINANCIAL STRUCTURE
Tables from 1 to 7 summarize the structures of the IMF board and its financial controls. IMF lending and support to countries under monetary crisis, attached conditionalities, and policy recommendations are largely determined by the Executive Board; whereas, the structure of the board is derived from the structure of financial contribution by its members. It is quite obvious that a significantly large part of financial resources are contributed from the rich industrialized countries, while this fund is used primarily for the developing countries that are experiencing liquidity crisis. The selection of the members of executive board and voting patterns are associated with the size of contribution. The decisions are not made on one country one vote basis.

Any country can apply for the IMF membership. However, the members have to pay their share according to their assigned quota. The IMF’s quota system was created to increase funds for loans. The assigned quota reflects the country’s relative size in the global economy. Each member’s quota also determines its relative voting power. Thus, financial contributions from member governments are linked to voting power in the organization. This system follows the logic of a shareholder-controlled organization: wealthier countries that provide more money to the IMF have more influence than poorer members that contribute less. It implies that decision making at the IMF was designed to reflect the relative positions of its member countries in the global economy.

IMF Board of Governors is the highest authority in its hierarchy, which is officially responsible for approving quota increases, Special Drawing Right allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws. The board comprises one governor and one alternate governor for each member country. However, in practice, the board of governors has delegated most of its powers to the IMF’s Executive Board. Twenty-four executive directors represent all 189 member countries in a geographically based roster. Following the 2008 Amendment on Voice and Participation, eight countries each appoint an executive director: the United States, Japan, China, Germany, France, the United Kingdom, Russia, and Saudi Arabia. The remaining 16 directors represent the constituencies comprising 4-22 countries. The executive board is chaired by the managing director who heads the IMF staff as well. Historically, the IMF’s managing director has been European, and the president of the World Bank has been from the United States. However, in 2011, the world’s largest developing countries, the BRIC nations, issued a statement declaring that the tradition of appointing a European as managing director undermined the legitimacy of the IMF and called for the appointment to be based on merit.

The Special Drawing Rights (SDRs) are based on a basket of key international currencies. Each member has a number of basic votes that equal 5.502% of the total votes plus one additional vote for each SDR of 100,000 of a member country’s quota. The basic votes generate a slight bias in favor of small countries. However, the additional votes determined by SDR outweigh this bias. The changes in the voting shares require approval by a supermajority of 85% of voting power.

The IMF continues to undertake reforms to ensure that its governance structure adequately reflects the fundamental changes occurring in the world economy. It was argued many times that to provide more effective
Table 1. Quota and Voting Shares for IMF Members.

| Rank | IMF member country | Quota: millions of SDRs | Quota: percentage of the total | Number of votes | Percentage out of total votes |
|------|---------------------|-------------------------|--------------------------------|----------------|-------------------------------|
| 1    | United States       | 82,994.2                | 17.68                          | 831,396        | 16.73                         |
| 2    | Japan               | 30,820.5                | 6.56                           | 309,659        | 6.23                          |
| 3    | China               | 30,482.9                | 6.49                           | 306,283        | 6.16                          |
| 4    | Germany             | 26,634.4                | 5.67                           | 267,798        | 5.39                          |
| 5    | France              | 20,155.1                | 4.29                           | 203,005        | 4.09                          |
| 6    | United Kingdom      | 20,155.1                | 4.29                           | 203,005        | 4.09                          |
| 7    | Italy               | 15,070.0                | 3.21                           | 152,154        | 3.06                          |
| 8    | India               | 13,114.4                | 2.79                           | 132,598        | 2.67                          |
| 9    | Russia              | 12,903.7                | 2.75                           | 130,491        | 2.63                          |
| 10   | Brazil              | 11,042.0                | 2.35                           | 111,874        | 2.25                          |
| 11   | Canada              | 11,023.9                | 2.35                           | 111,693        | 2.25                          |
| 12   | Saudi Arabia        | 9,992.6                 | 2.13                           | 101,380        | 2.04                          |
| 13   | Spain               | 9,535.5                 | 2.03                           | 96,809         | 1.95                          |
| 14   | Mexico              | 8,912.7                 | 1.90                           | 90,581         | 1.82                          |
| 15   | Netherlands         | 8,736.5                 | 1.86                           | 88,819         | 1.79                          |
| 16   | South Korea         | 8,582.7                 | 1.83                           | 87,281         | 1.76                          |
| 17   | Australia           | 6,572.4                 | 1.40                           | 67,178         | 1.35                          |
| 18   | Belgium             | 6,410.7                 | 1.37                           | 65,561         | 1.32                          |
| 19   | Switzerland         | 5,771.1                 | 1.23                           | 59,165         | 1.19                          |
| 20   | Indonesia           | 4,648.4                 | 0.99                           | 47,938         | 0.96                          |

Voting Power of Countries in IMF Board

1 United States  2 Japan       3 China       4 Germany    5 France
6 United Kingdom 7 Italy       8 India       9 Russia      10 Brazil
11 Canada        12 Saudi Arabia 13 Spain     14 Mexico     15 Netherlands
16 South Korea   17 Australia   18 Belgium    19 Switzerland 20 Indonesia
voice and representation for developing countries their share in voting power should be enhanced as in the present context the developing countries represent a considerably larger portion of world economic activity since 1944, when the IMF was created. Consequently, the following reforms were passed in 2010:

- Four emerging market countries (Brazil, China, India, and Russia) have been included among the 10 largest members of the IMF. Other members are the United States, Japan, Germany, France, the United Kingdom, and Italy.
- All members’ quotas were increased from a total of approximately SDR 238.5 billion to approximately SDR 477 billion, while the quota shares and voting power of the IMF’s poorest member countries will be protected.
- More than 6% of quota shares were shifted to dynamic emerging markets and developing countries and also from over-represented to under-represented members.

Quota subscriptions are a central component of the IMF’s financial resources; however, its financial resources can supplement its quota component through borrowing if it believes that they might fall short of members’ needs. The lending countries receive market-rate interest on most of their quota subscription, plus any of their own-currency subscriptions that are loaned out by the IMF, plus all of the reserve assets that they provide the IMF. At the end of 2016, the fund had SDR 477 billion (or $668 billion). Through quota contribution and borrowing, the IMF has created its two assets: Special Drawing Rights (SDRs) and gold reserves.

### 3.1. Special Drawing Rights

In 1969, the IMF has created “Special Drawing Rights (SDR), which is an international reserve asset, to supplement its member countries’ official reserves. The SDR basket comprises the currencies that are issued by the IMF member countries or their monetary unions whose exports had the largest value over a 5-year period, and have been determined by the IMF to be “freely usable.” The export criterion aims to ensure that the currencies that qualify for the basket are those issued by the member countries or their monetary unions that play a central role in the global economy. This criterion has been part of the SDR methodology since the 1970s. A “freely usable” currency indicates a currency that is widely used to make payments for international transactions and widely traded in the principal exchange markets. This concept is different from “free floating” and “convertibility.” In 2016, the IMF adopted a new formula for determining the currency weights in the SDR basket to address long-recognized issues with the formula. Moreover, the Chinese Renminbi (RMB) has been included in the SDR's basket, because it met all conditions and operational requirements for being determined freely usable. The new formula assigns equal shares to the currency issuer’s exports and a composite financial indicator. The financial indicator comprises, in equal shares, official reserves denominated in the member country’s (or its monetary union’s) currency that are held by other monetary authorities that are not issuers of the relevant currency, foreign exchange turnover in the currency, and the sum of outstanding international bank liabilities and international debt securities denominated in the currency. The weights of the five currencies in the new SDR basket based on the new formula are listed below:

| Currency         | Weightage | Weightage |
|------------------|-----------|-----------|
|                  | 2016 Review | 2010 Review |
| US dollar        | 41.73     | 41.90     |
| Euro             | 30.93     | 37.40     |
| Chinese Renminbi | 10.92     | 0.00      |
| Japanese Yen     | 8.33      | 9.40      |
| Pound Sterling   | 8.09      | 11.30     |
|                  | 100.00    | 100.00    |
3.2. Gold
Despite the collapse of “Gold Standard,” it remains an important asset in the reserve holdings of several countries, and the IMF is also still one of the world’s largest official holders of gold. Currently, the IMF holds approximately 2,814.1 metric tons of gold at designated depositories. The IMF’s total gold holdings are valued at SDR 3.2 billion (or $4.4 billion) on historical cost. However, at current market prices, their value is approximately SDR 83.0 billion (or $113.5 billion). The IMF had acquired its gold holdings through four main channels:

1. When the IMF was founded in 1944, it was decided that 25% of the initial quota subscriptions and the subsequent quota increases were to be paid in gold. This represents the largest source of the IMF’s gold.
2. All payments of charges (interest on member countries’ use of IMF credit) were normally made in gold.
3. A member wishing to acquire the currency of another member could do so by selling gold to the IMF. The major use of this provision was sales of gold to the IMF by South Africa in 1970-1971.
4. Member countries could also use gold to repay the IMF for the credit previously extended.

4. ROLE IN GLOBAL ECONOMY AND LENDING ACTIVITIES
All members of the IMF are also members of the World Bank (IBRD) and vice versa. Not all member countries of the IMF are sovereign states, and not all “member countries” of the IMF are members of the United Nations. Aruba, Hong Kong, Macau, and Kosovo are not the members of United Nations Organization (UNO), but they are members of the IMF. Cuba and Taiwan are the former members, which were ejected from the UNO. However, “Taiwan Province of China” is still listed in the official IMF indices. Apart from Cuba, the other UN states that do not belong to the IMF are Andorra, Liechtenstein, Monaco, and North Korea.

4.1. Surveillance of Global Economy
IMF members have to refrain from currency restrictions unless granted IMF permission, to abide by the code of conduct in the IMF Articles of Agreement, and to provide national economic information. Member countries of the IMF have access to information on the economic policies of all member countries, the opportunity to influence other members’ economic policies, technical assistance in banking, fiscal affairs, and exchange matters, financial support in times of payment difficulties, and increased opportunities for trade and investment. IMF membership is not a difficult task; however, strict rules are imposed on the governments if they want to get monetary assistance from the IMF.

A particular concern of the IMF was to prevent financial crisis from spreading and threatening the entire global financial and currency system. Rather than maintaining a position of oversight of only exchange rates, its function became one of surveillance of the overall macroeconomic performance of member countries. The IMF oversees the international monetary system and monitors the economic and financial policies of its 189 member countries. As part of this process, which occurs both at the global level and in individual countries, the IMF highlights the possible risks to stability and advises on needed policy adjustments. The IMF oversees the international monetary and financial system and monitors the economic and financial policies of its member countries. This activity is known as surveillance, which facilitates international cooperation. The Fund typically analyses the appropriateness of each member country’s economic and financial policies for achieving orderly economic growth, and assesses the consequences of these policies for other countries and for the global economy.

4.2. Capacity Development
In addition, the IMF provides technical assistance and training to its member countries to design and implement economic policies. It started the data dissemination work in 1995, with the view of guiding the IMF member countries to disseminate their economic and financial data to the public. The standards for dissemination of data were split into two tiers: The General Data Dissemination System (GDDS) and the Special Data Dissemination Standard (SDDS). The primary objective of the GDDS is to encourage member countries to build a framework to enhance the data quality and statistical capacity building to evaluate statistical
needs, set priorities in enhancing the timeliness, transparency, reliability, and accessibility of financial and economic data. Some entities that are not themselves IMF members (Palestinian Authority, Hong Kong, Macau, European Central Bank for the Eurozone, Eurostat for the whole EU including Cyprus and Malta) also contribute statistical data to the systems.

4.3. Lending
Most crucial and highly debated function of the IMF is the lending and the policy recommendations attached with it. Different from development banks, the IMF does not lend for specific projects. Its core responsibility is to provide loans to member countries that are experiencing problems related to balance of payments. This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying problems.

There are several types of lending facilities provided by the IMF:

- Low-income countries can borrow on concessional terms, which indicate that there is a period of time with no interest rates, through the extended credit facility (ECF), standby credit facility (SCF), and the rapid credit facility (RCF).
- No concessional loans, which include interest rates, are provided mainly through stand-by arrangements (SBA), the flexible credit line (FCL), the precautionary and liquidity line (PLL), and the extended fund facility.
- The IMF provides emergency assistance via the rapid financing instrument (RFI) to members experiencing urgent balance-of-payment needs.

At present, there are 189 member countries having 41 lending arrangements. The lending capacity of the IMF stood at US $ 1 trillion, while, since 2008, the IMF has provided 172 loans to member nations.

Under current lending arrangements, the IMF committed US$159 billion loans, of which US$144 billion have not been drawn. Portugal, Greece, Ukraine, and Pakistan are the biggest borrowers; whereas, the biggest precautionary loans were sanctioned to Mexico, Poland, Colombia, and Morocco.

In May 2010, the IMF participated, in 3:11 proportion, in the first Greek bailout that totaled €110 billion, to address the great accumulation of public debt, caused by continuing large public sector deficits. As part of the bailout, the Greek government agreed to adopt austerity measures that would reduce the deficit from 11% in 2009 to “well below 3%” in 2014. A second bailout package of more than €100 billion was agreed over the course of a few months from October 2011. As of January 2012, the largest borrowers from the IMF in order were Greece, Portugal, Ireland, Romania, and Ukraine. In 2013, a €10 billion international bailout of Cyprus was agreed by the IMF led consortium. At the end of March 2014, the IMF secured an $18 billion bailout fund for the provisional government of Ukraine in the aftermath of the 2014 Ukrainian revolution.

In 2010, the IMF could make loans to Greece in an unsustainable and political situation. The staff was directed to formulate an updated policy. The staff proposed that “in circumstances where a (Sovereign) member has lost market access and debt is considered sustainable, the IMF would be able to provide Exceptional Access on the basis of a debt operation that involves an extension of maturities,” which was labeled a “reprofiling operation.” These reprofiling operations would “generally be less costly to the debtor and creditors.” Creditors will only agree if they understand that such an amendment is necessary to avoid a worse outcome: namely, a default and/or an operation involving debt reduction.

4.4. Rational Behind Conditionality and Policy Recommendations
The IMF negotiates conditions on lending. For this purpose, it legislated a “policy of conditionality” in the 1950s. Conditionality is associated with economic theory as well as an enforcement mechanism for repayment. Stemming primarily from the work of Jacques Polak (1957), the theoretical underpinning of conditionality was the “monetary approach to the balance of payments.” Cutting expenditures (austerity), focusing economic output on direct export, devaluation of currencies, trade liberalization by lifting restrictions on import and export, increasing the stability of investment by supplementing foreign direct investment with the opening of domestic stock markets, balancing budgets, removing price controls and state subsidies, privatization, or divestiture of state-owned enterprises, enhancing the rights of foreign investors through
amendments in national laws, improving governance, and fighting corruption are included in the conditions for structural adjustment. It was hypothesized that these conditions ensure that the borrowing country will be able to repay the IMF and that the country will not attempt to solve their balance-of-payment problems in a way that would negatively impact the international economy. According to the IMF, the adoption of certain policies by the member will allow it to repay the IMF, thereby ensuring that the resources will be available to support other members. The borrowing countries have a very good track record for repaying credit extended under the IMF’s regular lending facilities with full interest over the duration of the loan. It envisaged that IMF lending does not impose a burden on creditor countries.

5. OVER EMPHASIZE ON FISCAL POLICIES

The competitiveness, economic freedom, liberalism, globalization, and small governments are the popular slogans that support the popular supply-side economic policies. However, in this age of globalization and competitiveness, the IMF emphasizes on demand management policies. The development of physical and institutional infrastructure is the core ingredient of supply-side policies. The acceleration in economic growth is not possible in the absence of proper infrastructure, while IMF policies do not recommend the development of infrastructure, while ranking of infrastructure (World Economic Forum, 2011) does not show a correlation between infrastructure development and liquidity crisis that require funding from the IMF. Various studies have explored the priority of rebuilding the infrastructure in those countries that are provided the highest credit facilities by the IMF (Mehar, 2015). This type of development is necessary not only for economic growth, but also for the very survival of the country. It is most important to note that without developing the physical infrastructure industrialization and the flow of investment into commodity production and service sectors will dry up.

It is a well-known and established reality that, in its agreement, the IMF has been emphasizing on demand management policies that mainly belong to fiscal policy measures. The majority of its recommendation requires the upsizing of public financing and greater role of government in the economy. Contrary to this, it is also an established fact that people in the countries in problems do not have confidence in their public policies. They believe that corrupt practices and misuse of public funds are the major causes of economic miseries. It can be envisaged through the following tables that people do not have confidence in their government in case of those 10 top countries that have been provided the largest credit facilities by the IMF.

The history of public finance in those countries indicates the misuse of funds for the development of politically motivated projects: to offset the losses of commercial institutions in the public sector, to create inflated employment opportunities, to subsidize public services, and to finance unnecessary populist projects (Mehar, 2015). The cost of these bad decisions are ultimately paid by the middle and lower middle-class people in the form of direct or indirect taxes, while the majority of wealthy people do not contribute taxes, although they continue to consume and utilize public funds for their political objectives. In some cases, the IMF has over emphasized in enhancing the tax-to-GDP ratio despite the reality that business sector and common people are paying high taxes and those countries are included in the top most countries where tax rates are highest and people have to pay multiple taxes. In fact, the cause of lower tax-to-GDP ratio in those countries is the unequal burden of taxes as many sectors and segment are constitutionally exempted from taxes. However, the IMF does not recommend taxes on those segments because of political motivation. These powerful segments are supported by international forces. Moreover, it is a common intuitive that international forces do not allow the IMF to recommend any measures against the interests of those powerful elements. A report released by Fiscal Policy Department of IMF (Gupta, 2014) stated that “Some taxes levied on wealth, especially on immovable property, are also an option for economies seeking more progressive taxation. Property taxes are equitable and efficient, but underutilized in many economies and there is considerable scope to exploit this tax more fully, both as a revenue source and as a redistributive instrument.” The IMF does not recommend measures to bring these sources in tax net.

Three decades of public policy failures, unfavorable monetary policies, a growing debt burden, a decreasing tax-to-GDP ratio, an uneven distribution of taxes, widespread feudalist landholding structures, and deteriorating business competitiveness indicate that the only option is to rebuild the economy by adopting supply-side policies.
The scholarly consensus is that the IMF decision making is not simply technocratic, but also guided by political and economic concerns. The United States is the IMF’s most powerful member, and its influence reaches even into decision making concerning individual loan agreements. Reforms to provide more powers to emerging economies were agreed by the G20 in 2010.

### Table 3. Top 10 IMF Credit Outstanding Countries (Million US$): Tax Burden and Public Repute.

| No. | Member      | Credit outstanding (As on September 21, 2017) | % of global IMF credit outstanding | Overall taxes on businesses (% of Profits) | Quality of infrastructure (Ranked by WEF) | Public trust in politicians (Ranked by WEF) |
|-----|-------------|-----------------------------------------------|-----------------------------------|------------------------------------------|------------------------------------------|-------------------------------------------|
| 1   | Greece      | 9,641                                         | 18.27                             | 44.7                                     | 58                                       | 137                                       |
| 2   | Ukraine     | 8,893                                         | 16.85                             | 43.0                                     | 70                                       | 40                                        |
| 3   | Portugal    | 8,545                                         | 16.19                             | 47.4                                     | 14                                       | 93                                        |
| 4   | Pakistan    | 4,393                                         | 8.32                              | –                                        | 100                                      | –                                         |
| 5   | Ireland     | 3,772                                         | 7.15                              | 26.5                                     | 69                                       | 65                                        |
| 6   | Egypt       | 2,865                                         | 5.43                              | 31.1                                     | 68                                       | 43                                        |
| 7   | Iraq        | 2,385                                         | 4.52                              | 31.6                                     | –                                        | 91                                        |
| 8   | Tunisia     | 1,295                                         | 2.45                              | 42.9                                     | 30                                       | 57                                        |
| 9   | Jordan      | 966                                           | 1.83                              | 62.8                                     | 35                                       | 15                                        |
| 10  | Cote d’Ivoire | 846                                         | 1.60                              | 57.2                                     | 77                                       | 122                                       |
|     | Total (above 10) | 43,601                                    | 82.62                             | –                                        | –                                        | –                                         |
|     | Total (All 74 countries) | 52,774                                    | 100.00                            | –                                        | –                                        | –                                         |

The scholarly consensus is that the IMF decision making is not simply technocratic, but also guided by political and economic concerns. The United States is the IMF’s most powerful member, and its influence reaches even into decision making concerning individual loan agreements. Reforms to provide more powers to emerging economies were agreed by the G20 in 2010.
One view is that conditionality undermines domestic political institutions. The recipient governments are sacrificing policy autonomy in exchange for funds, which can lead to public resentment of the local leadership for accepting and enforcing the IMF conditions. Political instability can result from more leadership turnover as political leaders are replaced in electoral backlashes.

The IMF sometimes advocates “austerity programmers,” cutting public spending and increasing taxes even when the economy is weak, to bring budgets closer to a balance, thus reducing budget deficits. Countries are frequently advised to lower their corporate tax rate. Joseph E. Stiglitz (2002), former chief economist and senior vice-president at the World Bank, criticizes these policies.

| Table 4. The Global Competitiveness Index. |
|-------------------------------------------|
| **Country/factor of competitiveness**     |
| Overall index                          | Basic requirements | Efficiency enhancers | Innovations factors |
| Rank | Score | Rank | Score | Rank | Score | Rank | Score |
|------|-------|------|-------|------|-------|------|-------|
| Côte d’Ivoire | 116  | 3.43 | 121  | 3.49 | 109  | 3.38 | 98    | 3.20 |
| Egypt | 70    | 4.04 | 78    | 4.21 | 80    | 3.87 | 71    | 3.51 |
| Greece | 71    | 4.04 | 56    | 4.49 | 57    | 4.13 | 66    | 3.59 |
| Iraq  | –     | –    | –     | –    | –     | –    | –     | –    |
| Ireland | 25   | 4.84 | 37    | 5.06 | 22    | 4.87 | 20    | 4.63 |
| Jordan | 50    | 4.30 | 46    | 4.74 | 66    | 4.06 | 51    | 3.79 |
| Pakistan | 101  | 3.58 | 114   | 3.53 | 92    | 3.69 | 84    | 3.39 |
| Portugal | 43   | 4.40 | 39    | 5.05 | 43    | 4.40 | 41    | 3.98 |
| Tunisia | 40    | 4.50 | 35    | 5.09 | 56    | 4.14 | 45    | 3.94 |
| Ukraine | 82    | 3.95 | 94    | 3.96 | 68    | 4.05 | 80    | 3.42 |

| Table 5. Total Tax Rate, Public Trust in Politicians, and Use of Public Money. |
|---------------------------------|
| **Country** | Overall taxes on businesses | Diversion of public funds | Public Trust in Politicians |
|-------|-----------------------------|---------------------------|----------------------------|
| Rank | % of Profits | Score | Rank | Score | Rank | Score | Rank |
|------|--------------|-------|------|-------|------|-------|------|
| Côte d’Ivoire | 44.7 | 83    | 2.0  | 132   | 1.6  | 137   |
| Egypt | 43.0 | 78    | 3.1  | 83    | 3.6  | 40    |
| Greece | 47.4 | 92    | 2.9  | 94    | 2.2  | 93    |
| Iraq  | –     | –     | –    | –     | –    | –     |
| Ireland | 26.5 | 22    | 5.3  | 21    | 3.0  | 65    |
| Jordan | 31.1 | 32    | 4.3  | 41    | 3.5  | 43    |
| Pakistan | 31.6 | 37    | 3.0  | 92    | 2.3  | 91    |
| Portugal | 42.9 | 76    | 4.1  | 45    | 3.2  | 57    |
| Tunisia | 62.8 | 119   | 5.5  | 20    | 5.0  | 15    |
| Ukraine | 57.2 | 113   | 2.2  | 129   | 1.9  | 122   |

Diversion of public funds indicates the diversion of public funds to companies, individuals, or groups owing to corruption: 1 = very common; 7 = never.
Public trust in politicians indicates the level of public trust in the ethical standards of politicians in a country: 1 = very low; 7 = very high.
There has been persisting opinion that the IMF is constantly dominated by the developed countries. Accordingly, the developing economies had started raising voice for reforms in the IMF.

A study by Bumba Mukherjee (2008) found that developing democratic countries benefit more from the IMF programs than the developing autocratic countries. This is because policy making and the process of deciding where loaned money is used are more transparent within a democracy. Although earlier studies found little impact of IMF programs on the balance of payments, more recent studies using more sophisticated methods and larger samples “usually found IMF programs improved the balance of payments” (Jensen, 2004).

| Country     | Burden of government regulations | Favoritism in decisions of government officials | Irregular payments and bribes |
|-------------|----------------------------------|-----------------------------------------------|-------------------------------|
|             | Score   | Rank | Score   | Rank | Score   | Rank |
| Côte d’Ivoire | 2.9     | 103  | 2.3     | 129  | 2.6     | 136  |
| Egypt       | 3.1     | 79   | 2.7     | 95   | 4.1     | 64   |
| Greece      | 2.4     | 129  | 2.6     | 105  | 3.6     | 89   |
| Iraq        | –       | –    | –       | –    | –       | –    |
| Ireland     | 3.1     | 87   | 3.6     | 41   | 6.1     | 14   |
| Jordan      | 3.5     | 50   | 3.5     | 44   | 4.8     | 47   |
| Pakistan    | 3.2     | 72   | 2.8     | 87   | 3.0     | 117  |
| Portugal    | 2.5     | 127  | 3.1     | 63   | 5.3     | 35   |
| Tunisia     | 4.2     | 15   | 4.7     | 12   | 5.4     | 33   |
| Ukraine     | 2.6     | 125  | 2.3     | 127  | 2.8     | 127  |

Burden of government regulation: 1 = extremely burdensome; 7 = not burdensome at all.
Favoritism in decisions of government officials: 1 = always show favoritism; 7 = never shows favoritism.
Irregular payments and bribes: This indicator represents extra payments or bribes connected with imports and exports, public utilities, annual tax payments, awarding of public contracts and licenses, and obtaining favorable judicial decisions. 1 indicates very common, and 7 indicates never occurs.
The Group of 24 (G-24), on behalf of Least Developed Countries (LDC) members, and the United Nations Conference on Trade and Development (UNCTAD) complained that the IMF did not distinguish sufficiently between disequilibria with predominantly external as opposed to internal causes. Then, LDCs found themselves with payment deficits owing to adverse changes in their terms of trade, with the fund prescribing stabilization programs similar to those suggested for deficits caused by government over-spending. Experienced with long term, externally generated disequilibria, the G-24 argued for more time for LDCs to adjust their economies (Alexander, 1996).

6. OVERLOOKING MONETARY MECHANISM

Monetary policy is a part of overall economic planning and strategies, which are responsible to provide an environment to the public for their economic development and well-being. Surprisingly, the IMF do not pay considerable emphasize on the monetary measures in its recommended demand management policies. However, its primary objective was to safeguard the international monetary system and prepare devices to ensure monetary transactions without distortion in international money market. It has been observed that in IMF is limited only to suggest a devaluation for international transactions and rate of interest for domestic markets of borrowing countries. It does not consider the monetary policies in a broader sense, though such policies may create several problems in domestic and international markets. For instance, a monetary policy may be a most “regressive option” in the liberalization because of its drastic effects. There are several mechanisms that make monetary policy a regressive option to manage the economies. The most important is the interest rate spread. How a monetary policy can add economic miseries can be described in the following simplified model (Mehar, 2011).

In this study, it was hypothesized that growth in money supply affects the economic growth and inflation directly. This hypothesis has been established in the following equations of the model:

\[ GGDP = a_0 + a_1 \text{ITO GDP} + a_2 \text{GM2} \]  
\[ \text{Infl} = b_0 + b_1 \text{GM2} \]

where GGDP is the annual growth in Gross Domestic Product in percentage, ITO GDP is the investment-to-GDP ratio, GM2 is the annual growth in Money Supply (M2), and Infl is the annual rate of inflation.

A higher spread indicates that depositors are receiving lesser return on their deposits as compared to the investors. If, in an economy, the larger part of bank deposits belongs to the lower income groups—such
as household savings, retirement money, pension funds, and endowments for orphans, old age peoples, non-working widows, and disable persons—the higher spread will make the monetary system regressive. Another common phenomenon in contemporary monetary and banking practices is the higher rate of return on the higher level of deposits. Evidently, it provides more earning opportunities to the well worthy peoples. The increasing (or constant) return to scale on the monetary assets may also enhance the rich–poor gap and poverty levels. The similar practice is the higher rate of return on the deposits of longer duration. There is no need to mention that only the rich people can afford the higher duration of fixed deposits, while lower income groups do not have either their bank accounts or they prefer to deposit their money on saving accounts where withdrawal of their money cannot be predictable. The IMF is a monetary institution, and it should consider the monetary policy-related recommendation in a broader sense.

A higher rate of interest may lead the cost push inflation in those economies where producers are used to obtain financing facilities for their production process and inventory holding through working capital loans from the banking sector. The industries—such as sugar, textile, tobacco, and food,—where availability of raw material depends on crop seasons, and the sales activities are spread over the year are likely to adopt working capital financing from banking sector; this situation will lead to higher inflation if interest rate increases. Again, the lower income groups will be the net looser, if the products are commonly used.

For desirable outcomes of monetary expansion, the rate of GDP growth should be greater than the rate of inflation. In case of lower rate of growth, the higher growth in investment is the only option to enhance the GDP growth. However, it is considerably difficult to determine the factors of investment in a common equation because of the complexity and variations in determining the investment in different economies. The lending rate of interest and the access to capital are the common factors in determination of the level of investment. Consequently, it was hypothesized in this study that investment is determined by the lending rate of interest and easy access to the capital. To test this relation, the following equation has been estimated:

$$ ITOGDP = c0 + c1LRAT + c2EACR + c3EAEQ $$

where $ITOGDP$ is the investment-to-GDP ratio, $LRAT$ is the rate of interest on lending, $EACR$ is the index that indicates easy access to credit, and $EAEQ$ is the index that indicates easy access to equity.

The above-mentioned indexes have been constructed by the World Economic Forum (2011). The data on the above variables has been extracted from the World Economic Forum (2010a); whereas, its methodology is extracted from the study completed in Iqra University (Mehar, 2011). According to the models, growth in money supply ($M2$)—either by public sector or private sector credit—will affect the growth and inflation in the country. The growth and inflation jointly determine the effect of monetary policy on the level of poverty.
The credit expansion in both the cases—financing budget deficit and credit to private sector—will lead to growth in the money supply (M2); whereas, price acceleration because of shifting the demand of goods and services will be a natural consequence of this monetary expansion. However, a parallel increase in the supply of goods and service may lead to a higher economic growth. An increase in the supply of goods and services may lead to an increase in the utilization of capital and labor in the economy. If the effect of monetary easing on inflation is stronger than its effect on growth, it will lead to a higher level of poverty in the economy, while a stronger effect on growth may lead to a reduction in poverty. It is a precondition that no obstacle should be involved in the tickle downing of the effect of growth on employment level. Here, it is noteworthy that sometimes credit easing and banking policies may create obstacles in the transformation of desirable effects of economic growth to the lower income groups. This situation will be discussed in the next section with details.

It was also hypothesized that investment is an important determinant of economic growth. The above-mentioned model explores how growth in investment affects the growth of GDP. Here, it was proposed that growth in investment will lead to reduction in unemployment. Consequently, if the desirable effect of monetary policy on GDP growth is less than its effect on inflation, the higher investment activity is the only option to increase the rate of growth.

Monetary policy is also a key determinant of investment. Equation III explains that the interest rate for lending from banks and the easy access to credit is the important determinant of investment. Both the lending rate of interest and the easy access to credit are the parts of monetary policy. Consequently, again monetary policy can affect the poverty by generating employment opportunities through boosting the investment activities in the economy.

It was further proposed that simultaneous investment activities are required in all sectors for overall economic development. It was commonly observed in case of developing countries that the access to capital by the smaller sectors is ignored by the planning authorities. Monetary policy should address this issue to develop the small and medium businesses to derive the demand of the large industrial products. The estimated results indicate that easy access to credit is an important and significant determinant of the investment, and the investment activities in isolation cannot be succeeded unless parallel investment activities are not available in the associated sectors. The qualitative easing is a required policy to make access of credit easy for the lower income people and small businesses. The small and medium businesses provide catalyst for the development of large-scale businesses. In most of the cases, small and medium businesses create demand of the products of large-scale businesses; they also provide raw material and services to the large-scale businesses. Consequently, they cannot be ignored in the monetary policy transformation mechanism. The qualitative tightening in monetary policy can adversely affect the small and medium businesses and ultimately the poor and lower income groups in the economy.

| Table 7. Impacts of Monetary Policy. |
|-------------------------------------|
| **Dependent variable** | **Average growth in GDP** | **Rate of inflation (CPI)** | **Investment to GDP ratio** |
| -----------------------------------|--------------------------|---------------------------|--------------------------|
| Independent variables              | Coefficients | T-statistics | Coefficients | T-statistics | Coefficients | T-statistics |
| -----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Intercept                          | 0.203        | 0.251        | 0.242        | 0.360        | 23.063       | 4.762        |
| Investment to GDP                  | 0.097        | 3.010        | –            | –            | –            | –            |
| Growth in M2                       | 0.118        | 6.709        | 0.378        | 11.128       | –            | –            |
| Lending rate                       | –            | –            | –            | –            | –0.203       | –2.124       |
| Easy access to credit              | –            | –            | –            | –            | 3.205        | 2.358        |
| Easy access to equity              | –            | –            | –            | –            | –2.137       | –1.662       |
| Adjusted R-square                  | 0.3581       | 0.5320       | 0.1218       |
| No. of observations                | 109          | 109          | 36           |

The credit expansion in both the cases—financing budget deficit and credit to private sector—will lead to growth in the money supply (M2); whereas, price acceleration because of shifting the demand of goods and services will be a natural consequence of this monetary expansion. However, a parallel increase in the supply of goods and service may lead to a higher economic growth. An increase in the supply of goods and services may lead to an increase in the utilization of capital and labor in the economy. If the effect of monetary easing on inflation is stronger than its effect on growth, it will lead to a higher level of poverty in the economy, while a stronger effect on growth may lead to a reduction in poverty. It is a precondition that no obstacle should be involved in the tickle downing of the effect of growth on employment level. Here, it is noteworthy that sometimes credit easing and banking policies may create obstacles in the transformation of desirable effects of economic growth to the lower income groups. This situation will be discussed in the next section with details.

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The access of poor and small businesses to the bank financing shows a drastic picture in the global economies. In majority of cases, a negligible part of the poor people in a country can access to the banks for financing. Table 1 indicates that Bangladesh is an exceptional case, where financing to poor and small businesses has a significant portion. Morocco, Vietnam, Mexico, Indonesia, Peru, and Jordan are the other appropriate examples, and it has been observed by the country analysis that these countries have significant control over the poverty issue. Table 2 shows that majority of the business enterprises do not have a loan. The more important is that more than 87% business enterprises did not apply for loan.

The estimated results of the model have been shown in the above table. All the parameters are statistically significant except “Easy Access to Equity” in the determination of investment. It indicates that investment depends significantly on the rate of interest for lending and easy access to credit. Both the determinants are the parts of monetary policy, and they do not belong to quantitative easing. Therefore, it was concluded that for higher investment and for higher growth in GDP the credit easing is required. Particularly, it is a required policy when quantitative easing has been adopted, which may lead the higher inflation and consequently higher level of poverty. The results established the following corollaries:

**Corollary I:** “The creation of money—either to finance the budget deficit or credit to private sector—will always lead the inflation. This principle is not associated with the disbursement and utilization of debts without change in monetary expansion. A debt without monetary expansion will change the patterns of priorities of demand for goods and service. This situation may lead the changes in the prices of several commodities in both the directions. However, it will not be responsible for aggregate change in price level.”

**Corollary II:** The upward changes in the prices of some goods may lead the changes in the prices of other goods in the same direction. The higher cost of inputs and maintaining the real profits are the causes of this type of price movement.

**Corollary III:** An upward change in the supply of goods and services may defuse the demand pull inflationary pressures; this is possible if growth in investment activities by utilization of capital and labor. The credit easing can attract the investment activities in the economy.

**Corollary VI:** A parallel Credit Easing Monetary Policy is always required with the Quantitative Easing for tuning the rate of GDP growth, investment, inflation, unemployment, and level of poverty.

Currently, even in the age of liberalization, the central banks provide a signal to the banks through announcing “discount rate” in its monetary policy statement. This discount rate influences the money market equilibrium, which limits the economic growth. It is surprising that the IMF becomes a part in this distortion by intervening in market mechanism through describing the changes in interest rates and the value of currencies.

### 7. CONCLUSIONS AND RECOMMENDATIONS

The discussion in previous sections derived some important conclusions, which indicate that in the present global economic scenario where world economies are following considerable openness and liberalization policies, IMF has to restructure its lending policies, while some modifications in its governance are also recommendable. The conclusion can be summarized in the following points:

#### 7.1. Liberalism Requires Supply-side Approach

The end of a bipolar regime after the collapse of the Soviet Union diverted the world economies to globalization regime, where economic freedom and liberalization have been adopted as most powerful and popular philosophies of the economic welfare and development. The origination of a free trade regime, decentralization in public finance, and revival of the classical school of thought in economic policies are the natural outcomes of the global failure of centrally controlled economic planning experiences. Autonomy of the central banks, market-oriented exchange rates, convertibility of the currencies, privatization, deregulation, and free trade are the banners of classical economic thoughts in the present regime. The IMF came into force when the world was divided in left and right arms. The left-arm countries have been avoided from joining...
the IMF system. Even the capitalism in those days widely recognized the Keynesian model to intervene in the economy through fiscal policies—subsidies, transfer payments, and taxation policies. The IMF conditionality and recommended measures are still based on demand management mechanism where most of the advices belong to the exchange rate mechanism (devaluation), increase in interest rate, increase in tax revenue, reduction in subsidies and transfer payments, etc. Evidently, these recommendations are based on the presumptions that national economic issues have emerged because of domestic policies. In today's world, every country has—willingly or unwillingly—adopted globalization. Where inflow of workers' remittances, foreign investment, foreign trade in goods and services, and official flows to public sector to finance global activities in its geographical boundaries. These global activities may belong to military operation against terrorists' activities, health improving and environmental activities, operation to perform MDGs, and capacity building for international trade. Global political and economic factors such as unpredictable increase in oil prices, wars, and political changes and tension in neighboring countries may become a major cause of the outflow of foreign investment, sudden increase in import bill, and drop in domestic outputs. In these situations, a demand management policy will further deteriorate the situation.

7.2. Market-based Interest and Exchange Rates—Not Devaluation
So far, as the recommendations of devaluation and fiscal measures by IMF are concerned, one can easily observe that all such measures are anti-liberalism and anti-economic freedom. The devaluation policy cannot enhance the exports of inelastic goods in an era of growing share of trade in services in world trade basket. For the developing countries, the devaluation causes a sudden increase in the burden of debt and badly hits the gearing ratio in terms of domestic currencies. Resultantly, the liability of repayment of debts' installment and the attached cost of interest increase without generating new debts, and push the governments to increase tax collection to finance the debt servicing. The increase in indirect taxes—particularly General Sales Tax (GST), which is evidently a regressive tax—seems the easiest in those countries. However, majority of goods and services are categorized as inelastic from the consumers' point of view. Oil and its products, medicines, foods, and edible items are included in those inelastic products. An increase in prices of these inelastic products will generate an inertia in the price determination of other commodities, which further accelerate inflation in the domestic market. This accelerated inflation not only increases the economic miseries of the people, but also increases the cost of exportable goods. Moreover, exports may become uncompetitive, which is against the primary objective of devaluation policy. Another drastic effect of devaluation policy is the increasing cost of capital goods that are imported from industrialized countries. The increasing cost of capital goods may adversely affect the investment activities and the employment in the country. Such situation leads to the increasing chances of bankruptcy.

7.3. Depart from Over Emphasized Fiscal Management
The IMF programs are designed to address excessive government spending, excessive government intervention in markets, and considerable state ownership. This assumes that this narrow range of issues represents the only possible problems. The proper way to enhance the economic health of sick countries is to promote economic freedom and liberalism. For this purpose, the IMF should emphasize of “small government” instead of increasing the tax-to-GDP ratio of collecting more taxes. To enhance the fiscal governance, the IMF should device a mechanism to support transparency in the monetary transactions. Particularly, it should address this issue in the age of growing use of e-money. The IMF should incorporate e-money and other medium of exchange in the broader definition of money to incorporate their effects on macroeconomic performance.

7.4. Coordination and Consistency with Other International Organizations
All the above-mentioned factors conclude that the only option available for the sustainable development is the development of infrastructure. The IMF funding does not address this issue; even public sector loans and lending agencies cannot resolve this issue in the present competitive age. It can be resolved with the help of foreign direct investment through globally recognized and well-established development firms in the private sector. Project financing, infrastructure bonds, and equity participation are all possible options to generate funds for development in the developing countries. In this manner, the inflow of foreign direct investment can rebuild the economy through the development of infrastructure facilities. The foreign companies in the energy, civil construction, telecommunications, and transportation industries can redevelop
the economy, which would then lead to the development in the manufacturing and high-tech sector. To support the inflow of foreign investment in these mega-projects, legal and institutional support is required. Political governance and policy makers have to play an important role in the success of this policy. The IMF should develop its policy framework and recommendation in agreement with such developing agreements.

It is notable that the IMF is one of the many international organizations that are providing assistance to world economies. The role of the IMF is limited to provide assistance to manage liquidity crisis. WTO and WEF are the representatives of classical economic approach; they support liberalism and globalization. In the present scenario, the IMF should design its policies in harmonization of those institutions. Here, it is also mentionable that to enhance exports the devaluation is not an effective mechanism, which has repeatedly been suggested by the IMF. Currently, Non-Tariff Measures (NTMs) have become the most effective tool of trade barriers. The IMF should adopt the WTO policies to identify NTM, and it should suggest the measures for competitiveness in uniformity of WEF to develop the economies.

7.5. Creating Corporate Senate to Overcoming Borrower–Creditor Divide

It has been discussed in previous sections that rich countries provide considerable financial resources to the IMF, but it is used by poor countries. Meanwhile, decisions are made by the rich countries, as they have significant higher voting rights. Resultantly, the IMF’s membership is divided into two groups with entirely different interests. Similar to the governance of corporate sector in some countries, it is recommended that the IMF should introduce a concept of “IMF Senate.” The membership of IMF Senate should be based on one country one vote. It may be like “the Upper House” in Parliamentary systems in some countries. The decision that has been approved by the Executive Board must be approved and examined by the IMF Senate. A mechanism should be devised to balance the powers of the Executive Board and the IMF Senate.

Another important thing is the change in the way of classification of countries. In today’s world, all countries are developing countries. In today’s fast developing world, no country can be considered a developed country for long time. The development is a continuous phenomenon. Countries are compared on the basis of their relative economic strength. In relative term, every country is moving either forward or backward. Therefore, every country is a developing country (or “inversely developing country” if it losing its relative strength in global comparison). The present stage of development should not be compared with the past, while the responsibility of the IMF is not to intervene in the determination of the relative strength of the countries. Its role should be to monitor a fair game and provide assistance to the countries for preparing the fair game.

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