The IMF's Renewed Supply-Side Push: Four decades of structural adjustment and austerity conditionality

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Contents

Foreword

Structural adjustment, labour market reforms, austerity: these represent 30 years of failed policies from the International Monetary Fund. The consequences for working people, multilateralism, and our planet have been grave. The impact of Covid-19 on our economies and societies exposes how tying failed IMF policies to loans and debt relief has undermined inclusive growth and resilience. As we rebuild resilient economies after the first wave of the pandemic, we cannot have a repeat of history.

This report from Peter Bakvis, former director of the ITUC/Global Unions Washington Office, details how pressure in the 1980s from supply-side market fundamentalists pulled the IMF away from its mandate of promoting stability, cooperation, and “high levels of employment and real income”. This proved deeply damaging in the recovery from the global financial crisis, which left the global economy and working people in a precarious position when Covid-19 struck. To support a reconstruction from these crises, the IMF should return to this mandate and reform its policies including loan conditionality.

A series of problems culminating in the 2001 Argentinian default shook confidence in the IMF and the Washington Consensus. The Fund has since sought to rehabilitate its image by changing vocabulary and proclaiming fidelity to social issues and inequality. In reality, damaging loan conditionality continued unabated, and the IMF helped lead an erroneous shift to austerity in 2010 that shattered the recovery from the global financial crisis. In Europe, the results were a double-dip recession and a wave of IMF loans. Using conditionality and policy advice, the IMF destroyed collective bargaining systems, and lowered employment and living standards. In more recent loan programmes in emerging countries, conditions have frustrated economic recovery and forced working people to bear the brunt of economic crises. The cumulative effect can be seen in an age of anger and a wave of right-wing xenophobia that rejects multilateralism entirely. This has limited the ability of the world to launch a coordinated response to Covid-19.

The IMF’s 2018 review of conditionality described “rising critical reform needs” in the labour market and recommended further involvement and conditionality. There was no change in approach or a recognition that the labour market reforms championed by the Fund have harmed both workers and economic recovery. Discussions of medium-term fiscal consolidation after the containment of the pandemic are already beginning. Debt should be addressed through sustained economic growth and a relief process based on the Sustainable Development Goals (SDGs), not austerity that undermines growth and employment.

Recovery and resilience will need effective policy tools and institutions including public investment, minimum living wages, centralised collective bargaining systems, industrial policy and universal social protection. These policies would ensure a new social contract that builds a sustainable and stable global economy with full, decent employment. There can be no steps backwards on climate action, as we have just ten years to stablise emissions.

Change must begin with the alignment of conditionality with priority SDGs, including SDG 1 with an emphasis on universal social protection, SDG 3 with an emphasis on universal access to free health, and SDGs 4, 5 and 8 to guarantee education, equality for women, and full employment with decent work.

The world cannot afford the continued failure of IMF loan conditionality and austerity policies. Immediate action is needed to reform multilateralism.

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Summary

The International Monetary Fund (IMF) was created at the end of the second world war to help stabilise exchange rates and foster high levels of employment. Four decades later, it underwent a radical transformation to promotion of unfettered free trade and capital flows, fiscal discipline and deregulation. The change took place without an alteration of the Fund's mandate. It was driven by IMF management with the active support of some key country representatives who were immersed in a supply-side worldview popular with their governments.

The IMF and World Bank are in a unique position to impose their policy preferences through conditions tied to their lending. Structural adjustment and austerity became a regular feature of IMF loan conditionality beginning in the mid-1980s. By 1994, more than half of IMF loans included conditions on labour market issues.

The ostensible purpose of austerity measures and structural conditionality was to increase economic growth and reduce debt burdens in developing countries. By the end of the twentieth century, it was clear, even to some within the international financial institutions (IFIs), that this approach had not delivered. Economic growth rates slowed, particularly in the lowest-income countries, and debt burdens increased relentlessly. This led to multiple sovereign debt defaults in the 1980s and 1990s, and the realisation that a large portion of developing-country debt was unpayable.

Around the turn of the century, buffeted by civil society criticism and acknowledging that at least some of their policies had not produced the anticipated outcomes, the IFIs developed a few new policy approaches. These included debt relief initiatives; the obligation for countries receiving IFI debt relief or concessional lending to prioritise poverty reduction and consult civil society on implementation; approval of capital controls in some circumstances; and a "streamlining conditionality" exercise whereby the IMF was supposed to limit loan conditions to those "critical" to the programme's core objective.

The new initiatives had decidedly mixed results. There was a marked decrease in the number of conditions per loan in the late 2000s related to labour and pensions. However, the decline may have been mostly due to a substantial decrease in lending to emerging economies. The IMF is meant to be the foremost overseer of the international financial system, but it was unable to predict the global financial crisis. This was an abject failure for the Fund. However, the Fund preceded other multilaterals by advocating a strong policy response in early 2008 consisting of fiscal stimulus measures such as accelerating infrastructure projects and extending unemployment and other social benefits.

Belatedly endorsed by the G20, the stimulus programme designed by the IMF contributed to limiting the duration of the Great Recession to less than two years, and global growth rebounded to pre-crisis levels in 2010. However, as soon as the recovery started, the IMF began reversing its stimulus policies. Believers in the dubious "expansionary austerity" concept appeared to have gained the upper hand. Even before "fiscal consolidation" was approved by the G20 as a central economic strategy in mid-2010, drastic austerity measures were imposed through IMF loan conditionality in crisis countries. These fixed strict timelines to eliminate budget deficits even though countries were in deep recessions and devoting substantial public funds to bail out failing banking systems. An appraisal by the Fund's internal independent evaluators concluded in 2014 that the IMF had been "premature" in its shift turn to fiscal consolidation.

The promising approach seen in a late-2008 loan to Iceland was not to be repeated in other lending agreements. In Iceland, assets of insolvent banks were seized, social programmes and collective bargaining institutions protected, and progressive taxes introduced to pay for anti-crisis measures. Loans to other European countries, starting with Greece in May 2010, essentially resulted in workers and social programme beneficiaries paying for the costs of bank bailouts and deficit reduction. Public-sector wage bills and social benefits were slashed while regressive taxation was increased. From 2012, major structural reforms were an additional feature of most loans, first in Europe and then in emerging and developing countries. Among the conditions were measures to reduce pensions, freeze or reduce minimum wages, eliminate job protections, and weaken or abolish coordinated (national or sectoral) collective bargaining.

The austerity and structural adjustment programmes designed by the IMF had long-lasting deleterious effects. Official unemployment rates jumped to almost thirty per cent of the labour force in some southern European countries in the mid-2010s and were still around double the pre-crisis rates at the end of the decade. Collective bargaining coverage collapsed in countries such as Greece and Romania. Real wages plummeted and poverty rates spiked in European crisis countries, but even more so (using national poverty definitions) in developing countries like Egypt and Argentina.

In almost all cases, the loan programmes after the global financial crisis did not meet their core objectives of restoring economic growth and reducing debt burdens. As early as 2012 Fund managers admitted that the incorrect fiscal multipliers led to severe underestimation of the impact of austerity measures on economic growth and public finances. This finding has been re-confirmed since then, most recently in the 2019 IMF review of conditionality.

None of the critical self-appraisals of Fund performance led to significant changes in operations. Dialogue with trade unions may have contributed to a research department advisory note to Fund staff cautioning that they should "tread lightly" before advising overhauls of collective bargaining institutions, but this led to no perceptible change in loan conditions or country-level policy advice. In 2013 the Fund launched a process, expanded in 2015, for incorporating inequality issues into its annual reviews of country policies. This initiative followed the publication of IMF research showing the negative impact of high levels on inequality on economic growth and stability. By 2019, no example could be found of country reports having used the initiative to seriously examine the distributional impact of the IMF's standard macroeconomic policy and structural reform agenda, let alone to suggest meaningful changes in advice.

The manifest failure of the IMF's latest loan programme in Argentina, the largest in the Fund's history, to achieve anything close to its forecast outcomes is emblematic. Instead of growing by 4.5 per cent over a three-year period as it projected at the start of its programme in June 2018, the Fund's revised forecast (in late 2019) is that the Argentine economy will contract by 6.6 per cent. Real wages and pensions fell at double-digit rates, and the poverty rate leaped by almost ten percentage points within eighteen months. At the end of 2001 the Fund was involved in a similarly historic event when it oversaw the largest sovereign debt default in history at that point, also in Argentina. The country had been operating under a series of almost continuous IMF loan programmes for the previous nineteen years.

There is currently no sign of the IMF learning from its latest policy debacle in Argentina, or from its numerous failures in other countries in the past decade regarding the impact of its loan conditionality and policy advice. On the contrary, at the beginning of 2020 the IMF appears to be doubling down on plans for expanding deregulatory loan conditionality in the area of labour. It claims to have a "strong case" for doing so on the basis of highly questionable 'modelling' that predicts positive gains, which should be viewed in the context of the Fund's very poor overall record in forecast accuracy.

A push for further labour market deregulation would reinforce current trends of increased employment precarity, high inequality, and political polarisation. The IMF needs to renounce its "supply-side" fixation and realise a complete change of course if it wishes to usefully contribute to the creation of quality jobs, properly funded public education systems, universal health care and social protection, more equal income distribution, and conversion to a zero-carbon economy.

Introduction

In January 2008, eight months before the collapse of the Lehman Brothers investment bank that marked the apex of the worst global financial crisis in eighty years, the International Monetary Fund called on governments around the world to rapidly implement fiscal stimulus measures. The IMF recommended this course of action in order to counteract what it foresaw would become an important economic downturn, and it was the first major multilateral institution to do so. Up to that point, some independent analysts and non-governmental groups, including the international trade union movement, had warned that problems in the financial sector in the United States could quickly spin out of control and lead to devastating losses of jobs and declines in living standards throughout the world economy.

The IMF's decision in early 2008 to support an anti-recessionary "targeted fiscal boost" and strengthen financial sector regulation was only endorsed by the world's leading economic powers a year later.[1] At a second G20 crisis summit hosted by the British government in London in April 2009 (an inconclusive first summit took place in Washington four and a half months earlier), governments agreed to carry out a recovery strategy designed by the IMF. Governments would engage in fiscal stimulus in 2009, achieved through supplementary spending programmes or tax reductions, equivalent to 2 per cent of their Gross Domestic Product.

Although the G20's fiscal stimulus plan was uneven in its actual implementation, it had sufficient impact for the global economy to experience only one full year of recession. The combined GDP of countries classified by the IMF as advanced economies shrunk by 3.3 per cent in 2009 but climbed back to a 3.1 per cent increase in 2010, the same rate of growth as in the pre-crisis year 2006. However, the consequences of the 2008-2009 crisis were devastating, with unemployment surging to double-digit levels and poverty rates spiking in countries around the world. It was clear that many years of coordinated public action would be required to ensure full economic recovery and to fix a broken financial system.

But such coordinated action never took place, in large part due to a policy reversal that occurred within the IMF and was quickly endorsed by the G20. In 2010, barely two years after its call for fiscal stimulus to counteract global economic crisis, the IMF conducted a shift to austerity that is described in this report. Despite high unemployment and other signs of continued economic weakness in the global economy, IMF managers designed proposals for fiscal consolidation – a rapid reduction of the public deficits that had been used to finance anti-recession spending – and G20 leaders adopted the plan at a leaders' summit that took place in Toronto in June 2010.

The IMF began obliging member countries seeking emergency anti-crisis assistance, such as Greece, to undertake massive fiscal consolidation programmes. Since 2012, the Fund's loan requirements or policy advice to European countries in financial difficulty regularly contained prescriptions for substantial structural reforms. These included legislative or regulatory measures such as reducing employment security rules, freezing or lowering minimum wages, reducing the scope of collective bargaining, revamping pension systems, and privatising State-owned enterprises.

The combination of fiscal austerity, deregulation, and privatisation was extended later in the decade to several emerging market economy countries that sought financial support from the IMF. The loan conditions in these lending programmes strongly resembled the structural adjustment policy packages of the 1980s and 1990s, known as the Washington Consensus, that the IMF's leadership had asserted were no longer part of the Fund's policy prescriptions.

Throughout the past decade, the IMF imposed austerity and related structural conditionality in loans or provided this formula in country-level policy recommendations. As this report describes, the consequences were a significant policy failure. This is true even if the results are measured against the outcomes that the IMF claimed would result from its programmes, particularly increased economic

1 Dominique Strauss-Kahn, "The case for a Targeted Fiscal Boost," Financial Times, January 30, 2008.

growth and reduced public debt burdens. In a high number of cases, economic growth rate targets were not met and debt-to-GDP ratios were far above the Fund's predictions. When the impact of the shift to austerity and related structural reforms is measured according to criteria such as poverty, which were not necessarily the Fund's primary goals, the negative results were often equally devastating.

Later reviews and appraisals carried out by the IMF itself of its loan conditionality and the country-level growth impacts concluded that there were serious errors in the Fund's analyses, but no significant correction of the Fund's analytical tools or policy advice followed.

The return to policy recipes of earlier decades is all the more remarkable in light of the IMF's claim, expressed by its spokespersons and in published documents, that it has learned from the errors in past interventions and adjusted its policies accordingly. In May 2018 the Fund's director of communications declared the following concerning the IMF's role in Argentina:

"We've changed ... We pay much greater attention today than certainly we did 15 or 20 years ago to issues of inequality, to issues of inclusive growth."[2]

His comments were made as negotiations advanced towards the Fund's first loan to Argentina since the country's spectacular economic collapse and loan default in the last week of 2001, while under an IMF programme. The new loan was approved in June 2018 with the Fund promising to restore growth and debt sustainability through a programme of austerity measures. But just one year later, Argentine workers faced rapidly declining living standards as capital flowed out of the country, the economy was in a deepening recession, inflation spiked, and poverty increased.

The imposition in 2018 of a strict fiscal austerity programme to eliminate a government deficit without paying sufficient attention to the macroeconomic and distributional impacts seemed, in many ways, a repeat performance of the IMF loan programmes, loaded with structural adjustment and austerity conditions, that culminated in the 2001 default. After that debacle, the Fund initially showed signs of making efforts to draw lessons from the failed experience in Argentina, as it did after its involvement in Southeast Asian countries following the Asian Financial Crisis of 1997-1998.

In response to criticism that it had overburdened borrowing countries with hundreds of structural adjustment conditions, the IMF began a process of "streamlining conditionality" whereby loan conditions were supposed to be limited to those judged most critical to the Fund's objectives. By the late 2000s there are indications that IMF conditions in some areas, such as labour market deregulation, were declining, although this may be due more to reduced overall lending than changed conditionality practices.

The Fund also reversed its position of demanding fully unfettered capital markets. It began supporting capital controls in some countries in crisis situations after concluding that the massive and uncontrolled outflow of capital from some Asian countries had been a major cause of the 1997-1998 crisis. As a result of the catastrophic impact of Argentina's debt default of 2001, the largest in history up to that point, the IMF launched a process aimed at establishing a forum that would permit governments with unsustainable debts to negotiate with their private foreign creditors. This effort was later abandoned, but the Fund did agree to write off the debts owed to it by more than thirty low-income countries and it maintained its changed stance on capital controls, occasionally approving of their use.

As for the fiscal consolidation and structural adjustment conditionality that was characteristic of the Washington Consensus era, the shift to austerity in 2010 marked the start of a rehabilitation of those policies. The restoration has been reinforced by high-profile IMF reports published as recently as 2019 that attempt to justify expanded conditionality. Several examples of the deleterious economic impacts of austerity and structural adjustment measures, with a focus on labour market reforms, are provided in this report. The return to austerity and associated structural reforms has hindered job creation and contributed to declining living standards for workers and increased poverty, in spite of the IMF's claims that it now pays attention to income distribution and supports inclusive growth.

2 IMF, "Transcript of IMF Press Briefing," May 17, 2018.

Structural adjustment in the 1980s and 1990s

The International Monetary Fund was created near the end of the Second World War to be one of the of multilateral institutions that would contribute to rebuilding the world economy after a decade and a half of economic depression and military conflict. Because of their founding at the New Hampshire resort town of that name in July 1944, the Washington-based IMF and the World Bank are still sometimes called the "Bretton Woods twins".

Whereas the World Bank was given a mandate to finance post-war reconstruction projects, the IMF's specific role was made clear in the first two purposes specified in the Fund's Articles of Agreement:

"(i) To promote international monetary cooperation through a permanent institution …

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income …"[3]

The role of the IMF – with its emphasis on fostering monetary stability and prioritising employment creation – was broadly supported and judged non-controversial during the first three decades of the institution's existence, including among the trade union movement and others who would later become the strongest critics of the Fund's policies and practices. The early decades of the IMF coincided with a period of strong and mostly stable growth, at least among industrialised countries, but also of major geopolitical and economic changes, including decolonisation of the developing world, the creation of a producers' cartel of oil-exporting countries, and the emergence of developing country debt problems.

By the mid-1980s, however, there had taken place what recent academic research describes as "the IMF's spectacular yet clandestine transformation into the world's foremost promoter of neoliberal reforms".[4] No longer seeing a significant future for the IMF as a body focused on stabilising exchange rates, the Fund's management worked from the late 1970s to convert the institution into a leading sponsor of market-liberalising reforms, particularly in developing countries.

The Fund would execute its transformed mandate by making IMF loans contingent on governments' adoption of policy reforms through structural adjustment conditions. The ability of the IMF to impose conditionality on its financial assistance set the Fund, as well as its sister institution the World Bank, apart from other UN agencies (of which the Bretton Woods twins were nominally part) in their capacity to shift the policies of governments seeking support.

A first attempt by IMF management to get authorisation from its executive board, composed of member governments, to impose structural loan conditions was rebuffed in early 1979 during a review of the Fund's conditionality guidelines. But a few years later, IMF management succeeded in taking up the expanded mandate by avoiding the formal board approval that would be required to change the conditionality guidelines or Articles of Agreement.

Instead, the change was made through a "shift in operational norms" without any overt policy change – hence the use of the term "clandestine transformation" by the academic researchers. However, the transformation was made with the active support of some key member countries, most notably the IMF's most powerful member, the United States, whose representation at the Fund was led by supply-side devotees from President Ronald Reagan's Treasury department.

Starting in 1986 in low-income countries and a year later in middle-income developing countries, conditions obliging borrowing countries to privatise State-owned enterprises, rein in government spending, and deregulate labour markets, among other requirements, were regularly included in IMF lending agreements.

"By the late 1980s, structural conditionality was widely practiced as a standard component of the fund's operational routines, even though its mandate and guidelines prohibited such reengineering of countries' political economies, [and] had become a taken-for-granted practice that no longer attracted controversy on the IMF's board."[5]

3 IMF, "Articles of Agreement of the International Monetary Fund", April 2016.
4 Alexander E. Kentikelenis and Sarah Babb, "The Making of Neoliberal Globalization: Norm Substitution and the Politics of Clandestine Institutional Change," *American Journal of Sociology*, vol. 124, no. 6 (2019): 1720–62.
5 Ibid.

The imposition of structural adjustment loan conditionality became known as the Washington Consensus after the publication of an article in 1990, "What Washington means by policy reform", by a think-tank economist who also advised the IMF and World Bank.[6] The focus of the article was on "how to deal with the debt crisis in Latin America" and "Washington" refers to the international financial institutions and the US government.

Although the article devotes more space to reduction of fiscal deficits, liberalisation of imports, and privatisation, it also notes Washington Consensus support for the deregulation of "limits on firing of employees". Indeed, by 1994 more than 50 per cent of all IMF loans contained conditions on labour market issues.

A 2016 report by the United Nations' independent expert on the effects of foreign debt and other financial obligations notes several cases of IMF loan conditions during the 1980s and 1990s to reduce the number of public sector employees and their wages, ostensibly with the aim of reducing fiscal deficits, and also many examples of deregulation of rules applicable to private-sector workers concerning probation periods, temporary employment, dismissals and overtime, and the decentralisation of collective bargaining.[7]

Studies cited by the UN expert show that IMF conditions concerning labour regulations were linked with declining labour share in manufacturing, reduced real wages, and diminished unionisation rates. The report notes the absence of evidence that the weakening of labour standards aided economic recovery in debt-related crisis countries, which was the official justification for such measures. In some countries, "it appears that debt crises have rather provided a pretext to push through labour market reforms favouring business interests rather than addressing economic problems", with the reforms resulting in increased income inequality. [8]

The report points out:

"Evidence from Latin America suggests that reforms that deregulated individual and collective labour law in [several countries] in the 1980s and 1990s led neither to less informal employment nor reduced employment instability, which saw an increase during that period.... Overall, there is little evidence that labour market deregulation furthers recovery in the context of financial and economic crises, while the negative impact on economic and social rights is substantial."[9]

In Africa, structural adjustment policies led to premature deindustrialisation that frustrated development, economic diversification and employment. Zambia, once one of the highest-income countries in Sub-Saharan Africa, undertook rapid trade liberalisation and opening at the behest of the IMF and World Bank. This severely harmed the manufacturing sector, virtually decimating a notable domestic textile and garment industry in which employment dropped from 34,000 at the beginning of the 1990s to 4,000 by the year 2001. Overall manufacturing employment fell by 42.5% between 1991, when structural adjustment began in earnest, and 1998.[10]

In Sudan following a 1978 IMF programme, structural adjustment including trade and foreign exchange liberalisation led to a fast reduction in the share of GDP related to intermediate and final industrial production, while facilitating higher imports of luxury consumer goods by a small wealth elite.[11] Structural adjustment also restricted health and education spending in Sub-Saharan Africa. Sanjaya Lall observed that structural adjustment reduced "expenditures in education and health care, damaging the fragile human-resource base on which long-term industrial progress depends."[12]

The austerity and structural adjustment conditionality in IMF loans also did little to resolve debt problems in developing countries. On the contrary, developing countries' debt burdens increased during the 1980s and 1990s until debt write-off initiatives were adopted. Among low-income countries, the average debt-to-GDP ratio jumped from 35 per cent in 1980 to 90 per cent in the early 1990s. During the last decade of the twentieth century, it had become obvious that the austerity and structural adjustment policies labelled as the Washington Consensus had failed abjectly in reducing developing-country debt levels, even though that was supposed to be their primary benefit.

6 John Williamson, "What Washington Means by Policy Reform," in *Latin American Adjustment: How Much Has Happened?*, ed. John Williamson (Washington, D.C.: Institute for International Economics, 1990).
7 Juan Pablo Bohoslavsky, "Labour rights in the context of structural adjustment and financial consolidation policies," OHCHR report A/HRC/34/57, 27 December, 2016.
8 Ibid., 14.
9 Ibid., 17-18.
10 Lishala C. Situmbeko and Jack Jones Zulu, "Zambia: Condemned to Debt," World Development Movement, April 2004.
11 Howard Stein, "Deindustrialization, adjustment, the World Bank and the IMF in Africa," *World Development* vol. 20, no. 1 (1992): 83-95.
12 Sanjaya Lall, "Building Industrial Competitiveness in Developing Countries," OECD, 1990.

Partial acknowledgement of policy failures leads to debt relief initiatives

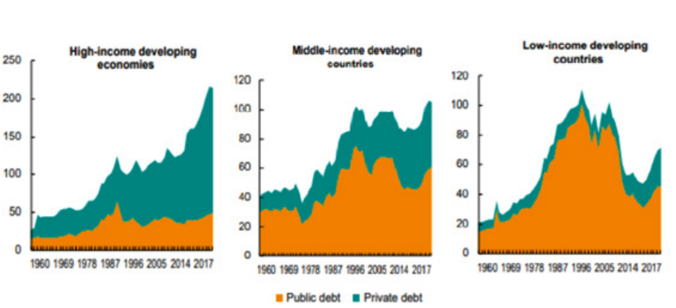
By the second half of the 1990s, both the IMF and the World Bank had concluded that debt burdens in many low-income countries, most of which were owed to multilateral institutions such as the Fund and the Bank or bilateral development agencies, were unsustainable and could never be repaid.

In 1996 the IFIs launched the first of three debt relief initiatives for Heavily Indebted Poor Countries (HIPCs). The last of these, known as the Multilateral Debt Relief Initiative (MDRI), committed in 2005 to granting full cancellation of eligible countries' debts to the multilaterals. A total of 36 countries received full or partial annulment of external debts through these programmes.

The HIPC and MDRI programmes were of no assistance, however, to the higher- and middle-income developing countries, which included most of Latin America, that also saw their debt-to-GDP ratios balloon during the last two decades of the twentieth century (Figure 1). A large portion of these countries' government debts were owed to banks and other private lenders, who were eager to profit from the higher interest rates payable by emerging market borrowers.

FIGURE 1

Total debt, by country income level, 1960-2017 *(Percentage of GDP)*



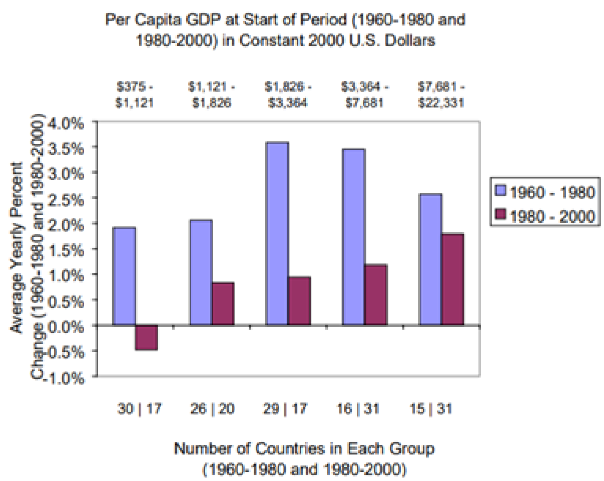
Source: UNCTAD (2019).

Several of these countries found themselves unable to meet payments to creditors during the economically turbulent 1980s and 1990s. At every level of national per capita income, growth during the last two decades of the twentieth century was lower than in the previous two decades. On average the poorer the country was, the lower was its per capita growth rate (Figure 2). But even in Latin America, a middle-income region, per capita GDP growth was negative during eight years out of twenty, and much of the continent was moving backwards in terms of poverty levels.

Due to a tightening of monetary policy in the US at the beginning of the 1980s and again the early 1990s, interest costs shot up. Unable to meet their debt service commitments, many countries sought a reduction or at least a rescheduling of their obligations, often after having missed debt payments and thus declaring default.

FIGURE 2

Per Capita GDP Growth by Country Income Group



Source: CEPR (2001).

Government debt defaults increased sharply during the 1980s and 1990s: some 82 sovereign defaults took place during those two decades as compared to 23 during the 1960s and 1970s.[13] They took place in countries small and large, including among the latter, Argentina, Brazil, Egypt, Mexico, Morocco, Nigeria, Peru, Philippines, Russia, South Africa, Thailand, Turkey, Ukraine and Venezuela. Some countries defaulted more than once during the last two decades of the century.

Manifestly, structural adjustment was not the panacea for solving debt crises that the IMF and other proponents were hoping for, let alone for putting developing economies on a sustained growth path. The slow or even negative growth resulting from Washington Consensus policies had the effect of increasing debt burdens relative to GDP. In several countries the austerity and structural conditionality imposed by the IFIs was responsible for deepening debt crises, in some cases leading to default, rather than resolving them.

One such country was Argentina, which had already defaulted twice in the 1980s. At the end of 2001 it was on the cusp of declaring the largest sovereign default in history at that point. It had been operating for almost nineteen years under nine consecutive IMF lending programmes, with only short interruptions between each one. The programmes contained stringent loan conditionality. The economy entered a deep recession in 1999 and ultimately lost 20 per cent of GDP between 1998 and 2002.[14]

As the Argentine economy was collapsing, the IMF realised that the prospect of a disorderly default would only lead to further chaos and economic damage. Argentina was by no means the first country to find itself in such a situation, but the size of its pending default finally spurred the Fund to examine the creation of a means for limiting the damage of "messy defaults".

Finally, in late 2001 the IMF launched a discussion, both internally and with outside interested parties, aimed at establishing a forum for negotiations between borrowing governments incapable of meeting payments and their foreign creditors. The Fund called the concept a Sovereign Debt Restructuring Mechanism (SDRM).[15]

The SDRM never came to fruition. The IMF decided to abandon the idea in 2003 because of US opposition, which originated in Wall Street banks but eventually made its way into directives from the US Treasury Department. Prior to this, the IMF engaged in consultations with various civil society organisations, including trade unions, that had promoted the adoption by creditor institutions of debt relief measures for developing countries.

Similar consultations had taken place on the HIPC initiative for cancelling low-income country debt, and it is no exaggeration to say that campaigns led by civil society movements such as the Jubilee Campaign were instrumental in convincing the G7, followed by the international financial institutions (IFIs), to eventually accept to fully write off the IFI debts of eligible countries. The 2005 debt cancellation initiative, approved by the G7 that year, surpassed earlier versions of the HIPC initiative adopted in 1996 and 1999 that had only reduced part of eligible low-income countries' debt burdens.

13 David Beers and Jamshid Mavalwall, "Database of Sovereign Defaults, 2017" Bank of Canada Technical Report No. 101, June 2017.
14 Mark Weisbrot and Luis Sandoval, "Argentina's Economic Recovery: Policy Choices and Implications," Center for Economic and Policy Research, October 2007.
15 Anne O. Krueger, "A New Approach to Sovereign Debt Restructuring," IMF, April 2002.

"Streamlining conditionality"

During the 2000s the IMF and the World Bank developed policies for making their operations somewhat more transparent and listening to voices of critics, in part because of the growing controversy that structural adjustment policies were causing. They could not ignore the growing opposition to loan conditions that cut back spending on popular government programmes, privatised certain public services, and reduced living standards of working people.

Apparently hoping to open channels of communication, from the late 1990s, the IFIs became more receptive to consulting non-governmental organisations about their policies in individual countries. Additionally, the IFIs created space for dialogue with civil society during the official assemblies of member country governments that took place twice a year.

When they witnessed the impact of the loan conditionality on their members, trade unions started demanding meeting with IFIs from around 1990. A first regional meeting of trade unions from the Americas with the Washington-based IFIs took place in 1992, and later in the decade global meetings of trade union leaders with IMF and World Bank management were organised. In 2002, the two major international trade union bodies at the time (ICFTU and WCL) agreed on a protocol for regular biennial meetings of their leadership with the IFIs and for other exchanges between unions and the institutions.

When the IMF and World Bank adopted their second HIPC programme in 1999, they included a requirement that countries receiving debt relief or new concessionary (near zero interest rate) loans or grants would have to prepare a Poverty Reduction Strategy Paper (PRSP) in consultation with the country's civil society. The second HIPC initiative was adopted along with commitments to make the elimination of poverty the IFIs' overarching goal. Monies from debt relief were supposed to be used to fund poverty-eradication programmes, and the IFIs officially agreed with the argument that civil society groups could be effective in helping identify where funds should go, that is, at least until the PRSP requirement was terminated in the mid-2010s.

Responding to critics including the labour movement, which accused the IMF of overloading its programmes with numerous damaging loan conditions, in 2001 the Fund began a process for "Streamlining Conditionality". An IMF report, produced after consultations on the topic, concluded:

"... conditionality should be applied more sparingly to structural measures that are relevant but not critical, particularly when they are not clearly within the Fund's core areas of responsibility and expertise".[16]

However, the report was noticeably ambiguous, neglecting to provide a practicable definition of "criticality", as well as not laying out clear demarcations of the Fund's core areas of expertise. This seemingly deliberate ambiguity has been a point of constant debate between the Fund and its critics since that time, and the real impact of the streamlining process has been very uneven.

In a few areas there was an observable decline of conditionality in the decade of the 2000s. Academic research has found that conditions on labour issues, defined as encompassing pension reforms as well as measures affecting employment and wages, were included in 75 per cent of loans in 2005 but fell to 25 per cent in 2009 (Figure 3).[17] However, it should be noted that the total volume of IMF lending declined sharply during the second half of the 2000s, especially among middle-income lenders where this kind of conditionality may have been more prevalent

16 IMF, "Managing Director's Report to the International Monetary and Financial Committee—Streamlining Conditionality and Enhancing Ownership," November 6, 2001.
17 Alexander E. Kentikelenis, Thomas H. Stubbs and Lawrence P. King, "IMF conditionality and development policy space, 1985-2014", *Review of International Political Economy*, vol. 23, no. 4 (2016): 543-582.

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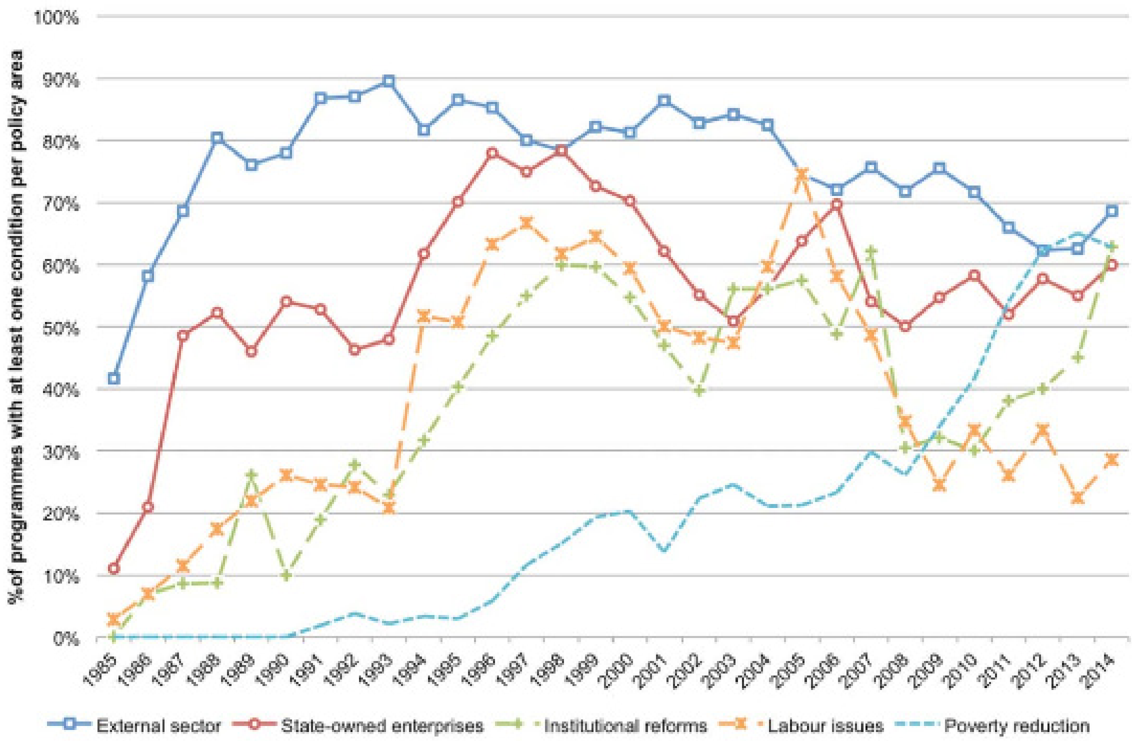
FIGURE 3

Type of Conditionality in Lending Agreements



Source: Kentikelenis et al. (2016).

As large emerging market countries such as Argentina, Brazil, Indonesia, and Turkey ended their IMF borrowing, often reimbursing the loans before they had expired, the IMF's total volume of interest-bearing lending fell dramatically. The governments terminating their IMF programmes in some cases stated that they did so in order to escape from intrusive loan conditions.

Lending through stand-by arrangements, which encompass interest-bearing loans (but exclude the much smaller concessionary loans to poor countries), dropped from a total of 53.9 billion SDRs, equivalent to US$78.3 billion, in April 2004 to 7.5 billion SDRs or US$12.2 billion in April 2008.[18] SDR or Special Drawing Right, the IMF's currency unit, is a composite of five leading world currencies.

Responding to its declining capacity to influence economic policy through lending operations, the IMF in 2006 attempted to host discussions among five major economic powers (US, Eurozone, Japan, China, and Saudi Arabia) aimed at redefining its mandate. However, due to a lack of serious commitment by these powers, the IMF eventually gave up on the effort.

The drop in total lending was not only eroding the Fund's capacity to influence member countries' policies but was also negatively affecting its own finances. In early 2008 the Fund announced that it was encountering an "income gap" of $400 million (it pointedly avoided using the term "deficit" in reference to its own finances) on total administrative expenditures of around $1.7 billion.[19] Spokespersons stated that this situation could oblige the Fund to seek new sources of revenue and cut 400 of its 2600 staff members. A new managing director was tasked with eliminating the gap, while some discussion ensued as to whether the IMF had outlived its usefulness.

18 IMF, "Financial Statements of the International Monetary Fund."
19 IMF, "Transcript of a Press Briefing by Masood Ahmed, Director, External Relations Department, International Monetary Fund," January 10, 2008.

IMF's initial crisis response

As it faced an existential crisis in early 2008, the IMF was the first major multilateral institution to predict that the global economy faced the prospect of an important downturn. That said, the Fund had utterly failed to predict the global financial crisis, which first manifested itself in the sudden tightening of global credit markets in early August 2007. The IMF also initially played down its impact on the real economy and defended the financial "innovations", such as US banks' miraculous conversion of sub-prime mortgages into AAA-rated securities, that would shortly lead to financial collapse.

In a speech delivered a few weeks after the start of the credit crunch, the IMF's outgoing managing director (who later moved to the private banking sector and from there to prison for embezzlement) said that the global economy would continue to grow strongly and cautioned regulators against curtailing the creation of innovative financial products:

"First ... we still expect the global economy to continue performing well, even in the face of recent financial market turbulence. Second, although recent developments have highlighted some of the risks that come with innovations in financial instruments, we believe that these innovations provide an important and essential contribution to ... sustained and rapid growth ... In several industrial countries ... financial markets over the past decade have substantially improved economic performance through the development [of] a wide array of products ... [A] clear lesson is for governments to avoid the temptation to direct commercial bank credit or excessively intervene in product design."[20]

Even after the IMF acknowledged the gravity of the crisis half a year later and anticipated a downturn, the Great Recession was ultimately far worse than its forecasts of January 2008. The IMF predicted at that moment that in the US, where the global financial crisis began, the economy would continue to grow in 2008, although at a modest 1.5 per cent.[21] In reality the American economy was already in recession at the end of 2007 and GDP would fall by 4.3 per cent until mid-2009.[22] The US unemployment rate would double to 10 per cent by October 2009.

As mentioned earlier, the Fund was also the first official international organisation, in January 2008, to call on governments to undertake "targeted fiscal stimulus ... during a critical phase" for the global economy.[23] The G20 followed through on this call but did so only fifteen months later in April 2009. By that time the global economy was in far worse shape than what IMF forecasters had projected in early 2008.

The deeper-than-expected recession was due to a near collapse of the US financial system, with worldwide repercussions. The New York investment bank Lehman Brothers went into insolvency in September 2008, and several other venerable Wall Street institutions would have followed had the federal government not stepped in to provide emergency bailouts using public funds.

Only the prospect of a generalised financial crash finally led to concerted government action. In April 2009 the G20's London summit endorsed the IMF's call for fiscal stimulus, advising countries to devote 2 per cent of their GDP to such measures. It also mandated the creation of a new Financial Stability Board to develop proposals for re-regulating the international financial system. Later G20 summits would authorise a sizeable expansion of the Fund's financial resources for providing assistance to countries in difficulty, and simultaneously resolving the Fund's own "income gap".

Thus, in addition to its advocacy at the G20, the IMF used its powers as lender of last resort by negotiating with crisis countries to provide emergency loans. The first country seeking assistance as a result of the global financial crisis was Iceland, and it agreed to borrow $2.1 billion from the IMF in October 2008 after three weeks of negotiations and less than six weeks following the Lehman Brothers collapse.

Iceland's bloated banking sector had been in difficulty since 2007. Regulators had allowed it to expand exponentially with little oversight by promising foreign depositors inordinate returns. The sudden end of Lehman in September 2008 called attention to the fragility of Icelandic banks. Immediately thereafter the three largest banks, whose combined declared

20 IMF, "Economic Growth and Financial Market Development: A Strengthening Integration, Speech by Rodrigo de Rato, Managing Director of the International Monetary Fund," August 22, 2007.
21 IMF, "IMF Sees World Growth Slowing, With U.S. Marked Down," January 29, 2008.
22 Robert Rich, "The Great Recession", Federal Reserve Bank of New York, November 22, 2013.
23 Strauss-Kahn, "The case for a Target Fiscal Boost".

assets were equivalent to eleven times the small country's GDP, faced insolvency and threatened to wipe out the entire banking system.

As the banks were declaring bankruptcy, the Icelandic stock exchange lost close to 80 per cent of its total valuation in early October in the weeks leading up to the agreement with the IMF. That loan and others from some European lenders allowed the government to seize the banks' assets and restructure the banks to protect domestic, and to a degree, foreign depositors.

The loan agreement with Iceland contained some unique features compared to IMF loans in similar circumstances that preceded Iceland's programme, but also those that followed.[24] The country's GDP would ultimately shrink by one tenth between 2008 and 2010. However, thanks in large part to the strength of the labour movement in Iceland, a country with a 90 per cent unionisation rate, an effort was made to share the burden. Negotiations between the government, employers and unions led to tripartite approval of the lending agreement concluded with the IMF.

The insolvent banks were allowed to go into receivership, wiping out equity, but the government regrouped domestic assets and liabilities into a State-owned bank in order to avoid a total collapse of the banking system. Costs of this financial sector rescue operation were financed in part through new wealth and capital gains taxes. The programme provided for the government's primary fiscal deficit (deficit before debt service), which was at 0.6 per cent of GDP in 2008, to increase to 8.5 per cent in 2009 and gradually be eliminated by 2012.

Trade unions agreed to temporary renunciation of some wage increases as the exchange rate fell and inflation increased, but only on the condition that capital controls would be applied to stem the outflow of capital. They also insisted on and obtained guarantees protecting the social security system and Iceland's sectoral collective bargaining regime.

After two years of recession, the economy began growing again in 2011 and in 2013 Iceland's GDP increased by more than 4 per cent, at the same time that the Eurozone was in its second year of negative growth. Another notable outcome of the progressive measures adopted when the IMF programme was approved in 2008 was that Iceland's income inequality decreased during the recovery period. Iceland's economy experienced relatively swift recovery, certainly as compared to other European countries that endured financial crisis after the shift to austerity that we will examine later. Rapid recovery was also helped by the adoption and implementation of expansionary fiscal measures by the G20 and other countries in 2009. For a small economy dependent on foreign trade like Iceland, the concerted recovery effort launched in April 2009 undoubtedly had a beneficial impact.

The IMF had started encouraging fiscal stimulus one year earlier, and in preparation for the London G20 summit, the Fund released reports publicising the country-by-country quantitative stimulus commitments and provided examples of proposed measures.[25] These included increased infrastructure spending, strengthened unemployment benefits and similar social transfers, and targeted tax cuts. Later in 2009 the Fund published reports on "fiscal stimulus implementation status" for each of the G20 countries.[26]

Although actual implementation of the fiscal stimulus commitments was uneven among G20 countries – the level of crisis-related discretionary measures varied between 0.2 and 4.1 per cent of GDP according to IMF calculations – the impact was real and substantial. The target of a G20 average of 2 per cent for discretionary measures was attained, according to the Fund, and the added impact of automatic stabilizers meant that the total fiscal deficits in G20 countries would increase by 5.5 per cent in 2009.

The global economy shrunk by 0.1 per cent in the Global Recession year of 2009 (among advanced economies the decline was 3.3 per cent), but in the following year growth rebounded to 5.4 per cent. This was only slightly below the pre-crisis global growth rate of 5.6 per cent in 2007.

But thanks to a return to austerity just a year after the London G20 summit endorsed stimulus, the pace of global economic growth went into a steady decline after a single year of strong recovery. No sooner had the IMF convinced the G20 to adopt and implement a robust recovery strategy than it set about to revoke and dismantle the policies in 2010. Fiscal consolidation would take the place of fiscal stimulus, and the result would be several years of economic stagnation and double-dip recession.

24 IMF, "Iceland: Request for Stand-By Arrangement," Country Report No. 08/362, November 25, 2008.
25 IMF, "Note by the Staff of the International Monetary Fund," Group of Twenty Meeting of the Deputies January 31–February 1, 2009 London, UK.
26 IMF, "Global Economic Prospects and Policy Changes," Meeting of G-20 Ministers and Deputies September 3-4, 2009 London, UK.

Reversal of strategies to support recovery

Even while the IMF was advising G20 countries on quickly implementing economic recovery measures through fiscal stimulus, it was laying the groundwork for an about-face. As early as July 2009, three months after the London G20 summit, the IMF submitted a "surveillance note" to G20 deputies in which it warned:

"Developing clear and effective exit strategies from exceptional policy actions will be central to ensure a smooth return to normal market functioning, to safeguard the sustainability of public finances, and to contain concerns about inflation."[27]

The Fund's note provided no evidence of increasing inflationary pressures. The urge to quickly dismantle government intervention less than a year after "normal market functioning" of the financial sector had nearly blown up the global economy appears risible. As for concerns about sustainability of public finances, events a few years later would show that the anti-growth strategies promoted by the Fund did far more to threaten fiscal sustainability than would have occurred under any continuation of the stimulus measures.

The admonitions that the IMF expressed to G20 technocrats in the latter half of 2009 reflected a change in priorities within the institution, and Fund management did not wait for G20 leaders to give the green light before internally carrying out the policy shift. The IMF's fiscal affairs department smoothed the way by preparing a detailed policy paper titled "From Stimulus to Consolidation: Revenue and Expenditure Policies in Advanced and Emerging Economies" that was eventually "discussed" by the Fund's board in May 2010. Board discussions avoid a formal vote or decision but are generally used by Fund management to gain de facto approval for their positions.

The paper put forward a blueprint of policy tools that could be used in advanced and emerging economies for fiscal consolidation, that is deficit reduction, in the wake of the global financial crisis. It suggested that the austerity measures should start immediately. Most of the deficit reduction should be accomplished on the expenditure side, most notably by reining in spending for health care through measures to "limit public benefits, or reduce the demand for public health services". Additional consolidation would come from pension reforms such as increasing statutory retirement ages.

On the revenue side, the suggestion at the top of the list was to increase yields from value-added taxes, which is usually a regressive form of taxation (the lower one's income, the higher is the proportion of income paid in VAT). Astoundingly, the 92-page paper contained no discussion of the macroeconomic impact of making the sudden switch from fiscal stimulus to consolidation before the global economy had even begun to emerge from the worst economic crisis since the 1930s.

The IMF's about-face from stimulus to consolidation in 2010 was not the object of a formal IMF board decision, much less officially approved by member governments. Similar to the shift in "operational norms" that led to the adoption of structural adjustment loan conditionality in the mid-1980s, IMF management took multiple steps internally to make the policy shift but did not publicise the change until it was already being implemented.

In May 2010, the same month in which the IMF's board "discussed" the fiscal affairs department's blueprint for fiscal consolidation, it approved an emergency loan for Greece that set the pattern for several other lending agreements in the following years.[28] The loan was for €30 billion, and the Euro Area committed to lending a further €80 billion.

Requirements in the Greek loan included a severe fiscal austerity programme for reducing the primary deficit by three-quarters in the first year and completely eliminating it after the second. The deficit would be cut through reductions in pensions, the public-sector wage bill, and health care expenditures, as well as increases in the VAT and some other consumption taxes. The Greek government also agreed to a process aimed at "divesting state assets". All of these commitments were the subject of loan conditions.

27 IMF, "Global Economic Prospects and Effectiveness of Policy Response," Group of Twenty Meeting of G-20 Deputies June 27, 2009 Basel, Switzerland.
28 IMF, "Greece: Staff Report on Request for Stand-By Arrangement," Country Report No. 10/110, May 10, 2010.

To prevent failure of the banking system, the Greek government provided several billions of euros in capital injections and liquidity assistance. To "boost competitiveness", the government expressed intentions to reduce the minimum wage for certain categories, reform collective bargaining laws and revise employment protection legislation. Even though some four-fifths of Greek workers were covered by collective agreements, no attempt was made to seek tripartite agreement on any of the measures as had been done in Iceland eighteen months earlier. Instead, the new approach seemed to be one of ensuring that the workers would pay for a crisis that was caused first and foremost by a dysfunctional global financial system.

The IMF's loan to Greece announced a sharp reversal of the fiscal stimulus approach that the G20 had approved barely a year earlier in London. The G20 summit after the Greek loan, scheduled to take place in Toronto at the end of June 2010, was set to give its seal of approval to the shift to austerity that the IMF had already begun to apply in lending conditionality.

Political reversals had taken place within some important G20 countries since April 2009, making it easier for the Fund to win official approval for the new policy. Key among the changes were the arrival of the conservative Wolfgang Schäuble as German finance minister in October 2009, after the social democrats left the governing coalition to be replaced by a more right-wing party, and the coming to power in May 2010 of the British Conservatives, replacing the previous Labour government.

The fact that the ultra-conservative Harper government in Canada was host of the June G20 summit was also fortuitous for those keen to inaugurate the shift to austerity. The Canadian finance minister had spent several weeks prior to the summit travelling to G20 capitals to convince his colleagues to get on board the fiscal consolidation train.

Some emerging market countries objected to making commitments to engage in austerity measures, especially while the recovery was still fragile. But the advanced economy group, which made up half the attendees, appeared to be unanimous in a pledge to reduce their deficits. According to the final declaration of the Toronto G20 summit:

"Advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016.... Those with serious fiscal challenges need to accelerate the pace of consolidation."[29]

Other IMF loans to Eurozone countries in the early 2010s showed a focus similar to the Greek loan in aiming to reduce fiscal deficits as quickly as possible. Such was the case for Ireland where the government, after taking on all uncovered liabilities of the failing private banking sector to the tune 83 per cent of GDP, negotiated a loan in December 2010 in which it agreed to eliminate its primary fiscal deficit by the end of 2013. Then Portugal contracted a loan in May 2011 where it committed to eliminating its primary fiscal deficit within the first year of the programme.

These loans also referred to upcoming structural reforms for the labour market. For example, Ireland promised to adjust replacement ratios for unemployment benefits, presumably downward, to lower the minimum wage and to weaken or eliminate sectoral wage agreements. It should be added that these measures were not included as conditionality in Ireland's loan agreement but were pushed through the memorandums of understanding with the troika of the IMF, the European Commission and the European Central Bank. The Ireland loan agreement included significant trade union dialogue with the Fund, but the decision to bailout reckless private banks and identify sectoral collective bargaining as a barrier to recovery foreshadowed the Greek experience.

A loan to Portugal half a year later did have structural conditions to reduce severance payments and employers' contributions to social security. The Portuguese government also informed the IMF that it would reduce the level and duration of unemployment benefits and put stricter limits on the possibility of negotiating sector-level wage agreements.

By 2012, structural reform was given far higher priority in the European loan programmes. This was at a time when more than four-fifths of the Fund's total lending was to Europe. The new emphasis on structural adjustment was signalled by the publication of a report from the IMF's European department in June 2012 titled "Fostering Growth in Europe Now". The paper was promoted in an IMF communiqué as demonstrating that in European countries "large-scale reforms could boost GDP by 4½ percent over

29 "The G2 Toronto Summit Declaration," G20 Information Centre, June 27, 2010.

five years" and lead to reduced unemployment. The Fund also insisted on the urgency of undertaking structural adjustment in Europe immediately:

"Because structural reforms deliver their potential gradually, product and services market reforms, as well as labour market and pension changes, should be implemented without delay".[30]

The release of the paper coincided with a G20 summit taking place in Los Cabos, Mexico, where the managing director of the IMF put particular emphasis on the urgency of labour market reforms during side meetings.

The full "Fostering Growth in Europe Now" paper was actually more nuanced and modest about the expected gains from labour market deregulation than the IMF communications hype. It cautioned that labour market reforms could actually increase unemployment when the economy is weak (as was certainly the case in 2012, when the Eurozone was entering into recession for the second time in three years), and could have "high social costs". However, the Fund was unable to find space in the 43-page paper to assess these costs.

In an annex of the report concerning country-by-country "structural reform gaps" in Europe, the "gaps" in labour market reform are judged to be relatively minor compared to the reforms needed to improve infrastructure, skills training, the functioning of credit markets and other areas. Despite this appraisal that labour issues are not a major obstacle to growth, the paper states in an evident non sequitur that "further measures are needed, *in particular* to improve the functioning of labour markets" (our emphasis).

The report follows the non sequitur with a tautology. It explains in a second annex that in almost all of the 17 countries considered, labour market reforms are at the top of the list of "IMF recommendations for reform priorities for each country" as determined by IMF staff. This is the justification given for the report's determination that labour reforms must be the first priority. In other words, the European department's "analysis" arrives at the conclusion that labour market reforms are the most urgent priority because IMF staff say that they should be the most urgent priority.[31]

30 IMF, "IMF Survey: Europe Needs Comprehensive Action to Revive Growth," June 18, 2012.
31 Bergljot Barkbu, Jesmin Rahman, and Rodrigo Valdes, "Fostering Growth in Europe Now", IMF SDN 12/07, June 18, 2012.

Push for labour market deregulation in Europe

IMF loans in Europe were already including more frequent conditionality on labour issues at the time that the "Fostering Growth in Europe Now" paper was published in mid-2012. In other countries, Fund staff pressed for deregulatory labour market reforms in their loan reports without making them formal conditions.

In March 2012 the Fund negotiated a new €28 billion loan with Greece that superseded the May 2010 loan with vastly more elaborate conditionality.[32] The Greek government's promises to lower minimum wages and revise the collective bargaining system, which had appeared as eventual intentions in the Memorandum of Economic and Financial Policies annexed to the first loan agreement, were now converted into structural conditionality as "prior actions". This meant that no loan disbursement would take place before the measures were implemented.

The volume and detail of other loan conditions were reminiscent of the complex and intrusive lending agreements of the late 1990s in Southeast Asia, which Fund officials had stated in the early 2000s would never reoccur. Greece's new loan included, for example, a list of 35 State-owned enterprises or properties that Greece was compelled to privatise. The list included seaports, airports, railways, motorways, water systems, the electricity service, the postal service, part of the defence system and the State lottery.

The labour issues in the first loan to Greece in 2010 that were included as explicit loan conditions had been limited to those having a direct fiscal impact, namely the public sector wage bill and benefits paid out by the State pension system. The revised loan in 2012 included a new focus on weakening labour standards and practices in the private sector. Up until then, those practices included a minimum wage agreed through tripartite consultations and a system of sector-level collective agreements that prior to the IMF programmes covered more than four-fifths of the workforce.

The minimum wage was to be lowered by 22 per cent with a further 10 per cent reduction imposed on young workers and would then be frozen until the end of the IMF programme. A series of measures to limit the extension of collective agreements had the effect of essentially abolishing sectoral bargaining.

By 2014, according to ILO statistics, collective bargaining coverage fell to 15 per cent, down from 84 per cent in 2009.[33] IMF officials conceded in 2013 that the deregulatory labour reforms resulted in substantially reduced wages without compensating reductions in prices, thus confirming that workers were paying the costs of adjustment.[34] This led to no changes in loan conditionality.

Similar legislative changes restricting sector collective bargaining took place in Romania. The outcomes were also similar, with collective bargaining coverage dropping from 97 per cent in 2010 to 35 per cent in 2013, two years after the changes were enacted.

A first IMF loan, negotiated in 2009 at the height of the recession when Romania's GDP contracted by 5.5 per cent, did not include labour market conditionality, but did include a condition to substantially reduce pension expenditures. In 2010 during loan reviews, the government informed the IMF that the measures it was taking to meet the deficit level stipulated by a loan condition would include a 25 per cent cut to public-sector wages and a hike in the Value-Added Tax (VAT) rate from 19 to 24 per cent, as well as a 15 per cent cut in pensions.[35] No action was taken, nor did the IMF press for one, to reform and make progressive the country's flat income tax regime (with a rate of 16 per cent) as an alternative to increasing the regressive VAT.

32 IMF, "Greece: Request for Extended Arrangement Under the Extended Fund Facility", Country Report No. 12/57, March 16, 2012.
33 ILO, ILOSTAT, Collective Bargaining Coverage Rate (%) – Annual.
34 IMF, "Transcript of a Conference Call on the Completion of the First and Second Reviews of Greece's EFF Arrangement," January 18, 2013.
35 IMF, "Romania: Fifth Review Under the Stand-By Arrangement," Country Report No. 10/301, September 30, 2010.

The first loan expired in March 2011 and was immediately replaced by a new precautionary arrangement, whereby loan disbursements are made only if needed. That agreement coincided with important legislative changes to Romania's collective bargaining regime and other labour regulations that were underway. These legislated measures caused a rapid collapse in collective bargaining coverage. They were enacted shortly after the new IMF loan was approved.

The 2011 lending agreement did not contain conditionality on the changes to labour laws and collective bargaining, but an IMF staff report put the changes in a positive light, arguing that they would enhance "flexibility" of both employment rules and the wage-setting process. The report does concede that the new social dialogue code is "controversial" because, as well as severely restricting the possibility of sectoral agreements, it abolished collective bargaining at the national level.[36]

One year later in mid-2012, a new Romanian coalition government announced its intention, after engaging in tripartite consultation, to amend the restrictive collective bargaining law following the precipitous fall in bargaining coverage by about two-thirds. All trade unions and all business associations with the exception of the American Chamber of Commerce in Romania endorsed the proposed modifications, which included the re-establishment of national bargaining. However, the IMF opposed the amendments and drafted its concerns in a letter that it sent, jointly with the European Commission, to the government. The letter was not made public, but the ITUC obtained a copy and posted it.[37]

In their letter, the IMF and European Commission "strongly urge" the government not to proceed with the amendments to the social dialogue law on various grounds, one of which is that they did not receive unanimous support from all business associations. Curiously, the IMF voiced no concern about lack of unanimous consent to the much more radical changes in 2011 to the social dialogue law, which had been opposed by all trade unions and some business associations.

In the face of IMF opposition, the Romanian government stalled its amendment process without, however, withdrawing the proposed changes. In a subsequent loan report in July 2013, the Fund reiterated its opposition to amendments that did not have the consent of "all stakeholders". That presumably refers to the American Chamber of Commerce, since it was the only "stakeholder" not to have supported the changes. By this time the loan agreed in 2011 had expired.

A few weeks after the July 2013 loan report, the government finally abandoned its plans to amend the social dialogue law with the intent of reversing the precipitous fall in collective bargaining coverage. Shortly thereafter, in September, the IMF announced a renewed loan for Romania.

It should be noted that none of the loans to Romania in the 2009-2015 period contained conditionality on labour market regulations or collective bargaining, but the government responded to the IMF's admonitions as if they were explicit loan conditions. Such has also been the case in other countries which have felt obligated to apply the Fund's policy advice even when they are not borrowers.

Spain's last loan with the IMF was in 1979, but it experienced a severe banking crisis in the aftermath of the financial collapse in the US and elsewhere starting in 2008. The economy contracted sharply in 2009, the year of the Great Recession, recovered for one year in 2010 and then underwent a further three years of recession as the impact of austerity policies began to bite. During the second recession, Spain experienced the highest rates of unemployment in the Eurozone after Greece.

In contrast to Greece and other countries described above, Spain did not have a formal loan agreement with the Fund. Instead, it borrowed €100 billion from Eurozone institutions to bail out insolvent banks, and the IMF was given a role of designing the conditionality and monitoring compliance with it.[38] That agreement took place in July 2012.

In 2010-2011 Spain had undertaken a reform of labour laws and regulations after tripartite consultations that included a temporary suspension of the indexation of wages, a reduction of certain dismissal costs for employers and greater scope for firm-level collective

36 IMF, "Romania: Sixth Review Under the Stand-By Arrangement," Country Report No. 11/20, January 20, 2011.
37 IMF and European Commission, "Romania: Draft Emergency Ordinance to Amend Law 62/2011 on Social Dialogue," October 12, 2012.
38 IMF and European Commission, "Terms of Reference for Fund Staff Monitoring in the Context of European Financial Assistance for Bank Recapitalization," July 20, 2012.

agreements while maintaining sectoral agreements. However, in its annual policy review on Spain (Article IV Consultation report) in July 2011, the IMF urged the government to undertake a "bolder reform" of labour laws.[39]

The Fund insisted that collective bargaining had to be "effectively decentralized", through a "more radical reform" if necessary; indexation of wages to the cost of living permanently eliminated, thus ensuring a steady decline of real wages; and severance payments further reduced. The IMF report indicates that the government at the time pushed back against the IMF's suggestions for more radical reforms of labour laws and placed a great deal of value on continuing to seek tripartite consent to further measures.

Five months later in December 2011, the government's resistance to the Fund's suggestions was no longer an issue after a conservative government replaced the social democrats. Within two months, the new government enacted by decree a labour law reform that included most of the IMF's earlier suggestions. The IMF's subsequent 2012 Article IV Consultation report praised the government for its "profound labour reform [which] promises a significant improvement in the functioning of the labour market".[40]

In actual fact in 2018, five years after the "profound reform" began in 2012, Spain's unemployment rate remained almost double its pre-crisis level. This was after the sectoral bargaining system had been largely dismantled and average real wages had declined. According the Fund's supply-side reasoning, these factors should have stimulated increased hiring by firms and led to a steady decrease of unemployment. None of the IMF's staff reports for Spain acknowledge the failure of their predictions.

39 IMF, "Spain: Staff Report for the 2011 Article IV Consultation," Country Report No. 11/215, July 29, 2011.
40 IMF, "Spain: Staff Report for the 2012 Article IV Consultation," Country Report No. 12/202, July 27, 2012.

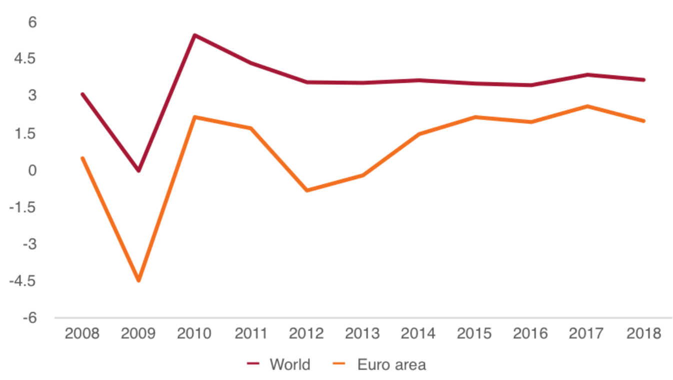
Stagnation and double-dip recession

No sooner had the emergence from the Great Recession begun in 2010 than it was cut short, thanks to austerity policies put in place by the IMF and G20. A sharp downturn of growth took place in 2011. Global growth fell by more than a percentage point to 4.3 per cent in 2011 (from 5.4 per cent in 2010); among advanced economies the slowdown was even more marked, falling to 1.7 per cent in 2011 (from 3.1 per cent).

It would be the beginning of more than half a decade of economic stagnation on the global level, with the rate of growth gradually declining to 3.4 per cent in 2016, the year of lowest growth since the Great Recession years 2008-2009. In some countries the continuation of unresolved financial crisis combined with the negative impact of austerity led to renewed GDP decline, in other words a full-fledged recession, within a few years. This was particularly the case in the Euro area, which entered the second phase of its double-dip recession in 2012 and 2013. These two years of negative growth took place only two years after the sharp GDP decline of 2009 (Figure 4).

FIGURE 4

Real Annual GDP Growth by Country Group



Source: IMF World Economic Outlook (2019).

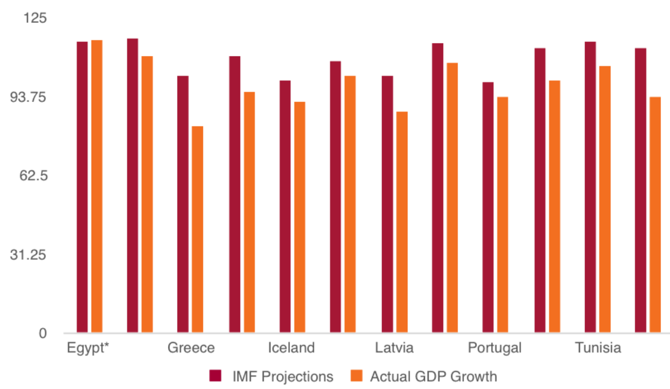
The IMF, G20 and other organisations had converted to the idea that the global economy would experience a healthy recovery as long as fiscal deficits were reined in and investor confidence was restored. For promoters of this notion of "expansionary austerity", one of whom assured European policymakers in 2010 that sharp reductions of deficits through public spending cuts would be immediately followed by sustained growth, the onset of stagnation and double-dip recession should have been a rude awakening.[41]

The failure of the expansionary austerity myth to materialise is particularly striking if one compares the IMF's growth projections in the programme countries – those that had IMF loans and thus obliged to implement specific loan conditions – with the actual outcomes. Almost without exception, the countries experiencing economic crisis that borrowed from the Fund in the 2010s experienced substantially lower growth three years after the loan programme began than what the IMF had predicted (Figure 5).

FIGURE 5

Cumulative GDP Growth, 3 Years after Start of IMF Programme

(Index, *start year of programme = 100***)**



Data for Egypt includes projections for 2019.

Source: IMF World Economic Outlook (various years), author's calculation.

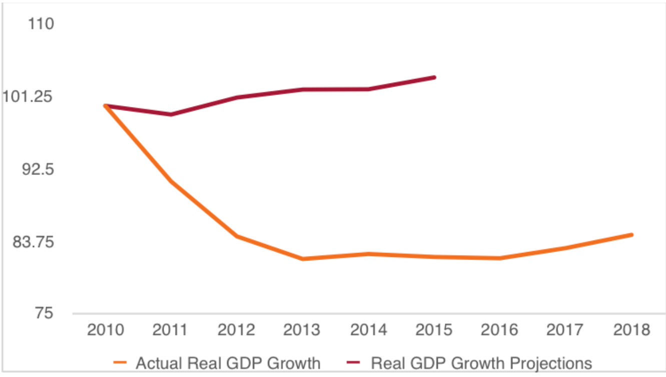
41 Robert Skidelsky, "Has Austerity Been Vindicated?," Project Syndicate, May 22, 2019.

Greece, for example, was informed by the IMF that that it could expect its economy to grow by 2 per cent over three years (2010-2013) by applying the troika's austerity and structural adjustment conditions. Instead, GDP shrunk by 18 per cent (Figure 6).

FIGURE 6

Greece: Real GDP Growth vs IMF Projections

(2010=100)



Source: IMF World Economic Outlook (2010, 2019)

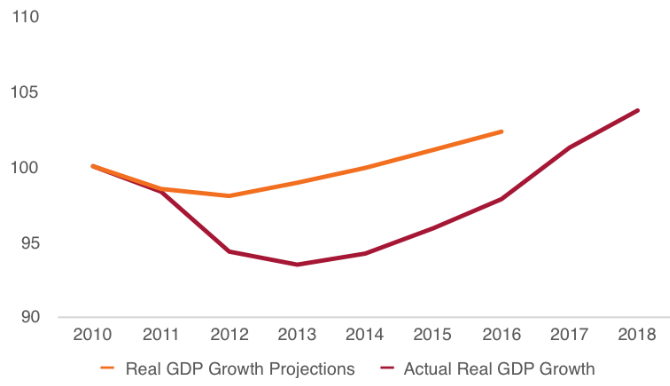
Similar examples of huge gaps between IMF projections for GDP growth and realized growth rates are shown for Portugal and Romania in Figures 7 and 8.

The failure of the IMF in almost all cases to predict anything close to reality concerning the impact of its programmes was also true for public debt burdens. It will be recalled that only three months after the G20 had endorsed anti-recessionary fiscal stimulus programmes in April 2009, IMF management urged countries to adopt exit strategies.[42] This contributed to the G20 Toronto commitment to "stabilize or reduce government debt-to-GDP ratios", while warning that "those with serious fiscal challenges need to accelerate the pace of consolidation".[43]

FIGURE 7

Portugal: Real GDP Growth vs IMF Projections

(Index 2010=100)

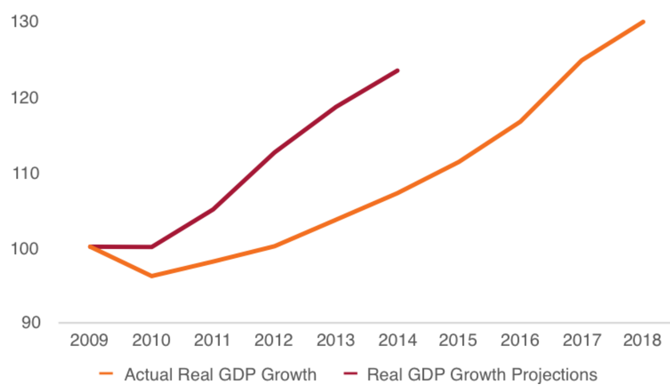


Source: IMF World Economic Outlook (2010, 2019)

FIGURE 8

Romania: Real GDP Growth vs IMF Projections

(Index 2009=100)



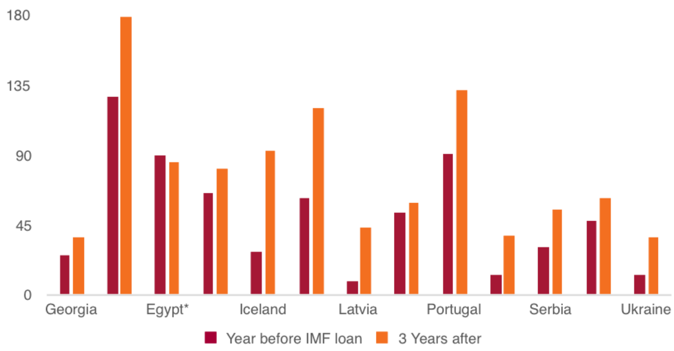
Source: IMF World Economic Outlook (2009, 2019)

42 IMF, "Global Economic Prospects and Effectiveness of Policy Response," Meeting of G-20 Deputies June 27, 2009 Basel, Switzerland.
43 "The G2 Toronto Summit Declaration," G20 Information Centre.

Fiscal austerity was presented as the unavoidable policy approach for bringing debt levels under control, and the need was all the more urgent in countries with serious fiscal issues, which applied to those seeking financial assistance from the IMF. Results show that without exception in the borrowing countries, debt-to-GDP ratios were higher three years after the start of the IMF lending programme than they were one year before the loan (Figure 9).

FIGURE 9

Debt-to-GDP Ratio, One Year Prior to Loan, and Three Years After



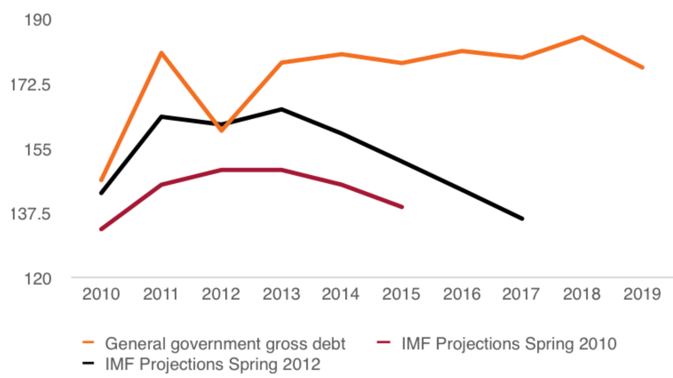
Data for Egypt includes projections.

Source: IMF World Economic Outlook (2019.

In Greece, for example, the public debt in 2009, the year before the first IMF loan, was 129 per cent of GDP. The level reached almost 180 per cent in 2013 despite a partial debt restructuring that took place the previous year. The IMF had predicted three years earlier that the debt-to-GDP ratio would be less than 150 per cent in 2013 (Figure 10).

FIGURE 10

Greece: Debt-to-GDP Ratio



Source: IMF World Economic Outlook (2010, 2012, 2019)

"Premature" fiscal consolidation

A few more scrupulous elements within the IMF were prepared to admit they had been mistaken in making highly optimistic and erroneous predictions about the recovery – without going so far as to say that the expansionary austerity concept, which many of their colleagues had embraced, was a complete fraud.

At the annual meetings of the IMF and World Bank in October 2012, the Fund's chief economist revealed that the research department had been using inaccurate fiscal multipliers that seriously underestimated the impact of fiscal consolidation on economic output, thus explaining why his forecasters had not foreseen the depth of the downturn in 2011-2012.[44] The research department subsequently published a technical note on "Growth Forecast Errors and Fiscal Multipliers" which confirmed the Fund's use of multipliers that understated the impact of austerity policies.[45]

Almost two year later in October 2014, the IMF's Internal Evaluation Office issued this assessment of the Fund's response to the global financial and economic crisis:

"The IMF's record in surveillance was mixed. Its calls for global fiscal stimulus in 2008–09 were timely and influential, but its endorsement in 2010–11 of a shift to consolidation in some of the largest advanced economies was premature."[46]

The ITUC and its Global Unions partners had made the same assessment exactly four years earlier in a statement submitted to the IMF and World Bank at the occasion of their 2010 annual meetings and correctly predicted that the shift to fiscal consolidation would result in a slowdown of growth and double-dip recession:

"Global Unions are deeply concerned that the recent shift by the international financial institutions away from support for stimulus policies toward advocacy of fiscal consolidation will endanger the fragile recovery and prolong current high jobless rates for years to come. Signs that economic growth is slowing in some regions of the world barely months after the recovery began raise the probability of a double-dip recession to which the policy shift will have contributed."[47]

A decade after the Great Recession, the IMF acknowledged the failures of its loan conditions to achieve many announced outcomes in a new review of conditionality published in May 2019. This report analysed loans from late 2011 to end 2017, thus covering a substantial portion of lending arrangements after the shift to austerity and associated structural reforms began in 2010. The report found frequent instances of "overly optimistic" assumptions and predictions among IMF staff concerning growth rates and debt levels in borrowing countries:

"Programme growth assumptions were often too optimistic.... This reflected global projection errors in the post-global financial crisis environment, the underestimation of fiscal multipliers, and the overestimation of structural reform payoffs.... In several programmes, most of which went off track, debt overshot projections by a significant margin ..."[48]

Importantly, the latest review of conditionality also found that a considerable increase of structural conditions had taken place in IMF loans compared to the previous review period which covered 2002 to 2011:

"The number of structural conditions increased, reflecting the rising structural challenges.... After a decline in the 2011 Review of Conditionality period, the average number of structural conditions per programme approval year rose by 30 percent in the 2018 sample period."[49]

Independent analyses have corroborated the trend of increased loan conditions. A report published by the European Network on Debt and Development in 2018 found that the average number of structural

44 IMF, "Transcript of the World Economic Outlook Press Conference," October 9, 2012.
45 Olivier J. Blanchard and Daniel Leigh, "Growth Forecast Errors and Fiscal Multipliers," Working Paper No. 13/1, January 3, 2013.
46 IEO, "IMF Response to the Financial and Economic Crisis," 2014.
47 Global Unions "Global Employment Crisis Requires IFI Support for Job Creation, Not Austerity," October 2010.
48 IMF, "2018 Review of Program Design and Conditionality," Policy Paper No. 19/012, May 20, 2019, 1-2.
49 Ibid., 2.

policy conditions per IMF loan increased by 37 per cent between 2011-2013 and 2016-2017.[50]

The increase in structural conditions confirms that the shift to austerity was accompanied by a reversal of the IMF board's much vaunted approval in 2001 of "streamlining conditionality", cited earlier. This was an important change from the apparent consensus at the beginning of the 2000s, which was that the Fund had overloaded borrowing countries with loan conditions. The finding also undercut claims by IMF leadership that structural adjustment was a thing of the past, or as the Fund's managing director put it during a press conference in 2014: "... structural adjustments? That was before my time. I have no idea what it is. We do not do that anymore."[51]

While confirming that structural conditions had indeed increased since 2011, the Fund's most recent conditionality review did not raise significant questions about their growing use. On the contrary, the report asserts that there are "rising critical reform needs in shared (e.g., labour and product market reforms) and non-core areas" that could justify an expansion of conditionality. "Shared" refers to responsibilities that the IMF believes it shares with other institutions, particularly the World Bank; "non-core" refers to topics outside of the IMF's main areas of expertise and responsibility.

The report puts forward arguments that single out labour reforms as an area where there could be increased IMF conditionality:

"Labour market reforms (LMRs) and product market reforms (PMRs) can help foster wage and price flexibility to restore cost competitiveness and promote external adjustment through internal devaluation in countries with fixed exchange rate regimes. LMRs and PMRs can also help raise medium-term growth potential. However, LMRs and PMRs accounted for less than 3 percent of all structural conditions, with most concentrated in a few post-global financial crisis programmes."[52]

Other IMF departments were also putting forward proposals to increase structural conditionality in the area of labour market reform, as described in the last section of this paper.

50 Gino Brunswijck, "Unhealthy conditions: IMF loan conditionality and its impact on health financing," European Network on Debt and Development, November 28, 2018.
51 IMF, "Transcript of the International Monetary and Financial Committee (IMFC) Press Briefing," April 12, 2014.
52 IMF, "2018 Review of Program Design and Conditionality,"36.

Trade unions push back against increased unemployment and poverty

National trade unions in the various countries where the IMF has lending programmes or strong influence on government policy voiced their strong opposition to governments but also attempted to meet with IMF missions. Their intentions were to inform the Fund of their deep concerns about the austerity and structural adjustment programmes and their effects on the living standards of working people.

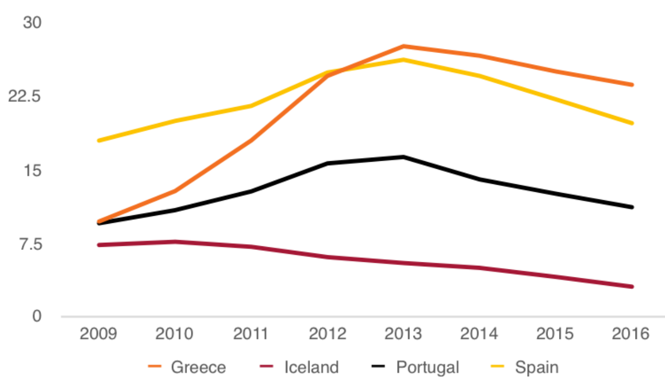
The concerns included declining incomes and increased poverty due to job losses and cuts to unemployment benefits and pensions; increased inequality because of the loss of wages and benefits and increased VATs, which the IMF encouraged rather than progressive taxes; and loss of protection due to declining collective bargaining coverage. Probably the most dramatic consequence of the shift to austerity was the sharp spike in unemployment resulting from macroeconomic austerity and the reduction of job protection rules in the name of enhanced labour market "flexibility". The strongest increases in unemployment took place in Europe in the early and mid-2010s at a time when the continent was by far the largest focus of the Fund in terms of financial resources.

Instead of decreasing after the end of the Great Recession in 2009, unemployment rates increased relentlessly in European countries complying with the strict austerity and structural reform programmes designed by the IMF and its "troika" partners, the European Central Bank and the European Commission. According to OECD data, the unemployment rate in Greece continued climbing for four years after the official end of the Great Recession, from 9.6 per cent in 2009 until it peaked at 27.5 per cent in 2013. In Portugal unemployment went from 9.4 to 16.2 per cent in the same years, while Spain's jobless rate rose from 17.9 to 26.1 per cent between 2009 and 2013. Unemployment only decreased gradually thereafter in those countries (Figure 11).

Iceland was a notable exception to unemployment skyrocketing to depression-era levels among countries borrowing from the IMF or troika partners. As noted earlier, Iceland rejected the approach of making workers assume the brunt of costs for bailing out failing banks. Instead, as agreed after tripartite negotiations, policies were adopted to protect jobs and social protection. The unemployment rate progressed slightly between 2009 and 2010, from 7.2 to 7.6 per cent where it peaked, and then declined steadily, falling to 5.4 per cent in 2013 and below 3 per cent in 2016.

FIGURE 11

Unemployment Rate
Yearly Average



Source: OECD (2019).

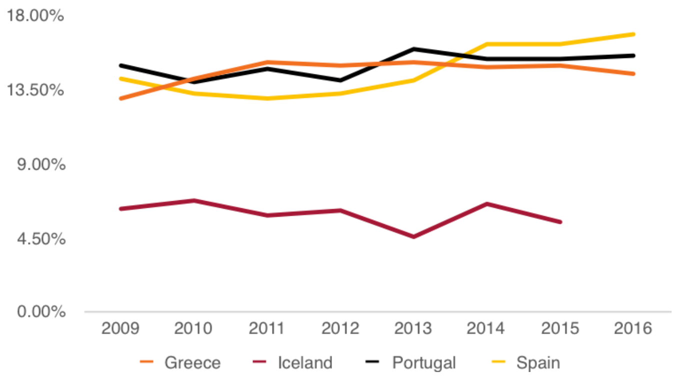
The period following the Great Recession and the shift to austerity was also a period of increasing poverty in most of the European crisis countries. Poverty rates (using a standardised OECD definition) jumped by three percentage points in Spain and two percentage points in Greece and Portugal between their 2009-2010 levels and peaks reached in 2014. No significant improvement occurred in those countries in the two years following (Figure 12).

Iceland, by contrast, saw its poverty rate fall by two percentage points between 2010 and 2013. A one-year spike in the poverty rate took place in 2014 due to cuts in some social benefits introduced by a new centre-right government in late 2013. These were mostly restored a year later and poverty fell again in 2015.

FIGURE 12

Poverty Rate

National poverty line



Source: OECD (2019).

Attempts by trade unions to influence the conditionality of the IMF lending programmes and country-level policy advice were for the most part unsuccessful. On an international level, the ITUC made numerous representations to the IMF and its executive directors (who represent member governments) to urge the institution to reject the shift to austerity and labour market deregulation and to support a recovery strategy.

These efforts had only limited success and little impact on IMF conditionality and country-level policy advice. For example, the ITUC and several affiliates engaged in discussions with the Fund's research department on the topic of labour-related policy measures during the period 2012-2015. The unions used these meetings to question the rationale for the IMF's insistence on applying fiscal consolidation through measures that included reduced social protection spending while simultaneously undermining job security and weakening collective bargaining institutions.

In a paper titled "Labour Market Policies and IMF Advice in Advanced Economies during the Great Recession", co-authored by the Fund's chief economist, the research department recognises some of the concerns that unions had raised while offering an explanation of the IMF's reasoning for promoting labour market "flexibility". It claims, in contradiction to many examples in Europe (some of them cited above), that it was the IMF's practice to encourage countries to increase the duration of unemployment benefits even as it sought weaker employment protection rules in the crisis countries:

"IMF advice has been to maintain aggregate demand to the extent possible and to share the pain of lower demand through extension of unemployment insurance benefits."[53]

On the matter of collective bargaining institutions, the research department paper acknowledges a significant role for centralised or coordinated bargaining. By counselling that "the IMF should tread carefully" in this area, it appears to express a discreet critique of IMF practices in Europe which, as we have seen, included pressuring governments to completely eliminate national or other types of coordinated bargaining:

"A combination of national and firm-level bargaining seems like an attractive solution to the needs for both flexibility and coordination. Firm-level agreements can adjust wages to the specific conditions faced by firms. National agreements can set floors, and when needed, help the adjustment of wages and prices in response to major macroeconomic shocks. This being said, the implications of alternative structures of collective bargaining are poorly understood. This suggests that the IMF should tread carefully in its policy advice in this area".

The ITUC submitted detailed information to the IMF research department about cases of conditionality and policy advice that were at variance with the approaches that, according to the labour market policy report, were or should be used by the Fund. Several examples were included in ITUC background papers posted in 2013 and in 2014 that unions prepared in advance of discussions with the IMF.[54]

53 Olivier J Blanchard, Florence Jaumotte and Prakash Loungani, "Labor Market Policies and IMF Advice in Advanced Economies during the Great Recession," SDN No. 13/02, March 29, 2013.
54 ITUC, "IMF Involvement in Labour Market and Social Protection Reforms in European Countries," February 2013.
ITUC, "ITUC Background Paper: Labour Market Deregulation Measures in IMF Loan Conditionality and Policy Advice for European Countries," June 15, 2014.

Ultimately, these exchanges of information had little impact on the Fund's operational practices, although a small number of IMF research staff with expertise on labour issues continued to produce reports that implicitly questioned the IMF's advice and conditionality on labour issues. One notable example was a paper on "Inequality and Labour Market Institutions" issued by the research department in 2015:

"We found strong evidence that the erosion of labour market institutions in the advanced economies examined is associated with an increase of income inequality.... our results suggest that the weakening of unions contributed to the rise of top earners' income shares and less redistribution, and eroding minimum wages increased overall inequality considerably."[55]

That paper was issued during the period when the IMF's programmes and advice in Europe seriously weakened trade unions' capacity to bargain collectively and eroded minimum wages, but also when the Fund professed that it would pay greater attention to inequality issues than in the past.

In 2013 the IMF issued a policy paper in which it stated that it would pay greater attention to "the role the Fund can play in helping countries meet their aspirations for stronger and more inclusive growth and job creation".[56] This new focus on distributional issues followed up on research department papers from as early as 2011, which arrived at the following conclusion:

"We find that longer growth spells are robustly associated with more equality in the income distribution, ... [an analysis that] does perhaps tilt the balance towards the notion that attention to inequality can bring significant longer-run benefits for growth."[57]

In 2015 the Fund began a process of pilot projects in which IMF country missions could volunteer to analyse inequality issues in the annual Article IV reports that they prepared on the country. A few of these analyses included consultations with trade unions starting in 2017.

National trade unions and civil society organisations that were consulted frequently encouraged the IMF missions to place a primary focus on identifying how the Fund's main policy recommendations would affect income and wealth inequality, and to reconsider those proposals as needed. Especially in the early pilot reports, the Fund typically treated inequality as an issue to be mitigated by measures such as more targeted social protection. The country reports did not acknowledge the manner in which central IMF policy recommendations – such as rapid fiscal consolidation, increased VATs or labour market deregulation – could in fact result in even greater inequality.

A report published by Oxfam in October 2017 analysed fifteen of the IMF's Article IV "inequality pilots" and concluded that "significant gaps exist between the IMF's rhetoric and research findings on inequality and its actions". While praising the Fund for taking on the inequality agenda, it faulted the institution for its failure to systematically include inequality in its discussions on primary policy choices during the Article IV consultations that were supposed to have an inequality focus:

"The pilots are focused on structural reforms and include no assessment of the distributional impacts of the core macro-economic targets and policy advice. None of the pilots fully explores alternatives to rapid fiscal and monetary tightening, in view of minimizing their impact on poverty and inequality. The focus is on compensating losers rather than questioning the structural reforms themselves."[58]

A subsequent additional IMF policy note on "How to Operationalize Inequality Issues in Country Work" published in June 2018, five years after the commitment to pay more attention to inequality in the IMF's work, conceded that the Fund's country-level policy suggestions could increase inequality:

"Some policies and reforms for promoting macroeconomic stability and growth can have a detrimental distributional impact. This calls for alternative policy packages designed to prevent such negative externalities and mitigating policies that would shield the most vulnerable from unfavourable effects."[59]

The examples provided in the IMF note emphasise mitigating measures to offset economic policies that worsen inequality more than full-fledged alternatives.

55 Florence Jaumotte and Carolina Osorio Buitron, "Inequality and Labor Market Institutions," SDN No. 15/14, July 1, 2015.
56 IMF, "Jobs and Growth: Analytical and Operational Considerations for the Fund," March 14, 2013.
57 Jonathan David Ostry and Andrew Berg, "Inequality and Unsustainable Growth : Two Sides of the Same Coin?," SDN No. 11/08, April 8, 2011.
58 Chiara Mariotti, Nick Galasso and Nadia Daar, "Great expectations: is the IMF turning words into action on inequality?," Oxfam International, October 10, 2017.
59 IMF, "How to Operationalize Inequality Issues in Country Work," June 13, 2018.

Instances of "better targeting" of social spending to the poor are frequently mentioned, but the high levels of exclusion of poor households associated with targeted rather than universal programmes are not. Consultation with trade unions and civil society organisations is encouraged, but the note gives the impression that this is more for public relations purposes than for a serious rethinking of the Fund's approaches:

"Staff outreach on inequality issues with CSOs and labour unions is key to raising awareness of the Fund's efforts to foster inclusive growth, but also to learn from their perspective. Close dialogue with CSOs could help gather broader perspectives about the impact of the Fund's work, dispel public misconceptions of the IMF and its activities, enhance programme ownership and facilitate acceptance of reforms."[60]

Thus, the reasoning leans towards seeing consultations as an opportunity for promoting the IMF and the reform measures that it has decided on rather than for using input from labour and civil society to design more equitable economic policies and development strategies.

60 Stephen Kidd, Bjorn Gelders and Diloá Bialey-Athias, "An assessment of the effectiveness of the proxy means testpoverty targeting mechanism", ESS – Working Paper No. 56, International Labour Office and Development Pathways, 2017/

Renewed push for austerity and structural adjustment in developing regions

The Eurozone countries that were subject to stringent austerity after the 2008-2009 Great Recession, with the result that they found themselves mired in a double-dip recession a few years later, gradually emerged from negative growth. The European Central Bank's application of "unconventional" monetary policies after 2012 may have been an important contributing factor to a gradual restoration of positive growth. In one year, 2016, GDP growth in the Euro Area was even higher than in the advanced economies group as a whole – 2.4 compared to 2.0 per cent – but this was due in part to downturns elsewhere and was not to be repeated in the following years.

The gradual recovery in the Euro Area was not due, with a few exceptions, to a relaxation of fiscal consolidation or structural adjustment measures already applied. These remained in place and meant that recovery was extremely slow and joblessness stayed well above pre-crisis levels. In Greece and Spain, for example, unemployment in 2018 – 19.3 and 15.3 per cent, respectively – remained roughly double the pre-crisis rates of 8.4 per cent in both countries in 2007.

In the latter half of the past decade, the IMF's role in Europe diminished and its focus shifted to other regions. The type of austerity and related structural reform policies applied though conditionality or policy advice in Europe would now be assiduously applied to many developing or emerging market economies.

Several countries in the Middle East and North Africa (MENA) entered into borrowing agreements with the Fund in the years following the Great Recession and shift to austerity in 2010. By the middle of the decade, the MENA area overtook Europe, as several lending programmes there came to an end, as the biggest recipient region of IMF loans.

Tunisia negotiated its first lending arrangement with the IMF in more than two decades when it agreed to borrow $1.7 billion in June 2013.[61] The loan was for an eighteen-month period and formal conditionality in this agreement was largely limited to fiscal issues, with the requirement that the government's primary fiscal deficit be reduced from 5.5 per cent in 2013 to 2.0 per cent in 2015. The most important non-fiscal requirements were a restructuring of the teetering banking sector and the adoption of a new "investment code" with the intent of dismantling restrictions on foreign investors.

Similar to what took place in several financial assistance agreements in Europe designed by the IMF and its troika partners, the public-sector bailout of Tunisia's failing banking sector would be financed for the most part by workers and ordinary citizens. The public sector wage bill would be controlled by limiting wage increases, and the subsidy programme to keep the prices of basic energy and food products low would be substantially scaled down to reduce the fiscal cost.

An IMF report on Tunisia published in October 2015, ten months after the first loan was completed, announced that the condition to substantially reduce the primary fiscal deficit had been met.[62] It adds that the bank recapitalisation was only partially completed and the financial system remained fragile. However, the report reveals a "successful" outcome by noting that wage increases between 2012 and 2014 were below the rate of inflation, such that real wages in both the private and public sector had fallen.

The report also notes that realized spending for social programmes was 14 per cent below the symbolic "social spending floor" that the IMF has included in some lending programmes, a result that it explains thus:

"The indicative floor on social spending was missed because of lower-than-programmed transfers to vulnerable households (reflecting issues in the delivery mechanism in remote regions)."[63]

61 IMF, "Tunisia: Request for a Stand-By Arrangement," Country Report No. 13/161, June 17, 2013.
62 IMF, "Tunisia: 2015 Article IV Consultation, Sixth Review Under the Stand-By Arrangement," Country Report No. 15/285, October 15, 2015.
63 Ibid., 30.

The IMF had announced that it would work jointly with the World Bank to create a system of cash transfers targeted to vulnerable households to compensate low-income people for the additional cost burdens stemming from the subsidy cuts demanded by the Fund. The fact that social spending fell below the "floor" confirms the criticism made by many analysts that targeted social benefit systems often miss their intended beneficiaries. Such a result seems all the more probable when an institution like the IMF ventures outside of its "core areas of expertise", which do not include design of social programmes.

An IMF staff report on Tunisia's loan request in 2013 stated: "Reforming the labour market will also be important." But there was no formal condition for such a reform in the first loan. The report praises as a "good beginning" the tripartite dialogue process that started in 2013 between unions, employers and the government, whose objective was "to design a comprehensive labour market strategy ... and achieve more rapid job creation".[64]

However, a later post-loan report published in 2015 signals that labour market reform was not proceeding quickly enough in the eyes of the IMF:

"Labour market reforms should be phased-in quickly ... including through reviewing the rigid hiring-firing policies, worker protection system, and public/private sector compensation."[65]

A second loan for $2.9 billion and with a four-year duration was approved in 2016. The IMF published a staff report with the new loan that, while noting that a decision had been made to hold off on conditionality for labour market and pension reforms during the democratic transition period, again expresses impatience about the pace of the tripartite process:

"The authorities continue to build consensus amongst stakeholders to finalize a national employment strategy that addresses skills mismatches, hiring/firing policies, worker protection, and public/private sector compensation. Staff urged the authorities to accelerate work in this area with technical assistance from the International Labour Organization."[66]

By 2019, when the loan was entering into its fourth and final year, IMF staff reports had ceased to express any support, even tepid, for tripartite dialogue. Instead, a July 2019 report is highly critical of "powerful labour unions" that refused to concede the degree of wage restraint sought by the Fund and states that "slippages occurred [in meeting IMF loan conditions] amid two general strikes organized by the UGTT labour union" (the Union Générale des Travailleurs Tunisiens is the ITUC affiliate in Tunisia).[67]

It is important to note that, by the IMF's own admission in an annex to the staff report, the public-sector wage increases negotiated between the unions and the government for 2019 and 2020 were equal to "about half the rate of inflation", projected to run 7 per cent per year. The unions thus agreed to a real wage reduction of more than 3 per cent annually. That was apparently not enough for the IMF, which had insisted that nominal wages should be frozen, that is a real wage reduction of double that rate.

No "slippage" in complying with IMF conditionality occurred in Egypt, which entered into a three-year lending programme in 2016, three years after the Sisi government took power through a coup d'état. The Fund's final loan review report, published in October 2019, praised the government's accomplishments in adhering to the Fund's conditions:

"Critical macroeconomic reforms implemented by the authorities to correct significant external and domestic imbalances have been successful in achieving macroeconomic stabilization.... This year's budget is on track to achieve a primary surplus of 2 percent of GDP, which would complete the programmed fiscal adjustment of 5.5 percent of GDP in three years."[68]

The fiscal consolidation resulting in a primary surplus at the end of the programme was carried out by implementing substantial public spending cuts, including for health and education; slashing subsidies for basic foodstuffs and energy; expanding the national VAT; and privatising State-owned entities. However, enterprises belonging to the military were excluded from privatisation and also exempted from paying the VAT. A massive currency devaluation at the beginning of the programme, which was supposed to enhance the international competitiveness of the Egyptian economy, was another major feature of the programme.

64 IMF, "Tunisia: Request for a Stand-By Arrangement," Country Report No. 13/161, June 17, 2013.
65 IMF, "Tunisia: 2015 Article IV Consultation, Sixth Review Under the Stand-By Arrangement," 29.
66 IMF, "Tunisia: Request for an Extended Arrangement Under the Extended Fund Facility," Country Report No. 16/138, June 2, 2016.
67 IMF, "Tunisia: Fifth Review Under the Extended Fund Facility," Country Report No. 19/223, July 18, 2019.
68 IMF, "Arab Republic of Egypt: Fifth Review Under the Extended Arrangement Under the Extended Fund Facility," Country Report No. 19/311, October 10, 2019.

Egypt was one of the rare borrowing countries where the Fund's targeted growth rates were met (Figure 5) and the official unemployment rate declined over the course of the programme. But as an analysis of the outcome of the IMF programme points out, labour force participation also declined, suggesting that many workers moved to the informal economy because of the unavailability of formal-sector jobs.[69] A recent ILO publication estimates that 63.3 per cent of Egyptian workers are engaged in informal employment.[70]

The fiscal consolidation measures were largely regressive in their effect, and the result in terms of reducing living standards of lower-income Egyptians was swift and massive. According to official Egyptian statistics, the national poverty rate jumped from 27.8 per cent in 2015, the year before the loan, to 32.5 per cent in 2017. [71]

The 4.7 percentage point spike in poverty during just two years can be explained by the impact of regressive measures such as cutting food subsidies and public health care and increasing the VAT, but also by the fact that workers' incomes did not, in most cases, keep up with the increased cost of living. Inflation reached 30 per cent in 2017 following the IMF-required devaluation of the national currency by more than half in late 2016.

Egypt's rise in poverty since the IMF loan agreement began was roughly double the poverty rate increase that occurred in southern European countries which experienced depression-level unemployment in the 2010s (Figure 12). Moreover, in Egypt the increase in the poverty rate took place over a shorter time period. It should be specified that the criteria defining poverty income levels are not the same in Egypt as in European countries.

Clearly, Egypt's "success" in meeting its IMF programme goals came at tremendous cost to ordinary Egyptians. It is difficult to imagine that such a clear case of inflicting the burden of adjustment on lower- and middle-income Egyptians could have taken place without the widespread repression of independent media and civil society, including independent trade unions, that has been the rule since the coup d'état of 2013.

Even more recently than in the Middle East and North Africa, in the late 2010s the IMF returned to the Americas with a massive lending operation for the first time in more than a decade. In 2018, Argentina contracted the largest loan in the Fund's history: a first agreement for $50 billion in June was increased to $57 billion four months later. That loan was the twenty-first for Argentina, making the country one of the IMF's most assiduous clients, but with decidedly mediocre results for the borrower.

As described in the introductory section of this paper, Argentina suffered a deep recession at the turn of the century while operating under a strict IMF-imposed austerity and structural adjustment programme. The recession ultimately led to its declaring default to foreign lenders at the end of 2001. Subsequent Argentine governments vowed never to return to the IMF for financial assistance, but the Macri government, elected in October 2015, reneged on that promise thirty months after its election. It later turned to the IMF in part because it had removed some of the protections that previous governments had put in place to shield the economy from damaging vicissitudes of international capital markets.

To the delight of the financial markets but to the great detriment of Argentina, shortly after its election the Macri government dismantled capital controls that had been implemented in the aftermath of the 2001 economic collapse and default. It also offered a generous settlement to "vulture funds" – a small number of foreign creditors that had bought defaulted Argentine bonds at a small fraction of their face value and litigated in US courts to obtain full payment rather than taking part in debt-restructuring negotiations. In so doing, the new government undermined the credibility of an earlier debt restructuring process through which 93 per cent of Argentina's creditors had accepted a partial write-down of their claims.

The strongly pro-free-market government borrowed heavily in international markets by issuing dollar-denominated bonds, and initially foreign investors poured capital into Argentina. But they reversed course two years later. By 2018 Argentina faced a collapse in the value of its currency in the now completely unregulated foreign exchange market, and the government sought the record-breaking loan granted by the IMF in June.

69 Tom Stevenson, "Egypt and the IMF: Success or failure?," *Middle East Eye*, August 6, 2019.
70 ILO, *Women and Men in the Informal Economy: A Statistical Picture*, Third Edition (Geneva: International Labour Office, 2018).
71 Amr Khafagy, "Celebrating poverty: the IMF in Egypt," *OpenDemocracy,* November 15, 2019.

As it did with several European countries in the early 2010s, the IMF demanded a strict austerity programme to rapidly reduce the fiscal deficit. Argentina and the Fund agreed at the time of the loan augmentation in October 2018 to completely eliminate in the following year the primary fiscal deficit, which was equal to 4.3 per cent of GDP in 2017. The deficit elimination would be achieved through measures that included reductions in the public sector wage bill, pensions, social assistance and transfers to the provinces (which are used for health care and other essential public services).

The IMF drew attention to the inclusion of a floor on social assistance spending in the loan's conditions as one of the Argentine programme's "core pillars". It was described in the following manner by the Fund's managing director:

"The third pillar is to protect societies most vulnerable by ensuring that spending on social assistance as a share of GDP does not decline during the next three years of the programme. Additionally, if social conditions were to worsen, there are provisions to further increase the budget allocation for social priorities."[72]

It should be noted that the "social assistance spending floor" consists of a limited array of assistance programmes and does not include health care, old-age pensions or various other types of social spending, which were in fact subject to important cutbacks. Moreover, as an ITUC analysis pointed out after the first year of the programme, the IMF in effect "moved the goalposts" during the course of the loan by expanding the total number of assistance programmes protected by the floor from four to nine while leaving unchanged the total amount of guaranteed spending for the programmes:

"The social spending floor is set at 1.3 per cent of GDP and initially covered a list of four social assistance programmes.... The list of programmes under the floor was expanded in the latest [loan] review from the four initial programmes to now a total of nine. While this might seem like a positive development in terms of more programmes being protected, it also means that the same floor is divided amongst more programmes, which leaves room for possible cuts and moves the goalposts of protecting social assistance spending."[73]

The total fiscal compression of 4.3 per cent over two years required by the Argentine programme is as drastic as the harshest of the European programmes in the early 2010s. Not surprisingly, the Fund's promise of a rapid return to economic growth in Argentina turned out to be yet one more episode in the "expansionary austerity" fantasy.

When the lending agreement was signed in June 2018, the IMF projected that the Argentine economy would avoid recession thanks to its programme and grow by 4.5 per cent from the 2017 base year until 2020. IMF staff were forced to make substantial revisions to these forecasts during each quarterly loan review as the impact of austerity made itself felt. By October 2019, Fund forecasters were predicting that the economy would *shrink* by 6.6 per cent over the three-year period ending in 2020 (Figure 13).

The IMF's promise at the beginning of Argentina's lending agreement in June 2018 that with the Fund-supported programme, "growth and job creation will both increase alongside a path of declining poverty" gave way by July 2019 to an admission that **"**the recovery from the recession is likely to be protracted".
[74]

The unemployment rate, which the IMF predicted at the beginning of the programme would be 8.6 per cent in 2019, is now projected by the Fund to reach 9.9 per cent. Due to the impact of high inflation combined with limits on increases of wages and pensions, the real value of the latter plummeted over a fourteen-month period between 2018 and 2019: -11.5 per cent for the basic pension; -13 per cent for the average wage; and -18.9 per cent for the minimum wage. [75]

The official poverty rate increased from 25.7 per cent in the second half of 2017 (before the loan programme) to 35.4 per cent eighteen months later, in the first half of 2019.[76] The 9.7 percentage point jump was double the rise in poverty in Egypt that took place over two years and several times more than the rise in the southern Eurozone crisis countries (but criteria for defining of poverty levels vary from country to country). The contrast could not be greater with the IMF spokesman's pledge during the loan negotiation with Argentina that a "changed" IMF would deliver "inclusive growth" to the country. Instead of growth

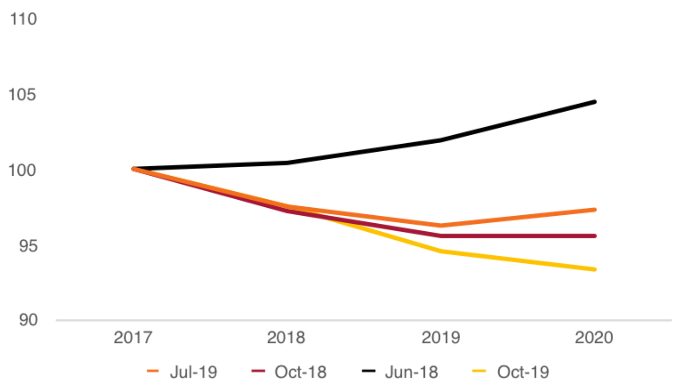
72 IMF, "Transcript of the IMF Press Conference on the IMF's Executive Board Approval of Argentina's Stand-By Arrangement," June 21, 2018.
73 ITUC, "Doubling Down on a Failed Approach: Argentina's IMF Programme, One Year Later," July 2019.
74 IMF, "Argentina: Request for Stand-By Arrangement-Press Release and Staff Report," Country Report No. 18/219, July 13, 2018.
IMF, "Argentina : Fourth Review under the Stand-By Arrangement," Country Report No. 19/232, July 15, 2019.
75 ITUC, "Doubling Down on a Failed Approach: Argentina's IMF Programme, One Year Later".
76 Indec, "Incidencia de la pobreza y la indigencia en 31 aglomerados urbanos: Primer semestre de 2019," Condiciones de vida, vol. 13, no. 13.

Argentina got recession, and instead of inclusiveness it got increased poverty.

FIGURE 13

Argentina: Revisions to IMF Growth Projections

(Index 2017=100)



Source: IMF (2018, 2019), author's calculation.

In late August 2019 the outgoing government ceded to demands of the opposition and re-imposed capital controls.[77] Facing the likelihood of having to default on its bonds, it called on bondholders to accept a voluntary "reprofiling" of their debts.[78] One imagines that the Macri government's prospect of obtaining a debt restructuring deal was severely impaired when, right after taking power, it offered better terms to "vulture funds" than to the strong majority of bondholders who had accepted a negotiated debt write-down. It essentially rewarded the small minority of hold-out creditors for their refusal to negotiate. The Macri government also lost credibility with the Argentine people, losing power in national elections on 27 October.

77 Philip Sanders, "Argentina Imposes Capital Controls as Reserves Drain Away," *Bloomberg*, September 1, 2019.
78 Eliana Raszewski and Hugh Bronstein, "Argentina says to extend maturities of international bonds, IMF debt," *Reuters*, August 28, 2019.

Austerity and structural adjustment "normalised"

Instead of a return to "normal" fiscal policy after the global financial and economic crisis, the policies that caused widespread damage in Europe and then in other countries after the return to austerity and structural adjustment in the early 2010s are becoming "normalised" throughout most of the world.

An updated study by two think-tank economists (Ortiz and Cummins) titled "Austerity, The New Normal: A Renewed Washington Consensus 2010-24" uses fiscal projections from IMF country reports (Article IV Consultation staff reports) to conclude that a new shock of austerity starting in 2020-2021 will affect 130 countries and about 75 per cent of the global population. It identifies 69 countries, 48 of which are in the developing world, that will undergo "excessive contraction" by cutting public expenditure as a proportion of GDP to below pre-crisis levels.[79]

Among the most common types of reforms identified by Ortiz and Cummins are pension, social security and safety net reforms consisting of more restrictive or reduced benefits; capping public-sector wage bills; labour flexibilisation reforms; reduced consumer subsidies; increased regressive consumption taxes such as VATs; privatising public services and expanding Public-Private Partnerships; and healthcare reforms aimed at reducing expenditures.

As noted in country examples described in this paper, deregulatory labour market reforms frequently feature in structural reform priorities promoted by the IMF. Sometimes this occurs through loan conditionality, and sometimes through policy advice put forward in such a way that countries perceive it as de fact conditionality, as was the case in Romania. Labour market reforms have also been singled out in the Fund's May 2019 conditionality review as an area where increased conditionality appears justified.

The IMF has worked to provide an analytical rationale for the labour market deregulation and other structural reforms that it has encouraged countries, or obliged them through loan conditionality, to adopt. Earlier in the decade the Fund's European department appeared to be the most enthusiastic group within the Fund in pushing structural reforms, as we saw in its "Fostering Growth in Europe Now" report cited earlier.

The research department took the lead in more recent years, with the release of reports encouraging structural reforms published within the IMF's flagship "World Economic Outlook" (WEO) report, focusing first on rich and later on developing countries. A first report, "Time for a Supply-Side Boost? Macroeconomic Effects of Labour and Product Market Reforms in Advanced Economies" was published in April 2016, and a second, "Reigniting Growth in Emerging Market and Low-Income Economies: What Role for Structural Reforms?" in October 2019. [80]

The chief economist's forward to the April 2016 WEO summarises the chapter on advanced-economy reforms as determining unequivocally that "structural reforms in product and labour markets can be effective in boosting output, even in the short term".

The findings of the chapter are in fact considerably more nuanced than the summary affirms:

"The analysis shows that reforms that ease dismissal regulations with respect to regular workers do *not* have, on average, statistically significant effects on employment and other macroeconomic variables. [Further,] major reductions in the duration of unemployment benefits do *not* have, on average, statistically significant effects on unemployment..." (our emphasis)

79 Isabel Ortiz, Mathew Cummins, "Austerity: The New Normal: A Renewed Washington Consensus 2010-24", Institute for Policy Dialogue Working Paper, October 2019.
80 IMF, "Chapter 3: Time for a Supply-Side Boost? Macroeconomic Effects of Labour and Product Market Reforms in Advanced Economies," World Economic Outlook, April 2016.
IMF, "Chapter 3: Reigniting Growth in Emerging Market and Low-Income Economies: What Role for Structural Reforms?," World Economic Outlook, October 2019.

The report found exceptions to the latter only in the medium term when reduced duration of benefits is "implemented together with reforms that enhance the design of active labour market policies".

Similarly, the forward to the October 2019 WEO asserts that the chapter "makes a strong case for a renewed structural reform push in emerging market and developing economies and low-income developing countries". But again, the findings in the chapter itself are far less categorical.

The deregulatory labour measures examined in the more recent WEO analysis do not include cutting the duration of unemployment benefits, since they do not exist in most of the developing world. Rather, the focus is on weakening or eliminating employment protection regulations such as provisions for advance notice or consulting workers' representatives about lay-offs; severance pay requirements; and the possibility for a worker to receive compensation for unfair dismissal.

The WEO study examined the impact of deregulatory structural reforms in the labour market and five other areas – domestic finance, external finance, trade, product markets and governance – according to their impact on output (GDP). Although the authors hypothesise that all of the deregulatory reforms should demonstrate a positive impact on output, they found none for labour reforms:

"However, the short- to medium-term output and productivity effects of job protection deregulation are *not* found to be statistically significant at conventional levels." (emphasis added)

The report obfuscates this result by removing it from a graph which shows somewhat positive results on output for deregulation in the five other areas. It replaces the graph for labour with one showing a positive result of slightly less than one per cent on the level of formal employment in the case of "a major easing of job protection legislation – along the lines of the labour code revisions in Kazakhstan in 2000, which facilitated dismissal procedures and lowered severance pay".

The Fund's report enters even more dubious territory when it presents a "model-based analysis" which predicts that "major" deregulatory reforms in the labour market will deliver "larger output gains in the long term than those found in the empirical analysis for the medium term". It has to be pointed out that these kinds of general equilibrium economic models, which are based on unrealistic assumptions such as full employment and perfectly functioning markets, are never relied upon by serious economic analysts to produce credible forecasts of economic outcomes.

It is worth pointing out that the US-based academic who is credited for most of the analytical work in the IMF's October 2019 WEO chapter on the benefits of deregulation is the same individual who informed European finance ministers in 2010 that sharp budget cuts would most probably be "immediately followed by sustained growth" in their countries.[81] As already described, European finance chiefs had the misfortune of taking this breathtakingly erroneous prognosis as serious advice and the Eurozone quickly fell into the second stage of its double-dip recession.

It is also worth noting that, while heavily relying on an academic whose predictive accuracy has been less than stellar, the IMF seems to studiously ignore the vast amount of academic studies concerning the economic impact of labour market deregulation that has been published in recent decades. The Fund's sister institution, the World Bank, carried out an extensive review of the economic literature on the topic in its "World Development Report 2013: Jobs". That report found that while some types of labour regulations contribute to a more equal distribution of income (a goal that the Fund claims to support), the overall employment effect is generally negligible:

"Based on [a] wave of new research, the overall impact of employment protection legislation and minimum wages is smaller than the intensity of the debate would suggest. Most estimates of the impacts on employment levels tend to be insignificant or modest."[82]

The World Bank's flagship annual policy research report found no consistent evidence that labour market deregulation constitutes some kind of "magic bullet" for boosting economic and employment growth. However, orthodox thinking, no matter how unfounded, sometimes takes generations to change, and lack of evidence has not deterred the IMF and some other international financial institutions from continuing to push the deregulatory agenda.

81 Skidelsky, "Has Austerity Been Vindicated?"
82 World Bank, "World Development Report 2013: Jobs,"

The IMF research department's claim in 2019 to have a "strong case" for eliminating recourse for unjust dismissals and consultations with unions about lay-offs hearkens back to Washington Consensus support for making it easier to fire employees. This latest assertion should be understood in connection with the IMF conditionality review published a few months earlier, which concludes that labour market issues is an area that calls for even more loan conditions.

Getting rid of rules that protect workers has been an undue but seemingly recurrent obsession at the IMF. A renewed push for further labour market deregulation would reinforce current trends of increased employment precarity, high inequality and political polarisation. IMF conditionality and austerity policies significantly contributed to the existence of these threatening trends. The IMF needs to renounce its supply-side fixation.

Peter Bakvis

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