

IMF Bailouts : (Does Foreign Aid lead to Economic Development)

A road to Stability or recipe for Disaster,

1. T.S: Although, IMF bailout programs inject much needed liquidity within a country's exchequer, however, the dismantling of state policies, due to loans with structural adjustment - leads to higher unemployment rates, privatization of national resources, cuts in social spending and destruction of local industry through flooding of competitively advanced markets. Therefore, it is a recipe for ~~disaster~~ economic hardship and socio-political disaster.

2. The Neoliberal Principles of IMF Bailout Program

- Trade liberalization through elimination of tariffs
- Deregulation and dismantling of capital control
- Austerity measures ~~and~~ and privatization of SOE



3. IMF bailouts lead to socio-economic disaster due to following Reasons:

- 3.1 Neoliberal e-policies create dependencies in peripheral states; Wallerstein's world system
- 3.2 Liberalization of trade leads to damages underdeveloped countries' trade: Prebisch-Singer Hypothesis
- 3.3 Elimination of welfare policies lead to populism: Syriza's rise in Greece
- 3.4 Interdependence of financial system make stable economies susceptible to spill-over effects: Eurozone crises
- 3.5 Dismantling of capital control make currencies vulnerable to speculative attacks: Thailand currency crisis
- 3.6 Privatisation of SOEs led to rise of oligarchy: Russia's shock therapy

4. Proponents of IMF's policies point towards financial stability:

- 4.1 IMF remains the best organization to evade sovereign debt defaults: Greece's absence of massive capital lender care
  - 4.2 IMF policies do stabilize economies in longer term: India's rise following IMF (SAP)
  - 4.3 Shock therapy is painful in short, but salutary in long term: Case of Poland
5. Short term Economical Gains do not compensate for IMF's long term deteriorious effects:



s.1 Detrimental policies of IMF; IEO  
critique

s.2 One-size-fits-all does not work  
in complex economic environment;  
Joseph Stiglitz's criticism

6. Way Forward to Socio-Economically  
More Stable World:

6.1 Investment in Education and  
human capital

6.2 Promoting inclusive economic-growth

6.3 Reforming SADCs of IMF by  
including long-term benefits  
such as increased social spending  
i.e. in Edu-budget.

7. Conclusion:



IMF bailouts, though help countries in times of economic problem, however, they lead to socio-economic disaster due to the neoliberal policies it directs to achieve economic stability. There are a number of <sup>concerns</sup> issues stemming from IMF policies, including reduction in social spending - which causes ~~cuts~~ impedes economic activity and resulting in the rise of populist regimes, privatization of state-owned enterprises which give rise to oligarchic regimes, and liberalization of trade which leads to increasing dependencies of peripheral countries on core states. Moreover Additionally, it harms countries poor lower middle class by enabling countries to increase tax networks. However, a few proponents of IMF policies states that IMF is the best organization for helping countries to in <sup>evading</sup> debt or default. This essay aims to explore potential threats of IMF bailout policies, and emphasis on opposite view following by effective ways to address concerns associated with IMF policies.

International Monetary Fund is the global financial donor works on the



neoliberal economic policies. The neoliberal model favors private enterprise, free market and trade etc. Similarly, IMF require a recipient of its loans to meet the provided conditions, including trade liberalization which involves reducing trade barriers and increasing global trade to promote economic growth, deregulation such as governmental restrictions on business and privatisation of SOEs etc. Despite, positive objectives behind these adjustment such as increased efficiency, economic development, these neoliberal principles have negative impacts on social welfare and income inequality of a country.

To begin with the reasons that indicate IMF bailout causing socio-economic disaster, growing dependences is one of them. Neoliberal policies on which IMF programs is based are often create dependences among peripheral countries. For instance, through the promotion of free trade, peripheral countries become dependent on ~~ex~~ imports from core countries. This can be ascertained from Wallerstein





world system model, to which, the global economy is structured in such a way that the core countries are able to exploit the periphery for their own economic benefits.

Hence, the exploitation can be gauged from low wages, resource extraction due to the privatization of state owned companies.

Moreover, free trade <sup>policies</sup> associated with IMF bailouts, damages underdeveloped country's markets through the promotion of ~~market~~ competition. When countries are encourage to focus on exports to generate income, they may neglect their domestic markets, resulting in gap between supply and demand. Additionally, declined prices of domestic goods is another worse effect of open market. This can be ascertained from Prebisch's economic theory which



states that the terms of trade such as ~~ex~~ ratio between import and export-commodities tends to deteriorate over time. Resulting in primary commodity-exporting countries (sell raw material and agricultural products) are at a disadvantage in global trade as they are unable to command higher prices ~~of~~ for their exports. Hence, open and free markets does not favour underdeveloped countries which illustrates that neoliberal economic policies ~~are~~ disastrous ~~for~~ and IMF bailouts are disastrous for them.

Furthermore, IMF bailouts packages involve elimination of welfare policies which leads to the rise of populist regimes. When a country is subjected to restrict/cut welfare policies such as halted subsidies, the risks of political instability are higher. This gives rise to populist regimes. This can be seen from Greece's economic crisis, when it was asked for Austerity measures from ~~IMF~~ The country witnessed +EU



rise of Syriza, a political force resulting in emerging as the second largest political party in Greek pollmaneg. Therefore, IMF bailout program is a disease not remedy to the economic meltdown rather a can bore of contention. Therefore, rise in populism is one of reasons of IMF bailouts <sup>based</sup> ~~caused~~ <sup>caused by elimination of welfare programs.</sup> socio-economic disease.

Moreover, <sup>spillover</sup> ~~split over~~ effect is also one of the reasons of IMF bailouts disease due to the interdependence of financial system it encourages. IMF-based economic policies favours liberalization of financial market for instance, EU currency which was driven by neoliberal policies to create a single currency. However, the interdependent financial system ~~let~~ made it difficult for countries to respond to economic shocks. i.e. <sup>during</sup> ~~whole~~ Eurozone crises of 2008. The ~~spill-over~~ ~~effects hit hard~~ ~~caused~~ ~~together with~~ Greece, Spain, Portugal were unable to devalue their currency in order to ~~reduce~~ <sup>stimulate</sup> ~~ensure~~ economic growth owing to the interdependent financial system.



Therefore, interdependent financial system pave way for inter dependent choices which shows that IMF bailouts packages are disease rather than cure to economic shocks.

Besides, dismantling <sup>ending</sup> capital control which governments often place to increase inflow of foreign currency makes domestic currency vulnerable to speculative (sudden sell of currency) asset by investors to profit from its declined value shocks. IMF Oriented conditions encourage free flow of currency which can cause volatility in exchange rates, thus, when capital control is place, limiting amount of money that enter or leave the country speculative shocks are avoided. One such example is that of Thailand, when it dismantled its capital controls, placed for many years, led to influx of foreign capital but when investors began to pull out their money the currency Baht devalued rapidly. Resulted in financial crises that spread to Indonesia, Korea, Malaysia etc. Thus, capital control triggers devaluation of currency which indicates IMF bailouts are disease not remedy.



Moreover, privatization of state owned ~~some~~ enterprises, associated with IMF structural adjustment, can lead to the rise of oligarchies. This can be ascertained from Russian example. After the fall of Soviet Union, privatization of SOEs in 1991 led to the rise of a small group of oligarchs who controlled much of Russia's wealth and political power. This is mainly because of the nature of privatization which concentrates wealth in few hands leading to inequality in term of economy. ~~and politics~~ Therefore, privatization of public properties cause rise in oligarchy ~~govern~~ by concentration of power in few hands which indicates that IMF bailouts are disease rather cure to economy.   
downturned



Altho~~ugh~~ Despite the aforementioned concerns over IMF's loans ~~and~~ reliability, proponents of its ~~supporters~~ argue that IMF is the best financial organization to help countries in their hour of need. According to them,

IMF loans help countries to avoid sovereign debt defaults by enabling them to meet their debt obligation.

In this regard, to them, Greece is a case in point which faced with debt crisis in (2010), However, IMF together with other lender, provide it a bailout package that allowed the country to continue servicing its obligation. Hence, in the absence of any other massive lender organization, IMF is the light in the darkness of economic default.

Furthermore, supports of IMF bailouts argue that IMF packages do stabilize economies in longer term. by providing countries with the resources they need to address underlying economic problem. To them, necessary reforms directed by IMF resorted economy through



restoring trust of investors. For instance, IMF structural adjustment policies helped India to stabilize its economy and addressed some of its underlying structural issues in the economy from 1981's onward. Thus, IMF bailouts somehow helped ~~to~~ developing countries to alter the course of wheel of their economic in longer term by reducing governmental expenditures and stabilizing currency.

Moreover, some proponents of IMF bailouts argue that shock-therapy such as immediate market-oriented economic reforms, though are painful in short but beneficial in longer term. While shock therapy leads towards unemployment and inflation, it can lead to rapid economic growth. One example of a country that implemented shock therapy is Poland. ~~Go to~~ as part of economic reforms supported by IMF. Despite, job loss, reduced access to services, the country witnessed rapid modernization and growth. Today, Poland is one of the fastest-growing



economies in Europe. Therefore, IMF based liberal policies have helped many countries in gaining economic benefits which indicated that IMF bailout packages led to financial stability in long term.

Although, IMF bailouts may help countries ~~in~~ <sup>in gaining</sup> ~~the~~ <sup>the</sup> aforementioned benefits, however, these benefits do not compensate for deleterious effects discussed above. One of the main criticism on IMF bailouts is that they focus on achieving short-term macroeconomic stability at expense of long term development objectives. Such as, it impose fiscal austerity measures which can lead to reduction in social spending. Resulting poverty increases and inequality ~~exacerbates~~ <sup>exacerbates</sup>. Thus, it can make it more difficult for countries to achieve sustainable long-term growth.

Besides, IMF policies are focused on imposing "one-size-fits-all" approach ~~which~~ to economic reforms instead of tailoring specific policies



and circumstances of individual countries. In this regard, Joseph Stiglitz, a famous economist states, IMF policies are misguided and failed to promote long-term growth. He argues that these policies do not focus on reducing poverty and inequality. So these policies are not suited to the local context. Therefore, IMF policies and so called reforms if direct before lending money to the countries in need are detrimental to long-term economic growth.

In spite of number of concerns hovering around IMF bailouts program and short-term economic benefits from this massive international donor, the countries are ~~undeniably need in the need of IMF~~ are often known on the



doors of IMF in their <sup>critical</sup> times. ~~of~~  
Therefore, IMF and its member  
countries need to sit on the  
table to carve out solutions. Firstly,  
there is a strong need to  
make IMF more ~~holistic~~ flexible  
holistic. In the context of reforms  
it should include mandatory govt  
spending on education sector of  
the borrower country. Secondly,  
it should ~~the~~ direct borrowers  
to promote ~~growth~~ inclusive  
economic growth by focusing  
on poverty reduction projects etc.  
Thirdly, borrowers must play  
their role in using loaned money  
appropriately in income-generated areas  
such as ensuring business  
incentives for people to reduce  
inequalities and ~~the~~ investing  
loaned money in profit-oriented  
sectors such as increasing budget on  
education. Lastly, IMF needs  
to reform its SAPs by  
including more areas that  
emphasize on long-term economic  
growth such as introducing  
reskilling ~~the~~ packages etc.



To conclude this essay it would be pertinent to state that IMF bailouts inflict more pains on world economies rather than ~~relieving~~ relief. It directed countries to take ~~some~~ economic reforms based on neoliberal policies which are detrimental to the long-term economic growth.

However, some economists are of the view that IMF bailouts are a ray of hope for countries that suffer from economic meltdown and

debt crisis. Undoubtedly, countries knock at the door of IMF which acts as a saviour for their economies, such as for Indian and Greece's economy, but it has proved unhelpful

for their poor segments of society. Therefore, IMF bailout program is not a road to stability but a recipe for disease.