IMF economists put ‘neoliberalism’ under the spotlight

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by: Shawn Donnan in Washington

First it questioned capital controls, then inequality and fiscal austerity. Is the International Monetary Fund now throwing darts at an even broader area of economic orthodoxy?

In a piece published on Thursday in its flagship magazine, three of the IMF’s top economists take on the “neoliberal agenda” of which critics have long accused the IMF of being a leading practitioner.

Headlined “Neoliberalism: Oversold?”, the article is more a reflection of the vigorous debates under way inside the IMF than an official takedown of the free market policies the fund has long advocated. Its release also comes in the same week in which David Lipton, the fund’s number two, argued for the merits of free trade and globalisation to be sold more forcefully. This comes in a political climate where many candidates and voters are treating the IMF’s traditional call for more open economies with protectionist disdain.

But even the use of the term “neoliberalism” is provocative. It is normally used by critics of the free market economics advocated by Friedrich Hayek and Milton Friedman. A more common usage would be that of this week’s “Socialist Worker” newspaper: “The IMF uses debt as a weapon to force vicious neoliberal reforms onto elected governments.”

The new IMF work examines two specific elements of the so-called neoliberal agenda: capital account liberalisation, or removing barriers to the flows of capital; and fiscal consolidation, or what is now more commonly called austerity.

“There is much to cheer in the neoliberal agenda,” its authors write. “However, there are aspects of the neoliberal agenda that have not delivered as expected” and their work had led to “disquieting conclusions” including that they resulted in increased inequality that undermined economic growth.

In an interview, Jonathan Ostry, deputy director of the IMF’s research department and the article’s lead author, said the new piece was not meant as an attack on “the entire neoliberal agenda or the Washington consensus”. But he hoped it would set the stage for a broader examination of “neoliberalism” that would come out this year.

The International Monetary Fund stepped back from confrontation on Greece this week — to the delight of eurozone policymakers above all in Berlin.

It also fitted, he argued, with work on everything from austerity and inequality to debt and the desirability of open capital accounts that he and others have been publishing since the 2008 financial crisis — and with a growing sentiment in the broader economics community.

“There are a lot of people thinking the same thing at this point, that basically some aspects of the neoliberal agenda probably need a rethink,” he said. “The crisis said: ‘The way we’ve been thinking can’t be right’.”

Mr Ostry conceded that the new article did not reflect “mainstream culture” at the IMF and would never have made it into a fund publication as recently as five years ago. “But cultures are slow moving things,” he said.

Fabio Ghironi, an Italian economist who teaches at the University of Washington, tweeted that the new paper amounted to a “disservice to many who’ve been working on other policies”.

“This! The IMF joins the critique of neoliberalism,” Robert Went, a Dutch economist with a more sceptical take on globalisation, added via Twitter.

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“What the hell is going on?” Dani Rodrik, a Turkish economist who teaches at Harvard University and is known for his questioning of globalisation’s benefits, said in an interview.

Mr Rodrik, who is profiled in the same issue of the IMF’s “Finance & Development” by one of the neoliberalism piece’s authors, Prakash Loungani, said what has been a persistent change in tone at the fund was welcome. There were also signs the work being done by Mr Ostry and other mavericks in the research department in recent years was seeping into broader IMF policy, as reflected by the fund’s push for debt relief for Greece.

However, Mr Rodrik said, “there is definitely a gap” between the IMF’s research arm and other parts of the institution. “The operational side of the IMF, which is really where things happen, where country programmes are designed, where loan terms are negotiated is typically much more orthodox,” he said. “There the change is slower and is lagging behind the thinking.”

A misplaced mea culpa for neoliberalism

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As an all-purpose insult, “neoliberalism” has lost any meaning it might once have had. Whether it is a supposed sin of commission, such as privatisation; one of omission, such as allowing a bankrupt company to close; or just an outcome with some losers, neoliberalism has become the catch-all criticism of unthinking radicals who lack the skills of empirical argument.

The greatest insult of all, however, is that to our intelligence when august international institutions hitch their wagon to these noisy criticisms. This sorry spectacle befell the International Monetary Fund last week when it published an article in its flagship magazine questioning its own neoliberal tendencies and concluding that “instead of delivering growth, some neoliberal policies have increased inequality, in turn jeopardising durable expansion”.

The word “some” did a lot of work in that sentence. When it came to favoured IMF policies, the authors from the fund’s research department conclude that competition, global free trade, privatisation, foreign direct investment and sound public finances in the vast majority of countries all pass muster. That exonerates most of what passes as neoliberalism.

Instead of this vast array of settled good practice, the article calls into question two policies: unfettered international flows of hot money, and excessively rapid efforts to reduce public deficits. None of this navel-gazing is remotely new or innovative. The IMF has queried the value of international portfolio investment since the Asian crisis almost two decades ago, while a horses-for-courses approach to fiscal deficits has been the global consensus for nigh on a decade.

It may appear easy to forgive and forget the criticisms as the childish rhetoric of the parts of the IMF which stand aloof from the nitty gritty of helping real countries in terrible circumstances. But the attack on neoliberalism is far more dangerous than that. It gives succour to oppressive regimes around the world which also position themselves as crusaders against neoliberalism, subjugating their populations with inefficient economic policy and extreme inequality using the full power of the state.

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Against this risk, what has the IMF achieved? Some raised eyebrows from those unaware of the fund’s work, a lot of eye-rolling from the better informed, and not even the grudging approval of Naomi Klein on Twitter. In seeking to be trendy, the IMF instead looks as out of date as a middle-aged man wearing a baseball cap backwards.

Worst of all, in seeking a public relations coup from relabelling existing policies, the fund has taken its eye off the ball. By far the most important global economic issue is the persistent decline in productivity growth that threatens to undermine progress for all. This does not get a mention.