BratMUN

STUDY GUIDE

IMF 2018

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Letter from the chairpersons

Distinguished delegates,

It is our honor to welcome you at the Bratislava Model United Nations 2018, and to the International Monetary Fund which will deal with the topic "Setting policy conditions for IMF loans". We are beyond excited to meet you all in November and look forward to a dynamic and engaging debate.

Our names are Timofej Kožuchov and Matej Čerman, and we are both seniors attending LEAF Academy, an international boarding school in Bratislava. Our academic interests in economics and politics are aligned with the committee's topic, and we are thrilled to discover different perspectives on current global issues. We have participated in an array of debating and public speaking activities including Harvard MUN 2018. We have also represented the Slovak republic at the World Schools Debating Championship this summer as members of the national team. Half a year ago, we competed for our school at the International Public Policy Forum, a competition that combines debating with essay writing, winning the Grand Final in New York and attaining the title of world champions. Our hobbies also include engaging in heated ideological discussions or watching late-night comedy shows.

The committee's topic considers the extension of the International Monetary Fund's loans to countries undergoing economic downturns. Determining which, if any, conditions should be imposed on the borrowing countries will have a momentous impact on people in developing and developed countries alike. We therefore count on the delegates to carefully consider the interests of the states they will be representing, even if it means questioning their personal beliefs.

We also expect the delegates to read the attached study guide for the topic at hand. Please, regard it only as a short introduction to the subject, and not a substitute for your own research. **Moreover, please note that the delegates are expected to send a position paper approximately in the length of 400 to 600 words no later than November 2nd to the email address imf.bratmun18@gmail.com.** It should typically contain four sections: Background of Topic, Past International Actions, Country Policy, and Possible Solutions. Position Paper is due before the conference.

Please do not hesitate to reach out to us with any questions or concerns, or just to introduce yourself! The chairpersons wish you a pleasant studying of the topic and hope for a productive discussion that will result in a thorough and incisive resolution.

Matej Čerman and Timofej Kožuchov
Chairpersons of the International Monetary Fund

The International Monetary Fund

The International Monetary Fund (IMF) is a multilateral organization that aims to secure global financial and economic stability in order to promote sustainable growth. Headquartered at Washington D.C., it consists of 189 countries and controls about $1 trillion of loanable funds.[1] The IMF came into formal existence in 1945, after the Bretton Woods Conference at which the delegates representing the Allied countries agreed on a post-war global financial order. Just like the second Bretton Woods institution - the World Bank, the IMF was mostly envisioned by the United States, represented by Harry Dexter White, and the United Kingdom, represented by John Maynard Keynes.

The original role of the IMF included reconstructing the global payment system, facilitating monetary cooperation, and ensuring exchange rate stability. With the abolition of the gold standard in 1971, floating exchange rates were introduced. Because of this, the IMF shifted its focus to advising countries on economic reforms and lending money to states facing balance of payment difficulties. It does this through several credit facilities that are tailored to specific economic situations. The IMF also collects, analyzes, and publishes data on the global economy.

The IMF receives its funds from its member states, which contribute through a quota system based on their relative economic strength. Thus, the burden of providing money primarily falls to the largest and richest countries. However, the IMF also awards these countries with the most decision-making power, as the number of votes depends on the share of funds that a country contributes. For example, the United States of America controls nearly 17% of total votes, while some of the smallest countries only control 0.03%. [2]The IMF is headed by an Executive Board with 20 members, chaired by a Managing Director. The current Managing Director is Christine Lagarde, a French lawyer and politician.

There are two major ways in which the IMF at BratMUN 2018 will differ from the real-life version. First, the number of represented countries will be significantly lower. Second, the committee will use a UN-style voting system which gives one vote to every country. However, delegates are still encouraged to defend the national interests of their countries

[1] http://www.imf.org/en/About
[2] https://www.imf.org/external/np/sec/memdir/members.aspx

and to use the real-world functioning of the IMF as a basis for their proposed solutions.

Figure 1: The official headquarters of the IMF in Washington D.C.

Topic Description

Economics is a field that attempts to resolve the scarcity of resources while satisfying unlimited human needs. It is the role of the IMF to properly delegate monetary resources, human capital, and time into equitable economic distribution and the availability of opportunities for individual and collective advancement. This role is especially important in the era of quickly evolving capitalism and increasing wealth inequality, but also of recent democratisation processes all around the world. This all led to repeating economic crises that significantly damage the international economy and hence create unemployment, lack of business growth, cuts in spending, etc.

Where do sovereign governments go when they face a fiscal crisis? Today, among the Fund's most important tasks is the timely provision of loans to governments that require support in meeting their financial obligations. The prime examples might be the recent Eurozone crisis that affected Greece and Portugal. Or in the more extreme examples, the urgent necessity of the developing nations all around the world to lift up people out of the poverty. These loans are currently provided interest-free and at a discount to the rate the government would have to pay in the international bond market. In exchange for the credit line, the IMF imposes conditions on its loans: economic policy adjustments that aim to rectify underlying weaknesses in the country's financial system. Given the extent to which money determines the pace of national development, IMF has a non-negligible responsibility to allocate its resources efficiently and help countries to develop sustainably and quickly.

In this committee, we will discuss reforms that can be implemented by the IMF in setting conditions on its loans. How can we balance the desires of "creditor" nations—typically developed countries that rarely need assistance from the institution but whose funds are at risk when the IMF lends—and those of the "borrower" nations - usually developing countries? How can IMF conditionality be designed such that it is most respectful of a country's unique social, political, cultural and economic situation? How can we ensure that IMF conditionality does not infringe upon national sovereignty? These questions, and many others, will be important to consider.

Economic conditions on loans

Ever since a 1952 Executive Board decision, the IMF has been requiring countries to agree to a set of conditions in exchange for financial resources. These conditions, also known as Structural Adjustment Programs (SAPs), are meant to reduce borrowing countries' budget deficits in the short run and prepare them for long-term economic growth. However, they have come under frequent criticism from affected populations and economists alike.

a) Austerity

Cutting government budgets and increasing tax rates, together known as austerity measures, are one of the core short-run components of SAPs. Their purpose is intuitive: they stop countries from spending more than they collect in taxes, ensuring that they do not deepen their indebtedness. This stems from a simple logic that countries cannot sustainably live beyond their means - spend more money than they have. Austerity measures are supposed to help countries avoid inefficient spending, but also to ensure that borrowers will be able to repay the IMF loans back.

Despite its popularity, austerity is highly controversial for two reasons. First, it can have a calamitous impact on the people of borrowing countries. Austerity often requires decreasing expenditures on healthcare and education or eliminating food subsidies. Such measures can drastically decrease people's quality of life, as thousands lose access to essential public services. Second, even the economic benefits of austerity are disputed. Many from the Keynesian school of economics would argue that economic crises are caused by a fall in aggregate demand. In other words, households and firms are unwilling to spend money due to bad financial outlooks and uncertainty. When the government cuts its spending in this situation, aggregate demand is further decreased, and many public-sector workers face unemployment. This can create a recessionary cycle, as worse economic performance results in lower tax revenues, forcing the government into another round of budget cuts. Even the IMF itself admitted that austerity is much more harmful than previously thought, when its 2013 co-authored by Chief Economist Olivier Blanchard study concluded that "stronger planned fiscal consolidation has been associated with lower growth than expected".[3] In other

[3] http://www.nber.org/papers/w18779.pdf

words, the Fund's earlier predictions were often wrong because it underestimated the fiscal multiplier, a crucial macroeconomic statistic.

b) Liberalization of markets

In the medium and long term, the IMF typically prescribes free trade policies with the goal of promoting growth and efficiency. These can include lowering trade barriers by reducing tariffs and nontariff barriers or removing restrictions on foreign direct investment. While modern economics has reached a near-consensus about the desirability of free trade, many would contend that the IMF requires countries to liberalize their markets too rapidly, leading to a form of neo-colonialism instead of sparking growth.

Economic theory suggests that trade is beneficial because of comparative advantage – the idea that countries can specialize in what they are best at, increasing total productive capacity. Limiting imports and exports through tariffs therefore leads to inefficiencies, as uncompetitive domestic industries are propped up at the expense of consumers. However, the opponents of IMF's approach believe that so-called "infant industries" - industries in an early stage of development - need temporary protection from the global markets to grow. In their view, if tariffs and subsidies are eliminated, cheap imports devastate domestic industries, and the nation will be locked in the early stage of development, with an overtly agrarian economy. They endorse the approach of East Asian countries such as Taiwan or South Korea, whose successful development models were based on substantial state involvement, and included protectionist measures seemingly at odds with the free trade doctrine.

Further concerns touch the IMF's opposition to capital controls. Countries are required to allow the inflow of foreign investment in an effort to promote growth and create employment. Some believe that this allows multinational companies to buy up the natural resources of many developing countries and exploit the local population. Their sovereignty is therefore undermined by their reliance on renting natural resources to foreign corporations.

c) Case study: **Argentina**

One of the largest and most criticized of IMF's interventions took place during the 1998-2002 Argentine crisis. While Argentina experienced strong growth during the 1990s, its public debt rose to unsustainable levels while its currency was severely overvalued due to its pegging to the US dollar. Thus, when some of Argentina biggest trading partners were hit by crises, the Argentinian economy went into freefall.

Argentina's GDP shrank by 28% between 1998 and 2002, leading to the country defaulting on $132 billion of its sovereign debt and a subsequent restructuring. The IMF's role in this crisis is hotly debated. In 1998, the Managing Director of the IMF called Argentina's economic policy "the best in the world".[4] Many argue that optimistic forecasts like these and the generous provision of IMF loan deepened the crisis while failing to avert Argentina's inevitable default.

Even the Fund itself admitted to making mistakes when it released an 87 page report on lessons taken from the crisis. The document states that "In retrospect, it is also clear that the Fund-supported programs had insufficient structural content and conditionality"[5], but also mentions that "It is debatable whether greater structural conditionality—or stricter enforcement– would have succeeded in ensuring that structural reforms would be undertaken". All in all, the Argentinian crisis was a major hit to the Fund's reputation for economic expertise. It has also become extremely unpopular among the Argentinian population, since the IMF was blamed for harsh austerity measures that plunged people into poverty.

[4] http://www.fondad.org/product_books/pdf_download/9/Fondad-Argentina-BookComplete.pdf
[5] https://www.imf.org/external/np/pdr/lessons/100803.pdf

d) Case study: **Latvia**

In 2008, the global financial crisis triggered a severe recession in Latvia. The country's GDP decreased rapidly, while unemployment jumped from 7% to 22.8%. In 2009, Latvia asked for €7.5 billion in emergency loans from the IMF and the European Union. It subsequently implemented an expansive fiscal adjustment program (austerity measures), totalling 15% of its GDP.[6]

While painful in the short run, these policies restored investor confidence and quickly led the country out of the crisis onto a path of record growth. In 2010, rating agencies changed Latvian debt's outlook from negative to stable. While the rest of Europe was still mired in crisis, Latvia achieved growth of close to 5% in both 2011 and 2012[7], repaying the borrowed funds to IMF ahead of schedule. Christine Lagarde, the Managing Director of the IMF, called Latvia's recovery "incredibly impressive".

[6] https://www.imf.org/en/News/Articles/2015/09/28/04/53/soint020712a
[7] https://www.imf.org/en/News/Articles/2015/09/28/04/53/socar061112a

Setting conditions based on political and social tensions within the nation

Since the foundation of the International Monetary Fund, the question most policy-makers faced was whether it is appropriate to support an undemocratic political regime. This dilemma stems from the fact that both the Washington Consensus and the Bretton Woods Conference were build up on democratic values, while at the same time seeking to attract as many countries as possible. Given the fact that the vast majority of IMF loans so far had only economic conditions attached, it is clear that politics and social tensions within the borrowing nation are not a sufficient concern for the IMF to deny a loan request. The delegates need to discuss whether the IMF should care about political and social issues within the nation that requested loans.

First of all, there is a need to define what constitutes democratic principles, given that democratic institutions have a variety of forms. Building up on that, it is important to draw the line of an inappropriate regime. For instance, while it is commonly accepted that imprisoning individuals for their political beliefs is unjust, IMF Executive Board Approved New Two-Year US$88 Billion Flexible Credit Line Arrangement with Mexico on May 27, 2016. Another example might be IMF's lending of multi-billion-dollar loan to the Islamic Republic of Afghanistan[8], in spite all corruption scandals of the Afghan government. These examples point out two major considerations. One, whether both political and social issues within the country can be severe enough to be considered in a debate about economic stabilization. Second, would restrictions on loans (based on these political and social conditions) improve the political situation within that nation, or may it become another counterproductive policy imposed by several western countries. Let us address several case studies together with some general problematic trends that appear all over the world - this should provide delegates with some background ideas of conditions that might need to be met by borrowing countries.

[8] http://www.imf.org/en/news/articles/2016/07/20/22/37/pr16348-afghanistan-imf-executive-board-approves-extended-credit-facility-arrangement

a) Democratisation and dictatorships

The role of the Bretton Woods institutions has been controversial since the late Cold War, because of claims that the IMF policymakers supported military dictatorships friendly to American and European corporations, but also other anti-communist and Communist regimes (such as Mobutu's Zaire and Ceaușescu's Romania, respectively). Critics also claim that the IMF is generally apathetic or hostile to human rights, and labour rights. For instance, Malawi and Zambian president received over $20 million in loans that were supposed to diversify national economy but were instead invested into militaries.

Arguments in favour of the IMF say that economic stability is a precursor to democracy; however, critics highlight various examples in which democratised countries fell after receiving IMF loans.[9] A 2017 study found no evidence of IMF lending programs undermining democracy in borrowing countries.[10] To the contrary, it found "evidence for modest but definitely positive conditional differences in the democracy scores of participating and non-participating countries. That is primarily because economic development allows people to care more about political accountability, rather than devoting all their time into making the bread.

Figure 2: Idi Amin. Argentinian dictator, who received multiples loans from the IMF. Some of the money was spent on building expensive hotels and oppressing the civilians.

[9] http://www.cadtm.org/World-Bank-IMF-support-to
[10] https://link.springer.com/article/10.1007/s11558-016-9250-3

b) Human rights and social equity

An ongoing moral concern among developed countries is whether it is appropriate to make financial investments into countries that breach the human rights of their citizens. These can be as egregious as significant oppression of women because of strict interpretations of Islam, or capital punishments for political opponents; examples that we can see in Iran, where the IMF invested over 35 million dollars. But what would be an appropriate alternative to that case? Shall countries be ignored solely because of their religious, political or cultural norms? What would happen to countries with whom the IMF refused to cooperate?

There are multiple growing institutions all around the world that strive to replace the IMF and the World Bank, by providing different set of rules within their agreements. On one hand, the African Monetary Fund tries to collect money for the provision of cheap loans in African countries, but for next several years still won't be able to provide significant sums. However, not all alternatives are beneficial. The Chinese project of "One Belt One Road" provides desperate countries with loans with sharp interest rates on top of strict repaying conditions. When Angola rejected IMF loans in order to be part of OBOR, it later fell into enormous problems with repaying their debts to China

What are the possible conditions for extending loans that the IMF can impose on nations that neglect civil liberties? If the country refuses to adhere to these, should the IMF follow moral principles even at the cost of financially ruining the country?

Individual study

a) Questions for a resolution

Before you start writing your position papers and thinking about your arguments, we recommend thinking carefully about some of these questions. While you do not have to research and write about all of these questions in depth, you should keep them in mind throughout the research process and be prepared to address them.

- Is a democratic way of governing a nation always the best? Should democratization be a condition for international cooperation within the IMF?
- Do Western civilizations have the right to enforce their economic and political values, regardless of the developing country's interests? Does the IMF have sufficient amount of information to determine what is best for the people of borrowing countries?
- What are the primary causes and possible solutions to recession? Why do we even need to fight recessions? Should economies be left to adjust on their own?
- What are the possible alternatives for thwarting the recession? Is the Washington consensus the best possible path to prosperity?
- What are the interests of the borrowing countries? What are the interests of the lending countries? Where do they align and where do they contradict?
- Which countries may support your resolution? Would your resolution benefit only the interests of your state, or the global community as such?

b) Further readings

It is understandable that delegates will not have time to read all the recommended reading. Nonetheless, we encourage to read as much as you can, as the field of economics and international politics is far more complicated than the extent of this study guide. We would especially encourage delegates to study up on basic macroeconomics. Being familiar with basic economic concepts and terminology will ensure that delegates do not get lost in the discussion and use appropriate language for the resolution.

We also urge delegates to research their countries' economic policies and past experiences with the IMF. In addition to these, delegates should also look into different cases of IMF loans, such as those to Indonesia, Malawi, Iceland, Greece, Brazil, Poland, and Russia.

Introduction to economics

Clifford, Jacob. "Macroeconomics Videos." *YouTube*, YouTube, www.youtube.com/user/ACDCLeadership/playlists?view=50&shelf_id=12&sort=dd.

Hill, Adrienne, and Jacob Clifford. "Economics." *YouTube*, CrashCourse, www.youtube.com/playlist?list=PL8dPuuaLjXtPNZwz5_o_5uirJ8gQXnhEO.

The IMF

"Factsheets List." *IMF*, www.imf.org/en/About/Factsheets.

"Map: IMF Lending at a Glance." *IMF*, 8 May 2017, www.imf.org/external/np/exr/map/lending/index.htm.

Economic policies

Blyth, Mark. *Austerity the History of a Dangerous Idea*. Oxford University Press, 2015.

Plumer, Brad. "IMF: Austerity Is Much Worse for the Economy than We Thought." The Washington Post, WP Company, 12 Oct. 2012, www.washingtonpost.com/news/wonk/wp/2012/10/12/imf-austerity-is-much-worse-for-the-economy-than-we-thought/?utm_term=.2b5508a0652c.

Stiglitz, Joseph E. *Globalization and Its Discontents*. W.W. Norton, 2003. Print.

Case studies

Brau, Eduard H., and Ian S. McDonald. *Successes of the International Monetary Fund Untold Stories of Cooperation at Work*. Palgrave Macmillan, 2009.

Friederich, Jan, and Mahmoud Harb. "IMF Bailouts in Africa Gain Only Marginal Success." *Financial Times*, Financial Times, 16 Mar. 2018, www.ft.com/content/a279ecd6-2908-11e8-b27e-cc62a39d57a0.

Gillespie, Patrick, et al. "This Time Is Different? For Argentina and IMF, It Had Better Be." Bloomberg.com, Bloomberg, 7 Sept. 2018, www.bloomberg.com/news/articles/2018-09-07/this-time-is-different-for-argentina-and-imf-it-had-better-be.

Heeb, Gina. "Argentina Looks Set to Get a $50 Billion Bailout - the Biggest Loan in the IMF's History." Business Insider, Business Insider, 8 June 2018,

www.businessinsider.com/argentina-bailout-50-billion-loan-biggest-in-imf-history-2018-6.

Closing remarks

First, thank you all for sticking with us to the end of this background guide. It is meant to provide you with a solid understanding of the major points of contention within this topic, a historical background, and relevant international case studies. While this guide is not meant to be exhaustive by any means, we do hope that it has piqued your interest in the topic and convinced you of the relevance of what we will be discussing in November.

With that said, do your own research, get to know the country you are representing, and come up with your own perspective sand solutions. Do not be intimidated by any of the information in this guide or anything else you will inevitably learn about the topic — we have no doubts that each and every one of you will come up with original, yet feasible solutions to this issue. In fact, perhaps you will find it most helpful to first brainstorm your own set of questions to tackle our case studies and committee topic.

Aside from that, we wanted to say that we are extremely excited to direct this committee, and to meet you all. Researching for this background guide has also given us further insight into how difficult it is to create a sustainable economic policy for different countries with different economic and political institutions, and how pressing of an issue it is to address. We cannot wait to see how you all tackle this issue, and how you cooperate with one another to learn and grow as writers, debaters, and thinkers. Please do not hesitate to reach out to us at any time with any questions about research, the topic, or the background guide. You can email us or ask on Facebook anytime – no question is too minor or too insignificant; we are thrilled to start getting to know you all as soon as possible, and cannot wait to meet you all in November.

Best,
Matej Čerman and Timofej Kožuchov
Chairs of the International Monetary Fund at the Bratislava Model United Nations 2018