I.M.F. is pressured to redefine its role

LONDON

Known for its austerity, the fund must now help nations spend $1.1 trillion

BY LANDON THOMAS, JR.

This week, the leaders of the world's most important nations effectively passed the buck — along with hundreds of billions of bucks — to the International Monetary Fund.

But in doing so, they left unanswered a crucial question: How will all the new

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money for the I.M.F. — an institution known for requiring stringent anti-spending policies as the price for extending aid to countries in trouble — lead to the restoration of economic growth?

"There's a tension that will need to be worked out," said Johannes F. Linn, an expert on international finance at the Brookings Institution in Washington. "The balance has to be struck between the I.M.F. going into restrictive mode, which it has done in the past, and being less restrictive and assuming that the external shock will pass."

Of the $1.1 trillion in additional support for the global economy trumpeted as the core accomplishment of the G-20 summit here, $750 billion consists of new lending commitments and credit guarantees for the I.M.F. That hand-off to the fund constituted a tacit admission that fundamental differences between the United States and continental Europe over encouraging major industrial countries to expand their own stimulus programs could not be bridged.

This big escalation of the I.M.F.'s responsibility comes at a time when the fund itself is struggling to redefine its mission. Specifically, the question turns on whether an organization with a mandate to impose austerity measures like spending cuts and tax increases to restore fiscal responsibility can turn itself into an institution capable of nursing countries through a wrenching global recession for which they bear little actual responsibility.

To do that, experts say, the I.M.F. will need to revert to the mission it was given at the time of its birth, when it was less a monitor of good policy behavior than the anchor of a nascent post-World War II global financial system.

"This goes back to the idea of the I.M.F. as a source of liquidity, not a shadow government looking over the shoulders of finance ministers," said Philip Lane, an international economist at Trinity College in Dublin.

Criticism of the I.M.F. has long focused on its image as a hectoring policy scold pushing for deep budget cuts, privatizations and other market-friendly measures more in tune with the demands of foreign investors than the needs of the local population.

The I.M.F.'s role as an enforcer of what supporters and critics call the "Washington consensus" — the creed of free markets and fiscal discipline — is now seen as too narrow for the challenges facing today's global economy.

The I.M.F.'s customary ways seem doubly dated, even hypocritical, at a time when governments in the United States and Britain, at the epicenter of the financial collapse, are running some of the largest budget deficits and most expansive monetary policies on record as they try to spend and borrow their way out of the worldwide slump.

At the conclusion of the summit meeting on Thursday, Prime Minister Gordon Brown declared that "the old Washington consensus is over."

The I.M.F's struggle to reconcile the desperate need that many economies have for funds with its fiduciary responsibility to see that these funds are not wasted, goes to the heart of its mission.

Recently there have been important signs of change at the fund.

Late last month the I.M.F. announced a revamp of its lending criteria so that less emphasis is placed on evaluating a borrower's ability to meet "structural performance criteria," the fund's jargon for spending cuts, tax increases and other austerity measures.

Supporters of the I.M.F. say that the fund has learnt lessons from its experience working with Asian countries after the region's financial crisis in 1998 and is now in a position to offer credit without harsh conditions — as evidenced by a request this week by Mexico for a $45 billion line of credit.

But the core question, of how an organization that for more than 20 years counseled fiscal caution and restraint will now deploy its funds to jump start economies, remains an open one.

Nowhere is tension over the I.M.F.'s role more acute than in Turkey, which resumed talks with the fund on Thursday after having broken off discussions in January. For years, Turkey — with its chronic economic problems of yawning budget deficits, high inflation and a succession of governments incapable of carrying out reforms — has been a classic I.M.F. problem child, signing agreements and failing to meet conditions.

Under Prime Minister Recep Tayyip Erdogan, the government has addressed many of these core ailments and, it thought, settled its account with I.M.F. But the global downturn has again put Turkey's economy in a precarious state and for months, the Turkish government has been resisting a deal, despite the entreaties of foreign investors and the local business community.

Instead, Turkey has argued that cutting spending and increasing taxes to close its deficit, as the I.M.F. requires, is

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nonsensical at a time when its economy has been shrinking by 5 percent.

"I don't want the I.M.F. to impose restrictions on our fiscal policies just to guarantee the money that they give us," said Saruhan Ozel, an economist at DenizBank in Istanbul, one of the few in the Turkish private sector who have spoken out against an I.M.F. deal.

Turkey's talks with the I.M.F. were suspended several months before the fund's recent disclosure that it would demand fewer fiscal concessions in return for a credit facility. And the fact that Mr. Erdogan and the I.M.F. president, Dominique Strauss-Kahn, met this week in London, before President Barack Obama's visit to Turkey, suggests that Turkey may well be the first country to benefit from the recent changes at the fund.

All the same, in countries where economies are in worse shape, the strictures of I.M.F. conditions remain in place. In Hungary, which signed a $25 billion agreement last autumn, the government has cut spending to the bone. But a collapse in tax revenues because of the sinking economy has made it so difficult to meet deficit targets that the conditions have had to be renegotiated.

And on Thursday, the Latvian government said an installment of its IMF loan would be delayed because its budget deficit exceeded I.M.F. targets, as spending cuts could not keep pace with the decimation of the country's tax base.