nationalization process. Instead, we have a system that might be called *global governance without global government*, one in which a few institutions—the World Bank, the IMF, the WTO—and a few players—the finance, commerce, and trade ministries, closely linked to certain financial and commercial interests—dominate the scene, but in which many of those affected by their decisions are left almost voiceless. It's time to change some of the rules governing the international economic order, to think once again about how decisions get made at the international level—and in whose interests—and to place less emphasis on ideology and to look more at what works. It is crucial that the successful development we have seen in East Asia be achieved elsewhere. There is an enormous cost to continuing global instability. Globalization can be reshaped, and when it is, when it is properly, fairly run, with all countries having a voice in policies affecting them, there is a possibility that it will help create a new global economy in which growth is not only more sustainable and less volatile but the fruits of this growth are more equitably shared.

CHAPTER 2

BROKEN PROMISES

ON MY FIRST day, February 13, 1997, as chief economist and senior vice president of the World Bank, as I walked into its gigantic, modern, gleaming main building on 19th Street in Washington, DC, the institution's motto was the first thing that caught my eye: *Our dream is a world without poverty*. In the center of the thirteen-story atrium there is a statue of a young boy leading an old blind man, a memorial to the eradication of river blindness (*onchocerciasis*). Before the World Bank, the World Health Organization, and others pooled their efforts, thousands were blinded annually in Africa from this preventable disease. Across the street stands another gleaming monument to public wealth, the headquarters of the International Monetary Fund. The marble atrium inside, graced with abundant flora, serves to remind visiting finance ministers from countries around the world that the IMF represents the centers of wealth and power.

These two institutions, often confused in the public mind, present marked contrasts that underline the differences in their cultures, styles, and missions: one is devoted to eradicating poverty, one to maintaining global stability. While both have teams of economists flying into developing countries for three-week missions, the World

Bank has worked hard to make sure that a substantial fraction of its staff live permanently in the country they are trying to assist; the IMF generally has only a single "resident representative," whose powers are limited. IMF programs are typically dictated from Washington, and shaped by the short missions during which its staff members pore over numbers in the finance ministries and central banks and make themselves comfortable in five-star hotels in the capitals. There is more than symbolism in this difference: one cannot come to learn about, and love, a nation unless one gets out to the countryside. One should not see unemployment as just a statistic, an economic "body count," the unintended casualties in the fight against inflation or to ensure that Western banks get repaid. The unemployed are people, with families, whose lives are affected—sometimes devastated—by the economic policies that outsiders recommend, and, in the case of the IMF, effectively impose. Modern high-tech warfare is designed to remove physical contact: dropping bombs from 50,000 feet ensures that one does not "feel" what one does. Modern economic management is similar: from one's luxury hotel, one can callously impose policies about which one would think twice if one knew the people whose lives one was destroying.

Statistics bear out what those who travel outside the capital see in the villages of Africa, Nepal, Mindanao, or Ethiopia; the gap between the poor and the rich has been growing, and even the number in absolutely poverty—living on less than a dollar a day—has increased. Even where river blindness has been eliminated, poverty endures—this despite all the good intentions and promises made by the developed nations to the developing nations, most of which were once the colonial possessions of the developed nations.

Mind-sets are not changed overnight, and this is as true in the developed as in the developing countries. Giving developing countries their freedom (generally after little preparation for autonomy) often did not change the view of their former colonial masters, who continued to feel that they knew best. The colonial mentality—the "white man's burden" and the presumption that they knew what was best for the developing countries—persisted. America, which came to dominate the global economic scene, had much less of a colonial heritage, yet America's credentials too had been tarred, not so much

by its "Manifest Destiny" expansionism as by the cold war, in which principles of democracy were compromised or ignored, in the all-encompassing struggle against communism.

The night before I started at the Bank, I held my last press conference as chairman of the President's Council of Economic Advisers. With the domestic economy so well under control, I felt that the greatest challenges for an economist now lay in the growing problem of world poverty. What could we do about the 1.2 billion people around the world living on less than a dollar a day, or the 2.8 billion people living on less than $2 a day—more than 45 percent of the world's population? What could I do to bring to reality the dream of a world without poverty? How could I embark on the more modest dream of a world with less poverty? I saw my task as threefold: thinking through what strategies might be most effective in promoting growth and reducing poverty; working with governments in the developing countries to put these strategies in place; and doing everything I could within the developed countries to advance the interests and concerns of the developing world, whether it was pushing for opening up their markets or providing more effective assistance. I knew the tasks were difficult, but I never dreamed that one of the major obstacles the developing countries faced was man-made, totally unnecessary, and lay right across the street—at my "sister" institution, the IMF. I had expected that not everyone in the international financial institutions or in the governments that supported them was committed to the goal of eliminating poverty; but I thought there would be an open debate about strategies—strategies which in so many areas seem to be failing, and especially failing the poor. In this, I was to be disappointed.

Ethiopia and the Struggle Between Power Politics and Poverty

After four years in Washington, I had become used to the strange world of bureaucracies and politicians. But it was not until I traveled to Ethiopia, one of the poorest countries in the world, in March 1997, barely a month into the World Bank job, that I became fully immersed in the astonishing world of IMF politics and arithmetic.

Ethiopia's per capita income was $110 a year and the country had suffered from successive droughts and famines that had killed 2 million people. I went to meet Prime Minister Meles Zenawi, a man who had led a seventeen-year guerrilla war against the bloody Marxist regime of Mengistu Haile Mariam. Meles's forces won in 1991 and then the government began the hard work of rebuilding the country. A doctor by training, Meles had formally studied economics because he knew that to bring his country out of centuries of poverty would require nothing less than economic transformation, and he demonstrated a knowledge of economics—and indeed a creativity—that would have put him at the head of any of my university classes. He showed a deeper understanding of economic principles—and certainly a greater knowledge of the circumstances in his country—than many of the international economic bureaucrats that I had to deal with in the succeeding three years.

Meles combined these intellectual attributes with personal integrity: no one doubted his honesty and there were few accusations of corruption within his government. His political opponents came mostly from the long-dominant groups around the capital who had lost political power with his accession, and they raised questions about his commitment to democratic principles. However, he was not an old-fashioned autocrat. Both he and the government were generally committed to a process of decentralization, bringing government closer to the people and ensuring that the center did not lose touch with the separate regions. The new constitution even gave each region the right to vote democratically to secede, ensuring that the political elites in the capital city, whoever they might be, could not risk ignoring the concerns of ordinary citizens in every part of the country, or that one part of the country could not impose its views on the rest. The government actually lived up to its commitment, when Eritrea declared its independence in 1993. (Subsequent events—such as the government's occupation of the university in Addis Ababa in the spring of 2000, with the imprisonment of some students and professors—show the precariousness, in Ethiopia as elsewhere, of basic democratic rights.)

When I arrived in 1997, Meles was engaged in a heated dispute with the IMF, and the Fund had suspended its lending program.

Ethiopia's macroeconomic "results"—upon which the Fund was supposed to focus—could not have been better. There was no inflation; in fact, prices were falling. Output had been growing steadily since he had succeeded in ousting Mengistu.[1] Meles showed that, with the right policies in place, even a poor African country could experience sustained economic growth. After years of war and rebuilding, international assistance was beginning to return to the country. But Meles was having problems with the IMF. What was at stake was not just $127 million of IMF money provided through its so-called Enhanced Structural Adjustment Facility (ESAF) program (a lending program at highly subsidized rates to help very poor countries), but World Bank monies as well.

The IMF has a distinct role in international assistance. It is supposed to review each recipient's macroeconomic situation and make sure that the country is living within its means. If it is not, there is inevitably trouble down the road. In the short run, a country can live beyond its means by borrowing, but eventually a day of reckoning comes, and there is a crisis. The IMF is particularly concerned about inflation. Countries whose governments spend more than they take in in taxes and foreign aid often will face inflation, especially if they finance their deficits by printing money. Of course, there are other dimensions to good macroeconomic policy besides inflation. The term *macro* refers to the *aggregate* behavior, the overall levels of growth, unemployment, and inflation, and a country can have low inflation but no growth and high unemployment. To most economists, such a country would rate as having a disastrous macroeconomic framework. To most economists, inflation is not so much an end in itself, but a means to an end: it is because *excessively* high inflation often leads to low growth, and low growth leads to high unemployment, that inflation is so frowned upon. But the IMF often seems to confuse means with ends, thereby losing sight of what is ultimately of concern. A country like Argentina can get an "A" grade, even if it has double-digit unemployment for years, so long as its budget seems in balance and its inflation seems in control!

If a country does not come up to certain minimum standards, the IMF suspends assistance; and typically, when it does, so do other donors. Understandably, the World Bank and the IMF don't lend to countries unless they have a good macroframework in place. If countries have huge deficits and soaring inflation, there is a risk that money will not be well spent. Governments that fail to manage their overall economy generally typically do a poor job managing foreign aid. But if the macroeconomic indicators—inflation and growth—are solid, as they were in Ethiopia, surely the underlying macroeconomic framework must be good. Not only did Ethiopia have a sound macroeconomic framework but the World Bank had direct evidence of the competence of the government and its commitment to the poor. Ethiopia had formulated a rural development strategy, focusing its attention on the poor, and especially the 85 percent of the population living in the rural sector. It had dramatically cut back on military expenditures—remarkable for a government which had come to power through military means—because it knew that funds spent on weapons were funds that could not be spent on fighting poverty. Surely, this was precisely the kind of government to which the international community should have been giving assistance. But the IMF had suspended its program with Ethiopia, in spite of the good macroeconomic performance, saying it was worried about Ethiopia's budgetary position.

The Ethiopian government had two revenue sources, taxes and foreign assistance. A government's budget is in balance so long as its revenue sources equal its expenditures. Ethiopia, like many developing countries, derived much of its revenues from foreign assistance. The IMF worried that if this aid dried up, Ethiopia would be in trouble. Hence it argued that Ethiopia's budgetary position could only be judged solid if expenditures were limited to the taxes it collected.

The obvious problem with the IMF's logic is that it implies no poor country can ever spend money on anything it gets aid for. If Sweden, say, gives money to Ethiopia to build schools, this logic dictates that Ethiopia should instead put the money into its reserves. (All countries have, or should have, reserve accounts that hold funds for the proverbial rainy day. Gold is the traditional reserve, but today it has been replaced by hard currency and its interest-bearing relatives. The most common way to hold reserves is in U.S. Treasury bills.) But this is not why international donors give aid. In Ethiopia, the donors,

who were working independently and not beholden to the IMF, wanted to see new schools and health clinics built, and so did Ethiopia. Meles put the matter more forcefully: He told me that he had not fought so hard for seventeen years to be instructed by some international bureaucrat that he could not build schools and clinics for his people once he had succeeded in convincing donors to pay for them.

The IMF view was not rooted in a long-held concern about project sustainability. Sometimes countries had used aid dollars to construct schools or clinics. When the aid money ran out, there was no money to maintain these facilities. The donors had recognized this problem and built it into their assistance programs in Ethiopia and elsewhere. But what the IMF alleged in the case of Ethiopia went beyond that concern. The Fund contended that international assistance was too unstable to be relied upon. To me, the IMF's position made no sense, and not just because of its absurd implications. I knew that assistance was often far more stable than tax revenues, which can vary markedly with economic conditions. When I got back to Washington, I asked my staff to check the statistics, and they confirmed that international assistance was more stable than tax revenues. Using the IMF reasoning about stable sources of revenue, Ethiopia, and other developing countries, should have counted foreign aid but not included tax revenues in their budgets. And if neither taxes nor foreign assistance were to be included in the revenue side of budgets, *every* country would be considered to be in bad shape.

But the IMF's reasoning was even more flawed. There are a number of appropriate responses to instability of revenues, such as setting aside additional reserves and maintaining flexibility of expenditures. If revenues, from any source, decline, and there are not reserves to draw upon, then the government has to be prepared to cut back expenditures. But for the kinds of assistance that constitute so much of what a poor country like Ethiopia receives, there is a built-in flexibility; if the country does not receive money to build an additional school, it simply does not build the school. Ethiopia's government officials understood what was at issue, they understood the concern about what might happen if *either* tax revenues or foreign assistance should fall, and they had designed policies to deal with these contingencies. What they couldn't understand—and I couldn't understand—is why the IMF couldn't see the logic of their position. And much was at stake: schools and health clinics for some of the poorest people in the world.

In addition to the disagreement over how to treat foreign aid, I also became immediately entangled in another IMF-Ethiopia dispute over early loan repayment. Ethiopia had repaid an American bank loan early, using some of its reserves. The transaction made perfect *economic* sense. In spite of the quality of the collateral (an airplane), Ethiopia was paying a far higher interest rate on its loan than it was receiving on its reserves. I, too, would have advised them to repay, particularly since in the event that funds would later be required, the government could presumably readily obtain funds using the plane as collateral. The United States and the IMF objected to the early repayment. They objected not to the logic of the strategy, but to the fact that Ethiopia had undertaken this course without IMF approval. But why should a sovereign country ask permission of the IMF for every action which it undertakes? One might have understood if Ethiopia's action threatened its ability to repay what was owed the IMF; but quite the contrary, because it was a sensible financial decision, it enhanced the country's ability to repay what was due.[2]

For years, the mantra at the 19th Street headquarters of the IMF in Washington had been accountability and judgment by results. The results of Ethiopia's largely self-determined policies should have demonstrated convincingly that it was a capable master of its own destiny. But the IMF felt countries receiving money from it had an obligation to report everything that might be germane; not to do so was grounds for suspension of the program, regardless of the reasonableness of the action. To Ethiopia, such intrusiveness smacked of a new form of colonialism; to the IMF, it was just standard operating procedure.

There were other sticking points in IMF-Ethiopia relations, concerning Ethiopian financial market liberalization. Good capital markets are the hallmark of capitalism, but nowhere is the disparity between developed and less developed countries greater than in their capital markets. Ethiopia's entire banking system (measured, for instance, by the size of its assets) is somewhat smaller than that of

Bethesda, Maryland, a suburb on the outskirts of Washington with a population of 55,277. The IMF wanted Ethiopia not only to open up its financial markets to Western competition but also to divide its largest bank into several pieces. In a world in which U.S. megafinancial institutions like Citibank and Travelers, or Manufacturers Hanover and Chemical, say they have to merge to compete effectively, a bank the size of North East Bethesda National Bank really has no way to compete against a global giant like Citibank. When global financial institutions enter a country, they can squelch the domestic competition. And as they attract depositors away from the local banks in a country like Ethiopia, they may be far more attentive and generous when it comes to making loans to large multinational corporations than they will to providing credit to small businesses and farmers.

The IMF wanted to do more than just open up the banking system to foreign competition. It wanted to "strengthen" the financial system by creating an auction market for Ethiopia's government Treasury bills—a reform, as desirable as it might be in many countries, which was completely out of tune with that country's state of development. It also wanted Ethiopia to "liberalize" its financial market, that is, allow interest rates to be freely determined by market forces—something the United States and Western Europe did not do until after 1970, when their markets, and the requisite regulatory apparatus, were far more developed. The IMF was confusing ends with means. One of the prime objectives of a good banking system is to provide credit at good terms to those who will repay. In a largely rural country like Ethiopia, it is especially important for farmers to be able to obtain credit at reasonable terms to buy seed and fertilizer. The task of providing such credit is not easy; even in the United States, at critical stages of its development when agriculture was more important, the government took a crucial role in providing needed credit. The Ethiopian banking system was at least seemingly quite efficient, the difference between borrowing and lending rates being far lower than those in other developing countries that had followed the IMF's advice. Still, the Fund was unhappy, simply because it believed interest rates should be freely determined by international market forces, whether those markets were or were not competitive. To the Fund, a liberalized financial system was an end in itself. Its naive faith in markets made it confident that a liberalized financial system would lower interest rates paid on loans and thereby make more funds available. The IMF was so certain about the correctness of its dogmatic position that it had little interest in looking at actual experiences.

Ethiopia resisted the IMF's demand that it "open" its banking system, for good reason. It had seen what happened when one of its East African neighbors gave in to IMF demands. The IMF had insisted on financial market liberalization, believing that competition among banks would lead to lower interest rates. The results were disastrous: the move was followed by the very rapid growth of local and indigenous commercial banks, at a time when the banking legislation and bank supervision were inadequate, with the predictable results—fourteen banking failures in Kenya in 1993 and 1994 alone. In the end, interest rates increased, not decreased. Understandably, the government of Ethiopia was wary. Committed to improving the living standards of its citizens in the rural sector, it feared that liberalization would have a devastating effect on its economy. Those farmers who had previously managed to obtain credit would find themselves unable to buy seed or fertilizer because they would be unable to get cheap credit or would be forced to pay higher interest rates which they could ill afford. This is a country wracked by droughts which result in massive starvation. Its leaders did not want to make matters worse. The Ethiopians worried that the IMF's advice would cause farmers' incomes to fall, exacerbating an already dismal situation.

Faced with Ethiopian reluctance to accede to its demands, the IMF suggested the government was not serious about reform and, as I have said, suspended its program. Happily, other economists in the World Bank and I managed to persuade the Bank management that lending more money to Ethiopia made good sense: it was a country desperately in need, with a first-rate economic framework and a government committed to improving the plight of its poor. World Bank lending tripled, even though it took months before the IMF finally relented on its position. In order to turn the situation around I had, with the invaluable help and support of colleagues, mounted a determined campaign of "intellectual lobbying." In Washington, my colleagues and I held conferences to encourage people at both the IMF and the World Bank to look again at issues of financial sector liberalization in very underdeveloped nations, and the consequences of unnecessarily imposed budgetary austerity in foreign aid–dependent poor countries, as in Ethiopia. I attempted to reach senior managers at the Fund, both directly and through colleagues at the World Bank, and those at the Bank working in Ethiopia made similar efforts to persuade their counterparts at the Fund. I used what influence I could through my connections with the Clinton administration, including talking to America's representative on the Fund. In short, I did everything I could to get the IMF program reinstated.

Assistance was restored, and I would like to think that my efforts helped Ethiopia. I learned, however, that immense time and effort are required to effect change, even from the inside, in an international bureaucracy. Such organizations are opaque rather than transparent, and not only does far too little information radiate from inside to the outside world, perhaps even less information from outside is able to penetrate the organization. The opaqueness also means that it is hard for information from the bottom of the organization to percolate to the top.

The tussle over lending to Ethiopia taught me a lot about how the IMF works. There was clear evidence the IMF was wrong about financial market liberalization and Ethiopia's macroeconomic position, but the IMF had to have its way. It seemingly would not listen to others, no matter how well informed, no matter how disinterested. Matters of substance became subsidiary to matters of process. Whether it made sense for Ethiopia to repay the loan was less important than the fact that it failed to consult the IMF. Financial market liberalization—how best this should be done in a country at Ethiopia's stage of development—was a matter of substance and experts could have been asked for their opinion. The fact that outside experts were not called in to help arbitrate what was clearly a contentious issue is consonant with the style of the IMF, in which the Fund casts itself as the monopoly supplier of "sound" advice. Even matters like the repayment of the loan—though properly not something on which the IMF should have taken a position at all, so long as Ethiopia's action enhanced rather than subtracted from its ability to repay what was owed—could have been referred to outsiders, to see whether the action was "reasonable." But doing so would have been anathema to the IMF. Because so much of its decision making was done behind closed doors—there was virtually no public discussion of the issues just raised—the IMF left itself open to suspicions that power politics, special interests, or other hidden reasons not related to the IMF's mandate and stated objectives were influencing its institutional policies and conduct.

It is hard even for a moderate-sized institution like the IMF to know a great deal about every economy in the world. Some of the best IMF economists were assigned to work on the United States, but when I served as chairman of the Council of Economic Advisers, I often felt that the IMF's limited understanding of the U.S. economy had led it to make misguided policy recommendations for America. The IMF economists felt, for instance, that inflation would start rising in the United States as soon as unemployment fell below 6 percent. At the Council, our models said they were wrong, but they were not terribly interested in our input. We were right, and the IMF was wrong: unemployment in the United States fell to below 4 percent and still inflation did not increase. Based on their faulty analysis of the U.S. economy, the IMF economists came up with a misguided policy prescription: raise interest rates. Fortunately, the Fed paid no attention to the IMF recommendation. Other countries could not ignore it so easily.

But to the IMF the lack of detailed knowledge is of less moment, because it tends to take a "one-size-fits-all" approach. The problems of this approach become particularly acute when facing the challenges of the developing and transition economies. The institution does not really claim expertise in development—its original mandate is supporting global economic stability, as I have said, not reducing poverty in developing countries—yet it does not hesitate to weigh in, and weigh in heavily, on development issues. Development issues are complicated; in many ways developing countries present far greater difficulties than more developed countries. This is because in developing nations, markets are often absent, and when present, often work imperfectly. Information problems abound, and cultural mores may significantly affect economic behavior.

Unfortunately, too often the training of the IMF macroeconomists

does not prepare them well for the problems that they have to confront in developing countries. In some of the universities from which the IMF hires regularly, the core curricula involve models in which there is never any unemployment. After all, in the standard competitive model—the model that underlies the IMF's market fundamentalism—demand always equals supply. If the demand for labor equals supply, there is never any *involuntary* unemployment. Someone who is not working has evidently chosen not to work. In this interpretation, unemployment in the Great Depression, when one out of four people was out of work, would be the result of a sudden increase in the desire for more leisure. It might be of some interest to psychologists why there was this sudden change in the desire for leisure, or why those who were supposed to be enjoying this leisure seemed so unhappy, but according to the standard model these questions go beyond the scope of economics. While these models might provide some amusement within academia, they seemed particularly ill suited to understanding the problems of a country like South Africa, which has been plagued with unemployment rates in excess of 25 percent since apartheid was dismantled.

The IMF economists could not, of course, ignore the existence of unemployment. Because under market fundamentalism—in which, *by assumption*, markets work perfectly and demand must equal supply for labor as for every other good or factor—there cannot be unemployment, the problem cannot lie with markets. It must lie elsewhere—with greedy unions and politicians interfering with the workings of free markets, by demanding—and getting—excessively high wages. There is an obvious policy implication—if there is unemployment, wages should be reduced.

But even if the training of the typical IMF macroeconomist had been better suited to the problems of developing countries, it's unlikely that an IMF mission, on a three-week trip to Addis Ababa, Ethiopia's capital, or the capital of any other developing country, could really develop policies appropriate for that country. Such policies are far more likely to be crafted by highly educated, first-rate economists already in the country, deeply knowledgeable about it and working daily on solving that country's problems. Outsiders can play a role, in sharing the experiences of other countries, and in offering alternative interpretations of the economic forces at play. But the IMF did not want to take on the mere role of an adviser, competing with others who might be offering their ideas. It wanted a more central role in shaping policy. And it could do this because its position was based on an ideology—market fundamentalism—that required little, if any, consideration of a country's particular circumstances and immediate problems. IMF economists could ignore the short-term effects their policies might have on the country, content in the belief that *in the long run* the country would be better off; any adverse short-run impacts would be merely pain that was necessary as part of the process. Soaring interest rates might, today, lead to starvation, but market efficiency requires free markets, and eventually, efficiency leads to growth, and growth benefits all. Suffering and pain became part of the process of redemption, evidence that a country was on the right track. To me, sometimes pain *is* necessary, but it is not a virtue in its own right. Well-designed policies can often avoid much of the pain; and some forms of pain—the misery caused by abrupt cuts in food subsidies, for example, which leads to rioting, urban violence, and the dissolution of the social fabric—are counterproductive.

The IMF has done a good job of persuading many that its ideologically driven policies were necessary if countries are to succeed in the long run. Economists always focus on the importance of scarcity and the IMF often says it is simply the messenger of scarcity: countries cannot persistently live beyond their means. One doesn't, of course, need a sophisticated financial institution staffed by Ph.D. economists to tell a country to limit expenditures to revenues. But IMF reform programs go well beyond simply ensuring that countries live within their means.

THERE ARE ALTERNATIVES to IMF-style programs, other programs that may involve a reasonable level of sacrifice, which are not based on market fundamentalism, programs that have had positive outcomes. A good example is Botswana, 2,300 miles south of Ethiopia, a small country of 1.5 million, which has managed a stable democracy since independence.

At the time Botswana became fully independent in 1966 it was a desperately poor country, like Ethiopia and most of the other countries in Africa, with a per capita annual income of $100. It too was largely agricultural, lacked water, and had a rudimentary infrastructure. But Botswana is one of the success stories of development. Although the country is now suffering from the ravages of AIDS, it averaged a growth rate of more than 7.5 percent from 1961 to 1997.

Botswana was helped by having diamonds, but countries like Congo Republic (formerly Zaire), Nigeria, and Sierra Leone were also rich in resources. In those countries, the wealth from this abundance fueled corruption and spawned privileged elites that engaged in internecine struggles for control of each country's wealth. Botswana's success rested on its ability to maintain a political consensus, based on a broader sense of national unity. That political consensus, necessary to any workable social contract between government and the governed, had been carefully forged by the government, in collaboration with outside advisers, from a variety of public institutions and private foundations, including the Ford Foundation. The advisers helped Botswana map out a program for the country's future. Unlike the IMF, which largely deals with the finance ministry and central banks, the advisers openly and candidly explained their policies as they worked with the government to obtain popular support for the programs and policies. They discussed the program with senior Botswana officials, including cabinet ministers and members of Parliament, with open seminars as well as one-to-one meetings.

Part of the reason for this success was that the senior people in Botswana's government took great care in selecting their advisers. When the IMF offered to supply the Bank of Botswana with a deputy governor, the Bank of Botswana did not automatically accept him. The bank's governor flew to Washington to interview him. He turned out to do a splendid job. Of course, no success is without blemishes. On another occasion, the Bank of Botswana allowed the IMF to pick somebody to be director of research, and that turned out, at least in the view of some, to be far less successful.

The differences in how the IMF and the advisers from the Ford Foundation and other agencies approach developing countries has a multiplicity of consequences. While the IMF is vilified almost everywhere in the developing world, the warm relationship that was created between Botswana and its advisers was symbolized by the awarding of that country's highest medal to Steve Lewis, who at the time he advised Botswana was a professor of development economics at Williams.

The vital consensus that underlay Botswana's success was threatened two decades ago when Botswana had an economic crisis. One major sector, cattle raising, was threatened by drought, and problems in the diamond industry had put a strain on the country's budget and its foreign exchange position. Botswana was suffering exactly the kind of liquidity crisis the IMF had originally been created to deal with—a crisis that could be eased by financing a deficit to forestall recession and hardship. However, while that may have been Keynes's intent when he pushed for the establishment of the IMF, the institution does not now conceive of itself as a deficit financier, committed to maintaining economies at full employment. Rather, it has taken on the pre-Keynesian position of fiscal austerity in the face of a downturn, doling out funds only if the borrowing country conforms to the IMF's views about appropriate economic policy, which almost always entail contractionary policies leading to recessions or worse. Botswana, recognizing the volatility of its two main sectors, cattle and diamonds, had prudently set aside reserve funds for just such a crisis. As it saw its reserves dwindling, it knew that it would have to take further measures. Botswana tightened its belt, pulled together, and got through the crisis. But because of the broad understanding of economic policies that had been developed over the years and the consensus-based approach to policy making, the austerity did not cause the kinds of cleavages in society that have occurred so frequently elsewhere under IMF programs. Presumably, if the IMF had done what it should have been doing—providing funds quickly to countries with good economic policies in times of crisis, without searching around for conditionalities to impose—the country would have been able to wend its way through the crisis with even less pain. (The IMF mission that came in 1981, quite amusingly, found it very difficult to impose new conditions, because Botswana had already done so many of the things that they would have insisted upon.) Since then, Botswana has not turned to the IMF for help.

The assistance of outside advisers—independent of the international financial institutions—had played a role in Botswana's success even earlier. Botswana would not have fared as well as it did if its original contract with the South African diamond cartel had been maintained. Shortly after independence, the cartel paid Botswana $20 million for a diamond concession in 1969, which reportedly returned $60 million in profits a year. In other words, the payback period was four months! A brilliant and dedicated lawyer seconded to the Botswana government from the World Bank argued forcefully for a renegotiation of the contract at a higher price, much to the consternation of the mining interests. De Beers (the South African diamond cartel) tried to tell people that Botswana was being greedy. They used what political muscle they could, through the World Bank, to stop him. In the end, they managed to extract a letter from the World Bank making it clear that the lawyer did not speak for the Bank. Botswana's response: That is precisely why we are listening to him. In the end, the discovery of the second large diamond mine gave Botswana the opportunity to renegotiate the whole relationship. The new agreement has so far served Botswana's interests well, and enabled Botswana and De Beers to maintain good relations.

Ethiopia and Botswana are emblematic of the challenges facing the more successful countries of Africa today: countries with leaders dedicated to the well-being of their people, fragile and in some cases imperfect democracies, attempting to create new lives for their peoples from the wreckage of a colonial heritage that left them without institutions or human resources. The two countries are also emblematic of the contrasts that mark the developing world: contrasts between success and failure, between rich and poor, between hopes and reality, between what is and what might have been.

I BECAME AWARE of this contrast when I first went to Kenya, in the late 1960s. Here was a rich and fertile country, with some of the most valuable land still owned by old colonial settlers. When I arrived, the colonial civil servants were also still there; now they were called advisers.

As I watched developments in East Africa over the ensuing years, and returned for several visits after becoming chief economist of the World Bank, the contrast between the aspirations in the 1960s and the subsequent developments were striking. When I first went, the spirit of *uhuru*, the Swahili word for freedom, and *ujama*, the word for self-help, were in the air. When I returned, the government offices were staffed by well-spoken and well-trained Kenyans; but the economy had been sinking for years. Some of the problems—the seemingly rampant corruption—were of Kenya's own making. But the high interest rates which had resulted from its following IMF advice, as well as other problems, could rightly be blamed at least in part on outsiders.

Uganda had begun the transition in perhaps better shape than any of the others, a relatively rich coffee-growing country, but it lacked trained native administrators and leaders. The British had allowed only two Africans to rise to the level of a master sergeant in their own army. One of them, unfortunately, was a Ugandan named Idi Amin, who ultimately became General Amin in Uganda's army and overthrew Prime Minister Milton Obote in 1971. (Amin enjoyed a certain measure of British confidence thanks to his service in the King's African Rifles in World War II and in Britain's struggle to suppress the Mau-Mau revolt in Kenya.) Amin turned the country into a slaughterhouse; as many as 300,000 people were killed because they were considered opponents of the "President for Life" —as Amin proclaimed himself in 1976. The reign of terror by an arguably psychopathic dictator ended only in 1979 when he was toppled by Ugandan exiles and forces from neighboring Tanzania. Today, the country is on the way to recovery, led by a charismatic leader, Yoweri Museveni, who has instituted major reforms with remarkable success, reducing illiteracy and AIDS. And he is as interesting in talking about political philosophy as he is in talking about development strategies.

BUT THE IMF is not particularly interested in hearing the thoughts of its "client countries" on such topics as development strategy or fiscal austerity. All too often, the Fund's approach to developing countries has had the feel of a colonial ruler. A picture can be worth a thousand words, and a single picture snapped in 1998, shown throughout the world, has engraved itself in the minds of millions, particularly those in the former colonies. The IMF's managing director, Michel Camdessus (the head of the IMF is referred to as its "Managing Director"), a short, neatly dressed former French Treasury bureaucrat, who once claimed to be a Socialist, is standing with a stern face and crossed arms over the seated and humiliated president of Indonesia. The hapless president was being forced, in effect, to turn over economic sovereignty of his country to the IMF in return for the aid his country needed. In the end, ironically, much of the money went not to help Indonesia but to bail out the "colonial power's" private sector creditors. (Officially, the "ceremony" was the signing of a letter of agreement, an agreement effectively dictated by the IMF, though it often still keeps up the pretense that the letter of intent comes from the country's government!)

Defenders of Camdessus claim the photograph was unfair, that he did not realize that it was being taken and that it was viewed out of context. But that is the point—in day-to-day interactions, away from cameras and reporters, this is precisely the stance that the IMF bureaucrats take, from the leader of the organization on down. To those in the developing countries, the picture raised a very disturbing question: Had things really changed since the "official" ending of colonialism a half century ago? When I saw the picture, images of other signings of "agreements" came to mind. I wondered how similar this scene was to those marking the "opening up of Japan" with Admiral Perry's gunboat diplomacy or the end of the Opium Wars or the surrender of maharajas in India.

The stance of the IMF, like the stance of its leader, was clear: it was the font of wisdom, the purveyor of an orthodoxy too subtle to be grasped by those in the developing world. The message conveyed was all too often clear: in the best of cases there was a member of an elite—a minister of finance or the head of a central bank—with whom the Fund might have a meaningful dialogue. Outside of this circle, there was little point in even trying to talk.

A quarter of a century ago, those in the developing countries might rightly have given some deference to the "experts" from the IMF. But just as there has been a shift in the military balance of power, there has been an even more dramatic shift in the intellectual balance of power. The developing world now has its own economists—many of them trained at the world's best academic institutions. These economists have the significant advantage of lifelong familiarity with local politics, conditions, and trends. The IMF is like so many bureaucracies; it has repeatedly sought to extend what it does, beyond the bounds of the objectives originally assigned to it. As IMF's mission creep gradually brought it outside its core area of competency in macroeconomics, into structural issues, such as privatization, labor markets, pension reforms, and so forth, and into broader areas of development strategies, the intellectual balance of power became even more tilted.

The IMF, of course, claims that it never dictates but always negotiates the terms of any loan agreement with the borrowing country. But these are one-sided negotiations in which all the power is in the hands of the IMF, largely because many countries seeking IMF help are in desperate need of funds. Although I had seen this so clearly in Ethiopia and the other developing countries with which I was involved, it was brought home again to me during my visit to South Korea in December 1997, as the East Asia crisis was unfolding. South Korea's economists knew that the policies being pushed on their country by the IMF would be disastrous. While, in retrospect, even the IMF agreed that it imposed excessive fiscal stringency, in prospect, few economists (outside the IMF) thought the policy made sense.[3] Yet Korea's economic officials remained silent. I wondered why they had kept this silence, but did not get an answer from officials inside the government until a subsequent visit two years later, when the Korean economy had recovered. The answer was what, given past experience, I had suspected all along. Korean officials reluctantly explained that they had been scared to disagree openly. The IMF could not only cut off its own funds, but could use its bully pulpit to discourage investments from private market funds by telling private sector financial institutions of the doubts the IMF had about Korea's economy. So Korea had no choice. Even implied criticism by Korea of the IMF program could have a disastrous effect: to the IMF, it would suggest that the government didn't fully understand "IMF economics," that it had reservations, making it less likely that it would actually carry out the program. (The IMF has a special phrase for describing such situations: the country has gone "off track." There is one "right" way, and any deviation is a sign of an impending derailment.) A public announcement by the IMF that negotiations had broken off, or even been postponed, would send a highly negative

signal to the markets. This signal would at best lead to higher interest rates and at worst a total cutoff from private funds. Even more serious for some of the poorest countries, which have in any case little access to private funds, is that other donors (the World Bank, the European Union, and many other countries) make access to their funds contingent on IMF approval. Recent initiatives for debt relief have effectively given the IMF even more power, because unless the IMF approves the country's economic policy, there will be no debt relief. This gives the IMF enormous leverage, as the IMF well knows.

The imbalance of power between the IMF and the "client" countries inevitably creates tension between the two, but the IMF's own behavior in negotiations exacerbates an already difficult situation. In dictating the terms of the agreements, the IMF effectively stifles any discussions within a client government—let alone more broadly within the country—about alternative economic policies. In times of crises, the IMF would defend its stance by saying there simply wasn't time. But its behavior was little different in or out of crisis. The IMF's view was simple: questions, particularly when raised vociferously and openly, would be viewed as a challenge to the inviolate orthodoxy. If accepted, they might even undermine its authority and credibility. Government leaders knew this and took the cue: they might argue in private, but not in public. The chance of modifying the Fund's views was tiny, while the chance of annoying Fund leaders and provoking them to take a tougher position on other issues was far greater. And if they were angry or annoyed, the IMF could postpone its loans—a scary prospect for a country facing a crisis. But the fact that the government officials *seemed* to go along with the IMF's recommendation did not mean that they really agreed. And the IMF knew it.

Even a casual reading of the terms of the typical agreements between the IMF and the developing countries showed the lack of trust between the Fund and its recipients. The IMF staff monitored progress, not just on the relevant indicators for sound macromanagement—inflation, growth, and unemployment—but on intermediate variables, such as the money supply, often only loosely connected to the variables of ultimate concern. Countries were put on strict targets—what would be accomplished in thirty days, in sixty days, in ninety days. In some cases the agreements stipulated what laws the country's Parliament would have to pass to meet IMF requirements or "targets"—and by when.

These requirements are referred to as "conditions," and "conditionality" is a hotly debated topic in the development world.[4] Every loan document specifies basic conditions, of course. At a minimum, a loan agreement says the loan goes out on the condition that it will be repaid, usually with a schedule attached. Many loans impose conditions designed to increase the likelihood that they will be repaid. "Conditionality" refers to more forceful conditions, ones that often turn the loan into a policy tool. If the IMF wanted a nation to liberalize its financial markets, for instance, it might pay out the loan in installments, tying subsequent installments to verifiable steps toward liberalization. I personally believe that conditionality, at least in the manner and extent to which it has been used by the IMF, is a bad idea; there is little evidence that it leads to improved economic policy, but it does have adverse political effects because countries resent having conditions imposed on them. Some defend conditionality by saying that any banker imposes conditions on borrowers, to make it more likely that the loan will be repaid. But the conditionality imposed by the IMF and the World Bank was very different. In some cases, it even *reduced* the likelihood of repayment.

For instance, conditions that might weaken the economy in the short run, whatever their merits in the long, run the risk of exacerbating the downturn and thus making it more difficult for the country to repay the short-term IMF loans. Eliminating trade barriers, monopolies, and tax distortions may enhance long-run growth, but the disturbances to the economy, as it strives to adjust, may only deepen its downturn.

While the conditionalities could not be justified in terms of the Fund's fiduciary responsibility, they might be justified in terms of what it might have perceived as its moral responsibility, its obligation to do everything it could to strengthen the economy of the countries that had turned to it for help. But the danger was that even when well intentioned, the myriad of conditions—in some cases over a hundred, each with its own rigid timetable—detracted from the country's ability to address the central pressing problems.

The conditions went beyond economics into areas that properly

belong in the realm of politics. In the case of Korea, for instance, the loans included a change in the charter of the Central Bank, to make it more independent of the political process, though there was scant evidence that countries with more independent central banks grow faster[5] or have fewer or shallower fluctuations. There is a widespread feeling that Europe's independent Central Bank exacerbated Europe's economic slowdown in 2001, as, like a child, it responded peevishly to the natural political concerns over the growing unemployment. Just to show that it was independent, it refused to allow interest rates to fall, and there was nothing anyone could do about it. The problems partly arose because the European Central Bank has a mandate to focus on inflation, a policy which the IMF has advocated around the world but one that can stifle growth or exacerbate an economic downturn. In the midst of Korea's crisis, the Korean Central Bank was told not only to be more independent but to focus exclusively on inflation, although Korea had not had a problem with inflation, and there was no reason to believe that mismanaged monetary policy had anything to do with the crisis. The IMF simply used the opportunity that the crisis gave it to push its political agenda. When, in Seoul, I asked the IMF team why they were doing this, I found the answer shocking (though by then it should not have come as a surprise): We always insist that countries have an independent central bank focusing on inflation. This was an issue on which I felt strongly. When I had been the president's chief economic adviser, we beat back an attempt by Senator Connie Mack of Florida to change the charter of the U.S. Federal Reserve Bank to focus exclusively on inflation. The Fed, America's central bank, has a mandate to focus not just on inflation but also on employment and growth. The president opposed the change, and we knew that, if anything, the American people thought the Fed already focused *too much* on inflation. The president made it clear that this was an issue he would fight, and as soon as this was made clear, the proponents backed off. Yet here was the IMF—partially under the influence of the U.S. Treasury—imposing a political condition on Korea that most Americans would have found unacceptable for themselves.

Sometimes, the conditions seemed little more than a simple exercise of power: in its 1997 lending agreement to Korea, the IMF insisted on moving up the date of opening Korea's markets to certain Japanese goods although this could not possibly help Korea address the problems of the crisis. To some, these actions represented "seizing the window of opportunity," using the crisis to leverage in changes that the IMF and World Bank had long been pushing; but to others, these were simply acts of pure political might, extracting a concession, of limited value, simply as a demonstration of who was running the show.

While conditionality did engender resentment, it did not succeed in engendering development. Studies at the World Bank and elsewhere showed not just that conditionality did not *ensure* that money was well spent and that countries would grow faster but that there was little evidence it worked at all. Good policies cannot be bought.

THERE ARE SEVERAL reasons for the failure of conditionality. The simplest has to do with the economists' basic notion of fungibility, which simply refers to the fact that money going in for one purpose frees up other money for another use; the net impact may have nothing to do with the intended purpose. Even if conditions are imposed which ensure that this particular loan is used well, the loan frees up resources elsewhere, which may or may not be used well. A country may have two road projects, one to make it easier for the president to get to his summer villa, the other to enable a large group of farmers to bring their goods to a neighboring port. The country may have funds for only one of the two projects. The lender may insist as part of its conditionality that its money go for the project that increases the income of the rural poor; but in providing that money, it enables the government to fund the other.

There were other reasons why conditionality did not enhance economic growth. In some cases, they were the wrong conditions: financial market liberalization in Kenya and fiscal austerity in East Asia had adverse effects on the countries. In other cases, the way conditionality was imposed made the conditions politically unsustainable; when a new government came into power, they would be abandoned. Such conditions were seen as the intrusion by the new colonial power on the country's own sovereignty. The policies could not withstand the vicissitudes of the political process.

There was a certain irony in the stance of the IMF. It tried to pretend that it was above politics, yet it was clear that its lending program was, in part, driven by politics. The IMF made an issue of corruption in Kenya and halted its relatively small lending program largely because of the corruption it witnessed there. Yet it maintained a flow of money, billions of dollars, to Russia and Indonesia. To some, it seemed that while the Fund was overlooking grand larceny, it was taking a strong stand on petty theft. It should not have been kinder to Kenya—the theft was indeed large relative to the economy; it should have been tougher on Russia. The issue is not just a matter of fairness or consistency; the world is an unfair place, and no one really expected the IMF to treat a nuclear power the same way that it treated a poor African country of little strategic importance. The point was far simpler: the lending decisions were political—and political judgments often entered into IMF advice. The IMF pushed privatization in part because it believed governments could not, in managing enterprises, insulate themselves from political pressures. The very notion that one could separate economics from politics, or a broader understanding of society, illustrated a narrowness of perspective. If policies imposed by lenders induce riots, as has happened in country after country, then economic conditions worsen, as capital flees and businesses worry about investing more of their money. Such policies are not a recipe either for successful development or for economic stability.

The complaints against the IMF imposition of conditions extended beyond what conditions and how they were imposed, but were directed at how they were arrived at as well. The standard IMF procedure before visiting a client country is to write a draft report first. The visit is only intended to fine-tune the report and its recommendations, and to catch any glaring mistakes. In practice, the draft report is often what is known as boilerplate, with whole paragraphs being borrowed from the report of one country and inserted into another. Word processors make this easier. A perhaps apocryphal story has it that on one occasion a word processor failed to do a "search and replace," and the name of the country from which a report had been borrowed almost in its entirety was left in a document that was circulated. It is hard to know whether this was a one-off occurrence, done under time pressure, but the alleged foulup confirmed in the minds of many the image of "one-size-fits-all" reports.

Even countries not borrowing money from the IMF can be affected by its views. It is not just through conditionality that the Fund imposes its perspectives throughout the world. The IMF has an annual consultation with every country in the world. The consultations, referred to as "Article 4" consultations after the article in its charter that authorized them, are supposed to ensure that each country is adhering to the articles of agreement under which the IMF was established (fundamentally ensuring exchange rate convertibility for trade purposes). Mission creep has affected this report as it has other aspects of IMF activity: the real Article 4 consultations are but a minor part of the entire surveillance process. The report is really the IMF's grading of the nation's economy.

While small countries often had to listen to the Article 4 evaluations, the United States and other countries with developed economies could basically ignore them. For instance, the IMF suffered from inflation paranoia, even when the United States was facing the lowest inflation rates in decades. Its prescription was therefore predictable: increase interest rates to slow down the economy. The IMF simply had no understanding of the changes that were then occurring, and had been occurring over the preceding decade in the U.S. economy that allowed it to enjoy faster growth, lower unemployment, and low inflation all at the same time. Had the IMF's advice been followed, the United States would not have experienced the boom in the American economy over the 1990s—a boom that brought unprecedented prosperity and enabled the country to turn around its massive fiscal deficit into a sizable surplus. The lower unemployment also had profound social consequences—issues to which the IMF paid little attention anywhere. Millions of workers who had been excluded from the labor force were brought in, reducing poverty and welfare roles at an unprecedented pace. This in turn brought down the crime rate. All Americans benefited. The low unemployment rate, in turn, encouraged individuals to take risks, to accept jobs without job security; and that willingness to take risks has proven an essential ingredient in America's success in the so-called New Economy.

The United States ignored the IMF's advice. Neither the Clinton administration nor the Federal Reserve paid much attention to it. The United States could do so with impunity because it was not dependent on the IMF or other donors for assistance, and we knew that the market would pay almost as little attention to it as we did. The market would not punish us for ignoring its advice or reward us for following it. But poor countries around the world are not so lucky. They ignore the Fund's advice only at their peril.

There are at least two reasons why the IMF should consult widely *within* a country as it makes its assessments and designs its programs. Those within the country are likely to know more about the economy than the IMF staffers—as I saw so clearly even in the case of the United States. And for the programs to be implemented in an effective and sustainable manner, there must be a commitment of the country behind the program, based on a broad consensus. Such a consensus can only be arrived at through discussion—the kind of open discussion that, in the past, the IMF shunned. To be fair to the IMF, in the midst of a crisis there is often little time for an open debate, the kind of broad consultation required to build a consensus. But the IMF has been in the African countries for years. If it is a crisis, it is a permanent ongoing crisis. There is time for consultations and consensus building—and in a few cases, such as Ghana, the World Bank (while my predecessor, Michael Bruno, was chief economist) succeeded in doing that, and these have been among the more successful cases of macroeconomic stabilization.

At the World Bank, during the time I was there, there was an increasing conviction that participation mattered, that policies and programs could not be imposed on countries but to be successful had to be "owned" by them, that consensus building was essential, that policies and development strategies had to be adapted to the situation in the country, that there should be a shift from "conditionality" to "selectivity," rewarding countries that had proven track records for using funds well with more funds, trusting them to continue to make good use of their funds, and providing them with strong incentives. This was reflected in the new Bank rhetoric, articulated forcefully by the Bank's president, James D. Wolfensohn: "The country should be put in the driver's seat." Even so, many critics say this process has not gone far enough and that the Bank still expects to remain in control. They worry that the country may be in the driver's seat of a dual-control car, in which the controls are really in the hands of the instructor. Changes in attitudes and operating procedures in the Bank will inevitably be slow, proceeding at different paces in its programs in different countries. But there remains a large gap between where the Bank is on these matters and where the IMF is, both in attitudes and procedures.

As much as it might like, the IMF, in its public rhetoric at least, could not be completely oblivious to the widespread demands for greater participation by the poor countries in the formulation of development strategies and for greater attention to be paid to poverty. As a result, the IMF and the World Bank have agreed to conduct "participatory" poverty assessments in which client countries join the two institutions in measuring the size of the problem as a first step. This was potentially a dramatic change in philosophy—but its full import seemed to escape the IMF. On one occasion, recognizing that the Bank was supposed to be taking the lead on poverty projects, just before the initial and, theoretically, consultative IMF mission to a certain client country prepared to depart, the IMF sent an imperious message to the Bank to have a draft of the client country's "participatory" poverty assessment sent to IMF headquarters "asap." Some of us joked that the IMF was confused. It thought the big philosophical change was that in joint Bank-IMF missions, the Bank could actually participate by having a say in what was written. The idea that citizens in a borrowing country might also participate was simply too much! Stories of this kind would be amusing were they not so deeply worrying.

Even if, however, the participatory poverty assessments are not perfectly implemented, they are a step in the right direction. Even if there remains a gap between the rhetoric and the reality, the recognition that those in the developing country ought to have a major voice in their programs is important. But if the gap persists for too long or remains too great, there will be a sense of disillusionment. Already, in some quarters, doubts are being raised, and increasingly loudly. While the participatory poverty assessments have engendered far more public discussion, more participation, than had previously been the case, in many countries expectations of participation and openness have not been fully realized, and there is growing discontent.

In the United States and other successful democracies citizens regard transparency, openness, knowing what government is doing, as an essential part of government accountability. Citizens regard these as *rights*, not favors conferred by the government. The Freedom of Information Act of 1966 has become an important part of American democracy. By contrast, in the IMF style of operation, citizens (an annoyance because they all too often might be reluctant to go along with the agreements, let alone share in the perceptions of what is good economic policy) were not only barred from discussions of agreements; they were not even told what the agreements were. Indeed, the prevailing culture of secrecy was so strong that the IMF kept much of the negotiations and some of the agreements secret from World Bank members even in joint missions! The IMF staff provided information strictly on a "need to know" basis. The "need to know" list was limited to the head of the IMF mission, a few people at IMF headquarters in Washington, and a few people in the client country's government. My colleagues at the Bank frequently complained that even those participating in a mission had to go to the government of the country who "leaked" what was going on. On a few occasions, I met with executive directors (the title for representatives that nations post to the IMF and the World Bank) who had apparently been kept in the dark.

One recent episode shows how far the consequences of lack of transparency can go. The notion that developing countries might have little voice in the international economic institutions is widely recognized. There may be a debate about whether this is just a historical anachronism or a manifestation of *realpolitik*. But we should expect that the U.S. government—including the U.S. Congress—should have some say, at least in how its executive director, the one who represents the United States at the IMF and the World Bank, votes. In 2001, Congress passed and the president signed a law requiring the United States to oppose proposals for the international financial institutions to charge fees for elementary school (a practice that goes under the seeming innocuous name of "cost recovery"). Yet the U.S. executive director simply ignored the law, and the secrecy of the institutions made it difficult for Congress—or anyone else—to see what was going on. Only because of a leak was the matter discovered, generating outrage even among congressmen and women accustomed to bureaucratic maneuvering.

Today, in spite of the repeated discussions of openness and transparency, the IMF still does not formally recognize the citizen's basic "right to know": there is no Freedom of Information Act to which an American, or a citizen of any other country, can appeal to find out what this international *public* institution is doing.

I should be clear: all of these criticisms of how the IMF operates do not mean the IMF's money and time is always wasted. Sometimes money has gone to governments with good policies in place—but not necessarily because the IMF recommended these policies. Then, the money did make a difference for the good. Sometimes, conditionality shifted the debate inside the country in ways that led to better policies. The rigid timetables that the IMF imposed grew partly from a multitude of experiences in which governments promised to make certain reforms, but once they had the money, the reforms were not forthcoming; sometimes, the rigid timetables helped force the pace of change. But all too often, the conditionality did not ensure either that the money was well used or that meaningful, deep, and long-lasting policy changes occurred. Sometimes, conditionality was even counterproductive, either because the policies were not well suited to the country or because the way they were imposed engendered hostility to the reform process. Sometimes, the IMF program left the country just as impoverished but with more debt and an even richer ruling elite.

The international institutions have escaped the kind of direct accountability that we expect of public institutions in modern democracies. The time has come to "grade" the international economic institution's performance and to look at some of those programs—and how well, or poorly, they did in promoting growth and reducing poverty.

CHAPTER 3

FREEDOM TO CHOOSE?

FISCAL AUSTERITY, PRIVATIZATION, and market liberalization were the three pillars of Washington Consensus advice throughout the 1980s and 1990s. The Washington Consensus policies were designed to respond to the very real problems in Latin America, and made considerable sense. In the 1980s, the governments of those countries had often run huge deficits. Losses in inefficient government enterprises contributed to those deficits. Insulated from competition by protectionist measures, inefficient private firms forced customers to pay high prices. Loose monetary policy led to inflation running out of control. Countries cannot persistently run large deficits; and sustained growth is not possible with hyperinflation. Some level of fiscal discipline is required. Most countries would be better off with governments focusing on providing essential public services rather than running enterprises that would arguably perform better in the private sector, and so privatization often makes sense. When trade liberalization—the lowering of tariffs and elimination of other protectionist measures—is done in the right way and at the right pace, so that new jobs are created as inefficient jobs are destroyed, there can be significant efficiency gains.

The problem was that many of these policies became ends in themselves, rather than means to more equitable and sustainable