Mark Plant
The International Monetary Fund and Poor Countries – Ideas on Poverty or Poverty of Ideas?

by **Sinan Hastorun**

As Senior Advisor in the Policy Development and Review Department of the International Monetary Fund (IMF), Mark Plant is an economist closely engaged in development policies for low income countries. Plant's talk at the Mershon Center encompassed a discussion of the current debate on what needs to be done to fight poverty as well as of how the IMF is involved in this fight.

Plant began his talk by outlining of what the IMF is and what its functions are. He noted that the IMF is often seen as a faceless institution that is involved in "mysterious" activities, which he believed is what contributes to the growing number of protests against the IMF. The Fund aims to dispel this impersonal image by engaging in constructive discussions with trade unions and other social groups. Its commitment to the global fight against poverty is also an example of the humane side of the IMF.

The IMF is essentially a bank consisting of 184 member countries. Working capital of the fund is provided by member country's subscriptions. As a result, members have an unequal share in the bank, as measured by their contributions. This inequality translates into differing levels of say in the actions of the fund. The United States has a considerably higher share of the vote than other members and effectively has veto power in the Fund, a point often pointed out by the critics, who question whether the interests of low-income countries in Africa are served well by such an arrangement.

The major goal of the IMF is the promotion of global prosperity, but it is not a development agency. Its main functions are to ensure the stability of exchange rates,

avoid competitive currency devaluations, and ensure orderly correction of balance of payments problems among its member states. As such, the Fund serves as a main central bank to other banks and helps its members out of financial crises by lending money and providing technical assistance. The IMF also annually reviews the economies of its members and gives them policy advice, a service that is extremely important for small, low-income countries. The Fund's evaluations are an important signal to economic actors worldwide and typically draw a lot of media attention. It also helps member states to meet their macroeconomic goals, such as low inflation rate, non-deficient balance of payments and stable currency level.

In sum, the IMF mainly assists countries with macroeconomic and financial sector policies. Plant explained that, as is generally known, the IMF favors a liberal, market-driven economic system and non-interventionist policies, which he claimed does not immediately translate to policies of poverty alleviation. However, Plant pointed out that the Fund deems it very important to reduce poverty levels among its member states and also compatible with its objectives.

The reason is threefold. First, many low-income countries are members of the Fund and hence have a right to its advice, review and financial support. Secondly, growth and poverty reduction are at the center of policy agenda of both the Fund and these countries. Thirdly, the Fund believes that achieving macroeconomic stability is a prerequisite for sustained growth and poverty reduction.

Still, Plant pointed out that engendering sustained growth and reducing poverty is a medium to long-term challenge that cannot be addressed overnight. It is also important to realize that these goals are dependent on a wide range of policies and not just of a

macroeconomic nature. Another difficulty is that the IMF's focus has been on solving economic crises and not on developmental issues, unlike the World Bank. Furthermore, crises in a low-income country do not pose a big, short-term threat to the health and stability of the international financial system and hence do not attract much attention from the public or agencies. Nonetheless, the IMF wishes to help every one of its members with their policy priorities.

The debate on the IMF's role in fighting poverty and assistance to low-income countries has been ongoing. Critics have argued that the Fund should be limited to its traditional role as provider of limited financial and technical assistance and that it should focus more on macroeconomic stability. Others believe the Fund should expand its vision and develop economic policies in recognition of the fact that macroeconomic growth and poverty reduction are closely related.

Plant explained that the IMF has been subject to a number of common criticisms, the first of which is that the Fund's priority—macroeconomics--has nothing to do with the poor. The IMF policies are not relevant to the poor, who often do not understand macroeconomics. Plant acknowledged the truth of this criticism, that the Fund has not paid much attention to the micro component as it mainly concerned with macro indicators. But, he argued, there is increasing effort to link the two. The Fund is trying to shape policies to make them more relevant to salient needs of low-income countries.

Another criticism of the IMF is that, despite stores of money, it does not use resources to fight the spread of diseases like AIDS and malaria. Plant pointed out that because the infrastructure for health and treatment tends to be ineffective in countries most devastated by such diseases, they are unequipped to deal with the influx of capital

designed to assist in the fight of disease. Funds cannot be absorbed properly and tend to have a disruptive affect on the economy, explained Plant.

That the free market does more harm than good to the poor is also a prevalent criticism. Plant pointed out that since the IMF advocates letting market forces determine prices and production and dislikes government intervention, its policies tend to have a disruptive affect in the short term. Critics often focus on the costs of these transitions, but Plant said that positive outcomes tend to follow after the transitional period.

Finally, the IMF is often viewed as being insensitive to country-specific circumstances. Critics argue that the Fund tries to apply the same set of policies in every country it is involved in. Plant said that although the Fund now admits certain things may be country or culture-specific, certain economic principles nonetheless apply in solving economic problems everywhere. He explained that because the IMF is concerned with global economies, the focus cannot be stringently culture-specific, and they are better served by focusing on global economic principles.

In the fight against poverty, Plant thinks there are three important ideas to keep in mind. First, macroeconomics matters in poverty reduction policy. The IMF believes that without a stable macroeconomic environment, investment and sustainable growth is not possible. Secondly, aid to low-income countries may a noble cause, but Plant said that it can be a challenge to make aid work. Economic aid is often not easy to translate into desired outcomes. And finally, systems meant to help the poor may actually end up exploiting them. It is therefore crucial to monitor the exercise of power, which is an important role for the media.

Poverty is rampant in the world: as Plant observed, one billion people currently live on less than $1 per day. This is why the IMF has not only come to involve itself in the global fight against poverty, but also listens to its critics and tries to learn from them and improve its policies in this regard. The Fund now pays more attention to critical macro-micro linkages in reducing poverty. It is also aware that transitions from one set of economic practices to free markets can be costly, particularly to the poor, and the Fund is trying to be proactive in minimizing costly "growing pains." Finally, country-specific circumstances can make international experience less meaningful. Thus, it is important to pay attention to the extent to which economic policies fit with a particular country culturally. In other words, the fight against poverty cannot be conducted by economists alone, but requires an interdisciplinary effort with contributions from other social scientists if we are to achieve the desired outcome.