

The World Bank and the IMF won't admit their policies are the problem

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Those who run the global economy realise it could blow up at any time, but are carrying on regardless

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We hear you, poor people. That was the message that blared out from Washington last week. It came from Christine Lagarde of the International Monetary Fund. It came from Jim Kim of the World Bank. It came from Roberto Azevêdo of the World Trade Organisation. It came from every finance minister and central bank governor.

The people who run the global economy wanted the world to know that they understood what had caused the Brexit vote and given Donald Trump a shot at the White House. They talked a lot about the need for inclusive growth and a capitalism that worked for all. To those who have been left behind in the past three decades, they said: we get it, we feel your pain.

The recognition that there is a problem is progress. Lagarde means it when she says the growing gap between rich and poor is holding back the global economy. Kim genuinely wants to see the fruits of growth skewed towards the bottom 40% in every country. The World Bank, IMF and WTO can sense that they are sitting on the edge of a volcano that could blow at any time. They fear, rightly, that a second big crash within a decade would create a backlash leading to protectionism and the rise of dark political forces that would be difficult, if not impossible, to control.

That there are ingredients for a fresh crisis became apparent at various stages last week. According to the IMF, global debt has risen to a record level of \$152tn (£122tn) - more than double global GDP - at a time when activity is sluggish. Collapsing commodity prices and weak demand from the west has meant that growth in sub-Saharan Africa is running at half the level of population increases. Companies in the emerging world loaded up on debt during the commodity boom and are vulnerable to rising US interest rates and any softening of the world economy. China is the most egregious example of debt being used to boost activity artificially.

The argument that rising debt is fine, because on the other side of ledger is an asset increasing in value, is specious. The only reason the assets are rising in price is because investors are taking on more debt to buy them. At some point, the asset bubble bursts, leaving borrowers with a major problem. This was the lesson of the sub-prime crisis and it is remarkable that memories are so short.

The next big one could come from anywhere and it is good that the World Bank and IMF are aware of the risks. Even so, there was an air of unreality about the discussions in Washington last week.

The reason was simple: there was not the slightest hint from the IMF or World Bank that the policies they advocated during the heyday of the so-called Washington consensus - austerity,

privatisation and financial liberalisation - have contributed to weak and unequal growth, with all the political discontent that this has caused.

Even worse, Lagarde and Kim seemed oblivious to the fact that the Washington consensus approach is alive and well within their organisations. The IMF's remedy for Greece and Portugal during the eurozone crisis has been straight out of the structural adjustment playbook: reduce public spending, cut salaries and benefits, insist that state-owned enterprises return to the private sector, reduce minimum wages and restrict collective bargaining. Between them, the IMF and the European authorities are turning Greece into a developing country. It would be fascinating to see what sort of response Lagarde would get if she tried talking about inclusive growth to homeless people huddled on the streets of Athens.

The IMF is effectively two institutions. It has a research department that has broken with the Washington consensus and programme teams that operate in the field as if we were still in the 1990s. Lagarde sides with the research team, but the recent package prepared for Egypt was the familiar mix of subsidy reductions, the introduction of value added tax and cuts to red tape. There is not much evidence that those who put it together are on message.

As for the World Bank, research by Oxfam has shown that 51 of the 68 companies lent money in 2015 by its private finance arm, the International Finance Corporation, to fund investments in sub-Saharan Africa, use tax havens. That doesn't square with the idea of inclusive capitalism. It is not immediately obvious why the World Bank is supporting private schools in low-income countries when the evidence is that they exclude the poorest and, in particular, girls.

The Jubilee Debt Campaign (JDC) has been keeping a close eye on Ghana, which grew strongly after oil was discovered and commodity prices were rising, but was left exposed by the subsequent crash. More money was then borrowed to blunt the impact of the commodity price fall, but the halving of the Ghanaian currency, the cedi, meant that debt-servicing costs increased. Almost one-third of Ghana's budget is spent on external debt servicing.

In early 2015, the IMF and World Bank said Ghana was at high risk of being unable to pay its debts. Seven months later, the World Bank guaranteed \$400m of repayments on a £1bn bond sold to private investors. It had to waive its rules to do so, because the World Bank is not supposed to guarantee loans to countries at high risk of distress.

The World Bank said it was trying to help refinance expensive short-term debt and free up resources that could be used for investment, but the winners of this arrangement are the speculators getting a 10.75% return, who will make money even if Ghana can't repay the loan, due to the World Bank guarantee. The losers will be the Ghanaian people, who will be subject to austerity under the terms of a new IMF programme. Ghana is planning spending cuts by 2017 of 20% per head on 2012 levels.

Sub-Saharan Africa is not a homogeneous region. Some countries are still growing strongly, helped by declining energy prices. But Ghana is not the only country to fall foul of the boom and bust cycle in commodities, and the JDC is highlighting the risk of a fresh debt crisis.

Neither the World Bank nor the IMF consider this a serious threat. Kim said last week: "I am not yet concerned that we're reaching a debt level crisis, certainly not in most of sub-Saharan Africa. But we have to watch it."

The World Bank and IMF also need to be watched. There's nothing wrong with the rhetoric, but it is the performance that counts. Lagarde and Kim say the world needs to make a better fist of tackling inequality - hooray to that. The work starts with their own institutions.

This article was amended on 9 October. It had incorrectly converted \$152tn to £1,223tn. This has been corrected.

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