UNDERSTANDING THE CHALLENGES OF THE IMF THROUGH THE CASE STUDIES OF GREECE, ARGENTINA AND TURKIYE

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Abstract

The International Monetary Fund has been one of the key actors and at the same time one of the most controversial actors of International Economics since its establishment. There is not a definitive answer to the effectiveness and even necessity of the IMF as an international economic organization when some nations see the IMF as a savior and others as the devil in disguise. The interventions of the IMF that include a program and agreement with a member-state, usually in the form of stand-by arrangements, have always been criticized, not only in their effectiveness but also in the questionable intentions. This paper will go over the main issues and challenges of IMF interventions, based on several case studies, which will put a spotlight on the shortcomings of the International Monetary Fund.

Keywords: Deficit, Debt, Austerity, Poverty, Inflation, GDP, Recession, Surplus

Introduction

As the world was leaving a period of conflict and instability behind, Keynes and White argued that in order to have stability and protect international economic ties, an international organization was necessary to observe and guide states in that regard (Fitzgerald, 1996). Once that was established,in 1945, the IMF officially began its operations with 29 member-states with the first loan being taken by France in 1947 (De Vries, 1986).

As years passed, global economics continued to progress into an era of liberalization and many new member-states joined the organization, most of these were socialist states, beginning liberalization and African states which were gaining their independence from colony regimes. These emerging states needed funds and guidance to become developing states and catch-up to the west in economic competition and thus the IMF played a key-role in drawing the road map for said states (James, 2004). Although this was a terrific opportunity for the IMF and the West to steer these new states towards their bloc, the aftermaths of these interventions were not consistent and varied from state to state. The difference in outcomes becomes even greater when we compare IMF interventions in a broader perspective of states. Therefore, it is necessary to examine these interventions on a case-by-case basis in order to draw a clear picture of the effectiveness and behavior of the IMF.

The IMF has a neatly organized and detailed set of institutions that are designed to provide effective intervention and engage in rapid problem-solving mechanisms that are then implemented in the field by the national governments that agree to be bound by the conditions and guidance of the International Monetary Fund. These binding agreements are followed with financial aid that is provided in order to give the struggling government resources to curtail the crisis and be able to implement the reforms and conditions

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demanded by the Fund. The IMF expects that by the end of the agreement, the national government would be in the capacity to return to loaned funds and achieve a stable economic and financial situation having surpassed the economic crisis.

Although the IMF is seen as an international organization equal to all states and neutral to foreign politics, many have criticized the IMF for being more lenient towards certain states when it comes to the manner in which aid is provided (Li, Sy, & McMurray, 2015). There have been several studies which suggest that the IMF, in several cases, has in fact favored pro-western states, specifically states which are allied or have close relations to the United States when it comes to their analysis and methodology. It is not so much of a mystery for why this would be the case, since the funds provided by the IMF are mainly borrowed from the organization's wealthier members, of which, the United States comes on the top of the list as the largest shareholder (U.S.Congressional Research Service, 2022). It is also important to observe that the obligations and requirements that come along with the funds provided by the IMF such as promotion of free market policy and liberalization of financial sectors, are prone to be capitalistic and free-trade oriented which are policies supported by the liberal democratic west and especially the United States (Li, Sy, & McMurray, 2015). In fact, we will present arguments in this paper which suggest that the Fund prioritizes the well-being and interests of the global financial market and investors over the
long-term stability and continuity of the national economy of a member-state in crisis. It is quite apparent that interventions and programs organized by the Fund are not always as clear as it looks on the surface and the aftermath of these interventions always carry significant consequences for the economic sectors of states that receive aid. This paper will focus on the details of IMF interventions, including the case studies of Greece, Argentina and Turkiye with regards to how the interventions are designed and implemented.

Greek sovereign debt crisis and the IMF

One of the most recent reasons for criticism and doubt in the abilities of the IMF in solving financial crises was the manner in which the Greek economic crisis was handled. Greece experienced a dramatic loss of market confidence and saw the interest rates on their debt skyrocketing after the sovereign debt crisis which strangled the European Union from 2009 to 2010. In the search for a solution to the problem of looming debt crises politicians of the European Union turned towards the International Monetary Fund, which would become the first time, a state within the Euro-Zone would ask for an international bailout. that the intervention provided by the IMF was ineffectual and brought relevancy to doubts concerning the benefits the IMF may provide (Jorra, 2012). In fact, this under-performance of the Greek economy was predicted by most circles even before the rescue package was delivered as studies criticized that the IMF did not act to curtail the crisis but to merely save private banks, especially foreign banks, from going bankrupt and shifting the explosive debt to the public sector (Janssen, 2010). It is also important to mention that most of the Greek debt which emerged at that time was tied to German, UK and French banks, which meant that a Greek default would hit those private foreign banks most severely thus the EU lobbying factor in the IMF policy towards Greece must also be observed. This reality would
explain how the rescue package would be focused more on protecting the interests of those foreignbanks rather than the interest of Greek citizens and domestic markets. Thus, the funds provided to Greece, directly went to those investors and bankers, most of whom were foreign, meanwhile the Greek government was conditioned to enact austerity measures which increased poverty within the Greek society.

The case of Greece elaborated in the paper is a clear example of this however is not exclusive and a constant trend throughout the cases covered and in fact throughout most IMF intervention cases. Although, the IMF interventions are influential and the programs provided follow the same principles, the results of these programs vary from nation to nation (see Figure 1).

Figure 1 GDP growth rates of nations following IMF programs

Nation	**First Year**	**Second Year**	**Third Year**	**Fourth Year**	**Fifth Year**

Greece	-10,1%	-7,1%	-2,5%	-0,2%	-0,5%
Argentina	-0,8%	-4,4%	-10,9%	8,8%	9%
South Korea	-5,1%	11,5%	9,1%	4,9%	7,7%
Jordan	-10,7%	-0,3%	1,6%	14,3%	4,5%
Turkiye	-5,8%	6,4%	5,8%	9,8%	9%

Source: (World Bank - World Development Indicators, n.d.)

Argentinian Financial Crisis and the IMF

Another case of IMF intervention gone astray can be observed during the Argentinian economic crisis which resulted in a total debacle for both Argentina and the International Monetary Fund, with Argentina declaring a default on its foreign debt of 132-billion-dollars in late 2001 (Teubal, 2004). The rescue package provided to Argentina by the IMF naturally included policies and programs which would be implemented by the Argentinian government in order to establish economic stability, and the policies and programs were naturally measures of austerity in order to balance the budget and reduce the debt and deficit. The optimistic expectation however was not the case in Argentina. The Argentinian economy continued to shrink and the recession deepened even further which culminated to the infamous Argentinian default. There are several views into what caused this total economic meltdown and thus IMF ineffectiveness.

The IMF itself had pointed to the incapability of the Argentinian government to enact structural reforms and constant political instability within the country along with a worsening global macroeconomic environment as being the primary reason for the failure of the program (Independant Evaluation Office of the IMF, 2003). However, putting the blame only on Argentina and simply assuming Argentinians did not obey the IMF and that was the reason for the meltdown is in itself unfair and a biased viewpoint. Prior to the crisis, Argentina was seen as a shining example of neo-liberal economic policy and unfiltered capitalism, even pegging their peso to the American dollar (Meltzer, 2002), not to mention the IMF itself praised Argentina for being a perfect example for free-market principles in Latin America (Stiglitz, 2002). Therefore, it is safe to assume that Argentina was not as disobedient or incompatible with IMF programs as initially suggested. Although it is fair to mention that indeed the IMF program was not completely implemented in Argentina, that reality might have been what saved Argentina from falling into an even worse economic and financial situation than before. In other words, implementing the entirety of the IMF program, might have caused Argentina to spiral into an even deeper recession. Even
the political instability, which the failure is also attributed to by the IMF, reached its peak when people began mass protests due to increased poverty and poor living standards (Almeida, 2007).This in itself would have become more severe should the IMF-sponsored austerity measures be implemented more ruthlessly. This possibility is shared and argued for by many studies and economists outside of the IMF as well (Dickinson, 2015). Many studies suggest that implementing austerity measures in the middle of a recession would only deepen the recession and cause the deficit to rise even further in a vicious circle of economic crisis (Stiglitz, 2002). We can see an example of this theory at work, during the economic recession in the United States. The Obama administration enacted several stimulus packages, increasing spending and pumping money to the market in order to stimulate economic activity and remedy the crisis (Peschek, 2011). When the economy lacks confidence and markets lack financial transactions, the government could only add fuel to the fire by cutting even further funds from public spending via austerity programs. Thus, the

argument can be made that had Argentina been as ruthless as the IMF wanted them to be and enacted the austerity measures to its fullest extent, the economic meltdown could have happened quicker and at a more severe level.

The case of Turkiye and the Fund

Although the Turkish government approached the IMF with caution and not much enthusiasm during the first few decades of relations, the 1980s saw a peak in IMF-Turkish coordination with the neo-liberal policies of the the Fund being wholeheartedly supported and enacted by a decade-long neo-liberal government in Turkiye (Karabıyık & Uçar, 2010). This period can be seen as crucial in the process of understanding and analyzing the relations between the Fund and Turkiye along with understanding how the Turkish economy has been affected. Turkiye completely abandoned its cautionous approach and adhered to the program and policies of the Fund, in hopes that the gloomy economic prospects would finally be improved. The rapid adaptation of neo-liberalism with total disregard for how prepared Turkiye was for such an action is a fault which both the government and the Fund should share collectively. Due to the policies of this time, most notably the policies concerning capital accounts, growth and economic success was essentially bound to the attitudes of international markets and their enthusiasm in investing and entering the Turkish market. Capital and cash inflows became a necessity and the very gluethat is holding the economy together, meanwhile the government lacked any apparatus in maintaning or regulating a healthy financial sector. The aim of this privatization was to increase
foreign capital flows to the domestic markets and increase resources for both the private sector and government expenditures (Yeldan, 2006).

The radical and hastened liberalization of capital accounts has been an issue of criticism since Turkiye lacked the economic institutions to supervise and regulated the financial structure to such a degree at the time. The IMF held an attitude of over-enthusiasm and un-grounded faith in the ability of the government to create the necessary regulatory bodies for oversight in a short time and pushed for rapid liberalization of capital accounts (Alper & Onis, 2002). It is important to mention that one of the main bodies necessary for banking regulations was only managed to be realized in 1999, 10 years after the liberalization of capital accounts.

The Fund did not hold attention to these institutional defects, instead focusing solely on principle and interests, which were also shared by the government of the time that tied its entire economic program in accordance with these neo-liberal policies.

The short-term positive feedback was quickly forgotten and Turkiye entered its lost decade in 1990, where the country barely made an inch of progress while constantly battling economic troubles and financial instabilities (Arpac & Bird, 2009). This was such a turbulent and regressive time for the Turkish society with the IMF being at the center stage that the IMF became synonymous with economic crisis for the Turkish people instead of being a ticket to get out of crises. By the end of 1999, a new and ambitious IMF stand-by arrangement was realized which provided 4 billion dollars in funds for the government and conditions of structural reform, strict monetary policy and reduction of the deficit which the IMF insisted was the main cause of the high inflation rates (Çörtük, 2006).

The chronic inflation and mismanagement of funds was quickly followed by liquidity crises and total financial meltdown in 2001. The Turkish economy suffered its most devastating crashes right after completely adopting IMF endorsed policies of neo-liberalism, thus the promised era of economic prosperity tied to western economic policies never came for the Turkish people. The financial crisis of 2001, which was mostly a direct cause of the policies pushed by the IMF a decade prior, resulted in one of the biggest political upsets in Turkish history, with a newly-formedpolitical party, with a prosecuted leader, dethroning political actors which were at the center stage of politics in Turkiye for decades.

In this period of uncertainty, the government found solace in the Vice President of the World Bank, Kemal Dervis. Dervis and his team created a new plan for saving the Turkish economy. The plan included strict fiscal control and front-end loaded structural reforms along with cuts to social spending and wages which were announced in the "Strong Economy Program" and the letter of intent sent to the IMF (Arpac & Bird,

2009). The Dervis plan and the initial economic programs of the new government, endorsed by the IMF, produced praiseworthy structural and economic reforms, which turned the 2001 crisis to an economic boom for Turkiye in the following 7 years. The AK Party government which came to power in 2002, presented itself as a moderate party with a reformist attitude towards economic policy and the new government actually continued to implement the 'Strong Economy Program" of Dervis and the IMF with the benefit and stability provided by a single-party government with an overwhelming majority in Parliament (Arpac & Bird, 2009). In the "letter of intent" sent by the Turkish government to the IMF in 2003 and 2004, the government provided the IMF with total guarantee that the IMF program would be implemented and the government would be loyal to the program (Ugur, 2008), thus, the Turkish government had entirely committed to the stand-by arrangement and implemented the economic reforms of Dervis, endorsed by the IMF. This attitude was no surprise as the head of the AK Party,
Recep Tayyip Erdogan, had constantly emphasized during the 2002 election campaign that a AK Party government would be committed to the IMF program and would shape its economic policy in accordance with the guidance of the IMF and the stand-by arrangement while also protecting the social programs for citizens (Patton, 2006). Erdogan walked a fine line between ensuring international investors and citizens during the election campaign, proclaiming that the IMF policies would be followed and consistency maintained within the market while also addressing the concerns of citizens for the inevitable austerity measures which IMF programs imply. Observing the actions of the government and the contents of the Immediate Action Plan, it can be seen that the government did exactly what it promised to do, continued the IMF program of Dervis while also giving certain concessions to conserve social welfare in order to protect citizens from the sideeffects of IMF intervention. The new government continued to cooperate and follow IMF recovery programs which finally lended positive results for the economy however the damage to the reputation of the Fund was already done and in 2008, the IMF became a memory the Turkishpeople would never want to remember as the idea of economic sovereignty and self-reliance once
again becomes center stage in economic rhetoric.

After the stand-by arrangement was concluded, the Prime Minister and future President of Turkiye, Erdogan, proudly proclaimed that Turkiye closed the IMF chapter for good (Taskinsoy, 2019) and has avoided any arrangements since 2008, meanwhile the final payment for the IMF loans was made in 2013, severing ties, short of abandoning membership, with the organization.

The fact of the matter is that the Turkish economy has been shaped and molded by the IMF for decades, via five-year plans of state-controlled economics and by neo-liberal policies, the Fund has always been present in the Turkish economic sector. The Fund has invested large amounts of resources and engaged in numerous arrangements in order to create a stable economic sector for investors in Turkiye, some arrangements have produced satisfactory results, the most recent ones being the better examples, while others have damaged the economy to its core.

Overall, the Turkish economy has benefited from the Fund in terms of rapidly adapting to international markets and the western world while also suffering at times of failed assessment in the capabilities of Turkish institutions. Although a very loud distain is heard for the Fund in Turkish political and economic circles, the responsibility for the wrong-doings do not rest on the Fund alone, the incompetency of previous governments cannot be overlooked. However, when the most recent arrangements are observed, the situation is not so negative, with the Turkish economy performing way above expectations with the last three arrangements. Although, as with the failed programs, the responsibility for the successes do not rest on the Fund alone either. Thus, it can be understood that in order to have a successful program and successful end to an IMF intervention or atleast to not end in failure, the IMF and government must work in harmony and most importantly ensure competency, responsibility and technocracy in the implementation process of the program. In conclusion, the Turkish economy now stands as a strong and stable force in international economics, with brands and market forces that are internationally praised and in this reality, both the government and the IMF can find bragging rights.

Conclusions

The benefits of the IMF programs are the large amounts of aid which is recieved along with an organized program which is immune to the political instability that may be present within the domestic stage following an economic or financial crisis. It is very beneficial to be able to rapidly implement an economic program to curtail an economic crisis without the dragging process of domestic politics, specifically in countries which follow parliamentary values and coalition governments that would prolong the process for political interests. Naturally, IMF intervention also helps provide a domestic sector with a level of market confidence that is entirely decimated during crises, investors and international markets would much prefer an IMF-guided recovery program, rather than a domestic program that is prepared by the same actors that oversaw and possibly caused the financial crisis in the first place. Thus, the IMF provides the benefits of immediate funds and a rapid economic program at times of economic instability that help soften the blow while also taking some load off the shoulders of the government that may also be facing political instability due to a crisis.

Another very important benefit, specifically to the political actors within a nation-state, is the opportunity to transfer the responsibility of facing general discontent from the population tied to certain bitter policies that might be necessary to implement. In this case, cuts to social spending, wage cuts and lay-offs would be the final nail in the coffin of a government overseeing an economic crisis meanwhile the IMF, portraying the figure of a technocratic savior, could be less effected by such public discontent. There is also the obvious benefit to fiscal responsibility that is achieved via an IMF program, the populistic tendencies of governments to increase spending disregarding the deficit and budget balance is very effectively prevented by IMF measures of privatizations and large cuts to spending, resulting in a balance between expenditures and revenue, even returning a surplus in the budget.

As beneficial that an IMF program can be, it is not without its detriments that have been observed throughout the paper. Although the cuts and austerity measures provide much needed budgetary stability, it also carries a damaging aspect to the overall welfare of the population. In order to establish a balanced budget, the IMF usually obliges the government to cut spending onsocial security, pensions, wages and other forms of welfare programs, along with privatizing significant sectors within the economy which may belong to the government, not to mention shrinking the size of the bureaucracy and public administration. Citizens rely on these social programs and safety nets established by the government and the reliance becomes even heavier once an economic crisis has taken hold of the country, to enact cuts to these programs results in an even deeper plunge into poverty (The World Bank, 2004) for most citizens that are already affected by the crisis. Even more when the privatization and austerity in public administration which has a tendency to include lay-offs of public sector employees which results in unemployment for a significant portion of citizens and there is no worse time to lose employment than an economic crisis which already causes job opportunities to shrink. To put it simply, these policies kick the
public when it is already down, making the experienced crisis more severe, even if it is for the duration of the recovery program, however the side effects are much longer.

Tied to this dilemma is also the political detriments of IMF interventions, at times when public discontent is already at its lowest point, the implementation of these reforms brings the public opinion to its boiling point, there have been examples, some of which have been covered, of mass public protests and riots due to the ruthless austerity measures. Riots and protests not only cause political instability and loss of legitimacy for a government but also result in an even more severe crisis for a country in general, no government wants to deal with public riots when also dealing with an economic meltdown.

There is also the issue of national sovereignty when it comes to IMF intervention, when engaging in an IMF program, the national government would need to adhere to the policies and recommendation of the Fund in order to continue the program, as per a stand-by arrangement. The government needs to effectively give the reins of economic governance to the IMF, thus giving away its economic sovereingty to one of the most internationalist organizations in International Economic Relations. For a country which has already opened its doors to western capitalism and free trade, this might not be an issue, however for countries which might prefer domestic production and self-reliance, following an IMF program would mean total abandonment of tradition and principles. This results in negative responses towards the Fund which may be seen as a foreign entity not welcome in the state while also resulting in a negative viewpoint towardsthe

government with nationalist and populist groups in the far sides of politics, capitalizing on the discontent and increasing their share of political power.
Another detrimental aspect that need to be covered is the long-term effects of an IMF program, it has been seen on numerous cases of this paper that the Fund rarely considers a longterm aftermath of its program, rather focusing on mitigating the crisis and ensuring the protection of the international markets as quick as possible.

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