IMF Report Admits IMF's Obsession with Capitalism Is Killing Prosperity

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In order to strengthen economies, the report says, nations should admit that "trickle-down" theories of wealth and prosperity do not work and instead raise the wages and living standards of the bottom 20 percent of their populations, install more progressive tax structures, improve worker protections, and institute policies specifically designed to bolster the middle class. (Photo: Euronews)

Though the International Monetary Fund has spent most of its existence parading around the world telling governments to make their economies more friendly for multinational corporations by suppressing wages, restricting pensions, liberalizing industries, and more or less advocating they ignore the popular will of workers and the less fortunate—all in the name of market capitalism and endless economic growth—a new report released by the IMF on Monday contains an ironic warning: stop doing all that.

"This reinforces Oxfam's call on how we need to reduce the income gap between the haves and have-nots, and scrutinize why the richest 10% and top 1% have so much wealth. By releasing this report, the IMF has shown that 'trickle-down' economics is dead; you cannot rely on the spoils of the extremely wealthy to benefit the rest of us." —Nicolas Mombrial, Oxfam InternationalThough still committed to the idea that economic growth is the master to whom all should bow, the new research—conducted by its own economists and submitted under the title ***Causes and Consequences of Inequality*** (pdf)—argues that many of the policies promoted by the IMF have actually been harming nations by exacerbating widespread economic inequality. As many have noted, current disparities between the world's richest and its poorest represent an nearly unprecedented level of global inequality which the report described as the "defining challenge of our time."

In order to strengthen economies, the report says, nations should admit that "trickle-down" theories of wealth and prosperity do not work and instead raise the wages and living standards of the bottom 20 percent of their populations, install more progressive tax structures, improve worker protections, and institute policies specifically designed to bolster the middle class.

"Fighting inequality is not just an issue of fairness but an economic necessity," said Nicolas Mombrial of Oxfam International in response to the report. "And that's not Oxfam speaking, but the International Monetary Fund."

This not the first time the IMF has had to admit that its own research bolsters the arguments of its biggest critics. According to the *International Business Times*, the new research on inequality "echoes previous IMF research that show that redistributive policies have a positive effect on countries' economic output."

But as the *Guardian's* economics editor Larry Elliott notes, the new paper creates obvious "tension between the IMF's economic analysis and the more hardline policy advice" it continually gives to countries seeking foreign assistance or development funds. With Greece only the most obvious example, Elliott cites details from the report and writes:

> During its negotiations with Athens, the IMF has been seeking to weaken workers' rights, but the research paper found that the easing of labour market regulations was associated with greater inequality and a boost to the incomes of the richest 10%.
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> "This result is consistent with forthcoming IMF work, which finds the weakening of unions is associated with a higher top 10% income share for a smaller sample of advanced economies," said the study.
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> "Indeed, empirical estimations using more detailed data for Organisation for Economic Cooperation and Development countries [34 of the world's richest nations] suggest that, in line with other forthcoming IMF work, more lax hiring and firing regulations, lower minimum wages relative to the median wage, and less prevalent collective bargaining and trade unions are associated with higher market inequality."
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> The study said there was growing evidence to suggest that rising influence of the rich and stagnant incomes of the poor and middle classes caused financial crises, hurting both short- and long-term growth.

No one should be fooled into thinking that the new research aims to alter the IMF's central commitment to advancing the financial interests of the global elite. In fact, part of the argument presented in the paper is that the negative impacts of such enormous levels of economic inequality the world is now experiencing are simply so bad that the reaction to it could seriously undermine the institution's public defense of capitalism's overall supremacy. "For example," the paper states, "[too much inequality] can lead to a backlash against growth-enhancing economic liberalization and fuel protectionist pressures against globalization and market-oriented reforms."

According to a recent report by Oxfam International, almost half the world's wealth is owned by one percent of the population and that the bottom half of the world's population owns the same wealth as the richest 85 people in the world. For Oxfam's Mombrial, who heads the international anti-poverty group's office in Washington D.C., the IMF's report is a welcome development that should put a nail in the coffin of the austerity-driven policies prescribed by governments and powerful financial institutions like the IMF, World Bank, and others.

"The IMF proves that making the rich richer does not work for growth, while focusing on the poor and the middle class does," Mombrial said. "This reinforces Oxfam's call on how we need to reduce the income gap between the haves and have-nots, and scrutinize why the richest 10% and top 1% have so much wealth. By releasing this report, the IMF has shown that 'trickle-down' economics is dead; you cannot rely on the spoils of the extremely wealthy to benefit the rest of us. Governments must urgently refocus their policies to close the gap between the richest and the rest if economies and societies are to grow."

Though Oxfam and other international campaigners have been saying it for decades, he concluded, “The IMF has set off the alarm for governments to wake up and start actively closing the inequality gap, not just between the rich and poor, but for the middle class too. Their message to them is pretty clear: if you want growth, you’d better invest in the poor, invest in essential services and promote redistributive tax policies.”

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