

Strong Economic Medicine: The IMF's "Mistakes" on Greece are Nothing New

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The IMF's self-admitted errors in the Greek bailout were not just "mistakes": they were the deliberate reproduction of a classical ideological script.

Three years since its first bailout, the IMF has finally gathered the courage to admit that it made major mistakes in its handling of the Greek debt crisis. In an [official report](#) released last week, the Fund states that, while its basic policy prescriptions were correct, it underestimated the negative effect of austerity on growth and therefore ended up making economic prognoses that were much too optimistic about Greece's debt sustainability. Where the IMF predicted a contraction of 5.5% of economic output between 2009 and 2012, the Greek economy actually lost 17%, and where the IMF predicted 15% unemployment by 2012, the actual rate was 25%. So much for the supposed neoliberal "success story" of draconian austerity that European leaders have been [raving about](#) in their delirious collective debt delusion.



And yet, while these seemingly shocking admissions hit media headlines as if they were some kind of profound revelation, the sad truth is that they actually tell us nothing new. In fact, the Greek Labour Institute and the think tank IOVE [made forecasts](#) that were frighteningly close to the actual outcome. The IMF now argues that Greece should have had debt cancellation as early as 2010 or 2011, but claims that this policy response was politically unpalatable to those countries — i.e., Germany, France and the Netherlands — whose banks had a large exposure to Greek debt. Again, this is nothing new: the IMF is merely repeating the *exact* argument that [hundreds of thousands](#) of outraged Greeks made in 2011, when they occupied Syntagma Square to contest a parliamentary vote on the EU/IMF-imposed austerity memorandum. Back then, the protesters were dismissed as fringe extremists. Now even the IMF proves them right.

But there is another — more sinister — way in which the IMF's belated *mea culpa* is nothing new. The fact of the matter is that these type of self-critical reports by the Fund have been a permanent feature of its management of international financial crises ever since the 1980s. For some reason, every time a debt crisis strikes, the IMF moves in to impose the same short-sighted bailouts, austerity measures and market reforms — and then, several years later, comes to the conclusion that it made major mistakes in its handling of the crisis. Yet it never changes tack: when the next crisis hits, it simply reproduces the same old script: stabilization, privatization, liberalization. Nothing else will do to satisfy the markets, and so the debtors simply have to bend over backwards to satisfy the orthodox neoliberal

prescriptions of structural adjustment.

During the Latin American debt crisis of the 1980s, the Fund also made overly optimistic growth prognoses in a context of austerity. Back then, these predictions also served to legitimate a policy response that narrowly served the interests of the big banks by preventing early debt write-downs. Just as today, the IMF was also forced to admit — in hindsight — that it “failed to foresee” the depth and duration of the crisis. As official IMF historian James Boughton noted in his extensive [study](#) of thirty years of IMF crisis management, the Fund suffered from a “lack of foresight [resulting] from optimism in assessing the growth prospects of Latin American countries.” Indeed, its austerity programs “were predicated on forecasts of a rapid resumption of economic growth” that failed to materialize. This led Karen Lissakers, a future IMF executive director, to [conclude](#) that “the Fund is acting as enforcer of the banks’ loan contracts.”

None of that, however, stopped the Fund from imposing even harsher policy conditionality on the Asian tigers when these countries descended into crisis in the late 1990s. During the East-Asian crisis, the IMF once again came under fire for its imposition of austerity and market reforms that seemed to go way beyond — and even directly against — its institutional mandate to safeguard international financial stability. In his best-selling book [Globalization and its Discontents](#), Joseph Stiglitz, chief economist of the World Bank during the crisis, publicly lambasted the IMF for its disastrous insistence on austerity. In a 1999 [report](#), the Fund [concluded](#) that “its policy prescriptions towards South Korea, Indonesia and Thailand were correct, but there was a crucial flaw: the IMF assumed its programmes would rapidly restore market confidence, and they did not.” This led even the conservative free-trade economist Jagdish Bhagwati to [chide](#) the Fund for its counterproductive approach to crisis management, arguing that the IMF now worked solely in the interest of the large Wall Street banks.

If these wholesale economic collapses and the consequent destruction of the livelihoods of millions of Latin American and Asian citizens were truly just “mistakes”, resulting from faulty baseline assumptions and flawed econometric modelling, one would expect an international institution staffed by hundreds of Ivy League and Oxbridge PhDs to eventually learn from these mistakes and come up with a somewhat more credible alternative. Wrong. Following the 2001-'02 Argentine financial crisis, the Fund once again [admitted](#) to making a series of “mistakes” of historic proportions, culminating into the largest sovereign debt default in world history. As former IMF managing director Michel Camdessus recently [recalled](#), “we probably made many silly mistakes and committed errors with Argentina.” As a result, 60 percent of Argentinians fell into poverty as the country experienced the deepest economic depression in its history.

Over the past thirty years, the world has experienced [over a hundred](#) financial crises. So far, the IMF has responded to practically every single one of them with the same defunct policy prescription of rapid fiscal contraction, firesale privatizations and far-reaching neoliberal market reforms. In the vast majority of cases, this orthodox policy response contributed to a deepening of the recession, the loss of millions of jobs, and a humanitarian tragedy of unspeakable proportions. If you make the same mistake a hundred times over, can it still be considered a mistake? Or are we looking at the deliberate reproduction of an ideological script that narrowly serves the interests of private creditors by shifting the burden of adjustment squarely onto the shoulders of the poorest and weakest members in the debtor countries?

Seen in this light, the IMF's penchant for erroneous forecasting seems like a costly mistake indeed. A [recent study](#) by economist David Stuckler and epidemiologist Sanjay Basu, based on a wealth of statistical evidence, finds that "austerity kills". Finding dramatic increases in suicide rates, HIV infections and a renewed malaria outbreak in Greece, the authors [conclude](#) that "many countries have turned their recessions into veritable epidemics, ruining or extinguishing thousands of lives in a misguided attempt to balance budgets and shore up financial markets." Even if we assumed that the IMF's policy prescriptions were based on mere "mistakes", such mistakes must have consequences. At the very least, those responsible for the mistakes should lose their jobs and reputations. A genuinely democratic state of law, however, would require such mass manslaughter to be punishable by law — with long-term imprisonment.

But despite the repeated admission of its mistakes, no one at the Fund has [ever lost a job](#) for prescribing deadly austerity measures. No IMF chief or economist has ever been jailed for directly imposing — or at least justifying — the type of policies that literally kill thousands of people and destroy the lives of millions more. And of course they haven't. After all, the issue here is not with responsibility but with legitimacy. When it admits to its mistakes, the IMF is not taking responsibility for its actions; it is merely trying to convince the world that it is serious about economic "science", that it recognizes the fact that its own policies failed due to flawed econometric modeling — only to repeat those very same policies all over again when systemic "necessity" demands it in the next debt crisis. The admissions of its mistakes are part of the same ideological smokescreen that led the IMF to impose dramatic austerity from Mexico to Thailand, and from Argentina to Greece. They are meaningless.

In this particular case, the IMF also has obvious ulterior motives behind the release of its seemingly self-critical report. As Greek economist Yannis Varoufakis [points out](#), "the IMF economists are considering an exit from the Troika and are now paving the path for it." The reason the IMF wants to exit the Troika is simple: it wants to save face from a policy response that it itself helped to impose but that is now clearly starting to fall apart. In a way, the Fund was simply the first to jump ship, once again shifting responsibility onto others in order to preserve its own legitimacy. It now blames the European Commission for its lack of experience with crisis management, while blaming France and Germany for obstructing an earlier restructuring of Greek debt. But the truth remains that the IMF has — on virtually every occasion since 1982 — vehemently opposed such debt restructurings itself, while showing remarkably little aptitude at crisis management as such.

Perhaps, then, we should see the IMF's *mea culpa* in a radically different light. Perhaps these are not just mistakes but a deliberate reproduction of a classical ideological script — one which needs to be re-legitimized from time to time by providing at least the *illusion* of scientific rigor and institutional humility. Yannis Varoufakis is therefore wrong to [argue](#) that Southern Europe should now team up with the IMF to contest the austerity drive of the North. It is time to stop listening to the empty rhetoric of the IMF and start looking at its actions: if the past thirty years of its wrongheaded crisis management have revealed anything, it is that the Fund — despite its eventual self-critique — will always remain "the enforcer of the banks' loan contracts", and therefore an extremely unreliable partner for those who remain stuck in the debt trap.

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