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THE IMF HAS FAILED, CAMDESSUS SHOULD LEAVE?

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If emerging markets have become a speculative casino, surely the managing director, Monsieur Camdessus is the chief croupier. Over the past few years, from Mexico to Asia, Russia and Brazil the IMF has stood by while currency crises were building up, the IMF was fast to mobilize vast amounts of money to be thrown into the battle, the IMF allowed a debate on controversial adjustment programs to gain ground, the IMF was responsible for a lack of decisive remedies that would move countries out of the danger zone. Now if all of this right, why should the managing director keep its job? There is an urgent need for dramatic reform at the IMF, the managing director has no clue and has lost his legitimacy, and he must now go.

The first failing of the IMF has been a pattern of missing every single crisis or misjudging the sustainability of a precarious situation. Russia is a case in point: Yet, another program, yet another pile of money but no decisive changes forced on Russian policies, definitely no debt restructuring and surprise, Russia collapses. The IMF's answer: if we had restructured the debt, there would have been a risk of devaluation. As it is, we had debt default and collapse, far worse than even a bad outcome under preventive care. Or take the case of Brazil. President Cardoso bamboozled the IMF into thinking he was a reform President. Just how is bot clear since he has never done a hard thing in his life? In the end, the IMF talked like the Brazilian finance minister—no problem, no overvaluation, everything will work out. And then, of course, things blew up. Or Korea. Where was the IMF when fragile Korean banks borrowed huge amounts abroad with overnight maturities, and put the money in Br4zaxziulian and Russian bonds. And all that half a year after Thailand was gone already. Where was the IMF when prudence would have suggested an early deep look at Indonesia's banking system? The point is that preventive care is all-important in avoiding very bad surprises and in that area the IMF has been strictly useless if not worse.

The second problem is IMF programs. They come late, they are shy on drastic measures, they do not use the most powerful ammunition. A country that is drowning in debt needs a debt restructuring. If that does not come debtors will try and escape the burdens of dollar debt by staging a run on the central banks reserves the currency will collapse and make debt burdens and the situation of banks and companies even worse. And that restructuring has to come very early and it needs to be very drastic because otherwise a debt problem becomes a problem of default, bank collapse and currency collapse. IN Indonesia the IMF failed to have an early debt moratorium and as a result fostered a

currency collapse. In Russia the IMF failed and now again in Brazil. As long as the bad debts are at the center of the stage, collapse of finance and currency is extreme.

But the IMF has also failed in supporting aggressive measures to restore currency credibility raising interest rates to the sky in country that has bad banks and bad debt is not very convincing. A far better alternative along with debt restructuring, is the idea of currency boards—abolish the central bank, abolish the exchange rate, take away the toys that create currency crises in the first place. The IMF has lacked the courage to put this option in the forefront. Their argument is”: if it fails, we will be blamed. Yet it is clear that a bold move to a currency board, say in Brazil today, would immediately create a wave of confidence throughout Latin America, restore capital inflows, avoid the deep recession that is building up.

People who lack courage, vision and competence cannot stay at the helm. There needs to be a strong message to the IMF that it needs to shape up, needs to understand better the modern financial system, needs to be prepared to lead rather than hide and blame others. The idea for more money for the IM to fight battles with speculators on a grander scale is preposterous. The best idea ,of course, is to bring back Jacques de la Rosiere, the former and vastly successful head of the IMF. Failing that, the IMF needs a no-nonsense British civil servant who looks at the facts instead of schmoozing with finance ministers, who judges financial risks instead of cultivating fond hopes about politicians with a long record of failure. Above all, we need someone who does not look for yet more statism to make crises bigger but rather for a withdrawal from bailouts and therefore a return of market discipline.