The Crisis of the International Monetary System

and Myth of IMF Macroeconomics

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The story of Bretton Woods and creation of International Monetary Fund in 1944, perhaps the world's premier multilateral institution, has been told many times. But the development of the Fund's unique macroeconomic technique—the financial programming, or sector iteration, approach—is seldom spoken. When it is, it is little understood.

This book tells the story of the rise and fall of macroeconomics at the IMF from the 1950s to the 2020s, explaining how the financial crises that emerged on the either side of the early 2000s coincided with the Fund *de facto* dropping her sector balances approach. Rudderless, the result has been a series of chaotic interventions by the IMF over the past decade.

After recalling this history, the book explores three case studies.

First, the story of the IMF's engagement Latvia, in which the author was personally involved, is the first time an IMF intervention has been recalled from the inside—how the Fund *actually works*. A set of nonsense macroeconomic accounts were cooked up with complete disregard for the IMF's iterative approach. The result was a macroeconomic depression and failed debt auction, though requested by Fund staff, that nearly forced Latvia off her currency peg—until the European Commission intervened in the summer of 2009. Thus was the Troika born.

This leads us naturally onto the IMF's engagement in Greece from 2010. Rather than learning from the mistakes made in Latvia, senior Fund staff were promoted for these failings—institutionalizing a fraud whereby the IMF's "adequate safeguards," required under the Fund's Articles of Agreements, intended to be met by the financial programming approach, came to be replaced by the IMF becoming the "junior partner" in the euroarea.

Armed with the "safeguard" of being the smallest contributor to external financing, implicitly blaming the Europeans if anything went wrong, Fund staff were able to brief against success of the program to financial market participants. Rather than becoming catalyst for private capital, Fund staff were willing the program to fail. Meanwhile, the technical detail of the program did not add up—and could not possibly succeed. The Greeks were being asked to suffer the greatest depression in the postwar period, contrary to the intentions of Bretton Woods, on the basis of fraud committed at the IMF.

Although the euroarea crisis eventually passed, the case of Argentina—left unresolved from the early 2000s—re-emerged in 2018. We come full circle from when the Fund first learnt the wrong lessons from the financial account crisis cases and their nonsense debt sustainability framework. In this final case study, a central bank Ponzi scheme was authorized by Fund staff meaning the program was once again bound to fail.

We next discuss corporate governance inside the Fund—how senior staff members routinely break staff rules, lining their own pockets at international taxpayer expense. We ask: Does this meet the IMF's own definition of corruption in public life?

There is a global analogue to the failings in the three case studies, which we take up next. The failure of sector consistency at the country level is equivalent to failure to ensure "adding up" in global macro forecasting. And the IMF's flagship multilateral World Economic Outlook represents nothing but a naïve adding up exercise during which global consistency is often overlooked. In the immediate aftermath of GFC, individual country teams were able to assume export-led growth—and a growing global currency account discrepancy—allowing staff to endorse austerity.

We conclude with the steps needed to improve governance of the international monetary system through the Fund. This is a uniquely difficult task, involving: reviving the IMF's lapsed macroeconomic tradition at individual country-level; giving the IMF's Research Department the lead role in global macroeconomic forecasts, including through consistency of aggregate outcomes; holding individual staff to account and fundamentally reshape corporate governance flaws that repeatedly emerges as a theme throughout the book.