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The Big Bazooka

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Amidst the full swing of contagion caused by the coronavirus pandemic, Kristalina Georgieva, Managing Director of the IMF, argued that her institution should wield a “big bazooka.” By using this expression, she sought to allude to the lending power that the IMF could muster for deployment to rescue countries in economic distress during the pandemic. With $1 trillion in lending capacity, the size of the IMF’s bazooka itself is worth noting, and one would have expected it to make a significant impact around the world while many national economies faced contagion-based paralysis.

Yet looking back over the past year that Covid-19 has decimated lives and livelihoods alike, it appears that the big bazooka Georgieva spoke of was never really fired. The global economy shrunk by at least 5% during 2020, according to consensus estimates, and yet the IMF’s lending has remained very tepid: in extending what would appear to be up to $200 billion of credit lines (which may or may not be activated by countries), the actual amount of new lending commitments has been a paltry $50 billion dollars, at a time when the global economy faced its most severe strains in living memory.

For the IMF, the metaphor of a bazooka is apt in more ways than one. In the same sense that bazookas depicted in cartoons often backfire and do more damage to their owners than to their targets, so too have the IMF’s Structural Adjustment Programs (SAPs) caused immense economic hardship on countries that have, whether through choice or coercion, adopted such programs. This bazooka fired upon societies takes the shape of brutal austerity policies, the elimination of social protections, and the installation of neoliberal market-based mechanisms that disproportionately affect the poor.

Even though research by the IMF itself has found that such impositions end up becoming counter-productive, if not downright destructive, the conditionalities of IMF programs remain a surefire element of most large-scale IMF lending. The IMF has sought to ease conditionalities through new sorts of instruments such as rapid credit facilities, but these are only applicable to comparatively small sums lent out. For major lending agreements, the conditions for countries come at too steep a price, whether in terms of reputational damage (as foreign investors view IMF programs as a sign of alarm) or through societal damage in austerity measures and other regressive stipulations.

As time has passed, the big bazooka of the IMF has backfired on its own reputation as well. The Asian Financial Crisis of the late 1990s demonstrated that those countries which rejected IMF impositions, such as Mahatir’s Malaysia, enjoyed more stable and long-lasting economic recoveries than those which followed the IMF’s course. Latin America is saddled with a litany of terrible IMF interventions, the most notorious of which include what some scholars have described as the “pillaging” of Argentina, once a leading international economy but now entrapped in destitution that worsens by the day.

More recently, the austerity debacle in the eurozone region following the 2008 Global Financial Crisis also came to portray the IMF as a political accomplice to Brussel’s hegemony, without any care for distressed capitals such as Athens or Madrid. In that case too, it was countries such as Portugal that, having refused IMF and EU conditionalities, recovered much more strongly than those countries which fell in line with the IMF’s impositions from on high (especially Greece).

In the past few years, Pakistan has also faced the brunt of an IMF "bazooka" in a terrible manner. An Extended Fund Facility (EFF) for a paltry $6 billion dollars in 2019 carried with it dramatic social costs that have made the government's ambitions for the construction of a stable society much harder to realize. There has been an erosion in the buying power of the masses, and negotiations have continued over issues such as electricity prices that further compress the consumer in order to conform to IMF demands. The coronavirus pandemic has allowed the Pakistan government to negotiate for reprieve on specific elements of the IMF's requirements, but it has not in the larger sense eased the government's ability to pursue a development-orientation.

Another reason that most developing countries, including Pakistan, are not eager to lean on the IMF's Bazooka is that it would damage their sovereign ratings, which have been won after years of hard work on financial management. Aside from the IMF's conditionalities, then, it is also the reputational cost of engaging with the "lender of last resort" that countries are seeking to avoid. This calculus is based on the idea that, although the pandemic may subside soon enough, the sovereign ratings that developing countries have earned over decades may be lost quickly and then require many more years to recoup.

As a result, despite being the "lender of last resort" in the present arrangement of global capitalism, with up to $1 trillion of lending power loaded into its "big bazooka," the IMF has failed to act meaningfully when positive global financial interventions have been most urgently required. For the developed world, the IMF has not approved a major funding arrangement in since 1977 (Italy), and so its ability to make a difference there is moot, especially when powerful countries that are currency-sovereign, such as the United States and Japan, have simply printed their own money with abandon during the pandemic. For example, almost 20% of all US dollars that have ever existed were printed in 2020 alone.

Meanwhile, for the developing world, which is not currency-sovereign and has faced immense risks of impoverishment during this pandemic, the IMF has certainly failed to make a difference. In her assessment of the global economic outlook last year, Georgieva pleaded that the IMF needs "more resources" to help countries manage economic crises. Sadly, the ammunition that the IMF possesses has not been put to adequate use during this pandemic in any case, which makes it difficult to justify why this big bazooka exists in the first place. In imagining a better global financial system for the post-Covid era, then, the world may be better off without the IMF's ostensibly big but ultimately useless bazooka.

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