IMF, Aid, and Development: A Historical Backdrop

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Like clockwork, another IMF program beckons for Pakistan – yet again. With negotiations on 'terms' underway, taking place far away from any ordinary citizen of the allegedly sovereign nation may hope to peek at (let alone partake in), expectations of continued socioeconomic turbulence run amuck.

This is the 24th time Pakistan finds itself in this predicament. With an aggregate credit of $23,656,650 agreed to over the course of 63 years, it is safe to say that what started as a give-and-take relationship – at least on paper – has now evolved into one of dependency. (IMF, 2020) What's worse is that there is little to show for it. Indeed, "the main IMF conditions of currency depreciation, indirect tax, interest, utility and energy rate hikes and privatisation have failed to deliver sustainable growth or even fiscal or external deficit reduction over four decades." (Murtaza, 2021) The question, however, is whether this is due to problems in implementation – as is commonly claimed by the IMF and other international financial institutions (IFIs) – or that the proposed solutions/conditions were never all that well thought out to begin with. In order to understand this, it is worth placing the IMF into its historical context within the larger phenomenon of 'development' practice: tracing the various incentive structures animating its activities.

The International Monetary Fund and the World Bank were created during the Bretton Woods Conference in 1944, with the two-pronged objective of 'building back' after the war and 'assisting' developing countries in times of financial turbulence. Formal documents at the time emphasized a strictly 'apolitical' approach to these ends, placing 'experts' at the helm and adopting 'best practices' as the orienting force.

Within the following decade, however, it became patently obvious that these IFIs were largely only collaborating with countries that were not aligned with the Soviet Union in the context of the Cold War – hoping to establish a US-led counterweight to the expanding superpower in exchange for financial loans and grants. A series of 'development' projects also propped up in colonies, particularly in Africa, whereby narratives of anti-racism and 'respect for all' were peddled by the occupying forces in hopes of saving face and retaining the territories during a time of declining credibility as a consequence of WW2. Even after anti-colonial movements in the third world, replacements for leaders came in the form of authoritarians (sometimes dictators) that were aligned – economically as well as geopolitically – with the interests of their predecessors. (Easterly, 2014) The overt power of colonialism, therefore, slowly shifted into the covert power of imperialism over the years vis-à-vis IFIs and large donor agencies – whereby post-colonial nation states developed a dependency on aid. This is largely because conditional agreements were based not on long term, structural reform that sought to correct systemic inequities in terms of wealth and power but rather short-term, cosmetic interventions to 'open up markets' – allowing for large multinational corporations to operate in the third world and minimize their costs through cheap labor, and to streamline the procurement of raw materials for production. Profits from these operations were, and have been, funneled back to the 'headquarters' in the West.

According to William Easterly, a former World Banker, 'development' has been characterized by three primary modi operandi: blank slate over learning from history, nations over individuals, and conscious design over spontaneous solutions. All 'underdeveloped' regions are treated as open playing fields, in which experts are expected to initiate the same set of interventions – building them up from 'ground zero' rather than based on their unique conditions. A top-down, decontextualized approach is thus adopted, which is naturally unsustainable. Furthermore, 'nations' are prioritized over individuals – which means that turbulence for people as a consequence of interventions is seen as collateral damage, necessary for the 'greater' good. As long as GDP rates are improving, it does not matter whether people have access to basic rights. In other words, narrow quantitative indicators are prioritized over qualitative ones which assess the actual living standards of the average person. Analyses of the distribution of power do not factor in. Finally, a lack of technical expertise in the sphere of policy was seen the cause of poor performance. The solution was to appoint academics and consultants to propose textbook solutions, who frequently checked in to make sure things were going as planned. This was always antithetical to historical success stories of development: which were based on the free exchange and interaction of people in a society, who learned from the experiences of one another and collaboratively generated the institutions and legal orders to formalize economic and political processes rather than adhering to the orders of external parties. (Easterly, 2014)

All this is even expected, as the profit model for banks in general is to generate income through interest payments – which will naturally prompt them to preserve and prolong credit agreements rather than assisting countries in paying them off. More broadly, the 'development sector' in the third world largely constitutes government agencies, as well as NGOs, consultancies, and even the corporate sector which are seeking personal wealth rather than the resolution/correction of systemic market failures. To truly overcome these would pose a threat to their interests – meaning that interventions are geared to generate PR content and create the impression of assistance (in hopes of further grants/loans), but this is largely based on scattered 'case studies' (which are frequently doctored) rather than actual structural change. In this way, a flourishing rent-seeking market has propped up in the developing world: whereby elites collaborate with IFIs and advance their interests in exchange for status and monetary rewards.

As Pakistan embarks upon its 24th IMF program, it is important to contextualize the phenomenon not in terms of the domestic politics between mainstream political parties, but within a larger – indeed, global – system of capital flow. It is no coincidence that the need for further credit arises every few years: and perhaps it is time to consider whether the nature of the programs themselves, and the 'structural adjustment' they emphasize, may be the very cause of the developing world's inability to pursue substantial reform and break out of the endless cycle of debt it is mired in. Rather than paternalistic attitudes about 'key stakeholders' (including IFIs, NGOs, entrepreneurs, etc.) behaving as 'allies' to the poor, who are seen as helpless individuals that need to be handheld and 'saved' from their oppressive states, there is a need for a conceptualization of development that is centered around the concerns of the working class. Global IFIs have been shown to work against this – evidenced by the fact that "workers in countries that implemented IMF agreements were 60 per cent less likely to be in a trade union after the programme, making them easier to exploit." (Selwyn, 2014) True, meaningful change can only come through bottom-up initiatives, led by ordinary people, whereby reform is pursued through a genuine democratic process centered around ground realities. There will necessarily be an organic political dimension to this process, in which competition for power will involve increasing numbers of contestants that can operate freely and appeal to citizens in however manner they see fit – without censorship or intimidation.

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