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The IMF must stop playing political games and get back to its roots

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Brexit is cited as a prime example of this potential plunge into the abyss by the IMF but it couldn't be more wrong

The International Monetary Fund this week kicked off its annual meeting in Washington on the typically downbeat note we have come to expect from these events. The global economy is weak and fragile, it warns in its latest World Economic Outlook, prompting a destructive backwards slide into protectionism, economic malpractice and reduced openness.

This sub-par growth, moreover, “risks perpetuating itself” because of “the negative economic and political forces it is unleashing”. Brexit is cited as a prime example of this potential plunge into the abyss.

Maurice Obstfeld, the IMF’s chief economic counsellor, goes further. Brexit, he says, is part of a political backlash “that blames globalization for all woes and seeks somehow to wall off the economy from global trends rather than engage cooperatively with foreign nations”.

I was a remainer, but I can’t accept this interpretation of Britain’s vote to leave. Mr Obstfeld doesn’t overtly lump Brexit in with Trumpism, but he might as well have done. His meaning is clear, and as seems ever more frequently to be the case with the IMF, he could not have been more wrong about it.

Nobody yet knows how Brexit will pan out. Lots of things could go wrong, not least a defensive and vengeful reaction from the the European Union that attempts to lock Britain out of the single market. But on present evidence, Brexit is a very long way from the sort of protectionist, inward looking, reactionary force Mr Obstfeld imagines.

Brexit is about embracing the many positives of globalisation

To the contrary, as articulated by the new Government, Brexit is about embracing the many positives of globalisation and standing up for free trade, not turning the nation’s back on them. Economically, Brexit will undoubtedly be difficult and troublesome, but it is most unlikely to be disastrous.

Not for the first time, the IMF has become captive to “group think” and powerful establishment forces. Over the last ten years, the fund has been pretty much wrong about everything of substance. It failed to see the financial crisis coming, and it failed to anticipate the eurozone debt crisis, having essentially become a cheerleader for integrationist ambitions of monetary union.

The International Monetary Fund

It then proceeded to become part of one of the biggest economic policy blunders of the modern age, over-riding its own rules and conventions to save the euro and bailout the bankers. It has also been consistently wrong about the UK. Some serious soul searching is in order. The very purpose of this institutional corner stone of the post-war, Bretton Woods economic settlement is being called into question as rarely before.

Time and again, the IMF has been found guilty of faulty forecasting, analysis and policy, undermining its authority and impugning its reputation as a non partisan organisation that can be trusted with the economic world order. Too often it becomes captive to powerful political interest in its membership, as occurred in Britain’s referendum campaign when it was used as a key part of George Osborne’s “Project Fear”. In one scenario examined by the IMF, the possibility of a relatively mild reaction to Brexit was at least entertained. But these nuances got lost in the overall message: that the consequences of a vote to leave would be “bad to very, very bad”. So far they have not been.

Yet the big failure was over the euro, the subject of a lacerating report by the IMF’s Independent Evaluation Office (IEO) a few months back. First the IMF ignored the design flaws at the heart of European monetary union, and therefore completely failed to see its propensity to crisis.

Then, as the debt meltdown began, it remained upbeat about the health of the European banking system, taking at face value the self interested reassurances of national and euro area regulators.

And finally it squandered the fund’s resources on an unprecedented scale supporting the continuation of a currency which for some of its members had become an economic doomsday machine. Ensuring the single currency’s survival was routinely prioritised over the individual nation’s best interests.

This may have been understandable in view of America's still recent banking crisis. Larry Summers, a former US Treasury Secretary, warned that a sovereign default within the eurozone would be "like Lehman's on steroids".

Yet fear of contagion provides only a partial excuse. The effect was to bailout bankers at the expense of citizens. The internal devaluation imposed on large parts of Europe gave it no plausible way back to growth or liberation from mountainous debts. Greece's former finance minister, Yanis Varoufakis, has called it a form of "fiscal waterboarding".

In carrying out these policies, the IMF disobeyed a number of the cardinal principles it traditionally applies to programme countries, in particular that austerity should be offset by devaluation and debt relief. Within the straightjacket of the euro, there was neither.

Officials got around these stipulations by slipping through a radical change in IMF rescue policy, allowing an exemption (since abolished) if there was a risk of systemic contagion. "The board was not consulted or informed," last summer's IEO post mortem on the debacle found. Instead, directors discovered the change in policy "tucked into the text" of the Greek package, but by then it was too late. It is small wonder there has been a political backlash. The IMF is deeply complicit in causing it.

Christine Lagarde warned of the consequences of Brexit

The IMF has been equally guilty of misdiagnosing the UK economy, though fortunately in Britain's case the consequences have been confined to mere embarrassment. Osborne's fiscal consolidation was routinely criticised by the IMF as too deep and too fast, culminating in a warning from the organisation's chief economist, Olivier Blanchard, that the Chancellor was "playing with fire". Within a year, the UK had become the fastest growing economy in the G7.

Repeating some of the same mistakes as were made in the eurozone debt crisis, Christine Lagarde, managing director of the IMF, waded into Britain's referendum debate, saying that a vote to leave the European Union would have "pretty bad to very, very bad" consequences. So far it seems to have had zero impact on the world economy, and beyond an initial flurry of financial markets turbulence, virtually none in the UK either.

There is a vital need for supranational organisations such as the IMF. But rather than providing solutions, the IMF has too often found itself part of the problem. It needs to stop playing political games and get back to its roots, which lie in the sole purpose of providing liquidity support for countries that get themselves into fiscal difficulties and sound policy remedies for getting them out again.