

## The IMF: A Problematic Tool within the Exploitative Capitalist System

The International Monetary Fund (IMF) is an organization that most people in the developing world recognize. Its role as a 'lender of last resort' is well publicized, and is often portrayed by politicians as a savior in times of severe economic hardship. But this isn't the way that it's always seen by the citizens who have to live with its decisions and demands that have a constant detrimental impact on their lives. People wait anxiously for news of the outcome of IMF negotiations, and news is met with varying levels of concern or anger. While some are understanding that the IMF's track record hasn't been great, others respond with a desperation to get out of their economic hardship and are more inclined to look at it as their savior.

But everyone needs to understand that the IMF is a tool within the system. It is designed to maintain the Global Capitalist Ideology and ensure its continued dominance, and it benefits the lenders not the borrowers.

### **This is clear if we look at the role of the IMF in this system.**

When a state becomes a part of the IMF, they must sign their 'Articles of Agreement' which guarantees the continued support of the IMF, and the system that it works within. One of those commitments is regarding how the country will manage its exchange rates.

Since the international system stopped using the Gold Standard, this commitment has included an agreement to no longer base the value of its currency on gold as well as an agreement to inform other members how they will determine the currency's value.

The irony is that the original IMF Agreement did not allow members to have floating exchange rates. But when the international policy changed in the 1970s, with the abandonment of the Bretton Woods system, the IMF changed its rules through a series of meetings and amended the Articles so that the change was permitted, indeed required, and what had formerly been required was now outlawed.

But while the loans aspect of the IMF work is usually the focus of discussion, its oversight includes surveillance work, which mandates an annual review of all members. Surveillance is an ongoing project, and takes place whether or not the IMF is helping a country that is going through a crisis. This function reflects the IMF's reason for existence - that is an understanding that a monetary crisis in one-member state could potentially undermine others or even the entire system, and so each member has a duty to the collective regarding its circumstances and policies. The IMF is the institutional expression of that duty and its surveillance is designed to alert the collective as well as the country itself of impending crises.

*Article IV (3) says "The Fund shall oversee the international monetary system in order to ensure its effective operation" and "the Fund shall exercise firm surveillance over the exchange rate policies of members....". Though, they say that the surveillance is limited by Article IV (3) to "exchange rate policies" and "the information necessary for such surveillance."*

All of this shows how the IMF is not an independent organization. It is an organization which functions as part of the international system— adjusting where necessary and ensuring that the states follow the rules and norms that were set up to ensure that the system maintained its dominance in the world.

And so, when a state becomes a part of the IMF, they promise to support this system.

*"When a state is a member of the IMF, they pledge to cooperate with all other member countries in resolving international monetary problems. Members are required to share information on financial, fiscal, economic, and exchange policies that have international ramifications. Members must refrain from restricting the exchange of domestic money for foreign money. They pledge themselves to pursue economic policies that will encourage employment and international trade to the benefit of the entire world economic community."*

([Source](#))

And when they give us a loan, they add conditions, which are a part of their “*structural adjustment playbook: reduce public spending, cut salaries and benefits, insist that state-owned enterprises return to the private sector, reduce minimum wages, and restrict collective bargaining.*” ([Reuters](#))

### **It's important to remember that the aim of the IMF isn't to help countries develop.... It's purely financial**

When looking at the IMF, it's very important to put their role within the international system into the correct context. Because once we understand the IMF's main goal, everything else makes sense.

The IMF's overarching aim isn't to help a state to develop, it's aim is to contribute to *international financial stability*.

With this aim in mind, the IMF can only lend to countries with immediate balance of payments problems. It makes short-term loans of foreign currencies that the borrowing country must use to finance the stabilization of its own currency or monetary system. As a precondition to the loan, the Fund generally requires that the borrower change its policies in ways that enable future monetary stability.

And it expects its loan to not only be repaid, but also to earn a profit from it. So when it grants a loan it imposes significant surcharges on countries with large borrowings from the IMF that are not paid back within a relatively short time.

*“The IMF estimates borrowing countries will pay over \$4 billion in extra surcharges on top of interest payments and fees from the beginning of the COVID-19 crisis through the end of 2022. Additionally, the IMF estimates the surcharges have become the Fund's largest source of revenue, accounting for almost half of revenues during this period. It is further estimated that by FY2027, surcharges will amount to almost two thirds of the IMF's lending income—nearly twice the level in FY2018.”* ([Source](#))

While the argument is that the surcharges are levied to discourage the large and prolonged use of IMF resources, allowing the Fund to continue its central role of being the global lender of last resort in times of crisis, the number of countries who are stuck in a debt trap shows us that the aim isn't to help the countries in times of need.

*“There are a total of 93 countries that owe the IMF money, with the total global outstanding debt owed to the IMF stood at \$155bn on March 31 2023, or 115.2bn special drawing rights (SDRs), as its loan portfolio has expanded following a number of recently agreed bailouts for ailing developing economies. Pakistan has the fifth-biggest outstanding debt with the IMF, standing at \$7.4bn. In August 2022, the IMF extended \$1.1bn to the south Asian country as part of a \$6.5bn programme agreed back in July 2019.”* ([Source](#))

*“Attempts to force excessive repayments are counterproductive because they lower the economy's productive potential... Both creditors and the country itself are worse off...The I.M.F. should not be in the business of making a profit off of countries in dire straits...They penalize countries at a time when they are in an adverse situation, forcing them to make greater cuts in order to repay debts.”* (Source: NY Times)

When you then consider the conditions that the IMF places on us, you see how the focus is not to help us to develop and become self-sufficient through the policy changes that it demands from states. Its focus is to ensure that we repay the money that is owed, and it can ensure that the international financial system remains relatively stable.

### **Can we default from the IMF loans?**

At this point, we need to understand that the loans that a state owes to the IMF are not forgiven- they are restructured. So the terms may be changed and renegotiated, the date extended, sometimes the payment is frozen until the political/ economic crisis ends so that the repayment is possible.

*But a state has to repay its debts to the IMF.*

So going into default is not freedom- it's just a statement. We're having problems, please give us time to repay the loans.

*"It's not a loan. It's a swap. A swap of one country's relatively crappy currency, for currencies that can actually get you stuff on the market."* (Financial times)

### **We can't just say no... If we want to stay apart of this system**

It's true that the IMF doesn't have the legal power or authority to order states to change their policies or punish those who fail to meet their commitments.... by themselves.

The main measure, related to enforcement and non-compliance, is found in the Articles of agreement.

*"If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund...If, after the expiration of a reasonable period following a declaration of ineligibility ... the member persists in its failure to fulfill any of its obligations under this Agreement, the Fund may, ... suspend the voting power of the member" and eventually "that member may be required to withdraw from membership in the Fund."*

If there is a compliance issue with the conditions of a single loan, then the IMF can threaten to withhold future disbursements of the loan. But the majority of their power comes from both institutional and informal pressures, put together out of the assorted currencies of power in the international political economy: political influence, the threat to reputation and credit rating, and above all the suggestion that access to future loans is contingent on correct behavior with respect to present loans. These devices are only loosely indicated in the Articles of Agreement.

Now, it's possible to withstand their pressure – but only if you have the political power to do so, and most of the developing countries do not. This is not an accident – history and current political developments show how the international system is designed to ensure that the powerful states within it have an advantage over the rest of the world. The neediest states are thus, the least likely to have the capacity to push for change in the IMF- the voting system is based on a quota, which is decided by the money that you contribute to the organization, and clearly most of the countries that need the loans have low quotas.

So, basically even if countries default temporarily, they pay back the loan eventually in order to operate within the international system. Because at the end of the day, the states within the international system are all loyal to Capitalism – because without the system, the nation states wouldn't exist, and the governments and ruling elites wouldn't be able to benefit from it all.

### **If we did can't move away from the IMF – what options do, we have?**

Now, another important clarification is that a country usually owes more than one creditor. The loans that they owe come under 'sovereign debt'. And when a country says that they are going into 'default', it usually means that they are unable to pay back these creditors. That's when they go to the IMF for a 'bailout' to help them to back the loans that they owe to others.

And this is why the situation is so messy.

The issue is that in these cases, and some others, the IMF funding can be the sole financial lifeline available to countries in a debt crunch, and its key to unlocking other financing sources. As others may not be willing to give loans to a country if they believe that the debt will be unsustainable. This is why you'll notice that countries like Saudi Arabia held off from giving Pakistan a loan until they were sure that the IMF and Pakistan had come to an agreement.

On the other hand, most recently in the case of Pakistan, the IMF demanded that we show that we are able to unlock other sources of finance, so we have to approach other countries and make deals with them to get a loan for the IMF to consider giving us a new loan. So, we find ourselves stuck within a self-reinforcing debt-trap. *"Pakistan has asked the IMF for \$1.1bn of additional financing to resolve the crisis, but its release has been delayed for months. The IMF has called for further funding assurance before approving the package."* ([Source](#))

## Do we have another option?

Let's suppose, just for a moment that Pakistan decides to say that it's had enough. It'll stay within this system and remain a nation state but it will not pay back any more IMF loans, or go to them for assistance for the repayment of other loans.

Then what?

The government is handing our resources over to foreign private companies, allowing them to take part ownership over our natural resources, or set up factories to refine them. So, if we take the step to cut ourselves off from the IMF- and thus the international system- we won't have authority over the resources that exist within our country, which we would need access to in order to develop.

Other countries would be reluctant to trade with us, in retaliation for our 'betrayal' and the multinational companies that we rely on for investments would be unwilling to work with us because they would see us as a liability.

In their minds, being a member of the IMF, helps a state to operate within the international system as they are known to be following the IMF code of conduct. This encourages other actors – states, companies, individuals- to invest and trade with them.

So, we are find ourselves stuck within a situation where the developing world is beholden to the powerful states, trapped in a never ending circle of debt and unable to develop ourselves in a meaningful way.

This may all sound very hopeless. But it's a reality that reinforces the fact that if we want to save ourselves from the IMF we have to change the system.

There is a reason that the organization was set up in the 1940's, and why it has maintained its role in this system- despite the criticisms levied against it. And as we have shown, the reason for its existence is not to make sure that the world becomes a better place. But the IMF is an integral part of this system, and we can't just leave it. Nor can we try to change the situation by working within this system.

## If we want change, we need to change the system

You may wonder how that will be possible. We don't have access to our resources at this time, and when the Khilafah (Caliphate) comes, we won't be able to work within this system. But that is the mindset that has been developed within us, since the time we are children.

We can access our resources, and we'll be better off without being trapped by the exploitative rules of the current international system. It's possible, but only if we have follow the Method of the Prophet when we re-establish the Khilafah.

﴿يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَتَّخِذُوا الْيَهُودَ وَالنَّصَارَىٰ أَوْلِيَاءَ بَعْضُهُمْ أَوْلِيَاءُ بَعْضٍ وَمَنْ يَتَوَلَّهُمْ مِنكُمْ فَإِنَّهُ مِنَّهُمْ إِنَّ اللَّهَ لَا يَهْدِي الْقَوْمَ الظَّالِمِينَ﴾

***“O you who have believed, do not take the Jews and the Christians as allies. They are [in fact] allies of one another. And whoever is an ally to them among you - then indeed, he is [one] of them. Indeed, Allah guides not the wrongdoing people.”*** [Surah Al-Maida: 51].

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