

Advancing Asia Conference -- I

A couple of weeks back, the Ministry of Finance and the International Monetary Fund co-sponsored an Advancing Asia Conference in Delhi. Two major addresses from the host nation were delivered, respectively by our Prime Minister, Narendra Modi, and the Governor of the Reserve Bank of India, Dr. Raghuram Rajan. From the tone and content of the Prime Minister's address one wonders whether it was also drafted on Shahid Bhagat Singh Road in Mumbai.

The Prime Minister announced the formation of a South Asia Regional Training and Technical Assistance Centre in partnership with neighbouring countries and the IMF. The Prime Minister believes that "*The Fund has built up an immense stock of economic expertise*", and therefore the association of IMF in the new institution will help in the development of skills in economic policy making in the member countries. If he was being polite to the Managing Director of the Fund present on the dais, it would not matter; however, if he seriously believes in the "economic expertise" of the IMF, one wonders whether he needs to review his thinking. To quote a few specific examples,

- Most IMF economists have studied in the US where "***in a number doctoral programs a student can specialize in macroeconomics without knowing what an exchange rate is, much less an emerging market economy***" (Olivier Blanchard, IMF's Economic Counsellor and head of its Research Department, in *Finance and Development*, September, 2014);
- The ideological bias in IMF's research and policy stances is confirmed by two reports of the *IMF's Independent Evaluation Office (IEO)* in 2011. The first one dated January 10th is titled "*IMF Performance in the Run-Up to the Financial and Economic Crisis, IMF Surveillance in 2004–07*". To quote from it, "*The IMF's ability to correctly identify the mounting risks was **hindered by a high degree of groupthink, intellectual capture**,Staff reported that incentives were geared toward conforming with prevailing IMF views. Several senior staff members **felt that expressing strong contrarian views could ruin one's career**'. Thus, views tended to 'gravitate toward the middle' and*

'our advice becomes procyclical.' *Staff saw that conforming assessments were not penalized, even if proven faulty."*

- The second (May 20, 2011) IEO Report, *"Research at the IMF: Relevance and Utilisation"* makes the point equally bluntly. To quote, *"there is a widely held perception that IMF research is **message driven**. About half of the authorities held this view, and **more than half of the staff indicated that they felt pressure to align their conclusions with IMF policies and positions. Policy recommendations** provided in some research publications **did not follow from the research results** ... number of country authorities and researchers noted that IMF research tended to follow a pre-set view with predictable conclusions that did not allow for alternative perspectives."*
- During the sovereign debt crisis in Greece, it made a huge mistake in estimating the impact of fiscal austerity on GDP growth.

I could go on, but I hope our policy makers are aware of these issues before putting too much faith in the Fund's "economic expertise".

Post-war economic history suggests that the fast growing Asian economies from Japan to Korea to Taiwan to China, now the world's largest economy (in purchasing power parity terms), etc. etc. have followed policies widely different from the standard IMF prescriptions; in fact, when some of them liberalised their capital account at the IMF's instance, they faced crises. Would it be better to invite policy-makers from these countries to share their experiences with the Centre, than relying on the IMF?

In his address, the Prime Minister also took credit for never trying to *"gain in trade at the expense of our partners. We do not follow 'beggar thy neighbour' macro-economic policies. We have never undervalued our exchange rate. We add to world and Asian demand by running current account deficits."* The reality is that our largest bilateral deficit is with China, a country far richer than us, which does not need our help. Again, our overvalued exchange rate has been a source of demand to our trading partners, but can it advance the "make in India" goal, taking manufacturing to 25% of GDP, let alone creating 12 mn jobs a year which we need if only to avoid social instability? In the process, we have built up net external liabilities of the order

of \$ 350 bn. and have ourselves become 'beggars'. Bankrupting ourselves is not synonymous with not to '*beggar thy neighbour*'!

A.V.Rajwade (avrajwade@gmail.com)