The IMF's High Profile Intervention in Greece

Edwin M. Truman discusses how the International Monetary Fund overcame European resistance and is playing a major role in the rescue of Greece and the safeguarding of Europe itself.

Steve Weisman: Since the beginning of the global financial crisis in 2008, the International Monetary Fund has been thrust into the forefront of the rescues of countries around the world. This is Steve Weisman at the Peterson Institute for International Economics with Ted Truman, senior fellow at the Institute, to discuss the latest chapter in the IMF's involvement, which is with Greece. Thanks for joining us.

Ted Truman: My pleasure.

Steve Weisman: The IMF was thrust into the negotiations over Greece's problems and then, more recently, the IMF turned out to be a major partner in the package not only for Greece but for Europe. How big of a change is this for the Fund?

Ted Truman: For the Fund it's two sides to the story: the Fund story and the European side of the story. The Fund has been invited into Europe, into the core of Europe, the euro area, in a way in which it had not been invited for decades. It has not been to a major European country since the early 1980s and even then it was Portugal. So this is a big deal for it to be invited back to help straighten out a European country with its economic and financial affairs.

Steve Weisman: Did some people have qualms about that?

Ted Truman: I think the leaders of Europe had qualms about that, and that's one of the reasons why they resisted it as long as they did. And I think that was a mistake, in part because they needed the Fund both in terms of extra financing but more importantly, they needed an external credibility mechanism. Fundamentally, what happened in Europe was that the internal mechanism for disciplining macroeconomic policies within the euro area failed. They had to bring in the IMF doctor to pick up the pieces after the failure of the internal mechanism, and it required a certain amount of eating of crow in order to do that.

Steve Weisman: Eating of crow by the European leaders who thought they could solve their problems on their own?

Ted Truman: Yes. Either they thought their problems could be solved by Greece without any support from its European partners or that it should be solved within, in the purely European context, which is the way they had solved a number of their problems—including Greece and Italy and a number of other countries—since the late 1970s with a few exceptions.

Steve Weisman: But it's not entirely, as you just pointed out, without precedent.

Ted Truman: No, it certainly isn't. The Fund had already been involved in programs in three European Union countries—Hungary, Romania, and Latvia. But it had not yet been involved in a country that was in the euro area. It also had a rescue program for a much richer country, Iceland, which is probably twice as rich on income per capita as Greece. So the Fund, in these few crises, has been involved with countries that are quite wealthy by international standards.

Steve Weisman: Some people say that this betrays the double standard of the IMF—that the package for Greece, while very austere, is not as austere as some of the packages that the IMF has imposed on developing countries in the last couple of decades. Is that a fair criticism?

Ted Truman: I think it's a little difficult to know how you keep score. In the case of Greece, as in the case of Latvia, they didn't insist that they devalue. If you're going to devalue in Greece, you'd have to pull out of the euro area, which is a very complicated process. On the other hand, asking for and mandating a lot of details about achieving an improvement in your budget deficit of 10 percent of GDP is one of the rougher types of programs that the Fund has ever been associated with.

So I think in many respects it's a question of whose ox is being gored. But certainly the adjustment that is being used in Greece is much [more] draconian in terms of the fiscal side than, for example, Brazil in 1999–2000, where you were talking more about the 3 to 5 percentage points to GDP adjustment rather than this almost 10 percentage points to GDP.

Steve Weisman: I'm sorry, the Greek program is more draconian?

Ted Truman: In terms of the size of the fiscal adjustment, it is.

Steve Weisman: Okay.

Ted Truman: Many programs, like the Asian programs, didn't have any fiscal adjustment or much fiscal adjustment, if you will. There was a bit and that was one of the issues. So it all depends on sort of what dimension you're looking at. One of the things that they have mandated, or the Greeks have agreed to, in order to meet the macroeconomic standards, like cutting military, cutting salaries, changing the government pension laws, those are pretty rigid things. Not that I think the Greeks had really much choice. They had to do this anyhow because they have been living beyond their means for an extended period of time.

Steve Weisman: How big is the amount of money that the IMF is putting up compared to other rescue packages?

Ted Truman: It's large. Putting up €30 billion, which is about $40 billion, is large relative to Greece's quota. I think it would probably be one of the largest, if not the largest program that they've ever had. On the other hand, the Fund has increasingly been in the business of doing what is necessary. Most of the money actually is coming from the Europeans themselves. The general membership of the Fund is contributing 27 percent of the package, more than that, and a third of that 27 percent—or 9 percentage points—is coming from Europe itself through the Fund rather than elsewhere. Certainly one thing that has changed in recent years is that packages have gotten bigger relative to quotas. On the other hand, quotas have not gotten bigger, so that's why it's one of the reasons why that's not a good metric.

I think that applies to all countries. If you're going to actually try to deal with economic and financial crisis, you don't do it with a thimble; you do it with a fire hose. And sometimes the fire hose has to have a lot of gallons in order to have any hope of putting out the fire. Many people thought in the Asian crisis context that there wasn't enough water in the fire hose and that can be debatable. It's also fair to say that the Europeans themselves were among those who felt that they didn't want to waste too much water.

It's understandable that you would find some countries around the world thinking that the European countries have gotten a better treatment, though it seems to me the citizens of Greece would not agree with that.

Steve Weisman: Does the IMF have enough resources to fight this kind of fire? Should the United States push for an expansion of its resources?

Ted Truman: I think it has enough resources on hand, certainly for the Greece program. You mentioned earlier this nascent European support mechanism, where there's a sort of notion of close to a trillion dollars, and the IMF might put up a third of that. But that's a case-by-case basis. How much the Fund would be asked to put up and agree to put up will depend on what the individual cases are. But the Fund has roughly $250 billion of uncommitted resources at this point. Once the New Arrangements to Borrow and the quota adjustment come in place, they would get another net $250 billion. That should come in place over the next year, I would hope, if not sooner.

I think one thing we're learning is, if you're going to have the Fund be in this rescue business—I prefer not to use the word "bailout"—you have to provide it with enough resources. So I think in the upcoming, ongoing negotiations, the membership should agree to double IMF quotas, which will bring in another $250 billion.

Steve Weisman: But along with that, governance changes.

Ted Truman: Shifting some of the voting power away from the Europeans to other countries. You're actually shifting some of the financing away from the Europeans to other countries. We've just demonstrated that the Europeans need financing from elsewhere. So we know you have a trillion dollar fund, you might have a trillion dollar fund in two years, and I think that's probably desirable unless you think the Fund is not useful anymore. But I think what we've demonstrated here is that the list of potential clients to the Fund has gotten longer compared to where we were in September of 2008, rather than shorter.

Steve Weisman: Ted, thanks very much.

Ted Truman: My pleasure.