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IMF's Sweeping Demands Signal Shift

Fund's Price for Loans to Greece—Including Military-Spending Cuts—Hearken Back to a Strategy of Nation-Building

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By BOB DAVIS

WASHINGTON—With its €30 billion (\$40 billion) loan program for Greece, the International Monetary Fund is back in the nation-building business.

During the global financial crisis, the IMF has worked hard to shed its reputation, produced by years of interventions in Latin America and Asia, as an international heavyweight that uses crises to ram through market-oriented reforms. The IMF has insisted in the current crisis that Eastern and Central European countries make sharp cuts in wages and pensions in exchange for IMF loans—deepening the recession in Latvia and Ukraine as a result—but it hasn't insisted on wholesale privatization, trade liberalization or the adoption of floating exchange rates, as it had in the past.

Indeed, when tiny Latvia rejected the IMF's advice to devalue its currency, the country was able to enlist European allies and keep its peg to the euro.

But in Greece, the IMF is moving closer to its older model of remaking an economy in exchange for IMF loans. "This is a case where there is clearly a need for very important structural reform [to deal with] a loss of competitiveness," said Poul Thomsen, the IMF's mission chief for Greece, who called its economy "surprisingly closed."

Among other changes, the IMF says Greece will make a "significant" cut in military spending, start a financial-stability fund to head off future crises, publish on the Internet the losses of its largest state-owned companies—putting pressure on the Greek government to sell them—and reduce wages for entry-level workers to spur job creation in a distinctively U.S. style.

Ted Truman, a former Obama Treasury official now at the Peterson Institute of International Economics, said the IMF's shift likely reflects desires of the Fund's European partners—who are lending Greece €80 billion—and Greek policy makers.

"The more advanced a country is, the less the Fund is dictating to the country and the more it's likely that the policy makers—the technocrats—are using the Fund to implement actions that they favor," said Mr. Truman.

Eswar Prasad, a former IMF senior economist who is now a professor at Cornell University, said the depth of the changes required under the IMF program reflect the depth of Greece's problems. "Nation building by force of circumstance and under external pressure is not the best way to do it, but sometimes the only way," he said.

One of the most surprising parts of the IMF program is that it includes pledges by Greece to cut military spending, which the IMF didn't detail. The IMF rarely deals with military matters, which are considered the heart of a nation's sovereignty. In Pakistan, by contrast, the IMF had to sell its loan program to the military, said officials involved with the talks, by convincing prominent generals that a weakened economy would undermine Pakistan's national security.

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The IMF program is also designed to get Greece to open up its economy to competition as fully as other European Union members. According to an IMF memo, Greece has committed to reducing tariffs and other restrictions in the legal, pharmaceutical, notary, engineering, architecture, transportation and auditing businesses.

A number of areas, though, remain off-limits to the IMF, including monetary policy, the province of the European Central Bank. IMF programs often require countries to devalue their currencies. Instead, the Greek loan program will prompt sharp cutbacks in wages and pensions, as a way to help Greece compete through a lower-wage strategy.

That is bound to deepen opposition from the left in Greece. The IMF program has a number of parts, though, that aimed at blunting opposition.

—Andrea Thomas contributed to this article.

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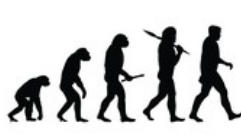
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