

Stiglitz and the “Greek morality tale”

Ali Abdalla Ali ¹ [Omdurman Ahlia University, Sudan]

Copyright: Ali Abdalla Ali, 2015
You may post comments on this paper at
<https://rwer.wordpress.com/comments-on-rwer-issue-no-73/>

It is worth reflecting on the developments in Greek economic and financial affairs and the recent change in its political leadership, because what is befalling Greece is very similar to what is happening in many member countries of the IMF, including my Sudan. What happened in Greece with its democratic turning to the left aroused negative feelings from most of Europe, especially in its rich countries. One of the most interesting contributions in support of the Greek’s case came from J. Stiglitz entitled “[Greek Morality Tale](#)”. In reading this valuable contribution I found myself strongly struck by its second paragraph:

“We hardly needed another test [referring to the Greek situation]. Austerity had failed repeatedly, from its early use under President Herbert Hoover, which turned the stock-market crash into the Great Depression, to the IMF programs imposed on Eastern Asia and Latin America [and also Africa] in recent decades. And yet when Greece got into trouble, it was tried again.”

If we agree with Stiglitz that austerity has been a failure through the past decades, why is it that Europe showed so much hostility when Greece decided to stand against austerity? Is Greece alone in having this experience? Certainly not. What Greece had been through and continues to suffer has been the day-to-day business and worry in a number of countries in Asia, Africa and Latin America, and without anyone caring for the plight of the many millions of people in these unfortunate member countries who have been squeezed by austerity programmes into poverty and absolute decline in their welfare. In fact the failure of the IMF austerity programmes in the countries mentioned has a lot to do with their inability to achieve sustained development and real improvement in their way of life.

I have been following the course of such austerity programmes since 1966, when Sudan first resorted to the IMF and I was a young officer in the Central Bank of Sudan. The program was imposed for three years by a minister of finance who was the first African head of the African Department in the IMF. The program was interrupted in 1968 when a another minster who loathed the IMF and its policies took office and immediately broke all the promises made in the Letter of Intent made in 1966 by the previous minister. Therefore, in March 1969 the IMF suspended the program and in May 1969 a military coup took place and which was as a result of the squeeze the IMF imposed from 1966 till mid-1968. This military government lasted for 16 years.

From experience, once a member enters into an austerity program, often it becomes difficult to disengage from it. It is like an addiction, and the cycle goes on, leading to less and interrupted development and, therefore, more inability to repay debts, etc. There are a

¹ “I have prayed to God not to take my life until I have seen countries such as the USA and Europe resort to the IMF for financial assistance so that they could see the agonies and pains that our country had gone through since its first Stabilization Programmes imposed on Sudan in 1966!!” Ali Abdalla Ali, In an International Conference held by the UN Quaker Society , Mohonk Resort, N.Y , June [1982](#)

number of factors which makes one feel that the austerity programs and their imposition in many member countries has a lot to do with their delayed growth and development.

- 1) The Fund's help is usually tied to a country's quota. When a member country needs help, the resort to the Fund is usually at the last minute. Needs are then usually more than financial capacity and/or other flows, so expenditures are apt to go beyond what has been agreed upon in the Letter of Intent. This usually leads to reconsideration of the program with even more conditions and the cycle goes on.
- 2) Because of the small size of the assistance given, members usually through local pressures over spend and break the limits promised. This is so because some of the higher ranking Ministers might not be aware of the necessity to abide by promises given in the Letter of Intent, especially when the member country is in some kind of a civil war.
- 3) In member countries that follow a comprehensive political system, taxes on individuals or firms are imposed and collected by law, the same as in democratic systems. The difference here is that no one is consulted in the way such taxes are disbursed, even if the defense and security budgets swallow the whole budget at the expense of education, health and other basic needs which are cardinal to the health of the nation. IMF missions cannot make any remarks about such a course of action as they will be considered as interfering in the internal affairs of the member country. But one thing the IMF is good at is advising governments to waive subsidies on fuel, bread and other necessities. When such policies produce discontent and revolt and death (as happened in Sudan in Sept, 2014), they absolve themselves by stating that it is the government that accepted such advice. It means also that their evaluation was wrong and so was their judgment and their advice.
- 4) The IMF and its missions usually prefer to deal with comprehensive political systems since they do not need to have lengthy meetings with numerous professionals. When professionals go on arguing and making things difficult for them academically, they often try to go up the ladder to the president of the country who usually has no idea about the intricate arguments involved. At other times and in a very subtle manner one finds that very knowledgeable ministers of finance are relieved from their posts if they stand firm against IMF policies.
- 5) A very important point is that in a country whose improper management is not discussed frankly, problems accumulate and more than addiction takes place. Once a country's policy makers and professionals become resigned and conditioned to the daily polite harassment by the IMF representative, all thinking about the medium and long terms objectives recedes into the background with serious implications for the country's future.
- 6) In the Sudanese experience in the period 1975-77 when the Minister of Finance had a firm and intimate relation with his counterparts in the Gulf countries, it used to be easy for him to obtain quick funding from the Gulf. And he had leverage in negotiations with the Fund missions during that period. Once the Minister left his post, some of the Gulf countries requested the Sudanese authorities to settle their affairs with the IMF before receiving funding from them. This is clear proof that not only do the Fund officials try to control the status of local finances, but also try to

make it difficult for the member to get funding from other sources by reporting the status of the member country to those potential donors. This has also been the practice with some Western banks that were told by the IMF not to provide financial facilities to a member country which is under scrutiny by its staff. Both these instances happened in the case of the Sudan. So a member country is besieged, and other potential windows are gradually closed.

- 7) That is why a Palestinian economist (the late Yousif Sayig) correctly described the IMF mission economists as technical economists and not social economists, meaning that they are indifferent to the human suffering resulting from the imposition of these programmes. In fact, Lord Thomas Balogh, Economic Advisor to United Kingdom's Prime Minister Wilson and member of Balliol College, Oxford in his 1996 book, *The Economics of Poverty* wrote:

"The economic relations of the US to South America are essentially not different from those of Britain to her African colonies. The International Monetary Fund fulfils the role of the colonial administration of forcing the rules of the game," p.29.

Has anything changed since then?

- 8) One of the greatest weaknesses of the IMF's austerity programmes is that they tend to forget that many members of the IMF have colonial heritage. These countries are in effect periphery economies structured in accordance with an imperial policy that reflect what is needed from that specific member (e.g. Sudan became a cotton producing economy to satisfy the need of British mills in Lancashire for raw Cotton, which Britain lost as a result of the American Civil War). It therefore, does not make sense to impose the same medicine on both the centre and periphery. The periphery members, because of the distorted shape of their economies, need a different treatment than sheer austerity.
- 9) Since many of the African countries' professionals are a product of the Anglo-phone and franc-phone institutions of higher learning, they return home and take higher posts and usually become a sort of conduit for the ideas prorogated by the IMF. Therefore, such ideas are easily adopted. During the Cold War period, and even today, some professionals who argued against the IMF policies were branded as Communists, even if they had graduated from Oxford University (as happened to this writer). In other countries where those on the top do not possess the necessary intellectual capacities, austerity programmes find their way to reality *vis-à-vis* the IMF staff who are highly educated in the best universities and also well trained in the IMF. The austerity programmes are put in place with the hope that the economic difficulties will abate, but they never do.

There was a recent warning by Lagarde, the Managing Director of the IMF prior to the Tokyo annual meeting that European countries should not take to austerity programmes as a way to economic reform. This statement was a warning rather than advice. In spite of that the IMF still goes on harassing some member countries to carry on with various forms of austerity. This is because the IMF system and behavior has been like this since its beginning. It will not be easy for Lagarde to shake the system. What else would the staff of the IMF do if austerity is wiped out of existence?

- 10) Of course austerity is not the only problem with the IMF. A number of member countries had to be convinced to put their homes in order, and in some cases IMF missions needed to avoid drawing attention to the fact that some of their practices were intervention into the internal affairs of such countries. Moreover, member countries are at various levels of development, some plagued with frequent changes in governance and some living under permanent dictatorships where there is no consideration of equity and fair treatment and so on. In such complicated situations austerity may increase misery and pain as well as delay development.

From the above observations and a lot more one has the strong feeling that Greece is not alone in this unfortunate situation. Greece and its people are capable of finding their way to a better free life. They will find their own solutions because they are an old nation with a long history and heritage. But what worries me about the Greek's story are the following.

- 1) Greece after four or five years of agonies came to realize the futility of austerity, and as a result the Greek people decided to vote for the left hoping to find their dignity and freedom in such a pure democratic direction. If that direction reflects the will of the Greek's choice, why are other European nations such as Germany not accepting such a choice? Are they not favour of democracy? I was surprised to see one of the placards raised in Greece saying "We are not Merkel's Colony". In fact she indicated that she will just sit and watch what happens to the Greek people under austerity. If the West insists that poor countries should turn to democracy and human rights, how can one from our poor world understand such behavior from someone leading a rich country such as Germany? No matter what historical factors govern the German mind, such a stand looks immoral and inhuman. Is it moral to just sit and watch how the people of Greece suffer? If this is the attitude towards a sister European country, what will then be the position *vis-à-vis* our poor countries in Africa? Will not an attitude such as Germany's stiffen the attitude of the IMF and rich countries towards the poor countries of Africa and Asia in spite of the fact that the IMF has admitted that austerity can affect a member negatively? If so my simple question is who will compensate the member countries that got into the habit of resorting to the IMF for assistance and help?
- 2) Another point drawn from the Greek case is that if the poor member countries of international institutions are persistently harassed and driven to turn to countries other than Western ones to get assistance, a possibility suggested by the Greek Minister of Defence, such attempts may prove futile. Going to China or Russia is like leaving one's own ungrateful neighbor to another potential difficult master. The alternative is to look inwardly in the short run and see how much each country could do by itself before seeking a bailout. This also applies to Greece, something the Greek people have already started exploring and which is both healthy and good.
- 3) To my mind, the case of Greece should be taken as a starting point from which to look into the agonies and pains of many other countries that are undergoing austerity, whether in Europe or Africa or elsewhere. The case of Greece should be looked at in the context of all the members of the IMF. One more thing, the IMF being very financially powerful and with its word taken as sacred by many institutions, banks and countries should no longer besiege members who are able to find finance from friendly countries, given that the IMF's major policy of austerity programmes is at

present discredited by its repeated failures. Even some members of the Fund have started admitting that their advice was faulty and ill-conceived.

- 4) If there remains an element of morality in the minds and hearts of institutions and countries who are controlling and directing the international financial system, then they should sit with modesty and humility with other members of the IMF and similar institutions. Otherwise what is described in the Middle Eastern media as the “Arab Spring” will not remain an exclusive invention of some of the Arab countries.

Author contact: aliabdalla.abd@gmail.com

SUGGESTED CITATION:

Ali Abdalla Ali, “Stiglitz and the ‘Greek morality tale’”, *real-world economics review*, issue no. 73, 11 Dec 2015, pp. 134-138, <http://www.paecon.net/PAEReview/issue73/AliAbdalla73.pdf>

You may post and read comments on this paper at <https://rwer.wordpress.com/comments-on-rwer-issue-no-73/>