real-world economics review, issue no. 73
subscribe for free WEA eBooks

The IMF and Troika's Greek bailout programs: an East Asian view

Hee-Young Shin [Wright State University, USA]

Abstract
This paper examines the current financial and economic crisis in Greece from a perspective of the East Asian Financial Crisis. The paper traces some of the distinctive features of the ongoing economic crisis in Greece, comparing them with those of the financial crisis in East Asia in late 1990s. This comparative analysis of the two crises shows that the aggravation in the Greek economic situation is primarily due to the IMF and the Troika's misguided bailout conditionality, just as the IMF's failed bailout programs in East Asia severely damaged many East Asian economies, 17-18 years ago. Drawing upon this observation, the paper proposes a series of common reform agendas. These include (1) a need of reversing myopic financial liberalization and premature relegation of fiscal and monetary authorities to a supranational entity, (2) a need of extending the US Chapter 11 bankruptcy provision to sovereign states at regional and international arena, (3) a need of creating an effective international lender of last resort, and (4) a need of overhauling the existing austerity-oriented bailout conditionality in favor of inclusive development-oriented strategies.

JEL O23, 052, 053, 057

Keyword Greek debt crisis, East Asian financial crisis, IMF, Troika, bailout conditionality, austerity

1. Introduction

For many East Asian economists, the current financial and economic crisis in Greece is like dreaming a never-ending nightmare over again. This is because the IMF and Troika (European Commission, European Central Bank, and the IMF)'s policy response to the current Greek financial crisis is not at all different from what the IMF had done to Thailand, Indonesia, and South Korea during and after a similar financial crisis in late 1990s. Just as the current financial crisis in Greece originated from foreign capital outflows that were directly associated with a global spread of the US subprime mortgage-led financial crisis in 2008-09, foreign private portfolio investors' drastic withdrawal of their investment from East Asian countries resulted in a series of domino crises in currency markets in the late 1990s. At that time, the IMF under heavy political pressures from the US Treasury department played an exactly same role in East Asia, as that of the IMF and Troika in Greece nowadays. The IMF and the US Treasury imposed strict bailout conditionalities and a series of austerity-oriented policy measures in the name of "saving" Asian economies, just as Troika nowadays has been imposing the same conditionality to Greece in the name of "helping" Greece. Did they really save East Asian economies back in the late 1990s? The answer is no. Are they really helping Greece today then? Unfortunately, the answer is no. In the name of saving an economy, the IMF and Troika are actually creating a humanitarian crisis on a massive scale in Greece now, just as the IMF and the US Treasury did in East Asia.

The goal of this paper is to examine the origin and process of the ongoing economic crisis in Greece from a comparative perspective, paying close attention to the detrimental effect of the

IMF and Troika's austerity policies in Greece. The observation in this paper strongly suggests that (1) drastic capital outflows from a country in the absence of regional and/or international regulatory arrangements are the most destabilizing factor that created a financial crisis in both Greece and East Asia, and (2) the IMF and Troika's austerity-oriented bailout conditionality has exacerbated the problem of a vicious cycle of economic contraction and increasing sovereign debt burden in Greece. Drawing upon this observation, the paper proposes a series of reform agendas at both regional and international level. These agendas include (1) a need of reversing myopic financial liberalization policy and the premature transfer of fiscal and monetary authorities to a supranational entity, (2) a need of extending the US Chapter 11 bankruptcy provision to sovereign states, (3) a need of creating an effective regional and international lender of last resort, and (4) a need of completely overhauling the existing austerity-oriented bailout conditionality in favor of economic growth and development.

2. The origin and process of the current financial and economic crisis in Greece

Let us first recall what has happened in Greece for the last five to six years and identify some of the distinctive stages in the process of financial and economic crisis. The first and initial stage of the financial crisis in Greece dates back to late 2009, when the then newly elected Panhellenic Socialist Movement (PASOK) government released the information that the former conservative governments intentionally concealed the true magnitude of public debts. As part of the Eurozone membership requirements, all Eurozone member countries including Greece were required to meet a series of "convergence criteria". These criteria include the individual member government maintaining not more than 3% of fiscal deficits and 60% of public debts (European Commission 2015). The PASOK government found that the former conservative government had not accurately recorded the true liability structure and in some cases intentionally covered up the actual size of fiscal deficits and debts, using some mean financial tactics.

Under normal circumstances, this revelation could have ended up as a minor financial happening. The time when this news was reported, however, was not in any sense a normal financial circumstance. The year of 2009 was just one year after the collapse of the American investment bank, Lehman Brothers. The flourishing of unregulated subprime mortgage lending in the US housing market, together with massive over-the-counter transactions of opaque private-labelled mortgaged- and asset-backed securities throughout the world instantaneously brought down the entire banking system in both the U.S. and core economies in the Eurozone. Under these circumstances, the revelation that the Greek government had actually accumulated more foreign debts than initially thought inevitably jolted the core Eurozone financial markets. The banks and non-bank financial companies in core Eurozone economies instantaneously froze their lending to Greece and many other peripheral economies in the Eurozone. The Greek stock price index fell and borrowing cost on the Greek government bonds rapidly rose to an intolerable level, as a result. Three major American crediting agencies (Fitch, S&Ps and Moody's) lowered their credit ratings of the Greek government bonds, amplifying portfolio investors' concerns for credit and default risks even further. Simply put, a series of chain events like these were the immediate causes of the original financial crisis in Greece (BBC, 2011).

Of course, the problem did not end there. The second stage of the Greek financial crisis resurfaced one year after the Greek government agreed to accept the first three-year standby loan agreement with the IMF. As part of this bailout agreement, the Greek government had started implementing pension cuts and tax reforms. The government also announced a preliminary privatization program in early 2010, defying massive domestic resistance and protests against the austerity measure. In return, the European creditors had released the first two tranches (15bn euro each) out of the initially proposed total bailout funds. In late May of 2011, however, the Greek government declared that the government might not be able to achieve its fiscal target of 3% of surplus, citing adverse economic fallout and contraction of tax revenues. American credit rating agency Moody's downgraded the Greek bonds from B1 to Caa1 (which is effectively "junk" status) and the ten-year government bond interest rates sharply rose to 16.25%. European finance ministers hurriedly pressed the Greek government to fasten its efforts to impose "structural reforms" to gain credibility and confidence from foreign creditors, threatening to terminate releasing additional tranche of the initial bailout fund to Greece (IMF, 2011).

As the Eurozone financial market abruptly swelled into another instability, however, European finance ministers needed to overturn their hardline position and attempted to expedite Greek debt restructuring negotiations. As this negotiation was stalled and frequently suspended due to disagreement among creditors, European finance ministers came up with an idea of providing 8.7bn euro of emergent funds to bridge the shortfall in the Greek government debt repayment. They also agreed to provide another three-year extended standby bailout fund to Greece by 2014, totaling 109bn euro (37bn euro in each tranche) on top of the remaining tranches of the first bailout fund (IMF, 2012a). Unfortunately, all of these measures turned out to be too late and too timid. Even though it seemed to help in stabilizing Southern European sovereign bond markets (notably, in Spain, Portugal, and Italy) temporarily, they failed to address the fundamental debt sustainability problem in Greece and debt repayment concerns that foreign creditors had. Of course, the end of the second plot in this Greek tragic drama has its own Greek characteristics. By the time when the Greek parliament was required to approve this second bailout conditionality, the Greek Prime Minister Papandreou announced that he would rather hold a general referendum, asking whether ordinary Greek people would be willing to accept the harsher second bailout conditionality. As this plan was announced, the European financial markets plunged again. Angela Merkel (Prime Minister of Germany) and Nicholas Sarkozy (then President of France) pressed George Papandreou to resign from the post, citing that Papandreou's "defiant" move endangered the hard-earned consensus among creditors. After having two to three days of tumultuous political clamor, the publicly elected Greek prime minister was impeached by the second majority party members, members of the New Democracy (ND) party, in the Greek parliament. After expelling George Papandreou, the ND party and some opposition leaders in the PASOK agreed to hold a general election. And in the following two elections held in May and June 2012, the ND ultimately formed an allied government with a majority parliamentary seat. This allied government elected Antonis Samaras as its new prime minister and it pledged to thoroughly implement the agreed second bailout conditionality.

The last and concurrent stage of the Greek drama is coincided with an electoral victory of Syriza, the Coalition of the Radical Left in the January election this year of 2015. After experiencing failed austerity-oriented bailout conditionality, the Greek voters wanted to change the course. They wanted to say "no more austerity" and "enough is enough". In the general election, the majority of the Greek citizen voted for Syriza, which has actively campaigned for renegotiation with the Troika. The Syriza gained 36.34% of the total ballots and occupied 149 parliamentary seats, shrinking the second leading ND party's parliamentary seats to only 76. The Syriza formed an allied government with Independent Greeks (ANEL). One of the main campaign agenda and Syriza's party programs was that the Greece's new government could renegotiate the bailout terms so that the Greek economy and people would have some breathing spaces. They claimed that they would be able to gain much more concession from Eurozone creditor countries by even leveraging Greece's "exit" from the Eurozone. The new Prime Minister, Alexis Tsipras nominated Yanis Varoufakis as finance minister to renew the negotiation with German counterparty. The overall negotiation process between Greece and the Troika was tumultuous, sometimes involving multiple suspensions of negotiation schedules, personal blaming, and of course overreacted responses from Eurozone financial markets. At one point, Alexis Tsipras called for a referendum, asking whether Greek citizens would be willing to accept another round of bailout conditionality. He also replaced the prime minister to refresh the air over the negotiation table. The Syriza government introduced bank closings and capital controls to prevent chaotic capital outflows by domestic citizens. After majority of Greek citizens voted "No" to harsh bailout conditionality in the referendum, however, Alexis Tsipras shockingly overturned the course and hurriedly signed on the third bailout terms without receiving much concession from German finance minister, a chief negotiator from creditor countries. The prime minister, Alexis Tsipras survived in another referendum held in September, but the Greek economic crisis is continuing.

3. The role of the IMF and Troika in the current crisis in Greece

During the entire process of the Greek financial and economic crisis, what kinds of role did the IMF and Troika play? Did the IMF and European creditors early detect the potential source of problems in Greece and advise a preventative measure? No, not at all. Instead, the IMF and Troika have simply exacerbated the initial financial problem.

In the IMF's country report (known as Article IV consultation) issued in both January and December of 2007, IMF economists highly praised the Greek government's financial market liberalization policy and optimistically projected a sustained economic growth in Greece. They argued that the Greek economy had grown remarkably thanks to sustained inflows of private foreign capital to the country and corresponding growth of household and corporate credit. They also praised the Greek government's efforts to enhance the competitiveness of domestic banking and financial industry by following Eurozone-wide financial sector liberalization policies (IMF 2007a; IMF 2007b).

The IMF's extremely fragrant attitude toward the Greek economy, however, was drastically changed and completely reversed during the first half of 2009. All of sudden, the IMF report began to warn that the Greek economy might enter recession as foreign financial capital flew out of the country. Even though the Greece did not have any direct exposure to toxic mortgage-backed securities, the report observed, banks' balance sheet would quickly deteriorate, posing serious downside risks to Greek economy, as foreign private lending dried up (IMF, 2009).

When the Greek government ultimately reached a deal with the IMF in May of 2010, the IMF imposed a series of bailout conditionality (IMF, 2010a; IMF, 2010b), which exacerbated initial financial troubles in Greece. In the face of rapid foreign capital outflows, the Greek government should have adopted a strong capital control measure as a way to insulate systemic damages potentially done by this myopic capital outflow. At that time, foreign private creditors drastically reversed their portfolio decision and competitively withdrew their prior investment from Greece, not because they came to realize that the Greek government mismanaged its foreign liability structure *per se*, but mainly because they feared that they might lose their lent money if they had not done so. Thus, the only sensible way to prevent this panicky herd behavior in this situation was to introduce temporal capital control measures and to create an orderly debt repayment mechanism, in which both creditors and debtor meet together to renegotiate the maturity and the terms of repayment. If this negotiation potentially involves too many private parties, the IMF or ECB could have played a role as a leading negotiator on behalf of multiple private creditors.

It seemed also necessary for the Greek government to adopt a series of countercyclical fiscal and monetary policies as a way to alleviate socioeconomic pain caused by financial crisis and real economic recession. The Greek government should increase its revenues if it wants to repay previously incurred debts, and the only sensible way to achieve this means is to help the private sector economy grow substantially in a sustainable way. This requires that the Greek government adopt countercyclical fiscal and monetary policies to forge rapid economic recovery. When it comes to actual policy measures, this means that the Greek government should have incurred more deficits and more debts temporarily in the form of the government-sponsored work project, infrastructure building and renovation, and increases in its social and educational spending, to complement a substantial reduction and deficiency in private aggregate demand.

The Troika's bailout conditionality contained exactly opposite measures to this basic economic principle. The imposed standby agreement mandated the Greek government to achieve fiscal surpluses during the culminated period of the financial crisis and completely failed to address how to set up and manage orderly debt repayment mechanism over a long period of time (cf. IMF, 2010c; IMF, 2010d). Notwithstanding these repeated failures, however, the IMF and Troika have attempted to impose the same nonsensical austerity-oriented bailout conditionality over again. They have never thought about the apparent fact that austerity measures that they have imposed on Greece are the very same barriers that make it impossible for the Greek government to repay its debts. As the Greek chief negotiator, Yanis Varoufakis once reflected, Wolfgang Schauble, the German finance minister and many other ministers from creditor countries did not listen to whatever the economically sensible debt relief and debt repayment plan that Greek finance minister has proposed in vain (Varoufakis et al 2013). They put their unfounded Christian moral and ethical belief far ahead of any sensible economic solution (Varoufakis, 2015). For this reason, they are responsible for the current ongoing humanitarian crisis in Greece.

Under the ND party-led, pro-Troika allied government that has thoroughly implemented the second bailout conditionality, the Greek economic situation has deteriorated seriously. The government has successively cut the pension payment to the retirees and salaries for public employees by 25% during the last 5 years. They also drastically reduced educational and social spending, including the long-lasting government subsidies for food and nutrition supports for elementary school students. Under Troika's close monitoring, the government also has come up with a series of expedite privatization plans for public utility enterprises such as water, electricity, and onshore gas and oil drilling companies (IMF, 2012b; IMF, 2013; IMF, 2014). The end outcome of this austerity is simply a prolonged recession and debt deflation. As we can see from the following series of charts that capture the Greece's GDP growth rates and industrial production activities, the Greek economy has been pushed into a serious economic contraction, whose level is unseen in any advanced capitalist market economy since the Great Depression in the 1930s (see Figures 1 and 2 at end of article).

According to the IMF and Troika's rosy economic forecast, the Greek economy will soon quickly recover, once the Greek government committed itself to cutting its expenditures. However, the Greek government has not only missed Troika's yearly fiscal targets multiple times, but also has incurred an increasingly high public debt burden measured by the government debt to GDP ratio. This is not because the pro-Troika government in Greece has cheated the Troika repeatedly, but precisely because the government has thoroughly implemented what the Troika imposed onto Greece. Under the circumstances of serious economic downturn, private aggregate demand (both household consumption and corporate investment) fall. In the absence of the government's countercyclical policy measures, the economy must fall into a deeper downward spiral. The Troika's harsh austerity-oriented bailout conditionality simply has reinforced this downward spiral, making it almost impossible for the Greek economy to achieve any meaningful debt repayment through economic recovery. The end outcome is a massive humanitarian crisis, a combination of prolonged real economic recession, rising unemployment rate, accompanied by an unabated debt payment burden (see Figures 3 and 5 at end of article).

4. Revisiting the East Asian financial crisis in the late 1990s

Unfortunately, this manmade humanitarian crisis is not historically unprecedented. Many East Asian economies in the late 1990s had undergone a similar tragic experience. In the late 1990s, some East Asian countries experienced a region-wide currency market turmoil, which ultimately brought down governments of Thailand, Indonesia, the Philippines, and South Korea to the IMF bailout negotiation table.

The immediate cause of the currency market crisis was a heavy devaluation pressure associated with drastic capital outflows. Foreign investors (banks, institutional and individual portfolio investors) were initially attracted to these countries, partly because of a strong economic performance during booming years and partly because of low interest rate environments in most advanced capitalist economies at that time. Foreign investors' Asian portfolio investment in turn was made possible, because most East Asian governments had successively opened their domestic financial markets since late 1980s onward.

During the heyday of finance-led globalization, monetary policy makers in advanced economies and in international financial institutions popularized the idea that opening domestic financial markets to foreign investors would offer a chance for developing countries to finance their domestic investment and economic growth. Foreign investors, in turn, could earn higher rates of return that were not available in their home countries by purchasing various financial assets issued in developing countries. In this way, financial market liberalization and the government's *laissez faire* approach to financial markets in developing countries was praised to be conducive to economic growth in these countries (McKinnon, 1973; Shaw, 1973; Camdessus, 1997; IEO, 2005).

Under the influence of this orthodox doctrine, most Asian governments and monetary authorities competitively adopted a series of financial liberalization measures, allowing foreign investors to purchase financial assets and real estate property freely, in addition to holding majority ownership stakes in financial firms in this region. In some cases, governments in South East Asia went a step further to set up tax-free non-bank financial companies and facilities to attract more foreign private investment. The Thai government's Bangkok International Banking Facilities (BIBFs) and Indonesian government's Labuan International

Offshore Banking Center are a good example. Monetary authorities in this region also changed their securities law, lifting restrictions on the type of financial instruments that domestic financial institutions could sell and on the volume and type of foreign exchange transactions (Azis, 2006, 180-188; Dekle and Pradhan, 1997, 4-8, 11; Johnston et al 1997; Chang et al, 1998, 737-39).

One immediate consequence of this financial market liberalization was a substantial increase in capital inflows to the Asian region and a resultant real exchange rate appreciation and asset price bubble. The total magnitude of portfolio investment drastically rose to an unprecedentedly high level between 1993 and 1997, and most of this portfolio investment flowed into asset markets, creating both equity and a real estate bubble. According to a series of BIS reports that track the volume of international capital flows *ex post*, a total $378.1 billion foreign capital flowed to all parts of East Asia (even excluding Singapore and Hong Kong) by the end of 1997 (BIS 1997-1999). The flipside of the coin is that recipient domestic entities in the Asian region continuously incur foreign liabilities. Banks and non-bank financial companies competitively increased the volume of consumer credit and corporate lending, recycling their borrowed money from abroad. According to the same compiled data, private sector (banks and non-bank financial companies)'s foreign liabilities occupied more than 80 percent of the total foreign debt by the end of 1997, compared to less than 20 percent of public debt.

Of course, there was an additional complicating factor specific to the Asian region. That was a massive increase in the volume of yen "carry trade". Since the burst of its own real estate bubble in the early 1990s, the Japanese central bank had maintained near-zero interest rate policy in the hope of reviving depressed domestic economy. This low interest rate in Japan in turn attracted massive foreign equity flows that invested in booming Asian property markets after borrowing cheap money from the Japanese financial sector. This short-term portfolio investment generated bubble in both equity and real estate markets, which ultimately burst during the onset of the currency crisis. In this process, there was virtually no common regulatory arrangement in which either individual government or regional financial institutions manage the magnitude and the direction of short-term capital flows and this unsustainable dynamic continued through the onset of the financial crisis. As foreign banks and creditors began to worry about the region's debt sustainability, they drastically reversed their lending decisions and began cutting their loans as competitively as they did when they lent. Now, foreign short-term capital began to flow out of Asian countries, leading to successive currency devaluation and crises in the region.

In the face of rapid capital outflows, monetary authorities in this region had to abandon their quasi-fixed exchange rate regime and allowed their currencies to fall freely. As the value of Thai baht, Indonesian rupiah, Malaysian ringgit, and Korean won fell almost simultaneously, however, foreign liability situations deteriorate further. This is because Thai and Indonesian banks and non-bank financial companies borrowed short-term foreign capitals in the form of loans that were denominated in foreign currencies (i.e., in US dollars term and/or Japanese Yen term). This means that indebted East Asian countries needed to pay back these foreign loans, not in terms of their own currencies, but in terms of US dollars. Thus, drastic and competitive foreign capital outflows that led to currency devaluation also meant that private banks and corporations in these countries could not find any other solutions but to declare corporate bankruptcy.

Governments in Asian countries ultimately resorted to the IMF's bailout programs, after failing to defend their currencies for months. In exchange for receiving emergency financial assistance under the standby loan agreement, Asian governments had to accept highly stringent conditionality that was, in substance, the same as what Troika has imposed on Greece nowadays (IMF, 1999a; IMF, 1999b; IMF, 2000; IMF, 2002). As in the case of Greece, the IMF's East Asian bailout programs failed to stabilize the currency market turmoil in the region. Instead of providing a framework for an orderly debt resolution mechanism, the IMF's imposition of austerity-oriented policy measures worsened the situation, ultimately spreading the initial currency crisis into real economic recession.

The IMF has claimed that increasing interest rates as part of conditionality was the only way to stabilize the currency market and to prevent further depreciation of regional currencies (Lane et al, 1999, 35-37; IMF, 1999c; IMF, 2000b, 3-4). However, there was no empirical evidence that supported the stable correlation (not to mention, causality) between interest rates and exchange rates, especially during the currency crisis period (IEO, 2003, 35). The most effective alternative way to prevent further declines in currencies due to capital outflows is for the Asian government and private creditors to devise a coherent and speedy mechanism to reach an agreement on how to repay the debts orderly under the government guarantee. Once agreed, foreign creditors would no longer have an incentive to cut their credit line competitively, which triggered the initial currency market turmoil in the first place. In this process, the Asian governments in the region might have needed to collaborate to introduce regional capital control measures to stabilize the currency turmoil temporarily.

The IMF also claimed that maintaining fiscal surpluses in the government budget, which was the second part of the bailout conditionality, was necessary in restoring the credibility of the government. In response to heavy criticisms of this costly measure, the IMF economists even argued that mandating to achieve fiscal surplus in East Asia did not contribute to a sharp private sector contraction after the crisis (Lane et al, 1999, 28-29). However, the Asian financial crisis was unrelated to public sector deficits, thus there was no need at all to reign in the government's fiscal position in the name of restoring foreign investors' confidence. Admittedly, the Asian governments experienced a sharp but temporal increase in fiscal deficits. But it was not the cause, but a result of the currency crisis, just as the Greek government's current debt sustainability problem is not the cause, but the result of the post-financial crisis adjustment. Thus, the government should expand, rather than reduce, its economic functions to complement the drastic reduction in private sector investment and to pull the economies out of recessions. Otherwise, the economy would fall into a deeper recessionary spiral, as it actually happened in both East Asia then and Greece nowadays. Indeed, unlike the IMF's *ex-post* excuse, the relaxation of this rigid requirement for maintaining fiscal balance on the part of the IMF and the implementation of expansionary fiscal policies on the part of the government in varying degrees since late 1998 – the exact opposite fiscal policy stance from what the IMF preached – explains much of the rapid economic recovery in both Malaysia and Korea since early 1999.[1]

Last but not the least, the IMF's blind emphasis on "corporate governance reform" was one of the most destabilizing factors in the crisis in Asia. The IMF economists repeatedly claimed that the structural weakness in the Asian banking sector and "cronyism" in corporate

[1] This relaxation of the IMF bailout conditionality was made possible, partly because of Malaysia's unilateral introduction of capital control measures and partly because of the leadership change in the IMF. For empirical tests of the effectiveness of capital controls in Malaysia and other countries, see Edison and Reinhart (2000), Ariyoshi et al (2000) and Government of Malaysia (1999).

governance were the root causes of the financial crisis in East Asia, and thus that any reform measure should target this fundamental governance problem (Lane et al, 1999, 2-3; Lane et al, 1999, 9-10; Lane et al, 1999, 18-19; IMF, 2000b, 6). However, this diagnosis was highly dubious from the beginning, and it became increasingly clear that the currency crisis was largely driven by self-fulfilling expectations on the part of foreign investors. The magnitude and the direction of foreign capital flows were largely exogenous to Asian economies and the deterioration of Asian banking and financial balance sheets was a direct consequence of the redirection of short-term capital flows. Thus, various indicators of structural weakness that the IMF economists enumerated were not the cause, but the result of the currency market turmoil. Even if this claim of "Asian cronyism" were to be correct, it does not follow that the IMF and any other international lenders should mandate the governance reform *a priori*. Instead, the IMF should have provided a debt resolution mechanism that addresses how to repay foreign debts as the foremost important priority at the culmination of a currency crisis. Prioritizing governance reform is like putting a cart ahead of horses, which was nonsensical from any sound economic reasoning.

In this way, the IMF bailout program in East Asia completely failed to contain the regional currency crisis from getting serious. The IMF bailout program not only contributed to making economic situations even worse by amplifying the initial turmoil in currency markets into a full-blown banking crisis and a far more severe post-crisis economic recession, but also destabilized the political and socioeconomic stability in the Asian region. By confusing the priority of resolving the immediate debt repayment problem with long-term "structural reform agenda", the IMF policy triggered a series of bank runs that transformed the initial currency shock into a real economic crisis. Ultimately, the IMF's failed bailout programs in East Asia transformed the initial Asian currency crisis into a series of sovereign debt crises in other parts of the world, in the form of sovereign debt crises in Russia and Brazil in 1999, and Argentina in 2001. In this sense, the Asian financial crisis was also a complete failure of the IMF and the predominant form of international financial arrangements (Blustein 2003).

5. Policy lessons for sovereign financial stability and reforming the global financial system

It is irony and tragic to see that the same old institution and doctrine are playing exactly the same role in the current international financial arena: the IMF and Troika are preaching and imposing a series of misguided policies based upon an outdated model in a disguised form. It is particularly striking to see that the IMF is playing the same role in Greece, even after it publicly apologized for its failed bailout programs in East Asia and for its blind advocacy of unfounded benefits of financial liberalization. It is even more striking to recognize that the IMF once published highly unorthodox papers on the benefit of capital control measures during the culminated period of the financial crisis in recent years (Ostry et al, 2010; Ostry et al, 2011). Betraying its own modest proposals, the IMF has behaved in exactly the same way in Greece as it once did in East Asia, repeating the same mistakes over again.

One set of important policy lessons that we can learn from these experiences is to recognize the grave danger of financial liberalization policies and of a premature relegation of sovereign autonomy to a supranational entity. As long as individual governments cannot control the speed, magnitude, and direction of short-term capital flows, any financial market liberalization should not be adopted. As long as the existing global financial system persistently fails to provide symmetric provision of long-term financial resources for growth and development, and thus as long as the global financial system lacks an effective international lender of last resort function, any decision to transfer domestic monetary and fiscal authority to a supranational entity should be cautiously adopted or even avoided.

As an alternative, international financial institutions should expand special drawing rights (SDR) to its member states regardless of their country size and respective contribution, and should actually play a role as an effective international lender of last resort. The World Bank (if it should exist) or regional development banks in turn should increase the volume of their low cost long-term loans to developing countries, so that the governments in these countries can safely rely on them to increase their public investment in infrastructure and educational systems. In the context of Eurozone, this means that the member countries should agree upon the need of creating a common fiscal authority and a regional development fund, both of which are aiming at mitigating and reducing uneven regional economic development among the member countries in the medium and long run.

In the face of an urgent need of currency and financial crisis management, international financial institutions should coordinate an orderly debt restructuring management, in which both creditors and borrowers voluntarily agreed to such measures as debt rollover as well as debt swap (Cf. Stiglitz and Guzman, 2015). The IMF and Troika should allow an individual government to adopt emergent policy measures including capital controls to prevent devastating runs on the country. If the country ultimately requested the bailout fund, the IMF and Troika's conditionality should include developmental policies and criteria, rather than sticking to the prevailing austerity-oriented policy prescription. Under this new institutional framework,

- The Troika should set up a formal monitoring and enforcement mechanism in order to stop an unnecessary run on the country and to prevent free riders among foreign investors during the early stage of financial crisis;
- The Troika should coordinate and target to expand domestic and regional aggregate demand by helping the country and the region adopt coordinated expansionary fiscal and monetary policies.
- The Troika's financial program should also allow the government to provide an unlimited and unconditional provision of domestic liquidity for the monetary authority to prevent a sharp freeze in the domestic interbank market from causing a complete breakdown of the financial system;
- Post-crisis financial sector restructuring may be inevitable to clean up bad loans and to create a more sound financial system. During the culmination of a financial crisis, however, it is necessary for the government to temporarily ease or suspend the international capital adequacy rules in order to prevent banks from drastically cutting much needed corporate and household credit;
- The individual government can set up separate financial facilities through recapitalized financial institutions under the government's conservatorship to help ease credit constraints placed on solvent non-financial corporations and households, and international financial institutions and regional central banks should support this effort;
- The last but not the least, the crisis-stricken country or entity should be given rights to take full advantage of an internationally extended Chapter 11 bankruptcy protection mechanism that would enable them to shield and protect themselves from panicky creditors' herd behaviors. As in the area of trade and industrial policy, the individual

government should have sufficient "policy space" for adopting different financial regimes and measures for managing short-term capital flows. This requires a fundamental change in our notion of capital controls, which should be understood as a legitimate component in a series of "macro-prudential" preemptive measures.

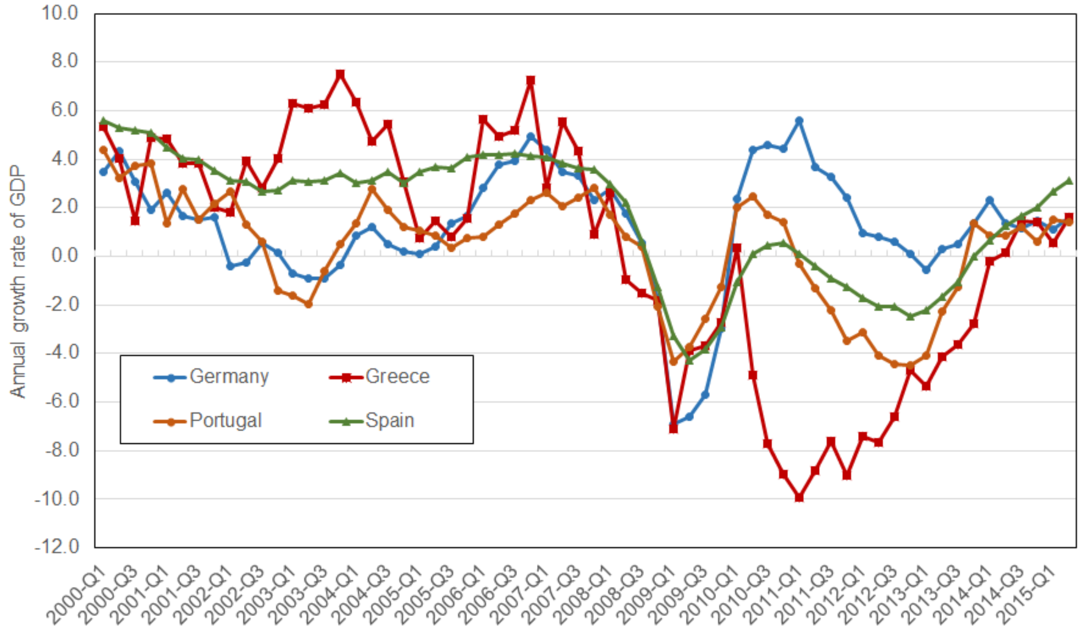
6. Concluding remarks

One of the main goals of this article is to examine the current Greek financial and economic crisis from a perspective of the East Asian financial crisis in the late 1990s. This comparative analysis of the two financial crises strongly suggests that the myopic and premature liberalization of domestic capital accounts in the absence of proper fiscal and monetary sovereignty is the common cause of financial crises in both regions, and the IMF and Troika's misguided bailout conditionality exacerbated economic situations even further.

One important lesson that we should learn is that we do not have any adequate sovereign debt resolution mechanism at either regional or international level. In the absence of this effective sovereign debt management arrangement, we may continue to see repeating currency and banking crises associated with drastic capital flows. The East Asian financial crisis in the late 1990s and the current ongoing humanitarian crisis in Greece have clearly shown how fundamental flaws inherent in the prevailing global financial system and the lack of decisive will for policy reform can seriously harm societies.

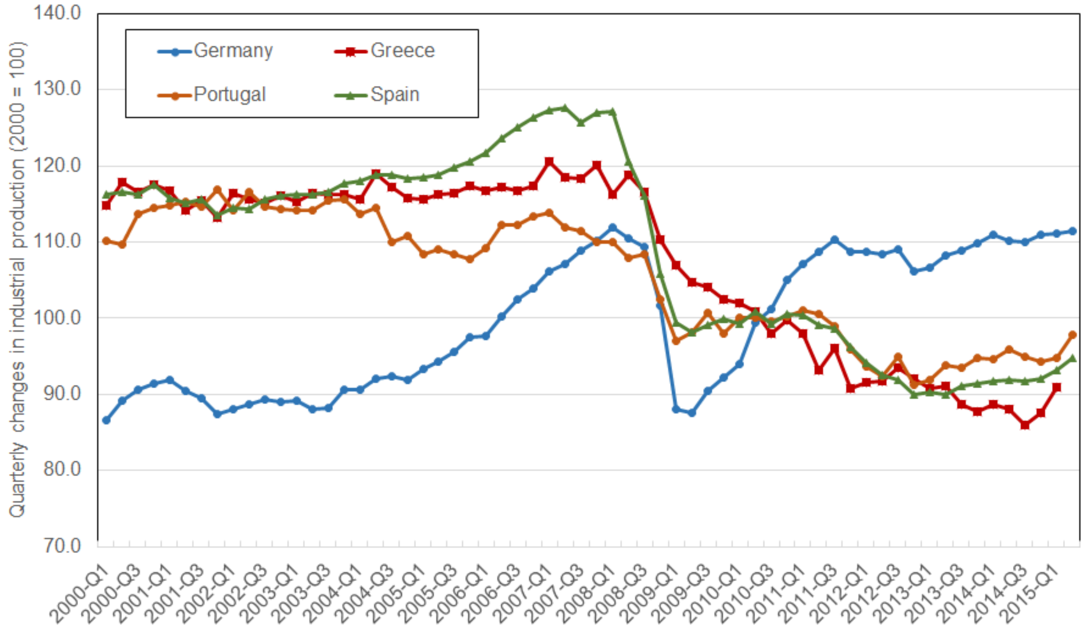
Figures

Figure 1 Growth rate of GDP in selected Eurozone economies, 1Q of 2000-2Q of 2015



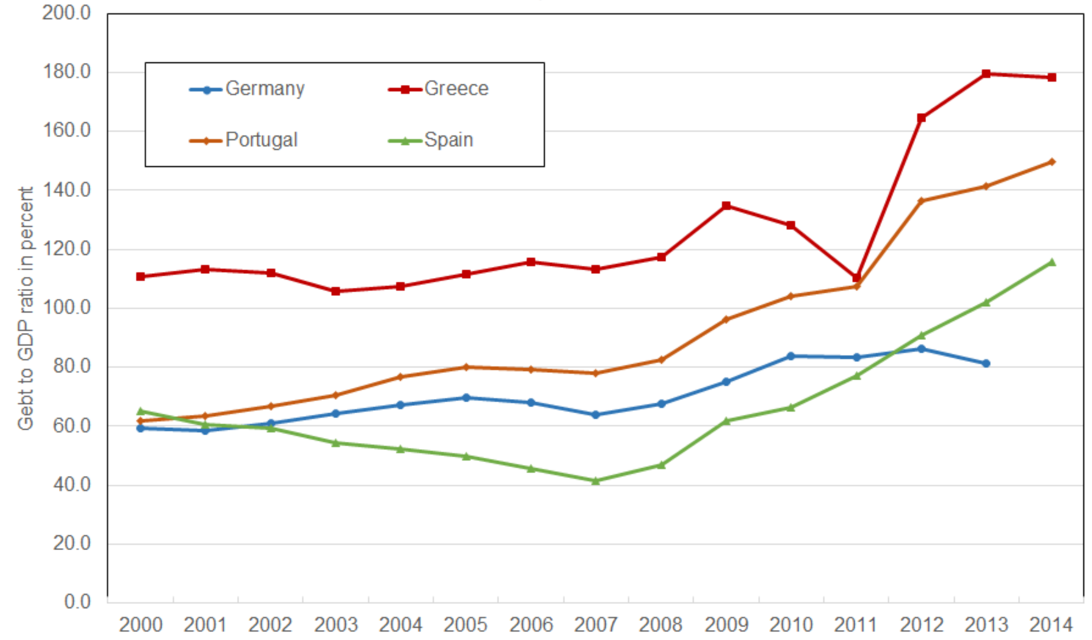
Source: OECD statistical data

Figure 2 Changes in industrial production activities in selected Eurozone economies, 1Q of 2000-2Q of 2015



Source: OECD statistical data

Figure 3 Government debt to GDP ratios in selected Eurozone economies, 2000-2014



Source: OECD statistical data

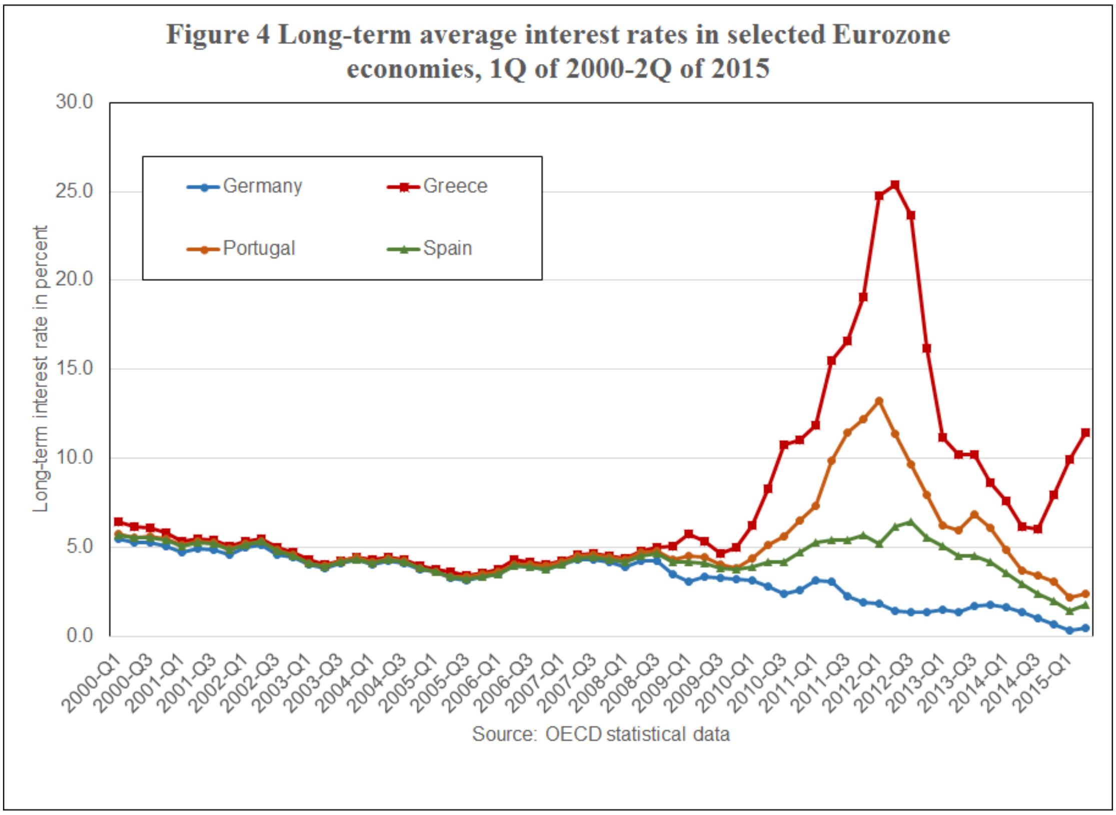


Figure 4 Long-term average interest rates in selected Eurozone economies, 1Q of 2000-2Q of 2015
Germany
Greece
Portugal
Spain
Long-term interest rate in percent
30.0
25.0
20.0
15.0
10.0
5.0
0.0
2000-Q1
2000-Q3
2001-Q1
2001-Q3
2002-Q1
2002-Q3
2003-Q1
2003-Q3
2004-Q1
2004-Q3
2005-Q1
2005-Q3
2006-Q1
2006-Q3
2007-Q1
2007-Q3
2008-Q1
2008-Q3
2009-Q1
2009-Q3
2010-Q1
2010-Q3
2011-Q1
2011-Q3
2012-Q1
2012-Q3
2013-Q1
2013-Q3
2014-Q1
2014-Q3
2015-Q1
Source: OECD statistical data

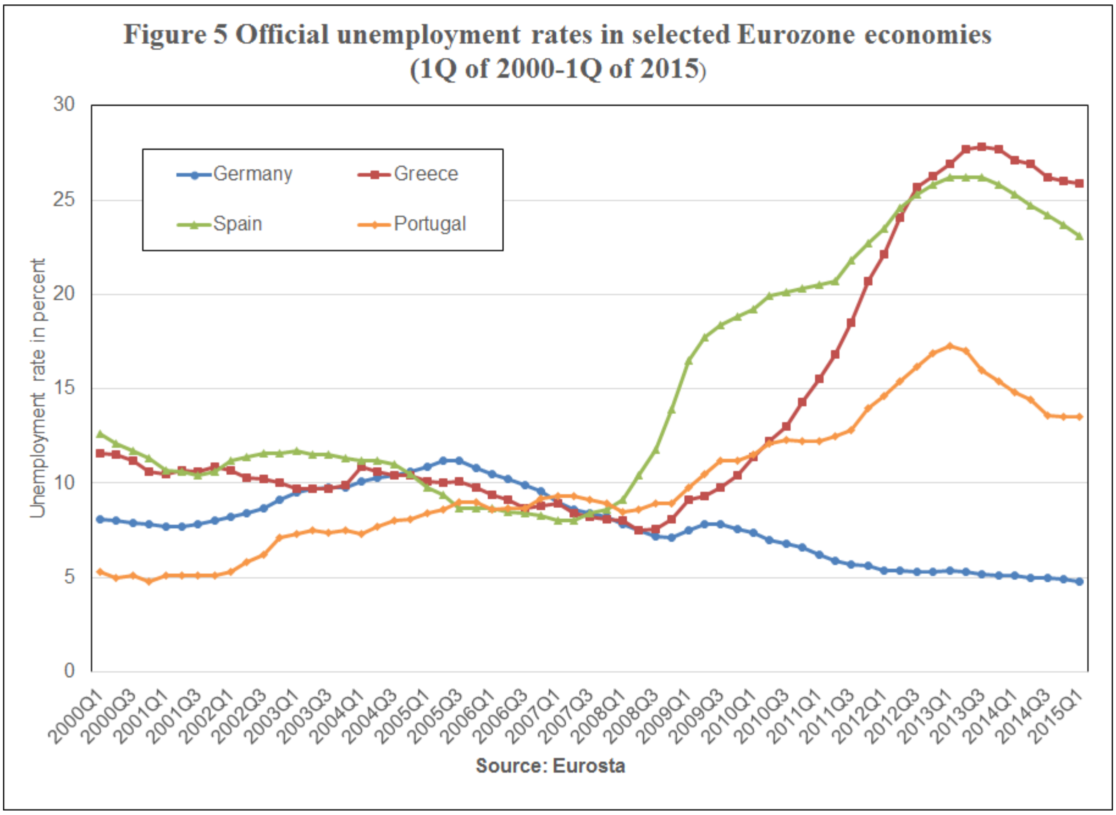


Figure 5 Official unemployment rates in selected Eurozone economies (1Q of 2000-1Q of 2015)
Germany
Greece
Spain
Portugal
Unemployment rate in percent
30
25
20
15
10
5
0
2000Q1
2000Q3
2001Q1
2001Q3
2002Q1
2002Q3
2003Q1
2003Q3
2004Q1
2004Q3
2005Q1
2005Q3
2006Q1
2006Q3
2007Q1
2007Q3
2008Q1
2008Q3
2009Q1
2009Q3
2010Q1
2010Q3
2011Q1
2011Q3
2012Q1
2012Q3
2013Q1
2013Q3
2014Q1
2014Q3
2015Q1
Source: Eurosta

Reference

Ariyoshi, A., Habermeier, K., Laurens, B., Ötker-Robe, I., Iván C-K, J., and Kirilenko, A., 2000, "Capital Controls: Country Experiences with Their Use and Liberalization", IMF Occasional Paper, No. 190, Washington, D.C.: IMF.

Azis, I. J., 2006, "Indonesia's External Liberalization: Policy Dynamics and Socio-Economic Impact", in Taylor, L. (eds.) *External Liberalization in Asia, Post-Socialist Europe and Brazil*, Oxford: Oxford University Press, 180-188.

Bank for International Settlements (BIS), 1997-1999, The Maturity, Sectoral and Nationality Distribution of International Bank data (The author's own compilation of data based upon the BIS report on The Maturity, Sectoral and Nationality Distribution of International Bank issued in Jan. 1997, July 1997, Jan. 1998, May 1998, Nov. 1998, May 1999).

BBC, 2011, "Eurozone crisis explained", BBC World News (October 3, 2011).

Blustein, P., 2003, *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF,* Cambridge: PublicAffairs.

Camdessus, M., 1997, "Global Capital Flows: Raising the Returns and Reducing the Risks", Address by Michel Camdessus Managing Director of the International Monetary Fund at the World Affairs Council of Los Angeles California (June 17, 1997).

Chang, H.-J., Park, H.-J., and Yoo, C.-G., 1998, "Interpreting the Korean Crisis – Financial Liberalization, Industrial Policy and Corporate Governance", *Cambridge Journal of Economics*, 22 (6), 735-46.

Dekle, R., and Pradhan, M., 1997, "Financial Liberalization and Money Demand in ASEAN Countries: Implications for Monetary Policy", IMF Working Paper, WP/97/36.

Edison, H. J., and Reinhart, C. M., 2000, "Capital Controls During Financial Crises: The Case of Malaysia and Thailand", Board of Governors of the Federal Reserve System International Finance Discussion Papers, No. 662, Washington, D.C: FRB.

European Commission, 2015, "Adopting Euro – who can join and when?", [Online] http://ec.europa.eu/economy_finance/euro/index_en.htm (accessed on September 10, 2015).

Government of Malaysia, 1999, White Paper: Status of the Malaysian Economy (April 1999), Government of Malaysia.

Independent Evaluation Office (IEO), 2003, Evaluation Report - The IMF and the Recent Capital Account Crises: Indonesia, Korea, Brazil. Washington, D.C.: IMF IEO.

Independent Evaluation Office (IEO), 2005, Evaluation Report – The IMF's Approach to Capital Account Liberalization, Washington, D.C.: IMF IEO.

International Monetary Fund (IMF), 1999a, "The IMF's Stand-by Agreement and Financial Assistance for Thailand, Aug. 1997 - Sep. 1999", International Monetary Fund Press Releases, Washington, D.C.: IMF (The author's compilation of the Thai government's Letter of Intent with the IMF, IMF's Article IV for Thailand, and the IMF's Press Release), [Online] http://www.imf.org/external/country/THA/index.htm (accessed in August 2015).

International Monetary Fund (IMF), 1999b, "The IMF's Stand-by Agreement and Extended Funding Facility for Indonesia, Nov. 1997 - Jul. 1999", International Monetary Fund Press Releases, Washington, D.C.: IMF (The author's compilation of the Indonesian government's Letter of Intent with the IMF, IMF's Article IV for Indonesia, and the IMF's Press Release), [Online] http://www.imf.org/external/country/idn/index.htm (accessed in August 2015).

International Monetary Fund (IMF), 1999c, IMF-Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment, Washington, D.C.: IMF.

International Monetary Fund (IMF), 2000, The IMF's Stand-by Agreement and Extended Funding Facility for Korea, Dec. 1997 - Jul. 2000, in International Monetary Fund Press Releases, Washington, D.C.: IMF (The author's compilation of the Korean government's Letter of Intent with the IMF, IMF's Article IV for Korea, and the IMF's Press Release), [Online] http://www.imf.org/external/country/kor/index.htm?pn=17 (accessed in August 2015).

International Monetary Fund (IMF), 2002, "The IMF Article IV Consultation with Malaysia, 1998-2002", International Monetary Fund Press Releases, Washington, D.C.: IMF (The author's compilation of the IMF's Article IV for Malaysia and the IMF's Press Release), [Online] http://www.imf.org/external/country/MYS/index.htm (accessed in August 2015).

International Monetary Fund (IMF), 2007a, "IMF Executive Board Concludes 2006 Article IV Consultation with Greece Public Information Notice (PIN)", International Monetary Fund Press Release (January 25, 2007), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2007b, "Greece: 2007 Article IV Consultation; Preliminary Conclusions of the Mission", International Monetary Fund Press Release (December 10, 2007), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2009, "Greece: 2009 Article IV Consultation Concluding Statement of the Mission", International Monetary Fund Press Release (May 25, 2009), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2010a, "Staff-level agreement: Europe and IMF Agree €110 Billion Financing Plan with Greece", International Monetary Fund Press Release, Washington, D.C.: IMF.

International Monetary Fund (IMF), 2010b, "IMF Reaches Staff-level Agreement with Greece on €30 Billion Stand-By Arrangement", International Monetary Fund Press Release (May 2, 2010), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2010c, "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, Technical Memorandum of Understanding, and Memorandum of Understanding on Specific Economic Policy Conditionality by European Commission and European Central Bank", International Monetary Fund Press Release (August 06, 2010), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2010d, "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum" International Monetary Fund Press Release (December 08, 2010), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2011, "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding", International Monetary Fund Press Release (July 04, 2011), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2012a, 'GREECE program: IMF Board Approves €28 Billion Loan for Greece', IMF Survey online (March 15, 2012), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2012b, "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding", International Monetary Fund Press Release (Dec. 21, 2012), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2013, "IMF Executive Board Completes First and Second Reviews Under Extended Fund Facility Arrangement for Greece and Approves €3.24 Billion Disbursement", International Monetary Fund Press Release (January 16, 2013), Washington, D.C.: IMF.

International Monetary Fund (IMF), 2014, "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding", International Monetary Fund Press Release (May 14, 2014), Washington, D.C.: IMF.

Johnston, B., Darbar, S.M., and Echeverria, C., 1997, "Sequencing Capital Account Liberalization: Lessons from the Experiences in Chile, Indonesia, Korea, and Thailand", IMF Working Paper Series, WP/97/157, Washington, D.C.: IMF.

Lane, T., Ghosh, A., and Hamann, J., 1999, "IMF-Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment", IMF Occasional Paper, No. 178, Washington, D.C.: IMF.

McKinnon, R. I., 1973, *Money and Capital in Economic Development,* Washington, D.C: The Brookings Institutions.

Ostry, J. D. et al., 2010, “Capital Inflows: The Role of Controls”, IMF Staff Position Note, SPN/10/24 (February 19, 2010), Washington, D.C.: IMF.

Ostry, J. D. et al., 2011, “Managing Capital Inflows: What Tools to Use?”, IMF Staff Discussion Note, SDN/11/06 (April 5, 2011), Washington, D.C.: IMF.

Shaw, E. S., 1973, *Financial deepening in economic development*, New York: Oxford University Press.

Stiglitz, J. E., and Guzman, M., 2015, “A Rule of Law for Sovereign Debt”, *Social Europe* (June 2015).

Varoufakis, Y., 2015, “Behind Germany’s refusal to grant Greece debt relief”, *The Guardian*, July 15, 2015.

Varoufakis, Y., Holland, S., and Galbraith, J. K., 2013, “A Modest Proposal for Resolving the Eurozone Crisis.” Thoughts for the post-2008 world blog (accessed in December 2015).

Author contact: HeeYoung.Shin@wright.edu

SUGGESTED CITATION:

Hee-Young Shin, “The IMF and Troika’s Greek bailout programs: an East Asian view”, *real-world economics review*, issue no. 73, 11 Dec 2015, pp. 76-91, http://www.paecon.net/PAEReview/issue73/HeeYoungShin73.pdf