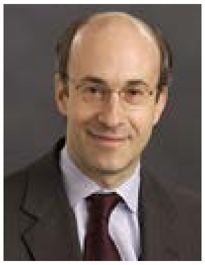


Kenneth S. Rogoff

The IMF Strikes Back
by Kenneth Rogoff
Published in *Foreign Policy Magazine*

Straight Talk -- Rethinking capital controls: When should we keep an open mind?
Finance & Development

An Institution that Eases Financial Pain, A Commentary By Kenneth Rogoff
Published in the *Financial Times*, September 27, 2002

Has Russia Been on the Right Path? A Commentary By Kenneth Rogoff
Published in *Vedomosti*

Moral Hazard in IMF Loans, How Big a Concern? A Commentary By Kenneth Rogoff
Finance & Development

An Open Letter[1]

By Kenneth Rogoff,
Economic Counsellor and Director of Research,
International Monetary Fund

To Joseph Stiglitz,
Author of *Globalization and Its Discontents*
(New York: W.W. Norton & Company, June 2002)

Washington D.C., July 2, 2002

At the outset, I would like to stress that it has been a pleasure working closely with my World Bank colleagues—particularly my counterpart, Chief Economist Nick Stern—during my first year at the IMF. We regularly cross 19th Street to exchange ideas on research, policy, and life. The relations between our two institutions are excellent—this is not at issue. Of course, to that effect, I think it is also important, before I begin, for me to quash rumors about the demolition of the former PEPCO building that stood right next to the IMF until a few days ago. No, it's absolutely not true that this was caused by a loose cannon planted within the World Bank.

Dear Joe:

Like you, I came to my position in Washington from the cloisters of a tenured position at a top-ranking American University. Like you, I came because I care. Unlike you, I am humbled by the World Bank and IMF staff I meet each day. I meet people who are deeply committed to bringing growth to the developing world and to alleviating poverty. I meet superb professionals who regularly work 80-hour weeks, who endure long separations from their families. Fund staff have been shot at in Bosnia, slaved for weeks without heat in the brutal Tajikistan winter, and have contracted deadly tropical diseases in Africa. These people are bright, energetic, and imaginative. Their dedication humbles me, but in your speeches, in your book, you feel free to carelessly slander them.[2]

Joe, you may not remember this, but in the late 1980s, I once enjoyed the privilege of being in the office next to yours for a semester. We young economists all looked up to you in awe. One of my favorite stories from that era is a lunch with you and our former colleague, Carl Shapiro, at which the two of you started discussing whether Paul Volcker merited your vote for a tenured appointment at Princeton. At one point, you turned to me and said, "Ken, you used to work for Volcker at the Fed. Tell me, is he really smart?" I responded something to the effect of "Well, he *was* arguably the greatest Federal Reserve Chairman of the twentieth century" To which you replied, "But is he smart like *us*?" I wasn't sure how to

Views & Commentaries

take it, since you were looking across at Carl, not me, when you said it.

My reason for telling this story is two-fold. First, perhaps the Fund staff who you once blanket-labeled as "third rate"—and I guess you meant to include World Bank staff in this judgment also—will feel better if they know they are in the same company as the great Paul Volcker. Second, it is emblematic of the supreme self-confidence you brought with you to Washington, where you were confronted with policy problems just a little bit more difficult than anything in our mathematical models. This confidence brims over in your new 282 page book. Indeed, I failed to detect a single instance where you, Joe Stiglitz, admit to having been even slightly wrong about a major real world problem. When the U.S. economy booms in the 1990s, you take some credit. But when anything goes wrong, it is because lesser mortals like Federal Reserve Chairman Greenspan or then-Treasury Secretary Rubin did not listen to your advice.

Let me make three substantive points. First, there are many ideas and lessons in your book with which we at the Fund would generally agree, though most of it is old hat. For example, we completely agree that there is a need for a dramatic change in how we handle situations where countries go bankrupt. IMF First Deputy Managing Director Anne Krueger—who you paint as a villainess for her 1980s efforts to promote trade liberalization in World Bank policy—has forcefully advocated a far reaching IMF proposal. At our Davos [World Economic Forum] panel in February you sharply criticized the whole idea. Here, however, you now want to take credit as having been the one to strongly advance it first. Your book is long on innuendo and short on footnotes. Can you document this particular claim?

Second, you put forth a blueprint for how you believe the IMF can radically improve its advice on macroeconomic policy. Your ideas are at best highly controversial, at worst, snake oil. This leads to my third and most important point. In your role as chief economist at the World Bank, you decided to become what you see as a heroic whistleblower, speaking out against macroeconomic policies adopted during the 1990s Asian crisis that you believed to be misguided. You were 100% sure of yourself, 100% sure that your policies were absolutely the right ones. In the middle of a global wave of speculative attacks, that you yourself labeled a crisis of confidence, you fueled the panic by undermining confidence in the very institutions you were working for. Did it ever occur to you for a moment that your actions might have hurt the poor and indigent people in Asia that you care about so deeply? Do you ever lose a night's sleep thinking that just maybe, Alan Greenspan, Larry Summers, Bob Rubin, and Stan Fischer had it right—and that your impulsive actions might have deepened the downturn or delayed—even for a day—the recovery we now see in Asia?

Let's look at Stiglitzian prescriptions for helping a distressed emerging market debtor, the ideas you put forth as superior to existing practice. Governments typically come to the IMF for financial assistance when they are having trouble finding buyers for their debt and when the value of their money is falling. The Stiglitzian prescription is to raise the profile of fiscal deficits, that is, to issue *more* debt and to print *more* money. You seem to believe that if a distressed government issues more currency, its citizens will suddenly think it more valuable. You seem to believe that when investors are no longer willing to hold a government's debt, all that needs to be done is to increase the supply and it will sell like hot cakes. We at the IMF—no, make that we on the Planet Earth—have considerable experience suggesting otherwise. We earthlings have found that when a country in fiscal distress tries to escape by printing more money, inflation rises, often uncontrollably. Uncontrolled inflation strangles growth, hurting the entire populace but, especially the indigent. The laws of economics may be different in your part of the gamma quadrant, but around here we find that when an almost bankrupt government fails to credibly constrain the time profile of its fiscal deficits, things generally get worse instead of better.

Joe, throughout your book, you condemn the IMF because everywhere it seems to be, countries are in trouble. Isn't this a little like observing that where there are epidemics, one tends to find more doctors?

You cloak yourself in the mantle of John Maynard Keynes, saying that the aim of your policies is to maintain full employment. We at the IMF care a lot about employment. But if a government has come to us, it is often precisely because it is in an unsustainable position, and we have to look not just at the next two weeks, but at the next two years and beyond. We certainly believe in the lessons of Keynes, but in a modern, nuanced way. For example, the post-1975 macroeconomics literature—which you say we are tone deaf to—emphasizes the importance of budget constraints across time. It does no good to pile on IMF debt as a very short-run fix if it makes the not-so-distant future drastically worse. By the way, in blatant contradiction to your assertion, IMF programs frequently allow for deficits, indeed they did so in the Asia crisis. If its initial battlefield medicine was wrong, the IMF reacted, learning from its mistakes, quickly reversing course.

No, instead of Keynes, I would cloak your theories in the mantle of Arthur Laffer and other extreme expositors of 1980s Reagan-style supply-side economics. Laffer believed that if the government would only cut tax rates, people would work harder, and total government revenues would rise. The Stiglitz-Laffer theory of crisis management holds that countries need not worry about expanding deficits, as in so doing, they will increase their debt service capacity more than proportionately. George Bush, Sr. once labeled these ideas "voodoo economics." He was right. I will concede, Joe, that real-world policy economics is complicated, and just maybe further research will prove you have a point. But what really puzzles me is how you could be *so* sure that you are 100 percent right, so sure that you were willing to "blow the whistle" in the middle of the crisis, sniping at the paramedics as they tended the wounded. Joe, the academic papers now coming out in top journals are increasingly supporting the interest defense policies of former First Deputy Managing

Director Stan Fischer and the IMF that you, from your position at the World Bank, ignominiously sabotaged. Do you ever think that just maybe, Joe Stiglitz might have screwed up? That, just maybe, you were part of the problem and not part of the solution?

You say that the IMF is tone deaf and never listens to its critics. I know that is not true, because in my academic years, I was one of dozens of critics that the IMF bent over backwards to listen to. For example, during the 1980s, I was writing then-heretical papers on the moral hazard problem in IMF/World Bank lending, an issue that was echoed a decade later in the Meltzer report. Did the IMF shut out my views as potentially subversive to its interests? No, the IMF insisted on publishing my work in its flagship research publication *Staff Papers*. Later, in the 1990s, Stan Fischer twice invited me to discuss my views on fixed exchange rates and open capital markets (I warned of severe risks). In the end, Stan and I didn't agree on everything, but I will say that having entered his office 99 percent sure that I was right, I left somewhat humbled by the complexities of price stabilization in high-inflation countries. If only you had crossed over 19th Street from the Bank to the Fund a little more often, Joe, maybe things would have turned out differently.

I don't have time here to do justice to some of your other offbeat policy prescriptions, but let me say this about the transition countries. You accuse the IMF of having "lost Russia." Your analysis of the transition in Russia reads like a paper in which a theorist abstracts from all the major problems, and focuses only on the couple he can handle. You neglect entirely the fact that when the IMF entered Russia, the country was not only in the middle of an economic crisis, it was in the middle of a social and political crisis as well.

Throughout your book, you betray an unrelenting belief in the pervasiveness of market failures, and a staunch conviction that governments can and will make things better. You call us "market fundamentalists." We do not believe that markets are always perfect, as you accuse. But we do believe there are many instances of government failure as well and that, on the whole, government failure is a far bigger problem than market failure in the developing world. Both World Bank President Jim Wolfensohn and IMF Managing Director Horst Köhler have frequently pointed to the fundamental importance of governance and institutions in development. Again, your alternative medicines, involving ever-more government intervention, are highly dubious in many real-world settings.

I haven't had time, Joe, to check all the facts in your book, but I do have some doubts. On page 112, you have Larry Summers (then Deputy U.S. Treasury Secretary) giving a "verbal" tongue lashing to former World Bank Vice-President Jean-Michel Severino. But, Joe, these two have never met. How many conversations do you report that never happened? You give an example where an IMF Staff report was issued prior to the country visit. Joe, this isn't done; I'd like to see your documentation. On page 208, you slander former IMF number two, Stan Fischer, implying that Citibank may have dangled a job offer in front of him in return for his cooperation in debt renegotiations. Joe, Stan Fischer is well known to be a person of unimpeachable integrity. Of all the false inferences and innuendos in this book, this is the most outrageous. I'd suggest you should pull this book off the shelves until this slander is corrected.

Joe, as an academic, you are a towering genius. Like your fellow Nobel Prize winner, John Nash, you have a "beautiful mind." As a policymaker, however, you were just a bit less impressive.

Other than that, I thought it was a pretty good book.

Sincerely yours,

Ken

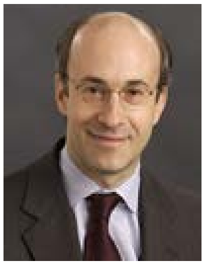
---

[1] Used as opening remarks at a June 28 discussion of Mr. Stiglitz's book at the World Bank, organized by the World Bank's Infoshop

[2] For example: "It was not just that IMF policy might be regarded by softheaded liberals as inhumane. Even if one cared little for those who faced starvation, or the children whose growth had been stunted by malnutrition, it was simply bad economics." Joseph Stiglitz,*Globalization and Its Discontents*, p 119.

IMF EXTERNAL RELATIONS DEPARTMENT

Public Affairs		**Media Relations**	
E-mail:	publicaffairs@imf.org	E-mail:	media@imf.org
Fax:	202-623-6278	Phone:	202-623-7100



Columns by Kenneth Rogoff in *Finance & Development*

Publications by Kenneth Rogoff

Finance & Development

Research at the IMF

IMF Research Bulletin

IMF Seminars, Conferences, and Workshops

Kenneth Rogoff

Economic Counsellor and Director, Research Department

(from August 2001–September 2003)

Biographical Information

October 28, 2005

Mr. Rogoff served as Economic Counsellor and Director, Research Department of the International Monetary Fund from August 2001[1] to September 2003. He was previously a Professor in the Department of Economics at Harvard University and, before that, the Charles and Marie Robertson Professor of International Affairs at Princeton University. Early in his career, Rogoff served as an economist at the International Monetary Fund and also at the Board of Governors of the Federal Reserve System. He is an elected member of the American Academy of Arts and Science as well as the Econometric Society, and a former Guggenheim Fellow. Mr Rogoff received a B.A. from Yale University *summa cum laude* in 1975, and a Ph.D. in Economics from the Massachusetts Institute of Technology in 1980.

Mr. Rogoff has published extensively on policy issues in international finance, including exchange rates, international debt issues, and international monetary policy. Together with Maurice Obstfeld, he is co-author of the 1996 graduate text/treatise *Foundations of International Macroeconomics*.

Mr. Rogoff was awarded the life title of international grandmaster of chess by the World Chess Federation (FIDE) in 1978.

Selected Publications [2]

"Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?" (with R. Meese), Journal of International Economics, 1983; "The Optimal Degree of Commitment to an Intermediate Monetary Target," Quarterly Journal of Economics, 1985; "Can International Monetary Cooperation be Counterproductive?" Journal of International Economics 18, 1985; "The Buyback Boondoggle" (with J. Bulow), Brookings Papers on Economic Activity, 1988; "Sovereign Debt: Is to Forgive to Forget?" (with J. Bulow), American Economic Review,1989; "Equilibrium Political Budget Cycles," American Economic Review, 1990; "The Mirage of Fixed Exchange Rates," (with M. Obstfeld), Journal of Economic Perspectives, 1995; "The Purchasing Power Parity Puzzle," Journal of Economic Literature 34,1996; "Exchange Rate Dynamics Redux," (with M. Obstfeld), Journal of Political Economy, 1995; *Foundations of International Macroeconomics* (with M. Obstfeld), MIT Press,

1996; "Institutions for Reducing Global Financial Instability," Journal of Economic Perspectives, 1999; "The Six Major Puzzles in International Macroeconomics: Is there a Common Cause?" (with M. Obstfeld); NBER Macroeconomics Annual 2000; "Global Implications of Self-Oriented National Monetary Rules," (with Maurice Obstfeld), Quarterly Journal of Economics 117, May 2002, 503-36; "The Modern History of Exchange Rate Arrangements: A Reinterpretation," (with Carmen Reinhart) Quarterly Journal of Economics, forthcoming 2004. An earlier version appeared as NBER Working Paper 8963 (June 2002); "Commodity Currencies," (with Yu-chen Chin), Journal of International Economics 60 (February 2003), 133-160. "Debt Intolerance," (with Carmen M. Reinhart and Miguel A. Savastano), in William Brainard and George Perry (eds.), Brookings Papers on Economic Activity 1: 2003, 1-74.

---

[1] Read the interview: "Rogoff Reflects on Global Economy, Research, Academia, Chess," in the *IMF Survey*, November 26, 2001 (1073 kb PDF file).

[2] For a more complete list see: Publications by Kenneth Rogoff and IMF Working Papers by Kenneth Rogoff.