Chapter 7 argued that despite perceptions of legitimacy dilemmas within the Fund that appeared to have undermined its role in the international monetary system in the realms of surveillance, tutelage, and lending, it continues to have a role to play. Firstly, doubts about the sustainability of the Chinese model in terms of producing welfare enhancing GDP growth suggest that, contingent on reform of the Fund’s view of its client states, it can be an important source of economic ideas within the international monetary system. This represents its greatest opportunity to play a positive (active) role in the global economy. Secondly, the chapter argued that tendencies towards modern mercantilism on the part of emerging market economies mean that the Fund is likely to have an important role to play in the creation, surveillance, and management of a multipolar monetary system. Given the extent to which the appreciation of the yuan would both increase the cost of consumer goods in the advanced economies, and contribute to social hardships within China as its competitive edge was eroded, the chapter suggested that the Fund’s role in the creation and management of this system would once again be beneficial in helping governments to offset the negative consequences of economic policy reform suffered by labour. These roles represent a significant contribution to managing the ongoing contradictions of the capitalist global economy, and specifically the ways in which accumulation and legitimation dilemmas can be managed without escalating into a moment of acute economic or political difficulty.

This chapter examines the role of the Fund in managing the European sovereign debt crises that emerged following the collapse of American sub-prime mortgage markets in 2007 and 2008. It will show how the sub-prime crisis can be explained in terms of overaccumulation, the
product of which has been a squeeze on the labour movement as part of widespread European austerity measures designed to restore the profitability of capitalist production in conditions where access to capital markets has been significantly tightened. It then looks at the role of the IMF in providing finance to Greece. It suggests that given the much larger financial contributions from the EU and ECB that make up the Greek package, IMF conditionality has principally been used to lend credibility to structural and fiscal policy reform within Greece, and also to generate politically acceptable discourses of blame in the wider Eurozone. Given the extent to which the EU and the ECB have effectively lent to Greece with the interests of their own currency union in mind, while there might be doubts about program ownership at the national level, there can be little doubt about it at the regional level. This is because it is counter-intuitive to suggest that the EU and the ECB would lend to a member of its own currency union on conditions that it felt were detrimental to that currency union. The chapter therefore argues that limited opportunities for borrowing from private financiers has given ample opportunity for European monetary authorities to launder preferences through the Fund, with the potential to insulate its banking sector from exposure to Greek debt, and assist in the management of domestic reaction to the austerity package in Greece and the EU more broadly.

The Sub-Prime Mortgage Crisis

Before it is possible to assess the role of the IMF in managing the Eurozone sovereign debt crisis, it is first necessary to develop an understanding of the anatomy of that crisis. Just as the 1970s stagflation was related to the collapse of the Bretton Woods system of fixed exchange rates and the OPEC price increases, the Eurozone sovereign debt crisis has emerged from a trigger moment. There is a general acceptance among academic and popular contributions to the literature that this trigger was the collapse of American sub-prime mortgage markets in 2007, the material cause of which was the overextension of credit to low- and medium-income households for the purposes of purchasing property or consumer goods, without due concern for the ability of those households to repay. In a simple credit system, such a state of affairs is not inherently problematic because the failure of financial institutions to perform due diligence in their lending would either cause those institutions to revalue their lending terms, or if defaults reached a critical level, lead to widespread repossessions and ultimately