The IMF and the Politics of Inequality: The Case of Argentina, 2000-2018

A thesis about change and continuity within the policy preferences of the International Monetary Fund.

Master Thesis

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Abstract

In recent years the International Monetary Fund (IMF) has evidenced an increased attention to inequality, directly responding to concerns about adverse impacts of IMF fiscal consolidation policies. This thesis explores whether and to what extent the increased attention to inequality observed in the agency's public presentation has been accompanied by substantive changes in its policies. It does so through an exploration of continuity and change in the IMF's operations in Argentina. With its recent history of recurrent fiscal crises and turbulent politics, Argentina is a particularly interesting context in which to explore continuity and change in the IMF's policy and practices. The thesis finds that while the IMF's increased attention in equality is indeed reflected in its policies, the changes are modest when compared to earlier loan arrangements and that a gap remains between the agency's rhetorical statements on inequality and the practical implications of its policies. In so doing, the thesis contributes to scholarship on the IMF and the political economy of contemporary Argentina.

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List of abbreviations.

IMF	International Monetary Fund
GFC	Global Financial Crisis
IO	International Organisation
SBA	Stand-By Arrangement
PIT	Personal Income Tax

1.Introduction

Representing itself as the multi-lateral guardian of sound fiscal policy in the context of global economic turbulence, the International Monetary Fund (IMF) remains at the centre of global controversies on fiscal policies in debt ridden and crisis prone economies. Against the backdrop of criticism for is Structural Adjustment Programme undertaken in the 1980s and 1990s, the agency has faced renewed criticism in connection to the global financial crises of 1997 and 2008 and the policies it has promoted for achieving fiscal consolidation in countries most affected by these crises and their lingering effects. Particular concern has centred on the perception that the policies the IMF has advocated as part of fiscal stabilization efforts, have contributed to increased inequality.

Intriguingly, the IMF has grown increasingly cognizant of these concerns, reflected both in its research and public representations. Understanding whether and to what extent these changes have been accompanied by substantive changes in the policies the IMF promotes is less well understood. Gaining insights into this question can help to address a gap in our knowledge that is also of practical interest to policy makers and civil society actors worldwide. This thesis seeks to contribute to efforts to address this question through an analysis of experiences in Argentina.

Argentina represents a particularly interesting setting in which to examine the IMF's activities and, more specifically, questions about the effects of its fiscal consolidation policies on inequality. Globally and in Latin American, few countries reflect tensions around IMF policies more than Argentina. With its history of early industrialization and affluence followed by decade after decade of economic turbulence and recession, Argentina has long-standing relations with the IMF. It is the IMF's relations to Argentina during times of national economic crisis that is the focus of this thesis. Its primary aim is understand whether, how, and to what extent the IMFs stronger emphasis on inequality has influenced its lending to Argentina, specifically as it concerns distributional effects of fiscal consolidation.

The IMF and Argentina introduced

No one questions the importance of the IMF. The Global Financial Crisis re-established the organisation's position and recreated its function as most important international provider of short-term liquidity. In the wake of the 2008 Global Financial Crisis, the Fund adopted a more flexible growth-oriented vision and more rhetorical attention on country-ownership, poverty reduction and inequality in its lending practices was given (Clift, 2018; Broome, 2015; Lütz and Kranke, 2014).

Within this context, the IMF has adopted a different perspective on inequality in relation to economic growth. Instead of placing matters of inequality below the importance of economic growth, the Fund now recognises inequality as a risk for economic growth and financial stability (Ostry et al., 2014). Financial and fiscal stabilization remain at the core of the IMF's institutional objectives. The connection of financial and fiscal stabilization to economic performance and social inequality makes inequality directly relevant to the IMF's work. Amid concerns over its policies, the IMF has devoted renewed attention to inequality, particularly in the context of austerity and prolonged fiscal consolidation. In the policy scholarship it is widely agreed that for fiscal adjustment to be political sustainable and socially viable, fiscal consolidation must be understood to be fair; that is, the burden of the adjustment must be equally shared and should not increase inequality (Clift, 2018). The IMF's own statement on these matters suggest an awareness of this and indeed IMF has changed the way it offers assistance to countries in economic trouble where fiscal adjustment is often the prescription.

And yet recent scholarship suggests that the IMF's increasing attention to inequality and other concerns is not accompanied by meaningful changes in its fiscal policy recommendations. Globally, public sentiment in many countries reflect such concerns and fiscal adjustment periods in IMF borrowing countries have been met with active political opposition. In Argentina, the economic downturn of the economy under the latest IMF bailout and its accompanied austerity measures have been met with massive protest and an electoral shift, raising questions about the extent to which the IMF, its policies, and their real and perceived effects have shaped Argentina's politics.

An enduring and strained relationship

Argentina and the IMF share a turbulent history. Throughout the last seven decades Argentina has endured economic crisis on a regular basis while the IMF has provided more than 20 bailouts to the country. The economic collapse of 2001, known as the most severe economic crisis in the history of the country marks one of the most controversial bailouts of the IMF. The economic crisis led to the biggest debt default in history, very high unemployment and poverty rates and ended in a political disaster with four presidents within only two weeks. The Fund´s role in this crisis has been subject of severe criticism and led to the strong negative reputation of the organisation in Argentina.

The latest national elections held in October in Argentina, have not led to a second term for President Macri. Instead, the country has made a political shift again towards the Peronist and centre left-orientated Fernández, who was able to win the elections with former president Kirchner as his running mate. With the economy as most important point of focus during the elections, Argentine voters rejected the austerity measures of Macri and chose for a return of social spending under Fernández (Washington Post, 2019). Macri´s election, who took office in December 2015, was met with enthusiasm by the international financial world due to his market-friendly position. He promised to achieve zero-poverty and started a transformation of Argentina's economy that was facing pervasive imbalances at the time. He inherited a large fiscal deficit that he tried to tackle through gradual fiscal policy adjustment, but unsuccessfully. In, 2018, he sought help from the International Monetary Fund which ended in the biggest bailout in history of the organisation of eventually 57 billion dollars (The

Guardian, 2018). A turning point in the relation of the IMF and Argentina, that had tried to avoid assistance from the financial institution after the economic collapse of 2001.

By analysing the Stand-By Arrangement (SBA) of 2018 between the IMF and Argentina, this thesis aims to contribute to the literature on change and continuity of the IMF in its role as policy advisor, with a specific focus on its increased attention to inequality. It will do so by focusing on the way the IMF attempts to mitigate the negative effects of fiscal consolidation on inequality in the fiscal policy design of the loan arrangement. To be able to conclude more meaningful insights about the extent of change, the SBA of 2018 will be compared to efforts to mitigate the adverse impact of fiscal consolidation on inequality in the program design of the 2000 SBA.

Chapter 2.

2.1 The IMF- An overview

As one of the most powerful institutions in the world, the International Monetary Fund (IMF) has played an important role in global financial governance. The Fund was created during the UN Monetary and Financial Conference at Bretton Woods in 1944. A conference held to prevent the world from future economic repression like the Great depression of 1930 and to finance the rebuilding of Europe after World War II (Stiglitz, 2017). The IMF came into formal existence as one of the Bretton Woods institutions by the end of 1945 when 29 members signed its Articles of Agreement. The Bretton Woods system formed the basis of the post-World War II monetary order. It was an agreement of an international monetary system that guaranteed some form of fixed exchange rates between currencies. Within the Bretton Woods system currencies were linked to the US dollar while the US dollar was convertible to gold (Eichengreen, 2008). Within this system, the IMF had a role of surveillance and was responsible for monitoring the exchange rates. When certain countries were in trouble and experienced temporarily balance-of-payments deficits the IMF could lend money to these countries to help stabilize their currencies and to prevent them from devaluating (Eichengreen, 2008; Chorev and Babb, 2009). The US dollar became overvalued during the 60's and was no longer convertible to gold when the US withdrew from the Bretton Woods agreement in 1971 (Boughton, 2004). While the Bretton Woods system collapsed several decades ago, the World Bank and the IMF that were created under the agreement, remained, and still remain, important.

Currently, the IMF is an organization of 189 countries. Its principal responsibility has remained the same over time: to maintain financial stability. The IMF nowadays works to "foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world" (IMF, 2019a). Its primary purpose is to ensure the stability of the international monetary system. It does so by keeping track of the global economy and the economies of member countries (economic surveillance); lending to countries with balance of payments difficulties (lending); and by giving practical help to members (capacity development) (IMF, 2019a).

Since the collapse of the Bretton Woods system, the IMF has been subject of criticism for its insensitivity of diversity of domestic conditions and for its commitment to the 'Washington Consensus'. The IMF's lending practices in specific have been subject of criticism for the last couple of decades. Countries that turn to the IMF for financial assistance, often because they don't have access to financial markets, are faced with loan conditionalities. According to the IMF when a country borrows from the institution, its government agrees to adjust its economic policies to overcome the problem that led it to ask for financial aid from the institution. These loan conditionalities often involve spending cuts, fiscal retrenchment and budget deficit reductions as standard responses to periods of economic difficulties or financial crisis within countries (Sitglitz, 2017; Clift, 2018). The Fund's reputation is long been associated with its firm conformity with "Washington Consensus'-style fiscal and intellectual conservatism (Clift, 2018, p.1). The set of ten policies and recommendations, thanking its name from the city where the institutions that advocate these policies house, is criticized for its negative influence on vulnerable and poor groups of societies and on inequality (Noorrudin and Simmons, 2006). IMF conditionality also broadened during the 80's, covering more and more policy areas that initially belonged to the political realm, challenging national sovereignty and domestic autonomy to design policy (Kentikelenis *et al*., 2016). In addition, part of the goal of the IMF to provide in financial stability is by preventing economic crisis. Those that are critical of the IMF argue that every big emerging market that followed IMF prescriptions and liberalized its capital market has experienced crisis. The IMF was not only incapable of preventing these crises, in many cases its financial funds and programs made the situation worse especially for the poor. Crisis in the late 90's such as the Asian crisis, where the IMF helped out the countries affected, the assistance it provided came with conditions which made the downturns worse. The downturns became recessions, and recessions became depressions (Stiglitz, 2017).

The inability of the IMF to effectively address economic crisis and poverty and the critique it received has led to an institutional crisis in the time period after the Asian crisis in 1997-1998 and started a debate about the need for change within the IMF. Consensus seems to be reached that before the global financial crisis of 2008, the IMF was facing an insecure future and was losing legitimacy and significance in the international financial world or even had gone "out of business" (Nunn and White 2016; Broom, 2015; Tan, 2006; Gabor, 2010). The Fund's role had diminished in the aftermath of the Financial crisis of the late 1990's which created a need for change and self-determination (Tan, 2006, p.507). This need to change was created by three interconnected developments; (i) demand for IMF loans and dependency on IMF lending by poor and emerging economies decreased as a result of the boom in primary commodities markets and sustained capital inflows that improved balance of payments positions in these countries. (ii) Secondly, critical voices, including voices within the organisation itself stressed out that the IMF had not been capable of effectively addressing poverty reduction or income inequality, but had been focusing too much on macroeconomic stability. (iii) Thirdly, financial programming, at the core of the IMF's crisis interventions, lost its policy relevance when central banks around the world shifted to inflation targeting instead of monetarism; the funds core policy advice (Gabor, 2010, p.806-807).

For many observers these developments suggested the increased marginalisation of the IMF's role in the world economy. Nonetheless, in practice, the influence of multilateral institutions in international politics, rarely stays the same over time but actually continually moves between a peak and a nadir (Broome, 2012, p.38). During the G20 Summit in London 2009, the IMF recreated its function as most important international provider of short-term liquidity (Nunn and White, 2016; Lütz and Kranke, 2014).

2.2 New politics of inequality

One of the underlying reasons that created the necessity for change after the year 2000 was created by the inability of the IMF to effectively address poverty reduction or income inequality. More recently a trend in academics, organisations and civil society can be traced that shows a new international attention on inequality. Within this trend, the OECD is one of the actors within international politics that has recently given more attention to inequality as a consequence of globalisation and capital liberalization. Numbers of the OECD show that income inequality in OECD countries has reached the highest level in 50 years. This raises social and political concerns and should put inequality at the centre of attention according to the OECD. The recent economic crisis and its effects on society create more reasons to be concerned about this problem (OECD, 2011, 2015).

According to Nunn (2015), it is possible to identify the emergence of a "new global politics of inequality'. This new politics entails a shift in emphasis on inequality that can be identified as a shift away from a relaxed neo-liberal perspective on inequality, that portrays inequality as less important than growth or combatting absolute poverty, towards a perspective that is concerned about the negative effects of inequality on growth, political and financial stability. This 'new politics' is two folded and can be divided into top-down and bottom-up dynamics. The bottom-up dynamics are characterized by a wave of protests and new political movements at both ends of the political spectrum as a response to rising inequality, the effects of the global crisis of 2008 and after, and the way states have responded to it (Nunn and White, 2016, p.188). Top-down dynamics are characterized by the response of international organisations and others, by developing a new interest in inequality in terms of systemic risk (Nunn and White, 2016, p.189). According to Nunn and White (2016) inequality is seen as a risk to the sustainability of the world market expansion in the time period after the crisis (p. 189). It is within these same terms that the IMF has formulated its new established interest in inequality and the relevance of combating inequality for the Funds main objective to maintain international financial stability:

> "IMF research has shown that persistently high inequality is associated with lower, less durable economic growth and greater financial instability—which makes reducing inequality directly relevant to the IMF's work". (IMF, citation from the IMF webpage on inequality).

It is argued that the new interest of the IMF for inequality can be traced back to the year 2010 (Nunn and White, 2016; Clift, 2018)). The risk of inequality for sustainable economic growth and greater financial instability is an underlying reason for this interest. Nonetheless, stronger emphasis on inequality is also related to austerity and prolonged fiscal consolidation in relation to its 'fairness'. Former Deputy Director Lipton emphasised during a speech in 2013 that for protracted fiscal adjustment to be politically sustainable and socially viable, austerity must be understood to be 'fair' (Clift, 2018, p.229). The IMF thereby recognized that it had not given enough attention to the matter of inequality in the way it handled the Asian crisis of the late 90's for example.

This shows two, perhaps interconnected needs for self-determination and change of the IMF during and after the GFC in relation to inequality. The first is created by the legitimacy crisis that the IMF was facing after the year 2000 created by the inability of the Fund to effectively address crisis and problems of poverty reduction and income inequality and related to its firm conformity with the Washington Consensus. The second entails the new understanding of inequality as a potential risk for durable growth and financial instability. In addition, matters of inequality are considered important during times of austerity and fiscal consolidation in terms of political and social sustainability of the fiscal adjustment (IMF, 2014A). The long-lasting association of the Fund with practices of austerity and fiscal consolidation supports the need for attention of this matter for the IMF.

Recent scholarship has addressed the question whether and to what extent the IMF has changed its policies preferences and recommendations during and after the GFC. These works have engaged in the literature on ideational change and continuity within the IMF by focusing on different policy areas. One broader question that has been addressed is the question to what extent the IMF has deviated from the Washington-consensus set of policies. In addition, attention to the implementation of the new politics on inequality within the IMF has been given. Within the discussion about a possible 'New IMF' several sounds and perspectives can be distinguished. The next chapter will address this debate.

Chapter 3.

3.1 Literature review

Policy change in international organisations

Scholarship on international organisations has extended its research on IO's beyond matters of creation and influence on member states in recent years. These scholars have become increasingly interested in the process of change that takes places within IO's (Vetterlein and Moschella, 2014). The power of the IMF as an actor within world politics is understood in different ways, and can be overstated by those that criticise the IMF for imposing its will on poorer borrowing states, or understated by those that belief that the IMF is an extension of the interest of its powerful member states (Clift, 2018). This matters in understanding how policy change occurs within the IMF. Research that engages with change in IO´s and the IMF in particular can be divided into those that argue that IMF policy change is shaped from `the outside´ or from ´within´ (Moschella, 2010; Cwieroth, 2010).

Within this debate, rationalist scholars argue that the IMF is mostly shaped by the interest of the most powerful member states. The policies that the IMF pursues are a reflection of the features of the international economic system and the configuration of states' interest, especially those with the most economic power in the international economic system (Moschella, 2010). Within this perspective, IO's are seen as constructed by states to resolve coordination problems within the anarchic international system (Clift, 2018). The interest of the powerful members then shape which ideas will be taken into consideration within the IMF.

This perspective also supports some of the claims that IMF policies are mostly shaped by the preferences of the US and other big economies (Stiglitz, 2017). Constructivist on the other hand, argue that IO´s, and the IMF in particular, are not just mere tools of states but are independent and autonomous actors themselves enjoying some level of autonomy based on their economic knowledge (Chwieroth 2010, Clift 2018). Constructivist argue that the staff's expert authority influences the policies and activities of an IO and that policy change is thus created from the inside (Chwieroth, 2010; Clift, 2018; Moschella, 2010). As such, IMF's staff are creative agents that are able to revise and rethink pre-existing ideas and practice (Clift, 2018).

The prevailing economic policy wisdom is not a fixed set of policies but rooted in social constructions of economic beliefs. Which economic ideas underpin and construct economic policy, therefore changes over time (Clift, 2018). Ideas can influence policy dependent on the legitimacy they enjoy from relevant actors (Moschella, 2010). The process where international institutions take up new norms and turn these into globally applicable economic policies is a process that creates 'policy norms`. A concept that Park and Vetterlein (2014) define as: "Shared expectations for all relevant actors within a community about what constitutes appropriate behaviour, which is encapsulated within

(Fund or Bank) policy “(p.4)”. The remaining of this chapter addresses the literature that has focused on the extent Fund’s policy has changed after the GFC by examining different policy areas.

Positive change during and after the GFC

Recently the academic debate covering change and continuity within the IMF has focused on the role of the IMF during the global financial crash, the following euro crisis and after. Change or continuity have been tried to identify based on research on different policy areas. Within this debate several voices can be distinguished. Among the most notable of these was an intervention of current Deputy Director of the Research Department of the IMF, Jonathan Ostry and his colleagues. In a widely read article titled `Neoliberalism, Oversold?’ (2016) Ostry emphasizes the IMF’s awareness of problems and criticism associated with the sorts of unreformed neoliberalism the Fund has promoted over the course of several decades while emphasizing the Fund’s need, flexibility, and readiness to adapt, warning that “[t]he increase in inequality engendered by financial openness and austerity might itself undercut growth, the very thing that the neoliberal agenda is intent on boosting” (IMF, 2016, p. 41).

Chief economist Blanchard and former Fund President Christine Lagarde have evidenced similar views, reflected in their movement toward greater acceptance of capital controls to deal with the volatility of capital controls of the Fund (2016, p. 41). Previously the IMF viewed capital controls almost always counterproductive. In addition, the IMF recognizes more than before that complete liberalization of capital flows is not the most desired end-goal. Some level of financial and institutional development is first necessary within a country for further liberalization to be beneficial and without high risks (ibid).

Other developments, particularly in Europe, have boosted the sense that the IMF was indeed changing its approach. In the past the IMF has been subject of severe criticism in relation to its promotion of Washington Consensus policy recommendations and orthodox macroeconomic policies. Whereas today the Fund appear to be more flexible; at least this was the sense from the IMF’s lending in Europe. In an analysis comparing the position of the IMF and the European Union within their joint lending programmes to central and eastern EU-countries during the euro crisis, Lütz and Kranke (2014) find that it was not the EU but the IMF who was proposing more flexible lending policies and that not the IMF but the EU was defending the Washington Consensus policies.

The contrast an approaches could also be linked to the impacts of austerity policies. The unyielding stance of the EU towards EU-members in need of financial assistance during the crisis has been widely associated with adverse social consequences. Deep cuts in public spending has led to reductions of social expenditure. In Europe, the IMF showed greater preference towards a longer adjustment period and a focus on sustainable economic recovery and more evenly distributed costs (ibid). IMF’s focus on protecting the poorest in its policy recommendation for Eastern European countries was based on the new emphasis within the Fund on “social conditionality”. This shows a growing awareness within the Fund of the way economic performance of a country in crisis should be measured: not solely on monetary and fiscal performance but also by measuring the social effect of economic adjustment (ibid).

Change but no paradigm shift

While the perspectives discussed above are quite positive about the emergence of a more flexible and sensitive IMF, another more sceptical group of scholars can be identified. Compared to the extent of change when post-war Neo-Keynesians made room for a new generation of economist shaped by the New Classical revolution in the 1980's, the fiscal policies during the Great Recession do not represent a paradigm shift or a strong break, according to Ban (2015). Nonetheless, important changes can be identified. While a stronger emphasis on gradual fiscal consolidation can be notified and a better balance between revenue and spending measures is supported by the IMF in relation to fiscal consolidation, states' credibility with financial markets remained the primary goal of policy during the GFC and the Great recession at the same time (Ban, 2015, p.179). Ban connects the change in fiscal policy to a significant personnel shake-up within the IMF which suggests that the profile of IMF economist influences transformation (Ban, 2015). Constructivist scholars have specifically put emphasis on the influence of the organization's bureaucracy in the development of ideas within international organisations like the IMF (Moschella, 2010, p.21).

Broome (2015) argues that the role of the IMF and its policy recommendations during the Great Recession indicate a break from its previous role during the decades prior to the recession. The article deals with the question whether the scope of the IMF's contemporary policy advice to borrowers has narrowed compared to its policy advice in the 1980s and 1990s, the years associated with the Washington consensus (2015, p. 148). A change in policy advices compared to significant crisis in history, such as the Mexican peso crisis, the Argentinian debt crisis, the Asian Financial crisis and the crisis related to post communism transition in the early 90's can be identified. New increased flexibility of the IMF regarding temporary controls on capital outflows for borrowers in times of extreme financial distress is a break with the IMF's defence of capital account liberalizations, a global policy norm during the 1990's. By using the ten policy descriptions of the Washington consensus as policy indicators, Broome's research concludes that: "the scope of the IMF's policy advice during the Great Recession narrowed in comparison to its advice during the heyday of the Washington consensus in the 1980's and 1990s" (2015, p. 148).

Contemporary IMF policy advice to borrowers still focuses on fiscal consolidation but with reduced emphasis on promoting the structural economic reforms associated with the Washington consensus era. Nonetheless, these changes do not (yet) indicate a broader shift in the organization's policy paradigm, given the fact that the IMF staff recommendations still focus on achieving economic stabilization through compression of domestic demand and general support for international economic integration and a market based process of allocating economic resources has not evidently decreased (Broome, 2015, p.162).

Both Ban (2015) and Broome (2015) express the occurrence and extent of change in terms of paradigm shifts. Economist that have tried to analyse the Washington consensus, whether this has been from a critical or supportive perspective, have often treated the Consensus as a set of economic ideas, an intellectual product made by economic experts interpreting empirical evidence (Babb, 2012,p. 270). According to Babb (2012), this view overlooks the political dimensions of the Consensus and it should therefore be treated as a policy paradigm based on the definition of Peter Hall. For Hall, a policy paradigm is a powerful and enduring framework of related ideas and standards about policy – a model that specifies both the instruments that should be used in a policy area and the goals that the policy should be addressing (Hall, 1993: 279). A policy paradigm shift would be characterized by the rise of a competing paradigm that radically changes the 'hierarchy of goals and instruments employed to guide policy" (Hall, 1993, p.284; Babb, 2013). Anything less than this would suggests a form of adaption within the existing paradigm, which according to Broome (2015) and Ban (2015) is the case.

Sounding a more sceptical note is Gabor's (2010) research on IMF policy recommendations in East European countries after the economic crisis. While acknowledging the IMF's efforts to reinvent itself by focusing on inflation targeting, Gabor argues that there is no need to be optimistic about a possible emergence of a post-neoliberal IMF as the Fund's policy recommendations for Eastern Europe are not associated with fast economic recovery or a sustainable public debt accumulation. The analysis suggests that the policies that the IMF advocates are still defined by the requirements of financialization (p.827). This perspective also suggest that while some new ideas might have reached the IMF, older perspectives and priorities still remain. Echoing these concerns, Chwieroth (2010) contends that academic work on IO's, including the IMF, do not attend to the possibility that the adoption of new norms results in substantive change in policies or their implementation. That is, once a norm has been adopted, it can still be subject of a struggle over how it should be interpreted or applied (p.2). Along these lines but with a focus on the IMF in particular, Nunn and White (2016) contend that while the Fund's commitment to manage risks and inequality is genuine and more than rhetoric alone, institutional barriers to the implementation into policy and practice exist remain.

The IMF and inequality after the GFC

Beyond the scope of the Washington Consensus but supportive of a reformed IMF, is Ben Clift's affirmative perspective on the institution laid out in his recent book *The IMF and the politics of austerity in the wake of the financial crisis* (2018). His most important argument in this matter entails that:

> '*The Fund's reputation for conformity with fiscally conservative one-size-fits-all neo-liberalism is at odds with its significant shift since 2008 toward growth-orientated, varied, and*

> *contingent prescriptive policy discourse that emphasizes, among other things, tackling inequality" (p.4).*

The IMF's change in relation to inequality specifically can be seen as one of the broader shifts of the IMF in a post-crash context. Although the Fund has put emphasis on protecting the poor and vulnerable for a long time, both within its programmes and within its surveillance practices, the shift can be identified due to a new prioritization of the subject; "The post-crash Fund prioritized tackling inequality through macroeconomic and other policies in a way and to an extent which would have been unrecognizable a decade ago" (p.229). Prioritization of inequality is particularly directed towards former IMF-president Christine Lagarde and her predecessor Strauss-Kahn. These managing directors have framed inequality as something that has to be tackled and as a risk for durable economic growth. Clift's research is focused on the IMF in relation to non-borrowing advanced economies.

Both Nunn and White (2016) and Kentikelenis *et al.* (2016) support Clift's (2018) perception of a stronger emphasis on inequality by IMF staff members and Managing Directors. Nonetheless, their point of view on this changed rhetoric is more sceptical. Their research is not focused on the level of commitment to reducing inequality within the IMF but on whether this commitment has indeed been translated into concrete action in the way the Fund deals with its member states as well.

Kentikelenis *et al.* (2016) address two questions in their work*;* 'Has the policy content of IMF programmes evolved to allow for more policy space? Do these programmes now allow for the protection of labour and social policies?'(p.545). Based on the examination of IMF conditionality between 1985 and 2014 the research identifies a strong increase in the inclusion of poverty-reduction conditions which is a strong break with the IMF's past when the organisation was accused of neglecting the social consequences of its programmes (p.561). Also, labour-related conditionality has declined. Nonetheless, many programmes of the IMF after 2008 still include reforms that the IMF no longer claims to advocate. They explain the gap between the IMF's rhetoric and the real practice of policy reforms that are designed by the Fund by the process of 'paradigm maintenance' and 'organized hypocrisy' within international bureaucracies. IO's like the IMF produce hypocrisy to safeguard the legitimacy of the organisation or to soothe critique (Kentikelenis *et al.*, 2016, p.567; Weaver, 2008). So, one interpretation for organized hypocrisy can be that rhetorical attention given to inequality can help soothe critique and can actually provide legitimation to continue a neo-liberal agenda.

Although signals of concerns about inequality and the need to tackle inequality are present in high profile policy statements including those made by Christine Lagarde, these concerns are not wholly carried through the operational guidelines and practice. Nunn and White (2016) have tested the reflection of the level of commitment in changes in operational guidelines (of which the latest has been presented in 2015) and policy advice given to member countries. In doing so they have chosen for a sample of countries that have either recently (after June 2015) borrowed from the IMF or countries with same and relatively high levels of inequality. Based on the presence of policies that the

IMF itself has identified as policies that can reduce or increase inequality, they have come to their critical conclusion. If possible, findings are compared with immediately prior programme documentation for borrowing countries and concluded that marginal signs of slow and limited change in emphasis might be occurring although it is argued in the article that it might be too early to make these conclusions.

The above discussed works are all very useful to gain better understanding of change and continuity within the IMF. Nonetheless, no consensus about a “New IMF” after the GFC has been reached. It is clear that some change and new ideas have influenced IMF decisions (Ban and Gallagher, 2015). A weaker association with the Washington consensus might be possible to identify but a strong break or new policy paradigm cannot (yet) be identified. Reduced emphasis on promoting the structural economic reforms that are associated with the Washington Consensus can be identified, but contemporary IMF policies focuses more narrowly on fiscal consolidation (Broome, 2015), the very thing that can increase inequality, although this effect can be minimized (in detail explained in the next section). Although renewed emphasis on inequality and an equitable burden of economic adjustment to prevent increase in inequality can be identified in high profile policy statements, the indicated policy advices to reduce inequality by the IMF itself, are not yet wholly carried through policy recommendation towards countries. This gap between the rhetoric of the IMF on the matter of inequality and the actual policy reforms designed by the IMF can possibly be explained through the concept of ‘paradigm maintenance’ or through ‘organized hypocrisy’. Nonetheless, Nunn and White (2016) conclude that although perhaps too early to conclude, marginal signs of slow and limited change might be occurring.

Argentina

The IMF’s turbulent history with Argentina and the overall negative perception of the institution within the country, suggest that matters of ‘fairness’ and inequality were even more important for the social and political sustainability of fiscal adjustment within the latest loan agreement. The talk of a ‘New IMF’ but with the recent events in Argentina and Ecuador in mind, has led former Vice-President of the World Bank and IMF-economist, Otaviano Canuto, address the question whether the IMF has actually learned from its mistakes or it was just talk.

According to Canuto (2019), the IMF went through a phase of self-examination after the GFC. The joke often heard and used that the IMF actually stood for ‘It’s Mostly Fiscal” was bothering some of its leaders that felt the need for the organisation to be less focused on austerity and more on issues like inequality and poverty reduction when making loans and other decisions. Recent protests in Ecuador as response to austerity measures in relation to an IMF loan and the failure of President Macri to win the elections for a second term after his deal with the IMF lead to the question whether the IMF has learned from its old mistakes (ibid).

Canuto argues that two inevitable challenges are faced by the IMF in any case the IMF borrows money to countries in need. First, although policy packages are negotiated with the IMF, governments eventually are responsible to implement these in the correct way. Therefore, it will always remain difficult to say whether mistakes have been made in the design or implementation of policies. In addition, it is easy to point towards the IMF for policy decisions that would also have to be made without IMF involvement or when things go wrong. Secondly, when countries turn to the IMF for help their economies are already under risky conditions, which makes them vulnerable to many factors. When the Fund decides to become a lender of last resort for these countries in trouble, this is automatically combined with risks. In Canuto's opinion, if looked closely to both agreements, the IMF did learn from its mistakes, nonetheless it is difficult to predict how people within a country will respond to austerity measures.

Without doubt, it might be possible to identify certain changes in the 2018 arrangement that are not related to matters of inequality. Still, Clift (2018) has put forward that the need for the IMF to focus on inequality did not only derive from the risk that inequality possess for economic growth but in the broader context of austerity and prolonged fiscal consolidation. According to Deputy Manager Lipton, for fiscal adjustment to be politically sustainable and socially viable, austerity must be understood to be fair, as quoted by Clift (2018, p.229).

3.2 The research question specified

The matter of political sustainability is interesting in the context of the recent elections in Argentina that can be interpreted as a rejection of austerity and of the IMF. By analysing the SBA agreement of 2018 between the IMF and Argentina, this thesis aims to contribute to the literature about change and continuity of the IMF in its role as policy advisor, with a specific focus on the increased emphasis on inequality. It will do so by focusing on the way the IMF tries to minimize the negative effects of fiscal consolidation on inequality. The relation between fiscal consolidation and inequality will be further explained in the next chapter. The question that is central in the remaining of this thesis will be: *To what extent has the IMF's stronger emphasis on inequality influenced its lending practises to Argentina, specifically as it concerns distributional effects of fiscal consolidation.*

Inequality within this question is referred to as net income inequality measured by the Gini-coefficient. Assuming that the IMF has changed and shifted away towards a more flexible neo-liberal policy agenda since the GFC and that a new perspective and emphasis on inequality within the organisation can be traced since 2010, it is to be expected that the program design of the 2018 SBA shows a stronger emphasis on an evenly distribution of the burden than program design of before the GFC. Previous research shows that a gap between the IMF rhetoric on inequality and the actual policy recommendations exists, but that limited change might be occurring. The study of a very recent agreement between the IMF and Argentina can add to this insight. In addition, because of the country specific historical relation with the IMF in terms of crisis, austerity and inequality, it is to be expected that this emphasis is present in order to create and maintain political sustainability and social support. Drawing on the foregoing analysis, the analysis below explores the hypothesis that the IMF's new perspective and emphasis on inequality has substantially influenced the economic program design to minimize the negative effects of fiscal consolidation in Argentina.

Chapter 4.

4.1 The IMF's perspective on inequality and fiscal policy

The new interest of the IMF for inequality is presented in several reports, interviews with Fund Staff members and through high profile statements (Nunn and White, 2016; Clift, 2018). The IMF claims to have engaged in studies about the economic impact of inequality since the late 1980s. In context with United Nations sustainable development goals, the IMF is committed to further research on this topic and to use this work in the creation of their policy advice. According to the most recent *Fiscal Monitor* of 2017 published under the name *Tackling Inequality*, due to differences in talent, efforts and luck some level of inequality is unavoidable within market economies. Nonetheless, an extensive level of inequality within a country can lead to political polarization, erosion of social cohesion and lower economic growth (IMF, 2017).

Important research within the IMF is the work that is done by Deputy Director of the Research Department, Jonathan Ostry. Berg and Ostry (2011) addressed the trade-off between equality and growth and argue that income inequality has a negative effect on economic growth and its sustainability within a country. Thus, inequality matters for sustainable growth and are two sides of the same coin. In addition; "inequality still matters, moreover, even when other determinants of growth duration—external shocks, initial income, institutional quality, openness to trade, and macroeconomic stability—are taken into account" (p.3). Building forward on the work of Berg and Ostry (2011), Ostry *et al.* (2014) question the approach of distribution in tackling inequality to counter the believe that efforts of distribution itself undercut growth. They conclude that redistribution policies in general have positive impact in terms of growth. Only in very extreme cases can distribution have a negative impact on growth; 'Thus, the combined direct and indirect effects of redistribution—including the growth effects of the resulting lower inequality—are on average pro-growth.' (p.4). This work implies the need for a stronger emphasis on inequality in economic policies and suggests income distribution as a tool.

At the core of the IMF's perspective on inequality is the believe that fiscal policies offer the most important tool for governments to address inequality through income distribution (2014a). The IMF has had significant impact on the creation and formulation of national economic policy for the last half century (Ban and Gallagher 2015 p. 131). Government policy has a major impact on the level of inequality in any society and the IMF can have a strong influence over the policies of governments in two ways. Indirectly through their influence on the economic thought and the state of the global economy and more directly through its advice to countries and the conditions attached to its lending programmes (Woods, 2006). In order to answer the question whether the IMF has put a stronger emphasis on inequality in its fiscal policy preferences, it is important to identify meaningful measurement of increased emphasis on inequality by the IMF. The focus of this thesis will in this context be on the ways that the IMF tries to mitigate the negative impact of fiscal consolidation often included in the economic program of loan arrangements, explained here below.

4.2 Fiscal consolidation and inequality

Several explanations are given for the increase in inequality such as technological change and globalization. Nonetheless, more recently two other factors have been identified as well. Although capital account liberalization and fiscal consolidation have benefits, they also lead to increased income inequality. Fiscal consolidation are the policy actions that governments undertake to lower their budget deficits, also called austerity measures by more critical voices. This thus not imply that governments should not undertake these measures according to Furceri and Loungani (2013).

In the (IMF) article *Who let the Gini out,* they argue that these measurements are of course taken for a reason. Nonetheless, their benefits and negative distributional effects should be weighted out. In the IMF working paper on *Fiscal policy and income inequality* a similar argument is made and entails that tax and expenditure measures should be carefully designed for its distributional effects (2014a). The right mix of tools and instruments is dependent on several country specific factors such as the preference for distribution within society or the role of the state and the political economic circumstances (IMF, 2014a). In addition, part of the differences of income inequality between countries can be explained through differences in the redistributive impact of taxes and transfers (IMF, 2017A) but matters of distribution and equity are important in times of consolidation. The IMF argues that: “Equity considerations become even more relevant during periods of consolidation, as they can influence the political sustainability of fiscal adjustment” (IMF 2014a, p.44)

Based on the Gini coefficient there exists clear evidence that times of fiscal consolidation are followed by increased inequality. This impact is still evident even when controlling these outcomes for the impact of recessions and economic slowdowns (Furceri and Loungani, 2013). The impact of fiscal consolidation differs between advanced and developing countries. While the negative effects are evident in advanced countries, it is possible that fiscal consolidation can have a positive impact on inequality in the long term in development countries (through bringing down inflation i.e.) (IMF 2014a). Given the important focus of the relation between fiscal consolidation as part of the IMF agreement and political and social sustainability of adjustment, the focus within this thesis will be on the short-term impact.

The studies of Woo *et al.* (2013) and Ball *et al.* (2013) presented as IMF working papers, give more concrete insights of the negative impact of fiscal consolidation on inequality. By analysing the distributional effects of fiscal policies on income inequality, complemented by a case study of selected consolidation episodes, they have made the conclusion that fiscal consolidations are likely to raise inequality in several ways. Often do governments have the flexibility to design fiscal policy in such way that the negative effects of fiscal consolidation can be minimized though (Ball *et al.*, 2013).

Given that Woo *et al*. (2013) have used a panel of both advanced and emerging economies to identify which fiscal variables have a negative or positive effect on income inequality, the outcomes of this research will be leading for the following analysis.

First, Woo *et al.* (2013) find that a consolidation of 1 percentage point of a country's GDP is related to an increase in income inequality (measured through the Gini coefficient) of around 0.4-0.7 percent within the first two years. Spending-based consolidation and large-sized consolidations tend to have a stronger negative impact on inequality than tax-based consolidation. That is, when a government will cut in government spending in order to address its deficit, this will have a stronger negative impact on inequality than when the government decides to increase its revenues through taxes in order to address its deficit. Moreover, unemployment has a very strong influence on inequality. Fiscal consolidation therefore possess a strong impact on inequality through its influence on unemployment.

Fiscal consolidation often raises unemployment. Woo *et al*. (2013) find that 15-20 percent of increase of inequality caused by fiscal consolidation is created through unemployment. In addition, 1 percentage point increase in unemployment rate is associated with a 0.3-0.4 percent increase in inequality. These negative effects can be mitigated though, through more progressive tax system and better targeted social benefits and subsidies in the larger context of spending reductions. The ratio of indirect and direct taxes matter for the progressivity of the tax system. Direct, as in personal taxes, tend to have more distributional effect than indirect taxes. In addition, universal subsidies tend to be bad targeted and costly and can therefore be better replaced for subsidies that target low-income families. The findings of the article are considered to have important policy implications for the economies that are planning fiscal adjustment;

> *For reasons of equity and also of political economy, fiscal adjustments that are viewed as being unfair are unlikely to be sustainable. It is therefore critical that the costs associated with fiscal consolidations and weaker growth be shared equitably throughout the economy* (Woo *et al.*, 2013, p.20).

4.3 The IMF's influence on fiscal policy

External policy advice that does not resonate with domestic policy preferences is often ignored by national authorities. It becomes harder for national authorities to reject the external advice from the IMF when these recommendations are supported with financial incentives for compliance, which is the case in loan programmes (Broome, 2015). Based on economic surveillance practices, IMF policy is formed and transferred to states through Article IV consultation or through policy discussion over loan programs in the case of borrowing countries (ibid).

The Fund's most known and used lending program are Stand-By arrangements (SBA) that support emerging and developed member states. In times of crisis SBA's can help countries solve their balance of payment problems. SBA's often last between eighteen months and three years (IMF, 2019c). When countries borrow from the Fund, they agree to adjust its economic policies that have made the country ask the IMF for support, according to the Fund's explanation. Historically these loan conditionality agreements include both quantitative measures and structural performance criteria. Structural performance criteria are recently no longer part of IMF's loan conditionality and a strong emphasis is placed on greater national ownership of conditionality since 2002 when the guidelines on conditionality changed (IMF, 2019c). Arriving mutually agreed conditions through policy dialogue became the goal. Although primary responsibility and ownership over the policies is given to the member-states, this does not mean that they should be the only one's responsible for the design and the implementation. An extensive but comprehensible statement on this matter by the European Central Bank states:

> *"In fact, the IMF has a legal obligation to ensure that these policies and the related programmes comply with its ultimate goals as dictated by the Articles. For this reason, conditionality is always negotiated bilaterally with the authorities and represents a mutually acceptable understanding of programme goals, the political economy framework, the country's economic and financial priorities and its capacity to implement reforms within the specified time horizon (IMF, 2012b, p. 31). Thus, the IMF remains fully responsible for establishing and monitoring all policy conditions"(ECB, 2019, p.18).*

In line with previous research (Kentikelenis *et al*, 2016), this thesis will only focus on the content of the IMF-mandated policies and thereby sets aside the question to what extent IMF conditionalities and policy design are owned by instead of imposed upon borrowing countries (p.545). Typically, after a country has requested a loan from the IMF, IMF staff team members will have policy discussions with the government to evaluate the economic situation, determine the overall financial needs of the country and come to an agreement about the right policy response (IMF, 2019b) The underlying agreement of the IMF and a borrowing country is presented through a Letter of Intent by the government further detailed in a Memorandum of Understanding (and often presented with a guiding commentary of the IMF Staff and the Executive Board). These official documents present the underlying economic plan between the IMF and Argentina and will therefore be subject of analysis. This will be the case for the recent arrangement of June 2018 and for the older SBA-arrangement of 2000.

Earlier research has concluded, based on empirical research and content analysis that the rhetorical emphasis of the IMF regarding the issue and risk of inequality has increased since the year 2010 (Clift, 2018; Nunn and White, 2016). Recent work of the IMF on inequality shows the awareness of the negative impact of fiscal consolidation on inequality and the need to mitigate this impact through well-designed expenditure and tax policies within the institution. In this thesis, qualitative content analysis will give inside on the presence of fiscal policy indicators. Empirical analysis is central to give insight on the way fiscal policies are outweighed in the programmes. That is, the focus is on the way certain fiscal policies are compensated for their impact on inequality. The outcome of this analysis might show signs of strong emphasis on inequality in fiscal policy choice. Nonetheless, it is possible that this extent of emphasis has always been present in the policy design of IMF lending arrangements with Argentina. To be able to say something about the extent of change and continuity within the IMF's policy preferences and role as policy advisor, the outcomes of the analysis for the 2018 SBA will be compared to the SBA 2000. The timeframe between 2000 and 2018 covers both the legitimacy crisis of the IMF after the 00's and the identified new perspective and emphasis on inequality since 2010. While a later SBA was agreed in 2003, the SBA of 2000 and 2018 show more similar economic features of a country going into crisis and is therefore selected to conduct a comparative case study.

4.4 Data selection

SBA of 2018

President Mauricio Macri came into office in December 2015. His more neo-liberal and pro-business perspective was met with great enthusiasm from the international community. Macri was inheriting an economy form his predecessor with very high inflation, a controlled exchange rate, a large fiscal deficit and a very high debt after years of excessive government social spending under the presidency of the Kirchner's. Before his arrangement with the IMF, Macri had introduced a series of pro-market reforms and reductions on gas and electricity subsidies in an attempt to lower the fiscal deficit. But inflation kept rising and the government spent beyond its means and kept borrowing dollars (IMF, 2018a).

Throughout his effort to address the economic problems of the country, it is said that the President had tried to avoid very drastic changes to prevent destabilisation of the country with already 29 percent of the population living under the poverty line when he took office (IMF, 2018a). Meanwhile investors lost their trust in the ability of the government to address the economic problems and foreign investment remained absent, and the country faced a severe drought. It was within this context that President Macri asked for assistance from the International Monetary Fund, The IMF at that time was the only creditor that was willing to lend the country money.

In June 2018, the Argentinian government and the IMF reached a controversial agreement for a Stand-By Arrangement of 50 billion dollar (later 57 billion) for a time-period of 36 months, the highest loan in the history of the Fund. After the agreement was reached in June 2018, things did not exactly go according to plan. While fiscal and monetary targets were met, economic recovery remained absent. The ongoing crisis and high inflation and high poverty rates are followed by the return of Peronism and one of the Kirchner's in the highest political roles. According to the new papers the Argentinians had the choice between bad or even worse and chose to return to social spending instead of austerity (Washington Post, 2019). The aim of this research is to determine how the economic program has tried to minimize the negative effects of the necessary fiscal consolidation on inequality.

The economic plan for 2018 and beyond supported by the SBA and the related policies of the government were presented in a Letter of Intent, further outlined in the Memorandum of Economic and Financial Policies presented with a supporting Staff report. The IMF Executive Board has reviewed Argentina's economic performance under the SBA four times since June 2018 of which the latest has been in July 2019. These reviews are important to be able to receive the next financial disbursement. The initial document for the SBA that the government of Argentina and the IMF agreed in June 2018, together with the official documents regarding the IMF reviews of Argentina's economic performance under the SBA will be subject of analysis for the first benchmark.

SBA of 2000

Although the economy of Argentina improved during the 90's, by the end of this decade due to remained disequilibria, a slowdown in the Argentinian economy was noticed. The effects of high unemployment, deficits in public finances, and increased deficits in the balance of payments were intensified due to unfavourable international circumstances such as the crisis in Russia. These external shocks in combination with weakening of internal policies led to bad economic performance in the second halve of 1999. The new government that took office in December 1999 looked for financial assistance in the form of a Stand-By arrangement of 3 years by the IMF. Creating the conditions for sustainable recovery of economic recovery was the main purpose (IMF, 2000A).

The IMF and Argentina share a long and difficult history. The most negative aspect of their relation can be pointed to the economic collapse of 2001. Extensive research has been done on the role of the IMF during the 1998-2002 economic recession that effected Argentina (IMF, 2004). The IMF had been involved in the country's economy for a long time-period. Crisis management started when Argentina was no longer able to have access to sources of financing and reached out to the IMF. It received a loan under the SBA, approved by March 2000. Foreign investors have blamed the IMF for not being critical enough at proposals of the government to solve the crisis while critique from within the country blames the IMF for causing and worsening the crisis. In doing so it has caused severe social and political consequences. After three years of recession, the country defaulted on its sovereign debt by the end of 2001 and only a bit later at the beginning of 2002, the government abandoned the convertibility regime, under which the peso had been pegged at parity with the U.S. dollar since 1991 (IMF, 2004).

As said, the Argentinian crisis of 2000-2002 had severe economic and social impact. More than 55% of the population ended up living under the poverty line in 2001. Argentines still associate

IMF loans with this crisis, and especially the severe austerity measures that the Argentine government had to impose in return for this loan (The Guardian, 2018). After the economic collapse of 2001, one more Stand-By arrangement between the IMF and Argentina was reached in 2003 with President Nestor Kirchner. Nonetheless, the circumstances between the SBA of 2000 and the SBA of 2018 show more similarities given the context of economic recession that turned into economic crisis instead of a time-period that represents the aftermath of the crisis.

4.5 Policy indicators

Woo *et al.* (2013) argue that it is of critical importance to prevent significant worsening of income distribution during a fiscal adjustment period in order to be able to maintain these consolidation efforts. That is, fiscal consolidation that is perceived to be fundamentally unfair will be unstainable or difficult to maintain (Woo *et al*.,2013, p.2). Careful design of the measures is therefore crucial. It is possible to identify policy indicators that can prevent a significant worsening of income inequality through fiscal consolidation in the work of Woo et al. (2013). These are presented in the table below. Mitigating policy measures are characterized with a (+), while measures with negative influence are characterized with a (-).These indicators provide a tool to analyse the recent loan arrangement between the IMF and Argentina.

Objective	**Fiscal policy indicator.**
Well-designed fiscal consolidation through balance of spending and tax-based consolidation.	Spending-based consolidation (-) vs tax-based consolidation (+)
Better-designed tax policies	Indirect taxes (-), direct and progressive income taxes (+)
Better-designed social polices	Higher social spending combined with improved targeting of social spending and subsidies (+), Cutting less progressive spending subsidies (+)
Reduce spending by lowering the wage bill.	Remove jobs (-), Lowering government wages (+, but depends on country specific situation).

Source: Woo *et al.* (2013)

Chapter 5 .

Analysis.

This chapter will analyse the economic program supported by the SBA of the IMF that was approved in June 2018. It focuses on the way the design of the program includes measures to mitigate the adverse effects of fiscal consolidation on inequality, followed by a comparison of these results with the program design of the SBA-arrangement of 2000. This analysis tries to identify whether a stronger emphasis on steps that mitigate the negative effects of fiscal consolidation is present and if this is different from the earlier lending programme of 2000. In doing so, based on the analysis, an attempt to determine whether a stronger emphasis on inequality by the IMF through its fiscal policy preferences is evident.

5.1 SBA of 2018

Rhetorical commitment

The initial program document of the arrangement of June 2018 shows a strong rhetorical commitment on an even distribution of the burden of the adjustment. The government of Argentina under scribes the importance of protecting the most vulnerable and lower income families within society. In addition, it claims that it can no longer be the case that IMF supported programmes in Argentina are associated with austerity, worsening poverty and a decline in living standards (IMF, 2018a, p.33).

Design of Fiscal consolidation

According to the attached Press Release in which the Executive Board of the IMF approves the SBA with Argentina, Ms. Lagarde states that the Government´s economic program is anchored on the goal of achieving federal government primary balance in 2020. At the centre of the economic program lays the intention to increase the speed in which the government has been reducing the federal government's primary deficit since 2016. Reducing public spending to more sustainable levels is key to reach this goal. Remarkably, earlier before the arrangement, the government had been dedicated to a "gradual" pace of fiscal adjustment in order to maintain social consensus which the IMF has addressed as an "understandable preference" (IMF2018a, p.5). Perhaps difficult to justify then, is the choice for a higher speed of the adjustments within the IMF arrangement. The speed of this pace will increase which suggests that the speeding up of this process after the IMF deal can have a negative impact on social consensus. The quantitative objective is to meet a fiscal target of a primary deficit of 2.7 percent of GDP in 2018 and 1.3 percent by 2019 (coming from 3.8 percent in 2017), a fiscal consolidation of 1.4 percent of GDP. Although this cannot be considered a large consolidation (larger than somewhat 1.5 percent of GDP (Woo *et al*, 2013)), on average a consolidation of 1 percent point of GDP is associated with an increase in income inequality (Gini-coefficient) of 0.4-0.7 percent in the first two years. This fiscal target is supported by several fiscal policy measures and a quarterly performance criterion on the primary deficit of the federal government is included in the program.

Looking at the fiscal policies that are presented in the arrangement, it seems that a stronger focus on spending-based consolidation than tax-based consolidation can be identified. No tax increasing measures are presented, although the recently passed tax reform is partly delayed in order to preserve tax revenues. Tax-based consolidation tends to have a less negative impact on inequality though.

On the spending side, a goal to reduce spending on goods and services of the federal government with 15 percent in 2018 is presented. Also a cut in spending on public sector employment both through employment reduction and through a cap on the nominal growth of public sector wages has to reduce the wage bill for the government. Employment reduction in the public sector will lead to unemployment which has a strong negative influence on inequality. It is important to mention that the public administration in Argentina is of big size and grew with 70 percent between 2001 and 2014 (OECD, 2019). Therefore, expenditures on the public sector payroll are high. A cap on the nominal growth of public sector wages will have an influence on the income of public employees. Nonetheless, the effect on inequality of this measure is less clear and depends on the compensation of government employees in comparison to the rest of the country. In high income countries government employers wage is often below average, while government employees in low-income countries are often better compensated than average.

Subsidies and social spending

Subsidies and social spending have a positive impact on inequality. Nonetheless, these measures can be more effective if well targeted. A first thing to recognize is the fact that the program will continue with the reduction on subsidies on energy and transport. These subsidies are referred to as 'inefficient'(IMF, 2018a, p.10) . The aim of this measure is to increase the proportion of the cost of producing of these services in the price consumers are paying. Prices charged to the consumer for gas will increase form 80 percent in 2017, to 90 percent in 2020 and from 60 percent in 2017 to 90 percent in 2020 for electricity. Although this will impact the prices for gas and electricity for all, a subsidy on energy and transport can be considered a universal and therefore less progressive spending subsidy. While subsidies in general tend to be associated with lower inequality, universal subsidy programs are often very expensive and an inefficient tool for redistribution (Woo *et al.* 2013). Instead, expenditure reforms should reduce these kind of subsidies and focus on better targeted subsidies. Thus, in order to impact inequality positively it can be a good thing to cut in less progressive spending subsidies. The further reduction measure entails that the social tariff component will be maintained: those that are not able to afford the higher tariffs will be protected. Nonetheless, the reduction of the subsidies do not seem to be compensated in new and better targeted subsidies, which suggest a negative overall impact of the reduction.

The program emphasizes in multiple ways that protection of the effects of the adjustment on the most vulnerable is very important: “Past fiscal reforms in Argentina have floundered because insufficient attention was given to building the needed social consensus for reform and, particularly, to protecting society’s most vulnerable from the burden of the needed changes.”(IMF, 2018a, p.72). This rhetorical attention has been converted into policy in the form of a program floor on federal government spending on social assistance of 1.3 percent of GDP in 2018 and a level necessary for program coverage in 2019-2020. These programs will target children and pregnant mothers through existing programs and social spending on contributory family allowances will also be protected. In addition, if economic conditions will worsen, spending can be increased with 0.2 percent of GDP per year. Remarkable is the fact that this fiscal goal is a performance criteria of the program, which shows the commitment to this goal.

Still, although social spending is secured through this measure, no additional spending is introduced. This suggests that the most vulnerable in society will be protected but that negative impact of fiscal consolidation on inequality is not covered. The total spending of the programs that fall under this floor of social assistance spending were 1.3 percent of GDP in both 2016 and 2017, which is the exact same as the goal for 2018 (IMF, 2018a). This suggests that this floor of social assistance spending cannot help mitigate the direct negative effects of fiscal consolidation in the same year.

Although no measurable adjustment is presented, the program also presents a revision of the design of social protection programs in order to make them better targeted. This includes a revision of the social tariffs system to make it better targeted. Better designed and targeting social-spending policies can help minimize the negative effects of fiscal consolidation on inequality.

Mitigating measures over time

The arrangement and the economic performance of Argentina, has been subject of quarterly reviews by the IMF. The first review of the program actually represents a strengthening of the policy program in order to reach the more ambitious goal of eliminating the entire primary deficit in 2019 while the earlier goal was 1.3 percent of GDP (IMF, 2018b). To reach this goal revenue-enhancing and cost-cutting measures are initiated by the government. A few mitigating measures can be identified in a draft of the budgetary plan that supports this new goal and which has been submitted to the Argentinian Congress. It includes a plan for more progressive tax-measures in the form of an increase in the wealth tax for the richest of society. In addition, while the floor on social assistance spending will be maintained, an increase of social spending and protection of health spending is included in the draft. Moreover, public employee wages will no longer be excluded from the PIT. Again, since this effect public employee’s in a less developed country, this doesn’t have to have a negative impact on inequality.

The second review shows that the IMF is concerned with the pressures on the government to implement certain policies; “It will be important to resist pressures to maintain energy subsidies and increase wage”(IMF, 2018c). It is important to notice that over time, it seems that the fiscal policies choices made under the arrangement have shifted towards the preference of the people of Argentina and to address the impact of the ongoing crisis. Within this context the third review includes: “The authorities have requested an expansion of the definition of the social expenditure floor and the coverage of the social expenditure adjustor to include these programs and an increase in the cap on the adjustor on social spending (from 0.2 to 0.3 percent of GDP)” (IMF, 2018c, p.15). This is supported by the IMF. On the other hand, tax revenues have shown to be lower than expected. To compensate in case of additional shortfalls the IMF recommends an increase in cuts in economic subsidies amongst other things, which suggests that maintaining fiscal discipline remains the prior objective.

Perhaps the biggest change between the third and the fourth review in terms of fiscal policy directly related to inequality, are the policy measures that were implemented in the first four months of 2019. These measures include forward increases in child allowances, raising the minimum income threshold for payment taxes, and a plan to mitigate the impact of earlier presented tariff increases on gas by providing an interest free payment method that spreads winter and summer bills. Funding on social programmes are extended with 0.1 percent of GDP, which include increased spending on unemployment insurance and scholarship programs for low-income families(IMF, 2019e). All of these measures imply increased social spending.

Concluding statements on the 2018 program

Recent research has shown that fiscal consolidation tends to have a negative impact on inequality, but that this negative impact can be minimized by introducing progressive taxation and targeted social benefits and subsidies in the context of a broader reduction in spending. Thus, the composition and design of fiscal adjustment matter. An analysis of the SBA of 2018 between the IMF and Argentina, suggests a stronger emphasis on spending consolidation than tax-based consolidation and does not include tax measures that will lead to a more progressive tax system. The reduction of inefficient and untargeted energy and transport subsidies are not replaced for better-targeted subsidies programs. In addition, the program protects and maintains the social assistance spending of 1.3 percent of GDP, but does not introduce an increase in social spending to minimize the negative impact of fiscal consolidation on inequality. The above implies that some attention to mitigate the impact of the fiscal consolidation is given, but that little effort has been done in the program design of the SBA of June 2018 to help offset some of the adverse distributional impact of consolidation. Throughout the program it seems that more mitigating measures are introduced. This might suggests that political support for the fiscal adjustment program became more important throughout the arrangement or that matters of inequality get attention once fiscal goals and quantitative criteria is met.

5.2 SBA 2000

Rhetorical commitment

Although it is stated that the government is looking for “a broad-based social and political support” for its effort to address the challenges Argentina is facing, no rhetorical commitment in the overall program goals related to equity and inequality can be identified in the initial program documents.

The design of fiscal consolidation

The program emphasises full commitment to a sustained effort of fiscal consolidation and structural improvement in the public sector finances. This seemed crucial and necessary in order to reduce the growing burden of the public dept on the economy and its growth potential (IMF, 2000a, p.3). The objective was to bring down the federal deficit in 2000 to 1.6 percent of GDP (coming from 2.5 percent in 1999) and to lower the deficit to under 1 percent of GDP in 2001. With the aim to lower the federal deficit both selective cutbacks in spending and a package of tax measures were initiated. This package includes increases in tax rates which will influence taxes on income, excises, fuels and personal wealth taxes, and a broadening of the base of the value-added and income taxes. Income and personal wealth taxes are direct taxes while taxes on excises and fuels are indirect taxes. More direct taxes can suggest a more progressive taxation system which has a positive impact on income inequality. Also, a broadening of the base of income taxes will have an equalizing effect. It is said that the design of this package of taxes, has tried to minimize the impact of the lower income groups, which again suggest a more progressive taxation system (IMF, 2000a).

Reduced government spending will centre on streamlining the civil service through eliminating the number of national secretariats and by cuts in personnel with temporary contracts. This will have a negative impact on inequality through unemployment. Lower federal transfers to the provinces in 2000 and 2001 do also have to contribute to reduced government spending. Improving the efficiency and effectiveness of spending programs is as well part of the plan. The above suggests a fiscal consolidation program that balances in spending and tax-based consolidation. In addition, a more progressive taxation system seems to be introduced. Nonetheless, no signs of new and well targeted subsidies or social spending are introduced.

Mitigating measures overtime

The 2000 Article IV consultation and First Review under the SBA were published in December 2000 and shows a better coverage of the fiscal goals and policies accompanied with a Staff report. It is stated in the first review of the arrangement in December 2000, that the Argentinian government had concluded earlier that year, based on a realistic assessment of the fiscal prospects for the rest of that year, the expected shortfall in revenue could not be compensated fully through additional tax increases or extra cuts in primary expenditure without risking the necessary political and social support for the economic strategy (IMF, 2000b). Therefore a small increase of 0.2 percent of GDP in the federal deficit and debt ceilings was requested and allowed. To emphasis the commitment on fiscal consolidation though, a further reduction of primary expenditures ceiling was presented.

In the social area on the other hand, an increase in allocations is presented where the focus is on the improvement of the conditions of the unemployed and the poor. Budgetary allocations for temporary employment programs are therefore increased. In addition, the government is focused on improving the allocation through more transparent selection of the beneficiaries and by focusing on the head of household. The latter can be seen as an attempt of better targeting of social spending. To broaden the number of beneficiaries, the grants are lowered from 200 to 160Arg pesos (IMF, 2000b). Although this can also be seen as an attempt of better targeting of social spending, the net effect of the lowering of the grant compared to an increase in the amount of beneficiaries is perhaps difficult to determine. Nonetheless, better targeted social benefits tend to have a positive effect on inequality.

The budget for 2001 includes that although primary spending is expected to keep unchanged but low in 2001, expenditures on selected social and public employment programs will be excluded from any cutbacks. An additional budgetary allocation of 0.2 percent of GDP will actually be provided to them (IMF, 2001a). Federal transfers to provinces needed to decrease under the program. The fiscal pact that was reached between the federal government and the provinces includes a fixed amount of revenue-sharing transfers to the provinces and forces provinces with budget deficit to freeze primary expenditure. Nonetheless, during extreme circumstances it is still possible for the provinces to ask for the possibility to exceed this limit when the provision of education, health and security services is compromised.

Concluding statements on the SBA-arrangement 2000

The SBA-arrangement of 2000 supports an economic program that is focused on fiscal consolidation and lowering the federal deficit. The design of the program seems to balance revenue-based and spending-based measures which is better to mitigate negative effects than a spending-based consolidation program. In addition, a more progressive tax system is introduced, but the initial plan does not increase social spending or subsidies. Nonetheless, overtime, increases in social spending on programmes that target unemployment and poverty are introduced. This suggests, that equally to the

2018 program, some attention to mitigate the impact of the fiscal consolidation is given in the 2000 program. Besides the rhetorical commitment from the Argentinian government on this matter in the policy documents of the 2018 SBA, no real signs of additional effort in fiscal policy design can be identified compared to the 2000 SBA.

5.3 Borrowing vs Non-borrowing member state

In light of the above made conclusion about the SBA-arrangement, another interesting comparison can be made. Between 2006 and 2015 there was barely no interaction between the IMF and Argentina which can be related to the rejection of the institution under the Kirchner presidencies. This changed when President Macri came into office in December 2015, and the IMF started to have bilateral discussions with the country again. In this light, two documents share interesting insights on the IMF perspective on Argentina before the 2018 SBA. The Selected Issues paper on Argentina that was completed in October 2016, addresses the question *Argentina's fiscal adjustment: How Can it Be Done?* and evaluates what mix of fiscal policies would lead to the primary budget goals but without too much impact on activity and the most vulnerable.

One first remarkable difference to the 2018 SBA-arrangement compared to the 2016 advice is in the context of the energy subsidy reduction that is continued under the SBA-arrangement. These energy subsidies are poor targeted and regressive. Many poor segments of the population actually lack access to the subsidized products while the richest in society receive a far bigger share of these subsides. The 2018 SBA-arrangement therefore includes a further reduction in these subsidies with maintenance of the social tariffs that were introduced by the government in 2016. The 2016 paper actually seems to be more far-reaching and advices a 'redirection towards well-targeted social programs" of these subsidies which will fully compensate the bottom 40 percent of households through a 0.5 of GDP increase in cash transfers (IMF, 2016, p.51).

Moreover, the 2017 Article IV consultation staff report , states that a 'more assertive reduction in the fiscal deficit' would be beneficiary for Argentina, and should be achieved through reduction in spending on wages, pension and the discretionary transfers to provinces. Nonetheless the Staff report emphasises the importance of the right policy mix: "these measures should, however, be combined with steps to mitigate the impact on the poor, including through targeted cash transfers, protecting the real value of the basic pension and of social transfers, and reducing payroll taxes for lower income workers" (IMF, 2017b). Not an overall tightening of policies is seen as the solution but a recalibration of the policy mix.

The Executive Board Assessment as well supports a lower fiscal deficit and lowering government spending but again stresses the importance of mitigating the impact of this fiscal rebalancing on the most vulnerable. In terms of policy advice, very specific measures to mitigate the effects of the shift in the policy mix are proposed such as; A subsidized tariff to protect poor from the planned elimination of subsidies, protecting the basic pension in real terms, reducing payroll taxes and expanding the coverage of personal income taxes, phasing out family allowances more rapidly, introducing a cash transfer to those of the bottom decile of the income distribution (IMF, 2017b, p.14). Only some of these are actually included in the initial program of June 2018. In addition, nowhere in the attached Press Release or Letter of the Executive Board of June 2018, are the above stated quotes on the importance of mitigating the impact of the measures to reduce the fiscal deficit repeated. This can imply a very strong influence on the design of the program by the government but does not explain why the IMF agrees on a program that is not based on a policy mix it states to prefer. This might suggests that the overall concern for the negative impact of fiscal consolidation is dependent on the economic situation of a country and weakens in relation to severe fiscal imbalances. Moreover it can suggests that the overall concern of the IMF for the negative impact of fiscal consolidation in a country depends on whether the country is a borrowing or non-borrowing country at the time of advice.

5.4 Reflection

The fact that little effort to mitigate the adverse impact of fiscal consolidation on inequality can be identified, does not exclude that the IMF is in no other way concerned with this matter in the 2018 SBA with Argentina. An important negative impact on inequality and a very important weakness of the economy of Argentina is its high inflation. The fiscal policies that have been subject of analysis do not cover policies that directly address inflation. In addition, while the most recent loan arrangement between the IMF and Argentina does not show strong signs of increased emphasis on inequality, this does not exclude that the IMF's very recent loan arrangements with other countries do include a stronger emphasis on preventing inequality in its policy choices. Just as Argentina offered an interesting case due to its country specific features such as the size of its loan arrangement and its turbulent history with the Fund, it is possible that different country economic features lead to different levels of commitment to matters of inequality.

This analysis has tried to shed light on the emphasis on inequality in IMF lending practices by looking into the design of fiscal consolidation programs. The link between fair designed fiscal consolidation and political and social sustainability of the fiscal adjustment made Argentina an interesting case. Within this context it might be necessary to comment that what is designed to have a less negative impact on inequality, can still be perceived as socially unfair within Argentina. An interesting question about the role of the IMF within this context after the crisis in Argentina is raised by ex-IMF economist Kenneth Rogoff. He wonders how the IMF can be effective in helping countries regain access to private credit markets if any attempt to close unsustainable budget deficits is labelled austerity. Rogoff argues that it should be kept in mind that the IMF is a loan institution and no aid agency. Future responds to crisis such as in Argentina should include increases in the resources of international aid agencies according to Kenneth Rogoff (2019) .

6. Conclusion

The IMF was facing a legitimacy crisis during the 00"s that formed the need for change of the institution. The GFC re-established the role of the IMF as most important international lender. It came back with a more flexible growth-oriented vision and more rhetorical attention on country-ownership, poverty reduction and inequality in its lending practices was given.

Within this context, the IMF has adopted a different perspective on inequality in relation to economic growth. Instead of placing matters of inequality below the importance of economic growth, inequality is now recognized as a risk for economic growth and financial stability. Financial stability at the core of the IMF's institutional objectives, makes combating inequality directly relevant to the IMF's work. Moreover, inequality has been addressed by the IMF in the context of austerity and prolonged fiscal consolidation. For fiscal adjustment to be political sustainable and socially viable, fiscal consolidation must be understood to be fair. Therefore, the burden of the adjustment must be equally shared and should not increase inequality.

This thesis has tried to answer the question to what extent a stronger emphasis on inequality can be identified in the lending practices of the IMF, by examining how economic program design is concerned with the distributional effects of fiscal consolidation. In particular it analyses if negative effects of fiscal consolidation are mitigated for the specific case of Argentina. The recent political shift and strong resistance of the austerity measures that are associated with the latest IMF bailout in the country, has made the country an interesting case to examine the extent of policy change in relation to inequality. By answering this question, this thesis has tried to contribute to the literature on change and continuity in the IMF that addresses the question whether a "New IMF" has occurred.

A detailed analysis of the fiscal consolidation plan of 2018, shows that that the fiscal policy program tries to mitigate the negative effects of fiscal consolidation on inequality to some extent. Nonetheless, several negative measures are not compensated in the program design and a stronger emphasis on mitigating the negative effects can only be identified in the longer course of the SBA, which suggest different explanations than IMF commitment to inequality. A detailed analysis of the 2000 arrangement shows less rhetorical ambition to mitigate the adverse impact of fiscal consolidation on inequality but similar fiscal policies to mitigate the negative impact are presented.

This suggest that the concerns that are expressed and the commitment of the IMF to address and prevent matters of inequality is not carried through in policy design of its lending practices. Reason to assume that a gap between the rhetorical commitment of the IMF and the policy it advices and supports still exist. This resonates with previous research outcomes that have not identified a strong break or policy paradigm change. In addition, it might be possible to conclude that impact on inequality in relation to reaching and maintaining fiscal discipline is considered less important once a country becomes a borrowing country.

Canuto (2019), had argued that the IMF had learned from it mistakes in relation to Argentina, but that it is impossible to predict how society will respond to austerity measures. That fiscal adjustment can be political sustainable and socially viable if fiscal consolidation is understood to be fair, suggest that a stronger focus on this matter would be desirable in the future lending practices of the IMF.

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