9 The International Financial Institutions

CHAPTER SUMMARY

This chapter examines the history and policy prescriptions of two international financial institutions that have had a profound impact on international development over the last 70 years: the International Monetary Fund and the World Bank. Although both institutions were set up under the auspices of promoting international economic stability, economic growth, and development, their governance structure, policies, and conduct have been shrouded in controversy. In examining their subsequent evolution and expansion from the time of their establishment at the Bretton Woods Conference in 1944, the chapter focuses on the role of both institutions in promoting Structural Adjustment Programs (SAPs), which have proved to be particularly controversial since the 1980s. It explores how the institutions responded to criticisms during the 1990s, with specific reference to their changing approaches to tackling poverty during this period. Finally, the chapter addresses how the institutions have reacted in the face of the global economic crisis emerging in 2008 and looked at recent reforms that are intended to increase the voice of developing countries within both institutions.

VIDEO RESOURCES

The New Rulers of the World
http://www.johnpilger.com/videos/the-new-rulers-of-the-world
Time 53:54

The New Rulers Of The World (2001) analyzes the new global economy and reveals that the divisions between the rich and poor have never been greater—two-thirds of the world's children live in poverty—and the gulf is widening like never before. The film turns the spotlight on the new rulers of the world: the great multinationals and the governments and institutions that back them such as the

IMF, the World Bank, and the World Trade Organization, under whose rules millions of people throughout the world lose their jobs and livelihood.

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Global Poverty and the World Bank
http://www.c-spanvideo.org/program/GlobalPov
Time 2:21:00

Witnesses testified about the role and effectiveness of the World Bank in combating global poverty. Among the issues they addressed were transparency and accountability of bank activities, public perceptions of bank operations, US participation in bank operations, and maximizing the US ability to influence efforts to reduce and minimize global poverty. They also commented on Paul Wolfowitz's recent resignation as president and the potential impact of the scandal on bank operations.

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The Secret World of Financial Institutions: World Bank, International Monetary Fund (2002)
https://www.youtube.com/watch?v=txTWKJPR5Bs
Time 1:20:12

Joseph Stiglitz discusses his book, *Globalization and Its Discontents*.

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The Global Sociology of International Financial Institutions
http://freevideolectures.com/Course/2928/Global-Sociology/5
Time 61:50

Walden Bello, Philippine sociologist, author, and political activist explains how IFIs work.

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International financial institutions
https://www.youtube.com/watch?v=ZD3ybZhmvWc
Time 6:33

This short clip defines international financial institutions, and briefly describes the major players in the global economic stage.

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Asian Development Bank Corporate Video
https://www.youtube.com/watch?v=U50S76LNwxQ&list=PLNkfF0zX-clYWWDpEgp2CqpKjdpwMQJjg
Time 3:07

This video serves as an introduction to Asian Development Bank's work and its impact. It highlights continuing challenges faced in the region and Strategy 2020: ADB's effort to address these challenges.

REVIEW QUESTIONS

1. What were the original goals of the Bretton Woods System?

2. Why did the East Asian "miracle" lead to a rethinking of IMF and World Bank policies?

3. Discuss the debt crisis of the 1980s and the Bretton Woods institutions' responses to it.

4. The World Bank has argued that its new (post-2000) approach to development is more "comprehensive" than its past efforts. What does this mean?

5. Discuss the impact of the 2008 global financial crisis on developing countries.

6. The World Bank widely championed a new approach to poverty reduction in the 2000s. Explain this approach briefly

7. In light of 2008 crises, the IMF proposed changing of the governance of the institutions themselves. What was this change about?

ANSWER KEY: REVIEW QUESTIONS

1. Initially, the IMF's purpose was to oversee and manage potential disruptions in the Bretton Woods system. It did so by providing short-term financing to countries experiencing balance-of-payments crises. Such countries would use the loans to pay debts, rather than engaging in a deliberate devaluation of their currency in order to increase exports (and thus earnings), a move that would destabilize the fixed exchange rate system. The World Bank was designed to provide low-interest loans to the war-torn countries of Europe for the purpose of reconstructing their economies and helping them re-integrate into the international economy. This role, however, was greatly reduced with the onset of the Marshall Plan grants in 1947 and the World Bank moved more toward providing development loans to the "Third World." (p. 166)
2. The so-called Asian "tigers" (South Korea, Taiwan, Hong Kong, and Singapore) that had experienced such impressive growth since the 1950s clearly did not follow the model of the Washington Consensus. Consistent with neoliberal doctrine, these economies experienced export-growth, *but* they did so through the intervention of the state in the economy to guide the industrialization process. Thus, closer examination of the East Asian "miracle" contradicted earlier IMF and World Bank arguments that liberalization was the only way to development. (p. 171)
3. At the end of the 1970s, many developing countries were struggling with high oil prices and declining export prices. To make ends meet, these countries borrowed heavily from private international banks, which had surplus capital to lend out due to the windfall profits accruing to the oil-producing countries (which had raised oil prices to very high levels). Many loans were given without consideration of the long-term viability of repayment. In 1982, to fight high inflation at home, the US raised interest rates dramatically, which worsened the debt burdens faced by the developing world. Mexico threatened to default on its loans, sparking fears of a global banking system collapse.

   The IMF and World Bank stepped in to provide financing for indebted countries to meet their obligations, but only if they accepted a package of imposed reforms known as "structural adjustment." SAPs ushered in the era of neoliberalism, with its focus on free markets, fiscal discipline, deregulation, and privatization. (pp. 167–168)
4. In the late 1990s, the World Bank's moved toward defining development not only in economic terms, but also in institutional, human, and physical terms. Key areas of focus were identified to include good governance, the rule of law, social safety nets, education, health, rural and urban strategies, and environmental and cultural issues. This new approach is thus more holistic and broadens the scope of development policy beyond its rather narrow agenda during the 1980s and 1990s of simply increasing global economic integration. (p. 170)
5. A number of consequences have been felt across the developing world. These include a global commodity price collapse, reduced demand in the North for developing country exports, decreased flows of investment, reduced aid from the West, increased food prices, a fall in remittances from migrant workers, and finally, due to neoliberal reforms, most developing countries are unable to engage in stimulus spending as many Western countries have done. (pp. 175–176)
6. It refers to a view of poverty that is marked by not just a lack of income but also is manifested in the conditions of "voicelessness" and "vulnerability." Indeed, poor people suffer from an inability to influence political processes (voicelessness) and, because of a lack of assets, are unable to adapt to sudden shocks, such as the illness or unemployment of a primary wage earner (vulnerability). The Bank saw these dimensions of poverty interacting and reinforcing each other. (p. 174)
7. With the relative economic power ongoing with the growth of China, India, and other key developing countries, changes were proposed to the voting rights and seats on the boards of gov-

ernors for both institutions. The voting systems were heavily weighted in favour of the Western countries. The proposed change could give a higher voice to the developing countries. Negotiations are still ongoing to give greater presence to developing countries in terms of voting rights and seats on the board of the IMF. This process, however, is fraught with conflict because various European countries—which stand to be the prime losers in the process—have blocked numerous proposals for change. (p. 176)