International Financial Institutions in the Wake of the Global Financial Crisis

Raeesa S. Khan
Bloomsburg University
Bloomsburg, PA 17815
rk93346@huskies.bloomu.edu

I. Introduction

Two of the world's biggest challenges, poverty and economic destabilization, have managed to stunt and repress the optimal growth and development of human initiatives for generations. A coalition of nations have since established international financial and lending institutions to tackle these issues, the most notable of these, the World Bank and the International Monetary Fund (IMF), being the results of the Bretton Woods Conference in 1944. As prudent as the intentions of these institutions are, they are too well-known for their subsequent failures and shortcomings and have since come under cloud in the wake of the global financial crisis. Many of these criticisms are discredited quickly being tarnished with inconsistency, tied too closely to any number of rumor mill theories, and/or coming from idealistic youth insufficiently versed in affairs as they relate to international development and financial systems; however, many serious issues are raised by credible individuals and experts, including many who work within these institutions, who feel compelled to voice genuine concerns and potential solutions with regard to the rectification of these organizations. Some may assert that they are comfortable with maintaining the status-quo regarding World Bank and IMF policies (i.e. exempting political considerations from the loan approval process); be that as it may, without fundamental amelioration to the current system, it becomes a Sisyphean task to conceive of viable ways in which to overcome development, stabilization, and poverty issues in general, while minimizing the most costly effects of the current economic crisis specifically.

No longer an issue of debate, the current global economic dilemma has been as real as it has been devastating since its effects began showing as early as 2007. Many economists do not consider it an exaggeration to compare today's global economic recession to the one that ensued following the Great Depression in the 1930's. This time, collapse in the United States' sub-prime mortgage market and credit issues quickly triggered a domino effect spreading economic turmoil from one country to the next- a likely consequence in a world growing more interconnected and globalized every day. Worry and fear spread pervasively among the developed countries that seemingly have the most to suffer being so heavily invested and involved in global markets, not withstanding adverse effects on the developing world.

Unquestionably, unfortunate numbers of home foreclosures and sky-rocketing unemployment rates are serious reasons for high alarm and immediate attention; however, unfair or not, it seems as though the most severe consequences will be felt among the smaller market players, the-aid dependent, and the already-financially-stressed who are living in the developing world. Whereas countries in the global north and west have the capacity to create dire stimulus packages, even if such packages mean allowing respective fiscal deficits to swell, three fourths of the developing nations do not have that “luxury” (Sanford 6). Subsequently, research conducted by the World Bank, which provides one of the largest collections of resources as they relate to international economic development, has estimated that in addition to many hardships that all countries will face (i.e. rising unemployment, growing deficits, etc.), over 90% of developing countries specifically are highly susceptible to drastic increases in poverty levels as a result of the global financial crisis (Sanford 6). Since much of the developing world functions under commodity-dependent economies, the additional threat of the high rises in food and fuel prices will only turn what has been a global economic crisis for some into a global food crisis for the others. The desperation thus created by these economic forces, has only been a catalyst to social unrest and, as predicted by Amnesty International's 2009 Human Rights Report, fuel for more serious human rights violations (Shah). As the world battles this economic disaster, only one thing remains clear- as countries in the first world cut spending in foreign aid programs to focus more on domestic affairs, foreign aid cannot be expected to, as it has been in the past, alleviate the economic stress of the poorer developing countries.

In light of this economic and financial shock, deficiencies in financial systems all over the world have been exposed. The leading global lending institutions, the World Bank and International Monetary Fund, have taken up the responsibility of developing and stabilizing struggling economies in an effort to reduce poverty across the globe. However, as noble of an initiative as it sounds, these institutions are often highly criticized for weaknesses and inadequacy in their policies and the impacts these policies have on large sectors of the population and environment. Much to the dismay of the international community, they have thus far, and very transparently, failed to achieve their desired outcomes as demonstrated by the latest economic calamity only encouraged by these institutions' blind commitments to the what *Time m*agazine's economic and business columnist Justin Fox refers to as “rational market theory”- a theory quick to label the regulations many are calling for now, as “evils” of socialism (Fox).

As countries quickly move to tighten spending, a major issue of concern now is the future of these poorer countries that are anxious to see what options for aid and loans will be available to them. For these reasons, it will be of great utility to review popular criticisms aimed at these institutions in an examination of what is responsible for preventing them from reaching their stated goals and further, to analyze what pending changes have been discussed by these institutions in the face of the current global crisis. In addition to determining what errors have inhibited their progress in accomplishing their goals of economic development and poverty reduction, additional investigations will be necessary to assess what potential solutions are available for minimizing economic hardship in the world and redeeming these institutions in the eyes of the global community, as their role in economic affairs is of unrivaled importance.

II. Evolution of the International Lending Institutions

Both international lending institutions were established in Bretton Woods, New Hampshire following the devastating and costly events of WWII. In 1944, it was established that the ultimate aims of these institutions would be to rebuild and stabilize the world monetary systems as well as war-torn economies in Europe and Japan. Initially, their focus was narrow and restricted to countries who participated in the world war; however, following the decolonization of previously colonized regions of the world, membership was extended to these newly developing countries.

More recently, the policies and programs of these international lending institutions have fallen into serious question. Some may recall the Seattle Demonstrations in 1999 which sought to and successfully did disrupt a meeting for a related international organization, the World Trade Organization (WTO). This demonstration, and many others that have taken place all over the world, have truly embodied the anger and frustration felt by the global community towards what many deem to be unfair policies influenced heavily by the WTO, World Bank, and IMF. Since expanding the scope of their original aims and purposes, these organizations have frequently been accused of adopting a "*doctrinaire monetarist approach*," being "*insensitive to the individual situations of borrowing countries*," imposing "*onerous conditions*," being "*ideologically biased in favor of free markets and against socialism*," and "*overriding national sovereignty and perpetuating dependency*," (Steiner 1343). Others have even gone as far as to suggest that these two institutions "i*mpose corporate agendas on poor countries at the expense of people and the environment,"* (Rage).

III. Voices of Criticism

In response to these numerous allegations, it is naturally imperative that they be scrutinized having noted that the complaints expressed against them can too often be disconcerting. The first of these criticisms questions the capacity of these institutions to take on broader roles than initially outlined in the original documents signed in Bretton Woods 1944. As mentioned previously, the original roles and aims of these institutions were limited to development and stabilization respectively. Nevertheless, today it is widely recognized that these two institutions have gained much greater influence in the policy formation of its poorer member countries (Woods 88).

Critics of these organizations like Devesh Kapur, professor at the University of Pennsylvania, have argued that, "*both the IMF and the World Bank now embrace areas of policy it was inconceivable they would touch prior to the 1980's*." As proof of this phenomenon, it is reported that the criterion which determines whether or not a country may qualify for a loan (based on a sample size of 25 countries) has increased from 1980 to 1990 by 16-20 measures (Woods 88). This data demonstrates an expansion of activities of the World Bank and IMF with disregard to the confines of their intended roles.

Having stepped out of their respective boundaries, the two organizations now take responsibility for policies that would be better rendered by separate specialized agencies. Ngaire Woods, professor of International Political Economy at University College, Oxford, addresses precisely this issue by pointing out that, "*a policy affecting the distribution of health...would be expected to be the responsibility of a minister of health*;" however, this is not the case. It has become increasing apparent that, "*negotiations with the Fund and Bank distort...debates, subjecting broad areas of policy to the narrow focus, priorities and analysis of the central bank and finance ministry--even though neither necessarily has the desire, mandate, accountability or expertise to evaluate and formulate policy in respect of these broader issues*," (Woods 89).

This is reminiscent of a lesson taught in Plato's Republic in which the Socrates “character,” in finding a suitable definition for justice, warns against the potential disaster that may occur when individuals engaged in a particular role or profession, i.e. banker or financial minster, meddle in the affairs of another, i.e. healthcare expert. The responsibilities of the former include expertise in accounting, producing and increasing profits, and so forth, much different than the responsibilities of the latter which may include expertise in various healthcare systems, medicine, human anatomy, etc. Imagine allowing your doctor, whose primary concern is his or her patient's health, to do your banking. An appeal to a false authority, indeed, but doctors are usually regarded as representative of our brightest, and so it is not a stretch to believe them capable. However, now imagine allowing your banker, whose primary concern is profit generating, to be your doctor. The consequences would be frightening, and expensive, for us to say the least- and for Socrates, they would be unjust. This ancient insight from Plato's Republic should serve not just as a lesson in history, but as a warning to these powerful institutions of the corruption that such systems facilitate. These financial systems simply will not function harmoniously if experts in one field, i.e. banking, continue to interfere and mandate what should properly be under the direction of experts in another, i.e. healthcare.

A second criticism directed at the IMF addresses the power structure and voting procedures within the organization. Member countries' voting rights are based on how much they have contributed to the organization. This entails, some would say *ensures*, that countries with larger capital pools, mainly those countries in the global north and west, will have greater say in any decision making relative to granting loans and balance of payments support. The United States alone has close to 20% of the total voting rights when it comes to granting a loan to a member country (Steiner 1343). In effect, this means that if a country like the United States votes against the granting of some loan, that country seeking loan approval has a greatly diminished chance of ever obtaining it.

Hegemonic tyranny is the source of much apprehension in this case. What else is to be expected when, based on the voting structures of these institutions, the western countries virtually have sole veto power. Even China, a major contributor of capital to these institutions, has little power or influence in decision making. Adding even more suspicion is the fact that the president of the World Bank is always appointed by the United States, while the head of the IMF is always appointed by

European nations. This greatly diminishes the voices and concerns of the developing member countries. If western countries continue to maintain so much control, allowing no opportunities for reform to their power structure, unfair demands, disguised under any one of many structural adjustment programs, will continue to be placed on and permitted to shape policy in the developing nations. Ironically, the countries interfering in the policy making of poorer member countries are the ones who so highly exalt the importance of national sovereignty in their rhetoric.

This unfair power structure is only reinforced by the Executive Director membership in the IMF which fails to represent all member countries equally. Only large contributors to the IMF, like the United States, the United Kingdom, Germany, Japan, France, and Saudi Arabia (due to its oil influence), receive their own Executive Directors. Representation of China and Russia has increased somewhat lately, but most other members are lumped into one group with one Executive Director per group (Woods 84). This means that despite the fact that, "*11 African countries have an 'intensive care' relationship with the [IMF],*" they will be, "*represented by just one director and have a voting share of approximately 4%,"* compared to the U.S.'s 18% (Woods 84).

A third criticism addresses the accountability of the organizations. Because members are not voted in or out by the public, it is widely recognized that international organizations will not be held responsible for wrongdoing in the same way democratic governments are (Woods 84). Outside the jurisdiction of any particular democratic government, checks and balances are just wishful thinking when it comes to these lending institutions. As it is, their executive boards are distant and meet just once a year rendering any kind of liability as meaningless (Woods 84). The list of activities and responsibilities under these organizations is growing so fast that in the future, it will be impossible to conceive of any kind of checks and balances system to oversee actions of the institutions and maintain some kind of accountability. Without this, corruption of the worst sort will override any good intentions of the organizations. In fact, it is already known that much of the money given by the World Bank goes straight into the pockets of corrupt political officials. For instance, according to the documentary The New Rulers of the World, up to one third of the loans, an estimated $8 billion, given to General Suharto, a former Indonesian president, went directly to his "*cronies*" (New Rulers). The World Bank, having given the loan, could have added provisions that would have prevented such excesses from ever occurring.

Yet another criticism is aimed directly at the implementation of conditionalities, or "*agreed arrangement[s] specifying the conditions governing"* the World Bank and IMF's assistance to a member country involved in one of the highly controversial structural adjustment programs (Mussa 79). These institutions often subscribe to a “one size fits all” arrangement when it comes to facilitating the development in a poorer country (Shah). In other words, these conditionalities rest on the assumption that whatever works for a developed country, like Germany, has equal potential for success in every other country.

Such agreements also involve human rights violations as member countries are forced to adopt free-market policies in exchange for loans. This often means having to remove subsidies that keep popular foods inexpensive and devalue their currency, even though it is well-known that in the long term such devaluations result in inflation. The World Bank, IMF, and WTO are all guilty of exerting pressure on member countries to become more economically competitive no matter what the human and environmental costs are. This is not conjecture, but a fact of what inevitably occurs as these organizations make it mandatory to factor in *only* economic considerations in their deliberation process.

What are some of these human and environmental costs? Completely consistent with free-market principles, governments of the developing member countries are ultimately forced into reducing their labor costs for the purpose of attracting the attention of foreign companies through an abundance of guaranteed cheap labor and resources. Unfortunately, labor costs are reduced in the most crucial areas necessary for a healthy environment and decent life. The result is the denial of workers' rights, low wages for workers, absence of social security, child labor, forced labor, unsafe/unhealthy working conditions, widespread discrimination, vicious cycles of poverty, pollution, and the destruction of important habitats and species.

On one hand, these institutions purport to increase standards of living for all individuals, but on the other hand, they play a huge role in pressuring countries to sacrifice decent living standards on behalf of thousands, even millions, of their own citizens for the “higher” purpose of economic growth that will only be enjoyed by a lucky minority in the end. Institutions like the World Bank are supposed to be aiding in the reduction of poverty. Nevertheless, Nobel laureate Joseph Stiglitz, former chief economist of the World Bank and now a professor at Columbia University, has pointed out that, "*While a few countries have succeeded in rapid economic growth, narrowing the gap between themselves and the more advanced countries, and bringing millions of their citizens out of poverty, many more countries have actually seen that gap grow and poverty increase...*" (Steiner 1312). This has been a common tactic of these organizations- using conditionalities to force poorer countries into adopting western policies and allowing for unrestricted company access to their respective natural resources and labor force.

A final, but interconnected, criticism of these institutions is aimed at their seemingly blatant disregard for human and environmental rights during their decision making processes. For example, “turning a blind eye” and providing loans to countries which are transparently stealing and auctioning land belonging to indigenous populations to high bidding multinational corporations for the purpose of encouraging foreign investments would fall into this category. It may be of importance to recall Article IV Section 10 of the World Bank's Articles of Agreements which stipulates that, "*The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced on their decisions by the political character to their decisions, and these considerations shall be weighed* *impartially in order to achieve the purpose stated in Article 1."* Critics are known to blast this requirement of the World Bank's articles (the IMF also shares a similar stance) on several grounds.

To investigate this issue, it may be beneficial to look at a specific case in which the World Bank offered a $100 million loan to Russia. The Russian government is infamous for its part in the blatant discrimination against Chechnya's civilian population. The World Bank was criticized for, "*undermining its fundamental development goals,*" by offering the loan (Steiner 1335). In its defense, the World Bank responded that it is policy that political considerations be exempt from such deliberation. However, the fact that the money would go into political purposes such as military expenditures which would be used to kill more of Chechnya's civilians should, without question, be of weighty influence when deciding whether or not to offer member countries loans. Human Rights Watch Executive Director Kenneth Roth notes that, *"The Bank's Articles of Agreement and its loan agreement...must be interpreted in the context of...broader international legal framework*." In other words, the Bank should not be allowed to offer loans, which in turn finance the breaking of international laws, treaties, and norms. Additionally, Roth points out that "t*he Bank is required to weigh only 'economic considerations', but it is further required to do so in a manner consistent with its core purpose*," (Steiner 1336).

That in mind, expecting economic development while simultaneously ignoring human rights issues and investments in human capital is futile. The Nobel laureate Amartya Sen recently wrote an article for *The Tribune: Chandigarh, India* whose headline sums up this issue: it reads, "Growth can't happen with an empty belly," (Sen). If one wants to see a real return on an investment, human capitol could prove to be very promising. Workers are better enabled to perform their jobs, concentrate harder, and focus longer when they are well-fed, well-educated, well-rested, and in good health. Anything less will ensure less than optimal performance- an obvious hindrance for any kind of development.

The fact remains, the World Bank and IMF will simply have to do better. Poverty is a human rights issue and if their stated goal is to allay that particular problem while requiring at the same time that political considerations be exempt from deliberation on the loan granting process, then one must acknowledge the obvious (as demonstrated by the loan given to Russia discussed above) - there most certainly exists an inherent conflict between these institutions' policies and their stated goals. In other words, these systems are prevented from *ever* reaching their ultimate aim, reduction of poverty, by virtue of their *own* policies.

IV. Redeeming the World Bank and IMF

Although the World Bank and IMF have been criticized frequently on various counts, it would be unfair and also incorrect to say that these organizations have had no positive effects and benefits. The World Bank has produced one of the largest sources of research and information for development related issues (Steiner 1334). It is also active in many areas including, but not limited to, agriculture, conflict, education, energy, gender, health, trade, industry, and water resources. In addition to contributing billions to a wide variety of programs that combat deadly diseases, promote development projects like building dams and infrastructure, and raise awareness about important global issues, the World Bank is also accredited for hosting educational workshops where the workings of new technological breakthroughs are taught and conferences in which debates on controversial issues may be held (World Bank). Similarly, the IMF has contributed billions to reducing poverty and funding studies on development. The importance of their contributions to the global community should not be underestimated.

Furthermore, it should be noted that these institutions do not always deny accusations made against them; on the contrary, they are often quite self-critical. Joseph Stiglitz, again former chief economist for the World Bank, remains one of the most outspoken critics on both of these lending institutions when it comes to a number of issues. Also, in 2003, the World Bank openly admitted to inadequacy in their policies as they relate to financial integration in the world- again, demonstrated by the inability to isolate the United States' economic break down from spreading and implicating other nations as well (Shah). Since the recent economic shock, there is even some evidence that these institutions are allowing the developing nations, who have been calling for reform all along, to be heard with greater force than in the past (Shah). Current World Bank President Robert Zoellick has even acknowledged the limitations that are imposed on progress with having a G7 and has suggested the development of a “steering group” made up of more nations (Shah).

V. Potential Solutions/Reformatory Measures

With these things in mind, it should be mentioned that it is not the aim of this essay to have its readers conclude that the best solution to these ills is to do away with the lending institutions altogether. Without them, it is very difficult to conceive of how humanity might flourish given how heavily and inevitably globalized our world has, and will continue to, become. The goal is to conceive of ways in which the current systems may be ameliorated so that the aims of these institutions can be viably reached. As early as 1999, former British Prime Minister Tony Blair discussed improvements to the major lending institutions during a public broadcasting of his speech before the Chicago Economic Club. These reforms included increasing the, "*transparency about individual countries' economic policies through adherence to new codes of conduct on monetary and fiscal policy; about individual companies' financial positions through new internationally agreed accounting standards and a new code of corporate governance; and greater openness too about the IMF and World Bank discussions and policies,*" (Blair). By doing this, they make it easier for the public to hold them accountable.

In addition to Blair's call for reforms, many have called for debt relief and debt cancellations. Such measures would be crucial in easing the economic transitions of developing countries without shifting the burden directly onto the civilians of any particular country. These institutions ought to be responsible for providing more realistic options for poorer member countries, instead of indebting them and at the same time requiring them to increase spending on various other development projects. For example, the IMF has been known to pressure Nicaragua into meeting its Millennium Development Goals while simultaneously paying off their loan debts ("One hand"). The money for all these initiatives is simply not there, and thus, it is unfair to hold Nicaragua, like so many other countries, to such rigid standards.

For human rights advocates, the most promising avenue for reform lies in consultations with NGO's. NGO's are rarely given enough credit for their ability to put overdue pressure on these institutions to respect the rights of various interest groups which they represent: workers, women, children, etc. This is crucial in a system that views economic development as a higher goal when compared with the goal of establishing universal human rights norms. Although both issues should be regarded as two sides of the same coin, both requiring undue attention, the prevailing attitude in the world of finance is still one that sets aside questions of human rights issues to instead focus on trade and development issues. Subsequently, support for NGOs representative of various interest groups is of utmost importance.

Furthermore, since both the World Bank and the IMF headquarters are located in Washington, DC, it is widely recognized that the United States is able to influence the working of these institutions and their policies on a level most would find unfair (given the weight of their votes in these institutions as it is). It would be good for public relations and fairer for their operations if the headquarters of at least one of the institutions relocated to another constituency, preferably in the Middle-East of South Asia where there is tension to sooth. Not only would such a move lead to improvements in terms of fairness in the inner workings of these institutions, but perhaps even to help regain the respect in the view of the international community.

Ngaire Woods, who addressed the inadequate expansion of the activities of these institutions as well as the unfairness in their power structure, also proposes the following promising reformatory measures in repairing the structure of these lending institutions:

1. An open and legitimate process of appointment for heads of the institutions;
2. A stronger role for the Executive Boards in overseeing the work of the institutions;
3. A structure of representation which better reflects the stakes of all state members;
4. measures which assist in enhancing the accountability of Executive Directors to their governments and voters (Woods 100).

With regard to the recent economic crisis, countries have taken whatever measures deemed necessary to stimulate the economy. These measures have included, but are not limited to, increasing borrowing, increasing spending on development projects such as infrastructure, and reducing interest rates and taxes (Shah). At the recent G-20 Meeting which took place in London of April 2009, additional pending measures for reform as they relate to these institutions were considered. These include increasing core resources available to these institutions for loan disbursement (although many countries have expressed an unwillingness to do this), expanding New Arrangements to Borrow (NAB) resources specifically for key players in the world market, creating new Special Drawing Rights (SDR- international currency issued by the IMF) for member countries, and potentially issuing bonds to compensate for a lack of increased core funds for these institutions to name just a few (Sanford 13). Unfortunately, it is a great source of apprehension whether the funds necessary to meet the world's loan requirements will be met, and only time will tell.

Finally, having widely recognized and felt the most devastating impacts of a “free” market, many are now demanding greater regulation in our financial systems- regulation which involves input from more than just the developed countries. No longer can those who once denounced regulation, only to later demand a bailout, hail the “rational market theory.” This means, among many things, that following the traditional “one size fits all” policy for economic development should no longer be viewed as a viable option for economic stability or reform. This also entails that countries most dependent on these institutions, should be allowed a greater say in the decisions affecting them. The matter of increasing the weight of basic votes to allow for greater say is pending as of now, but needs to be implemented soon if these institutions are serious about exiting out of our economic slump (Sanford 14).

VI. Conclusion: The Importance of ILI Evaluations

In conclusion, it is hoped that this brief evaluation of the major lending institutions, their policies, their progress, and the criticisms aimed at them help not only to refresh its readers' knowledge of the organizations and allegations which surround them in light of the international financial crisis, but also to help them make informed decisions as active members of a larger global community. By understanding these organizations and how they operate, we can influence their decision making such that it encourages transparency and accountability. Since both the World Bank and the IMF headquarters are located in the capital of the Washington D.C., and because the United States has heavy influence on these institutions, it makes sense that a more informed American public could really affect government operations within these institutions. This could lead to improvements within them and perhaps even help to regain the respect of the international community.

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