

Background on the IMF

Taken from the Bretton Wood Project website

The creation of the IMF

The IMF, along with the World Bank are collectively known as the Bretton Woods Institutions. They were set up at a meeting of 43 countries in Bretton Woods, New Hampshire, USA in July 1944. Their aims were to help rebuild the shattered post-war economy and to promote international economic cooperation.

The creation of the World Bank and the IMF came at the end of the Second World War. They were based on the ideas of a trio of key experts who wanted to establish a post-war economic order based on notions of consensual decision-making and cooperation in the realm of trade and economic relations. It was felt by leaders of the Allied countries, particularly the US and Britain, that a multilateral framework was needed to overcome the destabilising effects of the previous global economic depression and trade battles.

Proponents of the new institutions felt that global economic interaction was necessary to maintain international peace and security. The institutions would facilitate, in Morgenthau's words, "[the] creation of a dynamic world community in which the peoples of every nation will be able to realise their potentialities in peace".

It was hoped that the IMF would create a stable climate for international trade by harmonising its members' monetary policies, and maintaining exchange stability. It would be able to provide temporary financial assistance to countries encountering difficulties with their balance of payments.

How Does the IMF Operate?

The IMF was conceived primarily as a supervisory institution to promote international monetary cooperation and facilitate the growth of international trade. This is to be achieved through maintaining monetary exchange stability and assisting member countries who are experiencing balance of payments problems.

Upon membership of the IMF, member countries deposit a sum of money known as a 'quota subscription'. This sum will determine how much money the country can draw from the Fund in times of crisis. Quotas also determine the voting rights of each member country, which means, like the World Bank, decision-making power in the IMF rests with the countries with the highest contribution.

The IMF lends money to member countries faced with balance of payments problems, i.e. when a country fails to

earn sufficient foreign currency—through exports or provision of services—to pay for its imports. In return for financial assistance from the IMF, borrower countries must implement a set of economic reforms aimed at overcoming their balance of payments problems. Loans are disbursed in instalments and payment is tied to the countries' compliance with the structural adjustment policies.

What are the main concerns and criticism about the IMF?

Criticism of the World Bank and the IMF encompasses a whole range of issues but they generally centre around concern about the approaches adopted by the World Bank and the IMF in formulating their policies. This includes the social and economic impact these policies have on the population of countries who avail themselves of financial assistance from these two institutions.

Critics of the IMF are concerned about the conditionalities imposed on borrower countries. The IMF often attaches loan conditionalities based on what is termed the 'Washington Consensus', focusing on liberalisation—of trade, investment and the financial sector—, deregulation and privatisation of nationalised industries. Often the conditionalities are attached without due regard for the borrower countries' individual circumstances and the prescriptive recommendations by the IMF fail to resolve the economic problems within the countries.

IMF conditionalities may additionally result in the loss of a state's authority to govern its own economy as national economic policies are predetermined under the structural adjustment packages. Issues of representation are raised as a consequence of the shift in the regulation of national economies from state governments to a Washington-based financial institution in which most developing countries hold little voting power.

Critics of the IMF are also apprehensive about the role of the Bretton Woods institutions in shaping the development discourse through their research, training and publishing activities. As the IMF is regarded as an expert in the field of financial regulation and economic development, their views and prescriptions may undermine or eliminate alternative perspectives on development.

There are also criticisms against the IMF governance structures which are dominated by industrialised countries. Decisions are made and policies implemented by leading industrialised countries—the G7—because they represent the largest donors without much consultation with poor and developing countries.