The International Monetary Fund: A Look Back

- The International Monetary Fund (IMF) was created in July 1944, under the Bretton Woods system which consisted of three international organizations:
  1. The International Monetary Fund (IMF): With the purpose of creating international monetary cooperation.
  2. The International Bank of Reconstruction and Development (IBRD): With the purpose of international development assistance and investment.
  3. The International Trade Organization (ITO): With the purpose of international trade organization.

- These three elements of the Bretton Woods system were conceived in a context of war, with the memories of high unemployment, hyperinflation, depression and fluctuating exchange rates which characterized the 1930's.

- However, The International Trade Organization was rejected by US Congress, and in place the General Agreement of Tariffs and Trade was developed, and enacted in 1948 in place of the ITO.

The Roots of the International Monetary Fund

- The Bretton Woods Accord: It’s Beginnings
- The Founding Fathers:
  1. Harvey Dexter Smith
  2. John Maynard Keynes

The Origins of the Bretton Woods Institutions

- The development of the Bretton Woods system can be traced back to the two original men who drafted its earliest proposals: Harry Dexter White (US) and John Maynard Keynes (UK).

- Both men agreed that the economic distress during the inter-war period could only be avoided in the future by international economic cooperation.

- In 1941 and 1942 the first drafts were created and upon further negotiations in 1943, the three international systems were adopted in July 1944 at a United Nations gathering in Bretton Woods, New Hampshire.

- Despite World War II’s end being more then a year away, the Bretton Woods delegates from 45 nations and a number of international organizations, were in the process of erecting a framework for future international economic cooperation.

Harvey Dexter White: An American Perspective on International Economic Stability

- Harvey Dexter White: Greatly influenced by the experience of the Great Depression in the USA during the 1930’s.

- Primary Objective:
  - Establish a “mechanism” or “stabilization fund” that would ensure the stability of currencies and avoid the recurrence of devaluations and restrictions on payments and the development of a “bank for reconstruction and development”
  - Became the central figure in the birth of the World Bank, by acknowledging that loans from creditor countries to debtor countries was essential to avoid economic chaos, and without them, realized there could be no economic recovery effort in a post war period.
  - Therefore, his work greatly influenced the development of the World Bank.

The Presenters Overview

- The Bretton Woods Accord: It’s Beginnings
  - A look at the Founding Fathers:
    1) Harvey Dexter Smith (US)
    2) John Maynard Keynes (UK)
  - “Video Clip”

- The IMF: A Brief Overview of what it is today

- The Role of the International Monetary Fund
  - The Five Primary Objectives as Outlined in Article 1 of the Articles of Agreement

- The Three Primary Functions of the International Monetary Fund
  - Surveillance
  - Conditional Financial Support
  - Technical Assistance
  - “Video Clip”

- Criticism of the IMF: Is there international acceptance?

- Conclusion
Harvey Dexter White…
On the Problems Facing the World Economy Following World War II

“No matter how long the war lasts, nor how the war is won, we shall be faced with three inescapable problems: to prevent the disruption of the foreign exchanges and the collapse of monetary and credit systems; to assure the restoration of foreign trade; and to supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, relief and for economic recovery. If we are to avoid drifting from peace into a period of chaotic competition, monetary disorders, depression, political disruptions, and finally into new wars with as well as among nations, we must be equipped to grapple these three problems and to make substantial progress towards their solution.”


John Maynard Keynes:
A European Perspective on International Monetary Stability

John Maynard Keynes: The inspiration for his proposal came from a much different perspective, as the Brit was primarily concerned with the post-war prospects of his native country.

Primary Objective:

- Proposed the idea of an international clearing union, aimed to solve the problem of a shortage of cash flows, onset by industrial shortages.
- The imbalances in cash flows, which were caused by the time-lag involved in the process of industrial reconversion from wartime production to normal production, would be managed through a set of rules which governed the overdrafts on the union acquired by the debtors and the positive balances by the creditors.
- Original Plan entitled, “Proposals of an International Currency (clearing) Union” which later became the International Monetary Fund.

John Maynard Keynes…
On the Need for an International Clearing Union following World War II

“This international Clearing Union would give us (the UK), and all others, the great assistance of multilateral clearing, whereby we could offset the favorable balances due to the United States or South America or elsewhere. How indeed can we hope to afford to start up trade with Europe (which was very important at the time) during the relief and reconstruction period on any other terms.”

—John Maynard Keynes 1941 plan entitled a, “Proposals for an International Currency Union” (Paragraph 10)

A Brief Overview the IMF Today

- Current Membership: 184 Countries
- Managing Director: Horst Kohler, a German nationalist (resigned March 10th, 2004) IMF is currently seeking a replacement
- Staff: 2,680, from 141 different countries
- Total Quotas: $299 Billion
- Loans Outstanding: $107 Billion
- Technical Assistance provided: 365 years during the 2003 Fiscal Year
- Surveillance Consultations: 136 countries during the 2003 Fiscal Year, with 96 of them publishing their reports voluntarily.

The Role of the International Monetary Fund
The Role of the International Monetary Fund

- The goals of the IMF are defined in Article 1 of the Articles of Agreement in relatively broad terms, which over time has allowed the IMF to adjust and readjust its role in the constantly evolving economic world. The 5 primary goals of the IMF are listed below:
  - Facilitating the expansion and balanced growth of international trade
  - Promote exchange stability
  - Assisting in the establishment of multilateral system of payments
  - Making its resources available to members experiencing balance of payment difficulties/Promoting international monetary cooperation

(source: International Monetary Fund  www.imf.org)

How the Role of the IMF Developed?

- Began operations in Washington, D.C in May of 1946.
- Adopted a par-value regime (also referred to as the Bretton Woods regime) which meant that a country's currency was valued against the price of gold which at that time (i.e. of gold was valued at $35/oz). Therefore, it could also be said that foreign currency was valued closely to the American dollar.
- The goal of the IMF was to maintain a good order of this “predictable” or “stable” international monetary system by enforcing a number of regulations about adjustment in international monetary relations and to provide temporary short term resources to deal with balance of payment problems.
- In Keynes proposal, he also felt that there should be an international currency developed, which he called ‘bancor’, which would act as the true medium of exchange. Similarly, White referred to this global unit of account called ‘unitas’ which was only to be a unit of account, and not a medium of exchange.
- However, in the Bretton Wood agreement, the use of the US dollar was stressed as being the important economic indicator, thus the IMF favored a global post-war economy centered around the American dollar.

The Three Primary Functions of the IMF

1) Surveillance
2) Conditional Financial Support
3) Technical Assistance

Surveillance

- A Definition:
  “The appraisal of a country’s economic and structural policies and performance from an international standpoint. It is a regulatory or jurisdictional function, which historically has been focused on the assessment of the exchange arrangements, the exchange rates and balance of payments.”

(source: The International Monetary Fund website  www.imf.org)
What is the IMF Surveillance concerned with today?

- Exchange Rates, Monetary and Fiscal Policies: Remain at the centre of IMF surveillance.
- Structural Policies: Added to IMF surveillance agenda after the 1980’s oil price shock. Concerned with the macroeconomic performance of a country, and pay special attention to such issues as international trade and labour market issues.
- Financial Sector: Added during the early 1990’s following a series of international banking crisis’s.
- Institutional Issues: Concerned with such issues as independence of the central bank, financial sector regulation and policy accountability. Beneficial especially for those countries that are making the transition from a planned to market economy.
- Assessment of Risks and Vulnerability: Crises prevention! Enough said there!

(source: International Monetary Fund website www.imf.org)

What is the IMF’s Lending Capacity?

IMF can only borrow from financially strong economies to finance lending. The IMF Board selects these “strong currencies” every three months, which make up its “usable” resources.

Where does the IMF get it’s Money from?

Most loans are provided by member countries, determined by their quota, which is calculated based on a country’s relative size in the world economy.

A closer look at the Member Quotas we can reference the IMF website.

Upon joining, the 25% of the quota is paid in some major currencies (ie/ US Dollar, British Pound, Yen while the remaining 75% is paid in their own currency.

Conditional Financial Support

A definition:

“Provide short term loans (1 to 5 years) to countries experiencing balance of payments problems so that they can restore conditions for sustainable economic growth conditional upon policies and procedures developed by the fund to govern the access to and the use of its resource by member countries.”

Which Countries Qualify for Financial Assistance?

IMF lending aims to provide breathing room for countries experiencing some type of short-term economic crisis, so that it can restore conditions which promote strong economic growth. These economic crisis’s may be onset by one or a number of the following:

- Inflation or Hyperinflation
- Drought
- Political Unrest

Can anyone else name a few that I may have missed that attribute to a short-term economic crisis?

The IMF is also working to reduce poverty in poor countries around the world, both by themselves and in cooperation with the World Bank. The IMF provides financial support through its conditional lending facility.

- The Poverty Reduction and Growth Facility (PRGF)
- The Heavily Indebted Poor Countries (HIPC) Initiative.

A series of adjustment policies and reforms are implemented which is intended to solve their balance of payments crisis. (country is spending more than it is taking in or running a deficit)

The policies and reforms implemented will vary; based upon the specific countries needs and requirements.

IMF Surveillance: How it Works?

- Carry out bilateral “Article IV Consultations”, in which IMF staff meet with a member country to collect information regarding macro-economic policies, national accounts, institutional developments, prices, wages and other similar issues.
- Upon the collection and analysis of the gathered data, the IMF will review the policies with authorities, regarding the effectiveness of their economic policies, as well as examine the prospective changes in the domestic economy that they foresee.
- The next step is to create a formal report, which is then submitted to the Executive Board of the IMF, and upon approval the final report is generated and a summary of the discussion is forwarded to the country’s government for review.
- The final report is published upon the consent of the country.
Financial resources of the IMF
(as of June 30, 2003)

- Total quotas: $298 billion
- Total usable resources: $134 billion
- IMF one-year forward commitment capacity: $88 billion
- Non-concessional credit outstanding: $96 billion
- Concessional (PRGF) credit outstanding: $10 billion
- Gold holdings: 103.4 million fine ounces

Technical Assistance

- A Definition:
  “The IMF’s goal for its technical support ‘...is to contribute to the
development of the productive resources of member countries
by enhancing the effectiveness of economic policy and
financial policy.’”

Source, the IMF Website, Policy Statement on IMF Technical Assistance

Technical Assistance

- The IMF provides technical assistance in its areas of expertise, which include fiscal policy, monetary policy, and macroeconomic and financial statistics.
- Assistance is normally provided free of charge for its member countries.
- About three-quarters of IMF technical assistance goes to low and lower-middle income countries. The Sub-Saharan African countries were the largest beneficiary of technical assistance in 2003, and one must assume will continue to be.
- The IMF attaches great importance to country ownership. The recipient country is fully involved in the entire process of technical assistance, from identification of need, to implementation, monitoring, and evaluation.

Types of Assistance:

The IMF delivers technical assistance in a number of different ways. The two primary types of support offered are through:

- Staff missions which are often very limited in duration provided through
- Placement of experts for periods ranging from a few weeks to a few years. Depending on the length of the visit by the expert the IMF may ask the country to make a voluntary donation to cover the expenses of the visiting expert(s).

The IMF also provides assistance by offering it’s member countries:

- Technical and diagnostic reports
- Training courses
- Seminars and workshops
- On-line advice and support

Based upon what we know so far…..

Does the IMF have International Acceptance?
The answer obviously to that question is… NO!

Common Criticisms of the IMF
- The IMF has created an immoral system of modern day colonialism that SAPs the poor
- The IMF serves wealthy countries and Wall Street
- The IMF is imposing a fundamentally flawed development model
- The IMF is a secretive institution with no accountability
- IMF policies promote corporate welfare
- The IMF’s policies hurt women the most
- IMF Policies hurt the environment

ARE THESE TRUE? WHAT DO YOU THINK?

A Conclusion