Roles of the IMF and World Bank

The IMF and World Bank were both created at the end of world war II in a political climate the is very different from that of today. Nevertheless, their roles and modalities have been suitably updated to serve the interests of those that benefit from neoliberalism. The institutional structures of the IMF and World Bank were framed at an international conference in Bretton Woods, New Hampshire. Initially, the primary focus of the IMF was to regulate currency exchange rates to facilitate orderly international trade and to be a lender of last resort when a member country experiences balance of payments difficulties and is unable to borrow money from other sources. The original purpose of the World Bank was to lend money to Western European governments to help them rebuild their countries after the war. In later years, the World Bank shifted its attention towards development loans to third world countries.

Immediately after world war II, most western countries, including the US, had ‘New Deal’ style social contracts with sufficient welfare provisions to ensure ‘stability’ between labor and capital. It was understood that restrictions on international capital flow were necessary to protect these social contracts. The postwar ‘Bretton Woods’ economic system which lasted until the early seventies, was based on the right and obligation of governments to regulate capital flow and was characterized by rapid economic growth. In the early seventies, the Nixon administration unilaterally abandoned the Bretton Woods system by dropping the gold standard and lifting restrictions on capital flows. The ensuing period has been marked by dramatically increased financial speculation and low growth rates.

Although seemingly neutral institutions, in practice, the IMF and World Bank end up serving powerful interests of western countries. At both institutions, the voting power of a given country is not measured by, for example, population, but by how much capital that country contributes to the institutions and by other political factors reflecting the power the country wields in the world. The G7 plays a dominant role in determining policy, with the US, France, Germany, Japan and Great Britain each having their own director on the institution’s executive board while 19 other directors are elected by the rest of the approximately 150 member countries. The president of the World Bank is traditionally an American citizen and is chosen with US congressional involvement. The managing director of the IMF is traditionally a European. On the IMF board of governors, comprised of treasury secretaries, the G7 have a combined voting power of 46%.

The power of the IMF becomes clear when a country gets into financial trouble and needs funds to make payments on private loans. Before the IMF grants a loan, it imposes conditions on that country, requiring it to make structural changes in its economy. These conditions are called ‘Structural Adjustment Programs’ (SAPs) and are designed to increase money flow into the country by promoting exports so that the country can pay off its debts. Not surprisingly, in view of the dominance of the G7 in IMF policy making, the SAPs are highly neoliberal. The effective power of the IMF is often larger than that associated with the size of its loans because private lenders often deem a country credit-worthy based on actions of the IMF.

The World Bank plays a qualitatively different role than the IMF, but works tightly within the stringent SAP framework imposed by the IMF. It focuses on development loans for specific projects, such as the building of dams, roads, harbors etc that are considered necessary for 'economic growth' in a developing country. Since it is a multilateral institution, the World Bank is less likely than unilateral lending institutions such as the Export Import Bank of the US to offer loans for the purpose of promoting and subsidizing particular corporations. Nevertheless, the conceptions of growth and economic well being within the World Bank are very much molded by western corporate values and rarely take account of local cultural concerns. This is clearly exhibited by the modalities of its projects, such as the 'Green Revolution' in agriculture, heavily promoted in the third world by the World Bank in the sixties and seventies. The 'Green Revolution' refers to the massive industrialization of agriculture, involving the replacement of a multitude of indigenous crops with a few high-yielding varieties that require expensive investments of chemicals, fertilizers and machinery. In the third world, the 'Green Revolution' was often imposed on indigenous populations with reasonably sustainable and self sufficient traditions of rural agriculture. The mechanization of food production in third world countries, which have a large surplus labor pool, has led to the marginalization of many people, disconnecting them from the economy and exacerbating wealth disparity in these countries. Furthermore, excessive chemical agriculture has led to soil desertification and erosion, increasing the occurrence of famines. While the 'Green Revolution' was a catastrophe for the poor in third world countries, western chemical corporations such as Monsanto, Dow and Dupont fared very well, cashing in high profits and increasing their control over food production in third world countries.

Today, the World Bank is at it again. This time it is promoting the use of genetically modified seeds in the third world and works with governments to solidify patent laws which would grant biotech corporations like Monsanto unprecedented control over food production. The pattern is clear, whether deliberate or nor, the World Bank serves to set the stage for large trans-national corporations to enter third world countries, extract large profits and then leave with carnage in their wake.

While the World Bank publicly emphasizes that it aims to alleviate poverty in the world, imperialistic attitudes occasionally emerge from its leading figures. In 1991, then chief economist Lawrence Summers (now US Secretary of the Treasury) wrote in an internal memo that was leaked:

Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs [less developed countries]? ... The economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable, and we should face up to that ... Under-populated countries in Africa are vastly under-polluted; their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City .... The concern over an agent that causes a one-in-a-million chance in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-five mortality is 200 per thousand.
And thistle thought that the World Bank tried to extend lives in developing countries, not

take advantage of low life expectancy.

How do countries get into financial troubles, the Debt Crisis.

The most devastating program imposed by the IMF and the World Bank on third world countries are the Structural Adjustment Programs. The widespread use of SAPs started in the early eighties after a major debt crisis. The debt crisis arose from a combination of (i) reckless lending by western commercial banks to third world countries, (ii) mismanagement within third world countries and (iii) changes in the international economy.

During the seventies, rising oil prices generated enormous profits for petrochemical corporations. These profits ended up in large commercial banks which then sought to reinvest the capital. Much of this capital was invested in the form of high risk loans to third world countries, many of which were run by corrupt dictators. Instead of investing the capital in productive projects that would benefit the general population, dictators often diverted the funds to personal Swiss bank accounts or used the them to purchase military equipment for domestic repression. This state of affairs persisted for a while, since commodity prices remained stable and interest rates were relatively low enabling third world countries to adequately service their debts. In 1979, the situation changed, however, when Paul Volker, the new Federal Reserve Chairman, raised interest rates. This dramatically increased the cost of debtor countries' loans. At the same time, the US was heading into a recession and world commodity prices dropped, tightening cash flows necessary for debt payment. The possibility that many third world countries would default on their debt payments threatened a major financial crisis that would result in large commercial bank failures. To prevent this, powerful countries from the G7 stepped in and actively used the IMF and World Bank to bail out third world countries. Yet the bail-out packages were contingent upon the third world countries introducing major neoliberal policies (i.e. SAPs) to promote exports.

Examples of SAP prescriptions include:

- an increase in 'labor flexibility' which means caps on minimum wages, and policies to weaken trade unions and worker's bargaining power.
- tax increases combined with cuts in social spending such as education and health care, to free up funds for debt repayment.
- privatization of public sector enterprises, such as utility companies and public transport
- financial liberalization designed to remove restrictions on the flow of international capital in and out of the country coupled with the removal of restrictions on what foreign corporations and banks can buy.

Despite almost two decades of Structural Adjustment Programs, many third world countries have not been able to pull themselves out of massive debt. The SAPs have, however, served corporations superbly, offering them new opportunities to exploit workers and natural resources.

As Prof. Chomsky often says, the debt crisis is an ideological construct. In a true capitalist society, the third world debt would be wiped out. The Banks who made the risky loans would have to accept the losses, and the dictators and their entourage would have to repay the money they embezzled. The power structure in society however, prevents this from happening. In the west tax payers end up assuming the risk while the large banks run off with the high profits often derived from high risk loans. In the third world, the people end up paying the costs while their elites retire in the French Riviera.

It is important to realize that the IMF and World Bank are tools for powerful entities in society such as trans-national corporations and wealthy investors. The Thistle believes that massive world poverty and environmental destruction is the result of the appalling concentration of power in the hands of a small minority whose sights are blinded by dollar signs and whose passions are the aggrandizement of ever more power. The Thistle holds that an equitable and democratic world centered around cooperation and solidarity would be more able to deal with environmental and human crises.