

Bretton Woods Institution: Dealing with the International Monetary Fund (MF)

Napoleon Nyemodumakpo Ukalikpe

Department of Political and Administrative Studies
Faculty of Social Sciences University of Port Harcourt, Choba.
&

Chimezie Chukwuemeka Eze

Department of Political and Administrative Studies
Faculty of Social Sciences University of Port Harcourt, Choba.

Abstract

The paper explored the Bretton Woods Institution with emphasis on the International Monetary Fund (IMF). The IMF was a creation of the Bretton Woods institution. It was established in 1944 with its headquarters at Washington D.C following the global economic distress that greeted the international system as a result of the two World Wars (WW1 and WW11). The IMF was initially saddened by the goal of stabilising the global economy however; the institution has assumed more responsibility as it discharged the role of development agency by granting loans to member countries. Secondary source of data was adopted for the study; it involves the collection of data from textbooks, journals, articles, and conference papers. The functionalist theory of integration was adopted as the theoretical framework. The work found that the IMF and World Bank were established following the global economic crisis in the 1920s and 1930s created by the two World Wars (WW1 and WW11). The study recommends that for the IMF to achieve the goal of economic development and stability in the globe, there is a need to revisit some of the articles that established the IMF which ceded enormous powers to Western countries especially the U.S. to enable new members to play an active role in the institution.

Keywords: Institution; International Monetary Fund (IMF); Development agency; Loan; U.S.

Introduction

Institution refers to established structures for meeting specific goals. In other words, institutions are established to perform certain functions. For instance, for procreation purpose, the family institution was established; the education institution was established to mould character and build manpower to drive an economy. Similarly, the religious institution was established to communicate with the Supreme Being and also to prepare man for the hereafter (external). The Bretton Woods institution birthed the International Monetary Fund (IMF). The First and Second World Wars (WW1 and WW11) retarded the global economy as it distorted the economy of the world. As succinctly captured by Nwaorgu (2006), the IMF was established after the Great

Depression of the 1920s and 1930s and in preparation for the peace after Second World War. He further noted that there were fears that the protectionist policies that characterized the period after the First World War would rear their ugly heads again to the detriment of the economy (Nwaorgu, 2006).

The IMF was originally conceived as an institution for stabilising the world economy rather than a development agency lending to member countries in temporary balance of payments deficits. According to Horsefield (2009), the IMF and the World Bank are the twin intergovernmental pillars supporting the structure of the world's economic and financial order. The World Bank finances economic development, while the IMF oversees the international monetary system. Nwaorgu (2006), noted that the role of development was assigned to the World Bank which was also a creation of Bretton Woods at the same time as the IMF. However, over the years, the IMF has begun to act as a development agency as it has increasingly become the Bank Manager of the poor countries in the world; lending longer term to cover what are now perceived as longer structural balance of payment. The founders felt that a fundamental condition for international prosperity was an orderly monetary system that would encourage trade, create jobs, expand economic activity, and raise living standards throughout the world. The IMF was charged with; helping each country set a fixed, but changeable, exchange rate for its currency based on gold; assisting members that have temporary balance of payments difficulties by providing short- to medium-term credit; and overseeing the international monetary system (IMF, 1944). These will help stabilize the global economy

It is against this background this study examine the International Monetary Fund (IMF) as a creation of the Bretton Woods institution.

Statement of the Problem

The activities of the IMF are of mixed blessings; both successful and failed experiences. In the years following the global financial crisis in the 1980s, the IMF provided access to \$540 billion to nearly 90 countries, including financing to Greece, Iceland, Ireland, Latvia and Portugal, and precautionary arrangements to Colombia, Mexico, and Poland etc. In 2019, IMF lent close to \$200 billion to over 35 countries, notably; Argentina, Ecuador, Egypt, Iraq, Jordan, Tunisia, Ukraine — and 16 countries in Sub-Saharan Africa. In recent years, the IMF has helped to address financial crises and vulnerabilities in countries around the world, including Angola, Barbados, Colombia, Malawi, Morocco and Sierra Leone (IMF, 2021). There are several debates with regard to the impact of these loans on the economy of the recipient countries. Jones (2002) noted that the IMF was a ground designed to further undermine the economic progress and growth of third-world economies. He argued that most of the recipients of such loans have not fared better economically. A similar sentiment was echoed by Nwaorgu (2006) as he conceived the IMF as an agent of imperialism established to stifle the economic growth and prosperity of third-world countries. According to him, Affluent countries that are influential members of such global organizations as IMF have the capacity of stifling the development of poor and struggling nations. These countries have to give up their political independence as it were, by adopting, for instance, every United States programme of development directly or indirectly through such a global financial body as IMF” (Nwaorgu, 2006. 114). Some African countries such as Nigeria which obtained US\$3.4 billion in emergency financial assistance in 2020, Egypt US\$15bn, Cote d’Ivoire US\$4.3bn and Ghana US\$4.3bn (IMF, 2021) etc have not fared better economically. Rather than engineering economic progress and prosperity, poverty, unemployment, high profile debts and general underdevelopment amongst others defined these countries.

Objectives of the Study

The study is guided by the following objectives:

- i. Examine the origin of the IMF
- ii. Analyse the structure/ objectives/ functions of the IMF
- iii. Examine the successes and challenges of the IMF

Theoretical Framework

The study adopts the functionalist theory of integration as its theoretical framework. Functionalism advocates that national and international life should be organized along functional lines. For this theorist, the satisfaction of the welfare needs of the people in a world/region is the responsibility of international or regional institutions.

The theory was propounded by David Mitrany; Mitrany (1966) posited that while international consensus for political amalgamation in a universal or world federal state did not exist, there were many issue areas where states can and do interact which are of a non-political nature. According to Mitrany, (1966), these issue areas should be organized into individual, issue-specific international organizations which would seek to harmonize state policies for the benefit of all members. Unlike a universal, general international organization the states need not be concerned about encroachment of sovereignty; functional organizations should neither expand nor dictate policy and are restricted to their approved province of duties.

In a later work, Mitrany sums up the functional perspective as logic based on the view that a map of the world designed to show international economic and social activities, would appear as an intricate web of interests and relations, crossing and re-crossing political divisions (Mitrany 1966). The task is to bring that map, which is already functioning as a reality, under the control of some form of international agency. Thus the political dividing lines would in time be overlaid and blurred. Mitrany's early integration theory, initially global and general in scope, received regional

application in Europe under the Schuman Plan. Functionalism preaches that rather than states focusing on individual self-interest, they should seek common interests and needs of Member States in the region.

The theory encourages states to integrate functional areas such as the economy, scientific, technology, social and culture (Nwaorgu, 2006). These areas are referred to as functional areas because they are vital sectors that are capable of stimulating economic growth and development. When these functional areas are allowed to develop and encouraged to spread, there will be meaningful increase in activities that promote unity, peace, cooperation and development in the region. The realization of this, it is hoped will have a spillover effect. Such an effect comes as an acceptance by other sectors or spheres other than the primary functional areas, of the usefulness of the concerned area, and encouraged the development of some other areas (Nwaorgu, 2006). In sum, the functionalist theory of integration basically emphasizes cooperation among states and the avoidance of conflicts in the international system. The functionalist theorists contend that the world will be a better place to live in if states pursue policies of reason, cooperation and rationality rather than resort to wars, conflicts, violence, confrontation and irrationality as a means of settling international disputes (Nwaorgu, 2006).

The relevance of this theory to the study is hinge on the fact that through cooperation on non-political venture which is the assumption of functionalism, economic prosperity can be enhanced. The Bretton Woods institution established the IMF and the World Bank as a means of reversing the economic challenges that confront humanity in the global system. This cooperative tendency ought to bring about some economic gains both in the short and long term to enable states to rebuild and embark on developmental projects that will bring about a positive impact on the lives of people in the global system. This corporative tendency on non-political venture as earlier alluded to has

mixed feelings. The functionalist theory of integration is relevant as the theoretical framework as it explains the rationale behind the establishment of IMF.

Methodology

The secondary source of data was utilized for the study. The secondary source of data refers to the set of data collated or authored by another person, archives, in the form of documents collected for a purpose other than the present one in which it is being used (Asika, 2006). Selltitz et al (2008), have declared that the usefulness of secondary sources of data lies in the fact that information of this sort is collected periodically. Also, gathering information from such sources does not require the cooperation or assistance of the individual about whom information is being sought. The sources of data for this study include: magazines, textbooks, articles, journals and seminar papers among others.

Origin of the IMF

The International Monetary Fund was a product of a series of events that occurred in the international system. Drazen and Allan (2000), noted that when the heads of government of the great powers met in Paris at the end of 1918, they had before them a blueprint for restoring prosperity and world peace, in the form of U.S. President Woodrow Wilson's Fourteen Points. However, six months later, they agreed on the terms of what would become known as the Treaty of Versailles, but key parts of the blueprint had been cast aside (Drazen & Allan, 2000). They further averred that within a decade, prosperity was lost. In another decade, peace was gone as well (Drazen & Allan, 2000). The most famous failure was Wilson's inability to convince the U.S. Senate to confirm the country's membership in the League of Nations. Fischer (2003), stated that the most disastrous, however, was arguably the failure to lay the groundwork for economic cooperation among the world's great trading nations. Whether U.S. membership in the League

would have slowed the slide toward war in the 1930s is debatable. The effect of the autarkic policies of the 1920s on the collapse of trade and output in the 1930s, however, is well established (Fischer, 2003).

When delegations from 44 countries met at Bretton Woods, New Hampshire (United States), in July 1944 to establish institutions to govern international economic relations in the aftermath of the Second World War, avoiding a repetition of the failings of the Paris Peace Conference was very much on their minds. Accordingly, therefore, the creation of an International Bank for Reconstruction and Development would help restore economic activity, while the creation of an International Monetary Fund would help restore currency convertibility and multilateral trade (Horsefield, 2009). Removing the barriers to trade, as envisaged by Wilson a quarter-century earlier, was not enough. More active and institutionalized cooperation was now understood to be needed. The failure of the Paris Conference was only the first of a series of historical events and ideological transformations to influence the design and work of the IMF and the post-war international monetary system (Mayer & Alex, 2002).

Those at Bretton Woods envisioned an international monetary system that would ensure exchange rate stability, prevent competitive devaluations, and promote economic growth. Although all participants agreed on the goals of the new system, plans to implement them differed. Reaching a collective agreement was an enormous international undertaking. Preparation began more than two years before the conference, and financial experts held countless bilateral and multilateral meetings to arrive at a common approach. While the principal responsibility for international economic policy lies with the Treasury Department in the United States, the Federal Reserve participated by offering advice and counsel on the new system. The primary designers of the new system were

John Maynard Keynes, adviser to the British Treasury, and Harry Dexter White, the chief international economist at the Treasury Department.

According to Mayer and Alex (2002), the first three key events—the Paris Peace Conference, the Great Depression, and the Second World War—made the creation of a multilateral financial institution (IMF) possible and largely determined the form it would take. Subsequent events caused the IMF to alter its practices in various ways to stay relevant in a changing world. Some of these events are:

The Paris Peace Conference

Rogoff (2003), noted that economics was not a high priority at the Paris peace conference in 1919. The borders of Europe had to be redrawn one by one, and that task alone took up most of the six months of high-level meetings. Some way had to be found to pay the costs of the war and the costs of rebuilding, and solving that problem was about all the economics that any of the leaders had the patience for (Rogoff, 2003). Schaechter et al (2000) stated that they created the League of Nations, but its economic functions were poorly defined and never solidified into an effective role. They created the International Labor Organization, but its role was specialized and limited.

The conference's neglect of economics did not result from a failure to understand the importance of international trade for prosperity and thus for maintaining peace. Woodrow Wilson made this relationship clear in his "Fourteen Points" speech to the U.S. Congress in January 1918. Instead, the neglect of economics occurred mainly because the limitations of the invisible hand were not well understood. For a generation or more, the international gold standard had provided a measure of stability with little need for overt cooperation. The challenge seemed to be simply to avoid imposing barriers to trade or otherwise interfering with markets (Skidelsky, 2000).

In the economic turmoil following the war, that passive approach was not nearly enough. Some countries remained on the gold standard, but others did not. Without clear guidance or any institutional check on behaviour, competitive devaluations and punitive tariffs became a common temptation for a quick fix to economic ills. MacMillan (2001) is surely right in arguing that the Versailles treaty cannot be held solely responsible for these and other ills of the twentieth century, but neither can it be absolved from blame.

What does this experience have to do with the IMF? A quarter-century afterwards, it was very much on the minds of those who were drawing up the designs for the new institution. In the view of John Maynard Keynes (the head of the British delegation to the Bretton Woods conference), the “contractionist pressure on world trade” brought on by the special protective expedients which were developed between the two wars resulted in large measure from futile efforts to protect an unbalanced position of a country’s overseas payments (Keynes, 1936). The creation of an international clearing union would obviate the need for such forced and undesired dodges. Without the clearing union (which eventually metamorphosed into the IMF), the expected persistent creditor position of the United States would depress world economic growth and drive the world back into protectionist policies, regardless of how quickly or how well production and trade could be reconstructed after the war (Keynes, 1936).

Harry Dexter White, the chief drafter of the IMF charter for the U.S. delegation, was equally impressed by the need to avoid the passive errors of Versailles. His initial plan noted that during “the last twenty years” (that is, throughout the interwar period), countries had often imposed protectionist policies because they lacked adequate gold reserves, and the plan warned that the same problems would arise and would constitute a major barrier to the growth of trade after the war. According to Skidelsky (2000), an international monetary fund would enable countries in

that position to economize on their gold reserves and thus avoid recourse to trade barriers, payment barriers, and bilateral clearing schemes. As early as 1935, when France and Great Britain were contemplating currency devaluations aimed at improving their competitive positions but that threatened to spark a vicious cycle of retaliatory actions, White argued that the U.S Treasury should intervene by encouraging an international agreement to stabilize exchange rates (White cited in Boughton, 2002). That led to the Tripartite Agreement of 1936 and set the stage for more comprehensive and institutionalized agreements later on. When the Articles of Agreement for the IMF were adopted at Bretton Woods in 1944, they specified that one purpose of the institution was to avoid competitive exchange depreciation.

It is important to note that for both Keynes and White, the motivating principle for creating the IMF was to engender postwar economic growth by establishing an institution that would prevent a relapse into autarky and protectionism, not just to avoid a recurrence of the depression. The impetus was less the depression than the necessity of rebuilding and engendering economic growth after the war.

The Great Depression

Although the Great Depression may not have been the defining moment for the international monetary system (as (Stiglitz, 2002 claimed it to be), it influenced strongly the initial design of the IMF. The depression amplified the negative consequences of Versailles, as an implosion of international trade interacted with domestic policy errors to deflate both output and prices around the world. It severely tested the confidence of analysts and voters in the efficacy of free markets and strengthened belief in an activist role for the public sector in economic life. It thus became easier and more natural to start discussions on a postwar framework from the assumption that an

intergovernmental agency with substantive powers would be beneficial and even essential for the international financial system (Stiglitz, 2002).

The combined effects of Versailles (the absence of a stabilizing system in international finance) and the depression were an important influence on the IMF's mandate as adopted at Bretton Woods in 1944. Article I of the Articles of Agreement, which sets out the purposes of the Fund, includes the objective of using IMF lending to provide member countries with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. Article IV set out a system for achieving that purpose by establishing a system of fixed but adjustable exchange rates through agreements to be reached under the auspices of the Fund. U.S. Treasury staff made the case for such a system by evoking the spectre of what had occurred throughout the interwar period (IMF, 1944). Long before the war, the necessary monetary and financial basis for international prosperity had been weakened by competitive currency depreciation, exchange restrictions, multiple currency devices, and the like. The new institution would obviate the need for such unilateral and destructive actions (IMF, 1944).

The Second World War

The third major historical influence on the IMF was the Second World War, which provided both the impetus and the context for reforming the international system. When the United States entered the war in response to the bombing of Pearl Harbor in December 1941, Treasury Secretary Henry Morgenthau Jr. put Harry White in charge of international economic and financial policy and asked him to come up with a plan for remaking the system once the war was over (Akerlof, 2001). As it happened, White had already sketched out a rough plan for an international stabilization fund, and he was able to produce a first draft within a couple of months. On the other side of the Atlantic, Keynes was developing a plan for an international clearing union to be run jointly by Britain and

the United States as “founder States.”⁶ Though less overtly multilateral than White’s scheme, and based on the British overdraft system rather than on White’s rather complicated proposal for currency swaps (Boughton, 2002), Keynes’s clearing union was similar in its essence to White’s stabilization fund. Over the next two years of discussion and negotiation, the two plans would meld into a draft for the IMF charter.

The IMF was created in the midst of the war, at the United Nations Monetary and Financial Conference, which convened 44 country delegations at Bretton Woods in July 1944. Keynes had tried to limit the involvement of countries other than Britain and the United States, fearing that a “most monstrous monkey house” would result if all the wartime allies were invited. White, however, insisted on a multilateral conference, partly because he seemed to have sensed that the project would otherwise fail and partly because he doubtless wanted to neutralize the force of Keynes’s intellect and personality.

Kemp (2001) noted that the importance of Bretton Woods as a wartime event was that it took advantage of a window of opportunity to create a multilateral financial system. Both before and after the war, the levels of suspicion and national self-interest were too great for such a sweeping agreement to be possible. Even in 1945, when the U.S. Congress and the U.K. Parliament were to ratify the Articles of Agreement, passage was far from easy (Kemp, 2001). Again, White invoked the spectre of Versailles. Asked in a House of Representatives hearing what would happen if Congress refused to ratify the agreement, White replied, “I think history will look back and indict those who fail to vote the approval of the Bretton Woods proposals in the same way that we now look back and indict certain groups in 1921 who prevented our adherence to an international organization designed for the purpose of preventing wars.” Such arguments carried the day in

1945. Within three years, however when negotiators tried to complete the system by creating an International Trade Organization, the multilateralists were outmanned, and the proposal failed. The other major influence of the war on the IMF was that it left the United States in virtual control of the world economy. With Britain heavily dependent on American largesse, Keynes had few cards to play in his efforts to shape the postwar system to his country's advantage. Of the other major allies, France was equally powerless and the Soviet Union was politically isolated and intellectually detached. As a consequence, the financial structure of the IMF would be based on the U.S. dollar, rather than on an international currency of the Fund's own making. Its lending power would be limited in size and scope, and the Fund would lack most of the powers of a central bank. Its headquarters would be neither in London nor even in New York, but in Washington where the U.S. Treasury could exert a strong gravitational pull. The IMF has become a dollar-centric institution, with the United States providing most of its lendable resources and effectively controlling most of its lending decisions (Kemp, 2001).

Structure of the IMF

IMF has the following structure:

Board of Governors

The Board of Governors is the highest decision-making body of the IMF. It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the head of the central bank. While the Board of Governors has delegated most of its powers to the IMF's Executive Board, it retains the right to approve quota increases, special drawing right (SDR) allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws (King, 2006). The Board of Governors also elects or appoints executive

directors and is the ultimate arbiter on issues related to the interpretation of the IMF's Articles of Agreement. Voting by the Board of Governors usually takes place by mail-in ballot. The Boards of Governors of the IMF and the World Bank Group normally meet once a year, during the IMF-World Bank Annual Meetings, to discuss the work of their respective institutions.

The Annual Meetings usually include two days of plenary sessions, during which Governors consult with one another and present their countries' views on current issues in international economics and finance. During the Meetings, the Boards of Governors also make decisions on how current international monetary issues should be addressed and approve corresponding resolutions. The Annual Meetings are chaired by a Governor of the World Bank and the IMF, with the chairmanship rotating among the membership each year. Every two years, at the time of the Annual Meetings, the Governors of the Bank and the Fund elect Executive Directors to their respective Executive Boards (King, 2006).

Ministerial Committees

The IMF Board of Governors is advised by two ministerial committees, the International Monetary and Financial Committee (IMFC) and the Development Committee. The IMFC has 24 members, drawn from a pool of 190 governors. Its structure mirrors that of the Executive Board and its 24 constituencies. As such, the IMFC represents all the member countries of the Fund. The IMFC meets twice a year, during the Spring and Annual Meetings. The Committee discusses matters of common concern affecting the global economy and also advises the IMF on the direction of its work (IMF, 2021). At the end of the Meetings, the Committee issues a joint communiqué summarizing its views. These communiqués provide guidance for the IMF's work program during the six months leading up to the next Spring or Annual Meetings. There is no formal voting at the IMFC, which operates by consensus.

The Development Committee is a joint committee, tasked with advising the Boards of Governors of the IMF and the World Bank on issues related to economic development in emerging and developing countries. The committee has 24 members (usually ministers of finance or development). It represents the full membership of the IMF and the World Bank and mainly serves as a forum for building intergovernmental consensus on critical development issues (IMF, 2021).

The Executive Board

The IMF's 24-member Executive Board conducts the daily business of the IMF and exercises the powers delegated to it by the Board of Governors, as well as those powers conferred on it by the Articles of Agreement. With the entry into force of the Board Reform Amendment on January 26, 2016, the all-elected Executive Board has been in place since the subsequent election took effect on November 1, 2016. Previously, the member countries holding the five largest quotas were each entitled to appoint an Executive Director, while 19 were elected by the remaining member countries.

The Board discusses all aspects of the Fund's work, from the IMF staff's annual health checks of member countries' economies to policy issues relevant to the global economy. The Board normally makes decisions based on consensus, but sometimes formal votes are taken (Bradford, et al., 2007). The votes of each member equal the sum of its basic votes (equally distributed among all members) and quota-based votes. Therefore, a member's quota determines its voting power. Following most formal meetings, the Board summarizes its views in a document known as a Summing Up. Informal meetings may also be held to discuss complex policy issues at a preliminary stage.

Managing Director and Staff

The Articles of Agreement say very little about the MD, beyond providing that he is to be selected by the Executive Board (Article XII, Section 4). His remuneration and benefits are decided by the Board of Governors (Article XII, Section 5). In addition, in establishing the powers of the MD, the Articles provide that “the Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund, subject to the general control of the Executive Board, he shall be responsible for the organization, appointment, and dismissal of the staff of the Fund” (Article XII, Section 4(b)).

The staff of the Fund has been described as a highly structured, hierarchical, and homogeneous meritocracy (Van Houtven, 2002). Numbering about 2,630 at the end of 2017, it is composed mainly of economists but spans a wide range of other professional skills. Staff members are appointed, and may be dismissed, by the MD. Like the MD himself, staff in the discharge of their functions “shall owe their duty entirely to the Fund and to no national authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of these functions. (Article XII, Section 4(c)).

Objectives of the IMF

The International Monetary Fund (IMF) works to achieve sustainable growth and prosperity for all of its 190 member countries. It does so by supporting economic policies that promote financial stability and monetary cooperation, which are essential to increase productivity, job creation, and economic well-being. The IMF is governed by and accountable to its member countries. The IMF has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity. To fulfil these missions, IMF member countries work collaboratively with each other and with

other international bodies. The following are some of the objectives of the IMF as gleaned from Nwaorgu (2006), they include:

- i. **Promotion of international monetary cooperation:** To promote international monetary cooperation through a permanent institution which provides machinery for consultation and collaboration on international monetary problems.
- ii. **To facilitate the expansion and balanced growth of international trade:** To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as the primary objective of economic policy of members.
- iii. **To promote exchange stability:** To promote exchange stability, maintain orderly exchange arrangements among members, and avoid competitive exchange depreciation.
- iv. **The establishment of the multilateral system of payment:** It was to assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade
- v. **Correction of maladjustments in the balance of payment:** The International Monetary Fund was established to function in the direction of correcting the balance of payments maladjustments by lending some confidence to members by making available the funds resources to them under adequate safeguards. This will help them to not resort to measures that are destructive to national or international prosperity.

- vi. Reduction in the degree of disequilibrium:** One of the objectives was the reduction in the duration and degree of disequilibrium in the international balance of payments of members

Functions of the IMF

The IMF is saddled with certain functions, as gleaned from Nwaorgu (2006), they include:

- i. It functions as a short-term credit institution.
- ii. It provides machinery for the orderly adjustment of exchange rates.
- iii. It is a reservoir of the currencies of all the member countries from which a borrower nation can borrow the currency of other nations.
- iv. It provides machinery for altering sometimes the par value of the currency of member countries, thus, helping in providing an orderly adjustment of exchange rates, which will improve the long-term balance of payment position of member countries.
- v. It provides a machinery of international consultations. The IMF was launched with \$9 billion in both gold and foreign exchange, however, with the refusal of the socialist bloc to join; this amount was reduced to \$8 billion. Every member of the fund was assigned a quota and could, therefore, initiate any change they desired.

Successes and Challenges of the IMF

The IMF has had many successes and failures over its history. Below are some of the successes and failures recorded by the institution. The IMF has provided vital financial assistance around the world since its inception. As gleaned from Kenen (2008), they includes:

- i. Reconstructing the international payments system post-World War II.
- ii. Assisting newly-independent African nations in the 1960s.
- iii. Supporting economies; navigate oil shocks in the 1970s.

- iv. Helping Former Soviet Union nations transition to market-based economies.
- v. Providing financial assistance to Mexico, Turkey, and key emerging market countries in Africa and Asia in the capital flow crises of the 1990s.
- vi. Catalysing and providing multilateral debt relief to over 30 heavily indebted and low-income countries in the late 1990s/2000s.
- vii. Supporting major economies, particularly in Europe, following the Global Financial Crisis.
- vii. Bringing timely financial support to Guinea, Liberia and Sierra Leone to fight the 2015 Ebola outbreak etc.

It is pertinent at this juncture to examine two specific countries where the IMF have made some great strides and also recorded some degree of failure. The two countries are; Jordan and Tanzania (African countries). With regards to Jordan, Jordan has been impacted by its wars with Israel, civil war, and a major economic recession. In 1989, the country struggled with a high unemployment rate and an inability to pay its loans. The country agreed to a series of five-year reforms that began with the IMF. The Gulf War and the return of 230,000 Jordanians because of Iraq's invasion of Kuwait put a strain on the government, as unemployment continued to increase. In the period from 1993 to 1999, the IMF gave Jordan three extended fund facility loans. As a result, the government undertook massive reforms of privatization, taxes, foreign investment, and easier trade policies (Bordo, 2011).

By 2000, the country was admitted to the World Trade Organization (WTO), and one year later signed a free-trade accord with the United States. Jordan was also able to bring down its overall debt payment and restructure it at a manageable level. Jordan is an example of how the IMF can foster strong, stable economies that are productive members of the global economy.

With regard to Tanzania, in 1985, the IMF came to Tanzania with the aim of turning a broke, indebted socialist state into a strong contributor to the world economy. As noted by Eichengreen, (2011), the first steps taken were to lower trade barriers, cut government programs, and sell state-owned industries. By 2000, the once-free healthcare industry started charging patients, and the AIDS rate in the country shot up to 8%. The education system that was once free started to charge children to go to school, and school enrollment, which was at 98% in 1981 dropped to 66% in 2000. (As of 2021, the latest data, it is 97%). As a result, the illiteracy rate in the country increased by nearly 50%. This is an example of how the organization failed to understand that a one-size-fits-all strategy does not apply to all countries. Notwithstanding, the IMF continued its efforts to provide Tanzania with various types of assistance, and over time, the nation achieved some success in different areas. The annual inflation rate went from a high of 37.9% in 1994 to 4.1% in 2004. Simultaneously, real gross domestic product (GDP) grew from 1.6% in 1994 to 7.4% in 2004. It is at 5.2% as of April 2023 (World Bank, 2023).

However, these improvements have been difficult to sustain. After over 35 years of IMF assistance, Tanzania still struggles to maintain consistent economic momentum, while problems with fiscal management have led to expenditure arrears and a higher level of non-performing loans. Inflation did prove particularly challenging, going back up to double-digits in 2012 when it spiked to 16% before coming back down to 7.9% the following year (World Bank, 2013). Since 2013, the country has managed to continuously bring inflation down and keep it at manageable levels. In the years before the Covid pandemic, inflation was below 4% and as of April 2023, it is at 4.9%. During the pandemic, despite keeping inflation steady, real GDP plummeted from 7% in 2019 to 1% in 2020. In June 2020, the IMF approved \$14.3 million of relief to Tanzania, noting in its press release that

the money was critical to helping the country meet its debt service needs and freeing up resources for public health spending (IMF, 2023).

Findings

- i. The study found that the IMF is a creation of the Bretton Woods institution. The IMF and World Bank are critical institutions that emerged from the Bretton Woods system in 1944.
- ii. The work found that the IMF and World Bank were established following the global economic crisis in the 1920s and 1930s created by the two World Wars (WW1 and WW11).
- iii. The work also found that the IMF was initially conceived as a stabilizing institution rather than a development agency but in recent times, the institution has assumed the role of a development agency as it grants short-term loans to countries.
- iv. The study also found that the impact of the IMF loans varies from country to country, why some recipients of the IMF loan have fared better than others, the story is not the same with other countries.

Conclusion

The International Monetary Fund (IMF) was a creation of the Bretton Woods institution. The global economic crisis of the 1920s and 1930s that greeted the international system as a result of World War 1 and World War 11 impacted negatively on the economies of the world. In order to mitigate the impacts of these wars, different countries came together (44) in Washington, D.C., United States to establish the IMF. Since its establishment, the membership of the IMF has increased; as of today, almost every country is a member of the IMF. The U.S is the largest financial contributor to the IMF; the U.S. receives the most voting power amongst all participating countries at around 17%. This gives the U.S. the ability to veto any major proposal as 85% of votes must concur in order for any motion to pass. The IMF grants loans to member countries that so

desire such loans. Many countries have received IMF loans such as Ghana, Nigeria and Jordan etc. The experience of these countries varies in terms of the impact of such loans on economic recovery and development. IMF loans are usually granted on the basis of certain conditions which the recipient country must fulfil before such loans are given. The domestication of such conditions in most cases as the experience of some African countries (Nigeria and Egypt etc) revealed, often worsened the economy of some countries rather than putting them on the path of recovery.

Recommendations

- i. In order for the IMF to achieve the goal of economic development and stability in the globe, there is a need to revisit some of the articles that established the IMF which ceded enormous powers to Western countries especially the U.S. to enable new members to play an active role in the institution.
- ii. The conditionality (stringent measures) imposed by the IMF before obtaining such loans should be removed or revisited to enable recipient countries to dictate the utilization and direction of such loans.

References

- Akerlof, G.A. (2001). *“Behavioral Macroeconomics and Macroeconomic Behavior,”* Hause press
- Bordo, M., Owen, H. & Anna, J. S. (2011). " U.S. Intervention during the Bretton Wood Era: 1962-1973,". Federal Reserve Bank of Cleveland.
- Boughton, J. (2000). *Silent Revolution: The International Monetary Fund*. International Monetary Fund.
- Boughton, J. M. (1991). *“Money Demand in Five Major Countries: Estimating and Interpreting Error-Correction Models”*. Basil Blackwell Press.
- Bradford, C.I., & Johannes F. L. (2007). *Global Governance Reform: Breaking the Stalemate* Brookings Institution
- Drazen, J. & Allan, N. (2000). *Political Economy in Macroeconomics*. Princeton University Press.
- Eichengreen, B. (2011). *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. Oxford University Press.
- Fischer, S. (2003). Globalization and Its Challenges. *American Economic Review*, Vol. 93, No. 2.
- Horsefield, J. K. (2009). *The International Monetary Fund*. International Monetary Fund
- International Monetary Fund, (2021). *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*. IMF Occasional Paper No. 21

- Kemp, J. (2001). *The Greenspan Recession*,” Jewish World Review.
- Kenen, P. (2008). “Bretton Woods System.” In *The New Palgrave Dictionary of Economics*, Second Edition, edited by Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan.
- Keynes, J.M. (1936). *The General Theory of Employment, Interest, and Money*. Macmillan Press.
- King, M. (2006). Reform of the International Monetary Fund. *Journal on International Economic Relations*, vol. 12
- MacMillan, M. (2001). *Paris 1919: Six Months That Changed the World*. Random House.
- Mayer, W. & Alex, M. (2002). “*Vested Interests in a Positive Theory of IFI Conditionality*”. IMF Working Paper 02/73.
- Patinkin, D. (2008). “Keynes, John Maynard (1883–1946).” In *The New Palgrave Dictionary of Economics, Second Edition*, edited by Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan
- Rogoff, K.S. (2003). *The IMF Strikes Back*. Foreign Policy
- Schaechter, A., Mark, R., & Mark, Z. (2000). *Adopting Inflation Targeting: Practical Issues for Emerging Market Countries*. IMF Occasional Paper No. 202
- Skidelsky, R. (2000). *John Maynard Keynes: Fighting for Britain*. Macmillan Press.
- Stiglitz, J.E. (2002). *Globalization and Its Discontents*. Norton pres.
- Van Houtven, L. (2002). *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*. Pamphlet Press.