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Can the IMF and the World Bank really be changed?

A geopolitical bias, outdated governance and a too market-oriented framework are only some of the structural deficits of these institutions

As the Bretton Woods institutions complete 80 years of existence – since they were agreed upon at an allies' conference on a postwar financial and monetary order in the New Hampshire town – some stocktaking is inevitable. This is, however, a rather depressing exercise.

The international financial institutions, the International Monetary Fund (IMF) and what came to be known as the World Bank, were created in a buzz of optimism about the potential for international economic co-operation as the Second World War was coming to a close. But their functioning has fallen far short of what the architects of the system had hoped for at the time.

In their first decade, both institutions were heavily focused on lending for reconstruction. Thereafter, when lower-income countries did start receiving funds, the conditionalities associated with the loans – heavily oriented towards 'fiscal discipline', expressed as austerity and privatisation of public goods and services – became highly controversial and very often did not deliver the desired outcomes. Through the debt crises of the developing world in the 1980s and 90s, the IMF effectively became the debt collector, enforcing programmes designed to benefit (or even save) the creditor banks based in the Global North.

The underlying politics of the choice of recipients and the varying amounts of loans offered have unfortunately become even more evident.

So well-known was this pattern that by the early part of this century, most lower-income countries had opted for self-insurance, holding excess foreign-exchange reserves to avoid having to approach the IMF. The institution was in decline, with few client countries, and increasingly irrelevant.

It was, ironically, saved by the global financial crisis, when G20 countries

decided to use the IMF as the conduit for rescue funds. Thereafter, the eurozone crisis became yet another opportunity for the IMF to provide very large (and controversial) loans — and since then, it has been very much back in business.

The underlying politics of the choice of recipients and the varying amounts of loans offered have unfortunately become even more evident. A record loan of (ultimately) $57 bn was offered in 2018 to the then president of Argentina, Mauricio Macri, because of his closeness to the United States president, Donald Trump, and his willingness to engage in blatantly neoliberal policies. That loan was so poorly designed that it was associated with massive outflows of private capital, so that in a few years, Argentina was back in a debt crisis, with Macri's successor having to clean up the mess.

Fit for purpose?

The deeply geopolitical nature of the operations and the problems with the programmes are not the only reasons why the revival of the IMF as the supposed financial stabiliser of the global economy is problematic. There is a real question about whether the IMF and the World Bank are fit for purpose in a global economy that has changed dramatically.

During those eight decades, there has been a transformation in the relative sizes and significance of national economies, while, among other trends, private financial flows have risen markedly. The institutions now betray major inadequacies in their organisation and functioning.

The sharply increasing economic and ecological inequalities across the world are thereby accentuated, creating social and political tensions and geopolitical conflicts that are ever more intense. Humanity faces common challenges that require global public investment on a large scale. But the IMF and the World Bank are too slow, unwieldy and (let's admit) miserly in their responses, exacerbating rather than assuaging these problems.

For too long, both institutions have operated within a narrow and excessively market-oriented economic framework.

Some of this is because of the outdated governance of both institutions. Quotas and voting rights are skewed heavily in favour of a few rich economies with a small minority of the world's people. This is now even more difficult to justify, given those states' diminished shares of global output and world trade, which obviously affects their credibility and legitimacy. The 'gentlemen's conventions' on the leadership

of these institutions – an American at the head of the World Bank, a European at the head of the IMF – can no longer be justified at all.

More open, transparent and democratic processes must be introduced for choosing the leadership. The IMF's executive board should be expanded to ensure more representation from global-majority countries, especially from Africa. For important decisions, a double-majority voting mechanism would ensure that decisions had the support of principal shareholders as well as the majority. There should also be a general increase in quotas and shares to reflect the changed contours of the global economy.

Changes in functioning may be even more important. For too long, both institutions have operated within a narrow and excessively market-oriented economic framework. This has repeatedly failed to resolve the problems of indebted countries and those with foreign-exchange difficulties, and is unable to address the big questions that fall outside the very restrictive and unrealistic assumptions informing the underlying economic model.

The result has been the imposition of conditions associated with lack of development, extreme volatility and periodic crises in many countries, as well as a repetitive need for assistance. The economic model must change to take account of demand-side factors, the multipliers of public investment, the impact of specific policies on social and economic rights (employment, economic inequalities, access to basic goods and services, social protection and environmental conditions) and climate change.

Relief packages should promote a revival of economic activity and the progressive realisation of human rights.

Many things could be done even within the current restrictive framework of the institutions. One of the most obvious is the issuance of new special drawing rights (SDR) – the liquidity created by the IMF – and subsequent annual new issues in line with the increase in global gross domestic product.

The United Nations High Level Advisory Board on Effective Multilateralism (of which I was a member) has recommended that the IMF introduce a system of 'selective SDR allocation', rather than new allocations being based on quotas which disproportionately provide SDR to rich countries that do not need or use them. Only those countries that face weak external positions would then receive additional SDR, automatically triggered by specific conditions — such as climate, terms-of-trade or interest-rates shocks or capital flows resulting from global

dislocations.

Similarly, with regard to sovereign debt, the IMF should actively create a multilateral legal framework ensuring the participation of all public and private creditors in debt workouts. Relief packages should promote a revival of economic activity and the progressive realisation of human rights.

These reforms are obvious, but they appear very unlikely given the resistance of a few rich countries, intent on preserving their power in these institutions. Given so many rapid and often unforeseen changes in the global economy, such foot-dragging could doom the institutions to irrelevance once more. With multilateral action so urgently needed, that would be not just a missed opportunity but a tragedy.

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