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INTERNATIONAL MONETARY FUND AND WORLD BANK

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INTERNATIONAL MONETARY FUND AND WORLD BANK:

Instruments of Financial Power

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To the women of my life:

My mother, Raquel Teszler
My wife, Liliana Kusnir
My daughter, Gabriela

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FOREWORD

This book is about the functioning and the political-strategic trajectory that have characterized the International Monetary Fund (IMF) and the World Bank since their simultaneous creation, including their main historical precedents. This work has as an antecedent the book "International Monetary Fund and World Bank. Strategies and Policies of Financial Power", written with Monica Baer's collaboration in 1985. Twenty five years have passed since then, which has required not only a work of upgrade, but a revision of the increasing literature that on the topic has arisen after several financial crises that stroke the world and, especially, after the onset of the great financial crisis in the years 2007-2008. Therefore, hypothesis and perspectives have to be reexamined in the light of those critical events.

At this point, it seems almost unnecessary to outline an introduction to the Fund and the World Bank or to explain the importance that we attribute to them. At least in Latin America, their given names and initials (especially, the IMF) have acquired a sad popularity, unsuspected if one keeps in mind that hardly some years ago even the acknowledgement of their existence was reserved to very specialized government and academic circles.

There are stereotypes, certainly vulgarized, about the role that these international financial institutions have performed. Without a doubt, there is a high load of subjectivity, a sort of prejudice in every work devoted to them. The junctures, the experiences or the selected facts, when not the own titles and expressions used to judge them, translate into a favorable or adverse *parti pris*. The polarization of standpoints is very

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frequent. Hence, it becomes virtually impossible to avoid this dichotomy, when, in many circumstances and key moments, the fate and fluctuations experienced by diverse nations and vast social sectors have been greatly influenced by the decisions and proposals of these institutions.

This work contains without dissimulation a critical vision of the reach and the actions of the financial cooperation sponsored by the IMF and the World Bank, from a Latin American perspective. The purpose in this case, however, was to prevent that this conviction either suggested a drive to easy generalizations or led to ideological simplifications certainly common whenever these topics are approached. Within its possibilities, a permanent objective was to support the ideas referred to with the greatest analytical rigor and the widest available bibliography.

In the same line, the investigation was subject to the premeditated method of placing and differentiating, in a historical sense, the Fund's and Bank's different stages of their thought and their endeavors. It was not due to a meticulous or merely formal stance that we proceeded this way, nor to discover revolutionary turns theoretically experienced by both institutions, but rather because it was convenient to analyze and to clarify certain half-truths and deceptive assertions, that are often used against them. For example, that the IMF and the World Bank have not suffered major changes in their official orientations; and that their rigid orthodoxy –as well as the gestation of these international actors– has, unfailingly and faithfully, responded to the dominant interests of the government and the banks of the United States.

A central hypothesis of this work refers to the development of these two large financial institutions as a process that has accompanied and contributed to the current globalization of the economic system, that is to say, that has settled in the stage represented by transnational capitalism which arose during

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the second postwar period and most recently in the midst of the expansion of financial capitalism during the last four decades. However, this internationalization of the capitalist system did not follow a lineal evolution but rather, to say the least, it has known three very marked instances: long expansion up to the late 60s, critical transition in most of the 70s and relentless crisis since the early 80s up to the present. In this very last period, without ignoring their previous management, it was when, as never before, the IMF and the World Bank acquired a key presence in the design of strategies and economic policies for Latin American countries as well as for some of the so-called emerging Asian countries and former-socialist countries in Europe. Also, like never before in the present period, it is clear that the spirit of Bretton Woods, under which both institutions were created, has vanished and that there isn't an international platform of consensus to replace it.

In fact, the distance that is perceived between the sixtieth-fifth annual joint meeting of the IMF and the World Bank that took place in Washington, D.C in October 2010 and the founding event of Bretton Woods is not a mere consequence of the elapsed time that separates both events, but rather a corollary of the different concerns and aspirations proclaimed as high-priority objectives in one and another case. In the foundational canon encouraged by both the Keynes and White plans, despite the reservations that these might deserve, it was emphatically stated the need for international monetary cooperation 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… and promote exchange stability." And this is how it was captured in the IMF's Articles of Agreement which, in addition, inspired the functions assigned to the World Bank.

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But already in 1970's the goal of exchange rate stability faded away and was replaced by the permanent world-scale instability of the dollar standard. In the Baker Plan, announced by the Secretary of the Treasury of the United Sates, James A. Baker III in Seoul in 1985, the strategy was outlined for underdeveloped countries to adopt macroeconomic policies for structural adjustment, a crucial precedent of the Washington Consensus and neoliberal policies whose pernicious consequences have unveiled in the last 15 years in various countries. It was already possible to observe how the original objectives of the IMF and the World Bank were changing.

The relations that have historically established the IMF and the World Bank are defined by the complementarity of their theoretical approaches and functions. It has been mentioned countless times the existence of conflicts between these agencies, either because of their lending policies and conditions or because of the jealous bureaucratic defense of allegedly different conceptions. These disputes, however, have referred mainly to mechanisms of implementation or to circumstantial positions that lack a profound content or a significant implication. In general terms and as time goes by, these institutions have been increasingly binding together with greater vigor and complexity while executing different but convergent functions within the structure of international economic-financial power.

From the time of their joint creation in Bretton Woods, a specific division of tasks was put into practice, according to which, in essence, it corresponded to the IMF to assist in the problems of stability and international liquidity, and to the World Bank the problems related to resource allocation for the productive activity of the various member countries. As a result, the operation of the IMF was linked to short-term monetary, fiscal and exchange policies, while the Bank focused on

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the priorities regarding infrastructure, investment and public expense in a mid-term horizon.

Until the mid 1960's, the IMF appeared as the most relevant institution in the international financial organization. We were then in an expansionary stage of the world economy, in which the process of accumulation was not facing major problems. And so, back then, the Bank fulfilled a role that could be considered secondary.

In the late 1960's and throughout the entire following decade the situation changed. In the context of a currency crisis that involved the IMF, the Fund retreated in its international gravitation and even lost legitimacy. The need for stability and liquidity could not even be minimally regulated by the Fund and its own initiative. By contrast, in those years, the Bank assumed a greater role in the search for mechanisms to manage an imminent crisis, which also demanded a greater theoretical and ideological audacity. And indeed, due to its nearer approach to social problems of production and international trade, the World Bank began to provide a base of solutions more appropriate to such critical stage of capitalism. Among other problems, it treated those closely associated with poverty.

However, it shall be recognized that the IMF had to moderate its short-term adjustment patterns due to global demand, giving entry to some aspects of the supply and to programs of balance of payments adjustment in a longer perspective. In fact, the IMF went on to interact more intimately with the specific fields of management of the World Bank, at the same time that the Bank appeared to move towards the functions of the Fund, as far as its traditional operational areas is concerned.

This relative overlapping of functions between the two institutions implanted the seed of certain divergences. Something comparable to this had happened in the first years of installation of both institutions. But the new context of the crisis, in

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addition to their own complexity and diversity, endowed different hues to those discrepancies.

In spite of their particular historical trajectories and divergences, the IMF and the World Bank never drifted apart, to the extent that the conditions of the Fund were and still are often mandatory and binding for the authorization of Bank loans. Furthermore, in the operative field, there is a continuous exchange of drafts, reports, comments and opinions within their common headquarters in Washington. All this has in fact strengthened thanks to the cooperative participation in their various missions in a variety of countries. Nevertheless, in this first decade of the XXI century, an increasing subordination of the Bank in relation to the IMF has taken place.

On the subject of their approaches, their common conceptions led them to sustain supporting positions concerning stabilization and balance of payments policies. And in the present this proves to be valid as to the implementation of structural adjustment policies which include guidelines for further permissiveness of countries towards commerce and foreign investments, privatization of contracted services and production controlled hitherto by the public sector, elements that operate as a major catalyst for international expansion of large productive and financial corporations.

But undoubtedly, it is the growing interaction of both institutions with international private banking one of the most salient characteristics. In fact, the relations of the World Bank and the IMF with large international banks are not recent. With respect to the former, American banks not only contributed significantly to the gestation of the entity but in fact during the first two decades of its life they provided most of its financing. After an interregnum of virtual autonomy, the international crisis strengthened those bonds once the Bank's primary source of resources resided in the international capital

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markets. The coordination of gigantic and expensive projects with high participation of bank lenders, and the increasing co-financing operations, have extended and deepened the merging process of the World Bank with the international financial community.

Despite the importance that can be attributed to this mixture of interests and official and private functions concerning the World Bank, it is fair to say that the major exponent of that kind of phenomena has been the IMF. In the case of the Fund the reasons do not obey, as it occurs to a greater extent with the Bank, to its dependence on financing sources or to the direct incorporation of private banking resources and interests on its projects. The vision of the IMF in relation to large private financial corporations is represented by the role and image that the Fund provides as police force or "watchdog" of the international financial community's global interests. Role and image that has been built as a result of becoming the overseer and warrantor of the economic policies of countries seeking access to loans, and the preamble to the renegotiations of their debts and to their requests for credit from international banking. This function has not only been assumed by the Fund in its daily practice, but it is rather a matter of distinction and pride for its executives. Certainly, the effects of assuming these functions have led to several reactions, as illustrated by countless popular demonstrations against the institution, particularly in every annual meeting. Moreover, in recent times, some governments in Latin American countries have shown the same reaction and have even decided to entirely reimburse IMF loans, as a way to escape its command and future conditions (which is not equivalent to refusing their "recipes").

As in many other levels of the economy and global diplomacy, the various crisis in recent years have been helpful to leave exposed and without false decency the interests implica-

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ted and the real functions that govern the two largest international financial institutions. Once the road is clear, it is hoped that this work will help to clarify and deepen the understanding of its subject matter and, as much as possible, to open new areas of concern in the research of the issue, which, without a doubt, will remain important in the coming years.

Samuel Lichtensztejn
Veracruz, Mexico, April 2010

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I. HISTORICAL BACKGROUND OF THE INTERNATIONAL FINANCIAL ORDER AND OF THE CURRENT DISORDER

The gold standard. Peak and decline of Great Britain hegemony

To provide the main historical antecedents of the contemporary international financial system it is necessary to briefly go back to the operation of the gold standard between 1870 and the First World War, and the years of transition between this last event and the Second World War.

The priority given to the analysis of the gold standard is due to its role as a key reference in the international relations and financial policies during the first period mentioned. Great Britain's expansion and supremacy, as we'll see further on, was intimately associated with the modalities and the control exerted on the monetary system.

What was the gold standard?[1] In simplified terms, it represented a set of rules concerning the creation and circulation of money in countries and in the international arena. The basic principles that governed its ideal operation can be summarized as follows:

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[1] R.G. Hawtrey. *El Patrón oro en la teoría y en la práctica*. Ed. Aguilar, Madrid, 1951.

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In the national ambit:

a) Gold-based currency, which allowed the use of currencies of that same metal or bank notes supported by a proportional endorsement;
b) Recognition of the free conversion of bank notes for the gold that supported them, whether the holders were domestic or foreign.

In the international ambit:

a) Payment for transactions would be made in gold, which could be freely exported and imported;
b) The exchange relations among national currencies would be made in proportion to its content in gold, as long as such content is not modified. In other words, unless devaluation took place, the exchange rate would tend to be fixed.[2]

From a theoretical point of view, these mechanisms responded to a hypothesis that associated currency formation with an internal price stability, and both with a process of automatic adjustment of the balance of payments imbalances. This approach, originally outlined by David Hume and then divulged in a more rigorous formulation by David Ricardo, underlined a causal relationship between the international movement of precious metals and the level of prices: the balance of payment of a country, temporarily unstable due to an extraordinary output (or input) of gold, would reestablish its balance by means of the

[2] The costs of transport and insurance in the transfer of gold, imposed a margin of variation in the exchange rates, conceived as the "points of input and output of gold".

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decline (or increment) of its internal prices and by its capacity for international competition. This process was determined, ultimately, by the shrinkage (or upsurge) of the monetary mass and the recovery of its normal quantity and value. All of which presupposed a sort of projection of the quantitative theory of money on a world scale.[3]

These concepts regarding the operation of the gold standard were adopted by the English banking legislation in 1821. This standard irradiated its influence internationally in the following decades. But neither its application nor its effects were homogeneous or universal. In many countries its implementation was delayed. Others retained silver or bimetallic standards. In short, even in those nations that finally affiliated to the gold standard, the requirements that defined it as such standard were not observed in a permanent manner. For example, in certain critical circumstances, the suspension of the conversion of bank notes or paper money into gold was a frequent occurrence. In the peripheral or underdeveloped countries, such phenomena ran together with the depressive cycles in their foreign trade and the fall of raw material prices and tax revenues. The resulting acceleration of private-sector or government debt usually led to a disproportionate currency emission in relation to the metallic backing that the banks had on reserve. At certain point, unable to meet the demands of convertibility to gold, these institutions went broke or were aided by a State-driven policy which gave mandatory course to the circulating paper money, allowing its own depreciation.

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[3] See Karl Marx, *Contribution to the Criticism of the Political Economy*, Ed. Estudios, Buenos Aires, 1970; R. Hilferding, *El Capital Financiero*, Ed. Tecnos, Madrid, 1963; and Charles Rist, *Historia de las doctrinas relativas al crédito y la moneda*, Ed. Bosch, Barcelona, 1945.

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After a speculative cycle fairly extended, the securing of external loans often allowed the return to the gold standard.

These experiences disproved, in fact, the existence of an automatic adjustment that was attributed to the previously mentioned monetary standard, and revealed the essential incidence of structural inequalities and operational asymmetries within international trade that hindered the balance of payments stability due to changes in the amount of money and in the price system.[4] The establishment of convertibility and the strengthening of import capacity were increasingly subordinated to the securing of international loans.

Another very appreciable and significant withdrawal of international rules with respect to the gold standard was verified every time this metal failed to fulfill in practice the main monetary functions. Not only did it not operate as cash within international commerce, but neither represented the instrument par excellence of the credit system. In fact, it was the pound sterling, in general, that took over the functions of unit of measurement and medium of exchange, credit and world reserve. The source of that power resided in the hegemony of British economy in the international arena.

The dominant condition of the pound sterling relied at first in the predominance that Great Britain reached in the industrial production sector, in the international trade and in the military field, given its extensive colonial system and its influence over vast areas of the world. The modern industrial development, besides the premature development in that country, was superior there than in any other nation between 1870 and 1913, the very last period of its imperial stage.[5] This econo-

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[4] Robert Triffin, *The Evolution of the International Monetary System*, Princeton Essays International Finance, 1964.

[5] "If London was ever the world's real economic axe, and the pound ster-

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mic supremacy was materialized in its capacity to concentrate almost half of the international investments and at least one third of the world exports in that period.[6]

The international expansion of British banks operated initially by supporting the commercial dominance of Great Britain's manufacture. Even prior to 1870, the great banking system had conquered a growing influence abroad, along with English mercantile trade, especially with the colonies and the European countries. Later on, its functions and sphere of influence extended to the United States and Latin America, participating in the financing of manufacturing activities, mining and infrastructure (railroads, ports, urban services, etc.).

Despite the symptoms of irreversible decline, Great Britain reinforced its banking-financial hegemony at the beginning of the twentieth century. Its loans and financial investments were becoming an increasingly important component of its external assets, reaching a 30% of the total (a participation that practically duplicated in Latin America[7]). With the earnings of its investments and services abroad, Great Britain was able to cancel much of its traditional trade deficit (estimated in 30% of imports between 1890 and 1914[8]).

Along the process, London became the most important banking and financial center worldwide. On the one hand,

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ling its base, it had to be between 1870 -1913" Eric J. Hobsbawm, *Industria e Imperio. Una historia económica de Gran Bretaña desde 1750*, Ed. Ariel, Barcelona, 1977, p. 145.

[6] G. De Bernis, *Relations économiques internationales*, Ed. Dalloz, París, 1977.

[7] Carlos Marichal, "Perspectivas históricas sobre el imperialismo financiero en América Latina", en *Economía de América Latina*, No.. 4, CIDE, México, 1980.

[8] Gérad Marcy, *Economie Internationale*, Ed. Presses Universitaires de France, Paris, 1965. See also Marcelo de Cecco, *Money and Empire*, Oxford, 1974.

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from the city of London the movements of gold of non-commercial origin around the world were regulated and controlled, through a monetary and discount rate policy that allowed to attract foreign deposits and to be a source of much of the international loans and credits. On the other hand, it had power over an extended network of branches and subsidiaries in different countries which multiplied its financial gravitation.

By regulating the liquidity and the movement of capitals, Great Britain certainly was the administrator of the international monetary standard, thanks to its foreign trade, its financial policies and the clear prevalence of its banking networks. Mediated by British power, the gold standard was, in reality, and consequently, a gold-sterling standard. The pound sterling fulfilled the respective functions of an international currency; but, ultimately, the gold kept its active role as reserve asset and as key factor of convertibility.

A redefinition of the world economic structure that culminated with the First World War modified those patterns of operation. The loss of competitiveness of the English economy against the United States and Germany in the new and more dynamic branches of manufacturing, significantly affected Great Britain in the fields of production and trade.

In the financial sphere, the suspension of the convertibility to gold of almost all currencies during the war, the widespread inflation and the existence of new lending practices, operated in detriment of the gold-sterling standard. The London market, without losing its major weight, was not longer "the financial ark" of great part of the world. Even though the organization of multinational bank unions for the grant of loans became a more frequent phenomenon, banking competition intensified. Even before the First World War, the French, German and even U.S. banks (especially in Latin America) took over fields previously dominated entirely by the British. Between 1907

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and 1913, for example, Parisian banking attained the displacement of British banking as the main provider of funds for Latin American governments.[9]

But it was above all the emergence of a new power (United States) and a new market (New York) what changed the direction of the movements of gold and financial capital. The creation of the Federal Reserve System (Federal Act of 1913), the approval of the Agreement Corporations (1916) and the Edge Act (1919) provided further institutional support to thrust U.S. banking internationalization. Its financial system shifted from the rank of importer to that of a net exporter of capitals.[10]

The reconstruction of the international financial system in the first postwar period failed to consolidate a definite standard. For European countries with an exceptional inflation, significant losses of reserves and a heavy burden of debts, the re-establishment of the gold standard meant a great deflationary effort and an increase of sacrifices and internal pressures. Indeed, the own standard's logic required reducing the amount of money in circulation, with its depressive consequences on the prices, but also on the income, expenditure and employment. Although this process was encouraged by its

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[9] Wladimir Andreff y Olivier Pastré, "La génesis de los bancos multinacionales y la expansión del capital financiero internacional" en *Nueva Fase del capitalismo financiero*, comp. J. Estévez y S. Lichtensztejn, Ed. Nueva Imagen, México, 1981, p.69.

[10] With respect to the international banking expansion, the Federal Reserve System authorized national banks with a minimum capital of one million dollars to establish subsidiaries abroad. According to the 1916 amendment, these banks were allowed to establish subsidiaries corporations abroad, as long as their operations did not affect more than 10 percent of their capital. The Edge Law expanded that option in case that the legislation of the host countries banned the installation of banking subsidiaries. In addition, it facilitated the operation of new activities, such as direct investment in productive sectors or participation in foreign banks.

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anti-inflationary objective and the promotion of exports –in a suspected cycle of growth recovery– the solution was ultimately unworkable.

An alternative like the one outlined in Genoa (1922), of introducing a system of exchange-gold (Gold Exchange Standard) based on the dollar and the pound as international reserve currencies was transitory and accidentally put into practice. Among other attempts, the one of revaluing English currency did not manage to succeed.

The absence of a concerted mechanism led to a period of transition where the hegemonic core of the international financial system shifted partially from Great Britain towards the United States. However, on the new axis, the fluency of such flows made its English-style recycling no longer possible. The U.S. economy showed a much lower gravitation of its foreign trade with respect to its product (10.1% in 1909-13, against a 65.2% of Great Britain, in the same period). Its rapid expansion process and industrial concentration was based on an intense financial centralization.[11] Such scarce market liberalization, the protectionist tone through which the United States affirmed its economic growth and the intense capital absorption that enabled the development of its monopolistic structures, limited the possibilities of financing deficit countries. Although in the period 1925-29 attempts were made to ease some aspects of those guidelines, the exacerbation of speculative phenomena and new monetary imbalances hindered the stabilization of the international financial system and led to the crisis in 1929.

From here on and especially after Great Britain's symbolic abandonment of the gold standard (1931), an intense inter-

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[11] J.A. Hobson, *The Evolution of Modern Capitalism*, Londres, Allern y Unwin, 1965.

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national retreat took place. Almost all governments adopted measures that sought to protect or isolate their economies from the depressive effects of the global crisis. In that context, protectionist practices thrived and became widespread: control over the input and output of capital, deferment of foreign debt payments, trade and payment agreements among countries without extending to others the granted concessions (bilateralism), devaluations, tariff barriers, etc.

The breakdown of the gold standard until then dominant encouraged the formation of various trade and monetary zones: dollar zone, pound zone, franc zone, mark zone, etc. Countries tended to maintain their reserves in those foreign currencies, in addition to gold. As a result, there was no uniform standard and the monetary rules tended to diversify. Already during the 1930's, mechanisms of internal monetary emission of fiduciary money were reinforced, without conversion and based on other mainstays in addition to those represented by gold and foreign currencies (rediscount on public debt documents, for example). In the banking sphere, concomitantly, decisions that meant restrictions to the international functioning of private institutions were adopted. In particular, the approval of the Glass Steagall Act (1933) in the United States shall be pointed out. It established a strict separation between investment banks and commercial banks, limiting their functions and, therefore, accentuating the retreat caused by the crisis in the international flow of capitals.

Despite this dispersion of procedures, the gold continued to be the main prop of emission of local money and was recognized as the world's money par excellence. And with a new rate of 35 dollars per troy ounce, the U.S. government reestablished in 1934 the rule of convertibility of its currency into gold, while limiting it to transactions with central banks or monetary authorities.

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The inrush of World War II postponed an immediate solution to such monetary heterogeneity and its recessive effects in the areas of international trade. When the Bretton Woods Conference took effect, shortly before the end of the conflict, the progressive dominance of the United States that had been set in motion at the beginning of the century, had clearly consolidated. Industrial capital had expanded in that country. Besides having established a high productive capacity, it had also re-concentrated large gold reserves (including those coming from the leakage of European capitals, before and during the war). If its gold reserves in 1938 accounted for 55% worldwide, after the war they were at 70%.[12]

The advent of Bretton Woods and the U.S. hegemony

When reviewing the major changes that determined the international economy of the second post-war period, it is impossible to skip the significance of Bretton Woods, whose agreements gave birth to the International Monetary Fund (IMF) and the World Bank. This fact, on the one hand, clearly revealed U.S. hegemony within the bloc of dominant countries, which consequently meant a rearrangement of the international financial order; and, on the other, it fostered a code of conduct intended for the economic policies of countries with problems in their balance of payments and it institutionalized various forms of lending and financial mediation between the newly created institutions, national governments and the international private banking system.

The explicit principles that guided the inception of this new system of relations between nations clearly responded to

[12] R. Triffin. *op.cit.*

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the previous bilateral and protectionist rules, as well as to the speculative procedures triggered by the monetary-exchange disorders that followed World War I and the ones suffered throughout the 1930's. In opposition to such a state of affairs, it was designed a system capable of restoring the conditions to promote free and multilateral circulation of goods and capitals.

Evocation of similar attempts of global monetary reorganization during the inter-war years, for example, the recalled failure of the Gold Exchange Standard proposed in Genoa in 1922, caused suspicion, especially in the already very powerful U.S. financial community. The concern of those sectors for such apparently very ambitious projects that would rely on significant government participation, framed the first discussions on the subject which began to formalize through the course of the Second World War. The initial preference of the most conservative political and banking circles in the U.S. was to return to a discipline in close proximity to the gold standard, or to adhere straightforwardly to a currency-key (or dollar standard[13]).

There is no doubt that the private financial sectors had an influence and actually pressured relentlessly over the making of the Bretton Woods agreements and, as we'll see further on, they even ended up having a direct participation on the final draft, in spite of the severe warning of Morgenthau, Secretary of the Treasury of the United States, in the sense that it was necessary to "expel usurious lenders from the temple of international finance"[14]. Even acknowledging the gravitation of those positions, the final reading of the documents of Bretton Woods

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[13] Robert Solomon, *The International Monetary System*, 1945-1976, Harper y Row, New York, 1977, p. 33.

[14] The speech by Morgenthau in the final session of the Bretton Woods Conference (July 22, 1944). Quoted by Richard N. Gardner, *La diplomacia del dólar y la esterlina*, Ed. Troquel, España, 1966, p. 11.

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should be made in the light of global interests manifested by the dominant States and their authorized spokesmen. In that sense, the essence of these agreements was to settle the rivalry and the dispute between the old British imperialism and the emerging U.S. dominance to define the new rules of the international financial system. J.M. Keynes, as a consultant of the British Ministry of Treasury and Harry Dexter White, as a specialist of the Department of U.S. Treasury embodied the interests of the two major competitors, through the renowned plans which became known by their names in 1943.

The initial negotiations between both countries, where the first ideas of an international economic restructuration were laid out, took place even before Bretton Woods, in the Anglo-American Mutual Aid Agreement (February 1942). This event revealed the common purpose of supporting a more balanced and multilateral economic development, but it also demonstrated the divergences that already separated the American and the British conceptions, which would emerge again with greater vigor in the ensuing discussion of the Keynes and White plans. These documents were situated in a single line of principles based on the inevitability of balance and multilateralism in the international economic affairs.[15] Nevertheless, they differed in their content and instrumentation.

On that matter, it must be taken into account that while Great Britain and, in general, the European countries sought to stabilize their disastrous balance of payments while avoiding an acute internal economic depression, the United States sought to consolidate its economic-financial power,

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[15] Kenneth K. Kurihara is responsible for pointing out that coincidence: "The White plan, American reply to the Keynes plan, was put into consideration shortly after, and incorporates substantially the same principles", *Teoría Monetaria y Política Pública*, FCE , Mexico, 1961, p. 317.

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albeit making this purpose compatible with its assistance to European reconstruction. In that sense, the Keynes Plan could have been catalogued as more ambitious and incisive. For example, his proposal for an International Clearing Union was meant to start with a capital of 26,000_millions of dollars. Meanwhile, the White Plan approach seemed relatively more conservative. Its Stabilization Fund amounted only to 5,000 millions of dollars.

Although the own British government's support to Keynes' proposal was less than enthusiastic, it is clear that it sought to reorganize the international monetary order with the hardly disguised claim of obtaining the broadest advantages for its country and maintaining a certain strategic superiority in the new system[16].

Nevertheless, due to an insufficient political and economic power, and in spite of Keynes' prestige, Great Britain failed to enforce even a few of its points of view. Bretton Woods was indeed and definitively a total victory of the U.S. dominant power, embodied in the White plan. In this regard, it can be argued that these agreements were the result of an unequal negotiation between the U.S. and Great Britain, leaded and shaped by the former, within a fictitious framework of global cooperation which, in its most generous version, "was above all, the history of the Anglo-American collaboration"[17].

To the extent to which a favorable outcome to U.S. interests was inevitable, English demands kept withdrawing toward

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[16] "We cannot fail to note the fact that the Keynes plan, almost since the beginning of the negotiations, was put away almost without previous study. It is no secret that the Bank of England welcomed quite coldly Keynes' points of view", R. Triffin, *op. cit.*, p. 106.

[17] Edward Mason y Robert Asher, *The World Bank since Bretton Woods*, Brooking Institution, 1973, p. 9.

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bargaining positions which sought to satisfy some of its immediate needs. The loan issued by the U.S. to Great Britain in 1946 was one of the major demonstrations of this purpose that, at first sight, might seem minor, but that it actually proved to be decisive in the negotiations. After all, beyond the long-term political and strategic aspects that, it may be assumed, supported the English position, Bretton Woods –and even its initial implementation– was a process increasingly influenced by the particular concessions granted to the U.K., perhaps as compensation, in a relationship of forces clearly uneven.

These precedents do not try to downplay the differences of approach that will be analyzed below, but they do attempt to situate in a plausible basis the structural asymmetries of power and the transitional behaviors that characterized this historical episode, avoiding an idealization or theorization of positions, like those in which certain conventional economic literature often incurs, with regard to the contention at Bretton Woods.

Perhaps the main topic of discussion and discrepancy between both plans focused on the matter of what can be accepted as money or medium of international payment and how to regulate its amount. It is worth to say that the point in question involved the arrangement of an international monetary standard. The second topic highlighted was the one on how to achieve a foreign trade equilibrium, which implied solving the adjustment policies and mechanisms for the balance of payments imbalances.

With regard to the monetary standard, the agreed solution in Bretton Woods was sustained by the White plan which consisted in re-establishing gold as an instrument of international reserves. Since it was argued that the stocks of this metal were insufficient to reactivate and expand world trade, it was agreed, as a basic principle of the new monetary standard,

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that all national currencies could reach a status of medium of international payment as long as they were convertible to gold. Thus, the configuration of the Fund would require contributions in gold, but, in a greater proportion, in currencies convertible to that metal.

This principle of convertibility presupposed a theoretical parity of currencies, if at all there were any positions of certain stability in the balance of payments and the corresponding distribution of gold among countries. However, in the scenario of the post-war period, that principle hid a privilege in view of the fact that the United States concentrated most of the existent gold and had an outstanding foreign trade surplus. It was in fact, then, the only country that could sustain the convertibility of its currency to gold, which in effect turned the dollar into the key foreign currency and the mandatory reserve currency in the international financial system and in the International Monetary Fund.

This way, Bretton Woods came to institutionalize, with the support of the newly created IMF, a monetary standard that, in spite of its differences with the English experience prior to 1914, but given its analogy in the use of a national currency as a mean of international payment, was given the title of gold-dollar standard. On the one hand, this guaranteed the U.S. financial hegemony; but, on the other, and it is worth to anticipate this judgment here, it contributed to deepen the contradictions that soon after led to the crisis of the monetary system.

The unsuccessful Keynes plan, for its part, proposed the creation of an International Clearing Union whose role would be to ensure international rules in financial matters and to agree on loans for countries with insufficient liquidity. For this reason, it introduced a new form of money (bancor), in replacement of gold, but convertible to it, in a fixed but recoverable relation. It was meant to be nominal money, creditable in a

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bank account to be awarded to each country based on a proportional share in relation to its foreign trade, and that could be used and transferred without significant conditions. It was intended that such a mechanism operated as automatically as possible as a way to allow countries to effortlessly transfer and compensate the balances of their Central Banks, thus eliminating the payment of some countries to others and the consequent circulation of money.

It shall be pointed out that the position of Keynes, on having refused the proposal about national currencies becoming the basis of monetary standard, sought to prevent the supremacy of the dollar as the international currency since this would encourage the United States to use this standard to promote its domestic policies and its world projection, something that proved to be true. There is no doubt that the frustrated Keynesian aspiration of introducing unrestricted transfers on an international nominal currency and its exclusive relation with the volume of foreign trade, sought to clearly favor those economies that, like Great Britain, showed a high ratio of outward commercial openness. It is also vital to recall that if such Keynesian criterion had been accepted, the voting power of the sterling and European area within the IMF would have been much more significant and decisive than the U.S. vote.

As for the matter of the international balance and the balance of payments adjustment policies, both plans sought to eliminate all sort of restrictions attached to international trade and its forms of payment, rejecting discriminatory exchange practices. It should be noted, however, that Keynes admitted the possibility of controlling the movements of short-term capital and that his conception of exchange rate stability was more flexible than the IMF's White-based standpoint. According to this last version, the exchange rates parities (embodied in gold) were not supposed to distance from the parity price in more

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than 1%. Any greater alteration was due to the existence of an "essential imbalance in the balance of payments" (a concept that was never defined) and required prior consultation if it was above 10%. In fact, the IMF was built on the premise of a trajectory that would be, both, relatively balanced in the balance of payments, and stable with respect to the exchange relations. By the way, the concept of mandatory convertibility between currencies adopted by the IMF in accordance with the White plan was very different and more rigid than the one suggested by Keynes, which focused the issue on the procedures of compensation and proposed limits to the procedures of convertibility of currencies to gold.

A divergence that may be considered basic and a source of great controversy was the Keynesian claim that the adjustment mechanisms of the balance of payments also applied to creditor or trade surplus countries and not only to those in a deficit situation. From a Keynesian view, an adjustment policy of imbalances involved global counteractive mechanisms, for either sort of situation. On the contrary, the White plan –and, ultimately, the IMF Articles of Agreement– created adjustment obligations and conditions merely for the trade deficit countries. Like so, the U.S. was exempted since the beginning from giving further details about its economic policies. Meanwhile, the full burden of the adjustments, generally depressive, went to those countries who requested the support of the IMF due to problems derived from a balance of payments deficit.

It seems pertinent to highlight that in this stage of U.S. hegemony, the mechanisms of adjustment acquired a different character from that showed during the period of British supremacy. In this last mentioned period, given the reciprocality of the global division of labor and the restrictions that the evolution of the balance of payments imposed on the national monetary systems, it governed a synchronous trend between

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trade movements and the situation of international liquidity. The adjustment of imbalances operated via a system of private credit that was under the supremacy of Great Britain's financial policy.

In contrast, under U.S. hegemony, with the new organization of world production and the autonomy of the monetary-credit systems,

> there is no credit adjustment process at the level of U. S. financial structures that could ensure that the situation of its balance of payments will remain compatible with the development of international liquidity [...] there is no synchrony of circumstances […] and the adjustments in other countries happen to depend on its economic policies[18].

The mentioned asymmetry concerning the treatment of surplus and deficit countries came to ratify the inequality that the White plan and therefore, the IMF Articles of Agreement, imposed on the international monetary standard and on its internal organizational mechanisms. With the purpose of introducing a purely formal symmetry in the treatment of the two types of countries, the concept of "scarce currency" was introduced, that is to say, one which showed an immoderate demand of loans. This would have enabled a study of the specific problems of surplus countries, something that never occurred.

But, not only was the IMF founded in Bretton Woods. In addition, the International Bank for Reconstruction and Development (IBRD) was conceived as the first of the various institutions that, later on, with the International

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[18] Michel Aglietta, "El capitalismo mundial en los ochenta". Revista Mexicana de Sociología *(jul-Sept)*, México, 1983, taken from *New Left Review* (Nov-Dic), 1982.

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Finance Corporation (IFC), the International Development Association (IDA), the International Center for Settlement of Investment Disputes (ICSID) and the Multilateral Organization of Investment Guarantee (MIGA), constituted what today is known generically as the World Bank Group or World Bank[19].

The disputes and discrepancies on which type of Bank to create were certainly minimal when compared to those that characterized the preambles of the IMF. There was an initial consensus which laid primarily on three major premises:

1. The World Bank would not be an important part of the international monetary system in the post-war era;
2. Great Britain and other important founding countries did not discuss at all the authority of the United States regarding its operation; and
3. From the beginning, the influence of U.S. financial market in the provision of the Bank funds was acknowledged, which, consequently, granted direct involvement to U.S bankers in its management.

For all the above, except the details, Keynes made no greater issue on the constituent and functioning principles proposed by U.S. World Bank delegates. Perhaps the greatest obstacles were initially brought by the American bankers themselves. Their prejudices, which had already begun to reveal with the IMF, also had an impact on the issue. As historical evidence of their concern, they brought up the inconsistent experience lived by the Bank for International Settlements, in the management of the funds intended for war repairs in the 1930's, and the ambi-

[19] Except quotations which refer specifically to those institutions, this book will normally refer to them as World Bank or Bank.

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tious and frustrated project of the Inter-American Bank (1940) which counted, already then, with the active participation of H. D. White.

In this context, the initial discussions on the roles of the IBRD, subsequently named World Bank, were confusing. The purposes of reconstruction, development and stabilization muddled up, to the point of disrupting the own discussion that on the IMF was taking place simultaneously. However, the picture finally cleared up when the Bank was assigned with precise and punctual tasks. The discussion focused then on the importance of the objectives of reconstruction in contrast to those of *"foment"* (restricted translation, consistent with the approaches of the time, of the current concept of "development"). Of course, in favor of the former were the United States and the European countries; and in favor of the latter, some underdeveloped countries.[20]

In sum, the international monetary system was reorganized in Bretton Woods, based on the economic, financial and political power of the United States, who was spreading internationally the hegemony of its currency and policies. In that sense, it can be argued that the IMF and, to a lesser extent, the World Bank, rather than conceived as regulators of the system of international affairs, were initially wrought as instruments of U.S. hegemony. The big difference with the British past is that U.S. hegemony was able to legitimize itself through institutions and multilateral mechanisms that were defined, proclaimed and, until today, projected as agents for global cooperation.

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[20] "Mexico suggested a version which established that economic development ought to be the first objective." Mason and Asher, *op. cit.*, p. 23. For further information on this topic, see Gardner, *op. cit.*, cap. VII.

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Functions assigned to the International Monetary Fund (IMF)

The functions of the IMF, according to the Articles of Agreement, are, in sum, as follows:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems;
- 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 incomes and to the development of the productive resources of all members as primary objectives of economic policy;
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation;
- 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;
- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity;
- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

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The main aspects that sum up the IMF nature as a key component of the new international monetary system were: *a)* the establishment of a gold-dollar standard; *b)* the implementation of a code of policies and adjustment mechanisms for balance of payments deficit, and *c)* the creation of a financial fund to support these adjustment processes.

The IMF management at that stage laid on certain initial operational assumptions. With reference to the monetary standard, the United States was forced to maintain the convertibility of its currency to 35 dollars per troy ounce of gold. In this regard, it should be noted the persistent refusal to a change in that relationship due to a U.S. denial to revise it.[21]

With regard to the unification of policies, the remaining countries had to reestablish as soon as possible the parity of their currencies in relation to the gold-dollar standard, sustain their exchange rates within the admitted margins and ensure the principles of convertibility among currencies.

Finally, on the matter of integration of contributions to the IMF, contributions that provided its capacity for financial support, the American contribution was logically the one that made possible the initial formation of most of its lending funds, given that currencies of other countries, in greater or lesser extent, were not demanded and remained inconvertible for several years. This factor, added to the already mentioned, accentuated the American power within the institution.

At first the initial circumstances for the development of the IMF were not quite propitious, and in fact one might say

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[21] Jacques A. L. Huillier ironically explains that decision: "The IMF has not yielded to these requests, and while recognizing that its attitude is explained in the first place by that adopted by the US Treasury, it is possible to invoke good technical reasons in support of its steadfastness", *Theorie et practice de la cooperation international*, Ed. Genin, Paris, 1957, p. 45.

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that it was unsuccessful throughout the first ten years of life. Specifically, toward 1952, a date in which temporarily restrictions for its first stage were revised, many practices not approved by the IMF had not been eliminated. The exchange controls, the bilateral agreements and the multiple exchange rates continued proliferating in the economic relations of many countries, included those in Western Europe and Latin America. The devaluations of the European currencies, which sought to be attenuated through U.S. extraordinaries loans, after all arrived on the scene. In September 1949, Great Britain and most of the European countries devaluated their currencies around 30 per cent. The stipulated behavior norms were not met and the loans granted by the IMF were not very high either. "The principles on which the Fund was based on are not met in the postwar world," according to Kindleberger.[22] Similarly, Triffin once referred to the "failure of the international monetary plans", in the immediate postwar period.[23]

These "breaches" came as a result of the obstacles that the actual process of European and Japanese reconstruction led to. Rebuilding their internal production processes and foreign trade, as well as their international monetary reserves, was in fact achieved thanks to the bilateral policies, the protectionist practices, the military aid and certainly, the Marshall Plan in favor of European reconstruction.

Although the IMF did not function normally then, neither in respect of the strict implementation of the adjustments, nor in its financing possibilities, the dollar was imposed as the axis of the international monetary standard. The U.S policy assumed then the responsibility to address the problem of "dollar

[22] Charles P. Kindleberger, *Economía Internacional*, Ed. Aguilar, Madrid, 1972, p. 43.

[23] Robert Triffin, *El caos monetario*, FCE, 1961, cap. III.

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scarcity"; (which emanated from its high trade surplus in the immediate post-war period) first, through the Marshall Plan, then, through the military aid provided to Europe and Japan, and finally by promoting U.S. direct investment abroad. The Fund contributed to institutionalize the hegemonic role of U.S. currency, pushing the processes of free convertibility between domestic currency and the dollar; but it was the expansion of U.S. funding what ultimately conferred the dollar its vigor as an instrument of international payment.

At the end of the 1950's, the recovery and high productive growth of European economies was evident, as well as their broader integration. Their foreign currency and gold reserves doubled up, representing close to 40% of the world reserves. The same was true about the Japanese economy. The restrictions on payments and transfers in current international operations were abandoned progressively. First, the bilateral agreements on trade and payments were denounced; then, the multiple exchange rate practices were eliminated; and lastly, the external convertibility for their currencies became widespread. It all was a direct result of the high level of economic invigoration of these countries and because all of this facilitated the process of U.S. investments and the placement of capitals abroad.[24]

On the other hand, several countries in Latin America (mainly those with an average development) went through a low-growth phase, characterized by a balance of payments imbalance and an accelerated inflation. It was in that region of the world, where the IMF conditions became more discernible and rigid, precisely in those aspects in which its management

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[24] "Once European currencies became convertible, capital flows toward Europe became viable and attractive to American enterprises and financial institutions." Robert Solomon, *op. cit.*, p. 24.

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had been lenient with Europe, that is to say, in the area of the exchange and commercial openness and in the implementation of the stabilization programs. But this time those requirements were basic for Latin American countries to gain access to certain IMF financial support, but also to encourage the entry of foreign loans and risks investments.

The IMF, as a result of the Klein and Saks mission, had an influence on the design of the economic policy in Chile at the end of 1954, as it did in 1956, through the Adair mission, in Bolivia. The following year, the IMF contributed to the design of a tax reform in Paraguay. At the end of 1958, Colombia was given the assistance of EXIMBANK and committed itself, with the support of the IMF, to carry out a stabilization program. In Brazil, the IMF operation was full of incidents. During the Kubitschek administration, its "recommendations" were categorically rejected, to the extent that by 1959 all the negotiations with the IMF came to an end; but under the government of Janio Quadros, a few years later, it became possible to attenuate the multiple rate system, even though a high control on foreign trade remained. Argentina agreed to sign its first Letter of Intent with the IMF in 1958, and Uruguay put into place a monetary and exchange rate reform under a Letter of Intent with the IMF in 1959.

With the developed countries moving toward full currency convertibility and the stabilization processes on track in Latin America, the IMF managed to work more properly according to its principles and constituent interests in the early 1960's. Nevertheless, especially since the initial and persistent imbalances in the U.S. balance of payments and the first speculative pressures against its currency (expressed in increasing demands and rising prices of gold), clear evidence arose concerning the intrinsic weakness of the current international monetary standard. The U.S. loss of about 5,000 millions of

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dollars in gold during the years 1959-1960 along with the abovementioned rising trends in the price of this metal, unleashed concerns and discussions among the industrialized countries.

These phenomena, however, did not involve a change in the privileged position of the United States within the international monetary arena, nor did it mean an obstacle for this country to continue commanding international liquidity through the repeated shortfalls in its balance of payments. Its policies were not subjected to any monetary or budget restriction; neither the parity of its currency in relation to gold appeared to be seriously threatened. Yet, the United States had to seek broader agreements to ensure greater support for the gold-dollar standard. This forced the U.S. to negotiate and to evaluate proposals which, even if they did not exclude completely the IMF, gave rise to mechanisms neither foreseen nor channeled by that institution, and which were the prelude to the weakening of Bretton Woods and the decline of the U.S. financial hegemony.

Functions assigned to the World Bank

Despite the fact that the World Bank was a very limited organization when it was first created, through the years it has reached a position of great importance in the current international structure. Even though the U.S. government and its domestic financial market still have a strong influence on the Bank, the former has shown evidence of changes in its theoretical framework and on its lending policies.

The main concerns regarding the creation of the Bank focused at first on the definition of its functions. The emphasis on reconstruction rather than on development, illustrates the primary predominance of conservative objectives in its international projection, an option in which the U.S. and British

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governments, main architects in the creation of the institution, were clearly implicated. According to analysts of the immediate postwar period, Great Britain never thought that its process of economic reconstruction would depend on the Bank, but rather on resources coming directly from the United States (as it was confirmed in view of the loan granted by this country in 1946). This observation may extend to Western Europe when we consider the decisive influence exerted by the implementation of the Marshall Plan and other bilateral programs since 1948. Thus, while the World Bank provided less than 800 millions of dollars between 1948 and 1954, the credits and donations covered by the Marshall Plan reached the figures of 16,000 millions of dollars in the period 1947-1951.

Subsequently, Bank's limited role in the reconstruction tasks was replaced with functions associated to the economic growth of underdeveloped countries. The Bank, that still in the fifties applied most of its loans in the developed countries, in the following decade and especially after 1968, focused almost all of its resources on the underdeveloped countries. Factors of different nature contributed to this phenomenon.

On the one hand, this overturn of functions and loan-recipient areas was due to the expansion and consolidation of the European and Japanese economies. Rather than international debtors, these countries became creditors and moneylenders.

On the other hand, there was an accelerated and vigorous presence of underdeveloped countries as members of the IMF and the World Bank. Undoubtedly, the national liberation and decolonization struggles had an influence on the Bank's structural change and, as a logical consequence, on its own functions. In that sense, it should be noted that between 1947 and 1958, the total number of members grew slightly less than 50%, (from 45 to 67 countries) while the Asian countries were quadrupled (from 3 to 13). In the next 10 years, from 1958 at

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1967, the total number of members rose 58 per cent, (from 67 to 106 countries) while the number of African countries multiplied by 4.9 (from 7 to 34 countries).

Currently, eight out of ten countries of the total number of members of the World Bank (and the IMF) are part of the generic world of underdeveloped nations.[25]

A factor that had an enormous influence in the new operational modalities of the World Bank, relates to certain twists in U.S. aid policy.[26] In that sense, it has been asserted that "history can register that the World Bank rose to its leading position in the field of development assistance pari passu, when it declined the role of the United States on external aid"[27]. Although that process was attributed mainly to the progressive deficit situation of the U.S. balance of payments, it also points out the fact that ever since the Eisenhower Administration, "the rationality of U.S. bilateral aid leaned towards national security goals". Such conduct undoubtedly became increasingly important within the foreign policy of that country.[28] A logical corollary of this process was that the

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[25] At the end of 2010, the total number of member countries of the IBRD was around 187 and 179 for the IDA. World Bank Annual Report 2010.

[26] During the heyday of this policy, the best known agencies and systems sponsored by the United States with an influence in Latin America were Export-Import Bank (Eximbank), Mutual Security Administration (MSA), Foreign Operations Administration, International Cooperation Administration, Development Loan Fund (DLF), Public Law 480, Interamerican Development Bank (IDB) and Agency for International Development (AID).

[27] Raymond F. Mikesell, "The emergence of the World Bank as a Development Institution", from the book *Bretton Woods Revisited*, Canada, McMillan Press, 1972, p. 71.

[28] Several testimonies confirm this idea: "The objective of foreign aid is to promote the national interests of the United States" […] "In the fiscal year 1969 in the United States, the security programs covered 53% of the costs of foreign aid" […] "Based on *The Report Peterson,* 26% of the allocations to

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United States sought to relocate certain aid procedures for underdeveloped countries toward multilateral mechanisms that, like the World Bank, were under its control, discarding bilateral channels that, in any case, were the target of harsh distrust and political criticism.

All these elements facilitated the transition towards a diversification of assignments of the Bank that ended in the 1960's. In 1969, the report that the Bank entrusted to the Canadian former prime minister and Nobel Peace Prize, L.B. Pearson, emphasized the limited scope of its functions, markedly restricted to the support of the economic growth of underdeveloped countries, via infrastructure and the promotion of productive investments.

Partners in Development, better known as the Pearson Report, warned about the need to redefine the functions of the Bank and to make them more attentive to the internal social imbalances and to the progress of international economy. This warning was invigorated with the first signs of the forthcoming financial crises.

The U.S. crisis and the energy problems that unleashed in the early 1970's, led to the well-known effects on the international system: increasing imbalances in the balance of payments of non-oil countries, rapid growth of foreign debts, expansion

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economic programs were in fact for security purposes. cit. Luciano Martins, Políticas de las corporaciones multinacionales, Inc. Julio Cotler y Richard Fagen (comp.) *Relaciones políticas entre América Latina y Estados Unidos,* Amorrortu, Buenos Aires, 1974. Also, "The PL 480 (Public Law 480 of agricultural surpluses) is a program to help countries that are within the sphere of influence of the United States on the basis of humanitarian reasons, but also taking into account national security reasons", E. Butz, Secretary of Agriculture of the EE.UU. Quoted by Miguel Teubal in "La crisis alimentaria y el Tercer Mundo: una perspectiva latinoamericana", *Economía de América Latina*, No. 2, México, CIDE, 1979, p. 73.

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of international private banking, increase of political tensions, etc. Those crises stroke the international economy as a whole, affecting much of the underdeveloped world, but also most of the industrialized countries.

In this context, the World Bank assigned itself new tasks on areas of economic development that were not limited exclusively to the sponsorship of infrastructure. Formally, these new functions aimed at the satisfaction of basic needs or poverty alleviation, population development, energy development, climate change and more global objectives such as the need for structural adjustments for underdeveloped countries.

These recent functions, however, responded to issues of a broader scope: the reallocation of resources and the productive reintegration on a world scale, in particular, of underdeveloped countries with a certain industrial platform. These were not responsibilities of the Bank that had to do only with the direct and immediate problems of underdeveloped nations, but rather with concerns related to the articulation of the productive forces of these nations to the industrial development of advanced countries. Even the approach of the basic needs, although supposedly linked to the growth of the poorest agricultural-based countries, it overflowed during the McNamara era its economic and social explicit objectives to eventually embrace considerations on political security; in other words, security became a quality of economic development.[29]

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[29] "By definition, basic human needs are always critical, and the fact that governments help poor people to meet these needs is not a question of philanthropy, but a prudent investment in human capital formation [...] Of course, what is in fact a very bad economy is to allow poverty to grow and spread within a nation to such an extent that it begins to infect and erode all social fabric. Poverty in its worst terms is like a virus that infects bitterness, cynicism, frustration and despair" (speech given by McNamara in the 32nd Annual Governors Meeting in Washington, 1977) Bulletin CEMLA, vol. XXIII, no. 6,

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Thus, the functions of the World Bank had a tendency to project in global and international terms. Some authors try to associate these trends with other notions, such as the Trilateral Commission, which began to analyze contemporary capitalism within global coordinates and through a perspective of security and governance of the system as a whole.[30]

All this was revealed by the procedures adopted in the reestablishment of the North-South dialogue. Even if in several occasions during the sixties, at different forums, a request to reactivate these negotiations was made, it was in fact McNamara, as President of the World Bank, who at last brought to in 1979 the formation of a Commission to be in charge of formulating an agenda for the North-South integration. It is no wonder that McNamara designated for the elaboration of such a program another former chancellor (this time German) and Nobel Peace Prize, Willy Brandt, perhaps with the intention of opening a chapter that matched the one that contributed to design the Pearson Report ten years back. It was thought back then, that "the World Bank is becoming the most suitable forum for the design and implementation of the main actions in the field of international economic relations"[31].

Although McNamara failed to maintain the Commission within the Bank's orbit, given the fact that the North-South dialogue ended up operating as a rather independent forum of

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November-December 1977. To learn more about this issue see Hugo Assmann (Ed.), *El Banco Mundial: un caso de Progresismo Conservador*, San Jose, Costa Rica, Department of Economic Research, 1980.

[30] See, Hugo Assman (ed), *ibid.*, p. 11.

[31] Salvador Arriola, "El papel de las instituciones económicas internacionales: el diálogo Norte-Sur, la estrategia de los países industrializados", document presented at the Seminar on Policies for Latin American Development, CECADE, 1980, p. 19.

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discussion, its guidelines were very similar to those proposed by the financial institution.

The Brandt Report focused primarily on "the problems of international development" and its basic and global characteristics of survival, interdependence and security. Although the adopted perspective sought to embrace all humanity at the end the interests of the developed countries prevailed. Despite the formal acceptance of claims from peripheral countries, the program had in mind the "survival of the transnational order"[32]; the idea of interdependence was linked to the need for "assuring the access and the regulation of international trade in the field of supplies and raw materials" and the concept of security was referenced by the "establishment of a better climate for foreign private investments"[33].

Subsequent events demonstrated that the close relationship between the Brandt Commission and the World Bank –whose outcome was the reestablishment of the North-South dialogue–, lost its validity. For example, at the Summit held in Cancun (October 1981), where it was intended to determine the rules and priorities of the international negotiations, the United States, together with some advanced countries like Great Britain, West Germany and Japan, tried to determine the discussion according to their specific interests, thus becoming the target of severe criticism, mostly by the majority of the Third World countries.

The meager progress accomplished in this Meeting led, on January 1982, to some changes at the heart of the Brandt Commission. After that, a new meeting intended exclusively

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[32] See Jaime Estévez, "La réplica de los países desarrollados al nuevo orden económico internacional. El caso del Informe Brandt", *Economía de América Latina,* no. 5, México, CIDE, 1980, pp. 138-139.

[33] Salvador Arriola, *ibid.*, pp. 16-20.

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for Third World countries was summoned. It took place in New Delhi on February 1982, and its purpose was to promote the cooperation South-South as an alternative to the frustrated North-South dialogue.

This new alliance of underdeveloped countries, as well as the own North-South dialogue, did not count with the support of the World Bank. In fact, high-ranking Bank officials made public statements against the effectiveness of the North-South dialogue (which paradoxically had been promoted by the Bank itself).

The previous position indicates that the World Bank, even though it projected its functions in global and international terms, sought to ensure the preservation of a structure of dominant interests in the world system. Since the North-South dialogue allowed for the formation of alliances that confronted such a structure –for example the eventual creation of a club of debtors of underdeveloped countries–, the World Bank distanced itself from such Forum. Accordingly, the Bank performed its functions and its capacity to formulate international initiatives only in terms of multilateral and bilateral cooperation and not by blocs of countries.

The post-Bretton Woods era and the American decline. Expansion and financial crisis

Dollar devaluation and implementation of an international floating exchange rate regime

The increasing incapacity of the United States to maintain the convertibility of its currency into gold and, consequently, to sustain the monetary standard established since Bretton Woods, became manifest in the early 60's.

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One of the expressions of those difficulties first became evident in the search for international mechanisms that were meant to stop the rise in the price of gold, which represented an anticipation of the trend that would end with the devaluation of the dollar. For example**,** in 1961 the Gold Pool was created with the objective of stabilizing its price via sales of this metal. This pool included the United States and European countries (Great Britain, France, Federal Republic of Germany, Italy, Belgium, Holland and Switzerland, who was not member of the IMF), countries that over time would constitute the embryo of the so-called Group of Ten.

At that time, this powerful and influential Group of Ten emerged. It was composed by the most important nations in the Organization for Economic Cooperation and Development (OECD), that is to say, the same members of the Gold Pool, except for Switzerland, plus Canada, Japan and Sweden[34]. The constitution of that Group was a phenomenon that revealed the limits the IMF had already shown as forum of resolution of certain international monetary problems.

Through such a formula a negotiation body arose at the top of the major developed countries, without interference of other members of the IMF. This Group represented at the time, a very select filter where proposals which sought to be later legitimized by the IMF were designed, as it would happen later with the approval of the Special Drawing Rights regime. This phenomenon of congregation separate from developed countries did not cause a decline of American hegemony within the IMF. Nor did it lead in the early days to an impairment of the IMF's formal autho-

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[34] Subsequently, the Group of Ten was composed by its original members, (United States, Great Britain, the Federal Republic of Germany, France, Belgium, Holland, Italy, Sweden, Canada and Japan), plus the presence of Switzerland as an honorary member and Saudi Arabia as an observer.

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rity. However, it did show a certain weakening of the country's dominant position and, therefore, a decrease in the IMF's presence in the course of international monetary events that previously had fallen almost exclusively into its orbit of action.

Particularly, in those years, it was clear that the United States could no longer reach, in isolation or even by means of the IMF mediation, the goal of sustaining the price level of gold. Moreover, the amount of financial resources required to deal with the speculative processes that started to unveil, were not in line with the usual credit availability of this institution. This, among other reasons, led central countries to provide the Fund with greater resources. In pursuit of this goal, proper agreements were reached, as the General Arrangements to Borrow-GAB, which provided an additional 6,000 millions of dollars to the Fund, through contributions in different currencies from the developed countries.

The attitude of France in the mid-1960s was highly significant with respect to the shift in positions that was already taking place in the international monetary system. It is in this context that we ought to understand the offensive of its President, General De Gaulle to replace the dollar-gold standard with a proper gold standard, and his proposal to define the Group of Ten as the most propitious domain for the elaboration of this reform. Additionally, a key role was given to the six European countries that, at the time, constituted the Common European Market.

Until 1969, this situation of instability of the international monetary system did not lead, however, to substantial changes in its original guidelines. Neither the monetary standard, regardless of the French position and the various projects taken in that direction, suffered any modifications, nor were the exchange policies altered in any meaningful way. The same is true for the functioning of the IMF.

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It is worth highlighting the implementation of two new and modest financing mechanisms: the so-called Compensatory Financial Facility aimed at countries with an extraordinary decline in export revenues (1963) and the Buffer Stock Financing Facility (1969). Perhaps these measures were an outcome of the unstable situation of the underdeveloped nations, particularly in Latin America, a concern persistently voiced by both the Economic Commission for Latin America (ECLAC) and the United Nations Conference on Trade and Development (UNCTAD).

U.S. policy swayed, at that time, between the pleas of goodwill and cooperation to the industrialized countries in order to avoid speculative flows which could deteriorate its currency and gold reserves (nostalgically evoking the support of the U.S. during the second postwar period), and the threats of running actions of different nature that would inevitably affect its major loans and investments within European countries in the event that the requested support did not flourish.

In any case, the aggravation of its deficit kept pushing the successive U.S. governments towards the adoption of explicit procedures aimed at limiting the movement of capitals abroad. In 1963, it was determined to establish an Interest Equalization Tax (IET), to discourage U.S. purchase of foreign titles. In 1965, voluntary restrictions on U.S. loans and investments abroad were approved. In 1968, at last, certain controls were put into effect on capital outputs channeled by U.S. companies, banks and other financial institutions in service abroad.

Towards the end of the 1960's, it was clear that U.S. policy not only failed to reconcile its objectives with the other industrialized countries but, moreover, its own companies and banks had begun to practice a relative autonomy and to internationalize their financial movements. In that sense, the expansion of the Eurodollar markets, that is, European financial markets

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(especially London) that operated with dollars but fell outside the host countries' government control, was a crucial phenomenon. Fueled with resources supplied by large transnational corporations and oil-rich and socialist countries, these markets rested upon a significant participation of U.S. banks' subsidiaries. These subsidiaries were in position of providing international loans to American companies, thus overcoming domestic credit restrictions that the U.S government was trying to impose in order to mitigate the negative effects on the balance of payments, already in a high deficit situation thanks to the Vietnam War.

Although in 1969 the United States decided to set a binding reserve on the new loans granted to those international markets, it failed to stop them from expanding. This gradually determined a substantial alteration on the levels of interest rates and the distribution of international reserves among different countries.

The Eurodollar market, its latter configuration as Eurocurrency market and the formation of other *off-shore* financial centers around the world were becoming, in fact, the pillars in the creation of international liquidity. In spite of international inflation and the erosion of its trade surplus, the United States had stopped contributing to the growth of global reserves through its balance of payments. The crisis of the international financial system, both in its monetary standard as well as in its balance of payments policies and mechanisms of international financing, was clearly emerging.[35]

The operational weakness shown by the IMF at that point, was a sign of the progressive collapse of the international order

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[35] R. Solomon: *Op.cit.* y Margaret G. de Vries, *The International Monetary Fund, 1966-1971: The System Under Stress*, FMI, 1977.

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conceived in Bretton Woods. The first amendment of the IMF Articles of Agreement that led to the creation of the Special Drawing Rights (SDR) in 1969, after long discussions, turned out to be a late and inadequate response to mobilize new international reserve assets capable of reducing direct pressures on the dollar and, indirectly, those exercised against such currency through gold and other currencies.

The elimination of a mandatory gold backing for the emission of U.S. dollars and the creation of a two-tier gold market in 1968, preceded by the devaluation of the French franc and the revaluation of the German mark in 1969, revealed the disorder that afflicted the international monetary system, a situation that became an open crisis of inconvertibility of dollar after the President's announcement on August 15, 1971. Incidentally, it should not be forgotten that this famous decision was known by French Pierre-Paul Schweitzer, Managing Director of the IMF, through the television located in the office of the Secretary of the Treasury of the United States, an anecdote that, better than any other comment, symbolizes the poor role of the IMF at the time in the international monetary policy.

In December 1971, during the meetings at the Smithsonian Institute in Washington the IMF sought to restore the exchange rate stability through measures such as the devaluation of the dollar (the price of gold rose from 35 to 38 dollars per troy ounce), the revaluation of some currencies (Japanese Yen, German Mark, Belgian Franc and Dutch Guilder) and the increase of the flotation band to 2.5% for both sides of the parity of each currency against the dollar. These decisions and the proposal to discuss an international monetary reform were processed outside the IMF's domain. Again, the ministers of Finance and the representatives of the Group of Ten assumed the responsibility of dealing with the crisis and reaching common positions in a context that revealed the growing signi-

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ficance of international private banking, as a pivot for the recycling of financial surpluses and a decisive factor in the creation of international liquidity.

The last efforts to sustain a stable exchange rate system succumbed as a result of the second dollar devaluation on February 1973 (troy ounce of gold dropped from 38 to 42.22 dollars) and the sudden rises registered on the international price of oil. Most currencies proceeded then to take part on a system of floating exchange rates. European countries, in this context, tried to maintain a certain monetary discipline among each other, which gave birth to a system of common exchange margins called "snake in the tunnel" and subsequently to the European Monetary System.

However, the second amendment of the IMF Articles of Agreement, designed in Jamaica (1976) and approved in Mexico (1978), finally came to institutionalize an unstable international monetary system, by allowing a widespread floating of currencies and by refusing to accept gold as an international monetary unit, removing the official price of this metal. The principle of fixed parity of currencies was abandoned in favor of another of flexible parity. This change, which was associated to the rising of interest rate and the procedure of periodic correction on international loans, triggered a greater speculation and a growing nominal appreciation of financial capitals.

It can be said that along with these decisions, the principles of Bretton Woods ceased to be applied, even though the actual collapse of the global monetary system had already occurred at the beginning of 1973.[36] The announced crisis of the global monetary system influenced the functioning of the

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[36] Margaret G. de Vries, *The International Monetary Fund, 1972-1978. Cooperation on Trial,* FMI, 1985.

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IMF, whose decisions began to reveal the precariousness of the agreements and the hesitations attributable to the divergences among world's most powerful countries. Its resources were ostensibly insufficient to face the serious problems related to the balances of payments (as it was proved during the oil crisis, despite the subsidy approved for that concept).

However, it would be incorrect to infer from such apparent impotence a notion of ineffectiveness or impairment of all IMF functions. The validity of the dollar standard, stripped off its convertibility, still required the underpinning of this institution, which led to partial sales of gold or to propose replacement of the dollar with IMF Special Drawing Rights in the international monetary reserves; an initiative finally frustrated.

The direct and increasing access of countries to private banking resources obviated the IMF participation as moneylender as well as its conditionalities. However, the financial problem caused by the foreign debt crisis of the Latin American countries in the early 1980's made indispensable the intervention of the IMF, ultimately, in defense of the interests of international banks. Its well-known adjustment policies, even at the expense of depressive processes within debtor economies, helped the IMF regain some of the international role which had deteriorated in the previous years.

Expansion, innovations and financial crisis

The extent of the expansion and the increasing private control over international financing relations has constituted a decisive phenomenon within the international economy in the last four decades. In this period, the process of financial internationalization based on multiple activities and financial transactions on a world scale came to exceed by far the prior pro-

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ductive transnationalization based on direct investments that characterized capitalism in the immediate postwar period.

New markets and mechanisms of deposit and loans emerged, originally associated to persistent deficits in the U.S. balance of payments. Soon after, the financial internationalization was fed with the circulation of surplus coming from oil-producing countries and, more recently, with the surplus of the emerging countries. The above-mentioned international financial expansion was characterized initially by the extension of physical networks and interrelations among banking entities.

Indeed, one of the first and most visible features was the proliferation of branches, subsidiaries, and representation offices experienced by large private banks of developed countries. This was followed by the emergence of new institutional organizations (clubs, trade unions, holdings) and constant partnership mechanisms between banks or directly via acquisition of banks and other financial institutions. Finally, and with a crucial value in the exponential nature of financial internationalization, we shall mention the financial innovations and the greater financial integration of non-banking entities, encouraged by the elimination or absence of State regulations and the massive introduction of media and electronic transactions (table 1).

Large banking corporations and international brokerages have headed the extraordinary financial movements with a leading role in the cycles and crisis that have been experienced. But this should not lead us to omit the fact that such hegemony in the financial markets is not separate, but rather combines with other capitalist fractions that have a financial impact (e.g. productive, commercial or real estate origin), and that, as a whole, could fit into the concept of financial capital, capitalism with financial dominance or financialitation.

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Table 1. Major international financial innovations and greater institutional integration in financial markets

I. Financial innovations	
1. Derivatives or (conditional)	Futures and options related to an asset, to a basket of shares, to stock market indexes, interest rate and foreign exchange quote, warrants and swaps.
2. Credit Default Swaps (CDS)	It is one of the main derivatives. It consists of a protection contract in the secondary markets before failure of a credit event.
3. Securitization of Debts and Assets	Securities and debt obligations with arrangements or collateral implications
4. Structured Products (CDO)	Qualification of corporate and banking bonds, mortgage-backed securities, or debts by credit card, among others.
5. Investment Fund	Basket Values as Mutual Funds and ETF (Exchange trade fund) that include bets on variation in prices of energy products such as oil or precious metals like gold.
6. Hedge Funds	Basket of stocks, bonds, futures and others derivatives.
7. Over the Counter	Purchase and sale of securities by electronic means (Flash-trading).
8. Underwriting	Company commitment. Total purchase of an issuance with discount.
II. Expansion and greater institucional integration in financial markets	
1. Expansion Financial and not financial intermediaries	Financial centers off shore, commercial and investment banks, mortgage banks, stock exchange, pensions and insurance companies' funds. Expansion of inter-banking transactions
2. Banking and corporate emissions and commercial credit	Credit cards issued by banks and companies,consumer credit, corporate credit through financial departments, issuance of corporate bonds

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In the early 1980's, there was still a predominance of U.S. banks in the market of international credits, due to the fact that European and Japanese banks went on with a strategy guided by the objectives of supporting the conquering and securing of suppliers and buyers markets for their dynamic industries.

The United States federal legislation supported this trend towards internationalization of its own banks. The International Banking Act of 1978, the creation of the International Banking Facilities-IBFs and the monetary policies with high interest rates during the Reagan Administration, cleared the road for the international activity of U.S. banks. Citibank clearly illustrates this fact: it went from a 39.8% of the external lending in 1971 to slightly more than 60% in average in the period from 1976 to 1980.

The various hearings that the Banking Commission in the House of Representatives of the U.S. Congress arranged on behalf of the policy of the Reagan Administration on financial matters revealed the multiplication of banking operations abroad. These operations exceeded in the 80's more than nine times the total capital of the banks involved. This fact is only vaguely illustrative, for its relative insignificance, of what would happen in 2008, in the eve of the great financial crisis, when it was confirmed that J.P. Morgan made transactions, only for concept of derivatives, that were 66 times higher than the amount of its total assets, a proportion that reached 33 times in HSBC, and 30 times in Citibank and Bank of America.[37] At the same time, it has been corroborated that the relationship between capital and banking assets within large

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[37] Comptroller of the Currency Administrator of National Banks Report, 2º. Trimester 2008.

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U.S. and European entities barely reaches about 5%. In other words, banks have virtually no capital to meet their obligations.[38]

Given the amount of derivative operations, many of which are out of balance, the toxic assets and the importance of its consolidated balance sheet which far surpasses national statistics, it is very difficult to go so far as to quantify international financial expansion, especially at the dawn of the great financial crisis in 2007 and 2008. However, an estimate of the available data allows us to conclude that in the decade of the 1970's, only the gross operations on the Euromarkets were twice as much as the entire world's GDP. Between 1980 and 1999, on the basis of financial assets, the above proportion had risen 6 times. In the first decade of the present century, an underestimated calculation, due to the reasons mentioned before, allows us to estimate that the financial expansion already exceeds 15 times the world's GDP.

Members of the current Obama´s administration and the Nobel prizes of economic science like Joseph Stiglitz and Paul Krugman have granted special importance in the financial American crisis to the Gram-Leach-Billey law of Financial Modernization approved in 1999. This law came to repeal formally the prohibition foreseen in the Glass-Steagall law of New Deal of the thirties, about mixed the operations of the commercial banking and the banking investment, which stimulated the latter one to take major risks 'own operations and not only third' and at the same time that was diminishing the necessary capital to protect his assets.

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[38] Piergiorgio, Alessandra and Andrew, Haldane, *Banking of the State,* Bank of England, November 2009.

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The awareness that an international financial collapse was feasible had been already addressed in several works and studies in past years. Some novels even played with this scenario from the perspective of "bank fiction" or "bank casino"[39]. In view of the big frauds and repeated crisis, these adventures seem overshadowed by the audacity of bank executives, the naivety of investors and the tolerance of governments and international bodies in charge of avoiding such unbridled speculation.

The recurrent crises, that in the last four decades are estimated to be on the dozens, have had a course that has materialized successively through a great monetary crisis (dollar devaluation), a debt crisis (in Latin America), several currency crisis (Mexico, Brazil, Argentina, Russia, Southeast Asia), stock market crisis (e.g. Nasdaq) and several banking crisis (e.g. Lehmann Brothers). These large or intermediate crises have had an international impact. But the monetary crisis, rather than representing the international financial collapse acted, paradoxically, as a condition that led to the euphoria of loan markets on a world scale. This banking expansion has entailed, however, potential risks that could lead to a catastrophe. For this reason, in a previous work we asked ourselves the question of whether the international financial collapse could perhaps find "its synthesis in a large-scale crisis"[40]. The events of the years 2007-2008 responded affirmatively to this concern.

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[39] Paul Erdman, 1973, *The billion dollar killing*, Hutchinson of London, or *The Silver Bears*, 1974, Charles Scribner & Sons.

[40] Samuel Lichtensztejn, 1980, De la crisis al colapso financiero internacional. Condiciones generales e implicaciones sobre América Latina, *Revista del CIDE*, México.

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Review of the IMF and World Bank functions and the increasing subordination of the WB to the IMF

The redefinition attributed to the IMF and the World Bank since their mutual creation have been assignment by a simplified arrangement in which the Fund would be responsible for the issues related to monetary stability in the short term, while the Bank would focus on fomenting development in a medium and long term. In due course, however, hurdles to clearly define the responsibilities of each institution mounted, creating the need for agreements that would establish the exact functions to be fulfilled in their respective fields.

In that sense, a first inter-institutional agreement was reached in 1966, which in fact reaffirmed the areas in which both institutions had been working on up to that date. The IMF would be in charge of the macroeconomic stabilization policies, with an emphasis on the treatment of the exchange rates, and with the ultimate objective of bolstering economic growth. The task of the World Bank, on the other hand, would be to evaluate economic development programs and high-priority projects for such programs. A series of responsibilities were kept as common matters, particularly those related to financial issues, capital markets and foreign debt.

The above-mentioned agreement of 1966 was not a sufficient basis for the delimitation of management areas, therefore leaving open the prospects, in the immediate future, of an overlap with respect to their recommendations to the underdeveloped countries. This situation became visible and conflictual when, due to the external debt crisis in Latin America in the 1980's, the World Bank introduced the structural adjustment loans, clearly inspired by neoliberal thinking. Shortly thereafter, the IMF, under the same approach, implemented the Structural Adjustment Facility in 1986, which expanded in

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1987. This meant in fact an intrusion of the Fund in the field of activity of the Bank, which led to cross-conditionalities, as it occurred, specifically, in the case of Argentina in 1988.

The arduous search for a new agreement between both agencies led to the 1989 Concordat, which defined the primary responsibilities of the IMF and the World Bank[41]. Initially, the Concordat raised the possibility for these institutions to veto the action of the other if it interfered with its responsibilities. This meant that the Bank would have to accept, in a set of feasible scenarios, the conditions imposed by the IMF.[42]

The 1989 Concordat was treated as a semi-official statute; in other words, it was not part of an institutional policy of the two agencies, to the point that the IMF did not even mention it in the Annual Report for that year (1989) and the World Bank only made a brief reference to it.

As a result of the failed experiences of the IMF and the World Bank in Southeast Asia, Russia and other countries, the U.S. Congress took the initiative to create the International Financial Institutions Advisory Commission (IFIAC). The Commission

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[41] The IMF's primary responsibilities were as follows: aggregate aspects of macroeconomic policy and its implementation within the public sector (income and expenses), salaries, pricing policies, currency, credit, interest rate and exchange rate. While the Bank's primary responsibilities were: development strategies, investment projects, structural adjustment programs, efficient allocation of resources in the public and private sector, governments spending priorities, reforms of the administrative system, production, trade and financial sector, restructuring state enterprises and sectorial policies.

[42] Although the veto system was not adopted, in the practice, the IMF has progressively conditioned World Bank loans for structural reform to the conditions established by Fund in its stabilization policies. Joseph Stiglitz confirms this: "In the 1980s, the Bank went beyond the loans for projects (roads and dams) and instead gave support in a broad sense in the form of structural adjustment loans, but only with the approval of the IMF and along with the IMF conditions on given a country". *El malestar en la globalización*. Taurus, Madrid, p. 38.

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issued the Meltzer Report in the year 2000, with the participation of renowned intellectuals such as Allan Meltzer, Paul Krugman and Joseph Stiglitz (later awarded with the Nobel Prize in Economics) and Jeffrey Sachs. The Meltzer Report was particularly critical of the IMF's experience in the 1994 Mexican crisis and pointed out the need to eliminate its long-term loans intended for poverty alleviation and other objectives which were beyond its competence. These recommendations and others suggested in the Meltzer Report were not accepted.

For several years after the Concordat and the Meltzer Report, numerous memorandums have aimed at fostering a more harmonious and functional relationship between the IMF and the World Bank. In this regard, the events in recent years revealed two major trends.

The first one enabled to verify the persistent lack of coordination and clarity concerning their roles. The most recent and eloquent example was the Report of the External Review Committee, chaired by Brazilian economist Pedro Malan. The report was released in 2007 and in some aspects coincided with the recommendations of the Meltzer Commission Report. A brief summary of the Report highlighted, once again, the poor collaboration between the IMF and the World Bank. In general terms, a non-bureaucratic reading allows us to affirm that the Report blamed mainly and foremost the IMF for such situation, pointing out, among other aspects, that this institution: *a)* has exceeded its core responsibilities with respect to the Poverty Reduction and Economic Growth Program; *b)* needs to retire from the long-term financing while dealing with heavily indebted poor countries; *c)* uses an imprecise concept of assistance in order to obtain a prolonged balance of payments that collides with the development finance; *d)* presents inadequacies in its fiscal policies by not overseeing the orderliness and efficiency of public expenditure.

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The second trend that can be verified is that the IMF has received greater support from developed countries to impose its own criteria and functions on the World Bank, in spite of the observations and criticisms received by the Fund. Such development was a result of the repeated financial crises in the late 90's and in the first decade of the XXI century. In 1999, the IMF, along with the World Bank, promoted the implementation of the Financial Sector Assessment Program. In addition, within the structure of its internal organization, it merged the Monetary and Financial Systems Department and the International Capital Markets Department in 2005. Both measures had the objective of analyzing with greater consistency the risk factors of capital accounts in the most heavily indebted underdeveloped and emerging countries.

On the other hand, framed in the Millennium Development Goals approved in 2000, the IMF introduced the Poverty Reduction and Economic Growth Program that along with mechanisms of debt relief for low-income countries led to the elimination of the mechanisms of structural adjustment assistance. But, as a result of that position, the IMF subordinated the World Bank in a topic that had been emblematic for the Bank, and that now fell under the monitoring criteria and the well-known conditionalites of the Fund.

In fact, the IMF allowed for the participation of the Bank in assessing the strategies for poverty reduction that had to be designed by the recipient countries. However, that still did not alter the fact that such strategies had to be supported by an appropriate macroeconomic framework and key structural reforms. In this matter, it is highly illustrative that in the Forum on strategies of poverty reduction organized by the IMF and the Bank in Greece in 2005, certain requirements to gain access to assistance on poverty alleviation were underlined, in accordance with the classic structural reform programs:

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> accelerating growth, for which it is necessary to improve the business environment [...] promote labor flexibility [...] expand trade […] liberalize product and factor markets […] maintain a prudent fiscal policy [...] control political-economic factors of the reform, such as privatization and the restructuring of state-owned companies and to restructure the public finances[43].

On the subject of poverty, the Independent Evaluation Office (IEO), created by the IMF, issued a report in 2007, in which certain necessary improvements are mentioned that pertain to the role of the Fund concerning poverty reduction. However, the IMF executive directors declared that distributive policy matters were not part of their basic competencies and that they only collaborated with the World Bank when such matters were related to macroeconomic policies[44].

All of which came to confirm that poverty neither is nor has ever been a crucial responsibility of the IMF. The loans designed for poverty alleviation, pretend, in reality, to monitor macroeconomic criteria and the enforcement of structural reforms within the strategies of countries seeking to fight this social malady. At the same time, the position of the IMF determines the Bank's room to maneuver.

The international financial crisis has granted a leading role to the IMF, relegating both the World Bank and the debate about the range of their duties to a secondary level. Thus, it was no surprise that, in dealing with the financial crisis, the Fund had been granted 750,000 millions of dollars while the World Bank increased its loans to approximately 150,000 millions of dollars. Moreover, in the projected expan-

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[43] IMF Annual Report 2006, p. 79.

[44] IMF Annual Report 2007, p. 44.

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sion of capital for the multilateral lending banks, in the G-20 Toronto Summit, the African Development Bank and the Asian Development Bank had top priority, with an increase of 200% while the expansion of the IBRD is estimated at about 30%[45].

The modernization of the supervision structure within the IMF, outlined in its Medium-Term Strategy, favors a greater coverage and analysis of the financial sector. But, for underdeveloped and emerging countries, those guidelines do not imply any change in the conditions that the IMF imposes on its policies. It is enough to read through the document to find the same strict and inflexible criteria that the IMF has always required from the countries that seek access or have already accessed the most recent Flexible Credit.

In short, the adjustments on the functions of the IMF were born by and were referred to the international financial crisis and to its impact within the advanced countries. In the present circumstances, these new guidelines are discordant with the orthodox criteria that the IMF has exercised and continues to exercise on underdeveloped and emerging countries, even if these programs deal with poverty reduction. In this context, there is no place to settle the discrepancies between the IMF and World Bank functions. As it stands today, however, the IMF has become an important institution in the current juncture, despite organizational, structural and conceptual weaknesses that in fact are already in discussion within the G -20.

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[45] G-20, Toronto Summit Declaration, Annex III, June 2010.

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II. THE INTERNATIONAL MONETARY FUND

The peak and the later crisis of Bretton Woods have always been linked to the fate of the institution that represented, to a greater extent, the new institutional arrangements of the international financial system: the International Monetary Fund (IMF).

Its activity became more noticeable since the mid 1950s, when, in the context of an inflationary and balance of payments crisis in several underdeveloped countries, especially Latin American countries, its financial support was required. In these circumstances, the IMF's guiding principles began to be conceived as pieces of predetermined economic programs. Indeed, the "monetarist recipe" became a source of inspiration for macroeconomic stabilization policies.

Already immersed in a state of international crisis at the thresholds of the 1970's, the IMF revealed an increasing incapability to fulfill the formal functions assigned to it in Bretton Woods. The conflicting perspectives among the main developed countries on how to set new rules for international affairs, added to the growing –though inorganic and flimsy– claim of the underdeveloped countries to increase their participation, deepened its difficulties and uncertainties. Discussions on the need for a new international monetary order pointed to the IMF as the most critical component to be reviewed.[1]

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[1] The designations "underdeveloped", "developing", "peripheral", "less developed" or "low-income" countries will be used interchangeably. The same criteria will apply in the case of "developed", "advanced", "industrialized" or "central" countries.

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In this context, criticism of the IMF was no longer confined to certain academic circles, trade unions, political parties and social organizations, and became manifest on the occasion of several global forums.

Especially as a result of the external debt crisis during the 1980´s and the IMF's involvement in the programs of Eastern European and Asian countries at the end of the century, numerous critical works from researchers in U.S. and European universities began to proliferate, as well as testimonies by a World Bank former high-ranking executive at the and later Nobel prize, and by persons linked to international financial institutions. A small selection of these works is displayed in tables 2 and 3.

Table 2. Bibliographic History on the IMF

Up until the late 1970s, studies on the IMF were very few. Recently in 1969 this institution published a quasi-official history about its first 20 years of life, "The International Monetary Fund, 1945-1965. Twenty Years of International Monetary Cooperation, in charge of official Margaret Garriesen de Vries and "The International Monetary Fund 1954-1965, by J. K. Horsefield. Subsequently, the own IMF has published a large number of studies with more frequency, such as the "Annual Reports" the "Bulletin of the IMF" and articles produced by IMF officials or independent experts, which are distributed as "Occasional Papers" "Staff Papers" or "Working Papers".
The critical works on the IMF were also very scarce toward the early 1980s. In Latin America we may cite "Consecuencias sociales y económica de la política económica clásica aplicada en Argentina en posguerra" by Eprime Eshag and Rosemary Thorp, Bulletin of the Oxford University Institute of Economics, 1965, and "El FMI y la crisis económica nacional " by Alberto Couriel and Samuel Lichtensztejn (FCU, Montevideo, Uruguay, 1967, to which it should be added Cheryl Payer's: "The debt trap. The International Monetary Fund and the Third World, New York, Monthly Review, 1974; Samuel Lichtensztejn, 1978, "Sobre el enfoque y el papel de las políticas de estabilización en América Latina" and 1984 "De las políticas de estabilización a las políticas de ajuste". CIDE in Mexico, "Fondo Monetario y Banco Mundial. Estrategias y políticas del poder financiero" by Samuel Lichtensztejn and Monica Baer, Ed. Nueva Sociedad, Venezuela, 1986.

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In the context of an unstable and often a disorder process of institutional redefinition, the IMF has been modifying its financing modalities and even reviewing some aspects of its theoretical models.

Theoretical Approaches of the International Monetary Fund

Although it is usual to invoke a so-called "*monetarist-fund model*", as we will see further on -the World Bank-, there are no official versions that lay down the principles by which the institution conducts itself. In the beginning, the work of the IMF technical staff was formulated on a personal basis. There was, on the other hand, abundant literature oriented basically to consider the practical implications of its proposals. Under such conditions, in order to define the theoretical and ideological grounds that support its policies, it was and still is frequent to be remitted to the letters of intent issued as a result of agreements between the governments and the Fund, or to its conception on the functioning of international economy, macroeconomic policy and IMF-based objectives.

More recently, this relative vacuum about the guiding principles of the IMF has been better studied, either by the work sponsored by the Fund, or by the more specific effort within the academic field to define its theoretical framework. And, although none of these postures have an institutional endorsement, those expressed by the economists with greater experience and who are closely associated with the IMF can be regarded as representative of the official thinking.

These antecedents help us to understand that, in spite of the existence of an abundant material on the topic, there is always a real need to reconstruct the thinking of the IMF from

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different and occasionally divergent sources. Moreover, this procedure tends to challenge the tenacious and rhetoric version about how Fund-driven programs do not follow rigid models but instead suit the needs of each country.[2]

The outline of a particular IMF approach can be drafted from the Bretton Woods Agreements. In short, the Fund was designed on a theoretical perspective based on the free movement of capital and goods among countries. These conceptions acquired shape and strength in the 1950's, as a result of the incursion of the first IMF missions in underdeveloped countries, and the formulation of the stabilization programs.[3] Particularly in Latin America, the performance of the IMF was identified with a monetarist position that insisted on understanding the balance of payments deficit and the inflation as a result of an excess demand, due to misguided exchange rate, monetary-credit, and fiscal policies. At the time, this point of view was in opposition to the reformist approach (inspired by ECLAC) that pinpointed the roots of the external and internal imbalances in the area of the productive structure and in the inequalities of international trade.

The diagnosis and "recipes" of the IMF were applied with such persistence throughout the years that its policy became a familiar one and a synonymous of rigid orthodoxy in the interpretation of causes and methods for addressing the fight against inflation and external deficit, as fundamentals of any

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[2] See William B. Dale, "Financing and Adjustment of Payments Imbalances" in *IMF: Conditionality*, Ed. John Williamson, Washington, 1983.

[3] "The initial momentum in the elaboration of a theoretical base to resolve the monetary and balance of payments problems took off with the IMF's teams work in the least developed countries", Rudolf R. Rhomberg and H. Robert Heller, "Introductory Survey", The Monetary Approach to the Balance of Payments, FMI, Washington, 1977, p. 6.

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stabilization process, and this process as a prerequisite for economic growth.

In recent years, however, new elements have arisen in the *monetaristfund model* that should be rescued as aspects that partially renew its traditional line of thinking, although always within an orthodox approach. The IMF technical staff justifies these revisions as an example of greater flexibility in its policy, thus responding to the constant criticism about the inadequacy of its theoretical models and programs for national realities. But there is no doubt that the new features incorporated into its interpretations and conditions, rather than a reply to the well-deserved objections aimed at appeasing its strong dogmatism, were a product of the new patterns of behavior of the international economy and of the emerging effects of a global capitalist crisis and its financial system.

Particularly, the total abandonment of the fixed parity principles demanded a modification of some of the most rigid postulates that characterized the IMF on the subject of foreign exchange since Bretton Woods. And, although in the underdeveloped countries, these concepts had already suffered severe changes, the IMF had to proceed to a theoretical generalization and to promote patterns of overvaluation and floating exchange rate. But from a broader perspective, the most significant aspect about the new emphasis of the IMF was the introduction of the monetary approach to balance of payments and the need for structural adjustment in pursuit of stabilization.

It should be noted that these "revisions" were not done within the IMF, but instead were taken from other sources. For example, in spite of its effort to prove otherwise, the modern monetary approach to the balance of payments was developed by economists from U.S. academic research centers (Chicago and Stanford, among others) which had a played an important role in the economic policies of Asian and Latin American

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countries. As for the structural adjustment -also called structural reform- it was consisted in an adaptation of arguments already developed by other international agencies, such as the World Bank besides the paradoxical appropriation of terms originated from a school historically opposed to the IMF -as it was the ECLAC's-.

Rather than a quarrel over the authorship of these theoretical renovations, what becomes significant about it is that these adaptations within the field of IMF ideas and programs corroborate their emergence as an answer to a new and instability international financial reality. In that sense, the crises were always ahead and the IMF thinking and programs behind.

In fact, the evolution of its programs and ideas were determined mainly by the many crises that, incidentally, the IMF failed to anticipate, such as the most recent and profound recession which unleashed in 2007 and still remains.

Trying to analyze the line of thought followed by the IMF, we shall point out three key moments and contents in that process:

a) The most general principles about macroeconomic stability that come forward as a result of the mission assigned to the IMF since its creation in Bretton Woods, and which have an impact on its perspectives and approaches on inflation and balance of payments deficits in developing countries
b) The adjustment that since the late 1970's takes place in its conventional stabilization model, incorporating a monetarist vision of the balance payment imbalances and encouraging programs of structural adjustment or structural reform.
c) Lastly, the theoretical and operational review that is taking place at the present time on the occasion of the

great international financial crisis, which originated in the developed countries.

As a preamble to the presentation of the different theoretical approaches, there are two major principles which, as underlying assumptions of a general nature, have permeated throughout its history the IMF notions: market fundamentalism and the traditional conception of international trade and external imbalances.

Market fundamentalism

There is a fundamental principle that underlies the set of theoretical notions advocated by the IMF: its confidence on the existence of markets that operate in free and perfect competition. These markets reach their optimum equilibrium when individual utility functions are maximized and reach their point of balance in the parity between supply and demand within different markets, such as: goods and services, labor, monetary and exchange rate.[4]

In its most traditional version, the IMF assumes that markets invariably operate under conditions of perfect competition along with all its attributes, including that of full, flowing information among the various private agents. These agents allegedly act individually and, therefore, concentration in the form of monopolist, oligopolistic or monopsonistic power does not exist; in other words, there are no power factors that adversely affect the perfectness of competition.

[4] "Market fundamentalism […] assumes that markets are functioning perfectly […] demand must match the supply, whether it is labor or any other good or factor […]", Joseph E. Stiglitz, 2002, *op. cit.*, p. 62.

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As a counterpart to this assumption, the role of the State in the economy is reduced to a minimum intervention in the laws of a perfectly competitive market. Moreover, this intervention, in general terms, is described as one that interferes in the balances and in the optimal stage that markets can achieve if they are allowed to freely operate. For example, interferences of this nature occur when governments apply subsidies and try to control prices or fix wages, interest rates or foreign exchange rates.

The same reasoning applies to international markets. Thus, the implementation of governmental measures aimed at limiting imports, promoting exports or establishing requirements to foreign investments are considered by the IMF as an intervention in the functioning of international trade and finance, which should be liberalized in order to reach optimal results.

The faith that the IMF professes in macroeconomic models based on the assumption of perfect competition and market balance, beyond the different national realities and the concrete international world, gives rise to a fundamentalist position about market. Especially because, by omitting its imperfections, the IMF praises the role of the market, thus diminishing –almost to the point of ignoring it– the active role of the State in the economy. Taken to an extreme, there are some who go beyond deeming this posture as a theoretical assumption, and who confer it an ideological value, that is to say, a dogmatic value judgment[5]. References by the IMF to the need for

[5] See Stiglitz, *op. cit.*, "IMF policies based partially on the outdated assumption that market generates by itself efficient results, kept blocking the desirable intentions of governments" (p. 14). "The IMF's lack of detailed knowledge seems unimportant because it tends to adopt the same approach in any circumstance" (p. 61). "Today [...] market fundamentalists dominate the IMF; they believe that, in general, the market operates well and that, in general, the State operates incorrectly" (p. 248). "The commitment (of the IMF) with a particular ideology [...] the simple faith in free markets [...] has

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the economy to subject to a "market discipline" without even explaining what that means, is coherent with that opinion.

The crucial point, in any case, is that this belief permeates, to a greater or lesser extent, the conceptions and approaches that are developed below; in other words, it is understood as a basic principle that does not require to be enunciated in every case.

Conception of international trade and external imbalances

In the context of the immediate postwar period, the reactivation of the flow of goods and capitals on a world scale presented itself as a crucial economic goal of capitalism. The IMF welcomed the idea that a high level of employment and income, based on an adequate productive development, could be implemented if only there was a growing global exchange, which would benefit all countries involved.

The theory of comparative costs allowed justifying trade through the relative advantages and competitiveness that certain countries could achieve in relation to others within a freely operated international market system. In this perspective, the IMF sought to demonstrate that the differentials in productivity among different countries would be a catalyst for a reliable performance of the international division of labor. Linked to this cost-based explanation, a complementary theory of relative factor endowment was devised. The elaboration of any product requires the intervention of labor, capital, natural resources, which can be technologically combined in a variety of ways. Among all the possible combinations, optimal produc-

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deprived countries from elections that should've been theirs, and has also contributed significantly to their failures", p. 277.

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tion, meaning the one with possibilities to compete abroad, would be the one employing most of the available resources with relatively lower costs.

This vision of international trade according to the IMF is supported by the comparative advantages that arise from cost differences that, among other reasons, are a result of the relative abundance (or lack thereof) of resources. In order to exploit, develop and expand these productivity advantages internationally, it is required that movements of goods and capitals between countries are neither subject to trade restrictions or protectionist policies, nor to discretionary or unfair exchange rate procedures. To achieve this, the international monetary standard had to be ruled by relatively stable and realistic parities between different currencies.

However, the economies are subject to fluctuations, that is, to expansions or contractions of some degree that tend to cause imbalances in the international system. Of course, such interpretation does not imply, from the IMF's perspective, a critical historical vision that points out ruptures in the development of capitalism; rather, it warns on the need to correct erroneous economic policies or to adopt those whose rationality allows deficit countries to attain a new position of equilibrium as a prerequisite to reach a trajectory of growth and development.

Indeed, "the IMF was built on the principles by which the cyclical imbalances for a given country would compensate over time and distribute randomly among countries."[6] That is an admission that the functioning of national economies and the international system had a tendency towards structural balance and stability. The IMF's role would be, in fact, to help, through its loans, to offset the balance of payments deficit in the short term,

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[6] Ch.P. Kindleberger, *op. cit.*

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thus avoiding a retraction of international trade as a result of the adoption of protectionist or discriminatory policies.

The emergence of such deficits in the balance of payments of certain countries, according to this perspective, comes from an inadequate adjustment of the domestic demand and imports, whose causes should be traced to an inadequate management of their price and internal revenue system.

With respect to the price system, the emphasis is placed on managing the exchange rate. Indeed, if international trade is conceived as a set of free transactions carried out in a large market where perfect competition actually works (and where, behind goods and services, foreign currencies are also offered and demanded), the exchange rate should not represent a barrier to the normal and stable course of such exchanges. Hence, the permanence of a deficit reveals, essentially, an overvaluation of relative prices and costs (of exchange rate caused) that would hamper the export processes and alter those of import. Devaluation, that is, a higher quotation of foreign currency, up to the point of reaching a balanced or reasonable exchange rate, would raise the relative prices of the imported goods and reduce those of internationally tradable goods, which through the effect of price-elasticity, would bring closer the exports and imports of goods and services closer to a parity in the balance of payments current account.

Nevertheless, as it was pointed at some stage in the creation of the IMF, the inappropriate and deliberate manipulation of the exchange rate caused by the search for export advantages could discourage the expansion of world trade and even lead to non desirable competitive procedures.

On the other hand, within its line of reasoning, the IMF also considered the influence that the circuit of internal revenues can exert on the external imbalance. If it is assumed that the imports of a country are related to national income, when

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this income decreases –and if the exchange rate is reasonable–, it leads to a drop of imports more than proportional to the decline of exports, that would eventually go along with the decrease in production. In a fundamental sense, the review of the external trade flows goes along with a traditional analysis of critical elasticities.

Also, in his own IMF's Constitution, was warned these relations and elasticities could be modified as a result of the national economic policy. That would be the case of the countries that are not willing to deal with these adjustments or that seek selective import policies. In these circumstances, the perpetuation of the foreign exchange deficit (that result from a declining trend in exports confronted with more rigid imports), can lead to a coercive constraint, through prohibitions or by the enforcement of contingents, quotas or tariffs. The extension of these procedures and the response that might cause would create successive cycles of contraction in imports, thus affecting international trade and thereby violating the principles and basis of mutual benefit and competition.

In sum, according to the IMF, none devaluation, although necessary as it might appear, can lead to a successful external balance policy, without having to adjust the disproportion between national income and the balance of payments current account. Due to the fact that national income is given in the short term the current account deficit can only be corrected, hence, by decreasing domestic demand, that is, relatively decreasing the absorption of national income (consumption, investment and government's expenditure) or shrinking domestic spending[7].

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[7] The main equations included in this reasoning are the following:

$Y = C + I + G + X - M$

$Y = (C + I + G) = X - MY - A = DBP$, where Y = national income;

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This type of approach "whose development as basic research within the Fund was conducted by E. M. Berstein"[8], and then spread through the works of Sidney S. Alexander's an his well-known absorption approach, linked the external imbalance, reflected in the balance of payments deficit, with the internal imbalance, understood as excess demand. In other words, it combined the above-mentioned price and income approaches.

This kind of analysis allowed the Fund to set the bridge between the adjustment of the external imbalance of payments and the adjustment of inflationary pressures, as part of the same stabilization program. "The problems of balance of payments are associated with inflationary causes", later confirmed J.J. Polak in a work that also contributed to the IMF classical approach[9].

Accordingly, the fundamental for a system of stable international economic relations would rest ultimately, according to the IMF, on the internal balance of each of country, based on a control of the aggregate demand and on the exchange rate adjustment. Upon such premise the IMF, in charge of dealing with financial and payment imbalances abroad, went on to engage in the search for solutions to the national inflationary processes, an issue not expressly stipulated within the functions assigned to the Fund in Bretton Woods.

C = consumes; I = investment; G= government expenditure; X= exports; M= imports; A= national income absorption; DBP= balance of payment current account deficit.

[8] R. Rhomberg y H. Robert Heller, *op. cit.,* p. 2.

[9] J.J. Polak, "Monetary Analysis of income formation and payments problems" in Rhomberg y Heller, *Op.cit.* p. 15.

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The traditional approach to inflation and macroeconomic stability

A first aspect worth highlighting is that the concept of stabilization used by the IMF was constantly defined as one of a monetary nature. Stability, understood as balance of payments equilibrium and elimination of price increase, implied, from this point of view, a process of monetary adjustment. Certainly, this was not a logical corollary nor completely suitable to the type of development based on the approaches of price-elasticity and income-absorption previously mentioned, which proves that in the beginning there were two different approaches to the topic of the stabilization.

Especially in the work of J.J. Polak, a controversy arose from the opposition between the various theoretical frameworks that initially contributed to the IMF's thinking. When in his article of 1957, the author re-established the quantitative theory of money and suggested a monetary analysis for the arrangement of income and the problems related to the balance of payments, he was in fact dissenting with Keynesian-like theories, whose influence inspired the absorption approach.

Polak's model claims that the expansion of credit is the cause of balance-of-payments problems[10]. An increase in credit

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[10] The model assumes countable the speed income of money and considered as the main variables autonomous or exogenous, the creation of credit and exports. Its system of equations are described below:

$Y_{(t)} = Y_{(t-1)} + DA_{(t)} + X_{(t)} - M_{(t);}\ M_{(t)} = mY_{(t-1)}$

$MO_{(t)} = Y_{(t)} - Y_{(t-1);}\ DA_{(t)} + X_{(t)} - M_{(t)} = MO_{(t)}$

$Y_{(t)} - cY_{(t-1)} - gr_{(t)} = Y_{(t)} - Y_{(t-1)} + hr_{(t)}x$

where Y = national income; DA= increase in bank credit; X = exports; M= imports; MO = increase in the amount of money; m= marginal propensity to spending; gr =unit in the rate of interest with respect to the national income; hr = unit of the rate of interest on the amount of money; (t) = reference period.

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that does not originate in saved income and that is not channeled into investment by credit institutions ("genuine resources" according to the terminology introduced by the IMF), tended to equally increase monetary mass and imports and reduce international monetary reserves. As a result, "moderation in the expansion of the credit was usually prescribed to prevent or cure the difficulties in the balance of payments"[11].

This version of monetary control of credit certainly influenced on the implementation of the IMF stabilization policies. However, it did not become its sole basis, since it combined those other ideas about the need to correct the overvaluation of the exchange rate through the domestic currency devaluation, and thus constrain the aggregate demand.

The final result of the integration of these different (although not conflicting) theoretical approaches, could be summed up in the following terms: inflation and the balance of payments deficit are imbalances generated by a demand capacity (desire to purchase, supported by money and credit) higher than the immediate prospects of the domestic supply of goods and services, and of the ability to import, which leads to a decline of foreign exchange reserves.

In view of these two phenomena, what are the measures that the IMF recommends to streamline the process of monetary stabilization and strive to avoid inflation and balance of payments deficit?

These issues shall be addressed, bearing in mind that the IMF's conception rests on attributing governmental macroeconomic policies the almost exclusive responsibility for the imbalances and external/internal instabilities within national economies. In particular, protectionist policies, with its consequences on

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[11] J.J. Polak, *op. cit.*, p. 15.

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the disproportionate growth of the State apparatus and public expense, as well as a control, “beyond market laws”, of different variables (such as the interest rate or the exchange rate), have been a permanent target of criticism. In that sense, there are three fronts which, according to the Fund, must be attacked in a short-term macroeconomic stabilization policy: the exchange rate front, the monetary-credit front and the fiscal front.

In *the exchange-rate* field, an overvaluation of national currency (or undervaluation of foreign currency), aggravated by custom duties and non-tariff barriers, have an impact on the foreign trade imbalance and the balance of payments deficit. This policy encourages the disproportionate acquisition of foreign currencies intended for imports of goods and services, as well as the hoarding or expansion of foreign exchange reserves by persons and companies; thereby prompting, in addition, financial speculation, restraining export growth, and deteriorating Central Banks' position with respect to international reserves.

The first solution to these problems of international exchange is to devaluate national currency (with respect to the dollar as international currency) in a proportion that makes possible, in the first place, a balance between income and current expenditures and, secondarily, tackles possible expenditures or leakage of short-term capital. The criterion for such devaluation must be guided by the concept of purchasing power parity between currencies (as an equivalent to cost adjustment and relative prices), based on the accumulated differences that, during a reference period, were registered between domestic inflation and that of the United States (or that of the country or countries with which the bulk of foreign trade is carried out).

For many years, this form of conceiving devaluation with the purpose of reaching a fixed, realistic parity and of

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currency equilibrium, accepted this criterion for calculation, without introducing other criteria. It was a result, among other aspects, of the inflationary phenomena induced by the own devaluation that, in certain experiences, a different formula was advocated which added to the first one the weight of the expectations that were generated. To the normal exchange rate adjustment, through the method of purchasing power between currencies, a sort of "safety buffer" was added, without changing substantially the original foundation of such measure.

In the same sphere of exchange rate, and consistent with its more general principles, the IMF also supported the unification of the exchange rate system (given that many countries preserved at certain times the existence of multiple exchange rates). It also promoted the abolition of all barriers to the mechanisms of current settlements abroad. Reflecting on that same concern, although directed to the exchange matters in a strict sense, the Fund stressed the need to eliminate subsidies that affect the multilateral trading system, such as those of tariff and non-tariff origin or the restrictions that hinder free transit of goods.

In *the monetary-credit* field, as it was pointed out, the IMF discovers another area of macroeconomic policy that may induce inflation and balance of payments imbalance. On the one hand, this phenomenon is attributed to the pressure that the government exerts in order to obtain funds not legitimately proceeding from savings, as a way to finance its deficit budget. Using its monetary authority, the government expands domestic credit intended for the public sector (central government and public enterprises) appealing ultimately to the issuance of currency to sustain its expansionary policy of expenses and allowances, encouraged, among other reasons, by those of protectionism and greater social welfare. Invoking

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the same motives, the government can resort to external indebtedness, as another way to increase the available credit.

On the other hand, according to the IMF, the credit policy can stimulate an exaggerated private indebtedness, using for that purpose the establishment of differential and negative interest rates, that is, a percentage below inflation. This policy tends to increase the capacity to acquire foreign currency (for importing or for the increasing of indebtedness) and to expand the level of consumption with similar deficit effects in the balance of payments. This credit expansion at low or negative interest rates causes an inflationary distortion, with implications within the external accounts, due to an excessive domestic demand that leads to a disproportionate growth of the amount of money created.

Strategic considerations for the monetary-credit policy derive from the importance that the IMF grants to the field of government management, with respect to external imbalance (balance of payments deficit) as well as to internal imbalance (inflation caused by excess of domestic and credit demand).

The tools recommended by the IMF in this field have been, among others, the establishment of "ceilings" or quantitative caps to the expansion of internal and external credit (particularly in the public sector), according to the goals of monetary contraction and, especially, the average increase of the real interest rate to positive levels in order to limit the demand for loans by the private sector.

Concerning *the fiscal* field, the IMF questions the disproportionate growth of public expenditure in relation to revenues, a deficit that nurtures the increase of credit and monetary mass. In particular, it emphasizes the key items of transfers that arise from subsidy policies of goods or private and public services (in this latter case, increasing the inefficiency and deteriorating the ability to finance their companies). That is, according to the IMF, the concepts that have mostly affected

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and distorted free-functioning markets of goods and services have been those of fiscal-management origin.

The objective that is pointed out as central in the fiscal field is the actual reduction of deficit to levels that are considered normal or acceptable from a monetary-credit point of view. The establishment of a fiscal deficit ceiling (between 1% and 3% of GDP, approximately) deficit, constitutes an IMF's traditional proposal on that account. This means that, in the event of a major burden related to foreign debt interest payment, the fiscal balance, before the payment of these services, ought to be in a surplus position. It also implies, in general, a reduction in public spending and public investments, and the immediate elimination of those subsidies intended to stabilize or reduce prices artificially at a consumer level.

In sum, in the approach that underlies the IMF's traditional stabilization policies, inflation and the balance of payments deficit are conceived as a circumstantial phenomenon, originated in the event of a failure or a diversion from normal economic performance; that is, in conditions of balance and monetary-price stability under the assumption of a perfectly competitive market. The cause of these distortions, which are expressed by way of an exchange-rate overvaluation, a global excess demand and excessive credit expansion, is attributed to the mishandling of macroeconomic policies, which in fact restrain free flow of commerce and economic variables.

Restoring the balance of payments equilibrium (especially in trade accounts) and the price stability are, according to the IMF, vital requirements to ensure a solid base for economic growth in every nation, encourage foreign trade and foreign investment and, consequently, to galvanize the international economy.

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Stabilization under the monetary approach to the Balance of Payments

The redefinitions in the IMF's conceptual framework in the late 1970's and up to the present are intimately related to the severity of the global financial crises during the various phases of expansion. One of the first amendments introduced in the traditional stabilization scheme previously mentioned was the monetary approach to the balance of payments, which endorsed the use of the exchange rate as an anti-inflationary anchor.

Financial internationalization in Latin America relied during the 1970's on a reformulation of monetary conceptions, which prioritized the unification of internal and external capital circuits and the revitalization of financial intermediation. This new approach gained strength with the implementation of the model of the so-called "small open economies" in Southeast Asia and South America. Authors such as Milton Friedman, Harold C. Harberger, R. W. Goldsmith, J.G. Gurley, Harry G. Johnson, Ronald I. Mckinnon, Robert Mundell, Edward S. Shaw and the World Bank itself, among the most publicized, are all related to this movement.

The crucial argument consisted in drawing attention to the problems of immaturity and rigidity of domestic capital markets. From this angle, the idea was to modernize capital markets in the less developed countries. This implied a diversification of investment options and financial investments that would stimulate a greater specialization and the mechanisms that would allow combining liquidity and economic performance. Likewise, the need to activate the Stock Exchange transactions was not left out in this approach.

Therefore, the vision of financial policy exceeded the one tied to the traditional functions of pure monetary intermediation and current financing, to cover those related to capital for-

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mation and finance of sustainable consumption. Many banking reforms in Latin America introduced these concepts of active intermediation and, likewise, the concerns over the need to implement practices of correction or currency pegs in countries where inflation tended to delay interest rates adjustments and devaluate financial assets.

These positions in fact acknowledged the importance of an active financial intermediation. But at the same time, laid emphasis on the need to make it open or internationally integrated, fighting the real dangers of capital markets fragmentation. Among these risks, the process of financial disintermediation was mentioned, which with areas of concern goes from capital flight to resource-transfer via extra-institutional channels, as well as the eventual decline in the capacity of banks to secure resources.

This approach was not restricted exclusively to the movement of sources and the use of financial assets. The implications of an open model meant a different regulation of national monetary standard, banks and the remaining policies affecting a greater financial articulation with the international system. This led to substantiate the theoretical need to approach the problems of the balance of payments from a monetary angle.

As its title indicates, the monetary approach to the balance of payments confers monetary phenomena a decisive role in the evolution of the balance of payments. This argument broadens the assumption of perfect competition to a global scale and, consequently, defends an integrated system of global markets of goods, but also of financial markets. According to this system, no country –especially those considered "small"– due to its limited international influence, could affect the prices of tradable goods or international interest rates. For such countries, the prices of tradable goods and services and financial assets are given. Under these conditions, domestic mone-

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tary equilibrium (equivalence between monetary supply and demand) prevails as a liaison to the balance of payments equilibrium.

When accepting the principle of substitution between money and other financial assets, any excess of money supply will result in changes within the composition of the property of private financial assets, both in national and in foreign currency. Even more, the private sector can bring about changes in the amount of money through the implementation of international financial transactions. As a result, this approach argues that monetary and exchange rate phenomena are part of the same problem. The equation that reflects such unity represents the relationship and consolidation of both movements in the following terms: variation of the monetary mass - variation of net domestic credit = current account balance + external net capital = variation of international monetary reserve. Thus, economic policy of inflation control would be approached as a pendulum that oscillates between two instrumental alternatives in order to control inflation: either to control the amount of money or to manage the exchange rate.

According to the first option, if the exchange rate is subject to a flexible or floating system, the amount of money would be the variable to be controlled. This means that the active policy to contain the inflationary process and reach the balance between internal and external monetary variables would be the one that had a propensity to a rigid control over monetary, credit and fiscal policy. On the contrary, if there were any overload of money supply, this would cause a corresponding excess demand for goods that, while pressuring foreign currency imports and demand, would raise the exchange rate and the level of domestic prices.

This alternative of a policy of flexibility or floating exchange rate and a policy of rigid monetary control implies

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keeping international monetary reserves unaltered. The differences or discrepancies between interest rates and domestic prices with their respective international rates could lead to exacerbate the expectations of any exchange rate changes.

The second option or policy model that relates to the conventional version that has ultimately been applied since the 1970's, that is, the so-called monetary approach to the balance of payments, presents the need to think of an external balance in the mid-term, and in the context of fully open economies. Therefore, the trend is to make prices and domestic interest rates convergent in relation to international standards. To do this, adjustments should strive to maintain a fixed exchange rate or fasten it to a very limited flexibility. Under these assumptions, the aforesaid hypothesis sustains that variation in international monetary reserves and external financing can correct monetary imbalance.

The reasoning that explains how this movement of reserves and finance erase monetary imbalance is, in short, as follows: an excess of monetary supply propels the adjustment of monetary balances held by the public by increasing expenses in goods; the above implies an additional pressure of foreign currency demand as a result of imports that will cause a fall in the international monetary reserves, which, in turn, will be offset by external financing. Simultaneously, this process will entail the absorption of national currency by reducing money supply.

According to the aforementioned approach, the nominal amount of money is adjusted through the balance of payments and more precisely, through the automatic movement of reserves and external financing, which is provided primarily by the exchange rate stability. Under these premises, the prices and the domestic interest rate would tend to equilibrate against international magnitudes, especially when the exchange-rate policy is more rigid, or, in other words, increasingly fixed.

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In case of limited flexibility, such as it occurs in a system of mini-devaluations of the exchange rate or "crawling peg", the adjustment mechanism would equally operate through the movement of international reserves, but it would hold a certain extent of inflationary adjustment, much less so, though, as the exchange-rate variations become more passive and delayed with respect to the progress of price level.

In sum, along with the assumption that an excess money supply leads to changes in the composition of financial assets, both in national and foreign currency, the monetary approach to the balance of payments establishes a close link between money creation and the variation of international monetary reserves. These reserves in turn, are subordinated to capital movements abroad, in other words, they rely on external financing. In this position, at the same time, and this is actually quite important, the exchange rate becomes an anti-inflationary anchor. In addition, this approach intends to operate with real and positive domestic interest rates tied to those that prevail within major financial centers.

The management of, either, a fixed exchange rate, or one with scheduled devaluation below price index, implies the recognition of a deliberate policy of exchange rate overvaluation. This would reduce the risk for the calculation of financial investments' profitability and would bring foreign capital inflows.

The implications that this monetarist approach to the balance of payments had on the stabilization policy were:

- the overvalued exchange rate began to operate as an anti-inflationary anchor;
- the balance of payments equilibrium, whatever the current account deficit was, became dependant on the external financing capacity;

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- the positive interest rate and the overvalued exchange rate became active devices of international credit attraction and internal credit-tightening.

In simple words, these ideas became the basis for the internationalization of national financial systems, even though not all the conditions were met. In truth, the IMF's orthodox rigid model did not agree in several conceptual and instrumental aspects with the newly created monetarism. For example, for a long time, the reasoning concerning the balance of payments had conformed to the traditional vision of trade imbalances and current account. For the IMF, a realistic correction of the exchange rate (stimulated by the floating situation of the major international currencies) was opposed, in principle, to any overvaluation policy of such variable. Therefore, to turn over or to invert the balance of payments, to confer decisive importance in its balance to the international capital flows and the capital account of the balance of payments and, consequently, sustain fixed exchange rates or mini-devaluations below inflation rate as an anti-inflationary anchor, were all overdue positions of the IMF (despite its best efforts to vindicate the pioneering work of Polak as an antecedent to that viewpoint)[12]. Finally, the IMF ended up integrating these revisions to its general approach. Moreover, it can be argued that the IMF turned this approach into a mainstay of its policies designed for underdeveloped countries.

In effect, during the expansion stage of international credit, since the 1970's, the monetary approach to the balance of payments justified an inordinate increase in the capacity to import from several Latin American countries and a phenome-

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[12] See R. Rhomberg and H.R. Heller, *op. cit.*

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nal increase of their external debt. On the contrary, during the contraction stage of such external financing, in the 80's, the IMF supported a very severe depressive adjustment to decrease imports and mechanisms that encouraged exports in order to get a hold of foreign currencies and meet foreign debt conditions. Both stages were defined as necessary by the IMF in order to reach "balance of payments viability", a term that over time was replaced by the expression "foreign debt sustainability".

The structural adjustment or structural reforms approach

With respect to the structural reforms, without deterring the reader from looking up an approach previously outlined by the World Bank, it is worth summarizing some of its main lineaments in regard to the IMF's management. Essentially, this institution intends to correct the distortion relative to resource allocation (supply) and to the destination of the production of goods and services (demand). In the IMF's perspective, structural modifications are no short-term measures anymore. Rather, they are seen as mid-term policies aimed at consolidating the fight against inflation, avoiding the problems related to the balance of payments and achieving a sustainable growth. It should be emphasized that the structural adjustments that the IMF supported and still supports do not suggest at all that such agency has abandoned the adjustments to the macroeconomic policies that are considered necessary, according to the established canons of its own stabilization programs. Nor has it given up to the exchange-rate control as an anti-inflationary anchor, although it has implemented afterwards other alternatives in that matter.

There is no doubt that the IMF's approach to structural changes (shared with the World Bank) does not have any kinship with the suggestive reformist thought that distinguished

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ECLAC in the early 1960's, when it introduced the need for structural reforms in Latin America. By the way, the IMF did not accept nor agreed, at the time, with the scope of ECLAC reforms, inspired on the need to counter the inequalities in international trade and finance among central and peripheral countries. Much less did the IMF support the idea of fostering changes in production and domestic demand using procedures such as agrarian reforms and redistributive mechanisms of the income.

It should be emphasized that the notion that lies beneath the term "structural changes or structural reforms" does not imply that the IMF admits any sort of imbalance, uncertainty or inequality intrinsic to the functioning of capitalism or markets. On the contrary, it is precisely on behalf of recovering stability of domestic prices, the balance of international relations and the optimal allocation of resources, that the IMF calls for the implementation of these changes within capitalist formations. The structural nature of the changes which are being promoted, has its roots in the historically persistent distortions which, as understood by the IMF, must be corrected, and in the compelling need to affect deeper aspects of the organization and the economic institutions that, usually, have not been sensitive to the conventional or quantitative short-term mechanisms.

As stated above, when analyzing structural elements that the IMF thinks should be redirected or removed, it becomes evident that many of them are already acknowledged or were complementary to the stabilization policies[13]. However, there

[13] "The greater emphasis on the offer extended the scope of stabilization policies without entering into conflict with the demand-oriented measures, emphasized in previous programs. Moreover a great number of measures that affect demand are consistent with economic policies related to the supply", A. W. Hooke, *El Fondo Monetario Internacional. Evolución, organización y actividades,* FMI, 1983, p. 34.

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are significant emphases and new aspects, which illustrate the renewed philosophy, that underlies its neoliberal-based propositions shaped in the 1980's and imposed openly in the next decade.

This neoliberal conception of structural adjustment or structural reform advocated by the IMF and World Bank is sustained on three interrelated props: external openness or market liberalization, privatization and deregulation. Concerning the external openness of economies to markets, there is a constant reference to the need for allocation and mobilization of resources to be in line with the guidelines of international market. This means financial and interest rates liberalization, and the unrestricted openness in the field of foreign investments. It is easy to notice beyond these principles of openness and liberalization, the faith on market and single price laws, comparative advantages, and a stated support of policies that are favorable to the strategies of foreign capital attraction, which, in general, encourage a more export-oriented economy and restrict the flourishing of a domestic market.

Subsequently, the structural reforms are in favor of institutional reforms that tend to reduce the State's role in economic and financial matters, and to boost privatizations. In that sense, the IMF supports a greater participation of the private initiative in the economy and finance. That is achieved mainly by turning over to the private sector, through transfer or sale, the activities of those public companies or financial institutions that are considered inefficient or broken. In certain areas, when there are political or legal constraints that prevent privatizations, partnerships are encouraged in such a way that private companies take over certain segments of production or strategic national activities or, where appropriate, resort to the procedure of long-term concessions. In relation to the investments and public enterprises, generally speaking, the IMF

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encourages operation requirements that tend to the adoption of commercial criteria for management, thus postponing any objectives of a social nature.

Finally, the IMF is in favor of market deregulation. This means restricting the capacity and regulatory functions that the State imposes on the economic and financial activity, under the assumption that such an unrestricted functioning of the different markets would allow taking advantage of the benefits of free competition.

These proposals for structural reforms, together with the principles enunciated by the IMF in its stabilization policies, were the backbone of its routine services for financial assistance since the Extended Fund Facility Program (1974) and the Enlarged Access Policy (1981) to the present. But it was mainly through the experiences in Latin American and in the emerging countries of Southeast Asia, in the 1990's, that these neoliberal ideas achieved the economic and political conditions to become, in theory and practice, a dominant ideology that most of the governments of these countries shared.

The Decalogue, divulged by the renowned Washington Consensus in 1989, has been an excellent compendium of such a line of neoliberalism. Over the years, it was accepted and implemented by large institutions that reside in that city: the IMF, the World Bank and the United States Department of the Treasury[14].

In effect, out of the ten policies formulated by the Washington Consensus, the first three respond to an old and

[14] To such a degree this institutional triangle constitutes the basis of the Washington Consensus and its policies, that Joseph E. Stiglitz, Nobel Prize in Economics, often uses interchangeably the policies suggested by the Consensus with those driven either by the IMF, the World Bank or the U.S. Treasury, jointly or separately (see "El malestar de la globalización", *Op.cit.,* p. 41, 106, 112, 118, 230 and 276).

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repeated IMF recommendation aimed at underdeveloped countries, regarding the need for "fiscal discipline", which brings together both "the rearrangement of public spending priorities" and "tax reform". Two of the following policies included in the Consensus counter the stage of stabilization with the monetary approach to the balance of payments: "liberalization of interest rates" and "a competitive exchange rate", which could be understood either as favorable to exports or to the attraction of foreign financial capital. Finally, four policies are more akin to the structural reform approach: "liberalization of international trade", "liberalization of inflows of direct foreign investment", "privatization" and "deregulation." It is striking that, in the list of policies of the Consensus, financial liberalization, a pillar of neoliberal policy, is not expressly referred to[15].

Left out of this list of policies supported by the IMF and considered by the Washington Consensus, was the issue of "Property Rights", which was rather a topic of interest for the United States Department of Commerce on the occasion of the Free Trade Treaties that this country either established or seeks to establish with Latin American countries and other countries of the world.

The current theoretical revision in the light of the great financial crisis

Critical events that have occurred since the end of the last century and throughout the current have required the utmost attention of the IMF. They forced the agency, given the serious-

[15] Luiz Carlos Bresser- Pereira underlines that apparent omission in his work "La estrategia de crecimiento con ahorro externo y la economía brasileña desde principios del noventa", in *Repensar la teoría del desarrollo en un contexto de globalización*, Ed. CLACSO LIBROS, 2007.

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ness of the crisis, to perform again a revision of some of its criteria.

In the first place, throughout the 60 years of life of the IMF, with very few exceptions, the advanced countries had not been at the center of its concerns and recommendations. In contrast, it always fulfilled its role of disciplining underdeveloped and emerging countries through its well-known macroeconomic stabilization and structural reform policies. These countries had been a permanent target for its supervision and conditions. In the present circumstances, when considering the effects of the financial crisis, the IMF was forced to admit its insufficient financial supervision on the developed countries and the inaccuracy of its forecasts, all in spite of its rhetoric about having played a leadership role in favor of laying down the foundations for a new international financial architecture.

Secondly, in honor of the truth, it cannot be argued that the IMF has ignored the growing process of global financial internationalization. But, for a long time, it granted it a secondary importance. Even the reading from its high-ranking staff officials proves that such idea was belatedly introduced in its approaches, which, consequently, delayed its acknowledgment of the role played by the financial flows of capital in the implementation of monetary and fiscal domestic policies[16]. In the monetary approach to the balance of payments, the IMF introduced the external financing to governments and the provision of debt management services, an aspect of capital account understood nowadays as external debt sustainability. Subsequently it rounded up its proposal by advocating finan-

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[16] Manuel Guitián, "Fund Conditionality and International Adjustment Process. A look into the 1980's" in *Finance and Development*, june 1981, p. 11; and Oliver Blanchard, Giovanni Dell'Ariccia & Paolo Mauro, "Rethinking Macroeconomic Policy" IMF Staff Position Note, February 2010, p. 6.

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cial liberalization as a structural reform for Latin American countries, Russia and the countries of Southeast Asia.

When the time came to review the balance of payments capital accounts of developed countries, the IMF viewpoints were not wary of the risks of international transactions of large banks. On the contrary, the Fund was optimistic about the progress of its growing financial innovations. For example, in 2006 the Fund stated that "the strong growth of credit derivatives and structured credit has helped to ensure that credit risk is distributed among larger and more diversified groups of investors, which has contributed to gain financial stability."[17] In fact, in 2007, the IMF voiced its will to help "countries manage the risks arising from financial markets and take advantage of its benefits", and expressed that "hedge funds contribute to the efficiency and stability of the market.[18]" At the same time, in those years the Fund stressed the "need to liberalize capital account" as well as "not to introduce controls but rather adjustments on its movements…" [On the other hand, it laid emphasis on the fact that] "regulating capital sources is not part of its jurisdiction" [and that] "…regulators must rely on the corrective forces of markets"[19] while "…the risk of excessive regulation must be avoided …"[20]

In other words, supervision of capital markets within developed countries was quite low and even under the current crisis is very hesitant. Beyond the fact that the IMF has reconsidered its line of thought and acknowledged the need to regulate capital accounts of developing countries, there is still much reluctance to deepen such revision. Regulations that seem relevant

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[17] IMF Annual Report, 2006, p. 60.
[18] IMF Annual Report, 2007, p. 21.
[19] IMF Annual Report, 2006, p. 90.
[20] IMF Annual Report, 2008, p. 33.

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have not been drafted. And, judging by some assertions from the IMF, one can become aware of the pressure exerted by large international banking corporations to limit the reach of this sort of regulations.

Finally, perhaps the most ground-breaking feature within the revisions in progress in the IMF is the importance granted to inflation in the current critical circumstances. Throughout its history the IMF has been a bulwark in the fight against inflation. For that reason, when high-ranking executives are claiming that "stable inflation may be necessary, but not sufficient" or that "low inflation limits the scope of monetary policy during deflationary recessions"[21], we can consider this new approach as a turning point in the Fund's policy on the issue.

The IMF has assumed ownership of this line of thought, when it accuses central banks from developed countries of "having focused more than anything on inflation and not on the risks related to assets shortage and the excessive increase in leverage". Therefore, the Fund argues that economic policy should include "macro-financial stability rather than merely price stability"[22]. Of course, these assessments cannot be isolated from the positions taken by governments of developed countries in terms of supporting the largest banks and companies at the expense of raising their fiscal deficit and external debt. These developed countries, trying to avoid an economic depression, have implemented interest rates almost at zero without inflation in sight.

This revision within the IMF, which some link to a neo-keynesian approach, responds without a doubt to the position adopted by the advanced countries and to their current critical

[21] Oliver Blanchard, Giovanni Dell Ariccia & Paolo Mauro, *Op.cit.,* pp. 7 y 8.

[22] IMF Annual Report, 2009, p.26.

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situation. But this position does not reach out, on the other hand, to the underdeveloped and emerging countries. These countries remain respectful of the Fund's mandates that central banks ought to be autonomous, conservative and solely oriented to the control of inflation. This unequal and discriminatory posture of the IMF can be perceived when observing the criteria according to which the IMF has modernized the conditionality on its loans. For example, with respect to its Flexible Credit Line created in 2009 (to which Mexico, Poland and Colombia have already gained access) the well-known objectives of the IMF recipe are once again reiterated. For example it stresses that, in order to access these loans, countries should present "a level of low stable inflation within a sound framework of monetary and exchange rate policy", a "capital account where private flows predominate", and "solid public finances that involve a sustainable situation of external debt"[23]

The only revision on inflationary matters that can be observed in some developing and emerging countries (with an antecedent in industrialized countries) is that the IMF has abandoned, generally speaking, the privileged use of an overvalued exchange-rate as an anti-inflationary anchor, particularly from the time that such regime caused the financial crises. After unsuccessfully supporting exchange-rate flotation within maximum and minimum bands, the IMF has preferred a managed floating exchange-rate regime, that is to say, with the participation of monetary authorities to counteract abrupt falls or appreciations in the exchange rate.

But what is most important is that this floating exchange-rate regime operates within a monetary program which establishes as a primary principle and guideline the objectives of

[23] IMF Annual Report, 2009, table 3.3.

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inflation that macroeconomic policies endorse in achieving low inflation[24]. As a pioneering experience on the subject of establishing inflation targeting, it is worth mentioning the case of New Zealand (1990). It was later adopted by the central banks of various countries (Chile (1990), Peru (1994), Brazil, Colombia, and Mexico (1999) and, subsequently, embraced by many other Latin American and developed countries.

This inflation-targeting regime seeks, within a given time horizon, to provide security on the willingness of governments and Central Banks to reach the projected inflationary goals. It intends that the expectations of economic actors move with credibility with respect to the inflationary process, taking the information provided by monetary authorities as relevant data. This institutional anti-inflationary commitment, in this case, relies on the management of an interest rate by these authorities, based on the Taylor Rule. This rule consists in a simple equation that, basically, proposes to raise interest rates to the same level as those paid by private banks when securing government funding, in order to raise the price of credit and thus try to contain possible or real inflationary pressures on the economy.

A critical view of the consequences of the IMF programs and economic conditions

The fight against inflation and the balance of payments deficit has been a constant in the economic policies in Latin America. One can hardly find more prominent and recurrent goals in

[24] In regard to Latin American and other countries experiences in the field of the objectives or inflation targeting, you can consult *Investigación Económica*, Vol LXVIII, special issue, Journal of the Faculty of Economics, UNAM, Mexico, 2009.

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government policies than those that are represented in this binomial. The immediate second post-war period was characterized by the monetary stabilization programs that extended their influence as a result of the adjustments caused by the external debt crisis and as a requirement in the implementation of structural reform policies. In these anti-inflationary and balance payments equilibrium experiences, the IMF approaches, programs and conditions[25], were tacitly or expressly present. The IMF understands by conditionality "policies that the Fund expects a member to follow so as to be eligible to use its (the IMF) resources, within certain limits"[26].

It should be noted that these conditions as well as the opinions made public by the Fund or its high-ranking staff, are signals sent to the financial community and, therefore, they become in fact implicit conditions to access international financing.

The objectives that these IMF stabilization policies or adjustments establish as guidelines for actions to be adopted in the economic field have been very similar in all cases, following theoretical principles already discussed above, and which may be summarized as principles that search for a sound

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[25] The countries that painfully suffered the implementation of stabilization policies under the supervision and influence of the programs and conditionalities of the International Monetary Fund were initially Argentina, Brazil, Chile and Uruguay, and, to a lesser extent Bolivia, Peru, Colombia and Paraguay. In all cases, these policies were applied from the beginning with all the theoretical consistency and conviction presumed by the IMF. That's how it went in Argentina since the overthrow of General Perón in 1955 until the fall of Krieger Vasena as Minister of Economy under the dictatorial government of Gral. Ongania in 1969; in Uruguay from 1959 to 1968, and in Brazil from the military coup in 1964 until the 1970s; while Chile met three major stabilization attempts in the period 1956-1970.

[26] Joseph Gold, "Conditionality", Pamphlet, Series N° 31, International Monetary Fund, 1979.

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macroeconomic policy. If such insistent preaching on the merits of this policy, implemented over and over again throughout Latin America in the 1960's and 1970's, is confronted with the results achieved and the contrast with its explicit objectives, one can observe a tendency to a relative failure. On the issue of inflation, the annual average of prices increases in the region stood at 35% in the period 1960 -1964. After a slight decline that led that index to_a 20% annual average in the years that go from 1965 to 1970, its upward tendency was unstoppable: 28%, 52% and 105% annual average for the periods 1971-1974, 1975-1981 and 1982-1983[27].

Not only there were higher rates in those countries characterized by chronic inflation (Argentina, Brazil, Chile and Uruguay, that is, the South American region), but in fact many other countries that initially escaped to this kind process, such as Mexico,_would later become a part of it.

The goal of achieving equilibrium in the balance of payments has not had a better fate. For short periods decreases on the external deficit were accomplished, either as a result of the inflows of foreign capitals, either by reason of steep drops in the volume of imports (an effect produced by the decline in the levels of economic activity and sharp devaluations). However, the observed historical trend clouded these partial successes. Indeed, the balance of payments current account deficit in Latin America, as a percentage of it exports, reached an average of 14.8 % per annum in the course of the external crisis within the region in the period 1956 -1960. A decade later, in the years prior to the increase of oil prices (1969 -1973), this deficit stood at 19.1%. Since then, and in a rapid sequence prompted by the exponential growth of Latin American external debt, this imba-

[27] Based on ECLAC Annual Reports

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lance increased, on average, 25% and 34% per annum in the period 1974-1976 and 1979-1982, respectively[28].

During the 1960's and 1970's, IMF stabilization policies and its conditions were designed to operate in a short-term period and inspired on the desire to reduce state interventionism as well as unleashing the broadest competition. These stabilizing experiences, however, covered the course of an entire South American generation, contributed to a greater gravitation of the State and led to a greater concentration of markets. Certain works share a similar reflection on a greater number of countries and for longer periods of time:

> After several decades of experience with inflation focused on a market-driven approach, the result of this policy has been rather disappointing for many countries. In several of them, inflation has been certainly reduced, but it is questionable to what extent the decline in inflation is due to changes in the domestic monetary policies and not to the fall in inflation on a global scale. Even if monetary policy has reduced inflation, the expected increase in employment has not yet materialized and, for many countries which follow this orthodox approach, growth has not increased significantly[29].

This type of evaluation of IMF stabilization policies and conditions, limited to compare the results *vis a vis* the goals suggested for inflation, balance of payments or economic growth has been frequently challenged. The objections, in defense of the IMF, are supported by the argument that this critique does not

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[28] *Ibid.*

[29] Gerald Epstein, *Too much, too soon. IMF Conditionality and inflation targeting*, University of Massachusetts, Bretton Woods Proyect, September, 2006, p. 3.

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take into account the lack of continuity, errors and defections in which governments have fallen when implementing the rules of austerity. That is, it does not consider the "endogenous" factor". In that sense, the IMF often appears as a sort of scapegoat when policies are analyzed as "pressure from the IMF", without considering that these policies would have been adopted anyhow, without the intervention of the Fund. To that consideration, political elements not foreseen initially are incorporated or valorized, to which the obstruction of the streamlining process and desired balance is attributed. Squandering, demagogy, gravitation of elections or even the corruption of government officials jump to a foreground. From a more theoretical and general perspective, there are even those who venture an explanation, according to which the cause of difficulties for economic normalization and stabilization is rooted in the very structure of democratic governments within political systems[30].

The previous reflection should not be understood in the sense that the fight against inflation and monetary stability had been and still is a pretext or ideological veil to hide the real objectives. Although the issue is more complex, it can be assumed that some of its leaders are confident about achieving the declared nominal objectives[31].

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[30] There is no technical problem, *per se*, of how to bring inflation to an end. The real obstacles are of political origin… ", according to Milton Friedman in "Monetary correction", *Essays on inflation and indexation*, Washington, American Enterprise Institute for Public Policy Research, 1974. In another context, Rudiger Dornbusch reaches the same conclusion. "The effective stabilization is, above all, a political issue rather than technical", commentary included in Washington, Institute for International Economics, *IMF conditionality*, John Williamson (comp.), 1983.

[31] "Of course, the orthodox must also believe in the rationality of their own position; this is easily noticed by reading them and talking to them, in the obvious sincerity of whom believe are carriers of a higher rationality, reinforced by the approval of their capitalist interlocutors" O'Donnell, Guillermo,

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The valuation of IMF policies and its economic conditions through the tortuous path of the intended purposes or the eventual cover up of responsibilities doesn't take us very far. Nor would it help to study the formal congruence or incongruence between objectives and instruments employed[32].

For the purposes of this work, the essential issue is to analyze the IMF policies and their consequences from a historical perspective, considering the trends, both, of capitalism as a whole, and of the national economic structures. Beyond what has happened at the level of decision-making and macroeconomic performance, the notion that arises as a hypothesis is to verify, on the one hand, the close connection between the IMF policies and the international integration of underdeveloped and emerging economies. And, on the other hand, to analyze the effects that such policies had on these countries, in regard to the extent of capitalist concentration. These aspects of the economic structure and dynamics are in fact more illustrative of the role and impact set off by the IMF approaches, and its conditions policies, as it will be examined in the following points.

The stabilization policies and their effects on the internationalization and concentration of production

The active presence of foreign capital in Latin America was not simultaneous to the new guidelines that characterized the world economy under U.S. supremacy after the second post-war

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"Reflections on the trends of change in the bureaucratic-authoritarian State" Revista Mexicana de Sociologia XXXIX, No.. 1, 1977, p. 30.

[32] This kind of analysis is applied for many jobs, only as an example, see Winston Temple Seminar, "¿Son severas las condiciones impuestas por el Fondo Monetario Internacional?", Boletín del Centro de Estudios Monetarios Latinoamericanos (CEMLA, by its Spanish acronym), vol. XXIII, No.. July 4-August, 977.

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period. Several factors delayed the adscription of Latin American to the new rules that began to govern international circulation and accumulation. In the first place, the investments of U.S. companies abroad (which between 1930 and 1950 had increased from a third to become majority in international direct investments), mainly channeled to Canada, Western Europe and Japan for economic, geopolitical and military reasons, as well as the U.S. government's plans for direct assistance.

Secondly, the considerable amount of international reserves inherited from the war, along with a significant improvement in the power and purchasing capacity of exports, facilitated in several Latin American countries the continuity of the process of import substitution, without the decisive participation of new foreign capitals and, in contrast, with a crucial support from public financing. Finally, in many cases, domestic claims and policies, inspired by a strong dose of nationalism that opposed a fluid and growing inflow of foreign investments, especially of U.S.-provenance, remained.

When the process of import substitution began to be constrained as a result of the problems of inflation and balance of payments, conceptions that already envisaged industrialization and the presence of transnational capital as complementary and not antagonistic processes, commenced to flourish. In this context, the initial involvement of the IMF came to catalyze these ideas and to merge them with a greater openness abroad, especially in countries of the Latin American Southern Cone.

Thus, it is no accident that in the first stage of the IMF involvement in the Latin American region, the external relations, more than any other economic aspect, were the most affected by Fund-driven policies. Trade openness arose after the elimination of import and export quotas. Bilateral trade and payment agreements and all restrictions to the multilateral trading system were also removed, without forgetting the

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unification of the multiple exchange-rate systems into a single-parity system after conducting the consequent devaluations.

Freed from these obstacles, the operation of transnational companies within the production sphere in Latin America became feasible during the 1960's. These companies channeled their industrial strategy by following technological patterns already developed in their countries of origin, through procedures of repetition which took into account the size of domestic markets, the extent and structure of pre-existent industrialization and the protectionist advantages offered by a not-yet-dismantled import substitution policy. That was the case in Argentina and Brazil, which considered the production of consumer durable goods, but including also intermediate and capital goods. In countries like Chile and Uruguay, which had exhausted the "easy" stage of import substitution, productive internationalization was not very dynamic (except on copper extraction, in Chile), while commercial and financial relations did increase through foreign credit suppliers and the expansion of banking network subsidiaries.

The second half of the 1960's carried out stabilization experiences out with greater attachment to the IMF's approach. This tightening in the implementation of such policies responded in some countries to a resurgence of the inflationary process, accompanied by serious political conflicts (Argentina, Brazil, Colombia and Uruguay). Real assets accumulated by foreign capital began to grow more than its contribution in terms of direct investment, which brought into the open partial phenomena of concentration and centralization of capital.

Access to credit was the key mechanism in that process, which revealed certain denationalization traits. The restriction of domestic credit caused by rigid stabilization policies led, in that years, to a critical situations of local companies, especially small and medium-sized enterprises.

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It must be recognized that the ability of transnational corporations to obtain access to credit was always higher than that shown by large national companies. In accordance with the above, the first aspect to be considered is the external credit granted by their headquarters or international banks. This available external resource (added to high internal funds of depreciation and reinvestment), enabled them to acquire or participate in the devalued patrimony of companies with economic difficulties, taking advantage of the benefits given by sharp exchange-rate devaluations. But perhaps more significant was the fact that large companies (both foreign and local) had preferential access to credit, even under restrictive policies. As it is evident in Brazil and other countries, the privileged usufruct of lending mechanisms reinforced oligopolistic procedures of large capital, sponsoring the formation of certain economic groups or conglomerates[33].

It should be noted that along with an increased credit severity and restructuring, letters of intent and programs promoted by the IMF began to introduce the concept of containment or wage moderation. This condition had not been explicitly mentioned in the original formulations of the IMF. Of course, it can be argued that "following the absorption approach, lower real wages would facilitate the external stabilization by reducing consumption, if perhaps this variable was the exclusive or fundamental destination in wages (Cambridge school assumptions)"[34].

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[33] Richard S. Newfarmer y W. Mueller, *Multinational Corporations in Brazil and Mexico: Structural Sources of Economic Power,* US Government Printing Office, Washington, 1975. Daniel Chudnovsky, *Empresas Multinacionales y ganancias monopólicas,* Siglo XXI, Buenos Aires, 1974, Mónica Bauer, *La internacionalización financiera en Brasil*, CET, Buenos Aires, 1983.

[34] W.R. Cline en *IMF: Conditionality*, *op. cit.*, p. 179.

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However, the diligent allusion to linking wage increases to the progress achieved in the field of productivity turned the rationale for this recommendation very doubtful within the framework of an approach on the demand side. Rather, one could say that this rationale was compatible with the approach which explained inflation by the costs or as a result of the boom which in that era –and even today– acquired the Phillips Curve proclaiming the direct relationship between unemployment rate rise and inflation rate decrease.

As a consequence, IMF programs and conditions strongly influenced the opening to foreign direct investments and the concentration of production in the 1960's. As a result, new socialist and nationalist government regimes, in Chile, Peru, Bolivia, Argentina and Ecuador questioned these policies. These governments had started to prioritize the need for structural reforms on natural resource property and exploitation, as well as a progressive redistribution of income, relegating to a secondary rank the fight against inflation. These political experiences reviewed the treatment of foreign capital through open confrontation or reactive measures, particularly in the areas of mining and oil exploitation.

Since then and until the mid 1970's, the cycle of policies predominantly influenced by the stabilization programs vanished gradually and the very presence of the IMF lost gravitation. Such estrangement between real economic policies and the IMF approaches was a consequence, in some degree, of internal factors (which led to a different assessment of the anti-inflationary objectives and instruments), but was also heavily influenced by the period of instability and transition that clearly experienced the functioning of international economy, with a less dynamic direct foreign investment (multinational corporations), but, in contrast, with a remarkable expansion of international financial flows.

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In fact, although the expansion of international productive capital had not been exhausted nor the U.S. hegemony collapsed, it should be noted the change in conditions that led to its decline in those years. After direct or productive investment flows accounted for 60% of total foreign investment in 1960, that percentage had fallen to 50% in the mid 1970's. The fall of Latin America as an area of destination was in fact more significant with respect to the total of direct U.S. investments. That region, which represented 28% of that total in 1960, dropped to 15% in 1975 as result of lesser investments in mining and oil[35]. These elements do not allow us to conclude that the U.S. global expansion was less dynamic, but they do prove that this country ceased to be the essential axis within global movements of capital, and that new companies from other countries were becoming international.

Besides, financial expansion of international banks arose with uncontainable force. To such an extent, that their investments began to match and even exceed those of productive nature. It was to these new circumstances that the immediate stage of influence of the IMF would have to accommodate.

The IMF monetary approach to the balance of payments and the exchange rate anchor. Its effects in the Latin American debt crisis

The introduction of dictatorial regimes in Chile and Uruguay (1973) and Argentina (1976) were milestones that pulled the implementation of the first neoliberal policies in the region. It must not be forgotten that military dictatorships in Argenti-

[35] Alfredo Calcagno: "Informe sobre las inversiones extranjeras en América Latina", *Cuadernos de la CEPAL*, Chile, United Nations, 1980.

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na, Chile and Uruguay were, above all, the result of a political questioning; an authoritarian method to safeguard the system of property relations and capitalist hegemony as a whole against potential or real threats of social change which emerged from governments with socialist and nationalist tendencies.

It was necessary, therefore, in this perspective, to dissolve or minimize all democratic and corporate expressions of social classes and economic groups, as well as all political mediations between civil society and the State. In other words, in these countries, the policies that were introduced could be seen as procedures to establish or renew, through authoritarian means, disciplinary mechanisms for the working class, but also within the own capitalist groups[36].

In this perspective, the strong criticism to the process of import substitution and the phenomena of deindustrialization as well as greater trade openness appeared to be rather confined to these experiences in the Southern Cone. There was nothing to suggest that such guidelines had anything in common with what was happening in the rest of Latin America. For example, countries such as Brazil, Venezuela and Mexico, continued to develop, in those years, plans for industrial development, with emphasis on protectionist mechanisms and State intervention.

Under this picture of heterogeneous productive strategies that lay beneath national economic policies, however, there was a common process of opening to and adopting certain conceptions and international financial trends. These guidelines would lead Latin American countries, despite economic, political and structural differences, to an identical stage of wides-

[36] On this matter, see Lucio Geller: "Argentina: la ofensiva del 76", *Economía de América Latina*, No.. 3, CIDE, México, 1979.

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pread indebtedness and subsequent crisis and convergence in their procedures of recessive adjustments. And even if it is not justified to blame these outcomes exclusively on a widespread application of a monetarist-fund approach or conditions, it does allow us to discover in that process the existence of theoretical basis that the IMF supported and legitimized in practice. It is a fact that the IMF supported the external indebtedness policies of Latin American countries and, undoubtedly, had a leading role in the subsequent drastic adjustment policies in the 1980's.

The IMF fervently promoted the new guidelines that arose from the dominant orientations of financial internationalization. It argued in favor of admitting the anti-inflationary anchor to contain inflation and, above all, supported external financing as a medium for attaining balance of payments viability. A high-ranking IMF official defined the concept of balance of payments viability as follows:

> A viable balance of payments (implies) that strong means of financing will be available to settle any prolonged deficit in the current account. The role of the Fund is to promote along its members a management of their domestic policies so as to improve their ability to attract capital income and thus maintain a viable position in the balance of payments during the entire period necessary to reach a complete adjustment[37].

This point of view concurred with the cycle of international banking loans, which had a positive feedback and expanded through the capitalization of the preexistent external debt's in-

[37] William B. Dale, "Financing and Adjustment of Payment Imbalance", *IMF Conditionality*, *op. cit.,* p. 14.

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terests at higher interest rates. The financial boom could thus move forward with relative autonomy from the net supply and demand of funds in the international markets and even from the debt payment capacity of debtor countries. This dynamic led, among certain academic and political circles, to the illusion, converted later into an assumption, that foreign debt was unpayable.

However, this process was stopped when the external debt, increasingly transformed into fictitious capital, demanded at certain point to be approached as an effective flow of payable interests. In these circumstances it was not the payment of the principal what was at stake but rather the ability to deal with interest. International credit contraction came precisely to seal the channels for automatic and nominal capitalization of interests. Inevitably, the chapter on the effective completion of indebtedness began; a chapter that precipitated Mexico into a financial crisis that, in the end, became the onset of consecutive crises almost all throughout Latin America.

In the context of the financial crisis, when interest payments on external debt and proper recessive adjustments became necessary, the IMF continued to apply the concept of balance of payments viability, but now in a cycle of lack of access to external credit. This is clearly illustrated by the following assertions made by IMF Managing Director, Jacques of Larosière, on the occasion of the 38th Annual Meeting of the Board of Governors of the IMF and the World Bank Group in 1983:

> It has been argued that the adoption of structural adjustment measures required from debtor countries delays growth and, consequently, accentuates the recessionary influence in the global economy. This position reveals an essential misunderstanding and offers no solution. Once the level of external deficit of a

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country begins to exceed that of the external financing, *the only alternative for that country is to contain deficit within the limits decreed by the external financing at its disposal*. It cannot be said that this process might adversely affect the recovery, since this cannot be based on a level of trade higher than the capacity to finance by the importing countries (s.n.).

IMF-based adjustment or macroeconomic stabilization policies, sent forward as a result of the debt crises, caused a huge depression in Latin American economies, whose effects extended up to the 1980's, a period defined as the "lost decade".

The internationalization of Latin American financial systems (whose utmost expression was the exponential increase of the external debt) had a decisive impact on the new funding mechanisms and in the creation of large economic groups. This means recognizing the strategic role that the dominance on the financial sector, or the access to external funding sources, had on the rules of business concentration and control over the operation of the remaining economic sectors from the 1980's and on.

In some countries, the banking-industrial-commercial combination or coalition, that was representative of financial capital centralization or conglomeration in a broad sense, was the basis of the configuration of large corporate blocks. This phenomenon was evident in Chile and Argentina. In the first case,

> [...] privatization of banking virtually led all banks to become part of economic groups or corporate conglomerates [...] banks were used to obtain resources and finance the purchase of companies and other properties and maintain the operation of such companies and businesses [...]; six groups analyzed one can observe that they had channeled to their own companies,

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just through the banks they controlled directly, 13% of the total available credit at the end of 1982 [...][38].

In the case of Argentina, on the other hand, the policy of incorporating surpluses and external resources into the speculative circuit led to diversify procedures within companies in order to maintain profitability based on financial transactions. In conjunction, by the use of mechanisms of this nature, an intense centralization of capital came about, especially with regard to local firms. One-third of the 100 largest industrial companies listed in 1981, for example, reached that honor as a result of an extension through purchase of other companies or change of owners[39].

In Mexican's economy, the 100 largest companies increased substantially their participation in the economy, in detriment of medium and small-sized businesses, while moving from 19.2% to 28.2% of the total production between 1973 and 1979. The largest national groups, in their term, increased their influence within these 100 firms with respect to government-owned companies, increasingly appealing to the consolidation of activities of many companies through *holdings*. This policy was supported by strong articulations points established by large companies with international banking and finance (directly or through local banking system)[40]. It should be noted that in those years such a policy of centralization of capital was not so much a response to the partnership mechanisms encouraged by the

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[38] José P. Arellano: "El financiamiento del desarrollo", en *Reconstrucción económica para la democracia*, CIEPLAN, Chile,1983.

[39] Jorge Schvarzer: "Cambios en el liderazgo industrial argentino en el período de Martínez de Hoz", *Desarrollo Económico*, No.. 91, Buenos Aires, 1983.

[40] Eduardo Jacobs and Wilson Peres: "Las grandes empresas y el crecimiento acelerado", *Economía Mexicana*, No.. 4, México, CIDE, 1982.

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Mexican government through its Law on Foreign Investments, but rather a result of several protection measures, among which it is fair to mention the introduction of a multiple banking system in 1974 as an element of reinforcement of partnerships between banks and productive enterprises.

In other countries, such as Brazil and Uruguay, financial internationalization did not generate, as in the previous cases, a direct integration between banks and productive capital, except in the differential access that bank concentration imposed on the recipients of credit. Meanwhile, and along with other experiences, there was a disproportionate expansion of the financial apparatus and its profits in this region, and a significant presence of foreign bank subsidiaries and transnational corporations in the channeling of external loans. In Uruguay, these foreign bank subsidiaries dominated just about the entire banking system. In Brazil, although foreign direct investment was perhaps marginal in the financial system, it was a significant and coordinated instrument for channeling foreign resources.

Financial internationalization caused, in consequence, changes in the process of concentration and control of capital in the private sphere, but it also had an impact on the management of government business enterprises. Through practices of external financing and co-financing, and without interfering in certain restricted State activities, it was possible to manipulate several policies and guidelines in various countries. This is what happened, for example, with the provision of technological and marketing services, inputs and machinery, or with the agreements on joint production and exports[41].

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[41] Peter O'Brien: "Relations Between Transnational Corporation and Public Enterprise in Developing Countries, with particular reference to Technological Development: a preliminary Analysis". Document, International Center of United Nations, Vienna, Austrian, July 1983.

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The global effects of structural adjustment policies. New crises and recessions

The experiences of the Latin American countries such as Mexico, Argentina and Brazil, the countries of Southeast Asia and Russia are highly representative of the effects of policies for structural change (privatization, deregulation and financial liberalization) and the continuance of overvalued exchange rates regimes as an anti-inflationary anchor. These cases had an influence on each other and caused consecutive crisis on a regional and global scale toward the end of the 20th century and at the onset of the 21st (Mexico 1995, countries of Southeast Asia 1997-98, Russia and Brazil 1998 and Argentina 2001).

These illustrative cases are not similar in all the aspects and sequence. In Mexico, for example, the privatization policy had a precedent during the 1980's, in the middle of a deep recession subsequent to the foreign debt crisis. Out of the 1,155 state-owned enterprises in 1982, in the early 1990's only about 200 survived. In addition, trade openness and certain deregulations within the banking sector had already been introduced in the 1980's. But the privatization process expanded to other areas, particularly in sectors such as telecommunications, airlines, construction of roads, iron and steel industry.

Mexico intensified the policy of greater trade openness with the signing of the Free Trade Agreement with the United States and Canada and a legislation supportive of direct and financial foreign investments. But the crisis of Mexico in 1995 as well as its implications for the rest of the economy, occurred mainly as a result of financial liberalization. This liberalization allowed foreign companies to acquire public obligations indexed to the dollar, and opened a path for national companies to become indebted abroad. In a context of an overvalued exchange rate and high domestic interest rates, external indeb-

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tedness, speculative operations and capital outflow were encouraged. The end result, with a high strategic significance and with no precedent in the contemporary history of the country, was that almost the entire banking system in Mexico became foreign-owned.

In the countries of Southeast Asia, Thailand, South Korea, Philippines, Indonesia and Malaysia, Hong Kong and Singapore, the crisis of the years 1997-98 and its international and regional effects materialized with the sharp devaluations that brought to an end the overvalued exchange rates and high interest rates. This critical process, which differed from the "Asian miracle" that characterized these economies in their previous years of great development, came about when these countries were encouraged to rapidly liberalize their financial systems. This liberalization made available the external indebtedness of national companies and the unrestricted entry of financial capitals. All of which led to pressures on their international reserves and exchange rates which ended up with significant devaluations. As a result of this process, numerous companies and banks went bankrupt, under the explicit IMF recommendation of not assisting them.

In Russia, without a doubt, more than in any other experience, high State-intervention and the bureaucracy inherited from communism constituted an obstacle to enable a transition to a proper functioning of markets under a capitalist regime. In this context, the policy adopted and supported by the IMF, which consisted in a rapid release of prices, triggered a strong inflation, which led, eventually, to the implementation of an anti-inflationary policy based on an overvalued exchange rate and high interest rates, which enabled the access to large international loans and external aid. At the same time, privatization attempts were rushed, which led to a liquidation of state assets in the context of a huge corruption in the procedures

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and acquisitions that gave rise to powerful economic groups. Devaluation of the ruble set off the outcome of the crisis in 1998.

In the case of Brazil, the strategy of growth based on attracting external savings with high interest rates and the management of overvalued exchange rate for inflation-control purposes, was crucial toward the end of the 20th century, causing a crisis of indebtedness and speculative financial outflows. Privatization in this country in the 1990's was relatively significant, accompanied by a greater involvement of local capitals or by partnerships of these capitals and vital state enterprises (oil, electricity, gas, for example) with foreign capital. The major crisis came along as a result of the expectations generated by the crises caused by the critical events that were taking place in Russia and Southeast Asia.

In the case of Argentina, the continuity of the Convertibility regime (1 dollar =1 peso) and the observance of the principle of subordinating issuance of currency to the variations of international reserves, led to the greatest support and praises of the IMF. However, in the 1990's, these actions were decisive in encouraging external indebtedness, forcing capital flight, and detonating a financial crisis. Among the Latin American countries, Argentina was a prominent exponent of privatization policies. Almost half of these privatizations involved foreign enterprises that covered a wide range of sectors such as oil, gas, steel, electricity, airlines, airports, post offices, banks and insurance companies, among others. These privatized activities were not sufficiently regulated in terms of the control of contracts, production levels, pricing and community assistance, which caused further problems. As it occurred in Mexico, fixed exchange rate and high domestic interest rates designed to attract financial capital, led local companies, banks and the government to prefer foreign indebtedness. Even

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before the national currency devaluation and the Convertibility regime cancelation, this excessive indebtedness led to payment-cessation actions against national depositors, with a high political and social cost, which anticipated the default measures that the country would take shortly after, with respect to creditors abroad.

In the development of all these crises there was a very similar pattern based on a structural change approach accompanied with privatizations, deregulations, trade openness and financial liberalization and, also, with a management of overvalued exchange rates and high interest rates that were all part of a monetary approach to the balance of payments. The experiences were not similar in the range and management of those instruments, but there is no doubt that they were inspired by a neoliberal knowledge and power policies regime which had reached its peak in the 1990's, along with the global expansion of financial capital. On that matter, it should be noted that more than half of the privatizations implemented in underdeveloped countries in those years were carried out in Latin America, a region with a propitious environment for the execution of those ideas.

The contribution of the IMF, the World Bank and the U.S. Treasury was very noticeable in some cases, particularly in Mexico, Argentina and Russia. Similarly, although with less emphasis, they were involved in the privatization processes in Southeast Asia. In Brazil, their participation and direct assistance was perhaps not as clear, but there influence on the criteria that inspired government policies was evident.

In all the above-mentioned cases, regardless of the performance and financial and technical assistance attributable to this triangle of agencies –central core of the Washington Consensus– we shall not omit the responsibility of those governments, which agreed to follow their policies and their local

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operators such as ministers of Financial or Economic affairs or board members of Central Banks. In any case, pressures from the IMF or the international financial community were not the only drives that led to the crises. Neoliberal-driven approach was decisively present among national decision-makers, which were often considered to be more IMF-oriented than the IMF itself. In fact, in some cases they were implicated with situations of information leakage about management of foreign exchange, which thrust even further the expectations and the speculative behavior suffered during the crises.

Either directly or through intermediaries, the effects of structural adjustment or reform policies and the exchange rate anchor as an anti-inflationary policy extended in three unequivocal directions. On the one hand, it worked as a platform of support and projection of an international financial capitalism in the midst of expansion, through the liberalization and deregulation of its flows and the appropriation of banks in many countries. In fact, during the financial crisis, many countries believed, while supported by the IMF, in raising their interest rates in a very short term ("overnight") to three digits as a result of the futile eagerness to attract capitals or stop their departure. On the other hand, privatization of public enterprises or government-owned companies in strategic sectors of the economy, plus the purchase by international consortia of assets devaluated by the crisis, favored a greater monopolistic and oligopolistic concentration of markets and the configuration of local economic groups with regional and international vocation. Finally, the financial crises again led to shock stabilization policies which, through their orthodox formulas of devaluation, monetary and credit restrictions, spending and public investment decrease, and wage reductions, again caused recessions and economic depressions with high economic and social costs.

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The power structure within the IMF and the political conditions

The clear predominance of the U.S. in the conception and implementation of the IMF has been underlined in various studies about the Fund. Therefore, it is impossible to avoid in the analysis of the IMF's power structure its uneven nature. It is important to recognize, however, that U.S. hegemony and its crisis have determined that its power within the IMF had to be shared and reconciled in the course of time with the new forces that have emerged in the international financial system in the 21st century.

Voting power

The *quota*[42], in addition to being the main source of resources, and the basis for calculating the attainment of financial services and allocation of Special Drawing Rights (SDR), is the primary unit that measures the voting power of a given country within the IMF. The quota represents, for that reason, the gravitation of each country within the Fund, both at the level of its participation in the processes of decision-making, as well as in the origin and use of its financial resources.

The quota is defined on the basis of a set of economic variables that are intended to reflect the economic potential of a country and its openness to international trade. Its national income, its level of international reserves, its foreign trade and its correlation with the product represent the main economic aspects taken into account[43].

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[42] Payable in currencies that the IMF determines as "free use": US dollar, Japanese yen, euro and pound sterling.

[43] The methodology for calculating quotas has been marginally altered by the admitted changes in the relative weight of those magnitudes and the

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The IMF conducts general reviews of quotas, every five years approximately. However, during this interval it can also perform selective reviews, particularly when a quota assigned to a country is outdated as a result of significant changes in its economy and/or its integration to world market.

From its foundation and up to the present time, the IMF has conducted a total of fourteen general quota reviews[44]. Over time, the United States has lost positions on the subject of IMF quotas. In spite of this, it still retained a 17.41% until December 2010 (Table 4). On that same date, the industrialized countries as a whole possessed more than half of the quotas, which reflect the predominance of this group of nations within the Institution. It should be noted, incidentally, that this group has gone through a reorganization that is characterized by the decline of the United Kingdom, and counteracted by the relatively growing involvement of Japan and the Federal Republic of Germany[45].

Underdeveloped countries increased their participation in the distribution of quotas, an increase that was due to an increment in the number of members within the aforementioned agency. Yet, their increased participation in relation to votes (21% in 1951 to 38% in 2010) has focused mainly on a broader assignment of quotas to few oil-exporting countries, a policy that the IMF approved with the purpose of playing a more significant role in the process of recycling the financial surplus recycling of these economies. If this phenomenon is not

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incorporation of other variables. See A. W. Hooke, *op. cit.*, p. 10. And the IMF website, www.imf.org , section of basic IMF data, paragraph on quotas.

[44] These reviews took place in the years 1951, 1956, 1959, 1965, 1970, 1976, 1978, 1983, 1990, 1994 1998, 2003, 2008 and 2010.

[45] From 1990 onwards, the German Democratic Republic and the Federal Republic of Germany merged into a single State with the name of Federal Republic of Germany.

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taken into account, the majority of non-oil-exporting underdeveloped countries did not increase significantly their quotas within the Fund up to 2010.

Nevertheless, at the end of 2010, the IMF's Executive Board approved proposals that reorganized the structure of quotas and votes within the institution. The executive directors proposed a duplication of quotas on the order of 755,700 million dollars and a realignment of the quota shares. The redistribution of quotas would mean a transfer of its proportion in favor of emerging and underdeveloped countries of more than 5% of the quotas and votes deducted from countries that are considered over-represented. The comprehensive review of the current formula for calculating the quota system and its approval will be established in the 15th general quota review to be held in January 2014.

United States still retains the power of veto within the IMF. In fact, until 2010, major decisions such as those that could alter the structure of power and/or the operations of this institution (general and selective quota reviews, allocation of SDR, and decisions on gold reserves, for example), required a majority of 75% of the votes in spite of the changes in the system of quotas and votes. This still guarantees the U.S. veto power. When this power was threatened by the decline of its share, particularly when in April 1981 an increase in the quota of Saudi Arabia was authorized; such effective veto was secured increasing at 85% the votes necessary to amend the IMF Articles of agreement. If we consider that most of the decisions in this institution require a simple majority, one can infer the importance of the specific influence of the United States, which along with the developed countries guarantees the accomplishment of all the initiatives. In that sense, taken in isolation, the power of the underdeveloped countries, with one third of the votes, is virtually zero within the IMF's framework.

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Table 4. Distribution of quotas within the IMF by members and regions (percentages)

	1951	*1971*	*1985*	*1990*	*1999*	*2009*	*2010*
Industrialized countries	**71.7**	**64.1**	**58.7**	**54.22**	**55.54**	**52.74**	**50.32**
United States	33.7	23.5	20.6	18.2	17.5	17.09	17.41
Great Britain	16	9.8	7.2	5.0	5.0	4.94	4.23
France	6.5	5.3	4.7	5.0	5.0	4.94	4.23
Federal Republic of Germany	-	5.6	5.3	5.6	6.1	5.98	5.59
Japan	-	4.2	4.1	5.6	6.3	6.12	6.46
Others	15.5	15.7	16.8	14.82	15.64	13.67	12.40
Other industrialized countries *a)*	7.5	8.4	7	10.46	10.89	11.33	11.72
Developing countries	**20.8**	**27.5**	**34.3**	**35.32**	**33.57**	**35.93**	**37.96**
Oil-exporters	0.7	5.4	10.9	15.51	15.01	15.02	14.06
Non-oil exporters	20.1	22.1	23.4	19.81	18.56	20.91	23.90
America	5.8	7.9	7.7	7.52	7.13	7.64	7.78
Africa	0.1	4.1	4.1	5.08	4.80	5.22	4.20
Asia	13.3	9.1	10.1	13.55	12.72	12.99	14.18
China*				2.32	2.21	3.72	6.39
Middle East	0.9	1	1.5	6.99	6.81	6.36	5.41
TOTAL	100	100	100	100	100	100	**100**
Number of members	50	118	146	184	182	186	187

NOTE: *a)* Includes other European countries and Australia, Nueva Zealand, South Africa, Russia and Saudi Arabia.

*It is included in Asia.

SOURCE: Data compiled by the IMF.

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Table 5. Distribution of votes within the IMF by members and regions (percentages)

	1959	*1970*	*1982*	*1999*	***2009***	***2010****
Industrialized countries	**61.9**	**59.1**	**56.2**	**53.65**	**51.91**	**47.98**
United States	25.4	22	19.5	17.53	16.77	16.48
United Kingdom	12.5	10.5	6.8	5.08	4.86	4.02
France	5	4.3	4.5	5.08	4.86	4.02
Germany	3.3	5.2	5	6.15	5.88	5.31
Japan	2.5	3.2	3.9	6.29	6.02	6.14
Others	13.6	13.9	16.5	13.52	13.52	12.01
Other industrialized countries [a)]	**7.7**	**6.7**	**6.9**	**10.98**	**11.31**	**11.72**
Developing countries	**30.4**	**34.2**	**36.9**	**35.37**	**36.78**	**40.30**
Oil-exporters	3	5.9	10.8	15.19	15.00	14.05
Non-oil exporters	27.4	28.3	26.1	20.18	21.78	26.25
America	10.4	9.5	8.3	7.50	7.93	8.40
Africa	3.1	7.2	5.7	6.70	5.34	5.29
Asia	13.1	10.5	10.4	12.02	13.47	14.97
China*				2.22	3.66	6.07
Middle East	0.8	1.1	1.7	6.93	6.38	5.57
TOTAL	100	100	100	100	100	100
Number of members	50	69	118	182	186	187

NOTE: *a)* Includes other European countries and Australia, Nueva Zealand, South Africa, Russia and Saudi Arabia.

*It is included in Asia.

** As proposed by the Executive Board

SOURCE: Data compiled by the IMF.

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Other forms of control

The mechanisms of control over the IMF's management that the U.S. government preserves for itself are not limited to the organizational aspects above mentioned. "The power relations that exist between the IMF and the U.S. government, it is argued, are subtle and frequently invisible"[46]. Hence, compared to the World Bank, these relationships are certainly less noticeable given that, by an informal agreement established at Bretton Woods, the position of Managing Director would be filled by a European candidate. Thus, from 1946 to 1951, Camille Gutt (Belgian) was chosen to fill this position, followed by Ivar Rooth (Swedish) between 1951 and 1956, Per Jacobsson (Swedish) for the period 1956-1963, Pierre-Paul Schweitzer (French) and Johannes Witteveen (Dutch) in the periods 1963-1973 and 1973-1978, respectively. From 1978 to 2000, Jacques of Larosière (French) filled the position; from 2000 to 2004 it was Horst Köhler's (German) turn, followed by Rodrigo Rato (Spanish) during 2004-2007 and since November 1st of 2007, the Dominique Strauss-Kahn (French) was head of the IMF but he resigned in May 2011 and was designed Christine Lagarde (French) in July 2011. However, in compensation, general vice-director (Deputy Managing Director) has traditionally been an American.

This restricted presence within decision-making bodies does not diminish U.S. influence in the institution's policy. Mainly, because the IMF Managing Director role, as compared to the World Bank governance, has less influence and certainly less decision-making autonomy. This phenomenon is evident in

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[46] Richard E. Feinberg "El Fondo Monetario Internacional y las relaciones de Estados Unidos con América Latina", *Estados Unidos: Perspectiva Latinoamericana, Cuadernos Semestrales*, CIDE, México, p. 183.

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the light of various significant events that took place in the last two decades, although it must be recognized that the gravitational pull of that position was accentuated significantly after the debt crisis of 1982. Informal mechanisms that influence the functioning of the Fund are perhaps more representative of other forms of power that are exercised within it.

Particularly, the U.S Executive Board Director has real means to influence the decisions of the IMF, which contrasts with other Executive Directors of other countries:

> [They] have an office in the IMF building in Washington; along with a small team, he maintains regular contact with other members of the Board (of Directors) and with members of the IMF executive staff, working on issues of interest to the United States. Sometimes, other U.S. agencies, particularly the Department of State, communicate their viewpoints immediately to IMF officials. The U.S. Executive director [...] is probably the second in power, only below the Managing Director[47].

The Department of the Treasury through the National Advisory Council (NAC) and the Development Coordinating Committee (DCC) composes the advising network, which, ultimately, decides the vote of the U.S. Executive Director[48]. The criteria

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[47] *Ibid.*, p.184

[48] The NAC had its origin in Bretton Woods, where it was created with the intention of becoming an advisory group responsible for coordinating U.S. policy within the international financial institutions, and thus to ensure that these were conducted in accordance with the policies and interests of the United States. The Department of the Treasury, the Department of Commerce, the Federal Reserve and the Export-import Bank composes this group. The DCC was created in 1978 to control both individual projects and economic and lending issues. This agency is composed by the Department of the Treasury, the Department of State, USAID, the Departments of Commerce,

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that guide U.S. control over the IMF and other international financial agencies (such as the World Bank), can be drawn from the following testimony:

> The Assistant Treasury Secretary for International Affairs and his team are responsible for the constant control, coordination and instruction in the vote for executive directors of international financial institutions. To meet this goal there is a group of technicians who analyze all loan proposals, evaluating the macroeconomic policies of every country, the special interests of United States, human rights, expropriation issues, provision of strategic goods, etc.[49]

According to the proposal of the IMF Executive Board at the end of 2010, and once the amendment is approved, the category of executive directors who are appointed by the 5 countries with the highest possible quotas will be abolished. The size of the Board of Executive Directors will stay at 24 members and its composition would be reviewed every eight years.

In spite of these proposals, a growing capacity of management and incidence of the United States and the developed countries is maintained.

In sum, the authority of the U.S. has been permanent since the creation of the IMF and through all the modalities adopted in its development. However, although the control that the U.S. government exerts over the organization and

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Labor, Agriculture and Management and Budget, the Corporation of Private Investment Overseas, the National Security Council and the Office of the Special Trade Representative (See Hearings Before a Subcommittee of the Committee on Appropriations, House of Representatives, 96th Congress, Part II, march 1979, p. 29).

[49] *Ibid.*, pp. 84-86.

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functioning of the IMF is still evident and influential (as reflected in the fact that it still retains the power to veto its major decisions), its hegemony no longer has the initial undisputed nature. Not only its quota and voting power are lower, but rather, the real power has had to be shared more openly with other industrialized countries, while underdeveloped countries –in spite of the changes proposed- will continue to play a minor and marginal role. Within this structure of power –along with what particularly occurs in other agencies such as the World Bank and more generally within the international economy- the United States is increasingly obliged to seek minimum agreements in a given block of countries of economic and political significance. This is shown by the great significance attained in due course by the Group of the Ten, the Seven and the Eight, as well as by the prominence that at the present time, on the occasion of the great financial crisis, has achieved the Group of Twenty.

Political Conditionalities

Various works have shown the incidence of U.S. economic and geopolitical interests, along with other developed countries, in the decisions of the IMF, beyond their voting power and the institutional mechanisms under their control. Many facts are mentioned in that direction, such as, for example, the aid promoted by the U.S. Presidency to Mexico in 1982 and 1995, to Poland in 1985, to Russia in 1998 and to Argentina in 2001, due to foreign policy reasons or financial interests. Other works further examine this subject[50].

[50] Tony Killick, *Aid and The Political Economy of Policy Change*, London Overseas Development Institute, 1998; Strom C. Thacker, "The High Politics of IMF Lending", *World Politics* 52, 1999; Benjamín Cohen, "International Debt

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There are common assessments based on econometrics models about the gravitation of economic and political factors in the granting of IMF loans. In that sense and as a conclusion, a model applied on 176 cases of stand-by and Extend Fund Facility loans suggests that the interests of U.S. foreign policy play a minor role compared to the interests of U.S. international banks in the granting of such loans. But that same work warns that there is no opposition but rather complementarity between the two sorts of interests[51].

Although there was no confirmation in other models that the votes of the United Nations had an influence in the decisions of the IMF[52], there are isolated examples of political pressures that led to a greater conditionality of this institution. For example, this would have happened in the case of Zimbabwe if perhaps this country would have failed to vote along with the United States within the United Nations Security Council on the topic of Iraq in 1990[53].

Likewise, the author of a recently published book "The International Monetary Fund: Politics of Conditional Lending" (London and New York, Routledge 2007) stated in an article of that same year that:

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and Linkage Strategies some Foreign Implications for The United States", *International Organization 39*, 1985; Robert Barro, "The IMF Doesn't put out fires, it stars them", *Business Week*, 1998; Alan Meltzer, "Asian Problems and the IMF", *CATO Journal* 17, 1998; Jeffrey Garten, "Lessons for the next financial crisis", *Foreign Affairs* 78, 1999; Barry Eichengreen, "Is Greater Private Sector Burden Sharing Possible", *Finance and Development*, 1999.

[51] Thomas Oatley and Jason Yackee, "Political Determinants of IMF Balance of Payments Lending: The Curse of Carabosse", Department of Political Science, University of North Carolina at Chapel Hill, 2000, and "American Interests and IMF Lending", *International Politics 41*, 2004.

[52] Robert Barro and Jong-Wha Lee, "IMF Programs Who is Chosen and What are the effects?", *Journal of Monetary Economics 52*, 2005.

[53] John Pilgar, How the Bushes Bribe the World, *New Statesman*, 2002.

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> […] there is robust evidence that the United States and the G-7 are pressuring the International Monetary Fund to pursue political objectives and to provide assistance to strategic and major developing countries. This is well-known in the corridors of the IMF and a lot of people of the staff share stories *off the record*.[54]

It has previously been stated fully confirmed by the recent Report of the Independent Evaluation Office of IMF (IEO), "IMF Performance in the Run-Up to the Financial and Economic Crisis IMF. Surveillance in 2004-07" published on January 10, 2011, of which some passages are transcribed:

- Indeed, the IMF often seemed to champion the U.S. financial sector and the authorities' policies, as its views typically paralleled those of the U.S. Federal Reserve (p.11).

- IMF prescriptions seemed to champion the approaches taken by the United States or the United Kingdom (p.13).

- Staff reported that incentives were geared toward conforming with prevailing IMF views. Several senior staff members felt that expressing strong contrarian views could "ruin one´s career (p.19)

- Many area department economists felt that there were strong disincentives to "speak truth to power" particularly in large countries (p.19)

[54] James Raymond Vreeland, "The Politics of IMF Conditional Lending", *World Economics*, September 2007, p. 187.

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- The answer is multifaceted because political constraints have many dimensions, including request to alter messages specific mission members, perceptions of pressure from authorities leading to self-censorship, and request to pursue certain policy initiatives (p19).

- Self-censorship appeared to be a significant factor even in the absence of overt political pressure (p.20).

Beyond the relative strength of the studies and works above mentioned and the ideological burden in favor or against its arguments, it must be admitted that the power of the United States and of the industrialized countries within the IMF allow us to assume that the constraints going into the IMF and coming out of it, in several circumstances, may certainly have a political content.

III. THE WORLD BANK

Between the "Bretton Woods twins", the World Bank was weaker in its early infancy, more limited in its functions and, therefore, the least known. Its initial reliance on U.S. resources accentuated, as well, its low institutional profile. At first, the World Bank was constituted by the International Bank for Reconstruction and Development (IBRD) designed for contributing to the reconstruction of Europe after the Second World War. Afterwards, with a greater international projection, new agencies added up to the IBRD until it became the World Bank Group, better known as the World Bank (WB).

Over time, the World Bank guidelines have changed, mainly because it was oriented to assist underdeveloped countries. Among its objectives, it gave support to infrastructure and agriculture, and later added among its duties poverty alleviation and education and global environmental issues. As a result, the World Bank has reached a significant rank within the scheme of contemporary international cooperation, assisting governments and also social and academic organizations. Although U.S. authorities and financial market continued to have a strong influence on the Bank, the former presented new operational modalities, which underscored its role in research and analysis on social issues.

The relations with the IMF, since the start, were not very fluid, among other reasons, due to certain vagueness as to responsibilities between the two agencies. Bureaucratic suspicion and inconsistent approaches caused alienation regarding procedures and objectives. However, along with certain international crises, in the 1990's arose the need for agreements

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and a more coordinated management between the two institutions. Assignment and joint monitoring were then prevalent in the underdeveloped countries, with a division of tasks that, nonetheless, have revealed a progressive dependency of the WB to the macroeconomic and stabilization IMF-driven approaches in relation to the least developed countries. This minor role of the World Bank was due, one the one hand, to a decline in its involvement in the context of the measures taken by the G-20 ahead of the international financial crisis. On the other hand, this happened together with the relative discredit in which the Bank fell on the occasion of the accusation of nepotism on former President Paul Wolfowtiz and his subsequent resignation, events that took place, nothing less, in an institution that has dealt with studying the issue of corruption.

Table 6. References on the World Bank

Works on the World Bank, initially, came from historical collections of the 40th and 50th anniversary of the institution and sponsored by the Bank itself. As in the case of the IMF, there have been several works of staff members not recognized by the Bank, and various reports of a global and sectorial nature developed by the institution, apart from the current report on its activities. Critical analysis about the management of the Bank appeared in the 1980's, particularly, after the debt crisis in Latin America and the crisis in Southeast Asia, Brazil, Russia and Argentina as a result of the implementation of the Bank's strategy on structural adjustment (shared with the IMF).

Robert W. Oliver, 1975, " Economic Cooperation and the World Bank" Mc Millan Press, London, 1975.

Devesh Kapur, Joseph Lewis and Richard Weeb, 1997, "The World Bank. Its First Half Century" Brook Press, Washington.

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Edward S. Mason and Robert E. Asher, 1973, "The World Bank since Bretton Woods", The Brookings Institute, Washington.

Cheryl Payer, 1991, "Lent and lost. Foreing credit and the Third World development", Zed Books, London.

Catherine Caufield, 1997, "Masters of Illusion: The World Bank and the poverty of nations" New York USA, Henry Holt and Company.

Michael Goldman, 2005, "Imperial Nature: The World Bank and struggles for social justice in the age of globalization", New Haven, Conn. London, Yale, University Press.

Terence Halliday, 2007, " El Villano Favorito", Books and Culture.

Sebastian Mallaby, 2004, " The World´s Banker. A story of failed states, financial crisis and the wealth and poverty of nations, Penguin Press.

Ha-Joon Chang, 2008, "Qué fue del buen samaritano. Naciones ricas, naciones pobres" Ed. Intermon, Oxfam, España.

José Antonio Sahuja Perales, 2004, "Altruismo, mercado y poder. El Banco Mundial y la lucha contra la pobreza", Univ. Complutense Madrid.

John Saxe-Fernández y Gian Carlo Delgado Ramos, 2004, "Imperialismo y Banco Mundial", Ed. Popular, Madrid.

Hugo Assmann, *et al,* 1980, "El Banco Mundial: un caso de Progresismo Conservador", Depto. Ecuménico de Investigaciones, San José, Costa Rica.

Susan George y Fabrizio Sabelli, 2004, "Fe y crédito. El imperio secular del Banco Mundial", Ed. Penguin Press.

Samuel Lichtensztejn, 1987, "Políticas globales en el capitalismo: El Banco Mundial" México, CIDE.

David Williams, 2008, "The World Bank and social transformation in international politics: liberalism, governance and sovereignty, Routledge, New York.

Jonathan Murphy, 2007, "The World Bank and global managerialism", Routledge, New York.

Benjamín Bret, 2007, "Invested interests: capital, culture and the World Bank", Minneapolis, University of Minnesota Press.

Eric Toussaint, 2006, "Banco Mundial. El golpe de Estado permanente" Ed. El viejo Topo, España.

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World Bank theoretical approaches

As it occurs with the IMF, there is no version that could be certified as an official approach of the foundations on which the thought and strategies of the World Bank rest upon. Documents that could be understood as pronouncements of the Bank refer only to its major goals.

Consequently, in order to understand its theoretical and strategic framework, an exercise of rereading and reinterpretation of its works is required. Many times this procedure leads to ambiguities, since various technical analysis or special studies, while entrusted by the Bank, are denied by the institution as representative of its opinion.

Various authors influenced by the above mentioned aspects, and impressed by the broad spectrum of experiences and areas in which the Bank is involved, tend to accept the lack of a model or an organic set of elements that guides its policies.

For example, it is stated that:

> The World Bank's operations have not been guided by any particular model of economic growth or development. In its national evaluation reports, the Bank examines the general policies and the country's economic prospects, and seeks to identify appropriate strategies for development and its operational policies as a guide for its course of action on the topic of loans and recommendations[1].

Along these lines, it is often pointed out that

> in the archives of the Bank one could search in vain, either an approach to a systematic examination of a process of normal

[1] R. Mikesell, *Op.cit.*, p.78

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> development, or the main variations with respect to a given rule that the Bank may have discovered in view of its experiences, or the models that shed light on the main variables that must be taken into account while designing development projects[2].

More recently, the Bank under the structural adjustment programs has expressly reiterated this same position:

> […] the form and content of these programs should not be framed within a pre-established model; these ought to be developed in a flexible and empirical manner according to the specific situation of each country[3].

In the case of the World Bank, this feeling of apparent pragmatism becomes reinforced if compared to the relative rigidity of principles and policies that have historically characterized the IMF. The World Bank has in fact being able to avoid for a longer period of time any theoretical or ideological pigeonholing. What have been the causes of this phenomenon? In short, and with the mere purpose of illustrating, we shall point out some of these reasons. The first one refers to the field in which the World Bank operates. While the IMF tends to formally act in the limited financial and macroeconomic field, the World Bank participates in projects that are related to productive and social problems. Another reason, which in fact enhances the previous one, is linked to the propensity of the Bank to invoke, apart from growth, a greater concern and a growing sensitivity before problems such as poverty, low educational level, deterioration of the environment and other forms of stigma that typi-

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[2] E. Mason y R. Asher, *op. cit.*, p. 467.

[3] World Bank, "*Les Prets a l'Ajustement Structurel…*" Washington, 1981, p. 1.

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cally characterize underdeveloped countries. Along these lines, it as well significant that the IMF recruits individuals who once occupied positions in Central Banks and ministries of Treasury or Economy to become part of its specialized staff, while the World Bank opens to a much broader range, in addition to the summoning and finance of projects carried out by independent researchers and non-governmental social organizations.

We may add to the previous arguments the persistent preach of the Bank to avoid a definitive rupture between developed and underdeveloped countries, as well as to prevent that these underdeveloped countries are conceived as a homogeneous whole. For this purpose the institution has initiated a long and arduous attempt to distinguish between groups of countries and different situations (extreme and intermediate)[4].

In sum, ahead of rigid and clearly defined positions of the IMF, the Bank's approach seems to be against any generalization or pre-established guidelines. It is unfeasible to conceal or merely ignore the importance of these traits attributable to the Bank. Particularly, they warn about the danger of classifying its strategies under a uniform and universal framework, typical of a monolithic institution. These considerations should not, by themselves, lead us to accept as true the existence of an effective pragmatic vision of the World Bank.

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[4] Among the situations and groups of countries presented, are those based on income level. Absolute poverty is considered to be the situation in which the per capita annual income is less than 50 dollars, and relative poverty, that in which this figure exceeds the previous, but remains in a level lower than the international average income. On the other hand, the underdeveloped countries are subdivided as low-income countries (250 dollars or less per capita income) and middle-income countries (250 dollars or more), based on data from 1976. Following the criterion of the level and type of development, countries are also classified as large economies, small primary-exporting and small industrialized.

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For the time being, it should be noted the existence of certain strategies that relate to different stages of the World Bank approaches and policies. For example, the conceptions that historically had a major influence on the World Bank are often divided in three different categories: "conventional growth strategy", "growth strategy with equity"[5] and "outward-oriented growth strategy with structural adjustment".

The studies on this topic, at the time, identified several stages in the evolution of the ideas and notions of the Bank. In the first stage, which reaches up to the 1950's, development is understood as an economic growth that relies on a greater infrastructure capital, financed with domestic savings. In the next period, the conception is still outlined in the previous terms of a conventional growth, but the investments for development –in addition to those of infrastructure– extend across the fields of agriculture, urbanization, education and health. In the McNamara "era", the conception of development is no longer confined to the economic growth. The Bank begins to sustain that growth must include social aspects linked to family planning, unemployment and poverty[6]. The last stage relates to a conception of outward-oriented growth with structural adjustment.

From the point of view of this work, the search for certain grounds in the thought of the World Bank involves the recognition of an interpretive or theoretical framework, which ought to give a certain rationality to the goals that determine or guide

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[5] Report, *"Assessment of the effectiveness of the World Bank and the Inter American Development Bank in Aiding the Poor".* Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, 95th Congress, Part. 5, Section 11, 1978.

[6] E. Mason y R. Asher, *op. cit.,* p. 480.

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the policies of this institution. The rest of the chapter will seek to demonstrate that:

- There has not been a strategy but rather a strategic trajectory of the Bank, understood as deployment of various objectives throughout time, which, nevertheless, retain a core set of purposes.
- In connection to this, there has been an approach to the economic growth that is kept as the fundamental theoretical axis. Around this axis, changes in the global conceptions of development have fluctuated from the angle on the needs of basic capitalization (basic utilities) to that of satisfaction of basic social needs (basic needs) and, when the Latin American crisis exploded, towards the implementation of exporting guidelines with structural adjustments.
- In the course of this strategic trajectory, the periods of transition have stood out for adding thematic areas and reaching a high diversification of economic and social sectors involved.

A conventional approach to economic growth

During its first twenty years, the Bank encouraged basic infrastructure as a condition for Europe's economic reconstruction process.

This particular line of thought went further when applied to the least developed countries. Indeed, development conceived as the transformation of a traditional economy –eminently agricultural– into an industrial-based modern one, the drives to carry on this transformation were considered to be intimately linked to the industrialization process. But in order for this process –and the consequent private capital formation– to

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become successful, it was required to have governments in charge of basic infrastructure[7].

Development, therefore, was equivalent to the process of modernization conceptualized as the industrialization driven by private initiative. In that interplay between the main strategic objectives (development-modernization-industrialization), the Bank turned infrastructure into the primary nexus that merged these purposes to the immediate requirement of increasing private capital formation.

According to the Harrod-Domar approach, the World Bank's notion on economic growth considered as essential relations those which, quantitatively, were established between savings formation and investment, on the one hand, and between this latter circuit and the productive expansion, employment and income, on the other (see Diagram I).

In a simplified sequence, the reasoning is basically as follows: an extension of investment based on technologically advanced models, would increase industrial production and would make it more efficient by reducing costs. The foregoing scenario might involve relatively lower domestic prices and greater international competitiveness of exportable products, whose increase on sales would help to enlarge imports, thus increasing even more productive capacity on by promoting modernization. The consequent expansion of production would generate, in due course, a greater number of jobs; which, along with the growing labor productivity (for technological reasons), would raise wages and global income. Since savings are a function of income, the raise of the latter would facilitate

[7] "An adequate supply of energy, and communication facilities and transportation are necessary antecedents for most of the productive allocation of private savings in new companies. It is also the first step in the gradual process of industrialization". Sixth World Bank Annual Report, p. 14.

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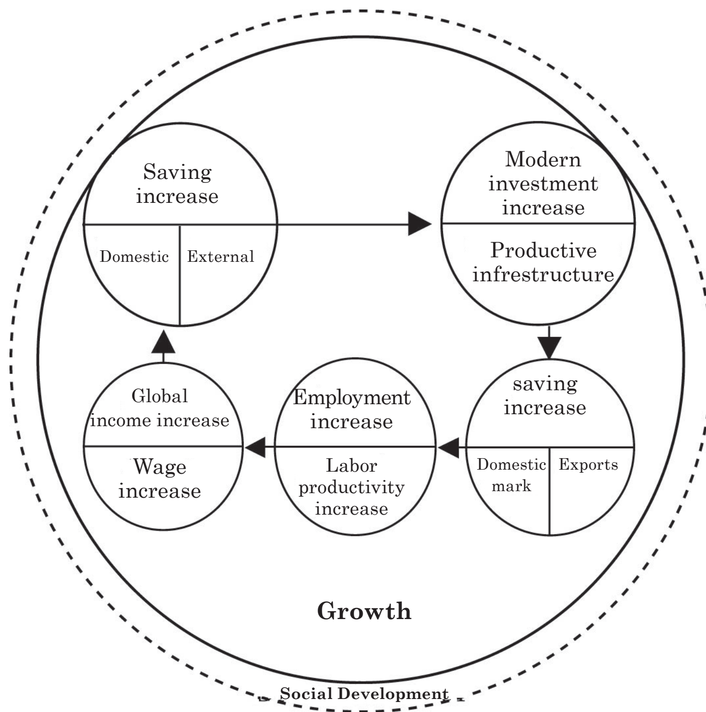
a repetition of a cycle of growth such as the abovementioned. Social development or welfare would derive naturally from the previous process of growth, due to the increasing trends in employment and wages, and, consequently, to the improvements in living conditions.

In this context, seeking an increase in the level of basic investments (infrastructure and modern technology) was causing the World Bank two problems: a gap between the formation of domestic savings and capital requirements, as well as a gap between the acquisition of external savings and investment opportunities.

Diagram I. World bank conventional growth strategy



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In certain occasions, the above-mentioned topic seemed to unfold into a theoretical issue of *"resource availability"* or into a practical problem of *"resource absorption."* The first version, which is supported by institutions such as ECLAC or UNCTAD, called for closing the virtual gaps between savings and investment, while continuing to give priority to the latter and pushing concessional external aid to public investment. The second version, which was attributed to the World Bank, justified, on the other hand, weak external financing flows with the argument of a shortage of solid and profitable investment projects. From this point of view, the strategic variable in capital formation was the setting of conditions or expectations to attract private investment.

Under this perspective, the World Bank understood the process of growth as one subordinated to the implementation of stabilization monetary policies capable of either creating a suitable environment for direct investments and external financing, or expanding the actual basis for domestic savings formation. According to the Bank, stabilization policies acquired the quality of a healthy and necessary condition for economic growth: "an adequate stabilization policy, from the Bank's point of view, was such a necessary condition for development as it was always for the International Monetary Fund"[8]. In addition, such a condition was more relevant in the most industrialized countries in Latin American or others, such as India, which countered protectionist structures to the processes of globalization and concentration of capital. This judgment meant admitting, without necessarily dismissing some nuances that distinguish both positions, an unquestionable integration –still in force– of the IMF's macroeconomic viewpoint into the conception of the World Bank, as illustrated in diagram II.

[8] E. Mason y R. Asher, *op. cit.*, p. 464.

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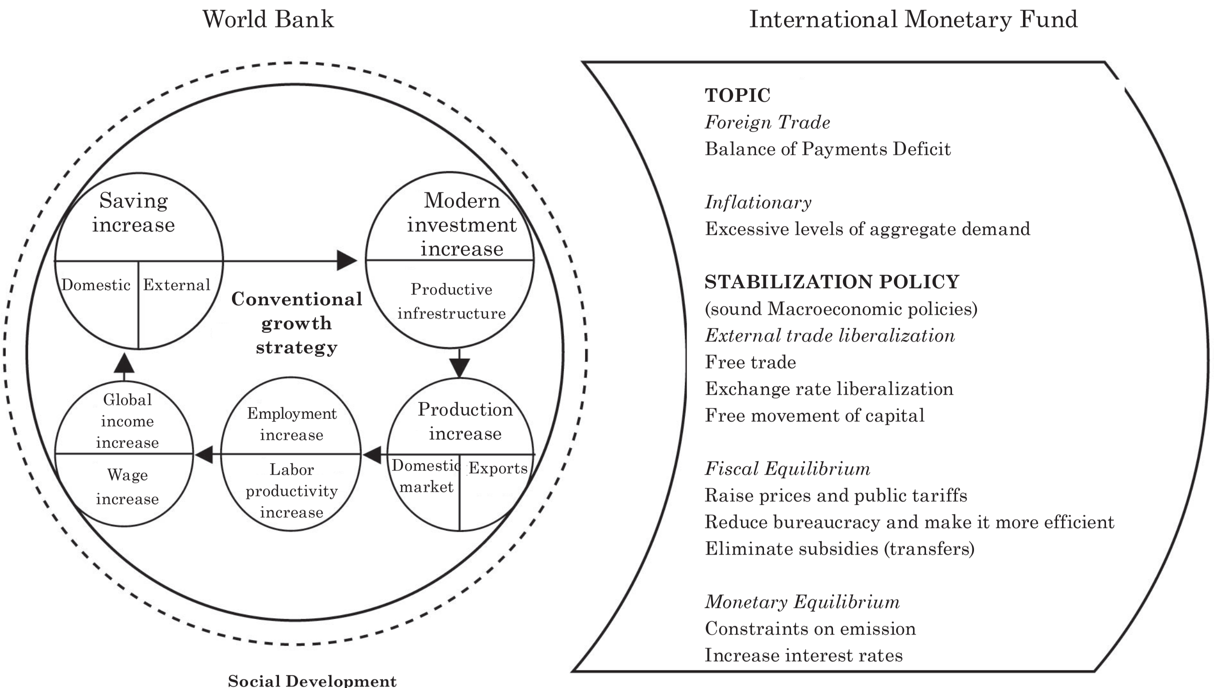
Diagram II. Stabilization policies as prerequisites for a conventional growth strategy



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In fact, both institutions share a doctrine which relies on free-market and perfect competition theories to reach stability, as well as on domestic and, especially, foreign private investment, to move toward modernization and economic growth. The Bank explains this vision with clarity: "[…] one of the Bank's primary goals is helping to create the conditions that ought to encourage a substantial and important flow of private investment, mainly venture capital within underdeveloped Bank-member countries." Based on this principle, the institution refused, until 1968, lending to development-oriented financial institutions controlled by the government, as it had earlier refused to do so with public industrial enterprises, arguing that these were unsuitable to be managed with efficiency[9]. But more importantly, in accordance with these guidelines, the World Bank and the IMF have cleared the road for a greater internationalization of underdeveloped countries and for the expansion of transnational corporations within dynamic areas of their economies.

In sum, this first theoretical-strategic World Bank approach originates in a circular outline of growth based on a process of modernization on an industrial basis, encouraged by private and foreign capital, throughout investments on government-sponsored basic infrastructure projects. Stabilization or anti-inflationary policies, with their rules of reparation and sound policies in the fields of foreign trade and fiscal and monetary-credit, would establish the balanced conditions to attract external savings and promote domestic savings, in a context of a free-market economy.

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[9] E. Mason y R. Asher, *ibid.*, p. 27.

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Before proceeding to the analysis, properly speaking, of the development strategy that guided the World Bank's policy in the 1970's, it seems fair to explain in detail how this new conception was born and expose its contributions.

a) The Pearson Report

The signs of a first significant change in the theoretical conception of the World Bank appear in 1969 along with the presentation of Partners in Development[10]. This report (more commonly known as Pearson Report) was intended to draft an evaluation of the results of 20 years of "development aid" and proposing more effective policies.

Criticism focused mainly on the distortions caused by the kind of economic growth experienced by the underdeveloped countries. The authors of the Report considered that the preference for the industrial sector as an engine for growth subtracted importance to the agricultural sector. The faulty development of the agricultural sector introduced restrictions to the expansion of the domestic market, lack of food production and lower volumes of export. Thus, internal and external obstacles to the actual progress of the industrialization process arose.

Besides, the Report highlighted the problems created by the actual industrial strategy executed within the underdeveloped countries. According to its viewpoint, a protectionist import substitution policy strictly focused on the domestic market led to the consolidation of a not very competitive industry in the international arena, and to an undervalued agriculture.

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[10] L. Pearson, *El Desarrollo: Empresa Común*, Tecnos, 1969.

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The result was an agricultural-industrial imbalance, which in addition to a restricted importing capacity attributable to an insufficient expansion of exports, prevented underdeveloped countries from reaching a self-sustaining growth.

On the basis of this diagnosis, which put into question the shaping of industrialization and agriculture within the underdeveloped countries, the Pearson Report presented three major recommendations. The first one suggested to advance the process of modernization of agriculture, a goal that the World Bank had already actively encouraged through the introduction of agricultural patterns characterized by the intensive use of fertilizers, machinery and equipment, irrigation and new seed varieties; in a few words, the launching of the so-called Green Revolution[11]. Secondly, the Report pointed out that it was time to fix the distortions in the industrial sector and make their products more competitive in the international markets. Within this process a strategic role was granted to foreign private investment, in view of its contribution regarding technological and productivity innovations. Finally, the process of international trade liberalization was encouraged in order to reach a greater participation of the underdeveloped countries in exports of agricultural and manufactured goods.

The Pearson Report, in addition to its concern about the type of economic growth, took into account the sociopolitical issue in specific aspects such as unemployment and educa-

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[11] "A large part of the developing world is experiencing today an extraordinary agricultural innovation that may be classified as Green Revolution […]. The Green Revolution was a result of, both, a new technology and a new policy. Although it is not feasible to yet anticipate the scope and rate of its consequences […] the prospects for growth are much more favorable […]. The Green Revolution may be a milestone in the production of food grains […]". Pearson, *op. cit.,* pp. 45, 46 y 69.

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tion. With respect to the first concern, it stated that market was regulated by a limited absorptive capacity of labor due to a high level of population growth in the underdeveloped countries. Although an economic issue, the problem of unemployment was additionally aggravated, when considering it a social problem, by an inadequate educational system which did not relate vocational training to the needs of the productive processes. At the end of the 1960's, the Report considered a proper and correct education one that involved a technical and specialized training, along with a higher absorption of modern technologies.

Although the Report repeated the reasoning –already formulated by the World Bank– in support of linking development to modernization processes, the innovative nature was perhaps found in the qualitative aspects of such development, until then neglected or relegated to marginal plans (employment, population growth, education and income redistribution), and the need to outline new international economic relations[12].

b) Theoretical assimilation of poverty

Certainly, the Pearson Report was an antecedent of the turning point that the World Bank imprinted on its approach to development during McNamara's administration in the 1970's.

[12] "If the purpose of economic aid is the progress toward economic independence, there are no more than two direct manifestations, namely, an appropriate and sustained increase in the relationship between domestic savings and national income and the relationship between exports and imports [...] the most equitable distribution policies should have the same priority than those directed to accelerate growth [...]. This raises a broader issue of creating an international strategy for development that not only takes into account the problems related to aid but also those related to trade and movement of capital and technology". *Ibid.*, pp. 129, 164 and 201.

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The urgency of the World Bank to consider the social causes of poverty and basic needs, can only be understood if we take into account the international crisis and the struggles for liberation and social change that stroke various Latin American, African and Asian countries since the late 1960's.

McNamara, who served as United States Secretary of Defense from 1961 to 1968, and who certainly was a protagonist in the defeat in Vietnam, understood the deep meaning of these movements encouraged by chronic dependence and poverty in relation to the capitalist system. Unlike his predecessors, McNamara did not lead the World Bank with the mentality of a banker, but rather with that of an international strategist who sought to achieve through peaceful means what could not be conquered through war: recognition and control of major popular claims, in a period of crisis of industrial capitalism and decline of U.S. hegemony.

Undoubtedly, McNamara was not an instrument of the Bank. More exactly, his personality contributed to the acknowledgement of poverty as a theoretical –not merely moral– issue. The antecedents found in the Pearson Report or in ECLAC, FAO, UNCTAD, UNESCO and other international agencies, show that there was no theoretical *"innovation"* properly speaking. This term seems to be grandiloquent and not very precise to characterize what truly happened. Poverty or basic needs were rather "assimilated" as part of the speech and the theoretical framework, based on a very profuse and rich statistical material.

The Bank's theoretical assertion at the time, in contrast to the matters raised in the past, predicated the satisfaction of basic needs and the fight against poverty not as an automatic consequence of economic growth, but rather as an integral part of such strategy. McNamara's merit, which in fact the World Bank became heir to, was bringing up the issue of poverty to its utmost expression.

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The World Bank admitted that growth did not automatically lead the majority of the population of underdeveloped countries to a welfare condition[13]. The argument, in that case, was that a proper strategy should involve both economic growth and basic need satisfaction. It was recognized that greater growth would allow a portion of the resources produced within the modern sector to be used in order to achieve greater social assistance coverage. But, at the same time, this satisfaction of basic needs would have positive effects on the expansion of the economy's modern sector.

In relation to the theoretical assimilation of poverty, it should be emphasized that there are critical positions that have exerted an exhaustive analysis on this phenomenon as a strategy or rather as an ideology that obscured other objectives[14]. Yet, there is a need to warn about certain dangers of dealing with the analysis exclusively from this point of view.

By behaving in such a way one tends to magnify the rhetorical nature of the speech and to place its maximum contradiction between the rationality of what is said and what is done.

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[13] "It is abundantly clear that it is not enough to grab to high growth rates in domestic product and expect that their benefits will eventually cover the majority of the population". Mahbud Haq, "*Developing Countries Alternatives",* en Helen Huges (ed), Prospects for Partnership-Industrialization and Trade Policies in the 1970's, Baltimore, World Bank Publication- John Hopkis, University Press, 1973, p. 134.

[14] This point of view, as Hugo Assmann's, seeks to explore the ideological structure of a so-called "conservative progressivism" within the World Bank, understood as "a wide range of ideological manifestations linked to proposals to reduce or overcome the most acute problems afflicting humankind [...] but, which rather serve to hide what is actually been done". In any case, we well find ourselves before a progressive ideology ("of good will, with straight intentions, of enormous sensitivity and sincerity"), but, after all, subjected to conservative practices, which *"preserve the status quo and ensure the stability of the capitalist world market"*. Hugo Assmann, *op. cit*., p. 41.

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As we will see later –concerning the "attack on poverty" and the problem of basic needs– such discrepancy is actually real. However, there are other aspects of the issue that must be particularly emphasized.

While the position of the Bank was apologetic of the capitalist system, it did not mean necessarily an acceptance of its functioning. It would be very questionable that the Bank's position was seen as an ideology of the status quo of such operation. Particularly, the topic on basic needs within the policies of the Bank could not be solely understood as an apology of the existing economic and social relations. For example, we cannot hide the fact that the dynamics of accumulation in the agriculture sector and of the social groups actually required changes in the processes of exploitation to which, as a matter of fact, the Bank itself had contributed to a greater or lesser extent in the past.

By the way, while providing aid to very poor sectors of certain countries, political factors naturally came into play, which led in practice (and not only speech-wise) to search for new forms of guidance and control of regions and conflicting groups.

The above-mentioned reasons lead to infer the need to take notice of the importance of the theoretical grounds that the approach of the World Bank offered in those years. These foundations did not entirely legitimate the existing state of affairs, nor were completely alienated from its action. However, the lines of thought which argued that the position of the World Bank was merely ideological, tended to erroneously include within this judgment the growth model encouraged by this institution.

Theory is neither an instance separated from ideology, nor its slave. It is necessary, therefore, to further study the theoretical background, as well as the World Bank economic policy and strategy, to extract the ideological elements that truly permeate it. This requires recognizing, for example, that the Bank supported as a hypothesis the subordination of income distri-

bution to the economic growth process, or the relative independence of this process in relation to the system of ownership and control of the means of production. When these assumptions are not underlined one may incur in the paradox of rejecting straightforwardly World Bank ideology and, simultaneously, accepting tacitly and partially its theoretical approach.

c*)* Guidelines for the satisfaction of basic needs

As previously indicated, the inclusion of the objective of basic needs satisfaction into the strategy of the World Bank was born out of the acknowledgement that the benefits of growth did not reach the majority of the population in the underdeveloped countries. Consequently, meeting the terms of this goal meant undertaking the tasks that could improve living conditions of the poorest sectors, as long as they did not jeopardize the process of economic growth. Thus, the Bank considered that the satisfaction of basic needs rested upon two crucial purposes: to raise productivity and enhance basic services (see Diagram III).

The Bank assumed that an increment in productivity would increase the opportunity for a rising trend in jobs and personal income, and therefore, reduce poverty levels. In the case of rural development –according to the Bank's approach– the concept of productivity required as a basic condition raising crop yields. To do so, it was necessary to have farmers gain access to new technology based on the use of improved seeds and fertilizers for the cultivation of commodities such as wheat, rice and corn[15]. Technology implementation with high yields per cultivated area would also favor a more intensive use of workforce, creating new opportunities for employment.

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[15] World Bank, *World Development*, Sector Policy Document, 1975, pp. 29-30.

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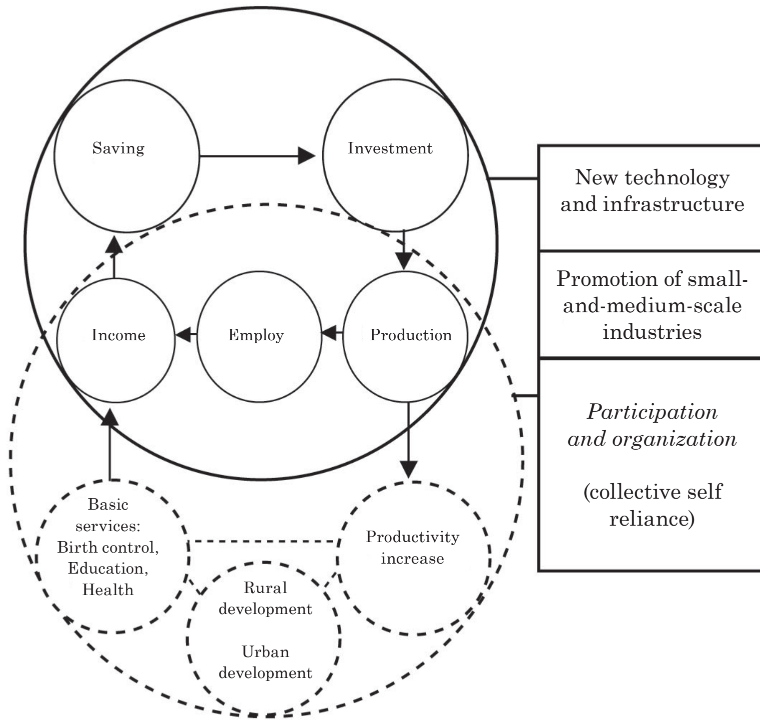
Diagram III. Growth strategy and basic needs



It should be noted that such technology on both large and small acreages was directed almost exclusively to irrigated lands since, according to the Bank, the "technology packages suitable for small farmers in rain-fed lands who do not cultivate cereal products, are not sufficiently developed"[16].

Land distribution, in accordance with the Bank, was seen exclusively on the basis of the need to reach an increase in pro-

[16] World Bank, Appropriate Technology in World Bank Activities, July 1977.

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ductivity and production. The minimum extension of holdings would allowed for the production of enough food as to meet the minimum required for the family farm plus a marketable surplus to meet the demands of urban consumers. When there were large plantations that worked efficiently, the Bank considered unnecessary their fragmentation. On the contrary, when there were small plantations (small land holders) that operated inefficiently, the Bank considered convenient to seek ways for consolidating them.

Even when proceeding according to the previous scheme, the Bank warned about the urgent need to develop non-agricultural activities in the field, in order to absorb the large labor force available and increase productivity. To reach this goal, prospective small and medium sized infrastructure projects had to be designed ahead: roads, storage facilities, housing, as well as the installation of rural industries. These industries would serve to local demands, become an additional source of jobs (in case they used labor-intensive technologies), and process agricultural goods produced in the region. In view of all this, the participation and organizational capacity of the recipients of these projects (collective self reliance) was an imperative.

In the urban sphere, the problem of the growing deterioration of the living conditions of extensive social strata, according to the conception of the Bank, had a two-folded explanation: a) insufficient capacity of modern industry (due to its high capital/labor ratio and its limited growth rate) to absorb an underemployed and unemployed growing mass, and b) rural migration to the cities.

The strategy that the Bank put forward to solve the problem of the poor in urban areas, was targeted mainly toward the achievement of greater balance between labor supply and demand and toward the increase in productivity of this factor.

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With these purposes in mind, the installation of small and medium-sized industries that worked with a lower capital/labor ratio than that used by large companies ought to be promoted, along with other mechanisms. Even if these industries did not reach the level of productivity of the large ones, they could relatively increase workforce productivity, previously unoccupied or inadequately occupied, thus increasing their profits. The Bank believed that the level of productivity in small-and-medium-scale enterprises could be improved if these were supported with technology and credit and also if their productive organization and administration were guided by the participation of their members. As in the countryside, these operations could be associated to employment as long as construction and infrastructure projects were promoted.

The provision of basic services, for example those of population control, education and health, nourished the concepts of both rural and urban development. It served well to the objectives of the Bank of reaching higher levels of production, increasing productivity and, at the same time, giving it a humanitarian tint. These purposes, as stated above, could recognize other contents such as political control and social legitimacy[17].

Population control –or birth control– has been one of the best-known strategic points of the World Bank, even before having prepared the framework program for basic needs (it had set up a Demographic Projects Department in 1969). On the matter of resources, the Bank claimed that high population growth posed increasingly risky challenges: relative scarcity of savings, capital and land; subdivision of land; food-deficit;

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[17] "Public goods are politically attractive, since the government that provides them satisfies the groups that it represents and by emphasizing equal opportunities for access it appears to be simultaneously magnanimous". Hollis Chenery, *Redistribution with Growth*, E. Tecnos, 1976, p. 94.

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diverting ever growing resources into social infrastructure, which however did not prevent the worsening of their services. Population control would reinforce growth process by alleviating pressures on the circuit of productive capital formation, while improving the quality and the economic and social potentiality of other basic services provided to the community.

In matters of education, the World Bank also displayed conceptual and constructive backgrounds. It introduced the concept of *"human capital"*, defined as the accumulation of people's knowledge and skills. The formation of human capital through education consisted in caring for their productivity (as in the case of physical capital) but also for their skills and behaviors. In this matter, the Bank acted in accordance with two approaches. First, it supported the training of professionals specialized in technical areas. The Bank justified this approach by alluding to the scarcity of resources, which should not be wasted in areas which, in its view, had no practical application (social sciences, for example). Secondly, basic education required meeting the minimum learning objectives, which included "literacy and numerical functional skills, family planning and health, child care, nutrition, sanitation and the essential knowledge for the individual's participation in civic activities"[18].

The area of health services was closely linked to educational and birth control programs. The Bank supported the development of preventive medicine. Drinking water and sewerage works were considered improvements on general levels of health, in addition to its effects on the productive orbit.

Consequently, the concept of satisfaction of basic needs was built both on the urgent need of increasing productivity in rural and urban activities carried out by marginal and poorest

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[18] World Bank, Education, *Sector Policy Paper*, 1975, p. 34.

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sectors of the population, as well as on the expansion of minimum services offered to that population. It should be noted, however, that the concept of increasing productivity was crucial to this approach, since it was more thoroughly harmonized with the requirements of the Bank growth model.

d) The subsidiary nature of basic needs under the World Bank's growth approach

It is evident, from the theoretical framework previously outlined, that the two main objectives that stand out are economic growth and satisfaction of basic needs. For the Bank, these two objectives were constituent elements of one same strategy, both formally bearing the same level of hierarchy. However, in order to understand their true meaning, they must be seen as objectives that were interlinked in time. Indeed, the "attack on poverty" required large investments in social and productive infrastructure, education, health, housing, population control, nutrition, job creation, etc., and these resources could only come from an increase in productivity. Therefore, without economic growth it was considered impossible to reach the minimum levels of welfare. Thus, the "attack on poverty" acquired a dimension of its own, but lagged in time with respect to such growth. In other words, to the Bank, the strategy of satisfaction of basic needs was subordinated to economic growth.

Such subordination, in turn, operated on two levels: first and foremost, the idea_that the satisfaction of basic needs required more resources coming from the modern sector of the economy, a goal that ought to be reached by an increase in its productivity rates. A second level of subordination of basic needs satisfaction to economic growth also refers to the requirement of increasing productivity, but this time with regard to the land and labor of the poor. The Bank's approach to these cases

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consisted in encouraging the process of integration of producers and workers into the various markets.

What is the logic of having introduced and raised satisfaction of basic needs to the category of objective? One of the reasons points to the attempt of providing an answer to the consequences of the growth model advocated by the Bank in the past. As demonstrated by the "Green Revolution" and several revolutions or industrial *"miracles"* in some underdeveloped countries, the effects engendered by such model were the transnationalization of production and consumption, a growing dependence of agriculture on industry and on the trade finance and commercial system, economic concentration, as well as a growing social inequality and political exclusion.

The contradictions that such a system of operation created and deepened, both in the economic and social fields, justified the inclusion of a submodel of satisfaction of basic needs as a factor of adjustment intended to reduce the more blatant and offensive heterogeneities. By drawing attention to the role of basic needs as a strategic review, the high-priority emphasis that the Bank had given to the objective of growth did not become extinct, but it seemed perhaps diluted.

However, social determinants were not the only foundations that supported the concern and introduction of basic needs in the World Bank's approach. There were also economic factors that justified its inclusion within the strategy, without altering its consistency with the concepts on economic growth. As it was already pointed out –and as diagram III corroborates–, for the World Bank meeting basic needs was only possible through raising productivity in poor rural and urban sectors and incorporating them into the market economy, in other words, dependant on dominant enterprises in the various sectors and markets. In that sense, the satisfaction of basic needs could be an objective, which, in turn, reinforced in certain aspects the process of growth.

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However, there was another problem that constituted a theoretical challenge to the World Bank: how to associate the satisfaction of basic needs to the topic of income redistribution, without going into contradiction with the foundations of the capitalist system itself? The Bank constantly referred to the concept of equity. But its position on the matter made it possible to overcome the most aggressive and distorting aspects that an income redistribution policy could represent for the economic system. Its position even made it possible to subtly discredit the terms in which the redistributive policies had been usually handled by certain left-wing currents.

Indeed, for Hollis Chenery, "[…] always at the origin of a high concentration of income we find a highly concentrated pattern of assets and human capabilities"[19]. If income redistribution was based on asset redistribution, the Bank felt that there could be problems in terms of viability, and, also, obstacles to a thorough progress of economic growth:

> in practice, asset redistribution may be accompanied by significant reductions in productivity, due to the inability to provide the necessary institutional infrastructure and the complementary inputs to maintain the potential of profits of redistributed assets.

[Then, in return, instead of a redistribution that would affect the existing means of production (land and capital goods), a dynamic policy] "aimed at altering asset accumulation patterns throughout time"[20] was encouraged.

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[19] H. Chenery, *op. cit.,* p. 111.
[20] H. Chenery, *ibid.*, pp. 111-113.

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In other words, the Bank claimed that capital stock (old assets or existing property rights) should not be altered, therefore restricting any impact only to the surpluses generated (new assets or new savings and new investments). It even supported a reorientation of these investments, which, partly, matched the policy of basic needs. On that account, a redistribution of income and assets was encouraged (savings and investments), but only marginally. Hence, the Bank supported redistribution policy without questioning the dynamics of capitalist accumulation or income differentiation or the consumption in relation to the acute asymmetries in the appropriation of economic surplus. This explains the absence –or, in the best case, the marginality– of references to affectation of property or ownership within the Bank's approach,

All that reasoning was topped with a final conclusion in which, according to the Bank, the satisfaction of basic needs was the only concept and means to achieve as greater equity as possible. A high-ranking executive of the Bank explained it in these terms:

> justice is a very complicated and abstract objective, exposed to many different interpretations and it is therefore difficult to know the criteria for achieving it [...] The current emphasis on basic needs is a logical step on the road of development thinking. The evolution that goes from the concern for growth, employment and redistribution, and up to the basic needs, indicates that our concepts have become less abstract and more precise, concrete and specific[21].

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[21] Paul Streeten, "Del crecimiento a las necesidades básicas" en *Finanzas y Desarrollo*, Vol. 16, No. 3, September 1979, p.30.

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Finally, another dimension referring to the satisfaction of basic needs was strictly socio-political. Consideration of these needs, in addition to the reasons already given, offered as well a minimum platform of preventive control before critical or explosive social situations. In that sense, it was important for the poor sectors to assume their status, avoiding any deviation toward the adoption of other identities with a particular political drive. This perspective is clearly explained through documents were the Bank claimed that

> the adoption of a strategy focusing on poverty and supported by preliminary actions as a sign of good intentions could, per se, serve as an instrument of mobilization [...] encouraging the poor to see themselves as poor, rather than as people of the region X, or the caste Y. It is possible to achieve, for example, that the 'message' of the strategy and its implementation provided a counter-ideology to the interests based on regional identities or caste[22].

All the above mentioned reasons enable us to conclude that the submodel of satisfaction of basic needs was raised by the Bank in such a way that it did not fall into conflict with the logic of capitalist development in the underdeveloped countries, consenting the processes of economic concentration and allowing the assistance of the poor as long as they were excluded or isolated, politically speaking.

It shall be emphatically stated that the few changes that suffered the strategic vision of the Bank, in the 1970's, were due in part to the introduction of its "attack on poverty" program with the limitations described above. But, this strategy

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[22] H. Chenery, *op. cit.*, p. 96.

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had a short life and, moreover, the evaluations of the U.S. government were fairly critical.

Examples include two U.S. Congressional Commission studies. One Commission made a review of the projects on basic needs on the basis of field research and found frequent and significant discrepancies between the intended objectives and the actual results[23]. The other Commission, while describing the projects of the World Bank, came to the conclusion that such projects "have further emphasized and have even been more successful in increasing productivity than satisfying basic needs"[24].

Since the 1980's, the World Bank's adoption of an outward-oriented development strategy along with structural changes, virtually failed to take into account the assistance of basic needs as a part of its conception of growth, even though the institution has maintained loans of a social nature.

Outward-oriented growth approach and structural adjustment

a) Outward-oriented growth approach

The World Bank has historically promoted a concept of development understood as "the transformation of a traditional economic system into a modern system". The virtuous circuit of greater-savings-greater-investments constituted the essential bridge for such transformation. However, in the light of the various financial and debt crises that hit the majority of the underdeveloped countries, the World Bank had put forward

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[23] Hearings 96th Congress, Part II, March 1979, Section VIII, pp. 165-183.

[24] Hearings 95th Congress, Part. 5, p. 53, 1978.

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an urgent review of the sector and structural problems in the functioning of these economies. After overcoming its concerns on the modernization and expansion of productive capacity, the World Bank focused on the process of allocation and use of resources and the effects on foreign trade. Thus, the Bank sought to respond to the need for strengthening discipline on the balance of payments in a medium and long term, in harmony with the new conditions of the international economy and the problems derived from the external debts accumulated by developing countries.

Capital formation maintained its strategic role in the conception of the World Bank. But the increase in capital stock was intended to come along –according to this new point of view– with growing changes in the productive structure, in relation to the dynamics of foreign trade and balance of payments. In this perspective, the adjustments executed by macroeconomic stabilization policies under IMF recipes, were considered a necessary condition but no longer sufficient in the long run. World Bank loans –complementarily as they were– sparsely contributed to reduce the distortions in the productive structures.

In this new perspective of growth, the Bank rehearsed a distinction for the underdeveloped countries, differentiating "small primary-exporting economies from small industrialized economies", economies that were likely to follow different development policies, according to their peculiarities[25]. However,

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[25] "The availability of capital and technology in the underdeveloped countries is leading to a situation in which these are becoming more competitive in a wide range of industrial products (and in some cases in agricultural goods). The main economic activities in which workers and enterprises could devote in the developed countries, displaced as a result of cheap imports, are the industries and joint activities commonly known as scientific industries and services linked to certain regions". H. Hughes, *op. cit.,* p. 277.

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even if there was not a unique solution for each case, the Bank suggested a strategic lineament common to both economies, to be precise, an outward-oriented economic growth, based on the production of commodities or internationally tradable, thus seeking a proper integration of productive processes in the dynamics of the division of labor and the movement of international capital.

In this conception of the World Bank, the industry remained as the main driving force of growth. However, the idea was for this sector to achieve an effective international competitiveness and enter into a stage of export of manufactures[26]. These increased manufacturing exports would allow the least advanced countries to import more and improve their availability of foreign currencies and access to credit in the international financial market. The achievement of these goals, certainly, forced to restructure the existing manufacturing bases, even those engaged mainly to the domestic market. According to the World Bank, certain manufactures would be produced by the underdeveloped countries, while "high-ranking" or "scientific" industries would remain under control of the most advanced countries[27]. The level of development of this manufacturing standard would depend on several factors, for instance, income

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[26] "The idea of the World Bank according to which the exports and foreign capital are the keys for development, is directly represented by a logic of the policy in which the entire industrial structure of a nation must be transformed in such a way that all the resources and energies real and potential in the "export" sector are concentrated, and through a proposition of policy according to which it is necessary to create the most favorable environment to attract foreign capital" Centre Intercontinental, Louvaine Le Neuve, "Theories et Pràctiques de Development de la Banque Mondiale dans le contexte asiatique". Belgium, 1980, p. 3

[27] H. Chenery, "Structural Change", *op. cit.,* p. 26.

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levels and the size of countries, availability of natural resources, existing scientific capital and sector policies implemented.

In this process, the role of foreign investment was considered to be crucial given that, according to the Bank, it encouraged technological an administrative restructuring to deal with the conquest of foreign markets. On this matter, an implementation of policies of external openness and the abolition of protectionist practices were required goals, this time with the purpose of carrying on the export processes and providing an enabling environment for foreign capital[28]. Likewise, the Bank established that an increase in the manufacturing competitiveness would demand the creation of regional markets among the underdeveloped countries and a deep market penetration among the developed nations.

This preferred orientation to produce internationally tradable goods, was combined with the specific need for expanding mining and agricultural exports, in accordance with the relative availability of natural resources for each country. In the specific case of Latin America, it was considered that favorable conditions existed, making it an area of foremost importance:

> The exclusive increase of manufacturing exports would not be enough to meet the growing need for foreign currency in Latin America. It will have to be complemented with natural resource exports (for example Peru and Colombia) as well as agricultural goods, mainly from Argentina, Brazil, Colombia, Paraguay and Uruguay[29].

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[28] See Private Direct Foreign Investment in Developing Countries, World Bank Staff, *Working Paper*, No.. 348, July 1979.

[29] World Bank, *World Bank Operations, Sectorial Programs and Policies*, John Hopkins University Press, Londres, 1972, p.10

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In addition, a great emphasis was given to certain goods or commodities whose export prospects were considered more favorable: meat, balanced food for animals, fish, wood and paper products, fruits and vegetables. Especially with regard to the last two, Mexico was assigned a prominent role[30].

To undertake an agricultural productive and exporting expansion, the Bank insisted –as during the Green Revolution– in developing industrial branches that provided basic inputs to the rural area (machinery, fertilizers, pesticides, etc.).

Bella Balassa, World Bank adviser challenged any adverse effects that this policy of outward-oriented growth might have, both in industrialized countries and in developing countries[31]. The author concluded that the increase in manufacturing imports coming from the underdeveloped countries, rather than a loss in the absolute number of jobs in the industrialized countries, it caused changes in their composition, reducing the demand for low-skilled labor and increasing that of specialized workers in industrialized countries. Hence, according to Balassa, demand for immigrant workers would be reduced. Other potential negative effects of productive restructuring, but this time with respect to the external deficit of the underdeveloped countries, would only be temporary and could be alleviated with financial aid. Such aid should minimize the aggravation of trade deficits which, at first, could arise as a result of markets openness.

The foregoing exposition shows how the Bank's new approach was still holding the idea that the processes of savings and investment formation were the main driving forces of economic growth. However, due to the potential external

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[30] World Bank, *op. cit.,* p. 11.

[31] B. Balassa, The Changing International Division of Labor in Manufactured Goods, World Bank Staff, *Working Paper*, No. 329, may 1979.

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imbalances to which the underdeveloped countries were subjected, it favored, as part of its strategy, the need for an outward-oriented growth process, based on both manufacturing and primary exports, as well as on foreign capital income. Although aid for social services is still in force, as stated above, basic needs are no longer part of the growth process supported by the World Bank in this stage.

b) Structural adjustment approach

The recognition of obstacles or structural imbalances was admitted, initially, in some works within the group of Bank researchers, concerning the assumptions of the neo-classical development model[32]. The imbalances under greater scrutiny were those which could be set off during the growth process concerning capital formation, endowment and resource allocation. But the imbalances that had been less studied and perhaps equally important were those that dealt with the existing structural capacity and constraints for the best international insertion and a greater room for private initiative, functional in relation to the outward-oriented development strategy, that is to say, based on exports and foreign investments.

The structural adjustment approach implemented by the World Bank, antecedent of the approach advocated by the IMF

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[32] "The flexibility of the neoclassical model derives from a set of assumptions: elasticity of substitution high enough, interchangeable resources, perfect ability to anticipate and punctuality in the process of adjustment. By modifying these assumptions, and replacing them with empirical estimates of price elasticities, and by admitting observable change rates for the different economic magnitudes (e.g. mobility of the workforce, reduction in consumption and increases in investment and exports), flexibility decreases and the possibilities of imbalances increase". H. Chenery, *Structural Change and Development Policy*, Oxford University Press, 1979, p. 62

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and the Washington Consensus, consists precisely in articulating investment-production circuit along with the determinants and conditions imposed by a greater openness to international trade and finance, and the institutional restructuring that such openness required with respect to the decline of the State's role and the economic domain occupied by the public sector as a whole. Hence, it was necessary, through certain policies, to remove the structural distortions that had historically hampered economic growth. If in the past these structural distortions were "undesirable", at the present time, in capitalism on the threshold of the 21st century, the World Bank considered them "unsustainable"[33].

These structural adjustment policies comprised four categories according to the evaluation methodology formulated by the World Bank concerning its loans for Structural Adjustment[34].

a) The first category referred to commercial and price policies. In the framework of structural adjustments, these policies ought to reduce distortions attributed by the Bank to the protection of industrial property in the import substitution processes. The pursuit of trade openness, at the same time that it would cause the lowering and the equalization of the effective rates of protection, would be a way to allow the industrial sector to be more efficient, thereby eliminating its anti-export bias and capitalizing on its comparative advantages. A review of the price system was considered to be essential in order to promote agricultural and mining production. Finally, in the field of consumption and production,

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[33] E. Stern, *op. cit.*, p. 91.

[34] World Bank, "Les prets au Adjustment Structurel. Une evaluation preliminaire", Washington, 1981

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the Bank suggested that the domestic prices reflected international prices in a proper manner. For all of this it would be necessary to restructure the feed-in tariff, non-tariff and tax system, as well as modifying the terms of exchange between different sectors.

b) A second category of measures was related to the policy of savings and investment. Under this rubric, the World Bank encouraged deregulation of private investment while reordering incentives and priorities. It was also added, as a fundamental component, financial liberalization and management of positive real interest rates to encourage savings and financial intermediation.

c) A third aspect of structural adjustment alluded to public sector budget policy. To meet the objectives of reducing fiscal deficit and fully assist in the productive activities, a drastic reduction in unproductive expenditures was recommended (for example, consumption subsidies), as well as a reduction in the unit costs of social programs that, after all, represent a decline of their relative weight within government budgets. All of which involved deregulation on governance aspects.

d) Lastly, with respect to policies aimed at strengthening a more effective mobilization of resources, the Bank promoted “institutional” reforms. This concept involved policies for profitability and efficiency improvement of public enterprises based on trade criteria, as well as a definition of priorities of the public sector based on the requirements of external demand and market competition. This meant, among other aspects, a redefinition of the role of the public sector as a whole, favoring the stimulation of private initiative and participation in the production of goods and services for which the government was so far responsible.

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These objectives of structural adjustment corresponded, in general terms, with the basic responsibilities awarded to the Bank in the Concordat (1989): efficient resource allocation among the public and private sector, setting priorities in government expenditure, public administration, production, trade and financial system reform, and restructure state-owned enterprises and sector policies.

In this introduction of the structural adjustments, the Bank and the IMF, agreed in their main approaches to external openness, financial liberalization, deregulation and privatization, which constituted the backbone of neoliberal regime, which was dominant in the international arena, in the 1980's and throughout the last two decades (see Table 7).

In Diagram IV, a summary is presented on how the World Bank conceived the outward-oriented growth model through structural adjustments as a whole. As illustrated, in this strategy the reference to basic needs has disappeared. It should not be forgotten that in the year 1999, the IMF, without resigning to the structural adjustment approach it took under its leadership the loans denominated Economic Growth Support and Poverty Reduction Strategy, which displaced the World Bank to the role of evaluator of national strategies elaborated for that purpose. However, in practical terms, such a strategy –despite the IMF insistence on the contrary– provides no logical or theoretical link between poverty alleviation and growth. In this type of loans as in many others, the need for sound macroeconomic policies and structural reforms is constantly emphasized. In the last years, accordingly, the World Bank has left the topic of poverty in charge of the IMF and its conditionalities.

Consequently, in this first decade of the twenty-first century, the World Bank has played a subordinated role with respect to the IMF in the strategy against poverty, notwithstanding the meager interest of the latter institution in social

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Table 7. Structural Adjustments

Areas of policy influence	*Recommendations*	*Objectives for the outward-oriented growth*
A.TOWARDS THE PRIVATE SECTOR		
-Trade policy and price -EXTERNAL OPENNESS.	-Liberalize foreign trade. -Drop and match protection rates. -Policy review of relative prices.	-allow comparative advantages to fully operate -Remove anti-export bias of production. -Reflect international prices.
-Policy for the promotion of savings-investment. FINANCIAL LIBERALIZATION AND DEREGULATION	-Encourage financial intermediation based on positive real interest rates. -Remove barriers on foreign investment. -Reorientation of incentives and priorities of private investment.	-Remove financial constraints -Privilege projects for the balance of payments improvement -Promote free movement of capital and foreign investment
B. TOWARDS THE PUBLIC SECTOR		
-Policy for restructuring public expenditure and investment. DEREGULATION	-Elimination of public subsidies for goods and services. -Reduce unit costs of social assistance programs. -Reorient public investment policies	-Discourage unproductive expenditures that rely on fiscal deficit. -Establish investment priorities in terms of the structure of international prices and resource availability.
-Public enterprise policy. PRIVATIZATION	-Redefinition of the role of the public sector in productive activities in terms of the demand and market competition. -Reorient public enterprise management in accordance with commercial criteria. -Stimulate private initiative and participation.	-Promote effectiveness and efficiency. -Stimulate private initiative and participation.

NOTE: Based on the works of William B. Dale, Raymond F. Mikesell, David Finch y Ernest Stern, Inc. *IMF: Conditionality*, Op. cit., y Banco Mundial "Les prets al 'Adjustement Structurel': Una evaluation preliminaire", Washington, 1981.

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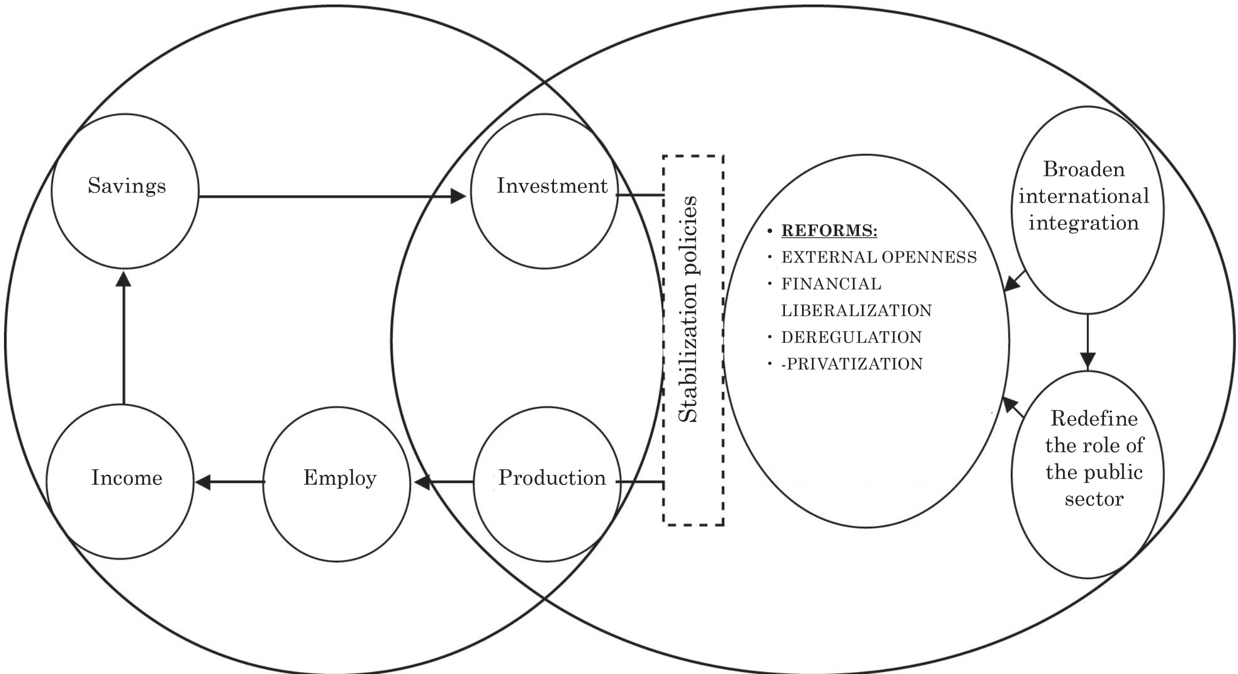
Diagram IV. Outward-oriented growth strategy with structural adjustment



issues. However, as part of its commitment to the Millennium Development Goals, the Bank has continued to provide loans intended for multiple social purposes.

As stated in its documents, the Bank currently has two major priorities in the strategic framework. In the first place, the creation of a favorable investment climate, which has been in essence the historical role that the Bank has tended to play in the current process of economic globalization. Secondly, the "empowerment of the poorest"[35]. This term replaces in the present, although it is not equivalent, the fight against poverty, as an emblem of the social and progress-driven strategy of the World Bank in the past, despite the observations it might deserve.

A critical view of the consequences of World Bank lending and economic conditionalities

The consequences of the World Bank loans and its conditionalities in the developing countries, as discussed in the case of the IMF, are an extremely complex subject. For example, when it comes to see if there were implications to these loans in a given objective, such as economic growth or poverty reduction, there is no sufficient evidence to render a favorable or unfavorable opinion on that account. This is so because, beyond the intentions declared as purposes in the strategy of the World Bank, there is no method to determine, quantitatively, which part in the evolution of production or poverty alleviation of a certain country responded or not to the loans granted by the institution or it was rather a result of the design and implementations of national policies.

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[35] World Bank Annual Report, 2005.

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However, an approach to an evaluation of the Bank's lending management can be twofold. A first analysis would focus on the strategic framework that has characterized the institution. In effect, the Bank has considered throughout its history that economic growth is a central goal of its funding. Therefore, evaluating the requirements or economic conditions on the different World Bank approaches to economic growth, would be a starting point to know which aspects of the functioning of the underdeveloped countries and their international economic integration were truly affected by its lending policy. The historical perspective that this analysis claims, logically, requires distinguishing the various stages in this kind of evaluation.

A second possible analysis, and perhaps complementary, is based on the evaluation of trends and conditions of policy lending in terms of Bank-financed sectors in the developing countries. In this case, the study would operate on the basis of the information provided by the Bank itself, without prejudice to the inclusion of viewpoints that various authors have pronounced in relation to the impact of policy and sector-based lending:

a) The importance of economic and financial requirements for growth strategies.

In the 20 years that follow its creation, the World Bank was a transparent funder of specific projects that belonged to its conventional growth strategy, without having a direct involvement in national policies. At that stage, the Bank acted along the lines of the IMF's stabilizing efforts, but was not involved directly in the measures or macroeconomic programs promoted by the Fund. In these early years, the Bank worked with the typical criteria of a commercial bank rather than as a development bank, among other reasons, because the absorption of

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financial market resources forced the agency to operate with conditions similar to those prevailing in such markets.

In accordance with its usual procedure, the Bank invited companies interested in the execution and evaluation of projects through international competitive bidding. A 25% of projects' finance came from the Bank, but a 75% came from domestic or foreign resources. The ability to compete of domestic companies was very limited, even though the Bank granted a preference of 15% on the cost of the proposal. By the specific circumstances of the second postwar period, purchases and consultancies for Bank-financed projects were almost entirely carried out in the industrialized countries. For example, between 1950 and 1962, the purchases to these countries, especially the U.S., with the specific purpose of financing World Bank projects reached an average of 96%. Still, in 1978, the U.S. State Department estimated that for every dollar that the country handed to the World Bank, twice as much was spent on its economy[36].

In this first stage of operation, World Bank lending was articulated to the financial markets and served as catalyst for private initiative, mainly foreign. Within the same conventional growth strategy, as of the mid-1960's, the Bank began to operate for projects based on sector programs. Its financing became then more abundant and economically influential, with requisites favorable to the incorporation of private initiative, now as potential investor in key sectors. A telling example was the Green Revolution, encouraged by the Bank.

Another example were the projects of large hydroelectric works, which in addition to oil and gas, were the cause of an increase in the Bank's finance, in combination with mechanisms of co-financing with foreign investors.

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[36] Dollars & Sens, May-June 1980.

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At the same time, the International Finance Corporation (IFC) focused its activities almost entirely toward the processing industry, and ever more toward the heavy industry. The confluence of private resources in such activities was reinforced as the foregoing Corporation had the effect of attracting other capitals –national, but mainly foreign– willing to join the most dynamic branches of the manufacturing sector[37].

A new modality brought into the operations of the World Bank, in constant increase, was the regulatory regime on cofinancing. The cofinancing operations are "arrangements through which the Bank associates with other financing sources outside of the borrowing country in the granting of loans for a particular project"[38]. The number of cofinancing operations has grown progressively. If in l977-83, for the period 1972-76, they had increased by almost 100%, in 1982-83, the funds for co-financing already accounted for 44% of the total credit granted by the IBRD and IDA. In the year 2000 it came to represent 60%.

The Bank has encouraged this type of co-financing operations, which combined with the high percentage of direct loans collected by the Bank in the capital market, further increased the participation of international banks in its activities. Until the year 1983, the linkage between the World Bank and private banks in co-financing operations followed certain traditional negotiation standards. The agreements of both parties with the borrowing country were carried separately, and the loans were linked by the inclusion of an optional clause of reciprocity

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[37] "In the period 1957-63, for every dollar invested by the IFC in the underdeveloped countries, 3 more dollars of U.S. private funds surged". Quoted by *Government risk sharing in foreign investment,* Princeton University Press, 1965, p. 165

[38] World Bank, Cofinancing, Review of World Bank activities, December 1976, p. 1.

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in the event of failure. Thus, the Bank was a promoter of the joint agreement and acquired a commitment with the private financiers in case of lack of payment. These formulas and responsibilities expanded and diversified since 1983.

These procedures in co-financing, along with the management of the International Finance Corporation and the creation in 1988 of the Multilateral Investments Guarantee Agency (MIGA) as a new subsidiary of the World Bank, reinforced the close linkage between the Bank and foreign investment, to which certain guarantees were awarded in the event of non-commercial risks, such as expropriations.

Along this stage, the World Bank was in fact characterized as an institution that developed procedures increasingly articulated to and infiltrated by private investment, particularly foreign-based, as requirements of its strategy of economic growth in the least advanced countries.

Since the 1980's and especially in the next decade, the World Bank introduced a strategy of outward growth (exporter and based on imports of capital goods), involving unavoidably the adoption of structural reforms (trade openness, financial liberalization and deregulation). On this occasion, Bank lending remained was strongly associated with economic constraints on national policies. We shall not elaborate on this point any further, considering that the consequences that derived from the adoption of this neoliberal-driven policy, led to a crisis in several countries in Latin America, Southeast Asia and Russia, already discussed in the chapter of the IMF. Although the responsibility of these crises points out mainly to the Fund, the Bank was responsible for the theoretical initiative and in fact participated in the joint missions that took neoliberal policies to several countries, policies that later became known as the Washington Consensus Decalogue.

As a symbol of the theoretical and political symbiosis between the IMF and the World Bank in the implementation of

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the structural reform measures, it is worth mentioning that Anne Krueger who replaced Hollis Chenery as World Bank Chief Economist between 1982 and 1986, went on to in due course occupy the second most important post within the IMF, Deputy Managing Director between 2001 and 2007. Krueger, once a staff member of the Reagan Administration was a very important figure in the inter-institutional conjunction that sealed the strategic subordination of the Bank to the IMF, in which the first institution gave up its struggle-insignia against poverty and strictly focused on partial actions of social nature under the umbrella of the Millennium Development Goals.

b) Sector policies of World Bank lending

The World Bank has not always used the same criterion for the classification of loans by sectors. Specifically in 2001 it introduced significant modifications in its classification criteria incorporating –though, eventually eliminating it– the Economic Policy loan which included "operations in support of macroeconomic policy, trade and other economic and institutional reforms which involved operations aimed at structural adjustment"[39]. Later on, the Bank would use other criteria for lending classification: by differentiating sectors, on the one hand, and topics, on the other. All this has made the quantitative comparison of the characteristics and fate of World Bank loans a very difficult task over the years.

As a result, and with due caution, an effort to reprocess the various topics of information available –sector and thematic– has been made in order to establish a historical tendency on the types of loans granted by the Bank (Table 8).

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[39] World Bank Annual Report, 2001, p.26

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Table 8. Development of World Bank lending
(percentages)

Sectors and topics	*1992-1997*	*1998-1999*	*2000-2001*	*1992-2001*	*2007-2009*
1) Agriculture and rural development	13.5	9.3	8.6	10	8.9
2) Urban development	9.4	4.8	8.1	7.3	9.3
3) Private sector development, support structural reform and finance, public sector management	22.3	38.6	30.1	30.5	22.0
4) Social protection and development, education, health	17.3	20.7	18.9	19.0	24.2
5) Infrastructure (Telecommunications, transport, electricity, information technology and media)	27.2	15.7	20.4	21.0	19.6
6) Environment	3.4	2.5	3.4	3.1	11.0
7) Others	5.9	8.4	10.5	9.0	5.0
	100.0	100.0	100.0	100.0	100.0

SOURCE: Based on World Bank Annual Reports.

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This type of loan had its utmost increase between 1969 and 1983, when it reached yearly average levels close to 20% of the total. It covered topics such as agricultural credit, regional development, processing and storage, animal husbandry, research and extension in irrigation. Irrigation, agricultural credit and regional development covered nearly 60% of the loans for this sector. The expansion in irrigation infrastructure, together with the adaptation of seeds and high use of fertilizers, was one of the requirements for the transfer of technologies from the developed countries into the less developed countries with the purpose of improving agricultural and livestock yields. These loans were the result of a modernization policy which, analogous to the Green Revolution, was supported by the Bank in many countries in order to eradicate poverty in rural areas.

A first criticism on such an agricultural-based strategy pointed to the excessive concentration of loans for the benefit of large landowners[40]. On that account, it was also argued that increases in agriculture productivity did not affect living conditions of the rural poor in the end[41]. Furthermore, it was pointed out that there was an uneven appropriation of economic surplus due to the fact that an increase in export production would primarily benefit the agro-industrial chains dominated

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[40] Frances Moore Lappé and Joseph Collins. "The World Bank. Attack on poverty?" And Cheryl Payer "The World Bank and the small farmers" in Hugo Assmann, *op. cit.,* p. 88 and 159-162, respectively.

[41] The World Bank itself recognized that "…the rural development models do not seek, in general, to benefit exclusively the rural poor; in fact, more often than not, the objective of rural development is subordinated to the goal of enhancing the marketable surplus", World Bank, "Rural Development", p. 15 Quoted by J. Collins and F. Lappe in Dollars & Sense, April 1980 pp. 15-16.

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by transnational corporations, which were also in command of marketing and credit mechanisms.

As can be seen in table 8, World Bank loans for Agricultural and Rural Development have been declining in relative terms, while those intended for Urban Development have risen (even more if one takes into consideration that loans for infrastructure operates mostly in their favor). In fact, as one can deduce from the World Development Report 2009: "Reshaping Economic Geography ", the World Bank is no longer focusing on rural areas. In this report, Justin Lin asserts that a greater urban concentration "unleashes the market forces of agglomeration, migration and specialization, as we have seen in North America, Western Europe and East Asia".

Besides, the idea that the World Bank held with respect to its own growth strategy in terms of promoting industrial activities in the rural area, was refuted in this Report by Katherine Sierra, World Bank Vice President for Sustainable Development, when she categorically states that "industrial incentives to reward the installation of industries in lagging areas should be used to a limited extent".

Infrastructure

Bank loans directed to infrastructure have had a slightly relative decline in recent years. If we look at the internal structure of this type of loans, it becomes clear that those aimed at the area of transportation have maintained their share, while those aimed at electricity and other forms of energy reveal a very slight drop. This reduction, to some extent, is a result of an intense campaign against those World Bank loans granted to various several dam projects around the world. Non-governmental social groups have attributed environmental and human damages to the majority of these works, as a result of the

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displacement of populations. In some cases, even the Bank had to admit those damages[42].

As a result of the search for renewable and clean energy, the Bank has made an evaluation of extractive industries and has been forced to review loans on oil, mines and gas. An additional reason for such an evaluation has been that the World Bank's Inspection Panel has received several requests to analyze projects linked to gas pipelines, electric power, coastal zone management and environmental sanitation for potential damages that may occur.

Poverty Reduction

An item of great importance in the evaluation of World Bank loans refers to those aimed at social issues associated directly or indirectly to poverty reduction. It belongs to this type of loans, in accordance with the Bank's lending classification, those granted under the concept of social protection, human development and social development, gender and inclusion, in addition to loans for education, health and other social services[43]. In quantitative terms, it could be argued that such loans

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[42] The following hydroelectric and mining works are frequently cited as examples of environmental and human damage: India's Sardar Sarovar Dam Project, 1985; The Bank withdrew its support in 1993. Thailand's Pak Mur Dam Project, 1991. Bujabli Dam Project, Uganda. Bío Bío´s Pangue Dam Project, Chile: the World Bank admitted the negative impacts. Nam Theum 2 Dam Project, attacked by corruption, Nepal. India's Narmada Valley Hydro Project. Singrandi, coal mines under the open sky. In addition, it is often mentioned the role of the World Bank in the deforestation in Brazilian Amazonia.

[43] Under the concept of social protection, the World Bank includes aid aimed at the poor population along with conditions in the field of education and health. The Bank calls these subsidies "conditional monetary transfers". This type of subsidies have become widespread in Latin America as evidenced by Brazil with its Bolsa Familia, Uruguay with PANES Proyect, Chile with

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with a social destination have tended to be increased, given that after representing 19% annual average of the total World Bank lending in the period 1992-2001 they stood at 24.2% in the period 2007-2009

Yet it should be stressed that these loans are no longer an integral part of a growth strategy, as it had been the case in the period of the "satisfaction of basic needs" in the 1970's.

At the present time the evolution on the fight against poverty is narrowly and exclusively limited to the fulfillment of the Millennium Development Goals. These goals, in some cases with quantified targets, attempt to achieve by the year 2015 the following:

1. Reduce by half, with respect to the year 1990, the proportion of people living on less than a dollar a day and the proportion of people who suffer from hunger; *2.* Achieve full and productive employment and decent work for all, including women and young people; *3.* Achieve universal primary education, thus ensuring that boys and girls from all over the world will be able to complete a full course of primary schooling; *4.* Promote gender equality and empower woman; *5.* On the year 1990, reduce by two- thirds the mortality rate among children under five; *6.* Improve maternal health and reduce by three quarters the maternal mortality ratio, in relation to the year 1990; *7.* Combat the HIV/AIDS, malaria and other diseases;

Program Solidario and Mexico with Oportunidades, financed with domestic resources and World Bank lending. In general, the immediate effects of these subsidies have been positive in terms of reducing poverty. However, as they have not had a significant impact on the labor insertion of the subsidized poor, the aid becomes relatively permanent and, at a certain point, poverty reduction stagnates. In addition, it is demonstrated that such assistance has not changed substantially inequitable income distribution. See Samuel Lichtensztejn, *Nuevas políticas económicas de izquierda en América Latina,* Serie Biblioteca, Universidad Veracruzana, México, 1979.

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8.-Ensure environmental sustainability of the environment; and *9.* Promote a global partnership for development.

As we mentioned before, it is very difficult to establish whether these objectives can be evaluated solely on the basis of the loans granted by the World Bank. But the Bank in a certain way has taken ownership of these goals and objectives and, therefore, has been in charge of reporting on their evolution and compliance.

The information provided by the World Bank Annual Report in 2009 is not quite promissory with regard to the fulfillment of these objectives and goals. In fact, there have been factors, such as the international increase of food prices (which gave rise to a special Bank service), the great financial crisis and the decline in remittances, which have conspired against even modest outcomes. The Bank estimated that seven years of progress on poverty alleviation were lost by the increase in food prices.

The World Bank's Independent Evaluation Group, in the aforementioned Report, warns that the goals related to poverty "had not received due attention in previous financial crises". It seems as if such due attention was neither given to those goals in the latest crisis, as many countries, mainly European, have been forced to cut spending on health, education, culture, pensions and social programs.

In the figures released in 2009, that is, five years before 2015, the Bank recognizes that some regions are far from meeting the projected goals and targets. In the meantime, it was stated that within a year "the number of people living in extreme poverty could increase by more than half in the developing countries, by two-thirds in low-income countries and by three quarters in the African countries"[44]. It is estimated at

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[44] World Bank Annual Report 2009, p.13

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more than 1,000 million people who could be left in conditions of extreme poverty in the immediate future.

In the field of education there is a slow progress in Europe, Central Asia and the Middle East, but there is no progress in Africa and South Asia.

On the goal related to gender, there has been some progress in certain regions, but still 75% of the countries have not achieved as much as necessary.

The Bank underscores the area of health as the lowest in reaching the objectives. With respect to combating HIV/AIDS, the Bank estimates that there hasn't been enough progress, recognizing that this is mainly due to the lack of funding.

In 2009, 2,000 million people lacked access to sanitation, 1,600 million, to electricity; 1,000 million, to roads; and 900 million, to drinking water.

Finally, without the intention of reviewing all the objectives, it should be mentioned as a positive fact that loans for environmental and natural resource management have had a strong percentage increase thanks to the World Bank, in view of the fact that after representing a 3.4% of the total of Bank loans at the beginning of the present century, they reached a 11.0% of this total in the last triennium. However, the same Report points out that in order to cover the topic on climate change, between 100 and 200,000 millions of dollars will be required for the period 2010-2020, an amount that would increase after that decade, to reach 400,000 millions of dollars.

Financial and private sector development

We conclude our review with this type of loans, which headed for many years the list of priorities in the field of World Bank lending. Especially during the period of greater neoliberal

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thrust (1990-2001), loans aimed at openness, privatization and deregulation of the economies of the underdeveloped countries were at the head of World Bank loans, reaching a peak of almost 40% of the total. The failed consequences of these experiences and the crises of all nature that they caused, have surely been the reason for abolishing, in the subsequent classification, the term 'Loans for Economic Policy', which grouped the majority of structural adjustment loans, and for reducing the percentage of total loans for financial and private sector development in recent years, although retaining a high-priority status for the World Bank.

Regardless of these numbers, it should be stressed, as a summary, that the World Bank has supported throughout the time a better climate for private investment and has operated in support of the internationalization of the economy of the underdeveloped countries. Within the World Bank loan conditionalites and consequences, these objectives have had, historically speaking, a high significance in the essential functions fulfilled by such institution.

Power structure and political conditions within the World Bank

The subordination of the World Bank to the U.S. agenda has been more obvious and unquestioned than that of the IMF. There are a number of aspects regarding the operation of the Bank where the influence of that country retains its importance, without ignoring the changes of such influence over time. Hence, the power structure of the Bank reflects U.S. influence on such aspects as voting power, the geographical origin of resources, the Bank presidency, and the administrative controls and political conditions exerted by that country.

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Voting power

As it can be observed in table 9, developed countries have maintained a predominant power, although declining, within the World Bank (71% in 1947, they now retain 63% of the total votes in 2010). The United States, particularly, lost more voting power than any other country within the institution (from 34% to 16%). Nevertheless, it remains as the member with the greatest influence, and retains a virtual veto power, given that the decisions within the Bank require a vote of two-thirds of the majority for the routine decision-making and a vote of not less than four-fifths for changes in the General Agreement.

It should be noted that U.S. voting power is also predominant in the IDA and especially in IFC, which also attaches to the country a control on both World Bank subsidiaries, under the aforementioned regime of majorities.

Annex III of the G-20 Toronto Summit Declaration 2010, underscores the increase of 4.59% that has been approved regarding the voting power of the underdeveloped and emergent countries within the Bank, which would increase their general voting power to 47.19%[45]. Despite the echo of the repeated demands of the least advanced countries in that matter, there is not a substantial change in the scenario described above (Table 9).

Sources of funding

Regarding the sources of funding available to the Bank since its conception, there has been a clear dependence on U.S. funds. This influence was a direct result of the fact that this country was the primary source of capital (and the one that

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[45] World Bank Annual Report, 2010, p. 3.

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Table 9. Voting power distribution within the World Bank (percentage)

	1947	*1965*	*1975*	*1983*	*2009**	*2010***
I. OCDE	70.6	65.3	61.7	60.9	62.7	63.3
a) U.S.A.	34.2	26.3	22.7	19.6	16.4	16.1
b) EEC	29.5	28.2	27.7	26.7	27.9	27.7
c) Others a/	6.9	10.8	12.0	14.6	18.4	19.5
II. Latin America and the Caribbean	7.7	7.4	7.3	6.4	3.2	5.2
III.OPEC	1.5	5.1	5.2	6.1	8.4	8.1
IV. Socialist countries in Europe b/	3.9	0.5	1.1	1.2	4.8	4.2
V. The rest of the world c/	16.3	21.7	24.7	25.4	20.9	19.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: World Bank Annual Report: 1974, 1965, 1983, 2010. * BIRF´s Subscriptions and voting power of member countries, June 30, 2010. ** BIRF´s Subscriptions and voting power of member countries, April 28, 2011.

NOTES: a/ Australia, Canada, Chile, Iceland, Israel, Japan, Korea, Mexico, New Zealand, Norway, Switzerland and Turkey. b/ Russia, Albania, Bosnia, Croatia, Macedonia, Montenegro, Serbia and Kosovo. c/ Afghanistan, Albania, Algeria, Armenia, Azerbaijan, Bahran, Bangladesh, Belarus, Benin, Bhutan, Brunei Darussalam, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Republic of Congo, Chad, China, Comoros, Costa d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, Gambia, Georgia, Ghana, Guinea, Guinea-Bissau, India, Indonesia, Jordan, Kazakhstan, Kenya, Kiribati, Kyrgyz Republic, Democratic People's Republic of Laos , Lebanon, Lesotho, Liberia, Madagascar, Malawi, Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Federated States of Micronesia, Moldova, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Niger, Nigeria, Oman, Pakistan, Palau, Papua New Guinea, Philippines, Rwanda, Samoa, San Marino, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Singapore, Solomon Islands, Somalia, South Africa, Sri Lanka, Suriname, Sudan, Syria, Tajikistan, Tanzania, Thailand, East Timor, Togo, Tonga, Tunisia, Turkmenistan, Tuvalu, Uganda, Ukraine, Uzbekistan, Vanuatu, Vietnam, Yemen, Zambia and Zimbabwe.

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integrated it more rapidly), and also because the first loans were achieved at the New York Stock Exchange. It is no surprise then that U.S. funding represented 86.5% of the total in 1950.

The strong presence of German funds and other sources of capital weakened U.S. primacy, but such predominance still persisted until the mid-1970s. The financial crisis in the United States and the expansion of Euromarkets in the second half of that same decade disrupted temporarily the unmistakable primacy of U.S. funds within the World Bank. Japan, Switzerland and some OPEC countries became major sources of funding, leading the United States to an important but secondary place, to the extent that the Federal Republic of Germany reached the first place in 1981. However, in 1982-83, the growing needs of the Bank, as well as its new operational procedures, tightened again its relations to an American private market strongly supported by U.S. government policies, taking back his position as the leading contributor of capital in 2009 and 2010 followed by Japan and Germany (Table 10).

Table 10. Distribution of capital subscriptions paid to the World Bank (percentages)

Country/ Year	*1950*	*1960*	*1965*	*1970*	*1975*	*1981*	*1983*	*2009*	*2010*
U.S.A.	86.5	64.9	57.2	33.8	22.6	22.0	36.4	17.4	16.51
Germany	-	5.3	10.7	20.9	20.8	26.9	14.9	4.72	4.51
Switzerland	1.0	4.0	4.1	5.0	5.0	17.7	8.7	1.72	1.66
Japan	-	1.6	1.4	4.0	10.6	20.4	14.5	8.22	9.8
Others	12.5	25.5	26.6	36.3	41.0	13.0	25.5	67.94	67.52
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100

SOURCE: World Bank Annual Reports and Information Statement, International Bank for Reconstruction and Development World Bank, pp.75-78.

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Concerning the President of the World Bank we shall recall that, according to a "gentlemen's agreement" which arose at Bretton Woods, this position must be permanently occupied by an American citizen, while a European citizen would serve as Managing Director of the IMF. Thus, from 1946 to the present the World Bank has had eleven Presidents, all Americans. Six of them have been closely linked to private banks in the United States.

The influence of Wall Street and of U.S. bankers on the World Bank was imprinted ever since its own creation process. Edward E. Brown, one of the main U.S. delegates at Bretton Woods, considered as one of its "architects", was then President of First National Bank of Chicago. The first President of the Bank was Eugene Meyer, major figure of an investment-banking firm in the United States. His later resignation, by the way, was attributed to the refusal of the Wisconsin State Banking Commission to authorize various financial institutions under its control to make investments in World Bank securities. John J. McCloy, a lawyer who defined himself as "amanuensis" of the bankers and who surrounded himself with many of them during his management, replaced him[46].

The third President was Eugene R. Black, who served as vice-president of Chase National Bank of New York. His mandate was perhaps the longest (1949 -1963). At the end of his administration he was replaced by George D. Wood, chairman of the board of the prominent investment bank, First Boston Corporation. In 1968, Wood left his place to Robert McNamara, fifth President of the World Bank, and whose

[46] E. Mason y R. Asher, *op. cit.*, p. 50.

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management ended in 1981. McNamara, renowned Secretary of Defense under the Kennedy and Johnson administrations, is far less recognized for his previous post as President of Ford Motors Company[47].

From 1981 to 1986 Alden W. Clausen held the presidency of the Bank, who, prior to that, was President of Bank of America, for many years the largest bank in the United States and one of the largest worldwide. He was also part of the Business Round Table and of the Conference Board, major U.S. employer associations.

Other Presidents of the World Bank with a history in management within U.S. financial institutions were Lewis Preston (September 1991-May 1995) President and Executive Director of J.P. Morgan, and James D. Wolfensohn (June 1995-May 2005) high Executive Partner of Salomon Brothers.

Regardless of the undeniable influence of presidents with antecedents in banking, it should be noted that such trend has gradually decreased after Robert McNamara's administration. From then on, the Presidents of the World Bank have been high-ranking officials and legislators with ties to the U.S. government: legislator, Barber Conable (July 1986-August 1991), former Assistant Secretary of Defense, Paul Wolfowitz (June 2005-June 2007), and from July 2007 to the present, the President of the World Bank is Robert B. Zoellick, who served as Deputy Secretary of State and U.S. Trade Representative.

The version, attributed to the fourth President of the World Bank, George D. Woods, that the role of the President of the Bank is to defend U.S. interests, has been accepted as

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[47] As reported in the Institutional Investor Magazine, April 1981, once retired, MacNamara would jointly integrate the committees of Bank of America and Royal Dutch Shell. In the latter case, he shared his post with Johannes Witteveen, former IMF Managing Director.

a constant feature of its functioning, from Bretton Woods to the present. However, it is advisable to make an important distinction in the whole process. The presidents that preceded McNamara were typically figures with an international low-profile. One may say that they were individuals closely linked to U.S banking circles, but with a vision centered on their immediate and local interests. In addition to personality problems, contributed this phenomenon, both, the sources of Bank funding, predominately American, and a management characterized by a strict banking behavior.

On the other hand, McNamara, Conable, Wolfowitz and Zoellick, despite having different backgrounds, all belong to the branch of government representatives whom, for various political-professionals reasons, have had to think about problems in international terms (national security and trade, for example). In addition, the own diversification of the Bank's resources has demanded more and more this type of leaders, with a more political and internationalist profile, although always attentive to the opinion of the U.S. financial community.

From time to time there has been discrepancy between the President of the World Bank and the U.S. government. In that matter, it should not be forgotten that, toward the end of his term, McNamara was in open conflict with the Carter administration[48] and that a subsequent conciliatory attitude of Clausen did not settle the harsh criticism of R. Reagan to the Bank.

The previous review is illustrative of the undeniable influence that the U.S. financial market exerted for many years on the Bank. In addition, it might be worth pointing out that the nomination of the candidate for President of the World

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[48] As evidenced by William Clark, Vice President for External Relations of the World Bank (1968 and 1980) in "Robert McNamara at the World Bank", *Foreign Affairs*, vol. 60, No.. 1, 1981.

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Bank is subject to a process of scrutiny by the President of the United States along with the Department of the Treasury and with prominent members of the U.S. financial community. Therefore, the appointment, virtually completed by the American authorities, guarantees, perhaps more than any other procedures or mechanisms, the preferential consideration towards the interests of the government and the banks of the U.S.[49].

But what in fact might be worth highlighting is that the critical moments of the global economic system have pushed the World Bank to think and act under more global perspectives and policies, which has led to appointing as Presidents of the Bank political representatives of the U.S. government.

Administrative control

The consideration of the American influence on the World Bank requires taking notice of the controls that the government applies on the administrative functioning of the entity. As already indicated in the case of the IMF, the American Executive Director of the World Bank has effective mechanisms

[49] Even though this influence tends to be formally concealed, there are times when it becomes a source of scandal and dismay for the non-American directors who have attempted to resist the historic accusation that portrays the Bank as a *"disguised appendix"* of the United States. Such was the case in the denunciation of the pressure that the World Bank exerted on Vietnam. In September 1979 Robert McNamara considered the restrictions stipulated by the United States Congress for the use of its funds in six countries –Vietnam, Cambodia, Laos, Central African Empire, Angola and Cuba– as unacceptable. However, in face of such pressure, McNamara wrote a personal letter to a conservative U.S. congressman in which he committed to stop any sort of aid for Vietnam, claiming that this nation *"did not have a rational development policy", Far East Economic Review*, September 19-25 1980; Financial Times, September 24, 1979, London.

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and an extended network of advisers to exert pressure on the decisions of the Bank.

The governmental management has, in addition, the direct and indirect support of the large group of American professionals working at the World Bank, who contribute to look after the interests of their country. Although the origin of World Bank staff members has become more heterogeneous, it still is for the most part american. In the higher ranks of the bureaucratic hierarchy such prevalence is quite ostensible. Among the twenty-two most important Bank executives in June of 1976, twelve were Anglo-American, eight came from other OECD countries and two were Asian[50]. This asymmetry is not an accident, but rather deliberate, as one might infer from the statements by representatives of the United States Congress:

> There is an informal system for recruitment. The U.S. Treasury supports this system and exerts pressure in order to assure that the United States obtains a greater percentage of jobs than its investments in the institution. The United States also receives more than 50% of the consultancy work[51].

The concentration of consultancy works delivered to American companies is another important instrument to control the decision-making process, one that, in addition, leads to multiply the acquisition of inputs and capital goods by U.S. companies.

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[50] Rainer Tetzlaff, Die Weltbank Machtinstrument der USA order Lilfe fur Entwicklungslaender? Muenchen, Weltforum Verlag, Germany, 1980, p. 175.

[51] Hearings, *op. cit.*, p. 132.

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The abovementioned set of elements is eloquent enough to prove that there is a powerful organic political control of United States with respect to the operation and overall guidance of the World Bank. This assessment would not deserve a broader study if it wasn't because there is accrued evidence that confirms the existence of political factors in the decisions of this institution.

In fact, some studies on the World Bank put special emphasis on the support that dictatorial regimes in Latin America, Africa and Asia, have received, clearly for geopolitical reasons[52]. Yet it should not be forgotten that the World Bank has no rules in terms of conditioning its activities toward a certain country in accordance with its democratic structure or its performance on human rights defense, as it has been the case

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[52] In *Theories et Practiques Developpement de la Banque Mondiale dans la contexte asiatique,* Centre Intercontinental, Louvaine la Neuve, Belgium, 1980, were mentioned a group of Asian countries under military regimes and pampered by the Bank (South Korea, Malaysia, the Philippines and Thailand). Eric Toussaint in *The World Bank, permanent coup d'état*, Ed. El viejo topo, Spain, 2006, reviews several dictatorial governments supported at the time by the World Bank. In the case of Latin America, he cites the support of the Guatemalan dictatorship that overthrew President Jacobo Arbenz in 1954, the Duvalier dictatorship in Haiti (1957), the Somoza dictatorship in Nicaragua (1990 60), the military government of Castello Branco in Brazil (1964), Pinochet in Chile (1970), Gral. Hugo Banzer in Bolivia (1971), Uruguayan dictatorship (1973), and the Argentinean Military Board (1976). In the case of Africa, he mentions the support to South Africa under the apartheid regime (1951-68), Mobutu in Congo, Idi Amin in Uganda, Daniel Arap Moi in Kenya (1978). As for the Middle East and Asia, he mentions the support provided to the Shah of Iran after the overthrow of the Prime Minister Mossadeg, (1953), Gral. Park Cheng Lee in South Korea (1961), Suharto in Indonesia (1965), military dictatorship in Pakistan (1978), Saddam Hussein, Iran (1979) and Turkish military dictatorship (1980).

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in the Organization of American States (OAS). In these cases, one can only think about the existence of a moral or ethical judgment in the decisions made by the Bank.

However, the proof, or at least the suspicion, about the Bank's explicit political constrains, which are perhaps contrary to the nature of an international cooperation agency, came to light when the World Bank cut or limited its loans to democratic regimes, both socialist and nationalist.

This is what happened during the onset of the Bank with regard to its relations with socialist countries who were members of this institution (Poland, Czechoslovakia and Yugoslavia). In 1946, the first two countries sought to obtain World Bank loans, which were eventually denied. The consequences would not take long to emerge: Poland withdrew from the Bank in 1950 and Czechoslovakia was excluded with the excuse that it had not integrated its subscribed capital account. Only when Tito's Yugoslavia had distanced itself from the soviet orbit at the beginning of the 1950s, the Bank began to provide a broad spectrum of support services. During that same period of time, the Bank refused to finance the Aswan High Dam during Nasser's administration in Egypt, due to a geopolitical rationale whose protagonists were the U.S. government and Great Britain. Years later, the exact same thing happened to J. Goulart in Brazil between 1960 and 1962, Illia and Peron in Argentina (1964-66 and 1974-76) and Salvador Allende in Chile (1972 -73). There were also disagreements between the Bank and the government of Manley in Jamaica and Bishop in Granada (at the end of the 1970s)[53].

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[53] Teresa Hayter, *Ayuda e Imperialismo*, Ed. Planeta, 1972 and Samuel Lichtensztejn and Mónica Baer. *Fondo Monetario Internacional y Banco Mundial. Estrategias y Políticas del Poder Financiero,* Ed. Cultura Popular, Mexico, 1987, p.212-215.

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Political pressures on the World Bank were clearly revealed during the 1970's and 1980's, as a result of the international economic crisis and the tensions caused by the Cold War. Already during the Carter administration and on the occasion of the Sixth Replenishment of IDA funds, sharp criticism had aroused in the United States Congress.

Moreover, on several occasions the U.S government had exerted intense pressure on the Bank to veto loans to non-friendly countries, arguing alleged human rights violations. International private banking, which had expressed disapproval of the growing room to maneuver that the Bank attained during the McNamara "era", also collaborated with its own radical criticism. On the occasion of the edition of its first Development Report in 1979, the Bank was accused by these bankers for promoting socialism, a term put in circulation then by the Reagan administration[54]. This accusation led Clausen, President of the Bank at the time, to express publicly that "the main change that I see as necessary is that of the image that we are socialist, that we are squandering money [...]"[55]

The Reagan Administration's criticism of the Bank became public at the IMF/World Bank Annual Meeting, which was held in October 1981 in Washington. In truth, this was not a surprising fact, considering that similar situations were taking place in other international forums, and were in fact repeated at the North-South summit held in Cancun, Mexico, also in 1981.

There were three topics about which the government of the United States showed a clear opposition in relation to the World Bank policy. The first one referred to its applications

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54 "LDC report World Bank advocates socialism, permissive lending policies" *in International Currency Review,* vol. II, no. 4, July-August 1979.

55 Washington Post, September 28, 1981.

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for more funds in order to expand loans. Particularly, with respect to the IBRD, it was suggested an increase in its lending capacity by increasing the gearing ratio (from 1 by 1, at 1 by 2)[56]. This proposition was absolutely rejected by the United States on that occasion.

The second type of objections to the World Bank had to do with the destination and conditions of the loans granted by the Bank. With persistence, spokesmen of the United States government had criticized the institution, both for its inclination to lend to governments or public companies, and for providing resources to countries that promoted development processes that –according to the U.S. approach– were considered socialist-based or with excessive government interference. This criticism went hand-in-hand to that which addressed the unnecessary softening of certain conditions required for the granting of World Bank loans. Consequently, the United States pressured to impose greater severity in the selection of borrowers and establish stricter conditions in accordance with those applied in the private sphere, a goal finally reached in the 1980s.

The last point of controversy revolved around the energy issue. Although all the developed countries agreed to strengthen the loans in this topic, the U.S. government headed the offensive against the creation of a new subsidiary for such purposes. Its critical judgment was based on the displacement of private investment that this kind of procedures could generate. The Bank's role in this matter, according to this position, should be limited to complementing and channeling private interests toward such a strategic and profitable area of investment.

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[56] Gearing-ratio is the ratio between capital and reserves with respect to the amount of loans granted.

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In the Santa Fe Committee report of May 1980 the general features of the Reagan administration's policy toward Latin America were outlined. This document attached primary importance to the role played by transnational corporations in the economic development[57].

As recognized by the own U.S. government, multilateral agencies were effective means to meet the interest of this country in "*developing a stable world*". In this regard, the U.S. government sought to make more effective its influence on multilateral agencies, in order to have them operate closely aligned to the interests of the nation. The economic aspect of this objective was meant to be reached through the encouragement of an international free-market-driven economy, and integrating even more the underdeveloped countries to such a system.

The foregoing argument allows us to interconnect the conservative conception that characterized the Reagan administration with its proposals for change in the policy of "*development banks*". One can appreciate this in the insistence that multilateral aid should operate as a catalytic mechanism for private funds in the international financial markets. From the U.S. point of view, the essential role of the Bank should focus on_conditioning the policies for these underdeveloped countries by ensuring a greater commercial, productive and financial openness, as it occurred almost immediately with the implementation by the World Bank and the IMF of the structural reform strategy for the developing countries.

The policy of the Reagan Administration seems to have reproduced similar conditions to those experienced during the most intense stages of the East-West confrontation in the midst of the Cold War. The influence of its conservative ideas,

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[57] Santa Fe Report, May 1980.

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nonetheless, went beyond the fall of the Berlin Wall and the bipolar vision of the world. The Reagan trace, revealed the type of political conditions that clearly influence the World Bank guidelines. These conditions, incidentally, characterized thereafter its activity at the end of the 20th century. It should be noted that, in recent years, the crisis of U.S. hegemony and the new circumstances that are expressed by the presence of underdeveloped countries with leftist democratic regimes that accept the rules of market economy, have attenuated –though, without removing– the conservative guidelines that accompany the power that the U.S. exerts on the World Bank.

The bottom line, however, is that the U.S. control over the Bank is in fact real, as proved by the pressures of the Reagan administration and the appointment of direct collaborators of the Bush administration in recent years. But, at the present time this scenario is conditioned by a global financial crisis in which the United States is no longer a global hegemonic power. This financial crisis and the rules that the G-20 has pointed out respecting the IMF and the multilateral financial agencies are illustrative of certain changes that will be analyzed in the next chapter.

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IV. CONCLUSIONS. TOWARD A NEW INTERNATIONAL FINANCIAL ARCHITECTURE? BUT, WHO WOULD BE THE ARCHITECT?

The history of the international financial system shows that such a system has functioned under certain rules while these were clear and dominant within the structure of modern capitalism. It is important to consider English hegemony at the end of the 19th century and the beginning of the 1900's; and also the most recent U.S. hegemony that commenced during the Second World War. In both cases, and next to these powers, there were economies with strong industrial and technological dynamism, a political and military supremacy on a world scale and two currency standards: pound sterling and U.S. dollar.

The decline of U.S. hegemony within the international financial system has been quite evident in the last decades. Ever since the rules established at Bretton Woods fell apart, the international financial system has gone through a rocky road of instability and recurrent crises, increasingly global.

The IMF has been historically unable to formulate new operational rules and provide stability to the international financial system. In fact, it has been major international banking, as the leading edge of financial capitalism, which has rather changed the global financial system "in its own way", taking advantage of the benefits provided by state deregulations and financial innovations which are hooked to huge profits, thus transferring risks to other banks and investors and perhaps to all countries and societies involved.

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At present, the need for a new international financial architecture has been brought up. There are several questions to be answered in that matter. Will a new monetary standard be sought after or will the dollar remain as the international currency standard, in spite of its weaknesses? What is the actual strength of the United States or the European Union to lead a new international financial system? Will the G-20 become an ideal forum for consensus matters regarding the regulation and control of the international financial system? What role would the emerging countries play, like Brazil, Russia, India and China, which have been able to forge alliances and increase their global economic share? What is the actual faculty of the developed countries to monitor and constrain the speculative activities at the heart of their financial systems? Beyond having been able to mobilize multibillionaire funds and to revive the IMF as a moneylender, what role could this institution play in the monitoring of capital accounts in the developed countries and to what extent can the outdated Bretton Woods Agreements Act be reviewed? In sum, and to refer to the title of this chapter: who would be the architect of the new international financial system?

At this point, amid 2010, there has been some progress in avoiding the worst effects of the current crisis, even if there are signs that such negative effects might persist in several developed countries. In any case, there are still more questions than answers about the future of the international financial system. An overview of the key players illustrates the real possibilities of contributing to such a praiseworthy, perhaps necessary purpose of building a new global financial system or rebuilding it under new grounds of financial management in the most advanced countries.

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United States

U.S hegemony is in the middle of a crisis. Not only has its economic power weakened as a result of the depression. It is currently a country that has built up a bulky external deficit and depends on the financing available from surplus-countries, thus maintaining dollar-based international reserves. The times of creditor-country are long gone, and the U.S. is currently a country with a huge external debt in its own currency.

This situation, which has been going on for no less than four decades, has worsened as a crisis within its own banking system has recently unleashed. Large government funds intended for preventing possible banking and business bankruptcies have increased fiscal deficit, thereby pressuring and increasing indebtedness. And if that was not enough, the continuation of U.S. military interventions abroad also influence on the budget. This situation in addition to an extraordinarily high unemployment certainly weakens the ability of the Obama administration to implement deep reforms, either in the U.S. financial system or in the immigration system (a long-delayed reform).

It is in this context that one can understand the defiant behavior of large financial corporations, before the attempt to design a new financial architecture, not of the international system, but of the U.S. banking system. After being put into the corner by public outrage and government's sharp criticism with respect to speculative operations and fraud, at this moment, these large corporations either become reluctant or offer resistance to certain reforms. On the one hand, they seem reluctant to abandon their practice of providing exceptional bonus payments to their executives using taxpayers' money. They also refuse an increased short-term capitalization or to leave certain financial practices that would result in a separation of their business and investment activities.

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On the other hand, such hesitance about this and other aspects becomes reinforced and wins support within the Republican Party as a result of a politically weak Executive, due to a Congress much more divided than it has been in other years. In addition, government high-ranking officials were involved with and committed to the private financial community, from which in fact they come. And as if that were not enough, the government holds a questionable Federal Reserve, to a point that the re-election of the main holder was much discussed. Although there are some signs of a certain economic recovery in the United States, this has not yet been reflected in the sector of employment.

In any case, after more than a year of legislative efforts, along with concessions to opposition sectors, and U.S. banking-financial lobbies, certain positive agreements arise in Congress and give us a glimpse of a more efficient regulation in the financial system. Perhaps the legal dispute headed by the Securities and Exchange Commission (SEC) against Goldman Sachs and the evidence of illegal activities within the firm in matters of mortgage management, as well as its involvement in the masking of Greece's public finances, have accelerated the search for consensus to establish constraints and regulations for U.S. banks.

It seems likely that these measures will prosper in Congress in July 2010. In this new legal framework, that some consider the utmost regulation attempt since the Great Depression in 1929, there are certain guidelines that constitute its backbone.

One of the most important policies refers to the regulation of fully electronic free automated derivatives market, that is to say, those contracts which value derives from stock quote, bonds, loans, currency, products or an event such as the change in interest rates. It was within this market where the bankruptcy of the insurance company American International Group (AIG) originated, as a result of its high-risk mortgage

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operations. This freely automated derivative market was the most lucrative business for banks, reaching a volume of $615 trillion (615 million of millions of dollars).

While the new law allows banks to invest in private equity and hedge funds, it constrains these investments to no more than 3% of venture capital funds. This decision, although restrictive, maintains the ability of banks to uphold their links between trade and investment. Also, the dramatic attempt to prohibit swaps transactions or risk transfer mechanisms, with interest rates or foreign currency swaps did not flourish. In fact, banks were forced to sell these swaps through subsidiaries to limit government commissions that could arise if these were kept in banks. Also, higher capital requirements were imposed in the event of high-standing swaps.

Another innovative policy of the new regulations consists in establishing standards and creating a specialized agency to deal with the financial protection of users or consumers, in order to avoid possible abuses in the business of credit cards and mortgage loans.

This law, which is likely to pass, would also include a Financial Stability Oversight Council as a supervisory body that would monitor large Wall Street firms and other financial institutions, in order to act and respond before a systemic risk emergency. The U.S. Department of the Treasury would lead the Board, which would include regulators from other agencies along with the president of the FED or U.S. Central Bank.

There are other complementary standards relating to the need for registration, future increases in bank capitalization and some criteria for the monitoring of private accrediting agencies and other financial institutions.

Without underestimating the positive reformist picture in the U.S. financial system, there are still certain issues that have not been resolved or were left behind. For example, the

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approval of a tax or tribute on financial transactions to create a fund to recover the enormous aid given to banks, has been a topic repeatedly raised by the United States and other G-20 members, and which has not yet been approved by this Forum.

Under these circumstances, which compel us, in due time and with a broader perspective, to verify the benefits of the reform in the domestic sphere, its pace of implementation and its impact on an international level, it is truly unlikely that the U.S. government would be able to undertake the leading role in the reform of the international system; especially when there is discrepancy among the developed countries with regard to certain priorities in the economic and financial field. Yet, this condition does not prevent the United States from exerting its influence on the decisions of the G-20 and the decision-making process of such Forum.

Japan and European Union

Ten years after its crisis, Japan has not yet recovered from the recession, the sharp decline in international trade and the crisis of its financial system. It is one of the countries with a higher debt/GDP ratio among the industrialized countries.

On the other hand, the European Union (EU) is painfully experiencing its own internal crisis. In the absence of a consensus to jointly respond to the financial crisis and define a common program for economic recovery, the governments in each country took measures that considered adequate for the situation.

These measures turned out to be different, for example, in the case of Great Britain, Germany, France and Spain. But in all of them there was a clear commitment to prevent the collapse of large domestic banks through nationalization poli-

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ces or contributions that raised outstandingly their fiscal deficit and affected severely the external debt. The spreading of procedures stands out against the efforts which had previously characterized the European Union for standardizing criteria in economic, political and social matters.

In this European scenario the "Greek drama" emerged. Attempts by the Greek government to mask the country's real debt burden (with the collaboration of Goldman Sachs' derivatives) and its failure to fulfill the commitments related to its debt, led Greece to assume the role of Trojan Horse within the powerful European Union, by putting at risk its main symbol, the euro.

From that time to the present, the EU has been wounded in its cohesion, which actually led to a discussion of whether its expansion to 27 members was perhaps a rushed decision, seeing that not all appear to have the capability and competence for such a great collective endeavor. The initiatives mainly of Germany and France in terms of limiting the speculative transactions, which involve derivatives, are in discussion, and the implementation of a tax on financial transactions, as it occurred in the United States, was rejected in the G -20.

The European Union, in conjunction with the IMF, was forced to take certain actions on financial aid matters to support Greece and eventually other countries in the Union (i.e, Portugal, Spain and Ireland). But, the acknowledgement of the seriousness of the situation led to severe fiscal deficit containment measures imposed to all the members, along with a reduction in remunerations, freezing of pensions, retrenchment and labor reforms, leading concurrently to social-union mass-opposition movements critical of the decisions of different European governments.

In this socially harsh context, one can understand that the EU had finally decided to limit the bonus payments of bankers

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and brokers to 60%, deferring the release of the remaining percentage to three years, depending on the risks taken. In addition, at least a 50% of the total compensation would be paid in assets. These measures seek to change the "bonus culture" in order to avoid an excessive risk exposure.

The adjustment policies, which have been prioritized in the EU, will surely delay the economic recovery of members in the European Union in the near future. In a certain way, similar to the United States, the European Union has the need to strengthen its banking systems. But it also needs to carry on budgetary adjustments and reach a new social consensus within Europe to get back on the path of its communal vocation, but mostly to restore the credibility of its data and policies.

In this regard, it is symptomatic that the European Union submitted to the "stress test", a method that consists in publicly revealing the results of the tests in progress about the creditworthiness of European banks; a decision that was welcomed in the G -20. However this method has some limitations that has appeared in the evaluations applied.

Along these lines and in clear allusion to the European countries, the G-20 has established, as a principle to be complied with, that the plans for fiscal consolidation (a term that means sanitation and sustainability of public finance and deficit reduction), should be realistic, based on prudent hypothesis projected in a med-term horizon, and with the responsibility of communicating these budgetary plans openly[1].

Consequently, at the present time, Europe is not an actor that could assume a leadership role in the course toward a new international system, without underestimating, though, its weight in the decisions of the G -20.

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[1] See point 10, Annex l of the G-20 Toronto Summit Declaration, June 2010.

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Brazil, Russia, India and China (BRIC)

The presence of new emerging powers such as China, India, Russia and Brazil, (and also would be included South Africa), represents a significant episode in the international arena. Its size in terms of population, external trade and monetary reserves, are evidence of such a perception. Thereon, it is an extremely important factor within the international financial markets the fact that the Central Bank of China holds reserves of about 2 trillion dollars (2 millions of millions of dollars) along with the various options that it may adopt on that subject.

It also plays in favor of these countries their influence through their penetration and integration with a block of countries and markets in Asia and Latin America. Their greater weight in politics and within the international financial institutions has also become evident. In addition, they haven't quite suffered the consequences of the financial crisis and there are no internal factors of political instability.

All of these aspects have abated the power of the traditional capitalist triangle composed by the United States, the European Union and Japan. However, all of this has not yet guided the BRIC to assume a pivotal role in the process of decision-making within the international agencies or in a change of the whole financial system. In spite of piecemeal efforts, perhaps more rhetorical than real about possible alternatives to the dollar, these countries still rely on such a standard as an international foreign exchange currency and their banks do not have enough outward projection.

Therefore, these countries are to be considered in any debate concerning the restructuring of the international financial system, but they are not yet ready, either separately or as a group, to play a central or hegemonic role in any attempt of

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reform, unless they rush and formulate strategic partnerships with other powers in the world.

An example of what has been written has been the appointment of the new IMF managing director to replace Dominique Strauss-Kahn. The intention of the members of BRIC´s and other developing countries to apply for Agustín Carterns, chairman of the Central Bank of Mexico, as candidate for managing director, shows a clear willingness to change traditional views of designations within the IMF. However, the appointment of Christine Lagarde shows that U.S., EU and Japan have this power under its control.

The IMF

The International Monetary Fund has failed to complete its core mission of ensuring stability of the global financial system. It has always been one step behind of the various crises. The aforementioned report of the Independent Evaluation Office of IMF in 2011[2], confirms this view, here are some concepts:

> The IMF did not anticipate the crisis, its timing or its magnitude, (p. 5). Even as late as April 2007, the IMF's banner message was one of continued optimism within a prevailing benign global environment. To a large extent this was due to the belief that, thanks to the presumed ability of financial innovations to remove risks off banks' balance sheets, large financial institutions were in a strong position (p. 7). Analytical weaknesses were at the core of some of the IMF's most evident shortcomings in surveillance

[2] www.ieo-imf.org, IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004-07".

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> (p.17) The lack of a suitable conceptual framework for analyzing such linkages within the economics profession at large, as well as the view common among IMF economists that financial issues were not central. […] The linking of macroeconomics and financial sector analysis remained inadequate. IMF economists tend to hold in highest regard macro models that proved inadequate for analyzing macro-financial linkages. […]. More worrisome was the overreliance by many economists on models as the only valid tool to analyze the economic circumstances that are too complex for modeling. (p. 18).

From the external debt crisis in Latin America in the 1980s and the crisis in Southeast Asia in the late 1990s, the IMF has adopted as a primary objective the monitoring of the foreign debts. For that reason, in the programs of the last few years the IMF has established as a major goal to monitor the imbalances in the balance of payments capital account and keep an eye on the sustainability of the external debt of the developing countries. The position of the IMF has justified, among other actions, the adoption in recent years of more active monitoring measures, joint actions with the World Bank and internal reorganizations tending to a greater understanding of the international financial system's course. But such measures have been partial and late.

It could not be said that the IMF has ignored the growing process of financial internationalization, spreading on a world scale. But it granted it a secondary role for a long time. When the review of the capital account was carried out on the balance of payments of the developed countries, the viewpoints of the IMF were not sufficiently rigorous and careful concerning the dangers that the operations of large international banks represented. On the contrary, still in 2006 and 2007, before the global crisis, the IMF was in fact optimistic about the financial innovations, the liberalization of capital accounts and the

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diversification of financial risks among institutions and investors. However, as a result of the global financial crisis in the period 2007-2008 (in progress) certain IMF criteria and policies have been reviewed.

In the first place, the Fund expects to expand the scope of its evaluation attempts on the financial systems in mature economies, in other words, those which caused the recent crisis. Never before, the advanced or industrialized countries had been a source of concern or monitoring from IMF, as they had never requested its loans; but, above all, given that the IMF power structure determines restrictions to its views and initiatives, even in the time when financial and international exchange stability was harmed by these countries. As a result, as a body that has always depended on the decisions of the developed countries, we shall attach to the IMF a very modest initiative or leadership capacity to promote a reconfiguration of the international financial system.

One of the IMF proposals, while pressured by the United States and other developed countries was to become involved in the problem of the exchange rate, which confronts these countries with China. Accordingly, it should be understood the reason for the annulment of the 1977 Decision, adopted at the time by the IMF to deal with the collapse of fixed parities established in Bretton Woods. This Decision involved the method of carrying out bilateral consulting and oversights related to the exchange rate regimes.

The IMF 2007 Decision, which came to replace the 1977 Decision, incorporated the concept of external stability as a basic approach to meet the exchange rate problems between countries. This new Decision came to retrieve the principle of Art. IV in the IMF Articles of Agreement, which establishes that countries should not use a "misaligned" exchange rate as a mechanism to stimulate exports, thus creating "unfair competitive advantages"

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that cause instability in the international trading and financial system. Hence, it follows that balanced exchange rates compatible on a multilateral scale should be sought.

The IMF has been accused, in relation to the 2007 Decision, of having China as a sole addressee. The recurring demand is that this country should try to align Chinese exchange rate foreign currency (Yuan/renminbi) in order to hold back its exports. This controversy that has continued in the G-20 summits contradicts itself with a subsequent opinion coming from the IMF (perhaps to settle down the criticism about its position) in the sense that "the estimation of the balanced exchange rate will remain subject to considerable technical constraints"[3].

In the current circumstances, the IMF admits that there were no adequate warnings involving the monitoring of the advanced countries, clearly as a deficiency of the current financial architecture. Nevertheless, through adapting to the unorthodox policies of the United States and the European Union, the IMF seems to be inclined to review some of its own approaches.

In the second place, the IMF recognizes that the anti-inflationary emphasis of Central Banks in the developed countries had ignored the risks related to the stock market bubbles and the explosive nature of debts acquired in their support. At first, this institution admitted that, in the current crisis, recessive and unemployment processes deserve greater attention than inflation matters, thus supporting the implementation of multibillionaire aid programs to help banks and large industrial companies. Nevertheless, shortly after, the IMF leaned in favor of tax cuts (fiscal consolidation) and less toward fiscal stimulus[4].

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[3] IMF Annual Report, 2008, p.24.

[4] See p.12, IMF Annual Report 2010.

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Yet it should be noted that such reviews on the IMF's thought regarding inflation and the underpinning of counter-cyclical programs, do not involve the underdeveloped and emerging countries. The IMF's preach for these countries preserves the traditional rules typical of its macroeconomic stabilization and structural reform programs. However, the seriousness of the European crisis in the field of taxation and indebtedness has led the EU to introduce principles similar to those traditionally applied in the less advanced countries.

In the light of the G-20 Toronto Summit, one can underline that the poor role of the IMF respecting the forecast of the financial crisis, in addition to the criticism gathered over a half century of life, have certainly carried severe consequences for this institution. If truth be told, it is certainly related to this situation the fact that the G-20 is now composed by emerging countries, some of which had visibly suffered the wounds from the recipes of the Fund.

In this regard, it is highly illustrative how the G-20 has virtually excluded the IMF from the tasks of monitoring the international financial system, the establishment of standardized financial rules and the evaluation of reform's macroeconomic impacts in the advanced and developing economies. In such topics the Fund has played a modest, secondary role of consultant.

On the other hand, the Financial Stability Board (FSB) has emerged as a more representative and responsible body for these matters. It was created in the 2009 G-20 London Summit and is integrated by high-ranking officials who come from Central Banks, committees of experts, Ministries of Economy and regulation and control agencies. This Board is in fact composed by a government committee that sets guidelines and by three permanent committees responsible for the analysis of the financial system weaknesses, for the monitoring

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and regulation activities and the installation of standardized banking patterns. The performance of the Financial Stability Board is closely linked to the activities of the Basel Committee on Banking Supervision (BCBS), which is responsible for the establishment of capitalization and bank liquidity regimes for private banks.

Both the Financial Stability Board and the Basel Committee on Banking Supervision, received during the G-20 Summit a great deal of support to fulfill their duty of strengthening global financial security networks. These were the most-mentioned organisms in the Summit Declaration as well as in the three Annexes that go along with it. Moreover, in order to improve and make the evaluation of the reform of the international financial system more transparent, the G-20 has promoted a peer review process, in which the Financial Stability Board features as the main figure responsible for this task.

Not only has the IMF been virtually excluded from these fields of action, but in fact the G-20 has pointed out the need to reform the International Financial Institutions (IFIs) as a whole, in the field of organization and governance, which involves, among other institutions, both the IMF and the World Bank[5].

Annex III in the G-20 Declaration is titled "Enhancing the Legitimacy, Credibility and Effectiveness of the International Financial Institutions". In the text it is stated that in order to strengthen the legitimacy, the credibility and the effectiveness, IFIs must commit to establish "new selection processes for heads and executives of these institutions that are open, transparent and merit-based", what did not happen with the

[5] Preamble to the G-20 Toronto Summit Declaration, June 2010

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designation of C. Lagarde. In fact an article focused on the IMF actually repeats the same concepts that involve the review of its lending tools and mechanisms, the size and composition of the IMF Executive Board, the ways to improve the effectiveness of its Board of Governors, the enrichment of geographical diversity of staff members, as well as a greater involvement of IMF Governors in the task of strategic supervision.

For all the reasons mentioned above, as an institution that has always depended on the decisions of the developed countries, we shall attach to the IMF a very modest, perhaps null, initiative or leadership capacity to promote a rearrangement of the international financial system. Much less seeing that, as pointed out, there are now overtly objections to the legitimacy, credibility and effectiveness of the Fund and the World Bank, which go as far as to question the institution's governance and administration.

The Group of Twenty (G -20)

One of the actors to consider in this study is the Group of Twenty (G20), which during the Washington (Nov. 2008), London (April 2009), Pittsburg (Sept. 2009) and Toronto (June 2010) Summits has assumed the role of proposing changes in several aspects of the international financial system. The history of the special groups of countries that have been involved in the past, began in the 1960's with the creation of the G-10, then replaced by the G-7, which most recently became the G -8[6].

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[6] The G-7 included the following developed countries: Germany, Canada, United States, France, Italy, Japan, and United Kingdom. While the G- 8 is the result of Russia's integration to the G-7. Finally, the G-20 is constituted, in the first place, by the G-8, in addition to those countries which represent the European Union and the so-called emerging countries: Saudi Arabia,

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The G-20 emerges as a result of the recent international financial crisis and it is characterized for the integration of emerging countries that were not present in the previous Summits of the developed countries, and which have conferred a fresh and more critical spirit to the statements of the Group.

Even if the agreement reached at the G-20 Summits, celebrated in the midst of the 2009 crisis, did not lead to an actual reform of the financial system as a whole, it brought to light some concerns related to its own operation. Its first conclusions were condensed in five points:

a) achieve a greater capitalization of banks along the lines of the Basel Committee on Banking Supervision affiliated to Bank for International Settlements; *b)* support greater resources for the IMF programs and commit to increase the representation for developing countries by 5%; *c)* establish a framework for sustainable and balanced growth, with commitments from countries for enhancing the internal market and not relying so much on exports (China), increasing domestic savings and reducing fiscal deficit (United States) and promoting structural changes to improve the investment climate (Europe); *d)* establish criteria to regulate bank-officials' compensation; *e)* promote a reform for supervisory institutions in order to develop a legal and operational framework for higher supervision in critical junctures.

All these early initiatives, except for the one that refers to the increase of IMF resources and the approval –after a long time– of IMF Special Drawing Rights, were deferred or were subjected to debate as to their implementation in the near future. A greater voting power of the emerging countries in the

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Argentina, Australia, Brazil, China, India, Indonesia, Mexico, South Korea, South Africa and Turkey.

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IMF is expected to become true before 2011. The Framework for Strong, Sustainable and Balanced Growth depends on reform measures within the countries involved, which, as stated above, show evidence of difficulties or internal resistance. Controversial bank-executive compensations have not been withdrawn, even though some countries have recently adopted restrictive measures on that account.

However, the nine months separating the G-20 Pittsburg Summit and the latest Toronto Summit mark a turning point that deserves unique consideration in view of its formal aspects. The first concern that seems worth highlighting is point 1 in the Preamble to the G-20 Summit Declaration which claims that Toronto is the "first Summit of the G-20 in its new capacity as the premier forum for international economic cooperation". This statement supports the value that its own members attach to this Summit and particularly to the G-20 as key ambit from which it is sought to strengthen the financial system and achieve a strong, sustainable and balanced growth on a world scale. From here to granting the G-20 a leadership role in such collective effort, there is only one step but very slow.

We cannot subtract from this new reality, the existence of internal divergences as well as the continuous delays in the implementation of certain measures. Particularly in point 4 of the Preamble prevails the standpoint of the United States who claims that "strengthening the recovery is key [...] we need to follow through on delivering existing stimulus plans". At the same time it is argued that "recent events highlight the importance of sustainable public finances and the need for our countries to put in place credible, properly phased and growth-friendly plans to deliver fiscal sustainability", a statement that is in fact closer to the theories of the EU, although it draws one's attention that "synchronized fiscal adjustment across several major economies could adversely impact the recovery".

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The solution that the G-20 found in order to achieve such difficult balance between different objectives, consisted in committing to reduce public deficit at least by half in 2013 and stabilize or reduce the external debt (in proportion to GDP) in 2016.

Furthermore, there was no consensus regarding a financial transaction tax, although there was an agreement in which "the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions" (point 21 of the Declaration).

Finally, we reached an agreement in 2010 based on the work of the Committee on Banking Supervision called Basel III it established the general lines adopted by the G-20 for further capitalization of banks. In principle, these banks had managed to postpone that review and now, with his approval should expand its new capital in 2019[7].

Once again, a differentiation was made between the steps to be taken by deficit´s nations (in current account), such as the United States and the surplus economies (in current account), particularly, China. In the first case it is insisted that national savings ought to be increased and export competitiveness enhanced. In the second case, with an obvious allusion to China, reforms are recommended for reducing dependence on external demand and focusing more on domestic sources of growth. In Annex I these recommendations become clearly

[7] In effect, bank capital is classified into three categories according to their degree of purity: Common Capital (formerly Core Capital), Tier 1 and Total Capital. For the Common Capital, 2% is spent to seek 7% (4.5% of pure capital and 2.5% as countercyclical fund), which will apply in 2013 and completed in 2019. The addition of impure assets, Tier 1 is formed for which the required capital is 6%, which will begin its implementation in 2013 and will be completed in 2019. Finally, for the Total Capital, which joined other impure assets (such as subordinated debt issued fixed term), the capital requirement is 8% to be met from the year 2013.

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explicit while explaining that the reduction of external dependence relies on a high degree of exchange rate flexibility (so as to reflect the underlying basis) while economic growth is linked to the strengthening of social security networks and infrastructure expenditures.

As for the cluster of the G-20 members it is suggested to promote structural reforms to enhance and sustain growth expectations. The structural reforms measures promoted in Annex I, seem to be more related to a neoliberal-based agenda: labor reform, increased opportunities for foreign investment, simplify product market regulation, strengthening competition in services, reduction of barriers to network-industries and obstacles to foreign competition in the professional services market and commerce sectors.

The isolated and founded statement in point 10 of the G-20 Declaration, which claims that "monetary policy will continue to be appropriate to achieve stability and thereby contribute to the recovery" also seems to be debatable.

Concerning the framework for a Strong, Sustainable and Balanced Growth, the discrepancies are more obvious. On the one hand, the situations are quite different and solutions ought to be suitable to particular national junctures. On the other hand, there are definitions that are in fact questionable or commitments that seem unfeasible or vague.

As far as the unfeasible commitments, the G-20 is still attached to the idea of complying with the Millennium Development Goals, while all the indicators show that the impact of the financial crisis and the adjustment policies adopted by members of the EU will interfere with the accomplishment of social goals foreseen for the year 2015.

At this point, one can say that the G-20 gathered around in Toronto –with contradictions- has meant a leap forward in quality in terms of the good will (more that capacity) of mem-

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bers to adopt or design common actions, especially regarding to reform the International Financial System. The institutional framework to meet such reform lies on the Financial Stability Board and the Basel Committee on Banking Supervision. Although the IMF role seems as secondary or complementary, a likely duplication and overlapping of functions and, thereby, an excessive bureaucratism, must be avoided.

In conclusion, one can say that although the crisis go on and there might not be a new international financial architecture in progress, the actions taken by the G-20 and those adopted by certain countries, shows that there is an ongoing a slow process of repair of the international financial system faster and stronger than the actions related to the economic recovery. There is no “architect”, properly speaking, for the reconstruction of the financial system, meanwhile don’t exist a new international hegemony, but rather some “bricklayers” operating in this direction.

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