Controlling Mechanisms

The IMF and The World Bank

Fifty years ago, it was recognized that if there was to be peace in the post-World War II world there had to be economic growth.

A remarkable conference took place in the summer of 1944. Experts from 44 nations, including Canada, met at a place called Bretton Woods in New Hampshire. Their job was to design a global system that would govern the monetary and economic relations of states following World War II. Out of the Bretton Woods Conference came the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (popularly known as the World Bank). The Bretton Woods Conference also reflected the desire for freer trade among nations. This led to the setting up of the General Agreement on Tariffs and Trade in 1947.

International Monetary Fund (IMF)

The Fund's mandate is to "promote international monetary co-operation, balanced growth of international trade, and a stable system of exchange rates."

In the early 1970s, most countries moved away from fixed exchange rates for their currencies. With "floating" rates dominating, the IMF's role in controlling world currency exchanges diminished. Today, it concentrates more on advising governments on policies that underpin currency values.

> In 1993, the World Bank loaned US$20.8 billion to low- and middle-income countries.

The most important policy targets now aimed at by the IMF involve adjustment programs for economies in transition. The Fund works to ensure that the financial condition of countries is sustainable, i.e. that governments borrow no more than they can eventually pay back. There is also an emphasis placed on controlling inflation and achieving price stability. The market-oriented programs recommended by the IMF usually involve some short-term pain in the adjusting country (e.g. lower real wages and higher cost of living, layoffs in the public sector and in protected industries) before the longer-run benefits of reform take hold.

The IMF has had to cope with several major shocks in the last 20 years; the oil price increases in the 1970s, the debt crisis of the 1980s, and the transition of Central and Eastern Europe from centrally planned to market economies in the 1990s. More recently, the Fund took part in an international package to rescue Mexico from financial instability. The Mexican crisis underlined the need for enhanced multilateral mechanisms of co-operation and financing to deal with national financial difficulties before they cause problems in other countries.

The World Bank

The World Bank was created to assist with the reconstruction of Europe. It has gone on to become a lender of funds and supplier of technical help to the world's poorer nations. These loans are used to pay for development projects. The Bank borrows from commercial markets on the strength of commitments from members states. It then on-lends to recipient countries on non-concessional (current interest rates) terms. The International Development Agency (IDA) receives direct contributions from among member states and lends at concessional (lower than current interest rates) terms to the poorest states that are unable to borrow on commercial terms.

The World Bank is a key player in the process of economic transition in the countries of Central