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I. Three Main Institutions

- A. IMF = International Monetary Fund
- B. World Bank
- C. WTO = World Trade Organization

II. Why They Were Created and When

These organizations all have their origins in the period shortly after WWII (the WTO was formed in 1995, but it is the successor to GATT, which was created after the war).

The Great Depression was, in part, the result of the breakdown of international institutions and chaos in the realm of international economic relations. The international monetary system (Gold Standard) was completely in shambles after WWI. In the late 1920s and throughout the 1930s, countries used competitive devaluation (reduction in the value of currency in an effort to boost exports and reduce imports). See Argentina for a recent example of devaluation. However, since devaluation only works at the expense of everyone else, other countries are forced to “compete” and devalue their currencies.

The imposition of incredibly high import tariffs during this time was started by the United States with the Smoot-Hawley Tariff. This was intended to shield U.S. markets from foreign competition, but as with devaluation, other countries responded with their own tariffs and no one was helped, while everyone was hurt. The institutions listed above were set up to try and prevent these events from occurring in the post-war world.

- A. IMF: members of the IMF promised to manage their currencies according to certain rules. These rules involved pegged (fixed) exchange rates. Most nations pegged their currency to the U.S. dollar. Devaluation was not prohibited under IMF rules and was allowed under certain circumstances. The IMF acted as a provider of financial resources to nations in trouble. Initially, the vast majority of funds were used to help manage the pegged exchange rates.
- B. WB: The World Bank’s original name was IBRD (International Bank for Reconstruction and Development). Although reconstruction was prominent in its name, the United States, through the Marshall Plan, ended up dominating the reconstruction efforts in Europe and Japan. The result: The WB has promoted development thru loans, grants and advice.
- C. WTO: After WWII many nations wanted to form the ITO (International Trade Organization). These nations signed the GATT (General Agreement on Tariffs and Trade) as a temporary measure until all member governments ratified the ITO. However, the United States Congress did not approve the ITO, thereby making the GATT the default international institution for the next almost 50 years. The GATT acted to restrain countries from repeating their previous actions. Through GATT, nations were able to substantially reduce tariffs. Meetings of member countries (or Rounds of Negotiation) acted as an avenue for agreements on tariff reductions and other issues concerning members. The most recent round was the Uruguay Round (1987-

1994) in which the members agreed to form the WTO, which like the ITO, required government approval from each member. In one of the major achievements of the Clinton administration, the WTO was eventually approved by the U.S. Congress.

The IMF and WB are both “Bretton Woods” institutions. Bretton Woods is the town in New Hampshire where the meetings to form these organizations took place.

III. How They Have Changed

- A. The World Bank is now all about development (long term goals).
- B. GATT became the WTO, which includes the provisions of the GATT and added more of its own. It still acts to restrict countries from tariff raising except for certain purposes. The WTO added negotiations over trade in services as well as IP (Intellectual Property: Patents (inventions), Copyrights (written works), Trademarks (symbols, etc.)).
- C. The IMF originally helped nations maintain pegged exchange rates. However on August 15, 1971 the system of pegged exchange rates fell apart when the President of the United States, Richard M. Nixon, gave a speech indicating that the dollar was no longer officially backed by gold and that the rest of the world should no longer peg their currencies to the U.S. Dollar. By 1974, all the major currencies were no longer pegged. The U.S. Dollar and Japanese Yen are today floating, and currencies of European nations all fluctuate against the dollar. Therefore, much of the reason for the formation of the IMF is gone. The IMF has now shifted to providing financial assistance for short-term crises. It lends money to countries with “conditionality.” That is, conditions are attached to loans. The stated purpose of the conditions is to help borrowing nations, but there is debate about their effectiveness and the conditions are very controversial.

IV. Their Reputation Today

Economists (for the most part) view the IMF, WB, and WTO as having a largely positive effect on the world. However, there are many opponents of globalization (which is often represented by these organizations). One of the first major incidents regarding opposition to globalization occurred in Seattle, WA in December 1999 as protesters violently disrupted WTO meetings. Opponents of globalization include:

- Environmentalists (not all) who feel that international trade rules often conflict with environmental efforts.
- Labor Rights Activists (includes labor unions (mainly from developed nations)) who, among other things, feel that international competition lowers their wages.
- Human Rights groups often feel that human rights are ignored at the expense of commercial rights.

All of these groups are anti-corporate (specifically anti-Multi-National Corporation). Most economists favor what is called “globalization,” in that they feel that the benefits outweigh any costs. Corporations are viewed as competitors for economic profit, and as long as the level of competition is sufficient it is beneficial to society.

Economists do, not, in general favor monopolization of markets by Multi-National Corporations (MNC).

V. Other Institutions

- A. United Nations: IMF, WB list themselves as United Nations (UN) organizations.

-UNCTAD (UN Conference on Trade and Development): this is often referred to as the “voice of developing countries.” Issues of development are discussed at its meetings. This is somewhat a response to the IMF and WB, which are seen as controlled by the developed countries, specifically the U.S.

-ILO (Int’l Labor Organization (or Office)): purpose is to improve conditions of labor in the world. Goals include the increasing of the number and power of unions and the improvement of working conditions and wages. They advocate certain core labor standards, which countries can ratify. The U.S. has not ratified many of these standards. Many developing nations have ratified the standards but they are often not enforced. This organization has no formal enforcement power; it can only publicize what it views as transgressions of labor standards.

-WIPO (World Intellectual Property Organization): defines IP (Intellectual Property) but again, it has no formal power. This is very similar to the ILO, except it deals with IP, not labor standards.

- B. EU (European Union): customs union = free trade amongst members and common tariffs against the rest of the world. Fifteen European countries are members of this customs union that features virtually free movements of capital and labor. Twelve of these nations have adopted a common currency, the euro, which went into circulation as coins and notes on January 1, 2002.
- C. NAFTA (North American Free Trade Area (Agreement): Zero tariffs among members (Canada, U.S., and Mexico). NAFTA may expand in the future to include nations in South America, and may be called FTAA (Free Trade Agreement of the Americas).
- D. OECD (Organization for Economic Cooperation and Development): Members, with a few exceptions, are very rich developed countries.