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Dženan Đonlagić and Amra Kožarić***

JUSTIFICATION OF CRITICISM OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

ABSTRACT: *As more than half a century has passed since the establishment of the international financial institutions (IMF, World Bank), this paper analyzes the opinion that these institutions have not accomplished their mission. They generally admit that they have not succeeded in the activities that they set out to accomplish, a propos of gathering funds for countries faced with economic gaps and helping them to maintain long term economic growth and development. We show that these financial institutions have done nothing to reduce poverty and financial disparities, to increase their own transparency, responsibility and management, especially with the public participation of developing countries, or to create a more effective loans system. In this paper the main goal of research is to explore the arguments pro and contra the strategic effect, policy, and working methodology of the international financial institutions in view of finding a solution to the global financial crisis and global prevalent financial problems, and also to consider the reasons for the justification or otherwise of their being part of the global financial system*

KEY WORDS: *IMF, World Bank, critics, possible reform directions.*

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* Faculty of Economics, University of Sarajevo, Bosnia and Herzegovina, *dzenan.djonlagic@efsa.unsa*

** Faculty of Economics, University of Tuzla, Bosnia and Herzegovina, *kozaricamra@yahoo.com*

1. INTRODUCTION

Globalization is a most controversial economic and financial process. The opinions of anti-globalists and their daily debates are present in every corner of the developed and undeveloped world. Contributions to this debate show that street performances and banners sending anti-globalist messages have become a part of every day life, and their messages criticize the controllers of the international monetary system; the International Monetary Fund and the World Bank. Without intending to fetishize this matter, the existence and (in)adequate functioning of the international financial institutions is one of the greatest discussions in economic theory and practice. In the last 50 years the international financial institutions have trod the path from stabilizing the international monetary system and rescuing countries during the world debt crisis, to the role of counsellors and financiers in the process of transition in post-socialist countries.

Considering that half a century has passed since their establishment, it can be plainly said that the international organizations have not accomplished their mission, and the results of the international financial institutions´ policies have not been impressive. Is this because the orientation of the IMF, which began by emphasizing failures of the market and the role of government, was replaced by the absolutely free market propagandized by Margaret Thatcher and Ronald Reagan in the 1980s? The policy of the Bretton Woods Agreements presents an ultimate recipe applied everywhere, regardless of time, place, and specificity of economic system, and which consists of fiscal strictness, rapid privatization, and wild liberalization. Also the results of the international monetary institutions´ policy have been self-defeating in the transition of socialist countries towards a market economy. As an example, in 1990the GDP of China was 60 % of that in Russia, while by the end of the decade this situation had totally changed.

Unfortunately globalization has not benefited many countries. The difference in material wealth between the five richest and five poorest countries was 11:1 in 1913, 35:1 in 1950, and 72:1 in 1992. According to Nobel Prize Winner J. Stiglitz, the number of people living on less than $2 dollars a day was 2,718 billion in 1990, and that number increased to 2,801 billion in 1998, even though the average increase in world income was around 2.5 %.

Therefore this research problem determined our general research aim in this paper: the critical determination and analysis of arguments pro et contra the strategic function, politics, and work methodology of the international financial

institutions, which aim to solve the world´s financial problems, and the reasons for the justification of their existence in the world monetary system. In this context we elaborated the general research hypothesis which states that international financial institutions do not have a clear functional role in the process of eliminating the causes of the world financial crisis, and therefore they have to reform their working method and develop new mechanisms for functioning in order to effectively control international monetary stability and ensure the fundaments of its further development.

2. THE RESULTS OF THE INTERNATIONAL FINANCIAL INSTITUTIONS´ POLICY

Global financial institutions are created as a response to the increasingly complex relationships between and interdependence of people in the world. These institutions have to perform the task of giving countries the opportunity to choose different alternatives, and to make their own choices. These institutions should ensure that the countries have the necessary resources for informing and making their choices and understanding the consequences and risks.

Despite intentions to improve and reorganize their work methodology, the functioning of the international financial institutions is still a controversial matter, since they have faced serious accusations of ruthlessness and of having been too involved in the internal politics of developing countries. They have also been accused of repeating bad methods and fighting lost battles. In these circumstances it became necessary to re-examine the role of these institutions (Camdessus, 2005).

According to the opinions of many critics such as non-governmental organizations, the IMF and the World Bank operate solely in the interests of the USA, which is very influential because it has the largest proportion of decision-making votes. In formal voting on changing the IMF Statute, the governing structure of the World Bank, or use of resources for special needs, the USA has the power of veto. Even when voting on questions that demand a simple majority the USA has the greatest influence. In spite of this the power of creating as well as destroying economic systems is in the hands of these powerful financial institutions. Opinions on questions of justification for and necessity of the world´s international institutions (especially the IMF and World Bank) in the contemporary international monetary system are divided, but the question is: if these institutions were to be abolished, who would take their place and role and control the global economy and world monetary system? The Fund and Bank,

as global financial institutions, have experienced many changes during their development.

The IMF and World Bank, which were established on the basis that markets often function badly, now have their own idea about the market´s supremacy. Furthermore they have established the belief that international pressure on countries that leads to more expansive economic politics (such as increase of consumption and expenses, lower taxes, and reduction of interest rates) is needed in order to stimulate the economy. Today the IMF typically only provides funds if the countries are engaged in politics that lead to a narrowing of space for economic activity. The IMF should provide liquidity, such as loans, to those countries that are confronted with economic decline, and are not capable of stimulating aggregate demands with their own resources.

Nevertheless half a century after the formation of these international financial institutions it has become clear that they have failed in their mission. These institutions have done nothing to justify the main reason why they were formed: to provide funds for countries confronted with economic decline and to help them create a state of high employment. The IMF outgrew its primary mission of adapting politics to global changes and responsibilities. Although still needed, the IMF has become too broad and preoccupied. There is a need to return the IMF to its primary role which is to concentrate on prevention and easement of the financial crisis, especially liquidity and the bank crisis, and to leave tasks such as poverty reduction to the World Bank. These arguments are also propagated by supporters of the IMF, who think that the IMF is a very important monetary institution which will, by following its own rules, lead its member countries from inferior economic status and economic difficulties to economic prosperity and progress. Because of this the IMF has become the subject of many discussions and disputes (Fisher, 2002).

Opponents of the IMF use as their argument its monopolistic position in order to accuse it of creating by its actions the totally opposite effects to those proclaimed, and of leading those countries with difficulties into even deeper and larger economic problems. Also these opponents consider that the IMF's actions show that it does not care about the appeals sent by undeveloped countries. They claim that it has not done anything about poverty and inequality. Large numbers of critics claim that the IMF is no longer capable of performing its basic activities such as control and regulation of monetary politics. Also critics have noticed that the IMF leads its politics with the main aim of satisfying the financial markets, warranting stabile conditions even if it means undermining other economic aims

such as employment and expansion of domestic consumption. Furthermore it is criticized for acting only as an organization that promotes external American politics, and does nothing else.

While in theory the IMF supports the democratic institutions of those countries in which it is present, in practice it undermines democratic processes by the use of imposed politics. Of course the IMF does not impose anything, but only negotiates about the conditions for granting help. Nevertheless, the negotiations are often unilateral, and all the power is in the hands of the IMF, while countries that ask for help are in desperate need of financial resources. The most radical attitudes are those that claim that the concept of the IMF is basically wrong, and as a failed project it cannot be helped, but needs to be eliminated. The supporters of this attitude are mostly radical left and anarchist anti-globalist groups that claim that the core of the problem is that the IMF possesses too much power and uses it destructively. They point out that the IMF's politics directly reflect the economic interests of the USA and the power of the banks and multinational corporations. As long as the IMF is controlled by these interests, suggested reforms will not have any real effect.

Besides this, the manner in which the IMF operates and the politics conditioning it are not democratic. Furthermore, The IMF does not respect national sovereignty and civil rights. This attitude includes the belief that imposing economic politics, even when it is effective, has long-term bad effects. The arguments that propose the elimination of the IMF are also based on the question of whether the scanty resources of poor countries could be used in a better way if they were redirected from financing debts to providing basic medical and educational services, projects for AIDS and malaria prevention, and protection of the environment. Opponents of the IMF consider that such programmes would be more successful in solving the problem of African poverty than programmes of structural adjustment. Even in the context of debt crisis these opponents consider that there is no need for the IMF's existence. Put simply, the way the IMF manages and performs its activities is the problem.

The idea of globalization has created the belief among many people that international institutions, such as the IMF and World Bank, will help in the development of all countries and in an equal distribution of revenues. Nevertheless today there are many economists who believe that global economics and economic politics have created many problems in countries all over the world, especially developing countries. (Kato, 2007). The supporters of globalization claim that it leads to improved development in underdeveloped countries, and point out that

the increase rate of social product in these countries is larger then in developed countries, and furthermore that investments in these countries are increasing, new employment is becoming available, and the transfer of technology is taking place, so basically the market and its activity are expanding. However, this can be disproved by the fact that developing countries are falling behind economically developed countries and the development gap between them is increasing. Also the poverty and debts of developing countries are not lower, but actually have a tendency to increase.

The prices of exported goods depreciate in comparison to prices of imported fiscal goods. The daily wages of workers in undeveloped countries are very low, and unemployment is increasing. Besides this there is the particular problem of the relationship of developed and undeveloped countries is the production and trade of agricultural goods. Due to large subsidies to agricultural producers in Western Europe and the USA the size and share of agricultural production in developed countries is increasing, while the share in undeveloped countries is decreasing. This leads to lower exports, it burdens their external trade balance, and it increases unemployment. It also results in the breakdown of developing countries' production systems, weakens their financial authorities, and leads to the collapse of education and health care systems.

In comparison to the huge assets of multinational companies and western investments funds, developing countries have lost a large percentage of their natural resources and financial foundation, and their debt and number of unemployed and hungry people has increased. Western investors, within the multinational companies, use various methods to reach the small markets of developing countries and gradually take them over. The agricultural products of the USA are an example, where agricultural producers find secure markets abroad due to lower prices secured with the help of the American government. The international economic and financial organizations that give loans to developing countries impose special conditions that prevent the governments of these countries giving their farmers and agricultural producers proper support. Because of international debt farmers in developing countries lack the modern technology needed in agriculture in order to decrease expenses and increase production.

Finally the farmers of these countries are forced to face bankrupty. Since the 1990s many countries, by accepting economic politics imposed by World Bank and IMF, have had to reduce their help to farmers, so the small farmers became indebted. It should be mentioned that 70 % of farmers in India do not posses

the land they farm but work for bigger land-owners. This percentage represents 400 million people. Furthermore, international financial institutions provide insufficient help to developing countries. Today most of the world is familiar with the real role of the aforementioned organizations and the damage they have done to developing countries. In most cases these developing countries have asked The World Bank for help and loans in an effort to make their economies stronger. They were weak and unable to pay their monthly or yearly debts because of high interest rates, so were forced to ask for more loans from other international economic organizations, precisely the IMF. It is well known that the IMF and the World Bank replenish each other, so it is necessary for the country that asks for a loan from the WB to be a member of the IMF.

On the other hand, the IMF, in order to forward certain financial loans to such countries, forces them to reorganize their own economic systems by imposing politics of economic structural regulation. The countries which apply have to fulfil numerous clauses in order to receive the loan, which includes elimination of all obstacles concerned with importation of foreign goods and a decrease of tax rates on imported goods of certain multinational companies and foreign investment unions. Furthermore they have to respect clauses lowering the monthly wages and ending help to domestic industry, and are forced to privatize their economy and to privatize their natural resources such as mines. Abatement of any kind of help to the educational, health care, and transport systems are just some of the conditions for getting a loan from the IMF and World Bank (Rajan, 2003).

3. THE ESSENTIAL CRITICS OF INTERNATIONAL MONETARY FUND ACTIVITIES

The IMF is, without any doubt, the most significant financial organization in the world. During its 60 years of activity, the IMF has had its ups and downs. The critics of the IMF claim that, instead of correcting it failures, this institution intends to cause more problems. The IMF has been glorified and also criticized because of the significance it bestows on the market economy. It is defined as a bearer of the financial globalization process. The countries that rely on financial help from the IMF have to conduct arranged programmes of economic reforms that often have great consequences for the population. The basic critique of the IMF, from the theoretical point of view, relates to its schematic commitment to the neo-classical economic doctrine often called market fundamentalism.

The strongest criticisms of the IMF's neo-classical economic doctrine were put forward by George Soros, founder of the Open Society Foundation and expert on the functioning of financial markets. The theoretical core of the argument is that the strategic operation of the IMF is contained in an explanation of economic relations that becomes instruction for developing countries and those with problems who are dependent on the help of international financial institutions. The IMF imposed this illiberal concept of development on all countries that asked for help. After the failure of the idea of central planning of the economy and of social development, the main mission of modern economists becomes liberating the invisible hand of market forces all around the world, by eliminating barriers to the free flow of natural resources, goods, services, and money, which should ensure great prosperity. The economy protected by pleaders for the IMF is based on the belief that the private sector is more efficient and dynamic than the public sector, and that it reacts better in market economy conditions. In academic and political discussions many accuse the IMF with its dogmatic approach of being the cause of inflation and balance of payment deficits in developing countries.

The pleaders for the IMF respond to the critics by saying that their approach comes directly from the free market and market economy. They also say that it is needed to conduct Washington´s consensus, and the countries with economic problems will soon get out of them. Fiscal strictness, privatization, liberalization and other elements of the macroeconomic programme are the basis of IMF politics, and over time they have become goals in themselves rather than mediums of more steady and sustainable growth. These politics were forced too much and too fast, where other needed politics were neglected. The IMF was giving better rates to countries that conducted privatization faster.

Nevertheless, fast privatization did not bring any regular benefit. Corrupt politicians used the demand of the IMF for fast privatization to buy electro-energy and water-supply companies in their countries. The workers did not benefit any during the process of privatization, because they were dismissed without remuneration. It is no wonder that enormous unemployment appeared after these conducted measures. The international power elite put the IMF under its authority, to serve as a regulator of national economies and as a strike force to carry out globalization. The IMF, with stand-by arrangements, expanded its competence, and imposed its attitudes and goals from neo-liberal theories. It often managed not only a country's budget but also the whole economic politics. With fast elimination of barriers and lowering of customs duties, the free market was established causing huge damage to domestic production. It was an unnecessary and great mistake of the IMF and of financial globalization overall.

The necessary preparations for the free functioning of the market were not conducted in developing countries and the needed institutions were not formed. The increase of production and productivity in domestic industry did not occur, and domestic industry remained uncompetitive in the domestic and world markets. Developing countries' foreign trade deficit grew to a dangerously high level. Budgets were restricted and expenses beyond the budget were practically reduced, resulting in a decrease of social allowances, a lowering of previous rights in health insurance, a members of a groupdecrease in education expenditure, and a limitation of pensions.

All these affected negatively various classes of the population, especially the poor, and also caused massive dissatisfaction and protest. This policy, based on Washington´s directives, created phenomenal social and private benefits, but it also had certain weaknesses, encouraged the instability of systemic risk-taking, and resulted in adverse financial consequences. Besides being inadequately conceptualized it concentrated too much on limitation of demands and not on structural policy that would influence the essential causes of the payment balance/imbalance of developing and transition countries. The IMF programme did not encourage agricultural growth but caused a decline in agricultural activity, an increase in unemployment, and a deterioration in living standards. Nevertheless the IMF defends its programmes, claiming that they are based on the policy of demand regulation and increase of offers, depending on the nature and scale of payment balance/imbalance duration.

Furthermore the essential problem of the IMF is a problem of management, lack of responsibility and evaluation, exaggerated monopolistic status, undemocratic system of management, and lack of public participation. This institution is not only dominated by the richest industrially developed countries, but also by the commercial and financial interest in these countries. Experts involved in the preparation of decisions in the IMF often adapt their analyses and suggestions to the ideas of their authorities. The IMF is often criticized for having highly secret policy and programmes. In recent years it has made a significant step towards publishing more information about its work. Nevertheless a lot more is still needed in order for the IMF to become more open and approachable to citizens. It is also important to mention because the taxpayer funds it, that the IMF does not directly inform the citizens who finance it about its work. Nevertheless, increased public pressure can contribute to changing international institutions´ policies and in this way bring benefit to all citizens in the world. Instead the IMF informs the Ministries of Finance and Central Banks of the member countries.

Furthermore, the management structure and the manner of making decisions have always been the main problem in the work and activities of this institution.

The most developed countries make decisions in the IMF, not only because of the particular methods of assigning the number of votes to different members, but also because of division of competences between certain sectors in the organizational hierarchy, and provision about decisions not made by a majority of voters but by a qualified majority which regularly exceeds 2/3 of all votes. (IMF, 2008). Today, almost all activities of the IMF and World Bank in developing countries are lead by representatives of industrially developed countries. It is well known that the head of the IMF is always European, and of the World Bank American. They are chosen behind closed doors, and it has never been considered necessary that they should have experience in world development. The responsibility principle of the WMF demands that those who make decisions are responsible for their actions and the consequences of their choices.

This involves principles of transparency and evaluation. Transparency secures for interested persons outside the institution access to information about choices made, who has made them, which options have been considered, and criteria for these decisions. Evaluation allows the public to discuss whether the decisions made are the right ones. The IMF does not succeed in accomplishing the criterion for its responsibility. The main reason for this is the lack of a systemic and independent evaluation mechanism. As there is no consistent, constant, and strict independent evaluation and criticism of the IMF, it appears that the IMF wants to hide the results of its work. Commercial interests and values have to be replaced by care for the living environment, democracy, human rights, and social justice. The world's civil society organizations are becoming ever louder in their demands for the public to be involved in the creation of the economic development programme (although very often the IMF writes the plans and programmes of adjustments alone, behind closed doors, and then sends them to the governments of the countries only to sign, while the countries have no opportunity to suggest their own plans). As global communications make the world smaller, more and more citizens are able to re-examine the expenses and benefits of economic policies.

The IMF is closed to the participation of citizens in economic programmes of adjustment. Nevertheless, it is claimed that it gives short-term financial help and macro economic advice (Khor, 2001), while consultations are not much needed. As arbiters in negotiations, the IMF is generally limited to the Ministers of Finance and Central Bank clerks. Involvement of the public in making decisions

is a moral imperative. People in developing countries have been protesting for years because of their difficult economic and social status. What is different today is a new wave of protests in developed countries. These protests have taken place in Geneva, Seattle, and other cities in 2001, where the meetings of the IMF, World Bank, and World Trade Organization were held. Enlarged pressure of the public can contribute to changing international financial institutions´ policy to benefit humanity. Professor of Columbia University and Nobel Prize winner J. E. Stiglitz felt the need to publicly criticize the working mechanisms of this institution when he saw the way the IMF and the other global players operated. The most noticeable is his criticism of the structural adjustments programme of the IMF.

According to Stiglitz, these programmes caused hunger and disturbances in many countries, even when the results were not fatal. The richest often became wealthier, while the poorest became even poorer. Furthermore, he emphasized that there was no doubt that certain sufferings were necessary, but according to his opinion the suffering in the developing countries, which is caused by the globalization process and development, managed by the IMF and international financial institutions, is much greater than necessary. In fact Stiglitz is against the manner in which globalization is conducted, and because of this he does not hide his social sensitivity towards the victims of an illiberal globalization process. The symbols of the world financial order are under permanent attack.

Globalization has become an important topic overnight, and it has decreased the feeling of isolation, connected national economies, and influenced the development of international trade. It has also made the gap between developed and undeveloped countries even greater. The process of globalization itself and implementation of a trade economy have not produced positive results in developing countries. Namely, the West has promised these countries great improvement from the new economic system. Instead the new system has resulted in greater poverty. International financial institutions have not played a role of leaders in a system with global rule without global government. Stiglitz (2004) says that in all the IMF has made two mistakes. The first mistake was accepting the theory of liberalization, making the general scheme based on this theory, and wrongly diagnosing the problems rapidly occurring in developing countries. Furthermore, this scheme and model were strictly applied to all countries, neglecting their real and specific states. This economist described the problems in four steps. The first step was privatization. Some politicians sold state electric and water industries, without negotiations, obviously interested in commission fees They used the demands of the World Bank to silence local critics. After

privatization, the second step is liberalization of trade capital. In the theory of investment this allows trade capital to go in and and out of the country freely.

Unfortunately, as the case in Indonesia and Brazil, money usually goes out, and goes in only because of real estate and currency speculation. The state reserves can lose money in a couple of days. When this happens, the IMF, with an intention to make profiteers repay their own state assets, requests countries to raise interest rates by a very high percentage. The result is predictable. Raised interest rates can destroy the value of real estate but also industrial production, and empty the national safety deposits. Then the IMF leads the weakened country to the third step that includes market determination of water, food, and gas prices. This leads to the fourth step, the so-called IMF protest, which is also very predictable.

Jeffrey Sachs, respected economist and Harvard University professor, is one of the critics of international financial organizations[1]. He is not so critical of the World Bank. He claims that western countries need to give more financial resources for programmes against poverty. He also adds that projects have failed in the past because of American pressure to give money to alliance governments, no matter if incompetent or corrupt. Sachs also emphasizes the extensive influence of Wall Street bankers on the work of these institutions. (Kim, 2005).

Many economists consider that the critics are justified, but that it cannot be expected that poor countries should determine the conditions and quantity of loans. It would be same as someone loaning money to himself. Also it is normal to expect the IMF to protect the interests of bankers, because if they are unprotected they will not invest, which is not in the interest of developing countries. The World Bank and IMF obviously have good and bad sides. Nevertheless, there is still a mystery. Why do the weakest, unprotected social groups bear the burden? Why is it untrue that with the reconstruction of these international financial institutions the global economic order will bring prosperity and the good life?

According to all the aforementioned, it can be concluded that more and more economists think that the IMF is not needed. They give three reasons to justify this fact. First, the IMF is institutionally incapable of being an efficient so-called 'last loan holder in urgency'. The IMF does not succeed in creating highly valued money and in reacting fast enough to prevent liquidity crises. Also the IMF lacks information to distinguish insolvent and illiquid banks. The IMF has not shown

1 See for instance *BBC News* of 6 July, 2004, http://news.bbc.co.uk/2/hi/business/3869081.stm, or Sachs (1997, 135-140) in Driscoll & Clark (2003).

its general efficiency in promoting the economic policies needed to avoid future economic crises. The IMF, established to provide short-term help, evolved as an international economic consultant for development, using subvention loans to convince governments of developing countries to implement policies that are in their interests. Nevertheless, the IMF has not showed any efficiency in this role. The differences in GDP per capita of rich and poor countries kept growing. The strength and frequency of financial crises also increased. Negotiations about receiving IMF loans that last too long threaten to change a liquidity crisis into a solvency crisis. Domestic loan holders can be in a situation where they owe more money in their currency, in order to fulfil their duties to loans in a foreign currency, if a stable currency rate is not maintained and the IMF loan is not received fast.

4. THE KEY CRITICS OF WORLD BANK ACTIONS

The World Bank was established at the same time as the IMF, in Bretton Woods in 1945, exactly 63 years ago, during a period when the world changed dramatically. Its mission was to help developing countries to restructure and improve their economies with convenient loans. It also had the objective of helping the post-war recovery of Europe and Japan. (Raffer, 2002). The world is very different today. The World Bank helps developing countries to develop even more and faster. Nevertheless critics claim that that many of its projects are ineffective, while the World Bank denies this. It is a fact that the World Bank cannot totally eliminate poverty. This role is usually given to local populations of developing countries and their governments. Help from abroad that includes help from the World Bank or other international institutions plays a very small and marginal role in the development of some countries. Everyone who thinks that the World Bank can solve the problem of poverty is wrong. Most of the work concerned with solving poverty can be done only by government or the citizens of a particular country. Nevertheless some experts think that the Bank does this in an ineffective and unproductive manner because it is a bureaucratic institution itself. Development experts have noticed that the World Bank is more occupied with large educational programmes or industrial sector reforms, rather than paying attention to small development projects.

In some developing countries the World Bank and IMF impose very strict conditions concerning the use of loans, which is all very harmful to the poor. The Bank cooperates very closely with the IMF and it cannot be denied that the World Bank and many other international organizations are more concerned

with the interests of capital and globalization as a whole, instead of the needs of developing countries. In regards to the indebtedness of many developing countries and their inability to repay annuities, the World Bank credits served to preserve the country's liquidity and pay its debts. Also there are some hidden relationships present in the business of the World Bank, and the agreements are made in secret. There are no democratic principles present, and the management of this institution has no obligation to inform any parliament or other democratic institution in the world about its activities, but instead it does this in the Conference of Ministers, which is a USA safe-deposit.

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To resume the IMF is mostly criticized because of its condition that the country accepting IMF credits has to conduct strict saving measures - lowering of public consumption by restrictive fiscal politics, which include tax increases and budget strictures. Critics of international financial institution are shown in the following table. Many critics believe that this kind of IMF policy has worsened the crisis, considering that it is well known that restrictive policies jeopardize economic growth. The fact that the IMF demands that a country should fulfil obligations to public and private creditors is interpreted as the IMF's affection for developed countries as well as big capital's intention to dominate. The domination of developed countries is obvious in the manner of making decisions, because the number of voices depends on the ratio, and the ratio is determined by the economic strength of the country. Because of this, many consider that the IMF should be more understanding about the impossibility of repaying loans during the crisis period. Beside the aforementioned, the IMF is resented for demanding fast and overall privatization in threatened economies with a high percentage of state property. Another criticism is based on the claim that the IMF advocates liberalization of capital flow. Namely, it is emphasized that free flow of capital exposes less developed countries to the risk of fast recession of capital (hot money) in a crisis period. (Ramakrishnan, Zalduendo, 2006). It also means they have less opportunity of financing balance of payments deficits exactly at the time when needed.

Table 1. Criticisms of international financial institutions

Criticisms of the IMF	Criticismss of the World Bank
It does not ensure funds to countries faced with economic problems	Ineffective projects
It has become too broad and preoccupied	Bureaucratic institution
There are no activities to fight poverty and wealth disparity	Imposition of strict conditions concerning loan use
It is not capable of conducting control and regulation of monetary policy	Many negotiations are made secretly
It reflects the power of industrially developed countries and multinational corporations	Democratic principles are not represented in the organization
Schematic loyalty to neoclassical economic doctrine - trade fundamentalism	The bank management is not responsible to any parliament or democratic institution
The problem of management, the lack of transparency, responsibility, and evaluation, monopolistic status and no democratic manner of management	Corruption Non-existence of public participation by developing countries It reflects the power of industrially developed countries
Imposition of strict conditions concerning loan use	Indirect distortion of physical and social environment

Source: Authors' work

Some criticisms of the World Bank correspond to criticisms of the IMF, for example the exaggerated liberalization of poorly developed economies and unwarranted influence of the West, especially the USA, concerning excessive protection of the interests of loan holders from developed countries. The World Bank has been criticized for insisting on western values in financing programmes, thus very often neglecting the local and traditional characteristics of debtors. In this way the Bank jeopardizes the countries' national sovereignty, because it demands implementation of legislation and establishment of a social system made according to the demands of developed countries.

It has often been criticized for disturbing the living environment by the implementation of projects. Paradoxically the World Bank has caused the quality of life of large number of people to deteriorate. Also such institutions neglect specific characteristics of member countries. All in all criticisms of the

international financial institutions are justified (Yung, Yunjong, 2001) because the World Bank and IMF slowly restructure their policies of adjustment, which consciously or unconsciously attack the poor population

5. CONCLUSION

Although there is a growing consciousness of the problem of the organization and management of these institutions, compensating programmes (such as the Heavily Indebted Poor Country initiative) are today modest. As an example, some proposals were made by leaders of the G-7 at the meeting held in Canada in 1995. The aim was to strengthen the role of the IMF and WB in monitoring and reacting to economic problems of member countries, especially developing countries. These proposals initiated a long-term revision of the actions of both institutions, in order that they should react better to the changing 21st century global economy.

However the key problem of whether the institutions would increase or decrease poverty in developing countries by de-emphasizing fiscal savings was not solved. As long as this is the case the IMF and the World Bank will continue to represent the wealthy international financial institutions, bankers, and investors that show limited interest in the troubles of the poor. There is also the question of the adequacy of guidelines in making international institutions change their conduct towards developing countries in order to promote development and social welfare.

Considering this topic is very wide, it is necessary to point out at least several proposals. First, it has to be admitted that neo-liberalism and privatization do not of themselves result in prosperity and development. Liberalization and privatization have to be introduced gradually and in a controlled manner. Certain market pre-conditions are necessary for liberalization. The privatization programme must be protected from adverse market effects, and there must be social programmes to solve the social problems that result from privatization. It is necessary to prepare quality regulations for the privatization process, with the aim of making privatization serve the realization of development policies. The proper financial institutions such as banks and regulated financial markets are necessary for the successful functioning of liberalization and privatization.

Furthermore, all the aforementioned have to be followed up with proper and coexistent macroeconomic politics. This politics has to be based on an exact

analysis of the state of the economy, and policy has to take into account that a weak economy cannot survive the competition of economically developed countries, and must protect itself with customs duties and other methods. The macroeconomic policy needs to have a special social programme and a programme to decrease poverty, which is a major problem in most developing and transition countries. The IMF and World Bank have to respect the particular conditions of each country and adapt their development models and macroeconomic policy to these conditions.

There is no doubt that the IMF and the World Bank violate human rights, destroy the physical and social environment, and extend misery and poverty in poor countries. The conversation with rich industrially developed countries goes nowhere, because the small but powerful G-7 group makes decisions without any controls that have global scope. In spite of criticism, the international financial institutions have to continue lending financial funds to weakly developed countries, and to maintain the stability of the international monetary system, and promote global economic development and prosperity. This means that the IMF has to emphasize liquidity, currency convertibility, and fiscal and monetary stabilization, and the World Bank should concentrate on the support of systemic and long-term economic development of poor countries.

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