The Global Economies

Introduction

Bretton Woods’s institutions can be defined as monetary institutions which were created in Bretton Woods, New Hampshire, the USA in July 1944 (Stephey 2008, n. p.). The institutions were founded during the United Nations Conference and were aimed at rebuilding the fallen after war economy and promoting global economic cooperation (Peet 2010, p. 42). The members of the committee agreed to form a group of institutions to address issues in the international monetary system. Examples of the Bretton Woods institutions include the following; the International Monetary Fund, IMF, which works to maintain a global financial stability through training, offering technical assistance, and giving loans to member states. The World Bank is also an international institution that consists of five agencies that function in providing technical and financial help to the underdeveloped nations with the purpose of lowering global poverty (Peet 2010, p. 44).

Another institution is the International Finance Corporation, IFC that falls under the World Bank agencies and it works in providing assistance to the private business investors. The Multilateral Investment Guarantee Agency, also under the World Bank works to promote foreign direct investments in the developing states by giving non-commercial risk insurance to the private investors. Moreover, the International Centre for Settlement of Investment Disputes is an independent global institution of the World Bank that seeks to remove restrictions to the free flow of private investments by providing methods of dispute settlements (Peet 2010, p. 47). The World Trade Organization, WTO, also an autonomous institution provides a forum for negotiation and implements rules of trade that should govern exchanges between the member countries. The African Development Bank, AFDB, functions in promoting both private and public investments and economic development in Africa. It also offers technical and financial help to its member states. Furthermore, the Asian Development Bank, ADB, provides financial as well as technical advice to the private and public investors in Asia and Pacific (Stiglitz 2002, p. 50). The European Bank for Reconstruction and Development, EBRD, provides financial assistance in Central, Eastern, and Central Asia so as to promote open and democratic market economies. The Inter-American Development Bank, IDB, offers support to the private and public investors in Latin America (Stiglitz 2002, p. 54).

The Bretton Woods institutions are important financial and monetary systems that have been there since the end of the Second World War. These institutions exist to offer technical, financial, and advisory services to the members. They worked to ensure the countries recovered after the war which had shattered the economy of many countries. Today, they are recognized as the primary financial supporters to private and public sectors especially in the developing countries. They provide loans to investors and ensure economic integration and cooperation by removal of trade embargos and restrictions to ensure a free market and movement of goods and services globally (Legrain 2003, p. 103). Business has expanded due to these financial institutions NIL the support with many third world countries developing to be medium income economy. This as a result of the technical and financial assistance being provided by the Bretton Woods institutions.  An example is the case of Kenya, once a developing state, but it has moved to a middle-income economy in the last two years (Ahmed 2010, p. 3). This is in support of the continuity of the Bretton Woods institutions which have shown to be critical in the growth of the global economy. The paper will assess the criticisms made to these establishments in the last decade and explain how they can be addressed.

Criticism

The Bretton Woods institutions have faced controversy from critics who offer different opinions as to why these institutions should be closed down. Criticism of the IMF and World Bank involves issues that are centered on the approaches adopted by the two organizations in designing their policies. It also touches on the way the institutions are governed. It has become a major concern to the public because of the social and economic impacts these policies and regulations have to the countries who seek financial and technical assistance from the institutions. The accountability of these policies has also being a primary concern to the critics (Poddar 2003, p. 23). The World Bank and the IMF have come up with many conditions to their borrowers. Their loan status is attached to conditionalities based on the Washington Consensus that focuses on liberalization of investments, financial sector, and trade. They also concentrate on the strict regulation and privatization of the public and national industries. Mostly, the conditionalities are imposed without considering the borrower’s individual circumstances and the lenders’ recommendations on how to pay the loan back. Critics of World Bank and IMF suggest that these two have failed to settle the economic problems because of the conditionalities of their operations (Stiglitz 2002, p. 65). The conditions are thought to result in the loss of state’s authority to monitor and manage its economy under the national economic policies. There is also the issue of the shear in the governance and control of the national economies of being a state-owned to a Washington-based financial institution that gives little voting power to the developing countries. This denies the countries the right to exercise their economic control thus power is left in the developed states who share their freedom in the global market (Jackson 1998, p. 30).

Again, critics of IMF argue that the IMF packages are associated with reduced investments in the general health of the public and the education (Peet 2010, p. 50). These are negative social outcomes that affect the developing countries such that they may not grow economically. Global economy relies on the people who should have the best education that would help them grow financially. It also depends on the health status of the people. When the working group is sick, businesses and work cannot thrive on well; thus the economy of the country is affected. Moreover, the government will spend a lot of finances and resources investing in health care hence neglecting the other income- generating projects that are directed towards economic growth (Ballard 1999, p. 170). Furthermore, the World Bank concerns are raised regarding the type of development projects they support and finance. Critics of World Bank argue that many of the projects funded by the World Bank have environmental and social effects to the population. They consider this unethical and thus do not support the fact that World Bank supports the infrastructure projects. An example is the funding of the construction of the hydroelectric dams that leads to the displacement of indigenous people. This has negative social implications as people are denied their rights of existence. Also, these projects pollute the environment and make the localities unfit for human life. The health and the social welfare of the people have to be a priority according to the critics of the World Bank (Legrain 2003, p. 106).

Moreover, the World Bank has also being associated with the global climatic change which has caused a lot of controversy in the world economic environment. The civil society groups view World Bank as an institution unfit for its function in controlling the financial climate because of the conditionalities and services attached to the loans they give to the borrowers (Peet 2010, p. 55). The industrialized countries dominate the bank's governance structure called the G7 that gives priority and privilege to the private sector and thus the performance of the management has been questioned. The bank is charged with the role of mitigating climatic change, but it is in constant conflict with its continual monetary support for polluting industries that destroy the environment with carbon and coal power as this is unethical because it goes against the social welfare of the population (Held 1999, p. 5). The World Bank has also partnered with the private sector to make them the primary providers of goods and services. For instance, they have given a mandate to the private investors to offer healthcare and education services to the general public. The consequences of such an action are exploitation to the people because the goods are provided with high costs because the aim of the private sector in the business world is to make a profit. Another implication is that there is usually a shortfall in goods and services to the countries in need of them (Forman 2008, p. 200).

Moreover, the International Finance Corporation, the primary private lending organization in World Bank, has been criticized for the increasing shift from public to private financing in the global economy. The Corporation has been disapproved for the increased funding of companies that use tax havens and financial intermediaries in offering financial assistance. The role of the Bretton Woods institutions in enhancing research, publishing activities, and training. Development has to be noticed if the financial regulators are directed to the opinion of the global markets. However, the experts in these institutions views undermine the alternatives to the development (Legrain 2003, p. 107).

The World Trade Organization has also faced criticism because it has failed to achieve its roles. WTO functions in providing a forum for negotiations on dispute resolution. They are supposed to work towards raising the living standards of the people in their member states, ensure employment opportunities to the people, create a high demand for goods and services, and expand production (Davis and Neacsu 2001, p. 86).  However, instead of working on its trade agreements it had formulated before, it adopted different agreements such as the General Agreement on Trade in Services. The previous policies were aimed at removing trade barriers, government regulations, and restrictions. On the hand, the GATS trade agreements do not allow the members to protect services including health provisions, education, and marine fishing (Scott, 1999, p. 300). The removal of trade barriers is aimed at increasing and enlarging the international trade; the idea has been challenged because it interferes with the sovereignty of the government in subsidizing services, regulating trade, and providing national services that are essential to its citizens such as healthcare and education services. Trade regulations only benefit countries that are already established and stable economically. The citizens of the developing countries are denied essential services (Drischler and Benjenk, 2008, p. 40). For instance, the liberalization of the health sector together with the removal of trade barriers has led to an increased cost for developing countries (Evans 2011, p. 356). This is because their local industries are encountered with increased competition from the developed countries.

The WTO is supposed to focus on increasing employment and economic growth, but, on the contrary, it has been accused of bringing a slow development in the weak countries. Critics of WTO accuse it of the collapse of the local industries in the developing countries with the lowering of the living standards among the people. If one considers Vietnam, a protected nation, it is conclusive that it has been incorporated rapidly into the global economy than open countries such as Haiti. The economic policies of Vietnam are functional as a result of the protected trade regulations (Stiglitz 2002, p. 69). The WTO has failed in balancing business goals with development strategy. Business purpose and desire are to maximize output, but it has overtaken the development vision. Thus increasing the niche between the rich and the underdeveloped countries. The multilateral trading systems have profited the rich nations and lessened the developing countries economically. Moreover, the Trade Related Agreement on International Property Rights has faced a lot of criticism because of the negative implications it has on the agricultural sectors (Goodstein 2011, p. 267). The weak countries are made to extend their intellectual and property rights to integrate the seed and plant varieties. Any issue affecting the agricultural sector in the developing states is of concern because they depend on agriculture for economic growth. TRIPs policies undermine accrued knowledge on livestock, and crop production has led to the growth of cartels that regulate market prices while lowering competition (Swanson 1998, p. 100).

Furthermore, the International Monetary Fund operates with the goal of providing stable exchange rates and helping in the reconstruction of international payment. However, it has received criticism from economists and economic analysts with the discontents based on the conditionalities offered to the members in borrowing loans (Modelski 1998, p. 201).  It has been accused of using threats on countries to make them compliant with their loans policies. Their debtors are faced with the challenge of taking their financial needs and ignoring the social needs. Critics of IMF argue that the IMF institution is exploiting the emerging nations. This is by forcing the developing countries to remove trade restrictions so as to allow foreign investments. They have privatized public business and also cut government expenditure on the citizens (Bernanke 2005, p. 107). This has the long term effect of denying citizens essential services such as health and education programs. Removing the trade restrictions has led to the exploitation of the countries because the super economies are taking advantage of the low manufacturing costs and the cheap source of labor. IMF critics state that these practices by the IMF are only widening the niche between the poor and the rich. The developing countries are burdened with the regular payment of debts and interests on leased loans. This makes it difficult for the weak countries to engage in the development projects that would help boost their economy (Peet 2010, p. 55). Besides, the IMF had faced criticism following its intervention in Kenya when it forced the central bank to remove all the capital flows. This action gave the Kenyan politicians a leeway that made them transfer money from the citizens. This led to the Goldenberg scandal. The exchange rates reforms made by the IMF have led to the economic collapse of their member states rather than prosperity (Brenner 2006, p. 300).

How to Address the Criticism

To deal with the criticism, the Bretton Woods institutions have to develop ways and strategies of addressing the key issues and concerns raised by the critics. First, the World Trade Organization has tried to focus on the improvement of it decision-making a process by ensuring promoting a consensus that involves the contribution and participation of all member states. Countries are allowed to make appeals to any decision they feel it is unfair and that which might affect the economy negatively (O'Neill 2001, p. 10). They have also developed the Doha agreement that has led to the exception of developing countries in issues that are negatively affecting their primary sector of income, for instance, the agricultural sector. Moreover, to address the issue of loan conditionalities, the World Bank and the IMF has declined its credit conditions thus promoting the growth of foreign trade and the global economic expansion. This has also increased the employment levels in the developing countries (Kung, 1998, p. 234). It is a vital measure by the IMF first to engage their members in consultation meetings before imposing loan policies and conditions. The IMF has first to understand the existing economic status of the country before giving them any credit so as to establish the repayment conditions. This has expanded the roles of IMF and brought a lot of transformations. The institutions have to focus on the need to change their structural governance (Amin 1995, p. 200). Many of the financial bodies are governed by the developed countries who are the primary economic controllers. This system has led to the exploitation of the developing countries thus their continued economic collapse. To address the above criticism, the institutions have to incorporate the weak states in the governance so as to ensure that their issues are well represented especially concerning payment of loans and management in general. They should not allow the rich nations to prosper at the expense of the developing countries. It is clear that the Washington consensus should be done away with. This is the effort of saving countries that are facing the financial crisis (McNally 2011, p. 150).

The World Bank and the IMF have to cooperate and work together to ensure a shared responsibility. There should be coordination especially during annual meetings where the governors are expected to present their countries economic issues, and the institutions are supposed to address the problems to prevent any financial losses (Balchin, Isaac and Chen 2000, p. 289). The management of the various systems should consistently hold consultations on the main issues affecting the global economies. They should release statements and articles that explain the strategies to address criticisms of their institutions. The organizations have to ensure staff collaboration to make sure that they are working towards achieving a common goal. They should assess the development projects, so if they are ethical and the implications they have on the human population. They also have to work together in offering technical advice to their borrowers (Nayyar 2002, p. 200).

Moreover, the institutions have to work together to ensure debt reduction, especially in the developing countries.  They have to help the weak countries achieve their development visions and goals without creating future financial obligations. This will reduce the poverty levels as a result of debt relief initiative (Stephey 2008, n.p.). The banks have to provide reduced interest rates to the developing countries as well technical advice to the states concerning the loan borrowing and investing in income generating activities. They should also assess the financial stability of their countries and help them achieve a long-term economic growth (Drischler and Benjenk 2008, p. 20).  The institutions should also major on the country’s strong economic basis, for instance, they should support the developing countries grow and expand their leading financial sector which is the agriculture. This will boost their economy and enhance trust among the member states. Moreover, to address the criticism, the institutions have to focus on supporting and funding projects that are free from social and environmental negative implications. This is to ensure that they do not face controversy from the critics who value human life (Legrain 2003, p. 109).

Conclusion

The Bretton Woods institutions are vital financial institutions that work to ensure the expansion and growth of the global economy. They function in reviving the postwar economy which was deeply affected by the Second World War. Despite the criticisms, the institutions face in the last decade; they remain to be vital in the global economy. Thus, it is indisputable that the continuity of the institutions should be ensured by considering the strategies given to address the criticisms.