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The International Monetary Fund (IMF), has been widely criticized for ignoring the political, social, and environmental realities of the developing countries it has operated in. Much of the criticism of the IMF arises from the fact that its original mandate is no longer suitable for today's complex global economy. This chapter offers a reconceptualization of the type of global monetary institution most appropriate for today's world.

The First 50 Years of the IMF

Founded as one of the Bretton Woods institutions at the conclusion of World War II, the IMF was charged with maintaining stable exchange rates in the global economy. Exchange rate stability was seen as key to expanding international trade, which, in turn was viewed as a prerequisite for a prosperous international economy. All currencies were set at an agreed upon rate of exchange with the U.S. dollar. The IMF was also charged with expanding the supply of money (liquidity). During the IMF's first thirty years, the IMF was most directly involved with activity in the developed countries.

In the early 1970s, however, the US delinked the dollar from gold, which undercut the IMF's role in the maintenance of international currency values. In the years that followed, the IMF gradually shifted the focus of its activities from the developed to the developing countries. The emergence of the debt crisis in 1982 created a new opportunity for the IMF to play a major role in shaping international financial affairs. It became a major lender to the growing number of poor countries besieged by unmanageable international debt obligations. It chose to link these loans to a number of "conditionalities."

It soon became evident that the indebted countries were often not suffering from temporary payments imbalances but from longer-term structural problems that were bringing the countries close to insolvency. Country after country began failing to meet IMF loan criteria with the result that IMF loans were canceled. Simultaneously, angry publics began taking to the streets to protest against the negative social effects that the loans were inflicting. Until then the IMF had an official position of being ideallogically neutral, but as its involvement with the poor, indebted, developing countries expanded, the IMFs bias toward the market system became ever more evident. By the 1990s, countries' access to IMF resources had become highly conditioned on the extent of their adherence to market policies.

An International Monetary System for the 21st Century

The massive expansion of the global economy, the quadrupling of the number if independent countries, the rise of a plethora of new global economic actors such as multinational corporations, new developments in communications, and the pressure from enormous amounts of Third World debt are a few of the factors whose impact on the global economy warrant a reconceptualization of the kind of international monetary fund necessary for today's world.

Criticisms of the IMF can be grouped into those that arise from the conceptual outdatedness of the original mandate given to the IMF and the those concerning structural and operational flaws in the ways the IMF carries out its mandate. The conceptual inadequacies include:

- absence of an independent reserve currency
- absence of a mechanism to stabilize exchange rates
- absence of a mechanism to provide macroeconomic direction to the global economy
- absence of a lender of last resort

The structural and operational deficiencies which prevent the IMF from fulfilling its current limited role as the monetary overseer for the world economy include:

- undemocratic voting structure
- absence of public participation and excessive confidentiality
- medium term loans used for long term needs
- duplication of efforts at the World Bank
- freeze on the issuance of Special Drawing Rights (SDRs)
- irrational allocation of SDRs

These inadequacies and deficiencies can only be addressed through the replacement of the IMF with a new institution.

A Visionary Alternative

John Maynard Keynes foresaw that the attempt to use the currency of a particular country as the reserve for the world would not be viable for the long-term, and argued that a more far reaching institution than the IMF was needed, one that would have the ability to use its own currency and to function similar to a global central bank.

Replacing the dollar with a neutral reserve currency would introduce a greater measure of equity in relations between the poorer and richer nations. Sticking with the dollar links the fate of virtually all countries to U.S. economic policy. Of course, the very thought of so powerful institution may seem daunting, but it must be remembered that the G-7 is implicitly acting in such a manner at present. Allocating this responsibility to the G-7 undermines the concept of a global democratic order. However, it would have to be ensured that a new global central bank did not mimic the IMF and become a tool of rich nations.

A Pragmatic Alternative

Unfortunately, a global central bank such as the one Keynes had envisioned is little more than a hope. However, the need for an international monetary institution has not disappeared. Despite the prevalence of floating exchange rates, countries still need short term payments funds to carry them through disequilibria. The need for a more effective vehicle for providing international monetary stewardship remains pressing. But the current IMF arrangements, in which the vast majority of countries are denied any real influence, must be altered. The asymmetry in the treatment meted out to the poor and the rich countries should be eliminated.

Serious attention should be given to the creation of a country-neutral reserve currency in the form of an expanded SDR. Whereas SDRs were initially distributed on the basis of IMF quotas, they might better be distributed on a needs-determined basis, as the developing countries have urged. One might wish to revisit the proposal for the IMF to make a one time issuance of "special purpose" SDRs, allocated to the poorest countries on a needs-determined basis, with the proviso that they could only be used for repayment of official debt.

Conclusions

The current global economic system favors the rich over the poor nations. While the monetary system cannot solve this problem itself it can assist in the solution. A logical next step would be for the IMF to test the feasibility of an entire new type of international currency that would maintain a constant purchasing power based on a basket of commodities. Democratizing currency so to speak, should be coupled with democratic voting arrangements. However, a new mind set could bring on a visionary alternative of an entire new (and more democratic) institution possibly funded by a tax on international transactions or from revenues yielded from the sustainable use of some of the international commons. Another step might be for the IMF to test out an entirely new type of international currency, one which could maintain a constant purchasing power.