International Financial Institutions

Meena Krishnamurthy, University of Manitoba

For Darrel Moellendorf and Heather Widdows (eds.), Acumen Handbook on Global Ethics

1. Introduction

In the era of increasing economic and financial globalization – the closer integration of the countries in the world economy through increased flow of goods and capital – international financial institutions have become of great importance. This is largely because economic globalization and its effects are managed in significant part by international financial institutions such as the International Monetary Fund (the IMF) and the World Bank.

Few philosophical works have considered in detail the moral dimensions of international financial institutions. As Thomas Pogge notes, philosophical discussion of international ethics has focused on important questions relating to just war (particularly the rules governing the use of force) and individual duties to aid (to donate to) needy non-compatriots (Pogge, 2005, p. 1). For the most part, it has not been concerned with questions about the design and conduct of existing international institutions such as the IMF and the World Bank. There is, however, good reason to engage in the moral assessment of international institutions such as the IMF and the World Bank.

Two points are important here. First, as John Rawls argues, in his prominent work on domestic justice, "the basic structure is the primary subject of justice because its effects are so profound and present from the start" (Rawls, 1999, p. 7). On Rawls's view, from the perspective of justice, the social and political institutions that comprise the basic structure are of central importance because they inevitably have a significant impact on how people's lives proceed. Something similar can be argued of international financial institutions and their effects on economic globalization. People's life prospects and expectations are inevitably determined in significant part by the international economy and the benefits it produces and distributes. International financial institutions manage the economy and the benefits it produces and, as a result, inevitably have a profound effect on people's everyday lives and how well they proceed. In at least this sense, the IMF and the World Bank are the international analogue to those institutions that are part of the domestic basic structure. For this reason international financial institutions, such as the IMF and the World Bank, should be considered among the primary subjects of international justice.[1] Second, as Rawls argues, "justice is the first virtue of social institutions" (Rawls, 1999, p. 3). On his view, "laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust"

[1] The upshot of this claim is that, even if there is not a "global basic structure" per se, the reasons that justify a focus on domestic political institutions justify a focus on international financial institutions.

(Rawls, 1999, p. 3). However, it can be argued that justice is not only a virtue of social institutions at the domestic level but is also the first virtue of institutions at the international level. If this is correct, then insofar as we ought to be concerned with justice in the domestic sphere, we ought also to be concerned with justice in the international sphere. We ought to be concerned with the extent to which international financial institutions are unjust and how they can be made more just. These are the fundamental reasons for engaging in moral assessment of international financial institutions such as the IMF and the World Bank.

In this chapter, the main aim is to explore some of the central moral critiques of international financial institutions as well as proposals to overcome the moral problems that they face. We begin in §2 with a brief discussion of the history, function, and structure of the IMF and the World Bank. In § 3, we turn to the moral critique of these institutions, considering both outcome and process based concerns. In § 4, we close by considering some initial proposals to overcome the moral problems that are discussed in the previous section.

2. The History, Function, and Structure of the IMF and the World Bank

2.1 The Creation and Function of the International Finance Regime

The International Monetary Fund (IMF) and the World Bank are international financial institutions that were created in July 1944 at a conference – led by the United States and the United Kingdom – in Bretton Woods, New Hampshire.

The conference took place in wake of the Great Depression of the 1930s and toward the end of the Second World War. The Great Depression was believed by many governments to be caused by countries' attempts "to shore up their failing economies by sharply raising barriers to foreign trade, devaluing their currencies to compete against each other for export markets, and curtailing their citizens' freedom to hold foreign exchange" (International Monetary Fund, n.d.(a)). As a way of avoiding the economically disastrous policies that led to the Great Depression, governments sought international economic cooperation, where goods would move freely between countries and be regulated by institutions that would promote greater economic and financial stability and predictability (Peet, 2009, p. 36). The IMF and the World Bank were created to meet these goals.

2.2 The IMF

The International Monetary Fund (or IMF) is an organization that consists of 188 countries. It is part of the United Nations system and is the central institution of the international monetary system. Historically, its main aim was to prevent economic and financial crises and to ensure stability in the international payment system. However, over time, the IMF's aims have broadened and now include the promotion of economic growth and alleviation of poverty. The IMF has worked to achieve these goals in three primary ways: (1) by monitoring the international economy and

the economies of member countries; (2) by providing member countries with macroeconomic and financial policy advice; (3) by lending money to member countries to help them overcome economic difficulties such as meeting their international payments (International Monetary Fund, n.d. (b)).

2.3 The World Bank

The IMF works closely with the World Bank. The "World Bank" is an organization that is managed by 188 countries. It is composed of two institutions: 1) the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) (International Monetary Fund, n.d. (a)).[2] "The IBRD aims to reduce poverty in middle-income and creditworthy poorer countries, while the IDA focuses exclusively on the world's poorest countries" (World Bank Group, 2012). The World Bank aims to meet its goal of poverty reduction by providing policy advice, research and analysis, and technical assistance to member countries and by lending money to developing countries for projects aimed at development. The IBRD lends to governments of middle-income and creditworthy low-income countries (World Bank Group, 2013 (b)). The IDA "provides interest-free loans—called credits— and grants to governments of the poorest countries" (World Bank Group, 2013 (b)).

2.4 The Structure of the IMF and the World Bank

The IMF and the World Bank have a similar structure of governance. The IMF and World Bank are managed by 188 member countries. These member countries, or shareholders, are represented by a Board of Governors.[3] Each member country appoints one Governor and one Alternate Governor. Typically, the position is held by the "country's minister of finance, governor of its central bank, or a senior official of similar rank" (World Bank Group, 2013 (a)). The Governors meet every twelve months at the Annual Meetings of the Boards of Governors of the IMF and World Bank Group. The Board of Governors is the highest decision-making body of the IMF and World Bank. However, while all powers are vested in the Board of Governors, with the exception of certain reserved matters, the Board of Governors delegates day-to-day decision making to the Executive Board (International Monetary Fund, 2013 (b)).

The Executive Board is composed of a group of Executive Directors,[4] who are appointed by member countries or by groups of countries, and a Managing Director who acts as the group's Chair. Most countries are grouped in constituencies

---

[2] These institutions are part of a larger institution known as the World Bank Group. For information about the other components of the World Bank Group see World Bank Group, 2012.

[3] If the country is a member of the IDA, then the appointed Governor and Alternate also serve on the Board of Governors of the IDA.

[4] There are 24 Directors in the IMF and 25 Directors in the World Bank.

representing 4 or more countries, but large economies, such as the United States and Japan, have their own seat on the Board. Members of the Executive Board typically meet two to three times a week to oversee the business of the IMF and the World Bank. The Executive Board manages day-to-day operations under the leadership and guidance of the President, vice-president, management, and senior staff.

2.4 Quotas

The IMF's resources are provided by its member countries through the payment of quotas. Each member country of the IMF and World Bank is assigned a quota, based broadly on its relative position in the world economy (International Monetary Fund, 2012, (a)). This quota then serves as the basis for formal decision-making power within the IMF and World Bank. For example, "the larger a country's quota in the IMF– determined broadly by its economic size – the more votes the country has, in addition to its 'basic votes,' of which each member has an equal number" (International Monetary Fund, 2012 (c)). So, each member of the Board of Governors has a weighted vote equivalent to its country's IMF quota plus the basic votes it is given. While each Director belonging to the Executive Board has a weighted vote equivalent to its constituency's combined IMF quota plus the basic votes. Something similar holds true in the World Bank.

2.5 Conditionality

One of the main functions of both the IMF and the World Bank is to lend money to developing countries. The IMF typically lends money to countries specifically for addressing balance of payment problems[5] while the World Bank lends money to countries more generally for economic development. Typically, disbursement of money is contingent on implementing specific economic policies that are meant to address the economic problems that initiated the country's request for a loan. At the same time, these measures are meant to safeguard IMF and World Bank resources by ensuring that the country's balance of payments and/or economy are strong enough to permit it to repay the loan (International Monetary Fund, 2012 (a)). The conditions and policies that loans are contingent on "depend on country circumstances. But the overarching goal is always to restore or maintain balance of payments' viability and macroeconomic stability, while setting the stage for sustained, high-quality growth and, in low-income countries, for reducing poverty" (International Monetary Fund, 2012 (a)). Typically, conditions have tended to include privatization and liberalization of the economy.

Sometimes borrowing countries who are unable to repay the money they borrow are granted debt relief or reduction. Debt relief and reduction have also tended to be contingent on implementing specific economic policy conditions.

---

[5] Balance of payment problems exist when a country's payments for imports are greater than the payments received for exports. IMF loans focus on problems of this sort.

3. The Moral Critique of International Financial Institutions

In what follows, we will consider a variety of moral critiques of the IMF and World Bank. We begin by considering outcome based critiques and then continue by considering more process-based critiques of these institutions.

3.1 Outcome Based Worries

Some of the most common and most plausible criticisms of the IMF and the World Bank concern the poor outcomes that their policies are purported to lead to. In what follows, we will explore outcome based critiques of (1) loan conditionality and (2) and international debt.

3.1.1 A Critique of Conditionality

One of the central critiques of loan conditionality is that, even if well intentioned, the conditions attached to international loans granted by the IMF and World Bank have failed and sometimes have even had disastrous results, leaving countries less able to address the pressing problems that lead to their economic instability in the first place and, as a result, have left them less able to repay their loans.

Consider the example of capital mobility. Joseph Stiglitz writes, "for the past couple of decades, the United States and the EU have pressed, with considerable success, for the liberalization of capital markets which enables investment to flow more freely around the world, arguing that this is good for international efficiency" (Stiglitz, 2006, p. 89) and "economic stability" (Stiglitz, 2006, p. 100). Stiglitz argues that free flow of capital is to the advantage of those in the developed world. It allows investors from developed countries to move money – which they have a significant amount of – around freely which in turn allows them to make high returns. However, he argues, the free flow of capital has not proved to be in the interests of developing countries who tend to lack capital. Unrestricted capital flows can have devastating effects on those who need capital. This is because capital tends to flow out of a country when a period of recession occurs, that is to say, precisely when a country needs it most (Stiglitz, 2006, p. 100). Just as countries need outside funds, the investors ask for it back. Without foreign capital, developing countries are less able to recover from a recession. This is evident when we consider the East Asian financial crisis.

After the East Asian crisis, many countries including Thailand, Korea, and the Philippines turned to the IMF for financial assistance. In order to spur recovery, the IMF had, as part of its loan package, required the removal of all capital restrictions – restrictions placed on the flow of money into and out of a country. This, however, only exacerbated problems as investors pulled their money out of investments (that is, as capital flowed out of the countries). In contrast, Malaysia did not take an IMF loan and imposed capital restrictions in the form of an exit tax that could be (and eventually was) gradually lowered. The tax discouraged investors from pulling their money out of the country. In comparison to Thailand, who followed IMF

prescriptions closely, Malaysia, through use of capital restrictions, recovered "more quickly, with a smaller downturn, and with a far smaller legacy of national debt burdening future growth" (Stitglitz, 2006, p. 125). This is just one of many examples of how economic policy conditions have left countries with greater economic instability and lesser ability to pay back loans.[6]

Adam Przeworski and James Raymond Vreeland have reached similar conclusions, arguing that "if growth is the primary objective then IMF programs are badly designed" (Przeworski et. al., 2000, p. 402). Their research shows that the

> growth observed under IMF programs was lower regardless of the conditions under which countries participated . . . countries [that] remained under IMF programs even though they had decent reserves and low deficits . . . grew by 1.02% slower than countries which enjoyed the same conditions while not being subject to these programs. But even countries with low reserves and high deficits did better if they did not participate: their growth was 1.79% faster. Thus, while countries facing bad conditions grew slower, participation in IMF programs lowered growth under all conditions (Przeworski, 2000, p. 395-97).

In short, countries grow much slower when they follow IMF conditions.

An objection to this line of argument could be raised. Compliance with IMF loan conditions is often argued to be low.[7] If this is true, then in many cases, it could be argued that IMF loans are not the cause of bad outcomes such as low growth. It could potentially be argued that the poor outcomes are the result of the lack of compliance with IMF loan conditions. Countries have failed to grow and reduce poverty, not because they have followed IMF loan conditions, but rather, because they have failed to do so. In response to this worry, Axel Dreher (2006) has shown that acceptance of IMF programs and conditions tend to lower growth by 1.5% points under full compliance. Michael Hutchison and Ilan Noly reach similar conclusions, arguing that IMF programs hurt growth, even after controlling for levels of compliance (Vreeland, 2006, p. 109). This suggests that even when countries fully comply with IMF loan conditions, they grow less than they would otherwise.

3.1.2 International Debt

When developing countries borrow from the IMF and the World Bank they are obliged to pay it back. A number of popular critics, including NGOs[8] and average citizens, have been critical of this requirement, arguing that the debt of the poorest countries ought to be forgiven. The central worry is that debt exacerbates poverty and worsens social conditions. This general worry takes two more specific forms.

The first worry is that repayment of debt prohibits economic and social progress among the poorest countries and, in turn, promotes the violation of human rights. Paying back debt requires funds that could be used for other important purposes such as provision of social and public goods such as health care or efforts

---

[6] On the failure of conditionality see Stiglitz, 2006, especially ch. 2.

[7] For a brief discussion of this worry see Boughton (2003, p. 4).

[8] The Jubilee Debt Campaign (http://www.jubileedebtcampaign.org.uk) is among the central NGOs that have been critical of international debt.

to alleviate local poverty and to stimulate the economy.[9] Christian Barry argues that "high levels of debt can limit the capacities of countries' governments to provide social services necessary to ensure even a minimally adequate standard of living for their people" (Barry, 2011, p. 284). For example, Barry notes, "in 2000 Tanzania spent nine times more on debt service than on health, while 1.6 million lived with AIDS" (Barry, 2011, p. 285). For this reason, Barry concludes that the negative consequences of debt are also a concern from a human rights perspective. Servicing debt can undermine efforts to promote human rights satisfaction.

One could object to this argument by noting that borrowing countries willingly entered into the loan with full knowledge of the terms of repayment. As result, it could be argued, borrowing countries owe repayment of the loan, even if it undermines human rights satisfaction within that country.

This objection may not be fully compelling. One could argue in response that we cannot rightly be held to terms that violate or undermine our human rights. For example, even if someone genuinely promises to be your slave, it would not be morally appropriate to hold that person to his commitment, if it violates his human right to freedom or liberty. Similarly, even though borrowing countries promised to pay back the loan (under all conditions), it may not be morally appropriate to hold them to this commitment, if it undermines human rights satisfaction within that country.

The second worry is that the current structure of debt promotes the incidence of oppressive and corrupt elites in the developing world (Pogge, 2004, p. 271). Traditionally, the IMF and the World Bank have not considered whether they are lending money to a democratic government, a dictator, or a corrupt government. They simply lend to the government that is in political power at the time.[10] Pogge has argued that this policy is problematic for, at least, two reasons. First, it promotes borrowing by destructive leaders who can then use the money "to maintain themselves in power even against near-universal popular discontent and opposition" without having to suffer the burden of paying the loan back (Pogge, 2004, p. 272). For example, the current South African government has, since it came to power, "been paying off a debt of $22 billion lent to the apartheid regime, money that helped to prop up that regime" (Jubilee Debt Campaign, n.d. (b)). Second, the current process of debt "imposes upon democratic successor regimes the often huge debts of its predecessors"(Pogge, 2004, p. 272). Even if the money was originally lent to a dictatorial regime, so long as debt still exists at the time of its implementation, a newly implemented democratic regime owes repayment of the loan to the IMF and the World Bank. These fledgling democratic regimes are saddled with significant debt payments, which in turn leaves them less able to implement the economic and political reforms that are needed for economic

[9] Christian Barry points out that "the negative social consequences, such as plummeting employment and impoverishment of the population, of financial crises in indebted middle-income countries such as Argentina and Turkey provide recent examples of this phenomenon" (2011, p. 284).

[10] It is important to note that this practice is sanctioned under international law (Pogge, 2010, p. 49).

progress and stability, leaving the successor regimes less successful than they might otherwise be.

Against these claims, it is commonly argued that debt is not the sole or even among the most important factors that lead to destructive leaders or failed regimes.[11] Rather, it is argued, factors internal to the country itself, such as cultural or economic factors (such as poor economic policies) lead to such things. In response, one could acknowledge that internal factors often do play an important role in the creation of destructive leaders and failed regimes. Pogge's claim might simply be understood as the claim that internal factors are not the only factors that matter. External factors such as international debt can and often do play a role in the creation of destructive leaders and failed regimes. Moreover, it could be argued that external factors often shape internal factors. It is the internationally created incentive system, for example, that fosters a culture of corruption within a country and that, in turn, supports oppressive and dictatorial leadership within that country.

3.1.3 Moral Significance of Outcome Based Worries

The sorts of poor outcomes – human rights violations, worsening of poverty, oppression and corruption – that have been associated with the IMF and the World Bank's policies can be argued to be morally problematic for at least two reasons. First, some thinkers, such as Jeremy Bentham and other Utilitarians, have argued that political institutions and policies ought to be structured so that they maximize well-being. It seems clear that the well-being of the poor is negatively affected by poor outcomes such as increased poverty and oppression in poor countries. Second, others such as Thomas Pogge argue that, these poor outcomes are indicative of a violation of a negative duty not to harm. In voting for politicians, who, through their greater political influence in such institutions, support and encourage the harmful policies that are implemented by the IMF and World Bank, individuals in developed countries are contributing to the harm of the international poor and thus violating their (negative) duty not to harm others.

3.2 Process Based Worries

Some of the most prevalent and compelling criticisms of the IMF and the World Bank concern the processes by which they are operated and structured. In what follows, we will consider the criticism that the IMF and the World Bank suffer from a deficit of democracy.

3.2.1 The Deficit of Democracy

[11] See for example, Risse's (2005) argument in favour of "the empirical thesis . . . that it is the quality of domestic institutions that primarily explains whether a country is rich or poor ('the institutional thesis')".

A central criticism of international financial institutions is that they suffer from a deficit of democracy. Critics have often argued that these organizations do not operate in a way that is consistent with core democratic values. The clearest examples of the deficit of democracy within the IMF and the World Bank are weighted voting and conditionality of loans.

As already mentioned, in the IMF and the World Bank, votes are weighted by economic status. For example, in the IMF, the G-7 countries together have over 44% of the votes, the G-10 countries with Switzerland have just over 51%, with the US holding just over 17% of the total votes. In the IMF, this means that in a number of important categories of decisions such as financial policy revisions (including how its resources are used), constitutional revisions, and changes in quotas and membership, that require special majorities of 85%, the United States is the only single-country to retain veto power.[12] Because of this voting structure, the United States and the 10 most developed countries are able to significantly shape and restrict the agenda of policy making in both the IMF and the World Bank. Because "little weight is given, for instance, to the voices and concerns of the developing countries," critics such as Stiglitz worry that weighted voting is not consistent with democratic values (Stiglitz, 2003, p. 12).

There are a number of democratic values that are thwarted by the IMF and the World Bank's policies of weighted voting. The most fundamental value that weighted voting conflicts with is self-respect.[13] To see why this is the case, consider what is wrong with the following argument for weighted voting within a country. Imagine a country where how many votes you have is contingent on how much you pay in income taxes. Insofar as you pay more in taxes you contribute more than others to the running of the country and, on this argument, this would justify your having more votes than others who paid less in income taxes. It is clear that in the domestic political case, this arrangement is morally objectionable. After all, as John Rawls has suggested, a country is not a monopolistic firm (Rawls, 1993, p. 264). The operations of the government are important to the interests and life prospects of all its citizens not just those who "contribute" more. This impact is broad in its scope: it shapes people's life prospects in many different areas. It is also, in a sense,

---

[12] It has been suggested by the IMF that formal votes rarely take place at the Executive Board. Instead, decisions are made by consensus, where the IMF's Managing Director determines the consensus from his "sense of the meeting," taking into account support from the various executive directors and their respective voting shares, such that if an issue were to be put to vote there would indeed be the required majority. It seems then that, even if formal votes aren't taken, the weighted voting system strongly influences the decisions that result from the consensus formation process. Rapkin and Strand reach a similar conclusion (see 2006, p. 309). Moreover, when no consensus can be reached, decisions are made on the basis of a simple majority. Abbas Mirakhor, one of the longest serving IMF board members, has suggested that, currently, this happens more and more because there has been a decline in consensus building (see Chowla et. al., 2007).

[13] For an argument regarding self-respect and its importance to the justification of democracy see Krishnamurthy (Forthcoming).

inevitable: typically, one cannot just pick up and leave one's country. While there is usually a right of exit in most countries, it is usually rather difficult to exercise this right. Given the large scale and the broadness in scope of the impact of the state on citizens' life prospects, it is important that each citizen's interests are taken into account equally. The scheme should distribute burdens and benefits as equally as possible. It would be disrespectful to ask some to bear great burdens while others benefit greatly, for it would suggest that some people's interests or prospects are not as important or worthy of consideration as others.' The only way to ensure that there is an opportunity for everyone's interests to receive genuinely equal consideration is to ensure that everyone has an equal say. Therefore, everyone ought to be given an equal say in the running and operations of the country that they are members of.

A similar argument can be made in relation to the IMF and the World Bank (Krishnamurthy, Unpublished manuscript (b)). The economic policies associated with loans, as chosen by the IMF and the World Bank, have a significant impact on people's life prospects. How well a person's life proceeds in a variety of spheres of life, economic, political, social and cultural, is shaped to a significant extent by such institutions. Moreover, typically, their policies are not something that can be opted out of, at least not without great cost. The IMF and the World Bank are essentially the only lenders that offer loans for such large amounts to poor countries with unstable economies. Most countries that receive financial assistance from the IMF and the World Bank are in desperate need of such loans. For this reason, while they can opt out of IMF and World Bank policy, it could only be done so at great cost (i.e., at the loss of the loan). In this sense, international financial institutions are analogous to governments. Their policies affect large spheres of life including economic, political, social and cultural spheres. So, for reasons analogous to those above, it can be argued that the IMF and World Bank should distribute the burdens and benefits associated with its policies as equally as possible. It would be disrespectful to ask some (say, the poor) to bear great burdens while others (say, the rich) benefit greatly, for it would suggest that some people's interests or prospects are not as important or worthy of consideration as others.' In turn, the IMF and World Bank ought to ensure that genuinely equal consideration is given to the interests of all individuals whether they are the interests of those in developing or developed countries. The only way to do this is to give all members and their citizens an equal say in the operations of the IMF and the World Bank.[14] Denying this would be inconsistent with foundational democratic values.

The deficit of democracy is apparent in the IMF and World Bank's policy of loan conditionality as well. The economic policies associated with the IMF and the World Bank's loans are not chosen by the borrowing countries' elected officials; they are usually determined by economists who work for the IMF and the World Bank, who, in turn, are greatly influenced by the United States and other developed countries who have the greatest power over decision-making. Critics worry that

---

[14] There are real questions about how exactly to ensure that all participations have an equally influential say. We will consider this issue in the final section of this chapter.

conditions make democratic processes difficult, for there is little opportunity for citizens of the borrowing countries (which tend to be developing countries) to influence which economic policies are pursued.

A fundamental democratic value that is thwarted by conditionality is the value of self-determination or autonomy.[15] Many philosophers have argued that individuals have a right to autonomy. This is to say, that individuals have a right to a way of life where they can make choices in ways that are consistent with what they value and identify with. As Thomas Christiano suggests, democracy can be thought "to extend the idea that each ought to be master of his or her life to the domain of collective decision making" (Christiano, 2006). The argument for democracy from the value of autonomy is twofold. First, each person's life is deeply affected by the larger social, legal, and cultural environment in which he or she lives. Second, only when each person has an equal voice and vote in the process of collective decision-making will each individual have an opportunity to shape this larger environment in ways that are consistent with what she values and what she identifies with (Christiano, 2006). Therefore, an individual's right to autonomy can only be fully exercised when democracy is in place. Thus, insofar as individuals have a right to autonomy, they have a right to democracy.

So, understood, the value of autonomy is not consistent with the practice of loan conditionality. In some countries, citizens have collectively decided, in the sense that there seems to be enough of an agreement among citizens, on social conditions or programs that require a high level of public spending. For example, the citizens of a country, say, Greece, might collectively decide on a system of health care and education (including higher-level education) that is publicly funded. Any significant reduction of public spending would conflict with this decision. To the extent that loan conditionality might require this type of significant reduction in public spending, it would conflict with Greek citizens' interest in being able to choose and to pursue ends and goals that are truly their own and that they identify with. As autonomous agents, Greek citizens have a right to choose their own particular path of development. To deny them this opportunity is to deny them the grounds for autonomy. So, for this reason, loan conditionality can be argued to be inconsistent with foundational democratic values because it thwarts citizens' right to autonomy (c.f., Krishnamurthy, Unpublished manuscript (a)).

It is important to note that the arguments from self-respect and autonomy likely apply only in the case of sufficiently democratic countries. If a country is not sufficiently democratic, then its citizens may already lack the grounds for self-respect. For example, an undemocratic regime may not take the interests of its citizens into genuinely equal consideration, perhaps ignoring the interests of the worst-off or those of certain ethnicities or cultural backgrounds. Similarly, if a country is not sufficiently democratic, then its citizens may already lack the ability to exercise their right to autonomy. They may lack the ability to collectively choose

---

[15] For example, see Gould, 1988. Another argument for democracy that focuses on autonomy (in the Rawlsian sense) is developed in Krishnamurthy, 2012.

and pursue ends and goals that are truly their own such as public education.[16] For instance, in a dictatorial regime, because they are the only ones who are able to influence the operations and structure of political institutions and policies, only those who are part of the regime itself (and not the people or citizens) may have such abilities. For these reasons, one could argue that the weighted voting and loan conditions that are imposed by the IMF and the World Bank in the case of insufficiently democratic countries would not conflict with citizens' sense of self-respect or violate citizens' right to autonomy. The arguments from self-respect and autonomy simply may not apply to insufficiently democratic countries.

Some might worry that this limitation poses a significant problem for the arguments from self-respect and autonomy. After all, many of the countries that participate in the IMF and World Bank and that do most of the borrowing might be considered insufficiently democratic. If this is right, then these two arguments cannot explain why weighted voting and loan conditionality are objectionable in relation to many of those countries that are participating in the IMF and World Bank. The arguments from self-respect and autonomy seem extremely limited in their relevance to the moral critique of the IMF and World Bank.

In response, it could be argued that the arguments from self-respect and autonomy do have some implications for insufficiently democratic countries. First, it could be argued that allowing insufficiently democratic countries to participate in such institutions would not be consistent with citizens' sense of self-respect. If insufficiently democratic countries are permitted to participate and to make decisions in the IMF and the World Bank in ways that are not genuinely representative of their citizens' interests, then such participation would be undermining of those citizens' sense of self-respect. It would be undermining of their sense of self-respect because it would not allow for equal consideration of their interests within the IMF and World Bank. Second, it could be argued that granting loans of any kind to insufficiently democratic countries is itself inconsistent with citizens' right to autonomy. If the funds are used in ways that go against or are not consistent with the choices and aims of the people or are used to prevent people from choosing and implementing their own collectively chosen ends, then it would be a clear violation of individuals' autonomy-based right to democracy.[17] In short, the arguments from self-respect and autonomy suggest useful limitations regarding whom should be included as members of good standing in institutions such as the IMF and World Bank. They suggest that insufficiently democratic states should not be included as members of good standing; they should not have decision-making and borrowing privileges.

Weighted voting and loan conditionality are not the only areas where the lack of democracy is evident. As Richard Miller has aptly noted, the influence of the

---

[16] Note that in Rawls's notation of a decent consultative assembly, which takes seriously and is responsive to the views and opinions of citizens, would likely be sufficiently democratic. For more on this see, Krishnamurthy 2012.

[17] This discussion leaves open the question of whether genuinely benevolent dictators (who are responsive to the views and choices of the people) are sufficiently democratic. At least in theory, they could be.

United States over the IMF and the World Bank is both more subtle and pernicious than our previous discussion of weighted voting and loan conditionality highlights. First, as Miller notes, there is a "quasi-official rule that the World Bank's President must be a U.S. citizen nominated by the U.S. government" (Miller, 2010, p. 135). Second, there is routine interaction between the IMF and the World Bank and the United States Treasury. Quoting a recent study of the World Bank by Catherine Gwin, Miller writes,

> the United States is the only country that carries out detailed reviews of every bank proposal and the only one to maintain constant contact with the Bank through government officials, in addition to its representative to the board. The United States will question a prospective loan early in the preparation process, and during final deliberation of a loan proposal by the Bank's executive board, it will make comments designed to draw attention to general matters of concern in order to influence future lending (Miller, 2010, p. 135).

Miller writes of similar occurrences at the IMF. During the East Asian financial crisis in 1997, South Korea sent an envoy to work out an IMF loan.

> 'I didn't bother going to the IMF,' the envoy subsequently recalled, 'I called Mr. Summer's office at the Treasury from my home in Seoul, flew to Washington and went directly there. I knew this was how this would get it done' (Miller, 2010, p. 136).

What allows the United States to have such significant influence over the IMF and the World Bank? Miller argues that the United States uses its threat influence to shape the world trade regime through institutions such as the IMF and the World Bank. In particular, "fears due to the U.S. financial resources" are most influential, since the U.S. is the largest financial contributor to both the IMF and the World Bank. In addition to the United States's quota payments (which are the largest), the United States contributes in significant ways to both institutions. The IMF, for example, receives additional funding for its reserves from the United States when world liquidity requirements increase. The World Bank also gains access to capital markets within the United States upon its approval. For example, as Miller writes, when "the Bank sought to raise new capital in 1984, a U.S. Treasury official told the Bank's Vice President that failure to accommodate the U.S.'s emphasis on private funding of the energy sector in developing countries had led to the government's 'reviewing whether the Bank should continue to have access to U.S. capital markets'" (Miller, 2010, p. 135).

The overarching power of the United States is an important concern for those who are committed to democratic values. First, a system which allows one country and its individuals to have more influence than any other country and its members is undermining of the self-respect of those who have less influence. Just as is the case with weighted voting, this arrangement is not consistent with their sense of self-respect because it fails to ensure equal consideration of their interests.

Second, a system in which the U.S. is allowed to have superior influence in the IMF and World Bank is not consistent with autonomy. Through its superior influence, the United States is significantly more able, than other member countries, to shape the operations and the policies (e.g., the conditions that are part of loans) of the IMF and World Bank according to its own values and interests. This is not consistent with other countries' right to autonomy, since their ability to exercise their right to autonomy by influencing and shaping the policies and operations of the IMF and Bank would be significantly constrained.

Some might argue that, at least for instrumental reasons, American influence over and control of institutions such as the IMF and the World Bank are actually good things. It seems clear that we need economic stability – stability in growth rate, employment and prices – particularly because such instability is bad for the poor. Some like Robert Gilpin and Charles P. Kindleberger argue that countries are not likely to cooperate with one another in order to achieve stability. On their view, the creation of economic stability requires a powerful leader or a hegemon (Giplin 2001; Gilpin 2002; Kindleberger 1973). Through exercise of its power, the hegemon motivates countries to cooperate with one another, thereby imposing a stable and predictable economic order on the world.

In support of this thesis, Kindleberger points to the worldwide depression in 1929. On Kindleberger's view, the world depression lasted so long and was so pervasive because there was no dominant economic power to contain the damage that was done and to take on burdens in the way of extending credit (playing the role of "lender of the last resort"), creating and maintaining a liberal trade regime, and establishing an international monetary system. In short, Kindleberger argues that the depression was "so deep and so long because the international economic system was rendered unstable by British inability and United States unwillingness to assume responsibility for stabilizing it" (Kindleberger, 1971, p. 292). This example is meant to show that in order for world economic stability to be achieved there must be a dominant economic power. So, in a similar vein, one might argue that in order to achieve the objective of economic stability, the United States, must exercise its power through the IMF and the World Bank.

In response, one could argue, the United States, or any other dominant economic power for that matter, does not know what will lead to economic stability. Indeed, American involvement through the IMF and the World Bank in the economies of other countries has lead, in many cases, to serious economic instability. Take the case of Latin America. In the years from 1950-1980 Latin America's per capita income grew at 2.8% annually (Stiglitz, 2006, pp. 35-36). In the 1980's the United States dealt with its own inflation problems, causing it to raise its interest rates, which eventually passed 20% (Stiglitz, 2006, p. 36). These increased interest rates affected loans made to Latin American countries and prompted the Latin American debt crisis of the early 1980's. Mexico, Argentina, Brazil, and others defaulted on their loans. During this time, "Latin American economic policies changed dramatically, with most countries adopting Washington Consensus policies" (Stiglitz, 2006, p. 36), a set of policies determined by Washington based institutions – the IMF, the World Bank, and the United States Treasury – to be the right policies for growth and development. Latin American countries needed to borrow money from the IMF and the World Bank, and the Washington Consensus became the basis of the policies upon which IMF and World Bank loans were conditional. While countries such as Argentina, who thoroughly adopted the Washington Consensus policies, did resume growth and restore price stability, this was only for a short amount of time. Stiglitz writes, "growth was not sustainable . . . Growth was to last only a short seven years, and was to be followed by recession and stagnation. Growth for the decade of the 1990's was only half what it had been in the decades prior to 1980" (Stiglitz, 2006, p. 36). This example illustrates that the

policies endorsed by the United States as part of the Washington Consensus did not lead to long-term economic stability and in fact seemed to elicit economic instability over the long run.

The East Asian crisis is another important example of how United States involvement seems to have precipitated economic instability. Stiglitz writes, "the IMF and the US Treasury believed, or at least argued, that full capital liberalization would help the region [East Asia] grow even faster. The countries in East Asia had no need for additional capital, given their high savings rate, but still capital account liberalizations was pushed on these countries in the late eighties and early nineties. I believe that capital account liberalization was *the single most important factor leading to the crisis*" (Stiglitz, 2003, p. 99). Typically, the IMF and the World Bank, led by the United States, have argued that capital liberalization promotes economic stability. As we have already discussed, Stiglitz is very sceptical of this claim because he believes that full capital liberalization leaves developing countries open to the whims of foreign investors, which does not support economic stability, since money often leaves countries just as they desperately need it. If Stiglitz is right and capital liberalization was a central cause of the East Asian crisis, then, insofar as the United States pushed full capital liberalization, it seems clear that actual United States dominance is at least partially responsible for the onset of the crisis.[18] This and the last example are in direct contradiction to Giplin and Kindleberger's claim that a dominant economic power will lead to economic stability.[19]

3.2.2 Moral Significance of Process Based Worries

The previous discussion illustrates the complexity of the deficit of democracy within international financial institutions. The lack of democracy in international financial institutions is of particular significance for those who hold that being sufficiently democratic is a necessary requirement of just political institutions. For example, Meena Krishnamurthy (2012; Forthcoming) argues that democratic decision-making processes are required by Rawls's theory of justice. If justice requires something similar at the international level, and the IMF and the World Bank fail to meet this requirement, then it follows that the IMF and the World Bank are unjust.

---

[18] As Dani Rodrik's work suggests (for discussion of his work, see below), the reason for the United States's failure may be that they lacked local knowledge and local expertise of Argentina and East Asia, both of which, on Rodrik's view, are essential to short and long-term growth and development.

[19] Historically, there has been some scepticism regarding the value of democracy in the international sphere. There are different ways of cashing this argument out. Some might wish to argue that international financial institutions are not analogous to the institutions that are part of the domestic basic structure and, in turn, that the analogy between domestic arguments for democracy and global ones fails. But, it is difficult to fill this worry out plausibly. The onus is on the sceptic to show where the analogy fails. Arash Abizadeh (2007) makes similar claims regarding the analogy between domestic and international distributive justice.

4. Proposals for Correcting the Moral Flaws of the IMF and World Bank

Given that the IMF and the World Bank arguably suffer from a number of moral flaws, we must consider whether and how these can be overcome. There are three ways of responding to these moral failings: we can either (1) dismantle or eliminate the IMF and World Bank; (2) reform the IMF and the World Bank to deal with the specific problems that have been outlined; or (3) to take up more general reforms that go beyond mere changes in IMF and World Bank policy and structure. In what follows, we will consider these options in more detail.

4.1 Elimination of the IMF and World Bank

Walden Bello argues that the crisis faced by the IMF and the World Bank is systemic and for this reason "is not one that can be addressed by mere adjustments in the system, for these would be merely marginal in their impact or they might postpone a bigger crisis" (Bellow, 2004, p. 107). Instead, Bello believes that we should work to eliminate or at least drastically scale back the power of the IMF and the World Bank. For example, he suggests that we could reduce the power of the IMF by turning it into a research agency, whose primary function would be to monitor the exchange rates of international capital flows. Alternatively, he also suggests that we could turn the IMF and the World Bank into a set of actors that co-exist with and are checked by other international institutions and agreements, and regional groupings. This option would require strengthening a diverse range of other actors, such as regional groups and the United Nations Conference on Trade and Development (UNCTAD).

In the end, dismantling the IMF and the World Bank may not be the best way of overcoming their moral failings. There is an important need for some coordination of multinational activity, since, in the modern world, there are deep and unavoidable economic and financial interdependencies among the world's people. For example, as Iris Marion Young notes, "a change in the value of currency or interest rates within one country often has ripple effects on the financial markets of the whole world. Commodity prices on the world market are determined by the interactions of many agents across borders" (2004, pp. 247-248). Given their impact on individuals' life prospects, we will also need to establish and implement principles and standards of justice to govern international economic and financial interactions. These considerations support some kind of centralized decision-making in the areas of economics and finance through institutions such as the IMF and the World Bank is necessary.

4.2 Reform of the IMF and World Bank

If institutions such as the IMF and World Bank are necessary, then we must implement specific policy or structural changes within the IMF and World Bank to

overcome the specific moral failings that have been identified. In what follows, we will consider some options.

4.2.1 Improving the Effectiveness of Loans

As discussed in section 3, a central criticism of loan conditionality is that it leads to poor outcomes. Countries that tend to take up and to adhere to IMF and World Bank loans tend to experience less growth and greater poverty than those that do not.

Dani Rodrik has suggested that economic prosperity, growth, and development are not things that can be imposed by developed countries, through policies such as conditionality, on developing countries. Rodrik argues while "market-based incentives . . . competition and macroeconomic stability are essential everywhere", there is no one size fits all plan for development, since the actual policy content of these general principles must be determined in a country's specific settings (Rodrik, 2001, p. 29; Birdsall, et. al., 2005, p. 9.). Rodrik argues, to be successful, plans for economic reform must be tailored to "domestic realities" and be based on local knowledge and local expertise.

In support of these claims, Rodrik and Birdsall and colleagues, point out that countries that adhered most strictly to orthodox reform agendas, under the authority of the IMF and the World Bank, for example, Latin American countries, have not done well, while almost all successful cases of development in the last fifty years have taken up more creative and unorthodox reforms, as in South Korea, Taiwan, China, India, Vietnam, and Mauritius (Rodrik, 2001; Birdsall et. al, pp. 9-10). For instance, China and Mauritius successfully combined their emphasis on state regulation with unique measures of market liberalization. Thus, Birdsall and colleagues conclude, "the secret of economic growth lies in institutional innovations that are country-specific, and that come out of local knowledge and experimentation" (Birdsall, et. al., p. 10).

All of this suggests that the G-7 is not (and has not been) in a position to determine which path to economic progress is best for developing countries to pursue. Thus, if economic progress is to be made and economic stability is to be guaranteed in developing countries, then the IMF and the World Bank must involve on the ground experts, that is, individuals from borrowing countries, in decisions and plans about which policies ought to be implement as part of the borrowing country's loan packages.

4.2.2 Improving the Structure of Debt

One of the main criticisms of international debt raised by Pogge is that countries that receive loans often suffer from repeated cycles of oppression and corruption. One obvious solution is to simply stop lending to regimes that are known to be corrupt, oppressive or dictatorial. If there is no financial gain to be had by overthrowing a popular government, for example, then there will be less incentive to attempt a coup.

This still leaves open the question of what is to be done in the cases where loans have already been granted to such countries. Should newly instated

democratic regimes be saddled with the debt of previously undemocratic regimes? It also leaves open the issue of how to deal with debt when its service might exacerbate conditions of poverty and economic instability.

In response to public criticism of international debt, the IMF and the World Bank launched the Heavily Indebted Poor Countries (HIPC) Initiative in 1996. The aim of this program is to ensure that no poor country faces a debt burden that it cannot manage (International Monetary Fund, 2013 (a)). In 2007, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI). The MDRI allows for 100 percent relief on eligible debts by the IMF and the World Bank for countries completing the HIPC Initiative process. The process is a two-step process. "Countries must meet certain criteria, commit to poverty reduction through policy changes and demonstrate a good track-record over time. The Fund and Bank provide interim debt relief in the initial stage, and when a country meets its commitments, full debt-relief is provided" (International Monetary Fund, 2013 (a)).

The response to this initiative is largely critical. Critics are concerned that debtor countries are required to meet a set of "conditions" selected by the IMF and the World Bank. They also point to the sorts of worries that we discussed in relation to the IMF and World Bank's more general policy of loan conditionality. In line with these worries, the Jubilee Debt Campaign, one of the most active NGOs on this issue, argues that there should be 100% unconditional cancellation of 'unpayable' debts, which a country cannot afford whilst meeting basic human needs, and 'illegitimate' debts, which arose from unfair or irresponsible lending (Jubilee Debt Campaign, n.d. (a)).

In contrast, Christian Barry suggests that imposing certain conditions on debt relief might be morally permissible. Recall, Barry suggests that international debt among the poorest countries can have negative consequences for human rights. He suggests, if the additional resources that are saved as a result of debt forgiveness are spent on restoring public services and infrastructure in health, for example, then debt relief may contribute significantly to human rights satisfaction within that country (Barry, 2011, p. 291). However, there is no necessary connection between debt relief and the satisfaction of human rights. A country could easily choose to spend the additional resources on something other than what would contribute to human rights satisfaction. For example, a country could use the funds to repress the rights of minorities or support an undemocratic regime. So, Barry argues, that one way to ensure that forgiveness of debt works toward human rights satisfaction is to make it contingent on the debtor country having a specific human rights status. For example, he argues that it might be contingent on "human rights *achievements* (for example, the extent to which the human rights of those living within its territory are fulfilled) and what might be called its human rights *efforts* (for example, the extent to which it implements, or shows evidence that it will implement in the future, a plan oriented towards fulfilling the human rights of those living in its territory)" (Barry, 2011, p. 292). Forgiveness of debt might also be continent on earmarking some of the additional resources for policies aimed at furthering the satisfaction of its citizens' human rights.

4.2.3 Reforming Weighted Voting

Weighted voting has been criticized for being insufficiently democratic. In response to this criticism, the World Bank and IMF have committed to increasing the votes of countries to more accurately represent the economies of the world. For example, under the new proposal, China would have the third most votes after the United States and the United Kingdom. However, in order to genuinely overcome the deficit of democracy within the IMF and World Bank, mere increases of votes to reflect economic progress are insufficient. Even if China is given more votes, there would still exist a system where some countries (namely, the economically strongest) have more of a say than other countries in significant matters of mutual concern. As suggested earlier, this sort of arrangement would not be consistent with the self-respect of all citizens. In particular, it would be undermining of the self-respect of citizens in countries with weak economies who have fewer votes.

Another solution to the problem of the democracy deficit is for each country to have a Director, either directly elected by a country's citizens or appointed by an elected official, with each Director having an equal amount of votes. This would ensure that all individuals in all member countries (rich or poor, economically strong or weak) play an equally influential role in IMF and World Bank decision-making and that their interests are given equal consideration.

One worry is that this proposal would give countries, such as the Maldives, with little population as much of a say over the operations of the IMF and World Bank as countries, such as India, with very large populations. One way to correct for this problem would be to grant countries extra votes in proportion to their population. This could be argued to be a means of ensuring that the interests of all individuals are genuinely given equal consideration and hence would be consistent with the value of self-respect.

One worry that arises in relation to this proposal concerns feasibility. If large contributors to the IMF and the World Bank such as the United States no longer (formally) have central control over these institutions, then they may not be willing to continue to fund the IMF and the World Bank. Without these funds, the IMF and the World Bank may not be able to continue to operate. Without these institutions, countries in need of finances for economic progress would have no option for borrowing. This would be a significant problem.

The solution to this matter is not obvious. One option is to compromise on democratic values and to allow countries such as the United States to continue to control and to have significant influence over the operations and policies of the IMF and World Bank. This is not a morally favourable option, however, since as we have already discussed, the current system, which is led by the United States, has led to continued impoverishment and inhibition of social and economic progress in poorer countries. Another option might be to follow Bello's suggestion and to dismantle international financial institutions and, in their place, to support the building of regional financial institutions that might be more hospitable to democratic values and, potentially, to poverty alleviation. This option is discussed below.

There are also questions about undemocratic countries and the weight their votes should be given. Given the arguments discussed earlier, one might conclude

that weighted voting is permissible in the case of undemocratic countries. After all, as argued earlier, the arguments from self-respect only hold in the case of sufficiently democratic countries. In undemocratic countries, citizens do not play a distinct and meaningful role in politics. Consequently, one could argue that giving less weight to the votes of undemocratic countries would not thwart the citizens' interest in self-respect in the way that it would with democratic countries.

If this argument is right, then one might conclude, as was suggested earlier, that we should exclude such countries from participating in international financial institutions altogether. There is at least one reason against excluding insufficiently democratic countries from international financial institutions altogether: those who are most in need of being included and participating in international financial institutions (and perhaps in international decision-making in general) are those individuals who tend to live in undemocratic countries. The interests of these individuals are profoundly affected by decisions that take place at the international level. Moreover, excluding such countries altogether would punish the citizens of these countries, citizens who tend to be impoverished and are already disenfranchised, and not the leaders, who should likely be the targets of such punishment. In short, one could argue that it makes little sense to have a citizen barred from having her interests represented equally in international institutions because the leadership under which she lives is tyrannical or undemocratic.

Though Daniel Weinstock (2006) is concerned with international institutions in general, he makes a suggestion that is well worth considering in relation to undemocratic countries and their role in the IMF and the World Bank. Taking the domestic sphere as his starting point, Weinstock notes that democracies contain a number of disenfranchised people, such as children and others who are judged to be incompetent. "Though these people cannot vote, their interests are nonetheless represented by such institutions as youth protectors and public curators" (Weinstock, 2006, p. 15). Weinstock suggests that something similar could be pursued at the international level. He suggests that there should be "a global democratic sphere in which people who cannot select their own representatives are appointed trustees who ensure that decisions made at the global level take proper account of their interests" (Weinstock, 2006, p. 15).

As Weinstock himself acknowledges, this proposal raises at least two further questions. First, is the question of how these trustees should be chosen: on the basis of what procedure should trustees be appointed? Second, and related, there is the question of accountability: how can we ensure that those who are appointed will represent the interests of their people? These questions will have to be addressed before Weinstock's proposal can be appropriately instituted.

4.3. Moving Beyond the IMF and the World Bank

One might argue that any measures to overcome the deficit of democracy are unlikely to be effective. As was suggested above, informal power dynamics play a significant and influential role in the operations and policies of the IMF and World Bank. As a result, mere changes in the formal procedures and policy, such as voting

structures of the IMF and World Bank might be unlikely to result in real change (that is, change towards being more genuinely democratic). If this is correct, then more general reforms that go beyond mere changes in IMF and World Bank policy and structure are necessary. In what follows, we will consider some possible routes for more general reform.

4.3.1 Economic Equality as a Means of Genuine Reform

As Miller's arguments work to illustrate, mere changes in the formal structures and policies in the IMF and World Bank may not work to overcome the deficit of democracy within such institutions. Even if all countries were given an equal share of votes, the United States could still influence policy through the informal mechanisms that are described by Miller. So, a further suggestion is that the deficit of democracy can be overcome in the IMF and the World Bank only after egalitarian measures in the international economy have been taken and there is greater economic equality among countries. Differences in economic wealth seem to result in differences in political influence: rich countries tend to have more power, formally and informally, within the IMF and the World Bank than poor countries.[20] For this reason, egalitarian measures in the economy may be necessary to fully overcome the deficit of democracy within the IMF and World Bank. If there were no longer a concentration of cash in certain groups, that is, if there were rough economic equality between countries participating in the IMF and the World Bank, then there would likely be rough equality in the use of political influence and power. For example, the United States would no longer posses the economic grounds for its threat-power. If participating countries have more equal political influence and power within international financial institutions and these countries are themselves sufficiently democratic, then the individuals within them will be ensured that their interests are given equal consideration and that they will be able to exercise their right to autonomy sufficiently. If this is correct, then these claims strongly support egalitarian measures, in the international economy.[21]

4.3.2 Regional Financial Institutions

Even if egalitarian measures in the international economy are taken, it will take some time for countries to reach a level of international economic equality that is sufficient for the genuine expression of democratic values in international financial institutions. So, the question arises, what ought we do in the mean time? After all, poorer countries will still need to borrow money for economic progress and stability. One option is to establish regional financial institutions. For example, as

[20] Gould (2004, p. 215) briefly makes a similar suggestion.

[21] One option might be to implement an international difference principle, which would work to distribute wealth so that it maximizes the benefits of the worst off. Rawls himself is adamantly against an international difference principle. See Rawls, 2002, pp. 116-118. In contrast, Kok-Chor Tan (2004) argues in favour of implementing a global difference principle.

an alternative to the IMF and the World Bank, Hugo Chavez, the President of Venezuela, tried to establish the Banco del Sur (the Bank of the South), a development bank for and funded by Latin American countries. On the one hand, even within regions, there are significant differences in the economic status of countries. In South Asia, India is a significant economic power in comparison to Bangladesh, for example. In Latin America, Mexico is of significantly greater economic status than Bolivia and Nicaragua. So, one worry is, because of these significant differences in economic status, regional institutions are likely to face many of the problems, relating to the democracy deficit, that international financial institutions do. However, on the other hand, because countries within Latin America are more likely to have similar and joint interests – because of somewhat similar geographic locations, cultures, languages, economies, etc. – it seems that the interests of all Latin American countries are more likely to be met by regional institutions such as the Bank of the South than by international institutions such as the IMF and the World Bank. Moreover, economic inequalities within regions, such as Latin America, seem to be significantly less than across regions – less than, say, those between Latin America and North America or Europe. In turn, though regional institutions are likely to face some problems, they seem much more hospitable to democratic values than international financial institutions. Moreover, insofar as regional financial institutions would be aimed at fostering economic stability and growth within their particular region and would be more likely to possess local knowledge and expertise, it may be that such institutions will work better to foster growth and stability.

A central worry that arises in relation to regional banks is that in certain regional areas, such as sub-Saharan Africa, there may be insufficient capital to finance such institutions. It is perhaps for this reason that the current African Development Fund[22] is funded by both African and non-African countries, with the United States and Japan being among the largest financial contributors.[23] This problem, however, will not apply to all regions equally and so regional banking may still be workable in some specific regional cases.

When regional institutions are unworkable, another promising option may be for countries to borrow from commercial banks. This solution poses its own problems, however. Typically, the IMF and the World Bank give loans to developing countries at rates far below those available in the commercial market. This practice is of clear advantage to poor countries. Since the main goal of commercial banking is to make a profit, unlike the IMF and the World Bank, commercial banks will be unlikely to give loans at below market interest rates. This is problematic for borrowing countries that may not be able to make payments at higher interest rates and, in turn, may not be able to qualify for loans from commercial banks in the first place.

4.3.3 Reforming Loan Conditionality

[22] The main goal of the African Development Fund is to reduce poverty in Regional Member Countries by providing loans and grants.
[23] c.f., African Development Group Bank (n.d.).

Loan conditionality has been argued to be objectionable because it leads to poor outcomes and conflicts with individuals' interest in being autonomous. One way of reforming loan conditionality so that it avoids these worries is to implement outcome-based conditionality. This type of conditionality can ensure repayment of loans without requiring borrowing countries to take up specific policies.[24] Under this scheme, financing would be conditional on the borrowing country meeting certain desired objectives or outcomes rather than implementing specific policies. These outcomes would be negotiated with the IMF and the World Bank. They would be mutually decided upon by both lender and borrowing countries. Borrowing countries would play an equal role (equal to lender countries, that is) in deciding which outcomes should be aimed at. Moreover, policy content would be left up to borrowing countries to decide on their own (Khan et al, 2001, p. 25). Only the desired outcomes would have to be agreed upon by borrowing countries and the IMF and World Bank staff, not the mechanisms that lead to the outcomes. This would give countries greater room to design their own economic policies, while also providing countries with an incentive to implement appropriate policies, that is, policies which will lead to certain desired (and negotiated) outcomes. Examples of appropriate outcomes might include, financial support being contingent on reaching certain levels of growth, inflation, or net international reserves, or reductions in balance of payments problems, and so on (Johnson, 2005, p. 20). Outcome based conditionality would be an appropriate means of overcoming the deficit of democracy within the IMF and World Bank because it is more consistent with individuals' right to autonomy. It allows citizens in developing countries to choose and implement their own paths to development (which may involve public funding of various industries, for example). It would also would be more likely to successfully promote economic development because, following Rodrik's view about what leads to economic development, it would give local expertise and knowledge a central place in choosing the appropriate route to development.

This sort of approach could work in relation to Barry's suggestion about granting debt relief on the basis of human rights satisfaction. In this case, outcomes would consist of human rights related outcomes and countries could decide on their own about how to meet these. Outcome based conditionality could potentially be compatible with lending to undemocratic countries as well, so long as the outcomes are also agreed to by trustees that are appointed to represent the country.

Such an approach is not without problems, however. For example, some difficulties may arise in implementing outcome-based conditions. First, outcomes such as an increase in growth (in GDP or PPP), or reduction of balance of payment problems, etc. will take time to meet and will likely not be able to be assessed in periods less than a year (Johnson, 2005, p. 20). For this reason outcome based conditions might be more difficult to implement in the case of short-term loans. Second, deciding when to disburse money may be difficult. As Khan et. al. note,

---

[24] Others have advocated something similar. Birdsall et. al., 2005, p. 11 makes brief mention of outcome based conditionality. More detailed discussion of outcome based conditionality can be found in Johnson, 2005 and Khan et. al., 2001, pp. 25-28.

there can be some difficulties in assessing whether an outcome was not met because of a country's bad policies or exogenous factors not under their control (Khan et. al. 2001, p. 26). So, evidence will need to be analysed carefully in order to determine whether outcome targets were missed because of exogenous factors or because the countries' policies came up short (Khan et. al. 2001, p. 26). If it is the former, then there may be a case for a waiver and the country could continue to receive funding.

4.3.6 The Role of Social Movements in Reform

International social movements have an important part to play in the achievement of the various goals that have been described as part of reforming the IMF and World Bank. An international social movement is an informal group of individuals, from many countries (developed and developing countries), who work together to achieve certain multinational goals, political and/or social. The goals might mainly be goals within each country, so long as they are part of or are steps to achieving some predominant multinational goal. On Richard Miller's view, examples of international social movements include the "international bunch of people who bash Bush, have opposed the Iraq war and occupation, seek to relieve inequities and burdens of globalization, call for more action against international climate change, or are concerned that what governments do to relieve poverty is too little or the wrong sort of thing" (Miller, 2006, p. 511). Generally, governments are sensitive to and are often swayed by public opinion. For example, as Miller notes, in the Vietnam era, "in the *Pentagon Papers*, outraged public opinion ranks with the provocation of Chinese or Russian intervention as the only reasons not to kill lots more Vietnamese in pursuit of victory" (Miller, 2006, p. 511). This suggests that public opinion, as expressed through a social movement, can have significant influence over the actions of governments. International social movements can have a similar influence in relation to reforming the IMF and the World Bank.

Bello, for example, argues that the main aim of international social movements should be the derailment of any further actions by institutions such as the IMF and the World Bank.[25] They ought to focus their energies on preventing agreements from coming about in any areas now being negotiated or about to be negotiated in the IMF and the World Bank (Bello, 2004, p. 110). Presumably this would include preventing agreement on new issues of governance within these institutions and the negotiation of loan packages.

Alternatively, for those who do not hold that international financial institutions should be dismantled, international social movements could work to encourage greater international economic equality. Members of international social movements within the most developed countries can work together to encourage national economic powers to take up internationally egalitarian measures. Furthermore, members within these countries could encourage the correction of the current institutional structure by supporting debt relief (perhaps contingent upon human rights conditions) for the poorest countries, and, once sufficient economic

[25] Bello makes this suggestion in relation to the WTO, but it is clear that such a suggestion can be extended to the IMF and the World Bank.

equality exists, reform of quotas/voting powers and loan conditionality more generally within the IMF and World Bank.

Works Cited

African Development Bank Group, n.d. "Japan," http://www.afdb.org/en/topics-and-sectors/topics/partnerships/non-regional-member-countries/japan/ (accessed March 2013)

Abizadeh, Arash. 2007. "Cooperation, Pervasive Impact and Coercion: On the Scope (not Site) of Distributive Justice." *Philosophy and Public Affairs* 35(2): 318- 358.

Barry, C. 2011. "Human Rights Conditionality in Sovereign Debt Relief." *Journal of Political Philosophy* 19(3): 282-305.

Bello, W. 2004. *Deglobalization: Ideas for a New World Economy*. New York: Palgrave
MacMillan.

Birdsall, N. Rodrik, D. and Subramaniam, A. 2005. "If Rich Governments Really Cared about Development," *Unpublished Paper*. http://www.acp-eu-trade.org/library/files/RODRIK-BRIDSA-SUBRAMANIAN_EN_what-rich-can-do_0405_ICTSD_If-rich-governments-really-cared-about-development.pdf (accessed February 2013)

Boughton, J. 2003. "Who's in Charge: Ownership and Conditionality in IMF Supported Programs," IMF Working Paper, pp. 1-24.

Chowla, P., Oatham J., Wren, C. 2007. "Bridging the Democracy Deficit." http://www.brettonwoodsproject.org/art.shtml?x=549743 (accessed February 2013)

Christiano, T. 2006. "Democracy." In *The Stanford Encyclopedia of Philosophy*. Edward N. Zalta (ed.)
http://plato.stanford.edu/archives/fall2006/entries/democracy/ (accessed February 2013)

Dreher, A. 2006. "IMF and Economic Growth: The effects of Programs, Loans, and Compliance with Conditionality." *World Development* 34(5): 769-788.

Gilpin, R. 2001. *Global Political Economy: Understanding the International Economic Order*. Princeton: Princeton University Press.

Gilpin, R 2002. "The Rise of American Hegemony." In *Two Hegemonies*. Patrick Karl O'Brien and Armand Clesse (eds.), pp. 165-182. Aldershot, ENG: Ashgate Publishing.

Gould, C. 2004. *Internationalizing Democracy and Human Rights.* Cambridge: Cambridge University Press.

Gould, C. 1988. *Rethinking Democracy: Freedom and Social Cooperation in Politics, Economics and Society.* New York: Cambridge University Press, 1988

International Monetary Fund. 2013 (a). "Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative."
http://www.imf.org/external/np/exr/facts/hipc.htm (accessed February 2013)

International Monetary Fund. 2013 (b). "IMF Members' Quotas and Voting Power, and IMF Board of Governors."
http://www.imf.org/external/np/sec/memdir/members.aspx (accessed February 2013)

International Monetary Fund. 2012 (a). "Fact Sheet: IMF Conditionality,"
http://www.imf.org/external/np/exr/facts/conditio.htm (accessed February 2013)

International Monetary Fund. 2012 (b). "IMF Quotas",
http://www.imf.org/external/np/exr/facts/quotas.htm (accessed February 2013)

International Monetary Fund. 2012 (c). "What is the IMF?"
http://www.imf.org/external/pubs/ft/exrp/what.htm (accessed February 2013)

International Monetary Fund. n.d. (a). "Cooperation and Reconstruction,"
http://www.imf.org/external/about/histcoop.htm (accessed February 2013)

International Monetary Fund. n.d. (b). "Our Work."
http://www.imf.org/external/about/ourwork.htm (accessed February 2013)

Jubilee Debt Campaign. n.d (a). "Drop the Debt!"
http://www.jubileedebtcampaign.org.uk/?lid=99 (accessed February 2013)

Jubilee Debt Campaign. n.d (b). "Why should we drop the debt?"
http://www.jubileedebtcampaign.org.uk/13720Why3720should3720we3720drop3720the3720debt373F+2675.twl (accessed February 2013)

Khan, M. and Sharma, S. 2001. "IMF Conditionality and Ownership of Programs," IMF Working Paper No. 1/142.
http://www.imf.org/external/pubs/ft/wp/2001/wp01142.pdf
(accessed February 2013)

Kindleberger, C. 1973. *The World in Depression 1929-1939*. London: The Penguin Press.

Krishnamurthy, M. Forthcoming. "Completing Rawls's Arguments for Equal Political Liberty and its Fair Value: The Argument from Self-Respect." *Canadian Journal of Philosophy.*

Krishnamurthy, M. Unpublished manuscript (a). "Economic Policy Conditionality: Theory and Practice."

Krishnamurthy, M. Unpublished manuscript (b). "Against Weighted Voting in the IMF and Bank."

Krishnamurthy, M. 2012. "Reconceiving Rawls's Arguments for Equal Political Liberty and its Fair Value: On our Higher-Order Interests," *Social Theory and Practice*, 38.2: 258-278.

Miller, R. 2006. "Global Institutional Reform and Global Social Movements: From False Promise to Realistic Hope," *Cornell International Law Journal* 39: pp. 501-14.

Miller, R. 2010. *Internationalizing Justice: The Ethics of Poverty and Power*. Oxford: Oxford University Press.

Johnson, O. 2005. "Country Ownership of Reform Programs and the Implications for Conditionality," G24 Discussion Papers No. 35 http://www.g24.org/TGM/TGM/ojohnson.pdf (accessed February 2013)

Peet, R. 2009. *Unholy Trinity: the IMF, World Bank and WTO, 2nd edn*. New York: Zed Books.

Pogge, T. 2004. "'Assisting' the Global Poor." In *The Ethics of Assistance: Morality and the Distant* Needy. D. Chaterjee (ed.), 260-279. Cambridge: Cambridge University Press.

Pogge, T. 2005. "Introduction: International Institutions and Responsibilities," *Metaphilosophy* **36** (1): 1-2.

Pogge, T. 2010. *Politics as Usual*, Cambridge: Polity Press.

Przeworski A. and Vreeland, J. 2000. "The Effect of IMF Programs on Economic Growth," *Journal of Development Economics* **62**: 385–421.

Rawls, J. 1999. *A Theory of Justice, 2nd edn*. Cambridge, MA: Belknap Press of Harvard University Press.

Rawls, J. 2002. *The Law of Peoples*. Cambridge, MA: Harvard University Press.

Rawls, J. 1993. *Political Liberalism*. New York, Columbia University Press.

Rapkin, D. and Strand J. 2006. "Reforming the IMF's Weighted Voting System," *The World Economy* 29 (3): 305-324.

Risse, M. 2005. 'How Does the Global Order Harm the Poor?', *Philosophy & Public Affairs* 33. 4: 349–376.

Rodrik, D. 2001. "The International Governance of Trade: As if Development Really Mattered," *United Nations Development Programme*. http://www.wcfia.harvard.edu/node/587 (accessed February 2013)

Stiglitz, J. 2006. *Making Globalization Work*. New York: W.W. Norton & Company.

Stiglitz, J. 2003. *Globalization and Its Discontents*. New York: W.W. Norton & Company.

Tan, K.C. 2004. *Justice Without Borders*. Cambridge: Cambridge University Press.

Vreeland, J. 2006. *The International Monetary Fund: Politics of Conditional Lending, New Edn*. New York: Routledge

Weinstock, D. 2006. "The Real World of Global Democracy," *Journal of Social Philosophy* 37 (1): 6-20.

World Bank Group. 2012 "About Us - What We Do." http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20103838~menuPK:1696997~pagePK:51123644~piPK:329829~theSitePK:29708,00.html (accessed February 2013)

World Bank Group. 2013 (a). "About Us – Leadership – Board of Governors," http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20873632~menuPK:8336903~pagePK:51123644~piPK:329829~theSitePK:29708,00.html (accessed February 2013)

World Bank Group. 2013 (b). "About Us – Who We Are," http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20046292~menuPK:1696892~pagePK:51123644~piPK:329829~theSitePK:29708,00.html (accessed February 2013)