The Ultimate Role of Failure of the IMF and World Bank in the Developing World

The International Monetary Fund, or IMF, was created in the 1940s under the Bretton Woods institutions, along with the World Bank. The IMF and World Bank were established after the second world war to aid in the reconstruction of post-war Europe and to create a framework of economic cooperation among countries. This was the objective, at least—the role that the institutions truly played in underdeveloped countries is a point of contention among many scholars. While some argue that the IMF and World Bank only caused catastrophe and devastation, other scholars argue that their policies simply didn't achieve what they were meant to. In this essay I will examine and analyze the debates from scholars on the IMF and World Bank's efficacy in achieving their objective goals, and I will argue that the IMF and World Bank's policies were objectively not only a failure, but ultimately a devastating one.

Structural Adjustment Programs (SAPs) were programs created following the neoliberal principles of the Washington Consensus and were promoted to developing countries by the IMF and World Bank. According to Davison Budhoo, a former senior economist for the IMF, the objective of the SAPs was to "reduce consumption in developing countries and to redirect resources to manufacturing exports for the repayment of debt" (1994). While he explains that this was the original objective of the programs, Budhoo also argues that it "caused overproduction of primary products and a precipitous fall in their prices," as well as leading to a decline in food security and the destruction of traditional agriculture. Mike Davis, an American writer and political activist, holds a similar view on the IMF's role through the SAPs. In his book *Planet of Slums,* he says, "SAPs devastated rural smallholders by eliminating subsidies and pushing them sink or swim into global commodity markets dominated by heavily subsidized First World agribusiness" (2006, p. 153). Davis and Budhoo both argue that the increased exports

that resulted from the SAPs only benefited a small few, and resulted in more disaster than benefits for the vast majority. Davis argues that the creation and promotion of the SAPs in the Third World "accelerated the demolition of state employment, local manufacturing, and home-market agriculture" (p. 163-164). He maintains that the IMF and the World Bank were the driving forces behind the creation of more debt in the 1980s and 1990s, with their promoted neoliberal reforms creating vast inequality in the countries they implemented these programs in. Davis says, "Global inequality, as measured by World Bank economists across the entire world population, reached an incredibly GINI coefficient level of 0.67 by the end of the century—this is mathematically equivalent to a situation where the poorest two-thirds of the world receive zero income, and the top third receives everything" (p. 165). Despite the IMF advocating SAPs to foster improvement in developing countries, the outcome was an astonishingly pronounced global inequality, attributed to the IMF by Davis and Budhoo.

In his book *50 Years is Enough: The Case Against the World Bank and the International Monetary Fund,* Budhoo specifically describes the policies of the IMF as "genocidal." He says, "mainly because of inherent inequities built into SAPs, the income gap between rich and poor in the Third World doubled in the course of the 1980s." He heavily criticizes the IMF and its policies and programs for the catastrophic impact they had on the Third World, both economically and agriculturally, through the removal of price controls, trade restrictions, subsidies, and foreign exchange restrictions. Budhoo proposes three solutions to the issue of the IMF and World Bank: abolishing the institutions, creating a special United Nations agency to control them, or forcing change through evidence of their injustices and contradictions. Although he does propose these solutions, Budhoo also notes that they would be profoundly difficult to achieve. He cites an internal study that was conducted within the IMF in 1988, which revealed

that “the 40-odd programs implemented between 1983 and 1987 failed in their objectives of enhancing economic growth, reducing fiscal and balance of payments deficits, lowering inflation and stabilizing or decreasing external debt.” He argues that not only has the IMF and World Bank’s role within the Third World been devastating, it’s also been an outright failure in regard to their own objectives.

While Budhoo and Davis attribute mass devastation and catastrophe in the developing world to the IMF and World Bank, Dani Rodrik, a Turkish economist, sheds a different light on the role of the two institutions. He compares the annual growth rates across two differing periods in Latin America, the first being the period of import-substitution from 1950 to 1975, and the second being the period of the Washington Consensus from 1990 to 2005 (2010). “Under WC, firms and industries were able to accomplish a comparable rate of productivity growth, but they did so by shedding (rather than hiring) labor.” Rodrik explains that this displaced labor went toward less productive areas of the economy, rather than higher-productivity sectors, which resulted in less overall contribution to the productive economies of the countries. “In other words, the WC ended up promoting the *wrong* kind of structural change.” Rodrik asserts that the Washington Consensus policies, which were foundational in the IMF-World Bank SAPs, promoted an undesirable structural transformation rather than their intended one. His argument is similar to Budhoo and Davis’s in the regard that the SAPs failed to achieve their intended objectives; however, Budhoo and Davis highlight the scale of destruction that the IMF and World Bank’s failed policies arguably played in the developing world.

Larry Elliott, economics editor for *The Guardian*, argues that the IMF and World Bank’s policies are in a way ironic. He points out inconsistencies in their policies and actions, citing examples of their involvement in Ghana and in other areas of Sub-Saharan Africa. “In early

2015, the IMF and World Bank said Ghana was at high risk of being unable to pay its debts. Seven months later, the World Bank guaranteed $400m of repayments on a £1bn bond sold to private investors" (Elliott, 2016). He says that the World Bank had to waive its own rules to do so, since they are not supposed to guarantee loans to countries that are at a high risk of distress. According to the World Bank, their intention was to aid in the refinancing of expensive short-term debt and to create resources for investment—however, the winners of this situation would be the investors, who would make a 10.75 percent return, whether or not Ghana would be able to fulfill its loan repayment. Elliott says that this leaves the Ghanaian people as the losers, who would be subjected to austerity measures of a new IMF program. He argues that this is only one example of the inconsistent actions of the IMF and World Bank. "There's nothing wrong with the rhetoric, but it is the performance that counts." While Elliott delves into highlighting more of the issues caused by the World Bank and IMF's policies than Rodrik, he does not as strongly criticize the institutions as Budhoo or Davis.

In defense of the IMF and World Bank's policies, some scholars argue that the two institutions have played a positive role in the development of certain countries. Chris Seabury (2023) argues that the role of the IMF is to promote economic growth, international trade, and global financial stability, citing success stories in Jordan and Tanzania. The IMF gave three extended fund facility loans to Jordan between 1993 and 1999, and the government undertook massive foreign investment and privatization reforms, also adopting easier trade policies. He says that by 2000, Jordan was admitted to the World Trade Organization and signed a free-trade accord with the U.S. a year later. "Jordan is an example of how the IMF can foster strong, stable economies that are productive members of the global economy." While Seabury cites the success of the IMF, he also notes that it hasn't been entirely successful in all cases. He describes

the IMF's involvement in Tanzania, which began in 1985 "with the aim of turning a broke, indebted socialist state into a strong contributor to the world economy." The IMF advised Tanzania to lower their trade barriers, cut their government programs, and sell state-owned industries. The country's once-free healthcare industry started to charge patients, the once-free education system started charging students—as a result, illiteracy rates in the country rose by almost 50 percent. Seabury argues that the IMF did play a role in improving Tanzania's GDP and economy, but also recognizes that "the organization failed to understand that a one-size-fits-all strategy does not apply to all countries." The IMF continued its efforts to improve Tanzania and eventually did to a degree, but Seabury explains that these improvements were difficult to sustain even after 35 years of IMF assistance.

Jagdish Bhagwati, an Indian-American economist, argues in favor of pro-globalization and pro-privatization reforms for developing countries, which align directly with the policies of the IMF and World Bank. He argues that economic reforms must complement social reforms, and by doing so will be successful in reducing poverty and enhancing social legislation (1998, p. 35). He maintains that these growth-promoting policies are "an instrumental means of reducing poverty, because, generally speaking, [they] move poor unemployed and underemployed people into gainful employment." Bhagwati argues this is the best outcome for developing countries, and that critics of these policy types are "misguided," citing the success of their success in Indian planning and policy circles since the 1950s.

South Korean economist Ha-Joon Chang argues that by promoting neoliberal policies, countries and institutions such as the IMF and World Bank are essentially "kicking away the ladder" from developing nations. He argues that the world's current rich countries did not develop or come to be rich on the basis of the very policies that they now prescribe to developing

countries (2003, p. 10). "It is no coincidence that economic development has become more difficult during the last two decades, precisely when the developed countries increased the pressure on the developing countries to adopt neoliberal policies and institutions." (p. 14). Chang argues that neoliberal policies are not only inconsistent with the methods that rich countries themselves used to become rich—they are also contributing to increasing inequality and poverty rather than decreasing it.

In their aims to improve the conditions and economies of developing countries, the IMF and World Bank did not achieve what they set out to do. Instead of improving conditions like trade and growth, economic well-being, and financial stability, the IMF and World Bank's policies left many countries and their people in a state of devastation. Through the inefficient "one-size-fits-all" mindset that Seabury describes, the policies and programs of the IMF and World Bank benefited the developed rather than developing nations. As Elliott (2016) argues in the case of the World Bank's involvement in Ghana, the investors from the developed world will win and earn a return no matter the outcome, whereas the citizens of the country will essentially be destined to lose. Even the IMF's involvement in Tanzania, which is cited by Seabury as a success story, left the country with fiscal management problems and the struggle to maintain its improvements (2023). Although the policies that the World Bank and IMF promoted could by some scholars be considered successful, the growth in productivity that would be attributed as an accomplishment of the institutions is earned through eliminating rather than hiring labor forces (Rodrik, 2010). As a result, the uprooted labor forces move toward less productive sectors of the economy and negatively affect the overall productivity of the economy. This therefore leaves the IMF and World Bank policies effectively failing in their objectives, but also causing serious complications such as devastation of agriculture, demolition of state employment, removal of

subsidies, and a decline in food security (Budhoo, 1994; Davis, 2006). Ultimately, the IMF and World Bank’s role within the developing world has not been one of achievement or benefit, but rather one of failure and devastation.

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