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Greetings and salutations, delegates!

Welcome to the International Monetary Fund 2010 for the 11th conference of the Academy Model United Nations. Though AMUN has been running for 11 years now, this is the first AMUN conference to ever hold an IMF committee. The IMF is the premier global institution concerning economics and finance. Among the IMF's many tasks include financial regulation, managing the global finance structure, global trade, economic development, and resolving economic crises, such as the one we face today.

Please have a working knowledge of the IMF and the global financial system prior to the beginning of this year's AMUN conference. Research your assigned country and identities thoroughly. This will enable you to represent the financial and monetary interests of your nation and accurately represent your characters. Not only will you be able to better participate in debates and policymaking, but you will also impress us and increase your chances of earning an award. We look forward to working with you to make AMUN 2010 successful for everyone. Please do not hesitate to contact us with any questions or concerns. Backgrounds for the first and second topics follow below. Best of luck!

Sincerely,

Your Chairs,

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A Note on Voting

The voting system of the IMF is based on the *quota*, which is essentially a measure of each nation's monetary contribution to the IMF. In committee, for the sake of expediency and fairness, each nation will simply be given one vote.

TOPIC 1: REVISING THE ARTICLES OF AGREEMENT OF IMF

Introduction

As an international body concerning itself with the finance and economies of its various members, the IMF is a rapidly evolving and exciting institution, especially with today's complicated global economic structure. To briefly describe the structure of the IMF, first notice that the IMF's membership very nearly matches the United Nation's membership count of 191. The only nations in the UN not in the IMF are Andorra, Cuba, Lichtenstein, Monaco, Nauru, North Korea, and Tuvalu. Aside from North Korea and Cuba, which are not members because of their states' official affiliation with communism, the other four nations are so small to not even afford maintaining their own currency. It was by the 1990's, with the fall of communism and rapid progress of many nations in Africa and particularly Latin America, that the IMF achieved the encompassing membership it boasts today.

The most well-known role of the IMF as a lender of development loans is only one among many. Given the wide range of activities that the IMF immerses itself in, it is impossible to define the IMF as an agency with a single task. However, the IMF does define itself as an agency with a singular *purpose*, namely one that seeks to provide global financial stability. As with the mission statement of any organization, this assertion should be taken with a grain of salt. However, the Bretton Woods institutions, as relatively politically independent financial instruments, tend to be fairly trustworthy in their intentions. Whether the IMF has been successful in

achieving its stated goal is an entirely different question altogether.

The first topic will provide the opportunity for delegates to explore the question of whether the IMF has been successful with its mandate. Revising the Articles of Agreement (the IMF's charter) will require delegates to determine what, if any, measures will help the IMF better accomplish its goals, as well as what its goals should be in the first place. The first topic paper will begin with a brief historical introduction of the contemporary circumstances that led to the Bretton Woods Conference and the creation of the IMF, with an in-depth analysis of the changing global finance structure of the 20th century and its impact on the IMF. Following that will be a brief outline of the Articles of Agreement. Lastly we will provide you with a list of key countries, their positions, and some key questions for delegates to consider for this topic.

The History of the IMF

The IMF was created when the global tragedies of economic warfare, widespread and severe currency speculation, and last but probably greatest, the Great Depression, prompted 35 nations to convene at the Mount Washington Hotel located in Bretton Woods, New Hampshire, to discuss the creation of an international institution which would promote global financial stability, and consequently, prevent an economic disaster of this nature from ever repeating itself.

Prior to the Bretton Woods conference, officially known as International Monetary Conference of the United and Associated Nations, several plans for institutions just like the IMF had already been proposed. The British, or more specifically, John Maynard Keynes, put forth *Proposals for an International Clearing Union*. The most highly respected economist of his time believed that the gold standard could be maintained so long as an international lending instrument, a *clearing union*, existed to assist nations undergoing harsh readjustments of their balance of payments deficits

or surplus through loans that would cushion the “pains” of the gold standard. Keynes’ concept of a “moderate” adherence to the gold standard would indeed be adopted during the Bretton Woods conference and appropriately be titled the *Bretton Woods system*. The only significant changes made to Keynes’ initial conception would be that the new par-value system would be conducted entirely in dollars, as the dollar would become the new global reserve currency and the Federal Reserve’s commitment to maintaining gold convertibility for the dollar the foundation of the new Bretton Woods system.

Keynes’ proposal would prove a bit too burdensome for the United States, which didn’t feel like paying up \$23 billions (quite a large sum of money in 1944) for his plan. Ultimately, the *IMF Articles of Agreement*, which was ratified on December 27th, 1945 by 29 of the 35 countries that attended the conference, provided the IMF with an endowment of \$8.8 billion, with \$2.75 billion being footed by the United States.

Ironically, it was the United States, the single largest donor to the IMF’s endowment, which compromised the nascent institution. When it was soon discovered that Keynes’ initial proposal for a \$26 billion endowment was much closer to what was needed than the rather small \$8.8 billion endowment which had been ratified at Bretton Woods, the United States, instead of bolstering its donations to the IMF, created the Marshall Plan. This was not in order to shirk a commitment



http://i.telegraph.co.uk/telegraph/multimedia/archive/00868/money-graphics-2008_868630a.jpg

to reconstruct Europe, as the United States committed \$13 billion to the cause, but to exercise greater control over the usage of the funds in Europe – the IMF, as a global institution, would have placed significant restrictions on the manner in which the United States’ donations would be spent, at least more restrictive than what the United States would impose on itself.

The young IMF was not without success. In 1947, France became the first nation to take a loan from the IMF. The explosion of African countries gaining independence in the 50’s and 60’s boosted the IMF’s membership. However, with the Communist Bloc’s boycotting of the IMF, both the IMF’s membership and funds were severely strained.

The IMF’s fortunes would only go downhill from there. As the pace of globalization accelerated, capital mobility reached unprecedented levels, and foreign exchange markets grew in both volume and complexity, the Bretton Woods system

ultimately failed as the IMF found itself unable to “cover” all the various balance of payments imbalances occurring across the globe. Some, perhaps even a majority of the blame belongs to central banks around the globe as well, as the moral hazard resulting from the IMF’s mere existence led to a general relaxing of the stringent commitments to the gold standard that had existed prior to the Great Depression. In this sense, the Bretton Woods system, ironically enough, as it was initially conceived by Keynes as a means to preserve the gold standard, was the first nail in the gold standard’s coffin. In 1971, Nixon announced that the United States would formally renege on its promise to guarantee the convertibility of gold for the dollar, ushering in the era of market-driven free exchange rate regime. In the words of James Vreeland, Yale professor and author of *The International Monetary Fund: Politics of Conditional Lending*, “The original *raison d’être* of the IMF was gone.”

It was at this seemingly bottomless pit of a juncture that the IMF permanently redefined itself to emerge as the highly influential and controversial institution it is today. Contrary to popular opinion, the IMF did not exclusively cater to the financial and foreign exchange needs of industrialized nations. In 1954, the IMF made its first loan to Peru for the purposes of development. From its inception, the IMF had two purposes. The first was to monitor the even then extraordinarily complex global finance and trade structure, as well as each member nations’ balance of payments positions. The second, similar to the World Bank’s mandate, was to act as a generic lender to its member states.

In essence, it was not the explicit mandate of the IMF, but rather the specific manner in which the IMF adhered to its mandate that changed at the 1971 juncture. Both the

percentage of loans to non-industrialized nations and the number of IMF member nations spiked immediately during the 1970’s. Another way in which the IMF has adapted to the death of the gold standard has been by expanding its advisory role from examining interest and exchange rate policies to economic policies in general.

The most significant way in which the IMF’s activities changed was, in a way, a natural consequence of the sudden and shattering change of the financial environment from that which the IMF was born in. Having to devote an increasing portion of its loans to the end of development rather than currency and exchange rate stabilization, the IMF needed a way to deal with the inherent moral hazard entailed by its rapidly expanding role as a global lender. Thus the IMF introduced the highly controversial, if not outright spurned by some critics, policy of *conditionality*. Even a cursory glance at the economic literature associated with any of the two Bretton Woods institutions will indicate that *conditionality* is by far the word that appears most frequently. Many of the conditions, or “strings” that are attached to the IMF’s loans, which a borrowing nation must pledge to honor in order to receive the loan, are rather transparent measures towards liberalizing that nation’s economy. A typical example of such measures might involve the IMF stipulating that a borrowing nation must privatize some of its public utilities. More often than not, such conditions are seen as the IMF coercing a developing nation to adopt *laissez-faire* principles through economic blackmail, hence the current controversy enshrouding the IMF.

The Articles of Agreement

The IMF’s charter, the *Articles of Agreement*, was first written at the Bretton

Wood's conference and has seen been a mutating, living document. While any revision of the Articles of Agreement will be valid, this section of the topic paper will present a few examples of key issues embedded in the Articles of Agreement that we think will produce exciting and thoughtful debate.

The actual Articles of Agreement can be accessed [here](#).

- ◆ Articles of Agreement: Section III: Quotas and Subscriptions

As briefly noted above, the actual voting system during committee will simply involve each committee member possessing one vote. However, the actual voting system of both Bretton Woods systems is based on the *quota*; each nation's quota is essentially the total quantity of deposits held at the IMF. The number of votes a member state has is not directly, but rather a function of the state's quota.

A nation is not free to choose its quota. A nation's quota is a function of its performance in a variety of economic indicators, such as GDP, the volume of the current account (essentially the volume of trade conducted by a nation), and the volume of official reserves. Thus quotas are recalculated for various IMF member states from time to time, and an increase in a nation's allotted quota is often welcomed as an opportunity to increase a nation's influence in the IMF. The United States, with 17.4% of member states' quotas and 17.1% of the votes, has veto power over any decisions requiring a super-majority of 85%. An example of such a decision is any alteration of quotas. Should any changes be made to the present quota system?

- ◆ Articles of Agreement: Section IV: Obligations Regarding Exchange Arrangements

One of the IMF's core missions is to facilitate and oversee the international currency exchange market. Since the widespread currency speculation that led to the banking crisis, and ultimately the Great Depression, in the 1930's, the IMF has regarding currency stability for all its member nations as one of its key priorities. However, recent actions by sovereign wealth funds such as China have complicated and at times threatened the IMF's mandate to secure currency stability. Should the IMF develop more stringent policies aimed at regulating the foreign exchange policies of its members?

- ◆ Articles of Agreement: Section V: Operations and Transactions of the Fund

As mentioned in extensive detail in the previous section, conditionality is a major issue of controversy surrounding the IMF today. This issue is also intimately tied to the issue of quotas. Is the IMF justified in giving greater voting power to developed nations that some observers claim routinely push for more laissez-faire conditions in IMF loans?

The chairs again stress that these are only examples of possible topics of revision to the Articles of Agreement. We look forward to what revisions to the Articles of Agreement delegates may present during committee session.

Key Country Positions

United States

Along with some other G8 nations, the US has been a key figure in shaping the IMF's current conditionality structure and policies.

The United States has been a staunch supporter of the IMF's attaching conditions to the loans it makes to developing nations. It has also opposed any major changes or abolishment of the current quota system. It is the only member nation of the IMF to wield veto power for any votes that require a supermajority approval. The United States has also routinely accused China of pegging its currency to the dollar and other currency manipulations in order to indirectly subsidize China's exports.

Brazil, Russia, India, and China (BRIC Countries)

Supported by many developing nations, the BRIC nations are generally unified in their views of the over-representation of developed nations in the IMF through the quota system and loan conditionalities. Many see the United States as using the IMF, among other institutions, as a means to imposing its economic might on the global economy and finance structure. The United States is not the only target of criticism among such developing nations. The EU has been accused of being unfairly favored by the quota system, since under the current system international trade within the EU, which in many respects resembles intra-national trade in other nations, significantly raises the quotas of EU members.

Key Questions

- ♦ What is the gold standard and some of its flaws? How about the Bretton Woods system and the current floating

exchange rate regime? Where does the IMF fit in?

- ♦ Do you think the quota system fairly represents the relative economic strength of developed and developing nations? Do you think the quota system is fair at all? Are conditionalities justified?
- ♦ Do you agree with the current role of the IMF as both a financial and developmental institution? What changes, if any, should be made to the IMF's goals for the future?
- ♦ How does the current global recession affect the IMF? How did the IMF affect the global recession? Is the IMF in any way responsible for the current recession?



The wholesome foursome—Brazil's Lula da Silva, Russian's Medvedev, China's Hu Jintao and India's Manmohan Singh at the BRIC Summit.

<http://industrialeconomist.com/images/july09-bric1.gif>

Conclusion

The first topic of the AMUN XI IMF committee will be the revision of the IMF's current charter. The original Bretton Woods conference, as well as the contemporary exchange rate regime, and the ideas proposed at the conference were in many ways fraught with shortcomings and errors. As we have noted, rapid changes in the exchange rate regime and overall structure of global finance made the IMF an obsolete institution that at first struggled to free itself from anachronism. One primary goal of a revision to the IMF's charter would be to

make it more compatible with the current global finance structure. However, it is important to note that a revision of the IMF's charter would also have radical implications for international trade, the global finance structure, economies of individual nations as well as the global economy, especially with the current global recession, and the future of developing nations as well as the paradigm of global development.

A thoughtful revision should consider all of these and many other factors. Obviously, the current economic crisis will be a major consideration of any revision of the IMF's charter, but delegates should contextualize current issues with the history and future of global finance and development.

Sources

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A nice article by Forbes on the US current accounts deficit

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Federal Reserve Chairman Bernanke's speech on the Great Depression, a classic must-read

<http://www.dailyfinance.com/2009/06/17/u-s-current-account-deficit-falls-to-lowest-level-since-2001/>

Another interesting article on the US current account

<http://www.econlib.org/library/Enc/GoldStandard.html>

A very clear, informative, and comprehensive explanation of the gold standard by Rutgers

University professor Michael D. Bordo

http://www.ny.frb.org/research/global_economy/policyresponses.html

A very useful timeline which attempts (and does a decent job) of keeping track of all the crazy stuff happening with the economy right now