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IMF, BIS, and World Bank: On the Intra-institutional Articulation of the International Financial System

Previdelli and Souza
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Abstract

The international financial system could be organized into three groups. According to this classification, the first group includes the organizations that exercise the functions of regulation and supervision. In the second, we have those that are regulated and supervised by the former, and in the third, we find the organizations that do not follow such rules or supervision, forming the so-called shadow banking system. This article seeks to examine the first group, and, more specifically, how the International Monetary Fund articulates with the primary elements of such a group.

Keywords: International economy; International Monetary Fund; International financial system; Bank for International Settlements; World Bank.

1. INTRODUCTION

The current configuration of the international financial system (IFS) can be classified into three groups of organizations. In the first group, we can include those that exercise functions of regulation and supervision. In the second group, we can include the ones that are regulated and supervised by the former. In the third, we find the organizations that do not follow such rules or supervision, also known as the shadow banking system. In our view, this configuration of the international financial system reflects a characteristic of its evolution from capitalism to the most recent stage, known in a broader sense as financial globalization (Hirst et al., 2009).

At the same time, the structure of the International Financial System and its functioning carry an apparent contradiction between expansionist vision and widespread competition. This contradiction would be inherent to capitalism itself, as an economic system.

Therefore, this paper aims to examine how the International Monetary Fund fits in and relates to the primary members of the first group—that of the regulatory organizations—because, in order to think about IMF reform, it is essential to examine their interrelation with the other representatives of such a group and their joint objectives. This is justified because, in order to verify how the IMF can play a new role in the face of the challenges of an increasingly interconnected and interdependent international scenario, the actions that such an organization has in the financial system as a whole cannot be ignored. Thus, in order to make some sort of change, one should first identify the objectives of the group of regulators as a whole.

In order to attain such goal, this article is organized into four parts. In addition to this introduction, we have the first section, which presents the contradiction inherent in capitalism, which, in our view, extends to the structuring of the financial market, in any scope. A second section describes the current configuration of the international financial system. A third part sets out the history of the major organizations involved, their objectives, structure, and who the decision makers are in each of them. Next, the articulations of these organizations with the IMF are analyzed. Some considerations are made at the end of this paper, through conclusion.
2. FREE TRADE AND COMPETITION IN CAPITALISM AND THE FINANCIAL SYSTEM

The contradiction between the ideology of free trade and the real conditions of capitalist competition has been evidenced in economic theory since the mid-nineteenth century and finds its primary critical points in David Ricardo, Karl Marx, and Friedrich Engels.

Ricardo in his *Principles of Economic Policy and Taxation* (1817) initiates, through an interesting critique of the Smithian vision of infinite expansion of markets, the formulation of the “law of diminishing returns.” This would serve as a subsidy to the theory of neoclassical production, presented by Alfred Marshall in *Principles of Economics* (1891), which is adopted to the present day in the mainstream of economic theory, one way or another.

The exposition of the law of diminishing returns did not prevent Ricardo from making free market apology along the lines of classical laissez-faire liberalism, extending an inverse relationship between cost and income, what Marshall would later call “opportunity cost.” This extension would be the rationale of the Theory of Comparative Advantages of Foreign Trade, the theorem so questioned in theory, as used as the foundation for economic policies. In any case, it is reiterated that Ricardo was the first in the history of economic thought to formulate the law of diminishing returns as a consequence of the expansion ad infinitum of production and of market forces.

Friedrich Engels, in his 1841 *Umrisse einer Kritik der politischen Ökonomie* (Outlines of a Critique of Political Economy), is, in turn, the first to effectively check the collaborative character of international trade, classifying it as the “stylized war” between nations. The recognition of the capitalist expansion worldwide with a historical process, not as an extension of wealth and opportunity but as a fierce competition between companies in search of the monopoly situation, was often achieved in the form of oligopolistic agreements, centralization, and concentration of the capital.

Karl Marx’s critical analysis of Capitalism, in *The Capital* of 1867, most clearly exposed this antinomy. The discourse of the free market, of free competition, would not find real effect in the face of the cumulative need of the cycle of capital between money and commodity, or even in its usurious or abbreviated form (the form $M-M'$, in which $M' > M$). The expansion of productive social relations of capitalism would thus lead to concentration and centralization, which implies the pauperization of the workers for the enrichment of the owners of the productive methods, in stamental, organizational, and even geographical (territorial) terms.

This configuration of the dynamics of capitalism would pass through not only by its organizations—in terms of the constitution of the economic environment and its effective rules—but also by the directives of its related organizations. Thus, it is not difficult to deduce that between the free-trade discourse and the cumulative need of the members of the “bureau of bourgeois interests,” organizations linked to the structuring and regulation of an international financial system would adopt the second path, as a real goal for the routing of their actions. The contributions of Rudolf Hilferding (1910) and Vladimir Ilitch Lenin (1917) on the extension of capitalism at its simplest stage complement the earlier formulations of Marx and Engels.

After the “golden age” (Hobsbawm, 1995), in the early 1970s, the articulation between national states and markets reached a point where the shifting of the former toward internationalization and financialization of the latter went from an objective necessity to reality, in what was called the globalization of capital. In this sense, organizations created in the “era of catastrophe” (Hobsbawm, 1995) have fulfilled the role of promoting, through their related organizations, precisely this scouring of national states through the coordination and integration of local financial markets. The ultimate purpose of these organizations is to seek not to perpetuate the accumulation of usurious capital, in spite of the implications of the law of diminishing returns, by promoting the movements of centralization and concentration characteristic of capitalism in any of its historical phases.

In this manner, the apparent contradiction between the free-trade ideology and the real conditions of capitalist competition occurs only insofar as its discourse of its practice is not dissociated. Thus, both commercial companies and international financial system organizations should not be observed from their “mission” or manifest proposal, but from their effective action, which is to ensure continuously increasing returns to capital, in margin and scale, or, in more direct terms, the perpetuation of capital accumulation.
3. THE INTERNATIONAL FINANCIAL SYSTEM

The international financial system (IFS) can be conceived as the space that allows the relations of exchange or business between currencies, activities, monetary and financial flows, loans, payments, and international financial investments between companies, banks, central banks, governments, or international organizations (Persaud, 2012, 219).

Thus, organizations that regulate such a space should, in the first place, facilitate international trade and investment but, above all, guarantee the necessary stability for the transit of capital, both productive and speculative.

However, in order for the aforementioned objective to be achieved, there is a need for well-defined rules and adjustment criteria, accepted by all agents, private or public, who negotiate in it. Thus, we are going to start from the end of World War II to see how the attempts to create a regulated space were made, emphasizing, however, that some organizations that would become part of the regulatory group, existed even before the 1940s.

After World War II, state representatives began to worry about the needs of a more stable international business environment. Fear of a new international crisis along the lines of that of the 1930s led the newly victorious national states of the war to seek regulatory measures for the financial system of the period. The objective was to achieve full employment and the stability of international prices, while at the same time, allowing for an external balance without restraining international trade. Many believed that if there was a new crisis on a global scale, domestic measures would no longer be sufficient. Therefore, it was necessary to create organizations and rules of behavior that would strengthen the power of rulers also at the international level. The domestic prosperity of each country would thus be attained. Therefore, international cooperation would help countries to achieve their external balance and financial stability without sacrificing their internal objectives (Gonçalves, 1997, 279-286).

Thus, in 1944, representatives of 44 countries met in Bretton Woods to plan and sign the articles of the agreement that won the same name of the locality. The agreed system required fixed exchange rates against the U.S. dollar, and a constant dollar gold price of $35 per ounce. Member countries had to maintain their international reserves largely in the form of gold or dollar assets and had the right to sell dollars to the Federal Reserve in exchange for gold at the official price. It was therefore a gold-exchange standard, with the dollar as the primary reserve currency, because the floating exchange rate in the period was considered highly detrimental to the progress of international trade (Krugman and Obstfeld, 2005, 408-414).

This agreement was unilaterally disrupted in 1973 as a result of the increase in the international mobility of capital in previous years. Such increase was due to the recovery of financial markets and the increase in international transactions that made it difficult to isolate transactions in current and capital accounts. The maintenance of parity required high intervention levels in the foreign exchange markets and led to doubts about how to intervene based on the confidence of a given government to be able to eliminate the imbalances in its balance of payments (Eichengreen, 2002, 183-185).

The 1970s were characterized not only by floating exchange rates and high inflation, but also by the rapid growth of international financial markets and of cross-border money flows. As a result, financial stability issues came once again to the fore and in 1974, the collapse of Bankhaus Herstatt in Germany and of Franklin National Bank in the United States highlighted the lack of efficient banking supervision of banks’ international activities, and prompted the Group of Ten (G10) central bank governors to create the Basel Committee on Banking Supervision (BCBS) under the Bank for International Settlements (BIS).

Furthermore, the Latin American debt crisis of 1982 highlighted the danger of undercapitalized banks being overexposed to sovereign risk and justified a new form of free markets operating under regulation and supervision of supranational organizations (BIS, 2017).

The execution of the international aid to the countries in debt were mainly performed by the International Monetary Fund (IMF) but followed the decisions of the above-mentioned group. From the 1970 decade onward, after the Jamaica Agreement in January 1976, the decisions of any action that would affect the IFS were to be discussed first by the G10 and the Board of Central Bank Governors (BCBG) at BIS as well as IMF. Consequently, it becomes essential to examine some of the characteristics of the primary organizations acting in the supervisory and regulatory role of IFS.
4. MAIN IFS REGULATORY ORGANIZATIONS

The international financial system comprises three groups of organizations. In the first group are those that regulate and supervise the functioning of the system. Moreover, this is the focus of our article, as it is in this group that the IMF is inserted. Most of such organizations have a supranational role. In the second group, we have regulated institutions, which, in general, have an area of activity linked to national spaces. Finally, in the third group, we have the shadow banking system that includes those who do not have to follow the determinations of the first group.

We next examine some of the history, the structure, and characteristics of operation of the primary organizations of the first group by order of date of foundation, in order to verify the common points between such organizations.

4.1. Bank for International Settlements

The Bank for International Settlements (BIS) was established in 1930 by the Hague Agreements, in Basel, Switzerland. It was created in the context of the Young Plan, adopted on January 20, 1930 at the Hague Conference. BIS replaced the Agent General for Reparations and assumed the role of managing the collection, administration, and distribution of the annuities payable as reparations. The Bank's name is derived from this initial role. In addition, the BIS was appointed as agent to the trustees and trustee, respectively, for the German government international loans of 1924 and 1930 (the so-called Dawes and Young Loans issued to help finance reparations). In execution of the Young Plan, the BIS reinvested part of the Young Loan proceeds in German bonds (Backer, 2002).

The names behind the foundation of BIS were Charles G. Dawes, Owen D. Young, and Hjalmar Schacht. Moreover, the funds that allowed its functioning were provided by the central banks of Belgium, France, Germany, Italy, Japan, and Great Britain and three private banks in the United States: J.P. Morgan & Company, First National Bank of New York, and the First National Bank of Chicago. The central bank of each country subscribed to 16,000 shares, and the three private American banks had 16,000 shares each. Thus, the American representation in the BIS was three times greater than that of any other country. (Lebor, 2014)

As a consequence of the Great Depression of the 1930s, the reparations issue quickly faded, and the German financial and banking crisis of the summer of 1931 led first to a one-year moratorium on reparation payments (Hoover Moratorium of July 1931) and subsequently to their complete cancellation (Lausanne Agreement of July 1932). With the reparations issue out of the way, the BIS focused its activities on the technical cooperation between central banks (including reserve management, foreign exchange transactions, international postal payments, gold deposit, and swap facilities) and on providing a forum for regular meetings of central bank governors and officials. The BIS board consisted of the governors and their alternates of the National Bank of Belgium, the Bank of France, the German Reichsbank, the Bank of Italy, the Netherlands Bank, the Swedish Riksbank, the Swiss National Bank, and the Bank of England, as well as representatives for the Bank of Japan (Lebor, 2014).

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1 The Young Plan was intended to deal with the question of reparation payments imposed on Germany (and to a lesser extent on other central European countries) by the Treaty of Versailles following the end of the First World War.

2 Charles G. Dawes was director of the US Department of the Budget in 1921 and served on the Allies Reparation Commission from 1923. His later work on “Stabilization of the German Economy” secured him the Nobel Prize in 1925. After being elected vice president to President Calvin Coolidge from 1925-1929 and appointed ambassador to England in 1931, he returned to his personal banking career in 1932 as chairman of the board of directors of the City National Bank and Trust in Chicago, where he remained until his death in 1951.

3 Owen D. Young was an American industrialist. He founded the RCA (Radio Corporation of America) in 1919 and was its president until 1933. He also served as President of General Electric from 1922 until 1939. In 1932, Young sought nomination as presidential candidate for the Democratic Party but lost to Franklin Delano Roosevelt.

4 Hjalmar Schacht was a German economist, banker, center-right politician, and co-founder in 1918 of the German Democratic Party. He served as the currency commissioner and president of the Reichsbank under the Weimar Republic and served in Hitler’s government as president of the Reichsbank (1933-1939) and minister of economics (August 1934-November 1937). As such, Schacht played a key role in implementing the policies attributed to Hitler (Backer, 2002).
After the end of World War II, according to the BIS official homepage (www.bis.org), during the Bretton Woods Conference it was decided to abolish the BIS “at the earliest possible moment,” because it was considered that the BIS would have no useful role to play once the newly created World Bank and International Monetary Fund were operational. European central bankers held a different opinion, and successfully lobbied for maintaining the BIS. By early 1948, the liquidation resolution had been put aside, and it was agreed that the BIS would focus foremost on European monetary and financial matters (BIS, 2017).

As a matter of fact, the BIS board meetings resumed in December 1946, and the priority was in stabilizing the different European national currencies before trade and foreign exchange restrictions could be gradually lifted. As a result, in September 1950, 18 European countries set up a European Payments Union (EPU) and appointed the BIS as its agent. The primary goal of the EPU was to restore the free convertibility of European currencies in line with the Bretton Woods agreements. To achieve this, each country reported its bilateral trade deficits or surpluses with each of the other participating countries to the BIS on a monthly basis where the aggregate deficit or surplus of each country was then calculated as part of the EPU as a whole. At first, these deficits and surpluses did not have to be settled immediately, but were instead largely converted into debits and credits within the EPU. With time, the ratio of debits and credits granted by the EPU was gradually reduced until the end of 1958, when it was dissolved (BIS, 2017).

With the signature of the Rome Treaties in 1958 and the starting process of creating the European Economic Community, BIS continued its role as a mentor for the countries of Europe who had signed such treaties. Therefore, both The European Monetary Cooperation Fund (EMCF, 1973) and the European Monetary System (EMS, 1979) were operated from Basel, with the BIS acting as technical support. In 1988-1989 the Committee for the Study of Economic and Monetary Union, chaired by Jacques Delors, was once again based in Basel where the technical groundwork for the European Council’s decision to move toward full European monetary union was also provided by BIS and was approved in the 1992 Treaty of Maastricht. With the implementation of the first phase of the monetary union process at the end of 1993, the Committee of Governors was replaced by the European Monetary Institute (EMI), and moved from Basel to Frankfurt where, in 1997, the EMI became the European Central Bank (ECB, 2017).

In the 1970s, the Group of Ten (G10) also created the Basel Committee on Banking Supervision (BCBS) as a committee of banking supervisory authorities of the central bank governors of the Group of Ten countries in order to provide a forum for regular cooperation on banking supervisory matters. In the next decades, the Basel Committee issued the Basel Capital Accord, introducing a credit risk measurement framework for internationally active banks that became a globally accepted standard. This capital accord was further refined in the Basel II (2004) and Basel III (2010) frameworks with the goal to increase control and transparent measurement of the various risks incurred by internationally active banks, limiting the possibility of contagion in case of a crisis within the IFS (Lebor, 2012).

Besides the Basel Committee, there are other BIS-based committees such as the Markets Committee (since 1964), the Committee on the Global Financial System (CGFS, since 1971), and the Committee on Payment and Market Infrastructures (CPMI, since 1990—until 2014 the Committee on Payment and Settlement Systems).

Nowadays, BIS states that its mission is “(...) to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.” Regarding the way of its operation, it states as follows:

BIS pursues its mission by: fostering discussion and facilitating collaboration among central banks; supporting dialogue with other authorities that are responsible for promoting financial stability; carrying out research and policy analysis on issues of relevance for monetary and financial stability; acting as a prime counter party for central banks in their financial transactions; and serving as an agent or trustee in connection with international financial operations. (BIS, 2017)

Owing to the 2007-2008 financial and banking crisis, the structure of BIS was modified in order to gain more speed in the decisions that were taken so that, at the present moment, the main structures and groups working at BIS are the board of directors, and the main committees are the Basel Committee on Banking Supervision (BCBS), the Committee on the Global Financial System (BGFS), the Committee on Payment and Settlement Systems, and the Central Bank Governance Forum (BIS, 2017).
According to the BIS official page (http://www.bis.org/about/board.htm), the board of directors meets every two months and may have up to 21 members, including six ex officio directors, comprising the central bank governors of Belgium, France, Germany, Italy, the United Kingdom, and the United States. Each ex officio member may appoint another member of the same nationality. Nine governors of other member central banks may be elected to the board. The board of directors elects a chairman and may elect a vice chairman from among its members—each for a three-year term. In addition, BIS is part of several other organizations such as the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), and the International Association of Deposit Insurers (IADI).

4.2. International Monetary Fund

The International Monetary Fund (IMF) was conceived in July 1944, at the meeting of Bretton Woods, in the United States of America and came into formal existence in December 1945, when its first 29 member countries signed its Articles of Agreement and began operations on March 1, 1947. The IMF’s primary mission was to ensure the stability of the international monetary system, by operating mainly in the system of exchange rates and international payments. In order to maintain stability and prevent crises in the international monetary system, the IMF monitors member country policies as well as national, regional, and global economic and financial developments (IMF, 2010).

According to its official web page, every country that joins the IMF accepts the obligation to subject its economic and financial policies to the scrutiny of the organization and the international community. The IMF’s mandate is to oversee the international monetary system and monitor economic and financial developments in and of the policies of its 189 member countries. In order to perform that, the surveillance process assesses whether domestic policies promote countries’ own stability by examining risks they might pose to domestic and balance of payments stability and IMF technicians’ advises on policy adjustments and propose policies’ alternatives when the countries’ decisions could affect global stability (de Vries, 1986).

By the early 1960s, the U.S. dollar’s fixed value against gold, under the Bretton Woods system of fixed exchange rates, was observed as overvalued. A sizable increase in domestic spending on President Lyndon Johnson’s Great Society programs and an increase in military spending caused by the Vietnam War gradually worsened the overvaluation of the dollar. The system dissolved between 1968 and 1973. In August 1971, U.S. President Richard Nixon announced the “temporary” suspension of the dollar’s convertibility into gold. Although the dollar had struggled throughout most of the 1960s within the parity established at Bretton Woods, this crisis marked the breakdown of the system. An attempt to revive the fixed exchange rates failed. Moreover, by March 1973, the major currencies began to float against each other (IMF, 2010).

Since the collapse of the Bretton Woods system, the countries that were IMF members were free to select any form of exchange arrangement they wish, which allowed the currency to float freely, pegging it to another currency or a basket of currencies, adopting the currency of another country, participating in a currency bloc, or forming part of a monetary union (IMF, 2010).

As part of the first amendment to its articles of agreement in 1969, the IMF developed new reserve instruments called special drawing rights (SDRs), which could be held by central banks and exchanged among themselves and the Fund as an alternative to gold. SDRs entered service in 1970 originally as units of a market basket of 16 major vehicle currencies of countries whose share of total world exports exceeded 1%. The basket’s composition changed over time and presently consists of the U.S. dollar, euro, Japanese yen, Chinese yuan, and British pound. Beyond holding them as reserves, nations can denominate transactions among themselves and the fund in SDRs, although the instrument is not a vehicle for trade. Special drawing rights were originally equivalent to a specified amount of gold, but were not directly redeemable for gold and instead served as a surrogate in obtaining other currencies that could be exchanged for gold. The Fund initially issued 9.5 billion SDRs from 1970 to 1972 (Somanath, 2011).

In January 1976, the IMF members signed the Jamaica Agreement, which ratified the end of the Bretton Woods system and officially embraced the flexible exchange rate regimes, thus formalizing the end of use of gold as a reserve instrument. The IMF gold reserves were then returned to members or sold to provide poorer nations with relief funding. Developing countries and countries not endowed with oil export resources enjoyed greater access to IMF lending programs as a result.

After the agreement, IMF continued assisting nations experiencing balance of payment deficits and currency crises, but began imposing conditioning on its funding that required countries to adopt policies
aimed at reducing deficits through spending cuts and tax increases, reducing protective trade barriers, and contradiction on monetary policy (de Vries, 1986).

In 1978, a second amendment to the articles of agreement was signed, and it legally formalized the free-floating acceptance and gold demonetization achieved by the Jamaica Agreement. Additionally, it required members to support stable exchange rates through macroeconomic policy. The post-Bretton Woods system was decentralized in that member states retained autonomy in selecting an exchange rate regime (de Vries, 1986).

Post 2007-2008 financial and banking crisis, the IMF states that its mission is as follows:

The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability. (IMF, 2017)

In order to attain that goal, the IMF states in its official web page that it works with a management team and 17 departments. The staff has a managing director, who is the head of the staff and chairperson of the executive board. He is appointed by the executive board for a renewable term of five years and is assisted by a first deputy managing director and three deputy managing directors. The resources for IMF loans are provided by member countries, primarily through their payment of quotas. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy.

The primary decisions of IMF are made by the board of governors formed by one governor and one alternate governor for each member country. The governor is appointed by the member country and is typically the minister of finance or the governor of the central bank. This board normally meets once a year (IMF, 2017).

Table 1 shows the quota and voting shares of IMF members since the Board Reform Amendment on January 2016 as a percentage of the total.

It is important to note that over 50% of the quotas are held by the United States, Japan, China, Germany, the United Kingdom, France, Italy, and India. In order to attain over 50% of the voting power, Russia is included in the group. These nine countries, in case of mutual agreement, may decide by vote, any question in the board of governors.

4.3. World Bank

Founded in 1944 at the Breton Woods Conference, the International Bank for Reconstruction and Development (IBRD) became most known as the World Bank (WB). The purpose of this organization was to provide loans to help rebuild countries devastated by World War II. In time, the focus shifted from reconstruction to development, with a heavy emphasis on infrastructure such as dams, electrical grids, irrigation systems, and roads. With the founding of the International Finance Corporation in 1956, the institution became able to lend to private companies and financial institutions in developing countries. Moreover, the founding of the International Development Association in 1960 puts greater emphasis on the poorest countries, part of a steady shift toward the eradication of poverty becoming the bank group’s primary goal. The subsequent launch of the International Center for Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency further rounded out the bank group’s ability to connect global financial resources to the needs of developing countries. Therefore, today, the bank has five branches as we shown in Table 2 (World Bank, 2017).

To become a member of the World Bank, a country should first join the International Monetary Fund (IMF). To become a member in IDA, IFC, and MIGA, a membership in IBRD is mandatory. The member countries, or shareholders, are represented by a board of governors, who are the ultimate policymakers at the World Bank. Generally, the governors are member countries’ ministers of finance or ministers of development. They meet once a year at the annual meetings of the boards of governors of the World Bank Group and the International Monetary Fund. The voting policy follows the same characteristics as the IMF. So that each member votes on a system of share votes (one vote for each share of the bank's capital stock held by the member) plus basic votes (calculated so that the sum of all basic votes is equal to 5.55% of the sum of basic votes and share votes for all members). The exception is MIGA where each member votes based on share votes (one vote for each share of MIGA's capital stock held by the member) plus parity votes, calculated so that the aggregate number of votes of category 1 and category 2 members is the same. Members select the category they want to join at the time of membership. The category 1 has members that were
originally defined as developed countries, and category 2 has members defined as developing countries (Persaud, 2012).

The World Bank operates under the leadership of the president, and the vice presidents in charge of global practices, cross-cutting solutions, areas, regions, and functions. The five largest shareholders appoint an executive director, while other member countries are represented by elected executive directors. The governors also delegate specific duties to 25 executive directors, who work on-site at the bank. The executive directors make up the boards of directors of the World Bank. They normally meet at least twice a week to oversee the bank’s business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies, and borrowing and financial decisions. (World Bank, 2017).

### 4.4. Group of Ten
The Group of Ten or G-10 refers to the group of countries that agreed to participate in the General Arrangements to Borrow (GAB), an agreement to provide the International Monetary Fund with additional funds to

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**Table 1. Quota and Votes of the Countries Members of IMF as a Percentage of the Total.**

<table>
<thead>
<tr>
<th>Country</th>
<th>Quota (%)</th>
<th>Votes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 USA</td>
<td>17.60</td>
<td>16.70</td>
</tr>
<tr>
<td>2 Japan</td>
<td>6.54</td>
<td>6.21</td>
</tr>
<tr>
<td>3 China</td>
<td>6.46</td>
<td>6.14</td>
</tr>
<tr>
<td>4 Germany</td>
<td>5.65</td>
<td>5.37</td>
</tr>
<tr>
<td>5 UK</td>
<td>4.27</td>
<td>4.21</td>
</tr>
<tr>
<td>6 France</td>
<td>4.27</td>
<td>4.07</td>
</tr>
<tr>
<td>7 Italy</td>
<td>3.20</td>
<td>3.05</td>
</tr>
<tr>
<td>8 India</td>
<td>2.78</td>
<td>2.66</td>
</tr>
<tr>
<td>9 Russia</td>
<td>2.74</td>
<td>2.35</td>
</tr>
<tr>
<td>10 Saudi Arabia</td>
<td>2.72</td>
<td>2.31</td>
</tr>
<tr>
<td>11 Brazil</td>
<td>2.34</td>
<td>2.24</td>
</tr>
<tr>
<td>12 Canada</td>
<td>2.34</td>
<td>2.24</td>
</tr>
<tr>
<td>13 Spain</td>
<td>2.02</td>
<td>1.94</td>
</tr>
<tr>
<td>14 Mexico</td>
<td>1.89</td>
<td>1.82</td>
</tr>
<tr>
<td>15 Netherlands</td>
<td>1.85</td>
<td>1.78</td>
</tr>
<tr>
<td>16 Coreia</td>
<td>1.85</td>
<td>1.72</td>
</tr>
<tr>
<td>17 Australia</td>
<td>1.39</td>
<td>1.35</td>
</tr>
<tr>
<td>18 Belgium</td>
<td>1.36</td>
<td>1.31</td>
</tr>
<tr>
<td>19 Switzerland</td>
<td>1.22</td>
<td>1.19</td>
</tr>
</tbody>
</table>

**Total** 72.49 68.66

Other 169 member 27.51 31.34

increase its lending ability. The GAB was established in 1962, when the governments of eight International Monetary Fund (IMF) members—Belgium, Canada, France, Italy, Japan, Netherlands, United Kingdom, and the United States of America—and the central banks of Germany Federal Republic and Sweden, agreed to make resources available to the IMF with an additional $6 billion of their own resources. The Group of Ten signed the Smithsonian Agreement in December 1971, replacing the world’s fixed exchange rate regime with a floating exchange rate regime owing to the end of the Bretton Woods agreement (Black, 2009).

Nowadays the G-10 is made up of 11 industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States), which consult and cooperate on economic, monetary, and financial matters. The ministers of finance and central bank governors of the Group of Ten meet as needed in connection with the meetings of the International Monetary Fund (IMF) and the World Bank (WB) in order to produce joint documents or reports that express the joint view and decisions of the group regarding the subject that motivated the meeting (BIS, 2017).

4.5. Financial Stability Forum (FSF) and Financial Stability Board (FSB)

In February 1999, the G10 Finance Ministers and Central Bank Governors created the Financial Stability Forum (FSF)—which became the Financial Stability Board (FSB) in 2009—to coordinate the emerging international standards regime by bringing together in the same place the representatives of important organizations of the International Financial System such as the BCBS, IAIS, IOSCO, IASB, IMF, WB, BIS, and OECD, and the central bank, finance ministry, and regulatory and supervisory authorities from each G7 country (along with the European Central Bank (ECB). As one of its first tasks, the FSF compiled a compendium of existing international prudential standards (Porter, 2009).

More specifically, the FSB was established to assess vulnerabilities affecting the global financial system as well as to identify and review, on a timely and ongoing basis, the regulatory, supervisory, and related actions required to address these vulnerabilities, and their outcomes. In addition, it aims to promote coordination and information exchange among authorities responsible for financial stability monitoring and to advise on market developments and their implications for regulatory policy. In order to perform the action, FSB undertakes joint strategic reviews of the international standard setting bodies and coordinates their respective policy development work to ensure this work is timely, coordinated, focused on priorities and addresses gaps. In order to do so, FSB collaborates with the International Monetary Fund (IMF) to conduct Early Warning Exercises in order to promote member jurisdictions’ implementation of agreed

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<th>Table 2. World Bank Structure.</th>
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<tr>
<td><strong>Foundation date</strong></td>
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<td>1944</td>
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<td>1956</td>
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<td>1960</td>
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<td>1966</td>
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<td>1988</td>
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*140 Member States.

*180 member countries with 25 lenders.

commitments, standards, and policy recommendations, through monitoring of implementation by peer review and disclosure (Helleiner, 2010).

According to the FSB official page (www.fsb.org), the plenary is the sole decision-making body of the FSB and is governed by the FSB charter, Articles of Association, and procedural guidelines. The countries that are represented in it are Argentina, Australia, Brazil, Canada, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Korea, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, the United Kingdom, and the United States. Important organizations such as International Monetary Fund (IMF), the World Bank (WB), Bank for International Settlements (BIS), Organization for Economic Cooperation and Development (OECD), European Central Bank (ECB), European Commission, Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), International Accounting Standards Board (IASB), and Committee on the Global Financial System (CGFS) are represented in the FSB.

Embedded in the FSB’s structure is a framework for the identification of systemic risk in the financial sector, for framing the policy sector policy actions that can address these risks, and for overseeing implementation of those responses. The FSB’s structure comprises the plenary as the decision-making body, a steering committee to take forward operational work in between plenary meetings, and three standing committees: (1) the Standing Committee on Assessment of Vulnerabilities (SCAV), which is the FSB’s primary mechanism for identifying and assessing risks; (2) the Standing Committee on Supervisory and Regulatory Cooperation (SRC), which is charged with undertaking further supervisory analysis or framing a regulatory or supervisory policy response to a material vulnerability identified by SCAV; and (3) the Standing Committee on Standards Implementation (SCSI), which is responsible for monitoring the implementation of agreed FSB policy initiatives and international standards (Helleiner, 2010).

The FSB’s decisions are not legally binding on its members. As obligations of membership, the members commit to pursue the maintenance of financial stability, maintain the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using IMF/World Bank public Financial Sector Assessment Program (FSAP) reports. They also commit to implement international financial standards (Porter, 2009).

5. IMF AND THE IFS REGULATORY ORGANIZATIONS

In this section, we discuss how BIS, IMF, and WB work together regarding the interaction with countries that have problems in their balance of payments or experience debt issues.

Regarding practical logistics, the International Monetary Fund (IMF) interacts with governments while the Bank for International Settlements (BIS) interacts only with central banks. The IMF lends money to national governments of countries experiencing some fiscal or monetary crisis. In addition, the IMF produces money by receiving contributions from the quotas of its member countries. Although member countries can borrow money to make their contributions, they actually come from taxes paid by taxpayers. It is curious that this characteristic of the IMF relationship with its member countries is exactly the basis of economic policy consolidated in capitalist democracies in the last decades and that it engenders, in its apparent hydraulic logic of equilibrium, a contradiction between the taking of the social product generated by national economies and the policies of money emission. Through it, wealth is exchanged for credit, quite distinct categories within economic theory.

The World Bank also lends money to governments. Within the World Bank, there are two separate entities for this purpose—the International Bank for Reconstruction and Development (IBRD) and an International Development Association (IDA). As explained before, the IBRD targets middle-income countries and countries deserving credit, while the IDA caters to the poorest countries in the world. The World Bank is self-sufficient for internal operations, lending money from direct bank lending and floating bond issues, and then lending this money through IBRD and IDA to countries in difficulty.

BIS, like the central bank of the others banks, facilitates the movement of money. It does “bridge loans” to the central banks of countries where IMF or World Bank money has been promised but not yet released. These bridge loans are then returned by the respective governments when funds are released that have been pledged by the IMF or the World Bank.
The IMF is the last resort of the BIS when a monetary crisis occurs. For instance, in the 1998 crisis with the Brazilian currency, caused by the country’s inability to pay excessive accumulated interest on loans made over an extended period of time; the original loans were made by banks such as Citigroup, J.P. Morgan, Chase, and FleetBoston, and they could suffer the loss of an immense amount of money if payment did not happen. Therefore, the IMF lent money to Brazil to pay the banks and to be able to borrow again from them. In exchange for this new loan, the government had to accept the policies advised by IMF and speed the cut of expenses, the selling of governmental actives, and adopt a floating exchange rate. It is important to note that (1) this is the route of action characteristic of these institutions in the case described, such as a currency crisis in a peripheral country; and (2) the circumstances of the articulation and performance of the organizations inherent to the system also depended on the internal environment of economic policy, marked by the apologetics not only of institutionally dominant economic policies but by its practice in the form of “hegemonic knowledge.”

In addition, it is also important to note that IMF and BIS, as well as the committees, commissions, forums, and other organizations created from both, have their decisions centered on a small group of nations. When crossing the structures of decision inside these organizations, the names of such countries get highlighted.

Consequently, we can observe that, in the case of BIS, 12 of the 21 board members that actually make decisions are the governors of Belgium, France, Germany, Italy, the United Kingdom, and the United States central banks. These countries own, together, 35% of the voting power of the IMF and, consequently, of the World Bank. These are also six members of the Group of Ten (G10), and along with the other countries in this group, they hold approximately 47% of the total votes in the IMF, and the World Bank.

On the other hand, organizations created to increase the participation of developing countries such as the G20 and even the Financial Stability Forum (FSF) and Financial Stability Board (FSB) do not have the power to determine or confront the decisions made by the select group of the countries mentioned earlier.

6. CONCLUSION

The articulation between the largest organizations of the International Financial System (IFS) follows a logic and purpose that are not exactly what they advertise on their official web pages. We can argue the case in three instances.

First, there is the concern, both in protection and development of the IFS, which holds the highest priority, that the primary goal is the creation of an effective crisis protection instrument. However, this does not necessarily void its intrinsic characteristic vulnerability.

Second, the issue of preserving the movement of capital accumulation has increased its power in the last half of the twentieth century. The economic and financial health of companies, external and domestic to national economies, is a second concern of this form of articulation in the IFS.

Third, there is the clash of these priorities with the doctrine of free trade and laissez-faire, as indicated in the previous section. On this basis, the apparent contradiction between the free-trade discourse and the institutional network of protection of the financial capital created during the twentieth century appears much more like a strategy of systemic perpetuation.

BIS, World Bank, and IMF, in their genesis and coordination, as well as their changes and permanencies over time, indicate a practice of “trial and error” in the sense of managing the financial crises, with the security not of the real assets of the economy or of the productive factors in its efficiency but of the financial capital. On the other hand, the permanence of strict interests linked to the preservation of the latter in the hands of its holders suggests a fairly linear consistency over time. The very evolution of organizations originally and formally designed to “promote economic development” in order to establish safeguards and protections for investors, as opposed to structural permanence, both in operations and in the representativeness of strictly financial bodies, such as the BIS, show the fact for which the international financial system is oriented.

Through the structure created, the interconnected functioning of the IMF, BIS, World Bank, and G10 has cohesion, speed, and decision-making power centralized in a few countries, the main world economic
powers and to discuss a reform of the IMF in order to reduce domination of developed economies; modify IMF’s existing activities; expand lending facilities in relation to least developing economies; and providing governance, passes, therefore, for its necessary discussion and reorientation of the entire IFS.

References
