# International Economic Organizations and Economic Development: An Assessment

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# International Economic Organizations and Economic Development: An Assessment

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*Critics of the IMF and the World Bank have long suggested that these two international economic organizations routinely fail to achieve their development goals and should hence be abolished. This article explores empirically whether the IMF and World Bank's financial assistance to developing countries have failed or succeeded in promoting economic development across the developing world. The empirical analysis reveals that aid and loans from the IMF and the World Bank have a positive effect on economic development in developing countries that are democracies, but have a negligible or sometimes negative effect on development in developing nations that are autocratic. Thus the impact of funds from the IMF and the World Bank on development is critically dependent on the political regime type of countries that receive assistance from these institutions. Given this central finding, the article proposes three policy goals that U.S. administrations should pursue to enhance the IMF and the World Bank's ability to promote economic development in developing countries.*

At the September 2000 United Nations (UN) Millennium Summit, UN member states adopted the Millennium Declaration for the purpose of promoting economic development and reducing poverty across the developing world. Eight goals were identified in the Millennium Declaration: eradicating hunger, achieving universal education, empowering women, reducing child mortality, improving maternal health, combating HIV/AIDS and other diseases, ensuring environmental sustainability, and developing a global partnership for development.[1] The Millennium Declaration was publicly and enthusiastically endorsed by the two main international economic organizations (IEOs)—also known as the Bretton Woods institutions—that were formally established in 1944: the International Monetary Fund (IMF) and the World Bank. As World Bank President James Wolfensohn declared in 2002, the UN Millenium Declaration is "the hymnbook that we are singing from now."[2] This new "hymnbook" now forms the basis from which the World Bank formulates its development objectives.

Enthusiastic endorsement of the Millennium Declaration by the IMF and the World Bank is hardly surprising given that the main objective of these two Bretton Woods institutions is to foster economic development and reduce poverty.[3] In fact, every September, the Board of Governors of the IMF and the World Bank meet to assess whether or not the financial aid

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and conditional loans that the two international organizations provide to developing countries are genuinely promoting development.

Critics of the IMF and World Bank, including prominent academics such as William Easterly and Joseph Stiglitz, are quick to emphasize that financial aid and loans from the two Bretton Woods institutions have failed to meet basic development goals.[4] These critics are also pessimistic about the efficacy and future viability of the two IEOs. Supporters of the IMF and the World Bank, however, suggest that these two institutions have been relatively, if not completely, successful in promoting economic growth in developing countries.[5] Indeed, supporters argue quite vehemently that the IMF and World Bank's aid and loan programs designed for poverty reduction in the developing world must be maintained in order to help promote growth.[6]

The debate about the efficacy of the two Bretton Woods institutions naturally raises the issue of whether the critics or the supporters are correct in their assessment of the IMF and the World Bank. In this essay, I attempt to evaluate whether the views held by the critics or the supporters are more accurate by answering the following three questions: First, have the IMF and the World Bank failed in their development goals? Second, what are the explanations of this success or failure? And third, what can the US do to bolster the IMF and the World Bank? Finding cogent answers to these questions is vital. Failure to curtail poverty in developing countries could breed anarchy, civil wars and even terrorism in these countries.[7] This, in turn, could threaten the security of advanced industrial democracies such as the United States.

The article is organized as follows. In the next section, I assess empirically whether financial aid and loans from the IMF and the World Bank have fostered or stymied economic development in developing countries. While doing so, I attempt to explain why financial assistance from the Bretton Woods institutions has a positive effect on development in democracies in the developing world but not in non-democratic developing states. This discussion is followed with a series of policy recommendations that the United States should follow to increase the effectiveness of the IEOs in fighting global poverty. I suggest, based on the analysis presented below, that the United States should actively encourage the IMF and the World Bank to advocate political reform in the autocratic states of the developing world that borrow loans from these two international institutions.

## Does Financial Assistance from IEOs Hinder or Promote Development?

The World Bank has actively provided financial aid and loans to developing countries since the 1950s for poverty alleviation programs, structural adjustment, rural development schemes, training bureaucrats and for improving infrastructure. The IMF, in contrast, was primarily focused on preserving global financial stability between 1950 and 1970. After the oil crisis of the 1970s, however, the IMF also started providing financial aid

and conditional loans to developing countries to foster economic growth in these countries.

The IMF and the World Bank have provided vast amounts of aid and loans to several developing nations during the previous three decades. A recent study reveals that the average overall use of IMF credit per decade increased, in real terms, by 21% between the 1970s and 1980s, and increased again by just over 22% percent from the 1980s to the 1991–2005 period.[8] Another study has suggested that since 1950 the continent of Africa alone has received more than a staggering $300 billion from the IMF, the World Bank and affiliate institutions.[9] Have the IMF and the World Bank "wasted" billions of U.S. dollars or has the money been "wisely invested" by these two IEOs for promoting economic development across the developing world?

Economists and political scientists have recently used econometric techniques to evaluate the effect of financial assistance from the IMF and the World Bank on economic outcomes such as economic growth, infant mortality, government spending and public debt in developing countries. This literature, which is voluminous, is deeply divided over the impact of funds from the Bretton Woods institutions on economic development in the developing world.[10] Some scholars suggest that the impact in developing countries is negligible;[11] while others insist that the impact is positive.[12] Some academics even suggest that financial flows from the IMF and the World Bank have negative consequences on economic development in developing countries.[13] It is beyond the scope of this paper to adjudicate between the empirical findings summarized above.

However, I have conducted a simple analysis of existing data to assess the effect of aid and loans from the IMF and the World Bank on two widely accepted indicators of economic development—economic growth and the logarithm (log) of infant mortality—for a sample of 112 developing countries from 1975 to 2002. More specifically, I have analyzed how the IMF and World Bank's aid and loan amount (as a percentage of the GDP of recipient nations) influenced the mean growth rates and log of infant mortality in these countries between 1975 and 2002. The size of the sample is dictated primarily by the extent to which data is available for (i) the two indicators of economic development mentioned above and (ii) the amount of financial assistance that the two Bretton Woods institutions have offered to individual countries from 1975 to 2002.[14] The countries in the sample are listed in Table 1.

Table 2 presents the mean economic growth rate (see column A) and the mean log of infant mortality (column B) during the years between 1975 and 2002 in which countries in the sample received financial assistance from the IMF and/or the World Bank. Columns C and D in Table 2 report respectively the mean growth rate (column C) and mean log of infant mortality (column D) in the years between 1975 and 2002 in which countries in the sample did *not* receive financial assistance from either of the two international economic organizations. Note from columns A and C that there is almost no difference between the mean growth rate of developing countries during the years in which they received financial assistance and

**Table 1: List of Developing Countries in Sample, 1975–2002**

| Country | Country | Country | Country |
|---|---|---|---|
| Algeria | Cyprus | Latvia | Philippines |
| Angola | Djibouti | Lesotho | Poland |
| Argentina | Dominican Republic | Liberia | Portugal |
| Armenia | Ecuador | Lithuania | Romania |
| Azerbaijan | Egypt | Luxembourg | Russia |
| Bahamas | El Salvador | Macedonia | Rwanda |
| Bangladesh | Equatorial Guinea | Madagascar | Seychelles |
| Barbados | Estonia | Malawi | Senegal |
| Belarus | Ethiopia | Malaysia | Sierra Leone |
| Belize | Fiji | Mali | Slovenia |
| Benin | Gabon | Malta | South Africa |
| Bolivia | Gambia | Mauritania | Sri Lanka |
| Botswana | Georgia | Mauritius | Sudan |
| Brazil | Ghana | Mexico | Swaziland |
| Bulgaria | Grenada | Moldova | Syria |
| Burkina Faso | Guatemala | Mongolia | Taiwan |
| Burundi | Guinea-Bissau | Morocco | Tanzania |
| Cameroon | Guyana | Mozambique | Thailand |
| Cape Verde | Haiti | Myanmar | Trinidad & Tobago |
| Central African Republic | Honduras | Nepal | Togo |
| Chad | India | Nicaragua | Tunisia |
| Chile | Indonesia | Nigeria | Turkey |
| China | Iran | Niger | Uganda |
| Colombia | Jamaica | Nepal | Ukraine |
| Comoros | Jordan | Pakistan | Uruguay |
| Congo | Kenya | Panama | Venezuela |
| Costa Rica | Kyrgyzstan | Paraguay | Zambia |
| Cote d'Ivoire | Laos | Peru | Zimbabwe |

**Table 2: IMF and World Bank Funds and Economic Development**

| | Panel I: Years in which countries in sample received Aid and Loans from IMF and WB | | Panel II: Years in which countries in sample did not receive Aid and Loans from IMF and WB | |
|---|---|---|---|---|
| | **Column A** *Mean Growth Rate* | **Column B** *Mean Log Infant Mortality* | **Column C** *Mean Growth Rate* | **Column D** *Mean Log Infant Mortality* |
| | 1.5% | | 1.3% | |
| | | .018 | | .014 |
| Difference-of-means | Column A - C: = 0.2% (.778) | Column B - D: =.004 (.009) | | |

Notes: The descriptive statistic results in this table are based on the sample of developing countries observed between 1975 and 2002 in Table 1. The numbers in the parentheses indicate the p-value derived from difference-of-means tests between the averages reported in the respective columns.

the time period in which they did *not* receive aid or loans from the Bretton Woods institutions. Comparison of the averages reported in columns B and D reveal an even more disturbing result. In particular, these two columns show that the infant mortality rate is statistically higher during the years in which countries receive financial assistance from the Bretton Woods institutions relative to the years in which they do not get aid or loans from these organizations.[15]

None of the results presented above are surprising to some scholars. As mentioned earlier, numerous academics have long claimed that financial aid and loans from the IMF and World Bank have a negligible or even negative impact on economic development in developing countries. Although the results in Table 2 appear to confirm the views of the critics of the IEOs, we should be cautious before drawing too strong of conclusions from these results. This is because the findings reported in Table 2 are far from complete. The results mask the possibility that there may be a critical difference between the impact that the IMF and World Bank have on development in developing nations that are democracies compared to non-democratic states.

**Table 3: IMF and WB Funds and Development in Democracies and Autocracies**

| | Panel III: Years in which *Democracies* in sample received Aid and Loans from IMF and WB | | Panel II: Years in which *Autocracies* in sample did not receive Aid and Loans from IMF and WB | |
|---|---|---|---|---|
| | **Column E** *Mean Growth Rate* | **Column F** *Mean Log Infant Mortality* | **Column G** *Mean Growth Rate* | **Column H** *Mean Log Infant Mortality* |
| | 2.7% | | 0.9% | |
| | | .008 | | .015 |
| Difference-of-means | Column E- G =2.2% (.000) | Column F - H = -.007 (.006) | | |

Notes: The descriptive statistic results in this table are based on separate sub-samples of democracies and autocracies in the developing world drawn from the sample of developing countries (1975-2002) listed in Table 1. The numbers in the parentheses indicate the p-value derived from difference-of-means tests between the averages reported in the respective columns.

## Relative Success of IMF and World Bank Aid and Loans: Democracy vs. Autocracy

When we divide the sample of 112 developing countries in Table 1 into democratic and autocratic states based on the well-known Freedom House democracy index,[16] we get more nuanced results about the impact of the IMF and World Bank's financial assistance on economic development. Table 3 shows that the mean growth rate among developing democracies in the years in which they received financial help from the IMF and the World Bank is approximately two times higher than the mean growth rate among autocracies during the time period in which these autocratic states obtained financial assistance from the same institutions.

The illustrations in Figures 1 and 2 confirm the results in Table 3. Figure 1 is a scatter-plot derived from a regression model that tests the impact of aid and loans (as a percent of the GDP of recipient nations) from the IMF and World Bank on the economic growth rate of democracies in the sample from 1975 to 2002. This figure clearly illustrates that financial assistance from the IEOs has a strong positive effect on economic growth in democracies in the developing world; the aforementioned correlation is captured by the positive slope of the line that passes through the individual scatter plots.[17]

**Figure 1.** IMF and World Bank Funds and Growth Rates in Democracies

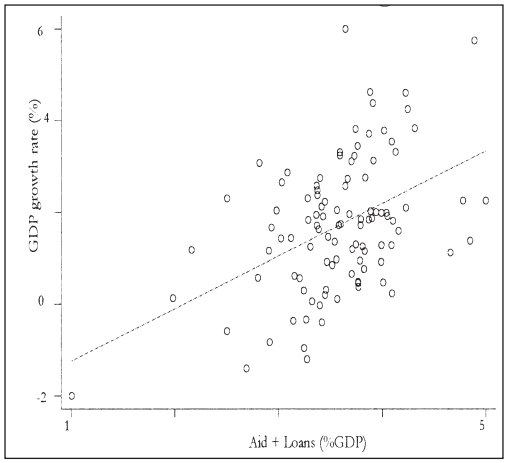



**Figure 2.** IMF and World Bank Funds and Growth Rates in Autocracies

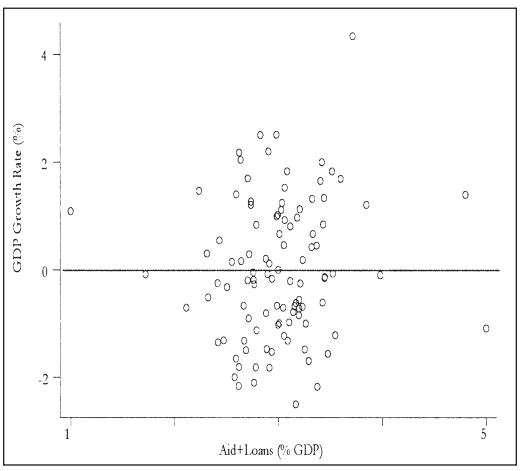
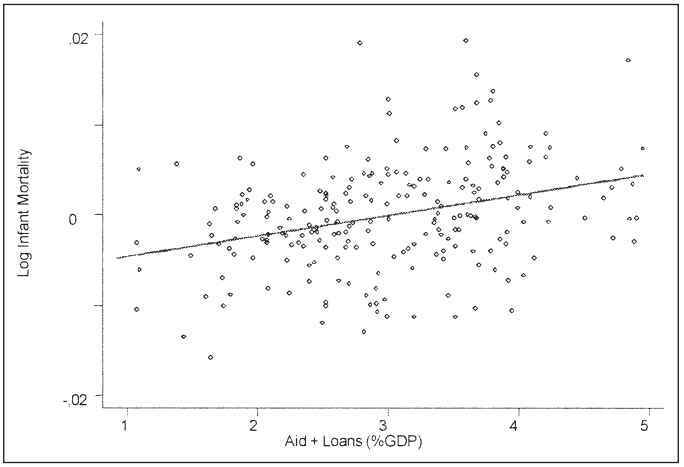



Figure 2, in contrast, shows that financial assistance from the IMF and the World Bank has had a negligible effect on growth in autocracies in the sample; indeed the line that passes through the individual scatter plots in this case is completely flat.

Table 3 also reveals that aid and loans from the IMF and World Bank reduce infant mortality in developing nations that are democratic. Unfortunately, funds from the Bretton Woods institutions lead to an increase in infant mortality in developing countries that are autocratic. This tragic result is shown in Figure 3 where the upward sloping line indicates a positive correlation between funds from the Bretton Woods institutions and the extent of infant mortality in non-democratic developing states.

**Figure 3.** IMF and World Bank Funds and Infant Mortality in Autocracies




Taken together, the results in Table 3 and Figures 1–3 suggest that economic development among democracies in the developing world benefits from aid and loans from the Bretton Woods institutions. However, financial assistance from these institutions, on average, has negligible or disastrous economic effects in autocratic states in the developing world. These findings are extremely important. This is because, barring a few political scientists,[18] analysts often under-estimate the possibility that the effect of the IMF and the World Bank's funds on development may be mediated by the political regime-type of the countries that receive financial assistance. Indeed, as discussed in the next section, the results reported in Table 3 have vital policy implications for future U.S. administrations.

Why does financial assistance from the IMF and the World Bank have a positive effect on economic development in democracies in the developing world but not in those that are autocratic? Two main reasons, which are certainly not exhaustive, can be put forth to answer this question.

When democratic leaders receive aid or loans from the two IEOs to follow certain policies that foster economic development, they cannot easily divert the obtained financial assistance for rent extraction or personal use.

First, policy-making within democracies is a transparent process. Policies are openly debated in the legislature and even in the media before they are actually implemented. And, compared to leaders in autocracies, democratic leaders are politically accountable to their electorate. Hence, when democratic leaders receive aid or loans from the two IEOs to follow certain policies that foster economic development, they cannot easily divert the obtained financial assistance for rent extraction or personal use.

This, in turn, ensures that financial assistance from the two institutions is more often invested for promoting economic development rather than for rent-seeking.

Unlike democracies, policy-making in autocratic regimes is not transparent. Leaders of autocratic regimes face relatively less formal political constraints and are thus less accountable to their citizens compared to democratic leaders. Consequently, autocrats may find it easier than democratic leaders to divert the IMF and the World Bank's funds for rent-seeking and corruption instead of investing the financial aid for promoting development.

A simple example will help illustrate the above argument. Consider two countries in Africa that have similar levels of per capita income but have different political regimes. The first country is Tanzania, which has made a relatively successful transition to democracy since 1995. The second country is Zimbabwe, which is essentially a dictatorship. Let's begin with Zimbabwe. Worsening economic conditions in Zimbabwe in 1998 and 1999 forced Zimbabwean government officials to request financial assistance from the IMF in the summer of 1999. After some tough negotiations, the IMF finally relented and provided a stand-by loan of $193 million during the fall of 1999 to help the country overcome its economic crisis.[19] When Zimbabwe's government received the loan, government officials and the country's leader, Robert Mugabe, promised the IMF that they would curb corruption since the IMF perceived quite justifiably that corruption was exacerbating the country's economic and financial crisis. Indeed, the IMF's loan was provided in part to invest in and improve formal mechanisms of governance in the country to reduce corruption. Unfortunately, rather than being used to root out corruption, the IMF's funds were misappropriated and largely stolen. Despite pressure from the IMF for better governance in Zimbabwe, incidences of graft actually increased under Mugabe, who became progressively more despotic.

Unlike Zimbabwe, the IMF's loan of $ 110 million in 1999 to Tanzania—a multiparty democracy—was genuinely used to promote development by the Tanzanian government.[20] In particular, the IMF's loan allowed Tanzania to increase spending on education and eliminate school fees for elementary school education. The loan also helped to release funds for the Tanzanian government to increase the number of primary schools in the country from 11,608 in 1999 to 12,689 schools by 2002, a net increase of 1,081 primary schools.[21] Increased investment in primary education, which was bolstered by funds from the IMF, led to a substantial increase in enrollment of poor children into primary schools. Over time, this has helped to reduce child labor and thus poverty. While the dichotomy between Tanzania and Zimbabwe is simply one example, it does illustrate how a country's political regime is a critical factor in determining whether funds from the Bretton Woods institutions are channeled for worthwhile projects or are misappropriated.

The second reason that may explain why financial assistance from the Bretton Woods institutions fails to enhance development in autocratic regimes stems from the finding by some scholars that funds from inter-

national organizations are often used by dictators to perpetuate their rule rather than for fostering economic development.[22] Specifically, as suggested by the Zimbabwe example, dictators in developing countries often turn to the IMF or the World Bank for financial help during times of domestic economic crisis. Instead of using the financial aid or loans to resolve the crisis and promote development, dictators often misappropriate the funds for personal use (e.g. Mugabe) or use the money to reward supporters and bribe opposition groups in the society.

In other words, funds from the IMF and World Bank are not used for development but are diverted by dictators when their political power is seriously threatened—and this typically occurs during the onset of an economic crisis—to minimize threats to their political survival. A recent essay by the political scientists Smith and Vreeland (2005) provides several examples and a careful empirical study to show that IMF agreements and loans help dictators to survive longer in office, especially when they are experiencing economic difficulties.[23] Since dictators are more likely to "waste" funds from the IMF and the World Bank for their political survival compared to leaders of democratic states, it should come as no surprise that financial assistance from the Bretton Woods institution has little or no impact on economic development in autocratic states.

Taken together, then, the empirical analysis in this section raises a key question that is important for policy-analysts to answer: given that the effectiveness of the Bretton Woods institutions in successfully promoting development depends critically on the political institutions—specifically the type of political regime in place—in developing countries, what should future administrations in the U.S. do to enhance the IMF and the World Bank's ability to alleviate poverty across the developing world?.

## The United States and IEOs: Policy Responses for Improving Aid and Loans

It is important to briefly analyze *why* the U.S. government should invest effort, resources and time toward helping the Bretton Woods institutions realize their development goals before addressing *what* the United States should do to enhance the efficacy of these institutions in promoting economic development. Two reasons explain why it is worthwhile for the U.S. to invest resources toward enhancing the IMF and the World Bank's ability to tackle poverty across the developing world.

First, studies by scholars increasingly confirm that development failures and, consequently, endemic poverty in developing countries breeds anarchy, civil wars and arguably even religious extremism.[24] These three factors often combine to give rise to terrorism and terrorists that endanger the security of advanced industrial democracies such as the United States. Thus, it is necessary for the U.S. government to ensure that the Bretton Woods institutions attain their development goals because doing so allows the US to strengthen its overall security. Put more bluntly, it is in the rational *political* interest of the United States to invest substantial resources toward helping the Bretton Woods institutions realize their development goals.

Second, if the IMF and the World Bank's recurring failure to foster development in autocratic states continues, then it may seriously undermine the future of economic globalization. The failure of the IMF and the World Bank to increase the prospects for prosperity in non-democratic developing countries persist could initiate a backlash against globalization among citizens in autocratic countries. A populist backlash against globalization in these dictatorial states could spiral into an anti-globalization movement at the global level, adversely affecting American economic interests. This implies that it is also in the rational *economic* interest of the U.S. to invest both resources and time toward helping the IMF and the World Bank attain their development goals.

*Policy Goals for the United States*

Given that it is in America's political and economic interests to foster economic development in developing countries, I suggest three policy goals that future U.S. administrations should pursue to enhance the IMF and the World Bank's reputation as the international institutions at the forefront of global economic development.

First, as the principal donor nation to the IMF and the World Bank,[25] the US should leverage its substantial political clout within the two Bretton Woods institutions to encourage them to support political reform in autocratic states in the developing world that borrow IMF and World Bank loans. Interestingly, senior officials in the current Bush administration have suggested in the past that the IMF and the World Bank should use aid and loans for development as a "benevolent" tool to usher in political reform across non-democratic developing countries.[26] Unfortunately, such pronouncements have largely been symbolic and have never really been put into practice. This should change.

Moreover, it is well known that autocrats in developing nations that borrow loans from the IMF or the World Bank are critically dependent on this financing for their economic and political survival. This indicates that the IMF and the World Bank are not politically weak *per se.* Instead, the Bretton Woods institutions have substantial economic leverage when dealing with dictatorial regimes and this leverage can be used fruitfully to promote political reform in such regimes. Indeed, if both the U.S. and the Bretton Woods institutions combine to actively support political reform and advocate nascent democratization in autocracies that rely on external financial assistance, then it could spur some genuine moves toward democracy. Increased prospects for democratization in developing countries, as a result of combined pressure from the U.S. and the Bretton Woods institutions, may help to ensure that funds from the IMF and the World Bank are used in developing countries for development purposes rather than for rent-seeking.

Second, future US administrations should desist from using funding via IEOs as a tool to buy loyalty and compliance from dictators in the developing world since it does not serve American interests in the long run. Leaders from donor nations such as the United States have directed

aid and loans via IEOs to (i) reward dictators in developing countries that serve American political interests and (ii) "buy" policy concessions from these dictators.[27] While this seemingly seductive strategy may appear to serve American strategic interests in the short-run, it will likely have adverse consequences in the long-run. For one, it ensures that financial assistance from the IMF and the World Bank will fail in promoting economic development in these corrupt dictatorships. As suggested earlier, this is because corrupt dictators typically use funds from the Bretton Woods institutions to buy-off political opposition rather than invest it for promoting economic development. Additionally, rewarding dictators in developing countries with IMF and World Bank funds will further erode the prospects for serious economic development in these countries. This may put into motion a cycle of vicious poverty and domestic violence which could create a breeding ground for terrorism and terrorist groups who may seek to strike the United States and its allies.

Third, as noted by Easterly (2001), current organizational arrangements within the IMF and the World Bank provide poor or no incentives for personnel in these organizations to actively monitor whether the aid or loan flows are being utilized effectively by recipient nations.[28] For instance, Easterly (2001) emphasizes that it is standard practice in international economic organizations to quantify success by inputs, such as the amount of money loaned, rather than outputs, such as the degree of poverty relief that is attained. IEOs typically design careful and detailed plans for policy reforms in developing countries that obtain funds from these organizations. However, few resources, if any at all, are applied to evaluate why similar plans for policy reform in the past have not been implemented properly in loan recipient nations.

As the most important donor nation to the IMF and the World Bank, the U.S. should use its leverage to sponsor and implement institutional reforms within these two international organizations. Personnel within the IMF and the World Bank should be given concrete incentives to measure the efficacy of financial assistance in terms of the actual degree of poverty alleviated in recipient nations rather than simply the amount of money loaned. Providing such incentives may reduce the possibility of aid and loans being consistently offered to developing countries—usually autocratic states—that chronically fail to invest such funds for development. Furthermore, it may encourage IEOs as a whole to design schemes to ensure that corrupt dictators in developing nations can not easily divert financial flows from the Bretton Woods institutions for rent-seeking.

The policy prescriptions suggested above are neither mutually exclusive nor exhaustive. Rather if the three policy initiatives discussed in the preceding paragraphs are followed simultaneously, then future U.S. administrations are more likely to succeed in their endeavor to truly enhance the IMF and the World Bank's ability to genuinely tackle poverty in developing countries.

## Conclusion

This article began by posing the two following questions: Are the critics of the IMF and the World Bank correct in their assessment that aid and loans from these two international organizations to developing countries almost always fail to promote economic development across the developing world? Or are the supporters, i.e. the "optimists", of the Bretton Woods institutions correct in their view that financial assistance from the IMF and World Bank generally has a positive effect on economic development in developing nations? This article suggests that neither the profound pessimism of the critics nor the arguably excessive optimism of the supporters of the Bretton Woods institutions is well founded. Empirical analysis suggests that aid and loans from the Bretton Woods institutions have both a positive and negative impact on development in developing countries. More importantly, the analysis reveals that IMF and World Bank funds have a positive effect on development in democracies within the developing world but not in non-democratic developing nations.

This finding has profound implications. As suggested earlier, academics and policy-analysts often ignore the possibility that the effectiveness of aid and loans from the Bretton Woods institutions in successfully fostering development is *conditional* on the type of political regime in place—autocracy or democracy—in developing countries that receive such financial assistance. It has profound implications because of two main reasons.

First, based on the claims and findings presented in this article, one can perhaps safely infer that international economic organizations need to enhance their focus on supporting political reform and encouraging democratization across the developing world. Too often, the IMF and World Bank focus on how aid and loans from these institutions should be used to solve structural economic problems in developing nations in order to facilitate growth in these countries. Merely focusing on economic pathologies within developing countries is not enough to alleviate poverty and halt the recurrence of economic crises in these countries. Instead, officials from the IMF and the World Bank should pay more attention to designing programs that increase the prospects for political reform in developing nations. The current practice of making vague and rhetorical pronouncements about improving the quality of governance in developing nations is clearly not an adequate substitute for the real goal of fostering concrete reforms of political institutions in developing countries.

Second, some policy-analysts have suggested in the past that the U.S. should reduce its financial commitments to IEOs such as the IMF and the World Bank.[29] While it is indeed true that both the IMF and the World Bank currently suffer from institutional sclerosis, scaling back American financial commitments to these institutions will not solve the problems that currently plague them. Rather, it will serve to exacerbate the current institutional pathologies in both the organizations.

In conclusion, the U.S. is likely to benefit both economically and politically if future U.S. administrations realize the value of using international

economic organizations as a tool to promote political reforms in the developing world. Whether or not American leaders in the near future show the will and the vision to work directly with the Bretton Woods institutions and enhance their capacities is an open question that only time can answer.

### *Notes*

[1] For this see, Devarajan, Shantayanan, Margaret J. Miller and Eric V. Swanson. "Goals for Development: History, prospects and costs." Washington, D.C.: World Bank, 2002.
[2] "Capstone Roundtable," Friday, September 27th 2002. Transcript available at *http://www.imf.org/external/mmedia/view.asp?eventID=126*
[3] The World Bank and the IMF's development objective are given in Fischer, Stanley. *IMF Essays from a Time of Crisis: The International Financial System, Stabilization, and Development*. Cambridge, MA: The MIT Press, 2004.
[4] Stiglitz, Joseph. *Globalization and its Discontents*. New York: Norton, 2002. Also see Easterly, William. "IMF and World Bank Structural Adjustment Programs and Poverty." In *Managing Currency Crises in Emerging Markets*, edited by Michael Dooley and Jeffrey A. Frankel, 361–382. Chicago: University of Chicago Press, 2003.
[5] See Fischer, Stanley. *IMF Essays from a Time of Crisis: The International Financial System, Stabilization, and Development*. Cambridge, MA: The MIT Press, 2004.
[6] Collier, Paul and Dollar, David. "Can the World Cut Poverty in Half? How Policy Reform and Effective Aid Can Meet International Development Goals." *World Development* 29: 1787–1802, 2001.
[7] Collier, Paul and Anke Hoeffler. "On economic causes of civil war." *Oxford Economic Papers* 50 (1998): 563–573. For the positive correlation between poverty and terrorism in the developing world, see Alberto Abadie. "Poverty, Political Freedom, and the Roots of Terrorism." *National Bureau of Economics Research* Working paper # 10859. Cambridge, 2005.
[8] Independent Evaluation Office. *Evaluation of Prolonged Use of IMF Resources*. Washington, D.C.: International Monetary Fund, 2002.
[9] Capps, Gavin. "Redesigning the Debt Trap." *International Socialism: A Quarterly Journal of Socialist Theory*, Issue 107, June 2005. http://www.isj.org.uk/index.php4?id=116issue=107.
[10] For a comprehensive literature review on this, see Dreher, Axel. "A Public Choice Perspective of IMF and World Bank Lending and Conditionality." *Public Choice* 119 (2004): 445–464.
[11] Easterly, William. "IMF and World Bank Structural Adjustment Programs and Poverty." In *Managing Currency Crises in Emerging Markets*, edited by Michael Dooley and Jeffrey A. Frankel, 361–382. Chicago: University of Chicago Press, 2003.
[12] Bird, Graham. "IMF Programs: Do they work? Can they be made to work better?" *World Development* 29 (2001): 1849–1865.
[13] Vreeland, James. *The IMF and Economic Development.* Cambridge: Cambridge University Press, 2003.
[14] Data for the aid and loan amount provided by the IMF and the World Bank is from the World Bank. *Global Development Finance* CD-Rom. Washington D.C.: World Bank, 2004. Data for economic growth rates and infant mortality is from the IMF. *Government Finance Statistics* CD-Rom. Washington D.C.: IMF, 2004.
[15] Difference-of-means tests confirm that (i) there is no statistical difference between the mean growth rate reported in column A and column C and (ii) the mean log of infant mortality reported in column B is statistically higher than the mean log of infant mortality in column D.
[16] The Freedom House democracy index ranges from 1 (highest freedom level) to 7 (lowest freedom level). For the tests, countries rated 5 and above on the Freedom House index are categorized as democracies, while countries between 0 and 5 are coded as autocracies. The results do not change if a 3 or 4 rating is used as the cut-off point to divide the sample into autocracies and democracies.

[17] The positive correlation between Aid plus Loans as a percent of GDP and GDP growth rate in the regression model has a R2 value of 0.78, which is quite high.

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