
International Monetary Fund As A Tool For Survival Of Poor Countries

The goal of this paper is to discuss the origin and role of the International Monetary Fund. The International Monetary Fund is a specialized agency of the United Nations system that was set up by a treaty in 1945 in order to help improve the world economy. The IMF's headquarters is located in Washington, D.C.; 184 worldwide country representatives govern it. The IMF works for global wealth by promoting the balanced expansion of world trade, stability of exchange rates, avoidance of competitive devaluations, and orderly correction of balance of payments problems.

The origin of the IMF dates back to when it was created in 1944 at a United Nations conference held at Bretton Woods, New Hampshire. Representatives of 45 governments agreed on a framework for economic cooperation designed to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930's. During the 1940's, economic activity in the major industrial countries weakened. Countries attempted to defend their economies by increasing restrictions on imports, but this just worsened world trade, output, and employment. To conserve diminishing reserves of gold and foreign exchange, some countries devalued their currencies, and some introduced complex restrictions on their citizens' freedom to hold foreign exchange. For example, the United States would not allow its citizens to exchange paper money for gold anymore. The U.S. wanted its' citizens to trust the government. These changes, however, proved self-defeating, and no country was able to maintain its competitive advantage for long. The international economy, world trade, employment, and living standards in many countries declined.

As World War II was coming to an end, the head allied countries thought up an assortment of plans to bring order to international monetary relations. At the Bretton Woods conference, the International Monetary Fund was born. The country representatives created an international institution to manage the international monetary system and to encourage both the removal of exchange restrictions relating to trade in goods and services, and the stability of exchange rates. The IMF came into existence in December 1945, when the first 29 countries signed its Articles of Agreement.

In the decades since World War II, the world economy and the monetary system have undergone some major changes. These changes have increased the importance and significance of the need of the IMF. Time has also required the IMF to adjust to reform. Technology and communication advances have contributed to the increasing integration of international markets. As a result, financial crises tend to spread more rapidly among countries. Now any country's success depends more than ever both on the economic performance of other countries, and on the existence of an open and stable economic environment. The IMF's purpose has now become more important since the start of its existence, because of the expansion of its membership. The number of countries involved in the IMF has quadrupled from the 45 states involved when it began. This is due to the continued success of the IMF and the collapse of the Soviet Bloc. This growth is a main reason for the expansion of the IMF.

Countries that joined the IMF between 1945 and 1971 agreed to keep their exchange rates

pegged at rates that could be adjusted. The rates were compared and adjusted in concurrence with the U.S. dollar. The exchange rates fluctuated according to the value of the dollar. Gold supplies determined the dollar value. This plan was in effect until 1971, when the U.S. government suspended the convertibility of paper money into gold. President Nixon, whom believed that the 2 trillion dollar economy of the U.S. was large enough to back anything, decided this. The dollar exchange rate, which determines all other rates, will depend on letting the dollar float freely. This is the system that we use today. Today, the IMF lends a country with suffering economy money and tells them how to use it. This, in time gets the country back on its feet.

The purpose of the IMF is to promote international monetary cooperation, exchange stability, and orderly exchange arrangements. The IMF was also created in order to encourage growth and high levels of employment, and to provide temporary financial assistance to countries. Since the IMF was established, its purposes have remained unchanged, but its operations have developed to meet the changing needs of its member countries in an evolving world economy. For example, since the early 1990's, enormous economic challenges have faced the IMF associated with globalization. At the time, the increasing international integration of markets and economies had surfaced. This included the need to deal with emerging financial markets and economies, especially in Asia and Latin America. The IMF set out to help a number of countries make the transition from central planning to market-oriented systems and enter the global market economy. The IMF also helped to encourage economic growth and poverty reduction in the poorest countries at risk of being left behind by globalization.

A recent example of this is the issue with Argentina and the threat of them being left behind. Argentina has received help from the IMF in the past years, but they are still far from economic stability. Argentina needs an extension on the loans they have obtained from the IMF along with additional funds. The purpose of the IMF funding along with financial guidance, is that the IMF economic program seeks to restore sustained growth and improve poverty and equity indicators in Argentina. Part of the deal of the IMF funding is that Argentina would allow financial consultants of the IMF determine the best ways in which to use the funding to stabilize their economy. The IMF has been successful over the past year. In the context of the transitional arrangement with the IMF, Argentina made a positive start in restoring economic stability, with growth and confidence recovering, unemployment declining, and inflation being held under firm control. But, many key challenges still face Argentina as the IMF continues its assistance. The IMF has now instilled a new economic midterm policy that involves three stages. First, a fiscal policy to meet economic growth, employment, and social equity objectives will be providing a sound basis for normalizing relations with all creditors and ensuring debt sustainability. The second is a strategy to assure the strength of the banking system and to facilitate the increase in bank lending that is essential to support the recovery. And the third stage is an institutional reform to facilitate corporate debt restructuring, address issues of the utility companies, and fundamentally improve the investment climate. These actions are carefully sequenced within the program to promote greater ownership. These new actions set by the IMF will hopefully gain confidence in the banking system so the Argentinean people will have faith in their own system. Without their confidence in the banking system, the funds to provide new loans for economic growth will not be available. The ultimate goal for the IMF is to restore economic integrity for Argentina, which is still an ongoing process.

The IMF supports governments that need assistance in the development of their strategies, but without directing the outcome. The IMF realizes that changing the structure of a nations

economy may be a difficult and an enduring procedure. With that in mind the IMF makes this shift by coordinating early and maintaining open lines of communication with country authorities particularly by providing available diagnostic information the IMF can ensure that they can help countries in a timely and comprehensive manner. In order for the IMF to achieve this they use several aspects of economics such as: increasing growth, decreasing inflation, they use structural fiscal reform, banking reforms, and debt restructuring.

In conclusion the IMF is a very effective tool for helping less fortunate countries survive. Today Argentina, along with many other countries, would be completely poverty-stricken if the IMF did not step in. the IMF, which is now comprised of 184 countries, has loaned 300 billion dollars to countries in need. A total of 56 countries have outstanding loans of 107 billion dollars to the IMF. This shows that countries have been able to pay off their loans and that the program is effective. Without their support certain countries economies would have collapsed.

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