Background Guide in Brief

for the

International Monetary Fund

Harvard Model United Nations China

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Harvard Model United Nations China

A LETTER FROM THE SECRETARY-GENERAL ON BACKGROUND GUIDES IN BRIEF

Dear Delegates,

Welcome once more to Harvard Model United Nations China 2019! The entire Staff and Secretariat of HMUN could not be more excited to see you in person in Beijing in a few short weeks.

By now, you have most likely begun preparing for HMUN China 2019. Preparing for a Model UN conference can be intimidating, but our team is committed to providing you with the support and resources that you will need to succeed. In keeping with that mission, this year at HMUN China we are piloting a new resource—the Background Guide in Brief.

Background Guides are intended to outline the major issues and ideas that delegates will have to confront in the committee room. However, reading the Guide can also be intimidating for delegates without prior experience in English-language Model UN, or MUN in general. To help all delegates succeed, we have asked your Director to create an abbreviated version of your committee's Guide, enclosed in the following pages.

We hope that this Background Guide in Brief provides a helpful overview of your topic. That being said, your preparation should not end with this document. We encourage you to also read the full Background Guide, which goes into much greater detail and includes the full bibliographical documentation of our Directors' work. Full Guides also contain useful information on committee expectations and procedure, and you should use it as a resource now and at conference. In short, consider what you learn from the Background Guide in Brief to be a launching point for further research—be sure to take advantage of the time you have to prepare for conference as best you can, and feel free to reach out to your committee Directors with additional questions.

Thank you once again for choosing to participate at HMUN China 2019! We are beyond excited for conference, and look forward to welcoming you in Beijing in a few weeks.

Sincerely,

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To whom do sovereign governments turn when faced by the specter of fiscal ruin? Since 1945, they have often turned to the International Monetary Fund (IMF). Where a nation's central bank is seen as the "lender of last resort" for domestic financial institutions, and the IMF performs that role for national governments.

To be sure, the International Monetary Fund is not itself an organ of the United Nations, and unlike the United Nations, member countries of the IMF have influence that is directly weighted to their economic importance and heft. The institution has 189 member countries and a lending corpus of up to US $1 trillion.

The International Monetary Fund and the World Bank are often referenced in conjunction with each other, and it is not uncommon for there to be uncertainty around the difference between the roles played by the two. Both organizations are major international lenders staffed largely by economists steeped in free market orthodoxy. Where they differ is that the IMF, unlike the World Bank, is not a development institution, per se. The World Bank, which seeks to achieve specific development goals, grants project-based loans, both to governments and to specific non-governmental organizations. The World Bank does not solely assist countries in crisis, as it has a broader aim of alleviating poverty and increasing living standards around the world. Because of its goal of holistic development, its projects also focus on areas such as education and healthcare—beyond the realm of economics. On the other hand, much as a nation's central bank is a domestic "lender of last resort" for banks within a country, the

IMF provides loans to national governments as an international lender of last resort. These loans are provisioned with the primary purpose of preventing economic crisis and for ensuring conditions stabilize so as to lay the foundation for sustainable economic growth. Unlike the World Bank, IMF programs usually last only a few years, though it provides technical assistance and advice to governments on a continual basis—for example, on maintaining long-term economic stability or mitigating the economic impact of climate change.

The IMF was established with three primary functions:

• To oversee the Bretton Woods System of fixed exchange rates between countries.

• To facilitate the expansion of international trade and the growth of nations' economies.

• To provide temporary funding to countries facing balance-of-payments crises.

Global macroeconomic conditions have been in a constant state of flux since the inception of the IMF following World War II. The Institution has reinvented—or at least considerably updated—numerous times as a result of these changes. A detailed account of these changes can be found in the "History of the Committee" section. It will be important to understand where the IMF began and what forces have acted upon it over the past seven decades. For the purpose of concision in this section we will skip straight to the IMF's current functions.

Today, the IMF summarizes its work as falling under three core areas:

• Surveillance – oversight of the international monetary system and monitoring of fiscal and economic policy in all member states. This includes highlighting risks to stability and advising on policy adjustments.

• Lending – providing loans to countries facing current or potential balance of payments problems. The IMF does not lend for specific development projects.

• Capacity development – Technical assistance and training that helps countries strengthen institutional capacity and design economic policies conducive to stability and growth.

The IMF's work, although primarily directly economic in nature, now goes beyond issues of just monetary policy. Today, the IMF readily throws its research and advisory heft behind issues like climate change, which has not always been within the institution's purview. However, with the sharp increase in global temperatures over the past half-century, the economic consequences of climate change are increasingly salient. Warmer climates are disproportionately impacting lower-income countries through reduced agricultural output, lower worker productivity, decreased investment and worse public health. Assisting countries in limiting the severity of climate change, and in mitigating its impact, is seen as critical to the long-term attainment of the IMF's core mission: economic stability.

At the denouement of the Second World War, with victory for the Allied powers all but guaranteed, representatives from 44 nations gathered for a conference in Bretton Woods, New Hampshire. At this conference, the Bretton Woods System for international finance was established and agreed upon by all nations present. This was a system of currency pegs under which nations agreed to maintain fixed exchange rates to the US dollar. The US dollar was, in turn, convertible into gold at a fixed exchange rate. Under the system, these exchange rates could be changed only with the permission of the IMF, and the US played a vital role in maintaining the dollar as the linchpin of global monetary stability.

The IMF, conceived at the Bretton Woods Conference, formally came into being in December 1945, when 29 states signed the organization's Articles of Agreement. Along with the IMF, the International Bank for Reconstruction and Development (IBRD) was also established at Bretton Woods—primarily for the purpose of rebuilding a Europe that had been ravaged by years of war. The IBRD is now one of the five member institutions in the World Bank Group, which was also established upon the ratification of the Bretton Woods agreement in 1945.

The International Monetary Fund's two Founding Fathers were the renowned British economist John Maynard Keynes and the less well-known, though no less important, Harry Dexter White—a senior official in the American Treasury. At the time, the United States and Great Britain were the dominant powers, with the United States having pulled ahead of Great Britain in industrial and political heft in the decades after World War I. That said, the two countries had competing conceptions of the IMF's ideal form, represented by the proposals put forth by White and Keynes.

Both Keynes and White agreed that among the IMF's primary goals was the prevention of damaging deflationary and inflationary periods, as well as the maintenance of stability in capital flows in and out of a country. They agreed as well that the IMF would have a role in assisting countries that were experiencing temporary difficulties in managing their balances of payments and reserves due to sudden capital outflows or investor panic. They differed, however, on the degree of independence and power to be granted to the Fund. Keynes conceptualized a "world central bank" that would act as a counterbalance to the United States and would be able to regulate the flow of credit internationally. White wanted to maintain the United States' position at the center of global finance and pushed for an IMF that would play a supporting role. The US dollar would remain the currency of international trade, with the IMF supporting a balanced growth in the flows of goods and capital. The finalized Articles of Agreement represented a compromise of sorts between the two country's positions, albeit with America's demands generally prevailing given its greater economic and political stature. The US dollar was made the global reserve currency, with the value of the dollar in turn pegged to the price of gold.

The IMF conceptualized in the White Plan assumed the continuation of the Bretton Woods System. The System was indeed a key feature of international economics in the first quarter-century or so of the Fund's existence, and during this time, the IMF's mission remained largely as it was at inception.

wealthy. This said, it is important to note that the IMF's primary and dominant function under the Bretton Woods system was not to provide crisis assistance, but rather to ensure that countries adhered to the international system of currency pegs and to help in the smooth expansion of international trade more broadly.

The Bretton Woods System fell apart in 1971, when American president unilaterally declared the end of US dollar convertibility to gold as part of his pivot toward a more America-centric political and economic policy approach. The IMF, which had previously exerted much effort in helping maintain the system of currency pegs, now had to shift. It became more strongly focused on intervening in countries that were facing balance of payments difficulties and was more imposing

The Fund's first loan was disbursed to France, in 1947. This arrangement with France was typical of many IMF loans over the next couple decades. These loans were made predominantly to more developed and wealthy economies, with relatively little money flowing to poorer parts of the world. This was both a result of post-war reconstruction efforts (with the related financial distress) and, to be blunt, a favoritism for the West that was built into an institution whose membership at the time was overwhelmingly Western and skewed in its implementation of loan conditions.

In the late 1970s and the 1980s, the IMF's lending focus shifted away from the advanced economies and toward Africa and Latin America. This shift away from the advanced economies was pronounced and lasting, with virtually no lending outside emerging markets until the financial crisis in 2008. Latin America suffered a decade of financial crisis and political instability in the 1980s, with the enactment of market reforms by the United States and the International Monetary Fund having mixed results. Smaller nations in Africa too faced acute difficulties, and many of the same market-oriented reforms applied in Latin America were applied in Africa, again with a mixed bag of outcomes.

Another wave of change came with the end of the Cold War and the broad societal changes in Europe. The Cold War had limited the number of countries acceding to the IMF, with Soviet-aligned countries spurning the institution in accordance with the Soviet Union's view that it was simply a tool of the Western capitalist powers. (In all fairness, this was a notion quite well grounded in reality.) There is a noticeable jump in IMF membership following the dissolution of the Soviet Union in the 1990s, as is visible in the accompanying graph. This expansion of membership strengthened the IMF's mandate, though the inclusion of fragile Eastern European economies also increased the potential strain on the Fund's resources.

The Asian Crisis tested the IMF's preparedness, and the fund struggled to deal with the magnitude and nature of the crisis. Following sharp criticism, the fund undertook a review of its policies and questioned whether its commitment to the liberalization of capital flows was appropriate in all situations.

The most recent chapter of the IMF's history has been its handling of the global financial crisis of 2008 and the expansion of the scope of its activities to include issues like climate change. With the deep impact of the crisis on the Eurozone, the IMF lent large sums of money to advanced economies for the first time in decades. The Fund's involvement in Europe, concentrated in Southern Europe, has been controversial. Further discussion will be contained within the case studies, but it is argued that the Fund's imposition of austerity imposed huge economic and political costs. Separate to its interactions with central banks, the IMF has also begun focusing its research and advice on issues of longer-term economic importance, in an effort to preempt potential future crises.

This Background Guide in Brief is not meant to provide an exhaustive introduction to the topic. Please consult the full Background Guide on the

HMUN China website, which also includes citations for the material in this document.