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International Economic Organizations and Inequality

Introduction

In the global political-economic landscape, both economists and politicians put much stock into the role of international economic organizations, viz. the International Monetary Fund (IMF), World Bank, and many others. These Bretton Woods organizations are viewed as pushing policies that aim to reduce global inequality; moving capital to lower-income countries and areas torn by humanitarian crises in order to foster development. Focusing on international *economic* organizations - in this paper - we understand that these large organizations have both the power and the ability to dole out large sums of money, in the form of grants and loans. But, in the context of the political landscape, the money has to originate from somewhere. The money comes from countries with their own political motivations. Therefore, it is often conditional. So, when giving out the lands and loans mentioned above. International organizations reciprocate these constraints, placing strict regulations on how the funds are used or on other political measurements- including promoting democracy to developing a full, free-market capitalist system.

By the Western, capitalist world, these constraints are viewed as good. Democracy and capitalism are propagandized as systems that reduce inequality and increase freedom - though these are not mutually exclusive ideas. Despite their true separation, we see countless examples of world leaders over the past 75 years who equate any other system than capitalism with tyranny, and being anti-democratic, so these ideas may not be one and the same, but they are intertwined. Though, throughout the course of this class, we've explored how a free-market capitalist system actually *increases* inequality levels within the system. Chronicling inequality levels throughout the past century, we surveyed how these levels fluctuate in response to the contemporary political winds.

Synthesizing these two notions, the question arises: By pushing democracy and capitalism, are international economic organizations inadvertently increasing global inequality levels? Throughout this paper, we will explore this question by developing a more sound understanding of these organizations' functions and further exploring the idea that capitalism increases inequality. We will, finally, integrate these two explorations to answer the question.

Conditional Lending to Influence Policy

Scholars have engaged with the question of the impact of the conditional lending practices that Bretton Woods-esque organizations engage in; namely the IMF and World Bank[1]. But to gauge the impact, we should first understand the function of these conditional lending practices. Luckily, scholars have engaged with and answered this question as well. With the goal of reducing poverty,

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[1] For the purposes of this paper, references to 'Bretton Woods organizations,' 'international economic organizations,' 'lenders,' 'two organizations,' or any mention of international economic powers should be taken as references to the World Bank Group and the International Monetary Fund (IMF), recognizing their power as two of the longest standing and influential non-governmental economic organizations.

improving the standard of living of its people, and developing poorer economies, two lenders operate by lending money to countries with less developed economies (World Bank, 2016). Unlike other non-governmental organizations, like Médecins Sans Frontières, Water.org, and KENSUP which address traditional humanitarian crises such as "water supply, sanitation, food security and education (Kimathi, 2018, p.4)," the IMF and the World Bank operate by loaning out money for countries to repay their debts to other lenders. Providing 'breathing room (IMF, 2005)' for countries to 'correct underlying economic problems (IMF, 2005)' without reverting to their former economic practices, the IMF and the World Bank both provide "low-interest loans, zero to low-interest credits, and grants to developing countries (World Bank, 2024).

These loans, credits, and grants, however, are given out with conditions. Called 'conditional lending' this concept makes financial support from the lender 'conditional upon a set of policy conditions that the participating country agrees to uphold (Steinwand, Stone, 2008). These conditions include both economic and political changes meant to bring "dramatic reform of economic policy, social policy, and even state structure (Zoeller, 2020; Reinsberg et al. 2019; Chwieroth, 2015; Babb, 2005)." These conditions take many forms, ranging from selling public goods to the private sector, to mandating free trade by dropping regulations, Danaher lists some requirements for countries to receive funds to pay off their loans:

"• *selling state enterprises to the private sector in order to make governments more efficient*
• *raising producer prices for agricultural goods so farmers will have the incentive to grow and market more food*
• *devaluing local currencies (in line with their world market value) to make exports more competitive in foreign markets*

• *reducing government budget deficits by cutting consumer subsidies and charging user fees for social services such as health care and education*
• *encouraging free trade by dropping protectionist measures and by reducing regulation of the private sector*
• *creating incentives to attract foreign capital* (Danaher, 1994, p.3)."

The conditions that Danaher highlights demonstrate an obvious advocacy by the lenders for a free-market, capitalist system. So much so that the common goods may cease to exist after the reformations, with health care and education becoming locked behind fees. This becomes questionable when put beside the mission statements of the IMF and the World Bank, which both call for increasing prosperity throughout the developing world, though I digress for now.

The conditions above do not exist in a vacuum, though. Without being a legitimate, powerful force to implement these conditions, countries would simply not accept money from the lenders, and the IMF and World Bank, as for-profit organizations, would cease to exist. Without loaning money out, they cannot recoup a profit. Without legitimacy, they would fail in the free-market system they promote. We should, thus, understand where they derive a sense of legitimacy from. The first, and most obvious, is that they have the money to give out. And with money, comes power.

Another source of legitimacy comes from the lenders' associations with Western 'consensus-formed' groups, like the United Nations which derive *their* legitimacy from the participation of the global leaders, viz. the United States, Britain, France, and China[2].

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[2] Though not traditionally a 'Western' nation, China participates in supranational organizations that possess legitimacy in the political and economic world, i.e. the United Nations.

This participation in these groups allots the international economic organizations legitimacy and power because they then embody a " "rational-legal authority (Zoeller, 2020, p.16; Barnett & Finnemore, 1999." Because of the consensus, and political stock put into these organizations, they "[act] as sites of dominant ideas that formalize global norms of policymaking (Zoeller, 2020, p.16; Meyer et al. 1997, Boli & Thomas 1997)." Essentially, this equips the lenders with the ability to directly influence and coerce policy changes in the states that rely on them.

Now understanding how these international economic organizations can fundamentally alter the economic, political, and governmental setup of a state, and how they use this ability to push capitalism (as a result of Western influences - red scare, war on communism, etc.) we should now shift our focus to whether or not this is beneficial. Our question - by pushing democracy and capitalism, are international economic organizations inadvertently increasing global inequality levels? - has solidified the claim it makes in the first clause, so, we can now move on.

Capitalism and Rising Inequality

Since the 1970s, the world economy has seen rising inequality levels. This followed directly after an era that seemed promising to the worker. The Fordist Era, as described by Harvey, was a new regime of accumulation characterized by the socialization of basic necessities, increased takes, and a leveling of the proportion of **r** to **g** following two world wars that destroyed capital across the landscape (Harvey 1989; Piketty, 2014). Work was viewed as a leveling factor, where the owners of the means of production and the workers entered into a social contract, that relied on the worker to engage in a cycle of spending to purchase the goods sold to them. States provided aid to the workers, regulating work, trade, and basic necessities; programs like the Social Security Administration and the Fair Labor Standards Act were implemented to protect the workers and level out inequality.

But, as the world began to shift into a new regime of accumulation, heavily based on the creation of tech companies that did not require many educated workers to bring in profits. Inequality began to rise again at higher levels than seen before. Returns increased at rates higher than the wages grew, and the proportion of **r** to **g** began to become unbalanced. The tech companies could prosper without a worker in the factory, and with only a few executives to manage the abused workforce. The social contract that existed from the 1940s to the 1970s, in the Fordist Era, became null and void; companies continued to sell to their worker but did not rely on them anymore. Not being reliant on the worker instilled in the company that the worker was not valuable anymore, and simply another consumer of their product, a source of income. Government regulations were lifted, basic necessities were commodified and privatized. Instead of the government regulating the market, the market regulated the government (Sassen, 2008). This, along with no longer having a reliance on the worker, allowed tech companies to advantage of the few resources required to run a company. Because the world labor market remained unexhausted as profits grew, wages remained stagnant (Pratnik, 2015; Piketty, 2014). Essentially, the free market created an environment where wealth continued to accumulate in the hands of the few. The wages of the executives rose exponentially, while the wages of the workers stagnated, raising inequality levels across the globe. Scholars, for centuries, have admitted that inequality is an inevitability of the free-market, capitalist society. Regulation and the socialization of some basic necessities can help the inequality level out, but, the newest regime of accumulation has seen an almost complete destruction of these ideas.

Synthesis

We return to our original question: by pushing democracy and capitalism, are international economic organizations inadvertently increasing global inequality levels? Having laid the foundation to understand the conditional lending practices of the IMF and the World Bank, we see how these organizations force free-market capitalism onto states that are left with no other solution than to look to NGOs for debt-relief assistance with the hope of effective, **long-lasting** economic revival and reformation. Furthermore, we can also understand how the shift away from the social contract between worker and company that characterized the Fordist era, to a new regime of accumulation characterized by a rapid unraveling of the proportionality of **r** to **g**, accumulation of wealth by the bourgeois (Marx and Engels, 1848), and deregulation and privatization, has resulted in global inequality levels rising at unprecedented levels. With these two simple understandings, we have answered our question: Yes, international economic organizations are increasing global inequality by creating free-market, capitalist societies in developing countries.

This revelation does not just exist in a hypothetical form; there are real-world examples of how the conditional lending practices we've explored have increased both debt and inequality in poorer, debt-ridden nations. In 1994, Danahaer investigated the Bretton Woods organization's history in Africa. He found that thirty of the 47 sub-saharan African governments have implemented structural, economic, and governmental reforms as a condition for World Bank and IMF lending. After these reforms, the United Nations found that the poorest and most economically disadvantaged groups of people - "women, youth, the disabled and the aged" - were severely, disproportionately, and adversely affected by the 'reforms.' Furthermore, despite the IMF and World Bank's goals to introduce long-lasting economic reform to reduce debt and poverty, Danaher found that "Africa's external debt had reached $290 billion, about 2.5 times greater than it was in 1980 (Danaher, 1994)." He found similar examples in both Latin America and Asia, where IMF and World Bank conditional lending practices resulted in a rise in inequality and debt; a complete failure to fulfill their missions.

Statistical and quantitative research provides the same result as Danaher. Vordtriede, in a long-term study from 1971-2013 in Africa, found that conditional lending practices should be discontinued as they provided no positive benefit for the receiving nation. The author used Africa because of its position as the purest test for validation of conditional lending practices. Furthermore, he compared economic trends across various sections in the 42-year test period; including periods under a conditional lending agreement and periods not under a conditional lending agreement. His findings were similar to my answer, that the IMF and World Bank increase inequality through their practices. Bluntly, Vordtriede wrote: "...conditional lending should be discontinued (Vordtriede, 2019)."

Conclusion

Throughout this essay, we have examined the interactions of international economic organizations (viz. the International Monetary Fund and the World Bank), the capitalist system, and inequality levels. We posed a question about whether or not, by spreading capitalism, the lenders engaged in practices that actually contributed to raising inequality levels. Through the exploration of conditional lending and political legitimacy, we understood how the influence that the lenders have on economic, government, and political systems in poorer states. We then examined how, in a post-Fordist Era, the new regime of accumulation exacerbated the inevitably of inequality in a capitalist society that scholars have noted for centuries; and how the deregulation and privatization of the Fordist era policies also exacerbated the inequality. With a solid foundation for the two parts of our question, we then synthesized the existing literature on the topic to create an answer. In doing so, we found that, yes, the international economic organizations do contribute to rising inequality levels by developing modern, capitalist systems in debt-ridden states. These capitalist systems then increase debt and inequality by accumulating the wealth in the hands of the means of production, as a result of the trends found in the tech company era. We engaged with a variety of scholars to support these claims - including those from the core course material - and used both qualitative and quantitative evidence over an appropriate length of time to ensure we were examining relevant evidence. We also engaged with a variety of different viewpoints, ranging from scholars to the executives of these lenders. Importantly, we put the question and subsequent research into the framework of the class. We examined the cross-section of politics and the economy on a global scale, perfect for the class's PSC344 name, 'International Political Economy.'

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