The World Bank and the IMF: At the Forefront of World Transformation

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INTRODUCTION

The ideal world economy is a competitive economy. But because a system cannot be competitive without an adequate number of participants, it is necessary to integrate developing countries into a single world economy in order to achieve the desired level of competition within the global economic system.

Currently, most developing countries are not fully integrated into the world economy because most such countries lack the efficiency and productivity required for full participation in the global market. Yet, despite their relative lack of progress to date, many developing countries are currently moving away from a centralized government and toward a market economy in an effort to become more efficient and productive.

For market reform to succeed, these developing countries require support in the form of technical assistance and outside investment. The World Bank and the International Monetary Fund (“IMF”) are major forces in promoting market-oriented policy reforms and reducing poverty in those countries making the transition to market economies. The World Bank focuses on long-term development and concentrates its ef-

1. See T. Rybczynski, The Internationalization of the Financial System and the Developing Countries: The Evolving Relationship 29 (1986). “The ideal world financial system would meet the same standards we apply to domestic financial systems; it would be stable, efficient, competitive, flexible, and balanced.” Id.
2. See id. at 31.
3. This integration will not only increase competitive pressures, but will likely improve the flexibility of the system and add to its operational efficiency. See id. at 34.
4. The developing countries referred to in this Note—namely, Poland, Hungary, Yugoslavia, Czechoslovakia, Romania, Bulgaria, Albania, Chile, Mexico, Venezuela, Argentina, Brazil, and the Caribbean as a community—have not fully integrated into the world economy to date.
5. See Remarks of Michael Boskin, Chairman, Council of Economic Advisers, and Others to the XVI Annual Conference of the International Organization of Securities Commissions, reprinted in Fed. News Serv., Sept. 25, 1991, available in LEXIS, Nexis Library, FEDNEW File, at *2 [hereinafter Remarks of Michael Boskin]. Developing countries are also not fully integrated into the world economy to date because there are obstacles to capital movement in these developing countries. See T. Rybczynski, supra note 1, at 39. Thus, fund providers view the investment of capital in developing countries as a highly risky venture. See id. Part of this risk is “man-made” in that it arises from the policies pursued by the developing country. See id. at 37.
6. See infra notes 82-86, 206-07 and accompanying text.
7. See T. Rybczynski, supra note 1, at 35.
forts predominantly on reconstruction issues. In contrast, the IMF focuses on a developing country's balance-of-payments problems and is generally concerned with "short term stabilization measures and policies."

From their inception, the World Bank and the IMF were intended to work closely together. As part of this arrangement, a nation must first be a member of the IMF in order to become a member of the World Bank. Moreover, the two organizations share the same objective—namely, to promote sustained growth and development in member countries. Thus, while their roles differ, the two organizations complement each other in pursuing that objective.

Of the many programs imposed on developing countries by the World Bank and the IMF, one of the most controversial is that of privatization. Privatization calls for decreasing the role of government in market activities or asset ownership and increasing the role of the private sector. This Note reviews the manner in which the World Bank and the IMF have implemented or plan to implement programs of privatization in specific developing countries. The Note also addresses the question of whether privatization is accomplishing the dual objectives of the World Bank and the IMF—the development of a national market economy in

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12. See id. at 544.
13. See M. Malloy, Public International Financial Institutions: Cases and Materials 110 (1990) (unpublished manuscript) (on file at Fordham Law Review). This relationship is particularly beneficial for the World Bank because it enables the Bank to obtain valuable information on international monetary conditions that affect a nation's outlook for development. See id. at 120.
15. See id.
16. Privatization is often imposed by the World Bank and the IMF as a condition for financial and economic assistance. See D. Gayle & J. Goodrich, Privatization and Deregulation in Global Perspective 214 (1990). It should be noted that the word "privatization" is often spelled as "privatisation" by foreign commentators.
17. See id. at 3. In practice, privatization may include:

- 'load shedding' or divestiture, the replacement of budgeted public activity by private market mechanisms such as consumer cooperatives, coproduction, variously structured public/private-sector partnerships, state management contracts such as monopoly franchises for the private supply of public services, user charges, lease-purchase arrangements, and even tax reduction, intended to stimulate private-sector investment.

Id. Moreover, as the World Bank itself has stated, "[i]n recent years, it has become increasingly evident that private initiative and competitive markets play a critical role in fostering dynamic economic growth, development and poverty alleviation. Governments throughout the world have come to recognize that the most efficient allocation and use of resources is achieved through the marketplace." Strengthening the World Bank Group's Support for Private Sector Development, World Bank News (World Bank, Wash., D.C.), May 2, 1991, at 6.
member countries and the full integration of those countries into the international economy.

Part I of this Note examines the origins, development, and objectives of the World Bank and the IMF and provides an overview of privatization as a measure of reform. Part II reviews the privatization programs being implemented in the developing countries of Eastern Europe, Latin America, and the Caribbean, describing the successes and failures of privatization within these areas and the prospects for future aid. Part II also explores the current state of the former Soviet Union, that is, the Commonwealth of Independent States ("CIS"), and the role that the World Bank and the IMF will play in CIS reform. Part III then examines existing criticisms of the World Bank and the IMF, and offers suggestions to improve the policies of each organization. Finally, this Note concludes that the World Bank and the IMF have been and will be invaluable in the process of reforming developing countries, thereby creating able players for what may one day be an ideal world economy.

I. THE DEVELOPMENT AND OBJECTIVES OF THE WORLD BANK AND THE IMF

A. Origins

During the Great Depression of the 1930s, many countries devalued their currencies and placed restrictions on trade in order to maintain domestic income. As more and more countries adopted these measures, the unintended result was a reduction in trade and employment and a "less efficient allocation of resources at the global level." In turn, World War II brought great destruction to many countries, inevitably reducing trade and employment even further.

As a result of these developments, the World Bank and the IMF were founded by the United States, Great Britain, and their war time allies at the Bretton Woods Monetary and Financial Conference in 1944. The principal goal of the conference was to promote international trade. Specifically, the World Bank was created to "help finance the rebuilding of Europe's economies," and the IMF was created to supervise and foster an "open and stable monetary system" and thereby promote a more efficient allocation of resources.

18. See infra note 293.
20. Id.
23. See id. at 7.
24. Id. at 9. The World Bank, however, soon concentrated its efforts on the development of Third World countries because the Marshall Plan supplanted its role as the rebuilding of European economies. See id.
B. Objectives and Organization of the World Bank

The World Bank is one of four related international financial institutions that together make up the World Bank Group. The other institutions in the World Bank Group are the International Development Association ("IDA"),27 the International Finance Corporation ("IFC"),28 and the Multilateral Investment Guaranty Agency ("MIGA").29 The World Bank is literally a bank. It borrows funds by selling bonds, and then lends the funds to member countries with invest-


27. The IDA was established in 1960. Generally, it makes loans consistent with the World Bank, but to less-developed nations who do not have the same capacity to make interest payments. See M. Malloy, supra note 13, at 114.

An IDA "loan" is referred to as a "credit" and usually carries a 50-year maturity date and no interest payment obligation. See id.; see also Development Aid: A Guide To National and International Agencies 167-90 (comp. by Eurofi (UK) Ltd. 1988) [hereinafter Development Aid] (providing an overview of the origins, objectives and organization of the World Bank and IDA, as well as a list of contacts within those organizations); Bretton Woods, supra note 11, at 79-82, 380-419 (discussing the creation and development of the IDA); see generally World Bank, IDA in Retrospect (1982) (providing an in-depth look at the IDA).

The IDA and the World Bank ("IBRD") are often misrepresented as "semi-detached" or separate agencies. See Sisters in the Wood, supra note 22, survey sec., at 9. In fact, they are both part of the World Bank, and the titles "IBRD" and "IDA" are simply labels attached by the World Bank to different types of financing. Furthermore, the same Bank managers supervise loans, whether made under the IBRD label or the IDA label, and much of the same measures are applied for evaluating projects. See id. But cf. M. Malloy, supra note 13, at 110 (stating that the IDA and the IFC are considered "affiliates" of the World Bank, that within each organization ownership differs slightly, and that each is legally considered a separate entity).

28. The IFC was established in 1956. The IFC "finances most types of commercial enterprises through investments in equity, loans without governmental guaranty and underwriting commitments." IBRD, World Bank Operations: Sectoral Programs and Policies xiii (1972). The mission of the IFC is "to supply venture capital to productive private enterprises, to stimulate the development of local capital markets, and to promote the international flow of private capital." Id.; see also 1991 Annual Report, supra note 8, at 3 (describing the IFC's "mission"); Bretton Woods, supra note 11, at 79-82, 350-59 (discussing the creation and development of the IFC). See generally Development Aid, supra note 27, at 191-99 (providing an overview of the origins, objectives and organization of the IFC and a list of contacts). The IFC expects to play a key role in future privatization programs. See IFC Capital Increase Approved, World Bank News (World Bank, Wash., D.C.), July 5, 1991, at 9.

29. MIGA was established in 1988. It was created "to encourage foreign investment in developing countries by providing political risk insurance in the form of investment guarantees against the risks of currency transfer, expropriation, war and civil disturbance, and breach of contract by the host government." Agency Stepped Up Work in
ment needs.  

The objective of the World Bank is “to help raise [the] standards of living in developing countries by channeling financial resources to them from developed countries.” The World Bank attempts to achieve this objective by making loans strictly to developing nations—or, more specifically, only to those developing nations “at more-advanced stages of economic and social growth.” Those developing nations at less-advanced stages of growth are eligible to receive aid from the IDA.

Each project that the World Bank undertakes is carefully planned and closely supervised. As one commentator has noted, lending must (1) “be for high priority and productive purposes,” (2) “generally be used for the foreign exchange component of specific projects,” and (3) “be made directly to a member government or [be] guaranteed by the member government in whose territory the project is located.”

The World Bank makes two types of loans to members. The first type, to finance specific projects in the member countries, was the Bank’s primary vehicle for aid during its first thirty years. In time, however, the World Bank realized that projects would fail in an economy where poor macroeconomic policy was being implemented. The World Bank thus developed a second type of loan, in which it provides cash “for the government to use as it [sees] fit, in return for promises on economic policy.” In making these latter policy-based loans, the World Bank specifies numerous “key conditions” or policies that a country must

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32. Id. The founders of the World Bank originally expected that the Bank’s primary function would be to guaranty private loans. In actuality, however, the most important contribution of the Bank has been its direct lending to developing countries. See Bretton Woods, supra note 11, at 26.

33. See supra note 27.

34. M. Malloy, supra note 13, at 113. There has been a recent suggestion that the World Bank should begin to lend directly to the private sector of developing countries in order to advance privatization. See Kristiansen, Preston Cautious On Shifting World Bank Lending Towards Private Sector, Agence France Presse, Oct. 17, 1991, available in LEXIS, Nexis Library, AFP File, at *1.

35. See Sisters in the Wood, supra note 22, survey sec., at 10. The projects funded were mainly those of government and state-owned enterprises. See id. Project funding “was seen [as] a way of keeping the Bank’s cost of funds low.” Id. Moreover, this pattern of lending for years “reflected the prevailing view of how development should proceed.” Id.

36. See id. at 13. “A good project in a bad economy was likely to be a bad project.” Id.

37. Id. at 14. These policy-based loans are called “structural adjustment loans” and “sector adjustment loans.” Id. A sector adjustment loan is one that “support[s] economic reform within a particular sector," such as trade liberalization, financial deregulation, or agricultural price reform. Id. Many argue that these policy-based loans place the World Bank on IMF turf. See id. at 19; see also infra notes 326-333 and accompanying text (criticizing the structure of the World Bank and the IMF and advocating the merger of the two organizations).
promise to implement in exchange for the loan. The Bank generally prescribes policies that it believes "will make the biggest contribution to stabilisation or adjustment in the shortest time."

The World Bank and the IDA have six regional offices that together define the internal organization of the two entities. These regions consist of (1) Latin America and the Caribbean; (2) Europe, the Middle East, and North America; (3) South Asia; (4) East Asia and the Pacific; (5) Western Africa; and (6) Eastern Africa.

C. Objectives and Organization of the IMF

As one commentator has indicated, "the IMF is not a bank, but a club. Member countries pay a subscription and agree to abide by a mutually advantageous code of economic conduct." Part of this code of conduct is that members maintain a "balanced" balance-of-payments. Indeed, one of the primary objectives of the IMF is to aid member countries in correcting payments imbalances.

38. See Sisters in the Wood, supra note 22, survey sec., at 34. The policies vary depending on the borrower, but "usually include lower trade barriers, targets for public spending and borrowing, [and] price reforms in [areas such as] farming and energy." Id.

39. Id.

40. See M. Malloy, supra note 13, at 116. This Note will focus on the first region, Latin America and the Caribbean, and on part of the second, Eastern Europe.

41. The subscriptions are paid by each member in an amount "equal to the quota assigned to it." M. Malloy, supra note 13, at 59.

42. Sisters in the Wood, supra note 22, survey sec., at 5 (footnote added).

43. See M. Malloy, supra note 13, at 40. "A nation's balance of payments is a summary statement of all economic transactions between residents of that nation and residents of the outside world that have taken place during a given period of time." J. Ingram, International Economics 16 (1983). A balance-of-payments is made up of a current account, a capital account, and an official reserve account (which a country keeps with the IMF). The current account is closely related to the national income accounts and includes all transactions in currently produced goods and services. See id. at 19-21. The capital account consists of every transaction involving financial or other claims on foreigners, and also includes liabilities to foreigners. See id. at 21-23.

When the current account and capital account do not equal, there is an overall balance-of-payments surplus or deficit, otherwise known as a "payments imbalance." See R. Gordon, Macroeconomics 590 (2d ed. 1981). The former is financed by an inflow of international reserves, such as gold or other "important" foreign currencies, while the latter is financed by paying out official reserves or by borrowing from other countries or from international organizations. See id.

44. See M. Malloy, supra note 13, at 40. The IMF seeks to aid members in correcting payments imbalances in accordance with the objectives listed in its charter—specifically, the objectives (1) "to make financial resources available to members, on a temporary basis and with adequate safeguards, to permit them to correct payments imbalances without resorting to measures destructive of national and international prosperity;" and (2) "to seek reduction of both the duration and magnitude of payments imbalances." Id. Other objectives listed in the IMF's charter include:

(1) to promote international cooperation by providing the machinery for consultation and collaboration by members on international monetary issues; (2) to facilitate the balanced growth of international trade and, through this, contribute to high levels of employment and real income and the development of productive capacity; (3) to promote exchange stability and orderly exchange
In keeping with its objective, the IMF allows member countries to borrow for a short term from its pool of subscriptions, based on certain conditions. Yet the IMF does not make loans in the legal sense. When a country seeks to borrow more than twenty-five percent of its quota, a standby or similar arrangement is almost always required. Under a standby agreement, the IMF sells currencies or Special Drawing Rights ("SDRs") to members in need of aid in exchange for their own currencies. The member state must eventually repurchase their currencies with other currencies or with SDRs. Furthermore, the standby "loan" must be repurchased in three to five years.

Finally, the IMF maintains a "doctrine of conditionality," which consists of "policies that members are expected to follow when they use Fund resources to cope with their balance of payments problems." These policies, collectively referred to as a stabilization program, are developed specifically for each member country.

arrangements and facilitate the avoidance of competitive currency depreciation; [and] (4) to foster a multilateral system of payments and transfers for current transactions and seek the elimination of exchange restrictions that hinder the growth of world trade.

Id.

45. See Sisters in the Wood, supra note 22, survey sec., at 5. The quota subscriptions, together with borrowings, make up the IMF's funds. See M. Malloy, supra note 13, at 59. The IMF can borrow "in any currency and from any source." Id. Furthermore, because confidence is instilled in a member nation when the IMF lends funds, the IMF also acts as a catalyst in "mobilizing funds from other sources." Id. at 45.

46. "Members have virtually unimpeded access to the so-called reserve tranche, which is a part of the country's own reserves that it keeps on deposit with the Fund." Sisters in the Wood, supra note 22, survey sec., at 8. In addition, "if the Fund agrees, the member can borrow four further 'credit tranches', each equivalent to 25% of its quota." Id. at 8-9.

47. See id. at 9.

48. An SDR is a unit of account that was created by the IMF to increase its reserve assets, see M. Malloy, supra note 13, at 97, thereby allowing the IMF to meet the international demand for United States dollars without forcing the United States to incur payments deficits. See Sisters in the Wood, supra note 22, survey sec., at 8; D. Logue, Handbook of Modern Finance 36-13 (1984); see generally J. Gold, Special Drawing Rights 6-10 (1969) (outlining a proposal to amend the Articles of Agreement of the IMF in order to establish a facility based on "SDRs," and discussing the purposes for creating the SDR).

The value of an SDR is determined as the weighted average value of a basket made up of the currencies "of the five countries with the largest shares of world exports of goods and services." M. Malloy, supra note 13, at 98. For a more detailed description of the process of valuation of an SDR, see id. at 98-99.

49. See id. at 61.

50. See Sisters in the Wood, supra note 22, survey sec., at 9. In 1974, the IMF "invented the extended fund facility—in effect, a standby [arrangement] with a five [to] ten year repayment period instead of three [to] five years." Id.


52. Int'l Monetary Fund, The Role and Function of the International Monetary Fund (1985), reprinted in M. Malloy, supra note 13, at 84.

53. See J. Gold, supra note 51, reprinted in M. Malloy, supra note 13, at 81. There is some controversy over the doctrine of conditionality. Those in opposition stress that the
D. Privatization: Debates on How to Privatize

Privatization is a major, if not the most important,\textsuperscript{54} step\textsuperscript{55} in the transformation from a centrally planned economy to a market economy.\textsuperscript{56} Countries that are privatizing share a common set of goals, namely "to mobilize domestic savings,\textsuperscript{57} [introduce] foreign cash into their economies, and create jobs."\textsuperscript{58} Privatization efforts attempt to reach these goals by improving the efficiency of enterprises\textsuperscript{59} and by pro-

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\textsuperscript{54} According to the World Bank, however, "the main engine of long-term structural change, even more important than privatization, will probably be the autonomous growth of new private business, facilitated by supportive public policy." \textit{Economic Transformation in Eastern and Central Europe Will Be a Long Term Process}, World Bank News (World Bank, Wash., D.C.), May 2, 1991, at 7-8.

\textsuperscript{55} Three other steps are highlighted by authorities as requirements for achieving a successful transition to a market economy.

First, the existing government must have the political authority to sustain reform. \textit{See} Breslow, \textit{supra} note 10, at 210. Once political support is secured, structural reforms such as decentralized price formation and market allocation of goods, services, capital, and labor will follow. \textit{See id.} at 211.

Second, "the building of infrastructures must come in tandem with structural reform, for without a complex framework of legal, accounting, communications, and governmental infrastructures, the market cannot run efficiently." \textit{Id.}

Third, new checks and balances must emerge in order to limit concentrations of power and opportunities for abuse. These checks and balances would include, but certainly would not be limited to, a free press, an appropriate regulatory system, and possibly pluralist political institutions. \textit{See id.}

\textsuperscript{56} "The most fundamental difference between a centrally planned and a market economy is the distribution of property rights." Mayer & Thumann, \textit{German Democratic Republic: Background and Plans For Reform}, in \textit{German Unification: Economic Issues}, IMF Occasional Paper No. 75, at 57 (1990). According to the World Bank, Jeffrey Sachs, a professor of international trade at Harvard University, states that "[p]rivatization is the ‘paramount economic policy issue’ facing Eastern Europe today, and if there is no breakthrough in privatizing large state-owned firms, the entire process could be stalled with dire consequences for reforming economies." \textit{Experts Say Faster Reforms Needed in Eastern Europe; Mistakes Have Hurt Progress}, World Bank News (World Bank, Wash., D.C.), Apr. 25, 1991, at 4. Thus, "the main job for international organizations such as the World Bank is to help speed up the process of privatization by providing urgently needed financial and technical support for the key operations of mass privatization." \textit{Id.}

\textsuperscript{57} Privatization may advance the formation of indigenous capital markets. As one commentator has noted, "[a]ny increase in the range of assets available to domestic savers may lead to increased saving and to the substitution of shares in privatized enterprises for cash holdings, and real and foreign assets." R. Hemming & A. Mansoor, Privatization and Public Enterprises, IMF Occasional Paper No. 56, at 10 (1988).


\textsuperscript{59} Because [privatization] is believed to limit the scope for political interference in decision making, to increase managerial incentives by making managers responsible to shareholders who will monitor their performance better than governments, and to impose the financial discipline of private capital markets (including the market for corporate control), there is likely to be an incentive to seek productive efficiency, and fewer barriers to attaining it.

viding access to private-sector financing and to new markets.\textsuperscript{60} These attempts can benefit even enterprises that remain in the public sector.\textsuperscript{61} Privatization is also an effective way to raise considerable sums of money for a country's treasury, which, in turn, "enables the government to finance expenditures, repay loans, or defer tax increases."\textsuperscript{62}

Over the years, different approaches to privatization have emerged. One technique is to sell a business in its entirety to a buyer in private industry "engaged in a similar activity or seeking to diversify,"\textsuperscript{63} to the management and employees of the company,\textsuperscript{64} or to the public through an issuance of shares.\textsuperscript{65} A second technique is to sell merely a part of the enterprise.\textsuperscript{66} This technique is appropriate when the enterprise as a whole is not appealing to a private buyer,\textsuperscript{67} but some activities of the enterprise can be split from the whole and run autonomously.\textsuperscript{68} A third technique is to transfer ownership "by means of . . . a nominal sale to a private individual, to a private concern, or to a particular interest group [such as] the management or employees of an enterprise."\textsuperscript{69} This approach may be more suitable where massive losses, substantial debts, or "a history of labor troubles" make an enterprise unattractive to a specific purchaser or to "the wider public."\textsuperscript{70} A fourth technique is simply to liquidate the enterprise and sell off its plant and equipment to the private sector.\textsuperscript{71}

\begin{thebibliography}{99}
\bibitem{60} See \textit{id.}
\bibitem{61} In essence, by selling off or otherwise disposing of a majority of its enterprises, the government will have more time to focus on the ones that remain. See \textit{id.}
\bibitem{62} D. Gayle & J. Goodrich, \textit{supra} note 16, at 68.
\bibitem{63} R. Hemming & A. Mansoor, \textit{supra} note 57, at 6.
\bibitem{64} In some cases, instead of paying outright for shares in an enterprise, employees can receive those shares in return for assenting to pay back the government, or in return for giving up their termination benefits or part of their accrued pension rights. See \textit{id.} at 11. Those employees assenting to pay back the government could give to the government a share of their wages for a specified period of time. In turn, "the government would be bearing part of the operating risk even after privatization—it would not receive full payment if the enterprise failed—and this could be seen as a way of compensating for informational inadequacies." \textit{Id.}
\bibitem{65} See \textit{id.} at 6.
\bibitem{66} See \textit{id.}
\bibitem{67} An enterprise as a whole may not be appealing to a private buyer, for example, where some of the enterprise's activities are "heavily regulated." See \textit{id.}
\bibitem{68} See \textit{id.}
\bibitem{69} \textit{Id.}
\bibitem{70} \textit{Id.}
\bibitem{71} This last technique is usually a final resort. See \textit{id.} at 6-7. Additional privatization techniques are listed in D. Gayle & J. Goodrich, \textit{supra} note 16, at 48-53.

Interestingly, if a government sells fixed assets previously held for its own use . . . the sale proceeds are recorded as capital revenues. Yet, if a government sells part or all of its interest in a public enterprise, the transaction is treated as a sale of equity and the proceeds are recorded as a loan repayment.

R. Hemming & A. Mansoor, \textit{supra} note 57, at 16. Furthermore, sales of individual assets of a public enterprise are "equated with sales of public enterprises." \textit{Id.} This type of accounting has the effect of reducing the government's overall deficit, unless the sale price
Many authorities seem to agree that privatization techniques should vary depending on the size of the enterprise being privatized. Thus, while small enterprises can be sold through direct tender or public auction, the privatization of large enterprises “is expected to be considerably more difficult.” There is less agreement, however, on whether restructuring is preferable to rapid privatization. Although a restructuring approach advances the proper valuation of the enterprises, it could significantly delay the process of privatization.

Finally, analysts disagree as to whether the free distribution of shares to the population of a developing country is preferable to selling the shares. Those who believe in free distribution are likely to claim that it is more equitable and that it “strengthen[s] public support for privatization.” Those who believe that state-owned company assets should be sold to the private sector are likely to contend that this approach is beneficial because “asset sales can be used to absorb excess liquidity.”

Although these various debates seem to be especially prominent in Eastern European reform, their relevance is not limited to Eastern Europe. Indeed, the World Bank and the IMF must consider these issues when formulating privatization programs for developing countries

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72. See Int'l Monetary Fund, World Economic Outlook May 1991, at 32 (1991) [hereinafter World Economic Outlook]. The IMF has pointed out that “Czechoslovakia, Hungary, Poland, Romania, and, to some extent, Yugoslavia have recently prepared or enacted legislation that establishes a framework . . . for a variety of privatization techniques, depending on the size of the enterprises involved.” Id.

73. See id.

74. Id.

75. See id. Valuation problems are compounded in developing countries. As commentators have stated, “[i]n many cases neither the private sector of the economy nor the capital market is sufficiently developed to yield even an approximate valuation.” R. Hemming & A. Mansoor, supra note 57, at 10.

76. See World Economic Outlook, supra note 72, at 32. “Current privatization plans in Czechoslovakia, Hungary, Poland, and Romania emphasize a relatively rapid process and do not require a major restructuring of the companies involved.” Id. Usually, businesses are expected to convert into joint stock companies. Large conglomerates, however, are expected to be “split up into separate entities.” Id. Several years ago, Hungary and Poland began to split up large state enterprises, and Czechoslovakia recently followed their lead. See id.

77. Id.

78. Id. The problem with sales, however, is that “the transfer of income-producing assets to the private sector results in a loss of revenue for the government which must be compensated by new taxes.” Id. at 32 n.33. Poland, Czechoslovakia, Romania, Hungary, and Yugoslavia have focused on sales, although the former three also foresee a form of distribution of shares in the future. See id. at 32.

II. Case Studies

A review of specific World Bank and IMF involvement in various regions throughout the world creates a better understanding of both the value of the two organizations' assistance and the particular barriers to privatization (and other reforms) that may arise in particular developing countries. The following case studies provide such a review, and thus serve as the basis for the analysis set forth in Part III.

A. Eastern Europe

After World War II, and prior to the political revolutions of 1989, the countries of Eastern Europe existed largely within a sphere of Soviet influence that "either dictated or approved their foreign and domestic policies." Nevertheless, due to the economic deterioration of the Soviet Union and other factors, revolutions took place which freed the Eastern European countries from Soviet domination. In turn, each country set its own course for change and currently shares "the common goal of 'returning to Europe.'"

80. One source furnishes a detailed list of fifteen requirements the authors believe are essential to "any successful privatization effort." D. Gayle & J. Goodrich, supra note 16, at 78-79. Some of those requirements are as follows: (1) "[t]he government should have a strong commitment to privatization;" (2) "[p]rivatization should begin gradually with the sale of those industries that operate in competitive markets;" (3) "[n]ationalized industries should be restructured before privatization, and competition should be maximized, especially in the utility industries;" (4) "[c]entral and local government services should be contracted out as early as possible, [as] . . . [t]hese are areas where real efficiency gains can be realized;" (5) "[s]ocial objectives should be financed separately and not permitted to distort competition and prices;" (6) "[p]rices should reflect costs, and services should not be cross-subsidized;" and (7) "[l]oss-making firms should be privatized, even if this involves selling them at nominal prices." Id. at 79.

81. Breslow, supra note 10, at 205. Furthermore, due to censorship, information on Eastern Europe is difficult to find. See id. (surveying recent literature on Eastern Europe that has become available since 1989).

82. Other factors that led the way to the revolutions of 1989 included the policies of perestroika, which, among other things, accelerated the demise of the Council of Mutual Economic Assistance ("CMEA"), see id. at 210, and Gorbachev's decision to withdraw his support from Eastern Europe, "thus revealing that all East European communist regimes lacked legitimate authority." Id. at 206 (citation omitted) (quoting C. Gati, The Bloc That Failed: Soviet-East European Relations in Transition 189 (1990)).

83. Breslow, supra note 10, at 206. As one commentator has noted, "[j]oining the European Community is the stated goal of all of the East European countries. . . . The present debate in the EC is between those who favor bringing new members into the
The conversion of Eastern European economies from socialist to market economies will require outside assistance, accessible markets, and an expanding world economy. As previously noted, privatization is an important step in meeting these demands. Yet in most Eastern European countries, state businesses produce over ninety percent of industrial output. In fact, prior to the recent revolutions, many Eastern European countries were concerned with enhancing the efficiency of these enterprises, but found it difficult to do so without changing the basic ownership structure. These countries, in acknowledging that privatization will advance their own interests, have had to accept the fact that “fundamental changes in ownership rights are required” to promote efficiency.

Eastern European reform has been difficult for a number of reasons. First, the transformation from a socialist economy to a market economy takes a long time. Second, trade with the Soviet Union had mostly collapsed long before the Soviet Union itself collapsed. Together, these developments “have led to a sobering realization of the difficulties of transition and the short-term cost of reform.”

For a detailed look at EC banking reforms, see generally Note, Banking on Europe: 1992 and EMU, in Annual Survey of Financial Institutions and Regulation, Transnational Financial Services in the 1990s, 60 Fordham L. Rev. 3395 (1992).

86. In the context of Eastern Europe, “[s]ocialist economies’ refers to countries designating, or formerly designating themselves as ‘scientific’ socialists; i.e., the Soviet Union and the countries belonging to the [CMEA].” B. Lee & J. Nellis, Enterprise Reform and Privatization in Socialist Economies 1 n.3 (World Bank Discussion Papers No. 104, 1990). Member countries of the CMEA include Hungary, Poland, the German Democratic Republic prior to German unification, Czechoslovakia, and Bulgaria. See id. at 3.

The CMEA was created by Stalin “to increase his political control over member states, separate their economies from the rest of Europe, and secure raw materials for the Soviet Union.” Breslow, supra note 10, at 209-10. As it turned out, “the CMEA succeeded in achieving Stalin’s goal but failed to provide a viable economic mechanism for the Eastern bloc.” Id. at 210. The CMEA was formally dissolved by its members in September 1991, and will most likely be replaced by “bilateral ties and multilateral institutions.” Id. According to one commentator, “East European countries are seeking affiliation with the West rather than a new regional alignment among themselves.” Id. (quoting Kusin, CMEA: The End is Nigh, Report on Eastern Europe 2, No. 5, Feb. 1, 1991, at 38).


88. See World Economic Outlook, supra note 72, at 31.

89. Id. at 31-32.

90. See Rowen, supra note 85, at H1, col. 5 (quoting Norbert Walter, chief economist for Deutsche Bank); Qureshi: Eastern, Central European Nations Need $9 Billion-$10 Billion a Year, World Bank News (World Bank, Wash., D.C.), July 5, 1991, at 4 (quoting Moeen A. Qureshi, World Bank Senior Vice President for Operations) [hereinafter Qureshi].

91. See Qureshi, supra note 90, at 4-5.

92. 1991 Annual Report, supra note 8, at 42. Furthermore, “[m]ost countries have
reform, especially privatization, have been stalled by Eastern Europe's "indecisive leadership." Until recently, Eastern European governments "haggle[d] incessantly" over the best way to sell their state-owned companies so as to obtain the highest price.93 As a result, these countries may now have lost their prospective buyers.94

Finally, although the Eastern European countries have shown a "genuine commitment to reform," large financing requirements are indispensable to accomplish the reforms.95 According to the World Bank, international financial institutions alone will not be able to meet these requirements.96 In fact, only the private sector "will be able to provide financing on a sustainable basis at needed levels," and the need will be especially great in such areas as industry, agriculture, retailing, and banking.97

1. Eastern European Countries Exhibiting Significant World Bank and IMF Involvement

During recent years, Poland has enjoyed the benefits of significant World Bank and IMF involvement.98 In fact, the country first obtained aid when it attempted to convert to a market-oriented economy in early 1990. In February 1990, the World Bank announced its first loans to Poland. These funds financed modernization of the agricultural-processing industries, with the intention that this would increase exports and stimulate the development of the private sector by establishing enterprises and privatizing existing public-sector companies.99 The World Bank hoped that its loans would make Poland's economy "more market-oriented, efficient and productive."100

In an attempt to push the process of change along, the Polish government adopted a privatization bill in mid-1990. This bill provided that small firms would be "liquidated and sold to employees or third parties," while larger enterprises would be privatized in two stages.101 First, large enterprises would be converted into stock companies with the Treasury

opted for rapid economic transformation towards a market economy and have experienced difficulties as production declined and unemployment rose." Id. In fact, "Eastern Europeans are beginning to realize that reconstruction will be more taxing than the worst pessimists ever thought." Schares, Eastern Europe Tries to Stoke Up Its Fire Sale, Bus. Wk., Oct. 21, 1991, at 52-53.

93. See id. at 52. This is especially true in Hungary, Poland, and Czechoslovakia.

94. See id. at 52-53.

95. Qureshi, supra note 90, at 4 (quoting Moeen A. Qureshi).

96. See id. at 5.

97. Id.


100. Id.

as the sole initial stockholder. Second, a share of the enterprises would be offered for sale to both Polish and foreign investors.

In mid-1991, the Polish government implemented two additional programs: (1) an enterprise-restructuring and privatization program; and (2) a program to make its financial sector more commercially oriented. The World Bank supported both of these programs. By this time, the World Bank reported that more than sixty thousand small- and medium-sized Polish businesses were already privately controlled, as well as approximately seventy-five percent of all retail trade companies. Furthermore, many industries and large state-owned enterprises had been privatized, and the new Warsaw Stock Exchange was already trading shares in some of these firms. It is no surprise, then, that in addition to receiving World Bank approval for its new programs, Poland also secured an IMF standby arrangement and a $300 million structural-adjustment loan from the World Bank, and was able to negotiate a Paris Club rescheduling of its foreign debts to support its new program.

In mid-1991, the Polish government announced an additional plan to "transfer majority ownership in [four hundred] state enterprises to a group of stock funds to be created and run by Western investment managers."

102. See id.
103. See id.
105. See id. Poland's program to commercialize its financial sector was developed because Poland's banking system was "unable to meet the demands of the country's emerging private sector." Financial Sector Reforms, World Bank News (World Bank, Wash., D.C.), June 13, 1991, at 1. Thus, the reforms included "the lifting of subsidies on lending rates, [the] limiting [of] government involvement in decisions on the allocation of credit in the economy, and [the] enacting [of] new laws that . . . allow[ed] the banking industry to become more efficient and competitive." Id.
107. See id.
108. Id.
109. The Paris Club is a group of seventeen Western government creditors, see Ries, Paris Club: A Financial Bomb Disposal Unit, Agence France Presse, Oct. 16, 1991, available in LEXIS, Nexis Library, AFP File, at *2, and includes the world's seven largest industrialized nations (G-7). See Nicaragua: U.S. Writes Off Nicaragua's $259 Million Debt, Inter Press Serv., Sept. 25, 1991, available in LEXIS, Nexis Library, INPRES File, at *1. The club was established in 1956 to "reschedule[] official debt to developing countries, as opposed to creditor banks and other private financial institutions." Ries, supra, at *1. The Paris Club is "politically neutral," and reschedulings occur only after IMF approval is obtained. See id. at *2.
111. The four hundred enterprises equaled a fourth of the entire state industry. See Lohr, Poland to Privatize Industry By Giving Stake to All Adults, N.Y. Times, June 28, 1991, at A1, col. 2.
112. Id. (footnote added).
would "receive vouchers giving them a stake in these 'National Wealth Management Funds.'"114 Polish citizens would own shares in the funds, and the funds would hold shares of the newly privatized companies. Shares would also be given directly to employees in the converted state enterprises.115 The Polish funds would begin operating in 1992, and report their first results at the start of 1993. Shares in the funds would thereafter be traded on the Warsaw Stock Exchange.116

As a result of this collection of programs, Poland has made considerable progress in privatization and other reform efforts since the beginning of 1990. In fact, as early as October 1990, Poland's "Economic Transformation Program" was named the "Big Bang" because of the "speed with which it [was] being implemented."117 At the same time, the World Bank attested to the success of the program, noting that "inflation has been greatly reduced, exchange rates stabilized, wages held in line, and shortages eliminated."118

Even as recently as June 1991, the World Bank reported that certain reform programs implemented by Poland had been successful, resulting in the zloty119 being convertible for trade and internal private financial transactions. This enabled Poland to trade freely on foreign markets, brought the public's spending patterns "more in line with supply," and resolved "the longstanding problem of too much money chasing too few goods."120

Despite this success, the process of reform has taken its toll on Po-

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114. Id. at A1, col. 2.
115. See id. at D5, col. 6. Specifically, each company's shares would be divided so that sixty percent went to the new wealth management funds and ten percent went directly to the company's employees, leaving thirty percent with the government. See id. The hope was that accelerated privatization would expedite the shift to a market economy, "reviving growth and restraining unemployment." Id. It should be noted, however, that in June 1991 many of the companies being privatized under this plan had little value. See id.
116. See id.
118. Id. at 4 (quoting Ian Hume, the World Bank's first resident representative to Poland).
119. The zloty is the official currency of Poland and, as of October 1991, "the only currency in Eastern Europe that [could] be freely exchanged inside the country for dollars or other Western money." Engelberg, Poland's Cure Is Taking, but Side Effects Hurt, N.Y. Times, Oct. 25, 1991, at A1, col. 2, D4, col. 1. The zloty is also fully convertible outside Poland. See Reaves, Economist Embodies Poland's Daring, Chi. Tribune, Apr. 15, 1991, § 4, at 3, col. 2.
120. Polish Reforms: No Easy Solutions, World Bank News (World Bank, Wash., D.C.), June 6, 1991, at 6. The World Bank also reported that Polish stores were well-stocked, and that both lines and black markets had disappeared. See id. at 6-7. It should be noted that despite Poland's privatization of its retail and trade sector, the country has not been very successful in attracting private foreign investment. See Robinson, Focus on Privatisation, Fin. Times, Oct. 14, 1991, at 30, col. 3. Foreign investors are hesitant to invest in Poland "until legislation has unravelled the web of state ownership." Fletcher,
land’s citizens. The restructuring or closing of inefficient state-owned enterprises has resulted in “a surge in unemployment.”\textsuperscript{121} The Polish News Bulletin has pointed out that “[t]he continuing slump in investment, output and productivity has become a long-term phenomenon,” and the crisis has been “further aggravated by the society’s considerably higher expectations with regard to systemic changes.”\textsuperscript{122} Because the attempted reforms of the Polish government led to this “spiralling unemployment” and to “falling living standards with apparently no end in sight,”\textsuperscript{123} the Polish parliament voted on September 14, 1991, not to give the government of Prime Minister Jan Krzysztof Bielicki the power to enforce a program of “drastic economic reforms” that was worked out with the IMF.\textsuperscript{124} In fact, Polish President Lech Walesa announced on October 31, 1991, that he will probably “reorient reforms to protect people impoverished by economic change.”\textsuperscript{125}

As a result of this action by the Polish Parliament, it is doubtful that the reforms required by the IMF and the World Bank will be implemented. It is also uncertain whether the two organizations will be willing to invest further funds in Poland. In fact, the IMF recently stalled disbursements to Poland under a $1.7 billion stabilization loan.\textsuperscript{126} Therefore, a country that was once moving towards a market economy at a rapid pace may, for the time being, have been brought to a complete standstill.\textsuperscript{127}

In 1987, Hungary, like Poland, was one of the many socialist countries

\textsuperscript{121} Poland Tackles Growing Unemployment Problem, World Bank News (World Bank, Wash., D.C.), June 6, 1991, at 1. In fact, by October 1991, unemployment had “topped [ten] percent in a country where jobs were once guaranteed.” Engelberg, supra note 119, at A1, col. 3. In response to this crisis, the World Bank made its first loan to Poland, which was also its “first investment devoted entirely to labor and employment issues in Eastern and Central Europe.” Poland Tackles, supra, at 1.

\textsuperscript{122} Kleer, Economy After Six Months: Mounting Pressures, Polish News Bull., Aug. 30, 1991, available in LEXIS, Nexis Library, PNBUL File, at *2. The Bulletin’s overall conclusion was that, in order for the Polish economy to become “capable of upholding its competitive position on the global market,” enormous investment is needed. Id. at *3.


\textsuperscript{124} See id. Note, however, that many of the structural reforms, including privatization, were still awaiting parliamentary review at the time of this Note. See id. Therefore, it is reasonable to question whether the spiralling unemployment and low living standards can fairly be blamed on the government’s reform programs.

\textsuperscript{125} Harden & Battiata, Walesa to Replace Finance Minister, Ease Austerity Plan, Wash. Post, Nov. 1, 1991, at A33, col. 4. Yet, when Walesa was asked specifically what he would do to ease the suffering of his people, he “mentioned his previously announced plan to give each Pole the equivalent of $10,000 worth of stock in state industry.” Id. at A37, col. 1.

\textsuperscript{126} See id.

\textsuperscript{127} In fact, because of the political deadlock, Poland now trails Hungary and Czechoslovakia in terms of its reforming. See Schares, supra note 92, at 53. Furthermore, approximately “80% of industry remains in state hands,” Glassgall & Weiner, supra note 58, at 49, and “managers and investors are grumbling that the government’s plan for mass
that still retained a centrally planned economic system. Despite this, Hungary was considered to be the “furthest along” of those countries attempting financial reforms. Hungary had been reforming its financial institutions and increasing economic reforms in goods and labor markets since 1986. For example, in January 1987, Hungary abolished the monopoly of the National Bank of Hungary and created five full-service commercial banks which were, in theory, “free to determine their [own] interest rates on deposits and loans.”

In May 1990, a new government took office in Hungary following the first free election in forty years. Relying on IMF support, the new government formulated a program designed to facilitate the switch to a modern market economy. Furthermore, in June 1990, the World Bank made a $200 million structural-adjustment loan to Hungary that was intended to “support the government’s medium-term economic reform program.” The program’s main goal was to improve the performance of existing business enterprises and to promote the privatization of state enterprises. Specifically, the program sought to “reduce state-owned property to less than half of total assets in the competitive sphere of the economy by 1993.”

Despite these measures, success of the Hungarian government’s program may be forestalled on account of “serious external and domestic shocks” that are partly the result of a severe drought that occurred in 1990. Nevertheless, neither Hungary, the World Bank, nor the IMF privatization has become lost in a Bermuda Triangle between the Finance Ministry, the Privatization Ministry, and the Industry Ministry.” Schares, supra note 92, at 53.

129. See id.
130. See id. at 13; see also B. Lee & J. Nellis, supra note 86, at 10 (describing Hungary’s “New Economic Mechanism” that was launched in 1968 to increase economic efficiency).
131. Financial Reform in Socialist Economies, supra note 98, at 6. In practice, however, the five banks followed the central bank’s structure of interest rates. See id. For an in-depth look at the reorganization of the banking system in Hungary through 1987, see id. at 73-84.
133. World Bank Supports Economic Reforms in Hungary, World Bank News (World Bank, Wash., D.C.), June 21, 1990, at 4 [hereinafter Economic Reforms in Hungary]. This program included measures to strengthen bankruptcy laws, to reduce or eliminate production and investment subsidies, to install “auditing and accounting procedures based on the Western model” in key enterprises, and to restructure companies in critical sectors of the economy—such as mining, metallurgy, and construction. See B. Lee & J. Nellis, supra note 86, at 11.
135. See id. Other goals included the control of domestic demand through the implementation of “tight monetary and fiscal policies,” id., stimulating the production of tradeable goods through an active exchange-rate policy, see id., and the encouragement of private and foreign investment. See IMF Study, supra note 132, at 255.
136. IMF Study, supra note 132, at 255.
137. Id. at 256. The drought was described as “the worst drought experienced by the country in this century.” 1991 Annual Report, supra note 8, at 131. Other inhibiting

has lost faith. The State Property Agency of Hungary has recently engaged eighty-five investment banks and consultants to aid in the sale of four hundred medium-size businesses.\textsuperscript{138} Moreover, the IMF recently granted Hungary an extended arrangement, while the World Bank made another $250 million structural-adjustment loan to the country\textsuperscript{139} and plans to make still another adjustment loan in the near future that will specifically support Hungary’s privatization program.\textsuperscript{140} It should also be noted that Hungary has been favored for foreign investment, attracting approximately $680 million in the first eight months of 1991.\textsuperscript{141}

Yugoslavia is another Eastern European country receiving significant support from the World Bank and the IMF. Yugoslavia embraced central planning following World War II.\textsuperscript{142} In the 1950s, however, a system known as "workers' self-management" was implemented, whereby employees actively ran the enterprise in which they worked.\textsuperscript{143} Under this program, workers chose a management team and then worked closely with and supervised that team.\textsuperscript{144} In some respects, this "organizational innovation" was the beginning of a market economy in Yugoslavia, albeit a "labor-managed market economy."\textsuperscript{145}

In 1990, in the wake of "severe macroeconomic imbalances and mounting political problems," the Yugoslavian government pledged to create a "market-based competitive economy."\textsuperscript{146} In January 1990, a reform program was thus developed with the support of the IMF and the World Bank.\textsuperscript{147} The aim of this program was to sharply reduce the country’s escalating inflation.\textsuperscript{148} By September 1990, this program appeared successful, as evidenced by a "dramatically lower" rate of inflation.\textsuperscript{149} According to the World Bank, the policy’s success stemmed from its positive view on restructuring both "financial-sector and nonf-
Despite this impressive beginning, by the third quarter of 1990 the stabilization programs were not being implemented as forcefully as they had been in their initial stages. Thus, inflation reappeared and trade performance weakened.\(^5\)

It is an unfortunate reality that in Yugoslavia the resolution of political problems is a key to any significant economic recovery.\(^2\) Yugoslavia's republics have resisted reforms and the government is too weak to enforce them.\(^5\) Furthermore, the civil war between Croatia and Serbia is delaying investment in Yugoslavia because investors prefer that "a clear political picture . . . emerge before continuing with economic opportunities."\(^1\)

2. Eastern European Countries That Have Just Begun to Receive Aid from the World Bank and the IMF

Although Czechoslovakia "return[ed] to democracy" in 1989 and held national elections in mid-1990,\(^1\) the Czechs did not apply for membership in the IMF and the World Bank until 1990.\(^5\) In turn, Czechoslovakia "rejoined" both organizations in the third quarter of 1990\(^1\) and is beginning to receive aid from the World Bank and the IMF.

In its first loan to Czechoslovakia, the World Bank contributed $450 million in support of the Czech government's program designed to aid in establishing a market economy.\(^1\) The program was also supported by an IMF standby arrangement.\(^1\) Pursuant to this program, the Czech government "eliminated legal restrictions on the establishment of private enterprises and . . . passed legislation placing private and state enterprises on an equal footing."\(^1\) In addition, the government privatized more than four thousand state-owned large enterprises and twelve thousand state-owned small businesses.\(^1\) The IMF arrangement has helped increase private foreign investment in Czechoslovakia, convincing investors that the Czechs have access to a "lender of last resort."\(^1\) In fact,
Czechoslovakia attracted nearly $600 million of private foreign investment in the first half of 1991.163

The Czech government is currently enacting its plan to privatize approximately 1,800 additional state-owned companies. The privatization was to be through the sale of these companies,164 although companies that cannot be sold quickly or easily are being “all but given away through a complex bidding plan.”165 Foreign investors also have an opportunity to take part in this process.166 The “bidding plan” is actually an “$8.5 billion voucher-privatization program,”167 under which registration and sale of “coupon books” began in November 1991.168

Notwithstanding Czechoslovakia’s solid domestic adjustment, harsh external shocks—such as the disintegration of the Council of Mutual Economic Assistance (“CMEA”) trade bloc and the unification of Germany,169 which destroyed established export markets in the Soviet Union and Eastern Europe—have perpetuated the country’s financing needs.170

Like Czechoslovakia, Romania has only recently begun to secure

163. See Robinson, supra note 120, at 30, col. 4.
164. See Schares, supra note 92, at 53; see also supra notes 64-71 and accompanying text (describing the selling of companies as one way to privatize, and the programs of sale available to the Czech government).
165. Schares, supra note 92, at 53.

[any citizen interested in bidding [is] allowed to purchase coupon booklets for [approximately] $33, a price the Czechs hope will cover the cost of setting up the program. The coupons will be good for shares in companies or mutual funds. Czech officials estimate that roughly half the country’s manufacturers will be transferred to private ownership in 1992 through the coupon scheme.]

Schares, supra note 92, at 53. This will shift the problem of survival of these companies to the new owners and away from the government. Moreover, in the future, the new owners should be able to trade their shares on a new Czechoslovakian stock market. See id.

168. Prevatil, Czechoslovakia: Thousands Pin Hopes on Coupon Rewards, Inter Press Serv., Jan. 23, 1992, available in LEXIS, Nexis Library, INPRES File, at *1. By January 1992, the Czech privatization program was in trouble. For one, mutual funds unexpectedly surfaced as “probable major players in privatization,” Green, supra note 167, yet Czechoslovakia had virtually no regulatory framework in place. See id. The fear was that the mutual funds could end up controlling “up to [ninety] percent of Czechoslovak industry.” Id. (citing Jan Strasky, a Czech government deputy prime minister). In fact, 450 mutual funds have recently been established, and many are promising to pay “[ten] or [fifteen] times the original [thirty-five dollar] investment after a year to people who entrust their coupons to them.” Czechs By Millions Invest $35 in Big State Sale, N.Y. Times, Jan. 21, 1992, at A7, col. 1. In turn, the operators of the mutual funds could “siphon off profits,” and leave the shareholders “holding worthless slips of paper.” Id. For these reasons, the United States is currently offering Czechoslovakia legal assistance. See id.

assistance from the IMF and the World Bank. After the revolution of December 1989, the new Romanian government “declared its commitment to economic reform” and to the restructuring of the country as a market economy.\textsuperscript{171} Since the revolution, the Romanian government has given autonomy to enterprises, has implemented two phases of price liberalization, and has prepared privatization legislation.\textsuperscript{172}

Specifically, Romania plans to privatize its state property in two stages.\textsuperscript{173} First, the Romanian government will auction off small units to its citizens. The government hopes that this will insure a domestic capital market.\textsuperscript{174} Second, the Romanian government will sell all or part of its stock in commercial enterprises, based on an annual privatization program to be passed by Parliament.\textsuperscript{175} Furthermore, the government is contemplating selling a portion of its shares at a “preferential rate” to the companies’ employees, in the hopes of stimulating greater efficiency.\textsuperscript{176}

In June 1991, the World Bank announced that it would loan Romania $180 million to fund technical assistance\textsuperscript{177} and imports of goods and equipment to preserve production in key sectors of the economy.\textsuperscript{178} This was the first loan approved for Romania by the World Bank since 1982.\textsuperscript{179}

Unfortunately, the changes in Romania have been accompanied by a severe shortage of goods and by interference with trade. These results, coupled with increases in oil prices and the collapse of the CMEA trade arrangements, have placed great hardships on the Romanian economy.\textsuperscript{180}

Furthermore, violence in late September 1991 between miners and the new government\textsuperscript{181} led the World Bank to suspend plans for a $300 million credit arrangement with Romania aimed at advancing currency convertibility and industry restructuring.\textsuperscript{182} According to one Romanian investor, the incidence of violence alone has “set progress back at least

\begin{itemize}
\item \textsuperscript{171} Id. at 131-32.
\item \textsuperscript{172} See id. at 132.
\item \textsuperscript{174} See id.
\item \textsuperscript{175} See id.
\item \textsuperscript{176} See id.
\item \textsuperscript{177} This aid will include technical assistance provided to the National Agency for Privatization to help Romania design a strategy for privatizing state-owned firms. See Technical Assistance Bolsters Romania’s Reforms, World Bank News (World Bank, Wash., D.C.), June 27, 1991, at 5.
\item \textsuperscript{178} See id.
\item \textsuperscript{179} See id.
\item \textsuperscript{180} See id. In the last year, Romanian food prices have tripled and inflation has risen to a rate of two hundred percent. See Gaetan, Romania Sets New Cabinet; Vows to Continue Reform, E. Eur. Rep., Oct. 21, 1991, at 1, 6.
\item \textsuperscript{181} See Gaetan, supra note 180, at 1.
\item \textsuperscript{182} See id. at 6. The violence was brought on by the hardships Romania is currently facing. See id.
The collapse of the CMEA trade arrangements has also forced Bulgaria, like Romania, to weather harsh “terms-of-trade, export-market, and payments-disruption losses.” In an effort to reduce these negative effects, and with the technical aid of the World Bank, Bulgaria implemented a stabilization and reform program in February 1991, under which “[m]any subsidies were eliminated, most restrictions on the setting of retail and wholesale prices were lifted, and the exchange-rate system was freed.”

On October 13, 1991, the Socialist Party of Bulgaria was defeated at the polls. Because reservations about the outcome of this election had previously frustrated Bulgaria’s efforts to reschedule its foreign debt—which at the time of this Note amounted to $11 billion—Bulgaria now hopes that its rescheduling efforts will run smoothly. This is crucial because rescheduling agreements are prerequisites for “reopening official export credit lines” that have been closed since 1990, when the last communist government of Bulgaria imposed a moratorium on debt payments.

Unlike the other Eastern European countries discussed in this Note, Albania, described as “Europe’s poorest country,” pursued an “orthodox Stalinism” for fifty years. The Albanian government continuously avoided communication with the United States, Great Britain, Germany, and the Soviet Union; prohibited foreign debt; and viewed foreign investment with great disdain.

This pursuit of Stalinism ended in late 1990, and Albania is currently “rediscovering private enterprise.” For instance, Albania’s government recently introduced a privatization program that includes the allocation of housing through vouchers, the auctioning off of small businesses, and the restoration of collectivized land to peasants, who comprise two-thirds of Albania’s population of three million. In addition,
Albania plans to sell off larger enterprises in the second half of 1992.\textsuperscript{197} Albania has reported that the move to a market economy has been a "shock,"\textsuperscript{198} and the country is "currently plagued by food shortages... and poor quality health care."\textsuperscript{199} Partly for this reason, Albania recently sought to be admitted into the World Bank and the IMF,\textsuperscript{200} and was granted full membership in both organizations on October 15, 1991.\textsuperscript{201} To date, however, neither organization has loaned money to Albania or worked out a definite program of assistance.

3. Summary

Upon review of the individual countries of Eastern Europe, it appears that privatization has played a substantial part in the region's reform. Every Eastern European country has implemented some form of privatization program and has promoted the denationalization of state-owned enterprises in some form or another. In addition, the World Bank and the IMF have encouraged the Eastern European countries to take privatization seriously, both by conditioning technical and financial assistance on the implementation of privatization programs, and by providing aid specifically designed to finance individual privatization projects.\textsuperscript{202}

\textsuperscript{197} See id. at *3.
\textsuperscript{198} See id. at *1.
\textsuperscript{200} See 1991 Annual Report, supra note 8, at 44.
\textsuperscript{201} See Albania Joins IMF, supra note 191.
\textsuperscript{202} Interestingly, according to the IMF, the conditions in Germany currently present the "ideal starting point" for beginning the huge task of privatization. See Lipschitz, Introduction and Overview, in German Unification: Economic Issues, IMF Occasional Paper No. 75, at 1, 16 (1990). This large "task" began to be implemented upon the unification of Germany, and has been a key reform in its consolidation efforts. See Mayer & Thumann, supra note 56, at 56-57. Yet it appears that neither the IMF nor the World Bank has played a significant part in German unification and East German reform. See generally 1991 Annual Report, supra note 8, at 141-60 (listing countries that had been approved for both technical and financial aid during the fiscal year, and indicating that Germany was not a beneficiary of such aid); 1990 Annual Report, supra note 146, at 137-55 (same).

The current privatization movement in Germany has evolved as follows. Immediately following the end of World War II, the Soviets began seizing property of the German Reich, the German military administration, the Nazi party, and prominent members of the Nazi party. See Mayer & Thumann, supra note 56, at 56. By 1988, virtually all industrial enterprises were nationalized, as were transportation companies, banks, and insurance companies. See id. at 56-57. Therefore, following German unification, the new unified Germany—now known as the Federal Republic of Germany—made privatization a predominant issue in reforming the East German economy. See id. at 57-58. Pursuant to this privatization effort, state-owned companies were converted into limited-liability or joint-stock companies, and a public trust fund was created to take temporary ownership of these entities. See id. This trust fund has the immense responsibility of privatizing, restructuring, and, in some cases, liquidating approximately eight thousand of these companies. See Lipschitz, supra, at 15.

According to one commentator, some of the conditions that make Germany "ideal" for privatization include:

First, ... low inflation and a credible anti-inflationary policy, a balanced fiscal position, a high domestic saving ratio, a corporate sector in an unusually strong
In each of these countries, however, corresponding external and internal factors have negatively affected the potential success of these reform programs. Common external factors, as described above, have included natural disasters, the collapse of CMEA trade arrangements, and the rise in oil prices resulting from the Gulf War. Common internal factors have included political strife, unemployment, and food shortages.

The result of these setbacks is that Eastern European countries must still implement an enormous number of reforms before they can achieve either a national market economy or a solid place in international markets. World Bank and IMF aid is more crucial at this stage than it has ever been before, not only to aid in future progress, but also to maintain the progress that has already been achieved.

B. Latin America and the Caribbean

In the late 1980s, countries of Latin America and the Caribbean began to struggle as a long period of economic growth came to an end. Per capita output, income, and consumption all fell as population growth outpaced economic growth.

In response to this crisis, many nations initiated reforms that were markedly different from those instituted in the past. As the World Bank has reported, “[t]he new pattern of economic policy [in Latin America and the Caribbean] emphasizes smaller and more efficient governments, privatization of government enterprises, more open foreign-trading re-

financial position, and an enormous wealth of resources (including foreign assets).

Second, the authorities have a formidable track record on fiscal discipline and generally prudent economic policies. There is also widespread political commitment to a restructuring of government expenditures so as to limit the budgetary effects of unification.

Third, the deutsche mark is perhaps the quintessential hard currency. Fourth, perhaps the greatest asset of the former GDR is its human capital. All evidence suggests that the level of general and technical education of the east German labor force is high. Fifth, grassroots entrepreneurship in the east is booming.

Id. at 16. As proof of the fifth condition, in the first three months of German economic, monetary, and social union (“GEMSU”), approximately 96,000 new businesses were registered. See id.

In addition to all of these conditions working in favor of its privatization program, West Germany has a savings surplus that can be used to provide resources for financing East Germany’s investment needs. See McDonald & Thumann, East Germany: The New Wirtschaftswunder?, in German Unification: Economic Issues, IMF Occasional Paper No. 75, at 78 (1990). Moreover, this surplus may make it possible to awaken East Germany’s “tradition of enterprise” that existed prior to World War II, even though it has long been suppressed by the system of central planning. See id.

203. Generally, this Note will focus on Chile, Brazil, Argentina, Venezuela, Mexico, and the Caribbean Community (CARICOM).

204. See 1990 Annual Report, supra note 146, at 128.

gimes, deregulation of financial and commodity markets, and reductions in public-sector expenditure imbalances. In line with these changes, interest has grown in the liberalization of trade, and this too marks a dramatic shift from past regional policies.

Furthermore, some governments in Latin America seem to be implementing privatization programs in order to acquire funds from international monetary groups and participate in international reform programs. As one commentator explains, "participation in debt relief programs and trade agreements under President Bush's Enterprise for the Americas Initiative require that a country sign an agreement with the [IMF] and participate in a World Bank structural adjustment program." This structural adjustment program, in turn, requires both "a decreasing governmental role in the economy and an increase in privatization efforts."

In fiscal 1991, the World Bank loaned a total of $5.2 billion to Latin

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206. 1991 Annual Report, supra note 8, at 133. In contrast, the reforms instituted in the past tended to include a "broad role for government, highly protected industrial development, extensive regulation of the private sector, public ownership of productive assets, and large budgetary deficits." Id.

207. See World Economic Outlook, supra note 72, at 68. For more than three decades, a "model of import substitution" predominated over liberalization of trade. See id. A model of import substitution focuses on local industry and on the development of domestic capacity to supply manufactured goods that would otherwise be imported. These plans reject free-trade doctrines and encourage high tariffs. See Pollin & Cockburn, Capitalism and Its Specters; The World, the Free Market and the Left, Nation, Feb. 25, 1991, at 224, 229. Past arrangements such as the Andean Pact (including Bolivia, Colombia, Ecuador, Peru, and Venezuela) or ALADI (the Latin American Association for Integration, including Argentina, Brazil, Chile, Mexico, Paraguay, Uruguay, and the Andean Pact countries) incorporated this import-substitution model. See World Economic Outlook, supra note 72, at 68 n.2.

The new "movement toward regional trade liberalization reflects the reorientation of policies toward export-led growth in many countries of Latin America and the Caribbean," and has, therefore, "provided a new foundation for economic integration." Id. at 68. Latin America is swiftly moving to eliminate barriers to trade and investment. Chile, Mexico, and Bolivia led the way by reducing, and in some cases eliminating, tariffs that had "sometimes reached 100% or more. . . . Argentina, Brazil, Colombia and Peru are moving in the same direction." Reynolds, Sunshine in the South, Forbes, Sept. 16, 1991, at 205. Furthermore, other barriers to foreign investment have been eliminated. For example, new patent laws were enacted in Mexico and Brazil, and the latter opened its stock market to foreign institutional investors. See id.


211. Central American Governments, supra note 208, at 1.
America and the Caribbean. Thirty percent of this was "adjustment lending"—that is, lending that focused on public-sector and financial-sector reform—while another sixty-five percent of the loans were "project loans." Despite this aid, by mid-1991 many Latin American and Caribbean countries were experiencing low or negative economic growth because of lack of restructuring, hyperinflation, and "the initial impact of stabilization programs." In response to this crisis, the World Bank helped design stabilization programs that would reduce expenditures and increase revenues in such a way as to maintain a fiscal balance on a sustainable basis. This approach had not been followed by the World Bank in earlier years.

Nevertheless, these setbacks have not stopped Latin America from being hailed as the "next economic powerhouse," in part because privatization, which started as a debt-reduction experiment in Chile, has grown into a "fever" that has gripped much of Latin America. Privatization income has significantly reduced debt in much of the region, as "investors are now flocking to Latin America, pouring money into a region that was virtually off-limits in the debt-depressed 1980s." The transformation of Latin America and the Caribbean is not as well

212. See 1991 Annual Report, supra note 8, at 139. Mexico and Brazil were the largest recipients of these loans. See id. at 140.
213. Specifically, adjustment lending focuses on "balancing a country's books." A. Roe & J. Roy, Trade Reform and External Adjustment: The Experiences of Hungary, Poland, Portugal, Turkey, and Yugoslavia 4 (1989). For more on the adjustment process, see id. at 6-8, 11-13.
214. See 1991 Annual Report, supra note 8, at 139; see also supra note 35 and accompanying text (for a description of "project loans").
215. 1991 Annual Report, supra note 8, at 133-34.
216. See 1990 Annual Report, supra note 146, at 130. "[A]cross-the-board cuts in expenditures and reliance on ad hoc sources of revenue" were not part of this new program because the World Bank believed that such measures were inappropriate unless "the imbalances [were] the consequence of temporary losses in revenue or temporary increases in expenditures." Id. at 131.
219. See id.
220. Id. The change in Latin America in the past three years has been described as an "economic revolution," with privatization at its center. Id. Furthermore, at the 1991 annual joint meeting of the World Bank and the IMF in Bangkok, Latin American countries such as Mexico, Chile, Venezuela, and Argentina won praise for their reform efforts and were described as offering "brilliant opportunities" for investment. See Isberto, Latin America: Rousing Comeback For 'Bad Boys' of Debt, Inter Press Serv., Oct. 16, 1991, available in LEXIS, Nexis Library, INPRES File, at *1 (quoting IMF Managing Director Michel Camdessus). Mexico and Chile received "the highest marks because they have hewed closely to the sort of market-based economic revival strategies advocated by the [World Bank] and the IMF—and made them work." Id. at *2. In fact, the success of privatization has been so great in some countries of Latin America that Merrill Lynch, the United States' largest investment house, has established a mutual fund "designed to take advantage of growth opportunities opening up in Latin America as
defined as that of Eastern Europe. For many of the nations in Latin America and the Caribbean, it is difficult to pinpoint an exact time when attitudes began to change and the desire for democracy took hold. Therefore, the World Bank separated the countries of Latin America and the Caribbean into four groups, based on the pattern of reform followed by those countries. These groups are as follows: (1) those countries "with a record of sustained reform during the latter half of the 1980s;" 221 (2) those countries "that lately have shown increased commitment to policy and institutional change;" 222 (3) those countries "having economies severely eroded by economic mismanagement and internal strife, but whose governments have recently initiated major economic reforms;" 223 and (4) those countries "in which programs of reform and restructuring are still being developed." 224

1. Latin American Countries With a Record of Sustained Reform During the Latter Half of the 1980s

Prior to the 1980s and significant reform implementation, the Allende regime in Chile, which held power from 1970 until 1973, acquired control over many private businesses. In fact, by the end of 1973, the government was operating roughly six hundred businesses, accounting for nearly one-half of Chile's gross domestic product ("GDP"). 225

The government that succeeded the Allende regime in 1973 responded by implementing "drastic financial and trade liberalization." 226 In this way, the first of Chile's four phases of privatization began, during which approximately 240 previously nationalized enterprises were either transferred outright or were returned to prior owners. 227 In the second phase of privatization, begun in 1975, the government divested itself of enterprises that the previous government had created, or in which the previous government had bought shares. 228 The third and fourth phases began in 1985, with the third phase involving "the reprivatization of enterprises divested during phases one and two," 229 and the fourth phase economics and politics change." Risen & Tumulty, Many Socialist, Marxist Nations Try Capitalism, L.A. Times, Nov. 3, 1991, at D7, col. 5.

221. 1991 Annual Report, supra note 8, at 134. This group includes Chile, Mexico, and Bolivia. See id.
222. Id. This group includes Argentina, Brazil, Venezuela, Jamaica, Colombia, Ecuador, Paraguay, and Uruguay. See id.
223. Id. This group includes El Salvador, Guyana, Honduras, Nicaragua, and Peru. See id.
224. Id. This group includes the Dominican Republic, Haiti, Guatemala, and Panama. See id.
226. Id.
227. See id. at 21. No payments to or by the government were involved in this transfer. See id.
228. See id.
229. Id. This third phase was very effective in meeting its two objectives—namely, (1) to divest the ownership of state-owned companies and to redistribute the shares to small
involving the divestiture of the final forty large industrial companies controlled by the government. During this fourth phase of privatization, the IMF implemented a program in Chile, resulting in Chile’s return to private investment markets in 1989. The World Bank, in fact, is now reporting that the investment rate in Chile is at an “historical peak.”

According to a 1988 analysis, Chile provides one of the foremost case studies of privatization among the developing countries. There are thus lessons to be learned from Chile’s privatization experience, including (1) that tactics of widespread share ownership, involving special discounts, incentives, and/or quotas, should be employed to avoid ownership concentration; and (2) that privatization should not be implemented on an extensive scale, especially where the country’s financial and capital markets are weak.

Nevertheless, at least one critic asserts that Chile is not the paragon of privatization that it is made out to be. He points out that many of the state-owned enterprises privatized during the second phase of privatization were sold “‘free and clear’” of their debts, in order “[t]o effect the sales and command top dollar.” The left over debt now comprises more than forty-three percent of Chile’s Central Bank assets, and has drained the Central Bank’s resources by two percent of gross domestic product annually, according to one estimate.

Like Chile, Mexico has been described as a “tremendous success story” and a “model” for countries that have either adopted free-market approaches or are “standing on the brink” of an immense shift to free markets. In recent years, Mexico has followed a strategy of domestic

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230. See id.
233. See 2 H. Nankani, supra note 225, at 17.
234. See id. at 40.
235. See id. The study also warned that the crucial part played by CORFO—the “entrepreneurial arm” of Chile’s government that was given power to manage the divestiture of every state enterprise—in organizing and implementing worker participation should not be underestimated. See id. Furthermore, the study emphasized that policies such as deregulation, stabilization, liberalization, and privatization are necessary in order to decrease the risk of bankruptcy or reprivatization, and that such policies should be effected in that sequence. See id. at 41.
237. Id.
238. See id.
239. See id.
240. Remarks of Michael Boskin, supra note 5, at 9.
strength in its desire for development and internationalization. Thus, Mexico has concentrated on productivity, domestic savings, better income distribution, efficiency, and innovation in order to give the country a "competitive edge in a global environment." During 1989, Mexico also obtained a three-year extended Fund arrangement from the IMF. This arrangement, amounting to $4.3 billion, aided Mexico in dramatically improving its economic situation.

As for privatization, since 1985 Mexico has reduced the number of its state-owned companies from 1,155 to 256. International capital markets assisted in the privatization of these companies. For example, in May 1991, Mexican officials and financiers effectively carried out a simultaneous public offering of a state-owned enterprise in Mexico, the United States, Canada, Europe, and Japan.

In 1989, Mexico began reforming its financial system. Interest rates and maturities were liberalized, and "reserve requirements and obligatory credit channeling" were removed. Recently, Mexico began to privatize all of its commercial banks, resulting in the sale of seven banks to date. Together, as one expert notes, these steps "have freed investment resources and set the foundations for higher competitiveness and efficiency in this industry."

2. Increased Commitment to Policy Reform and Institutional Change

Several Latin American countries have begun to boost their commitment to privatization and other reforms. For example, Venezuela has had an IMF program in place since 1989, and both the IMF and the World Bank have provided technical assistance as well as financing. In fact, the same president of Venezuela that nationalized many companies in the mid-1970s is currently privatizing those companies in an effort to become part of the global economy. It has been reported, furthermore, that Venezuela is currently showing "clear signs of recovery." Specifically, Venezuela's government has improved its finances, has shifted the economy "toward greater reliance on market forces and the

241. See id. at 5-6.
242. Id.
244. See Remarks of Michael Boskin, supra note 5, at 1.
245. See id. at 5.
246. Id. at 3.
247. See id. at 4.
248. Id. at 3.
251. See Forbes, Jr., supra note 217, at 23, 192. "Rising stock prices and the flotation of new issues have raised the value of Venezuela's publicly traded equities from [two] billion to [eight] billion [dollars]." Id. at 192.
private sector,” and has significantly enlarged opportunities for foreign investors.253

Like Venezuela’s president, the man who is currently Argentina’s president at one time enlarged the government sector and “railed against private business.”254 By mid-1991, however, he began implementing programs of privatization255 and of tax reduction and simplification.256 Combined with a third program of debt-to-equity conversion,257 the privatization program has already reduced Argentina’s long-term commercial debt by twenty percent, or seven billion dollars.258 In addition, Argentina plans to conclude the selling-off of state assets by 1993, and expects that a portion of the proceeds will help reduce its sixty-two billion dollar external debt to foreign banks.259

In mid-September 1991, Argentina announced an additional privatization plan that involved selling a large portion of land held by the military—currently the second largest landowner in Argentina after the railroads.260 As Argentina already ranks third among the privatizers of Latin America, after Chile and Mexico, this recently announced privatization program should only add to Argentina’s privatization success.261

253. Investment Roundtable, supra note 250, at S27. In Venezuela, over the past two-and-a-half years “prices and exchange rates have been freed, . . . tariffs slashed, subsidies abolished or reduced, interest rates raised, public spending cut and privatisations planned,” resulting in an increase in GDP growth, a change from a current account deficit of $5.8 billion in 1989 to an expected surplus of $3 billion at the end of 1991, and falling inflation. See Venezuela: Business Potential Increases, Int’l Trade Fin., Oct. 3, 1991, available in LEXIS, Nexis Library, ITF File, at *1.
254. Forbes, Jr., supra note 217, at 192.
255. For example, the national telephone company was split in two, and one spinoff has since reported a profit 60 times its counterpart. See id.
256. See id.
257. Debt-to-equity conversions offer a potential source of financing for privatization. As one commentary explains,

[t]ypically, the foreign creditor will sell debt to a third party seeking an equity position in the country concerned. The debt is sold at a discount in the secondary market, but a participating bank benefits because it divests itself of a possibly troublesome loan and can reorganize its portfolio. The debtor government will convert the debt into domestic currency as long as the proceeds are used to finance approved local investment; this will directly serve growth and other development objectives. Such a procedure also reduces a country’s external debt burden without drawing on scarce foreign exchange.

R. Hemming & A. Mansoor, supra note 57, at 11.
258. See 1991 Annual Report, supra note 8, at 136. The program of privatization, however, has caused the government of Argentina to discharge many workers, including 14,100 workers in September alone. See Baker, Weiner, & Zellner, supra note 218, at 56.
259. See Hurst, Argentina Hopes to Widen Support for Asset Sale, Reuters, Oct. 14, 1991, available in LEXIS, Nexis Library, MONRPT File, at *1. In the words of one Argentinian official, “We will use part of the proceeds for an overall settlement of the debt and we are thinking of using the other part to create a fund to strengthen the pension system.” Id. (quoting Argentine Finance Minister Domingo Cavallo).
It should be noted, however, that Argentina’s "privatization express will screech to a halt" if the country's inflation ever skyrockets as it has in the past.262 Thus, to prevent inflation, the IMF has approved a $1.04 billion standby loan to Argentina that will run until June 1992.263 Not to be outdone, the World Bank loaned Argentina an additional $325 million.264 Argentina is also currently pursuing a three-year extended fund facility from the IMF to aid in settling its external debt problems.265

Like Argentina, Brazil has only recently begun reforming its economy. Brazil's current president, Fernando Collor de Mello, has embarked on an ambitious privatization campaign.266 If successful, this campaign would leave the Brazilian government as supplier of services only in the sectors of education, housing, health, infrastructure, and security.267 Despite good intentions, however, "political haggling and bureaucratic snafus" have held up this campaign.268

Another impediment to reform is Brazil's debt, which has been increasing continuously since the late 1960s.269 Today, in fact, Brazil is burdened with a total foreign debt of $121 billion.270 In an attempt to ease the burden of this debt and, in turn, propel its reform program, Brazil is hoping to borrow two billion dollars on an eighteen-month standby loan from the IMF.271 Brazil also claims that it can raise up to

262. Id. In addition, the continued implementation and future success of privatization programs in Argentina may be in jeopardy due to the disillusionment of Argentina's citizens. In September 1991, "thousands of workers poured into the streets" to protest the government's plans to privatize state-owned businesses. Risen & Tumulty, supra note 220, at D7, col. 4.
264. See Argentina's Privatisation Plans, supra note 261, at 58.
265. See Argentina Seeking Extended Fund Facility, supra note 263, at *1. Previous attempts to control inflation floundered because of a failure to eliminate the fiscal deficit. See Hurst, supra note 259, at *2.
266. See Baker, Weiner, & Zellner, supra note 218, at 56.
271. See Haskel, supra note 270, at *1. The IMF has disclosed that a standby agreement could be in place by early November 1991. See Isberto, supra note 220, at *2. Some doubt whether the IMF's board will assent to the standby loan unless Brazil shows distinct evidence of its "determination to make reforms stick." Brazil Lags, supra note 252, at *2. As of November 16, 1991, however, Brazilian officials were reporting that this loan was close to being approved. See Rodgers, Brazil and IMF Close to Agreement On $2bn Deal, Independent, Nov. 16, 1991, available in LEXIS, Nexis Library, INDPNT File, at *1. Specifically, the standby loan will be "designed to help to restore confidence and smooth negotiations over debts owed to private creditor banks." Id.

It should be noted that the World Bank has announced that it is "unlikely" to grant Brazil new loans at any time "during the remainder of this decade." Interest in Brady
eighteen billion dollars from privatization, and that it may be able to reduce its external debt by an even greater amount through debt-to-equity conversions. Specifically, Brazil is hoping to close a deal to restructure fifty billion dollars of debt to commercial banks.

Despite this planning, Brazil's future is far from certain. For example, violent demonstrations against privatization efforts have twice forestalled the process of reform. Indeed, as one reporter stated, "Brazil is increasingly the odd one out in Latin America as it struggles to come to terms with its awesome problems while elsewhere in the region foundations are being laid for stable growth."

3. The Caribbean

The Dominican Republic, Cuba, and Haiti were the only independent countries in the Caribbean thirty years ago, and each was struggling against dictatorship. Of the three countries, only the Dominican Republic has been successful in resisting dictatorship, although since that time, twelve other parliamentary democracies have joined the group of independent Caribbean governments.

growth performance of the world economy and unfavorable weather conditions (particularly in the island-based economies) have had an adverse effect on economic growth. Furthermore, the Caribbean suffers from "chronic balance-of-payments deficits, [as well as] over-dependence on a few agricultural or mineral commodities."

Stabilization programs, structural adjustment efforts, and investment reallocation must be in place before the Caribbean can raise the growth rate of its economies. It appears from the previous assistance provided by the World Bank and the IMF that the two organizations intend to aid the Caribbean in the development of such programs. Furthermore, optimists believe that the Caribbean economies could achieve positive economic growth by incorporating such specific policies as "trade liberalization with a bias toward export; fiscal self-reliance with an effective tax system; a policy favoring investment over consumption; and deregulation and privatization." On the other hand, the Caribbean suffers from what is referred to as a "two-sided problem"—meaning that while modernization of its economy will call for a large influx of new capital, the Caribbean cannot service its existing debt. This problem could substantially slow the pace of change in the Caribbean.

4. Summary

Based on the experience of those Latin American and Caribbean countries that have gone through or are currently undergoing the process of reform, the World Bank has outlined "lessons to be learned" by countries considering changing to a market economy. First, the "restoration of confidence" (both internally and externally) and the "restoration

280. Id.
281. Pastor & Fletcher, supra note 276, at 100.
282. To reiterate, stabilization programs focus on expenditure policies and resource allocation, while structural adjustment focuses on "trade, fiscal, financial and investment, sectoral and institutional reforms." World Bank, Caribbean Countries, supra note 279, at 4.
283. See id. But see Caribbean: U.S. Policies Have Had "Disastrous Results", Inter Press Serv., Oct. 7, 1991, available in LEXIS, Nexis Library, INPRES File, at *1 (discussing the results of a study that found that the implementation in the Caribbean, over the past decade, "of privatization, trade deregulation, and fiscal austerity," has had devastating effects on the Caribbean Community, including a widening of "the gap between rich and poor," soaring food prices, and "rapidly decaying health care systems").
284. For example, in 1989, the World Bank and the IDA approved $32 million in loans to the "Caribbean region" at large. See 1990 Annual Report, supra note 146, at 157. For a breakdown of the aid provided to, or approved for, specific Caribbean nations, see 1991 Annual Report, supra note 8, at 161-85; 1990 Annual Report, supra note 146, at 156-81.
286. See id. at 107. The Caribbean's debt problem differs from that of Latin America in that Latin America's debt is "primarily contracted with private banks," while most of the Caribbean's debt is "official"—that is, the debt is made up of loans from other countries and other nationalized institutions. Id. at 108.
of economic growth” take time. For example, in Mexico, confidence was restored only after eight years of sustained reform, and generally economic growth is restored only after the sharp decline in output that occurs during the years in which the public infrastructure is being rebuilt. Second, successful change requires “the restructuring of the public sector, . . . the elimination of large fiscal deficits,” and a “fundamental rethinking of the role and responsibility of the public sector in the economy.” Third, reform also requires the implementation of trade-liberalization policies and the resolution of external-debt problems. Finally, because “adjustment is a prolonged process and growth is slow to recover,” the World Bank emphasizes that programs to aid “the poor and the vulnerable” should be established.

C. The Commonwealth of Independent States

On July 22, 1991, the former Soviet Union applied for membership in the World Bank, the IDA, the IFC, and the IMF. In August 1991, however, an unsuccessful coup attempt created the opportunity for the Soviet republics to declare their independence. By September 1991, as many as fifteen Soviet republics had done just that, and by January 1992 the Soviet Union had ceased to exist. Many of the former Soviet republics which make up what is now referred to as the Commonwealth of Independent States (‘‘CIS’’) are currently applying for full membership in the World Bank and IMF. As of January 1992, the United States was urging that such membership be granted for at least six of these republics.

Prior to the attempted coup and the demise of the Soviet Union, the World Bank had agreed to set up a thirty million dollar trust fund “to

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288. Id. at 136-37.
289. See id.
290. Id.
291. See id.
292. Id.
297. See Crossette, supra note 293, at A1, col. 6.
298. As of January 1992, the United States had “recognized” the following former Soviet republics/members of the CIS: Russia, Ukraine, Kazakhstan, Belarus, Kyrgyzstan, Armenia, Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan, Georgia, and Moldova. See id.
299. See id.
300. The six republics were Russia, Ukraine, Kazakhstan, Belarus, Kyrgyzstan, and Armenia. See id.; Six Ex-Soviet Republics Get U.S. Backing on IMF, Wall St. J., Jan. 6, 1992, at A11, col. 2.
finance technical cooperation for the Soviet Union and its republics [and] to help implement market-oriented reforms."\textsuperscript{301} This fund was to be used to advise the Soviet Union on: (1) "[s]tabilizing its economy and implementing a set of policies designed to foster long-term growth;" (2) "[d]eveloping market-oriented policies;" (3) "[s]upporting private and financial sectors of the economy;" (4) "[p]rivatizing and restructuring 'the enterprise sector;'" and (5) "[p]rotecting 'vulnerable groups' during the transition from a planned to market economy."\textsuperscript{302} Moreover, on October 5, 1991, the IMF and the World Bank granted associate status to the Soviet Union.\textsuperscript{303} This status was similar to the trust fund in that the Soviets could obtain technical assistance and advice through this new relationship with the two institutions.\textsuperscript{304}

Some authorities have argued that the IMF should take the "lead role in dealing with the Soviet mess."\textsuperscript{305} In fact, the IMF has done just that, by agreeing to be the main coordinator of technical assistance.\textsuperscript{306} Furthermore, by urging that full membership status be granted to some of the former republics, the United States is implying "that the IMF is best placed to assume the burden of [providing] direct financial aid and offer[ing] expert advice."\textsuperscript{307} Nevertheless, there remains much concern about whether the IMF is capable of cleaning up the "mess."\textsuperscript{308} espe-

\textsuperscript{305} Seib & Murray, Herculean Task, Wall St. J., Oct. 15, 1991, at A1, col. 6. Those who believe the IMF will be the key force in aiding in CIS reform highlight the IMF's technical expertise in areas such as taxation and banking, as well as its ability, simply through its presence, to give "international legitimacy to [CIS] reformers pushing free-market policies." \textit{Id.}
\textsuperscript{306} See Aiding Soviet Union Requires New Tasks For World Bank, IMF, Brady Says, Int'l Trade Daily (BNA), Oct. 16, 1991, available in LEXIS, Nexis Library, BNAITD File, at *3. In fact, as of October 1991, the IMF was already "working to establish nine multinational task forces aimed at modernizing the Soviet central bank and its operations." \textit{Id.} Each task force was to concentrate on one of nine specialized areas, which were: "monetary management and money market development, foreign exchange operations and markets, clearing and settlement systems for payments, banking supervision and regulations, government securities markets and domestic public debt management, and the supporting framework in policy research, accounting systems, organizational structure and legislation." \textit{Id.}
\textsuperscript{307} Barber, Russia Applies for Full IMF Membership, Fin. Times, Jan. 8, 1992, at 2, col. 1.
\textsuperscript{308} Seib & Murray, supra note 305, at A1, col. 6. Prior to the collapse of the Soviet Union, these authors stated:

[i]t's rather like asking a doctor experienced in setting broken bones to perform a heart transplant on a cancer patient. The IMF's Soviet expertise is thin, and its track record in turning around far smaller and less complicated countries is
cially when the CIS poses "an array of unprecedented problems."309 There is also a concern that the IMF's policies will impede, rather than aid, the members of the CIS in their quest to transform into capitalistic societies.310 As two critics have adeptly stated, "IMF officials' traditional recipe of fiscal austerity and monetary restraint often produces public pain and social turbulence—precisely what [the CIS] reformers and U.S. policy makers warn could upset the fragile consensus for a turn toward democracy and capitalism."311

Furthermore, in order to receive direct monetary aid from the IMF and the World Bank, the members of the CIS will have to achieve full membership status in the two organizations. Prior to the collapse of the Soviet Union, the Group of Seven leaders312 who run the two organizations outlined the requirements that the former Soviet Union needed to meet in order to achieve full membership status. Specifically, the Group of Seven demanded that the former country "sharply cut military spending; create a central bank to control interest rates and the money supply; end state monopolies;313 legalize private property, including agricultural land, and open the Soviet market to world trade and competition."314 It

mixed. Its focus on macroeconomics won't address some of the Soviet Union's deepest problems.

Id.

309. Id. at A16, col. 2. Such unprecedented problems are born in part from the size of what once was the Soviet Union—an area so big that it spans eleven time zones. See id.

310. See id at A1, col. 6.

311. Id.

312. The Group of Seven (G-7) leaders are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. See 1991 Annual Report, supra note 8, at 25 n.1.

313. This was, and still will be, a difficult job. Approximately 30 to 40% of the former Soviet Union's industrial output comes from single-factory monopolies. If any of these monopolies were simply to close down, there would be numerous problems. See Seib & Murray, supra note 305, at A16, col. 3. For example, in many cases entire towns were built around one of these monopolies. Thus, the loss of jobs that would result if one of these monopolies were to fail would be devastating. Coupled with the housing shortage that currently plagues the former Soviet republics, many people would be unable to move to new jobs. See id. In addition, there are no other sources for the products of these plants once the single-factory monopoly closes down. See id.

Prior to the collapse of the Soviet Union, the best advice seemed to be that the country should be careful not to let these monopolies fail. Instead, the goal should have been to split these monopolies into "smaller competitive units." Id. Most of these companies, however, relied on government subsidies to stay alive. Because budget cutbacks are often required by the IMF, these subsidies would not likely be forthcoming, and this could set the stage for many further problems. See id.

With the collapse of the Soviet Union, the above advice seems somewhat moot, although theoretically it may still be applicable. Yet many of the former Soviet republics that do not "house" these monopolies may face a graver problem—i.e., severe shortages of those goods produced in the other republics.

314. Lane, Thomas, & Warner, To Help or Not To Help, Newsweek, Sept. 2, 1991, at 54, 55 (footnote added). These requirements were in line with what Soviet economic strategist Grigory Yavlinsky defined as "the order of steps which must be taken to lead the [Soviets] out of crisis." Yavlinsky Report on Soviet Economy Warns of "Profound
would seem that most of these requirements should still apply to the former Soviet republics.

Some steps have been made toward meeting the above requirements. For example, many commercial banks are "sprouting" up in Russia. These banks extend business loans to state enterprises, private companies, and joint ventures, and they accept deposits. Furthermore, as of October 1991 at least eighteen of these banks were capable of "sett[ing] up international correspondent accounts, financ[ing] trade, and deal[ing] in foreign exchange." In short, banking in the former Soviet Union has progressed remarkably from just a few years ago, when just two state agencies controlled all of Soviet banking.

Finally, Russia reports that it "wants to privatize [thirty percent] of its state-owned assets" over the next three years. Because a banking sys-

Crisis", Int'l Fin. Daily (BNA), Oct. 21, 1991, available in LEXIS, Nexis Library, BNAIFD File, at *2. According to Yavlinsky, these steps were as follows:

The first stage would require the republics to work together to form a single currency, customs system and trade zone—within the framework of the controversial economic union treaty. Measures to toughen monetary policy, reduce the budget deficit, devalue the ruble, implement land reform, and create banks and exchanges would have to go into effect quickly.

The second stage would encompass cuts in defense spending and managerial staff, elimination of subsidies to state industries, and freezing of social programs; reorganization of the banking sphere, including merging central republic banks and introducing ruble convertibility; legalization of much of the black market trade; formation of mechanisms for collective bargaining; and the preservation of some shock-absorbing subsidies for food, housing, and transport. The third stage would involve long-term institutional and structural transformations, such as the formation of workforce, housing, and financial markets.

Id. These requirements were also in line with what one reporter stated were the "basic requirements" for prosperity—namely, that (1) a country have a stable currency; (2) taxes and tariffs are low; (3) property rights are legally protected; and (4) bureaucratic barriers for setting up and operating businesses are minimal. See Forbes, Jr., A "New World Order" of Freedom: A Forecast For The 1990s, Forbes, Oct. 21, 1991, at 21, 350.

315. The Soviet Lurch Toward Capitalism, supra note 295, at 50. Approximately 1,800 commercial banks have been created in the past two years. See Seib & Murray, supra note 305, at A16, col. 3.

316. See The Soviet Lurch Toward Capitalism, supra note 295, at 50.

317. Id.

318. See id. It should be noted that the same report points out that new Soviet/CIS commercial banks are "unchecked," meaning that some of the banks may simply be "launderers of black-market money or slush funds for bribes." Id. For an in-depth look at international money laundering, see generally Note, Putting Starch in European Efforts to Combat Money Laundering, in Annual Survey of Financial Institutions and Regulation, Transnational Financial Services in the 1990s, 60 Fordham L. Rev. S429 (1992).

319. Id. The failure of the coup advanced this drive to sell-off state assets.

In many cases, state assets have been transferred to the republics from the central Moscow government. Byelorussia, for example, gained title to all the aviation assets on its territory, such as the brand-new $50 million Minsk international airport. Now it wants to set up a new aviation company, which will eventually compete with state carrier Aeroflot.

Id. at 51. Furthermore, many workers are being offered a chance to buy part of their workplace. 
tem is an important prerequisite to privatization, the progress in banking and the desire to privatize mark the beginning of serious reform.

Nevertheless, considering the economic adversity lingering after seven decades of central planning, and despite the messages of radical economists and the former Soviet republics’ accomplishments and expressed desires to date, one would naturally assume that the former republics are still a great distance away from achieving full membership status in the World Bank and the IMF. However, according to United States Treasury Secretary Nicholas F. Brady, the United States backing of the six republics of the CIS “virtually assures” the admission of those republics into the World Bank and IMF. Thus, critical funds for financial assistance in reform may be on the way to at least some of the members of the CIS.

III. EVALUATING THE WORLD BANK AND THE IMF: STRUCTURE, OBJECTIVES, AND POLICIES

Given the above case studies and their specific illustration of both the successes and continuing challenges of the World Bank and the IMF in facilitating privatization and other reforms, it is appropriate to evaluate the effectiveness of these two organizations from a more conceptual viewpoint. Much such analysis has focused on the structure, objectives, and policies of the World Bank and the IMF.

A. Structure

Many critics believe the World Bank and IMF should merge into one organization. In fact, although the World Bank and the IMF were set up to perform differing but complimentary tasks, over the years much of

320. See id. at 50.
322. According to one radical economist, the West should institute a program, about two to three years in length, that would render the ruble convertible and place a focus on privatization and banking, but should “not [contribute] money for the things that will be eaten and disappear.” The Soviet Lurch Toward Capitalism, supra note 295, at 51 (quoting Grigory A. Yavlinsky, Deputy Chairman of the state Economic Committee).
323. The former Soviet republics appear to be far from achieving full membership in the IMF because of the difficulty they face in meeting the IMF’s requirements, as previously described. See supra notes 312-14 and accompanying text.
324. See Crossette, supra note 293, at A4, col. 5.
325. See, e.g., Ex Bank Official Sees Merger With IMF As Long-Term Goal, World Bank Watch, Nov. 11, 1991, at 3 [hereinafter Ex Bank Official] (World Bank and IMF should merge, but warning that certain internal procedural changes must occur if the merger is going to be successful); Sisters in the Wood, supra note 22, survey sec., at 48 (asserting that a merger of the two organizations is inevitable, but that it will not occur in the near future); Clark, Jr., Let’s Merge the World Bank and the IMF, Wall St. J., Jan. 4, 1990, at A12, col. 3 (supporting a proposal by Swiss Bank corporate economist Aloys Schwietert to merge the two organizations). But cf. Cockroft, IMF/World Bank Merger?, Economist, Apr. 3, 1976, letters sec., at 4 (merger would pull the new unified institution’s “scarce resources . . . towards the financing of general foreign exchange deficits” and away from “well-appraised capital investment projects”).
the work done by each institution has overlapped. For instance, case studies performed by the World Bank to aid in its lending and program decisions are often the same studies that the IMF performs to aid in the formation of its monetary policies.

Critics point out that a merger is necessary because the line that at one time separated the duties of the World Bank from those of the IMF has become hazy. In other words, the two organizations no longer appear to serve separate purposes. The contention appears to be either (1) that the IMF has become a development institution like the World Bank, rather than simply a monetary institution concerned with temporary balance-of-payments problems; or (2) that the World Bank's loans are now directed at helping countries stabilize their exchange rates, which is the IMF's responsibility. In fact, both the World Bank and the IMF are currently lending money for longer terms, and for the overall reforming of "damaged economies."

Despite the realities of the debate, a merger would be difficult at this time because of the many changes that are occurring throughout the world—changes that require international attention and aid of the type that only the World Bank and the IMF are fully equipped to provide. Although it has been stated that a merger is inevitable, a marriage should not occur, and most likely will not occur, for quite a while—simply because the two institutions are each already operating at full capacity.

326. See Bretton Woods, supra note 11, at 545.
327. See id. at 553. In 1966, guidelines were created for collaboration between the World Bank and the IMF. Nevertheless, over the years there has been a partial estrangement between the World Bank and the IMF. See id. at 544-45. The World Bank has reported, however, that "recent collaborative practices have been more uniform and systematic than previously." 1991 Annual Report, supra note 8, at 100.
329. See Hearing of the International Finance Subcommittee, supra note 231, at 32 (statement of Senator Mack); Levinson, supra note 328, at *2. But see Hearing of the International Finance Subcommittee, supra note 231, at 32 (David Mulford, Undersecretary of the Treasury for International Affairs, admitting that IMF does address development issues, but insisting that it is not development organization because its attention is centered on monetary issues).
330. See Levinson, supra note 328, at 50.
331. See Carlson, supra note 328, at *2.
332. According to one source, "[b]oth institutions are already stretched by their new commitments in Eastern Europe." Sisters in the Wood, supra note 22, survey sec., at 48. Furthermore, "matters are almost sure to get worse, perhaps much worse, before they get better," especially considering the CIS and the aid it will need down the path towards democracy. Id.
333. See id.
334. See id.
B. Objectives

Some critics maintain that the original aims of the World Bank and the IMF are outdated. For example, one expert who has focused on the World Bank has stated that the Bank needs to search for a "mission" in the "new world order." This commentator points out certain "successes" of the World Bank that have since reversed themselves, and notes that the existence of another international institution—the European Bank for Reconstruction and Development—represents an inherent loss of faith in the World Bank and a reevaluation of the type of aid the world presently needs.

This argument is taken a step further when one considers the recent surge of private capital into many developing countries. Critics contend that this development proves their theory that when economic policies are sound, private investment will follow. The implication of this, of course, is that the World Bank is no longer a crucial source of money for

335. See Levinson, supra note 328, at 50; Harris, A Usefully Humdrum Meeting in Paris, Fin. Times, Apr. 9, 1990, companies and markets sec., at 19, col. 2; Do We Need An IMF?, Economist, Jan. 17, 1976, at 81-82.

336. See Levinson, supra note 328, at 50. "The New World Order has been defined in summary as post-cold war responsibility-sharing." Hartland-Thunberg, A Capital-Starved New World Order: Geopolitical Implications of a Global Capital Shortage in the 1990s, Wash. Q., Autumn 1991, at 21, 32.

337. See Levinson, supra note 328, at 50. Levinson points out that the World Bank "sat on the sidelines" during the debt crisis of 1982, and that countries like the Ivory Coast and the Philippines, once praised as World Bank success stories, have slid backward. See id.

338. See id. The European Bank for Reconstruction and Development ("EBRD") is a separate organization from the World Bank Group that the European Community apparently felt compelled to start, after Eastern Europe's communist governments collapsed in 1989, allegedly "to help the region recover from four decades of misrule." Id. In fact, the EBRD has been represented as a "catalyst for private investment and a channel for government aid in the region," Hays, Investor's Bus. Daily, Oct. 3, 1991, available in LEXIS, Nexis Library, INVDLY File, at *1, and as an institution that is built around a philosophy that differs from that of the World Bank and the IMF. See id. at *2; see also Norman, Monday Interview: Visionary With a Global Goal, Fin. Times, Apr. 15, 1991, at 30, col. 2 (Jacques Attali, president of the EBRD, stresses EBRD is "completely different" from the World Bank and the IMF, is a third and "new" type of institution focusing distinctly on the private sector, is "committed to promoting 'private and entrepreneurial initiative' in central and eastern europe [sic] [,] and can use no more than [40%] of its resources to finance the public sector"). The EBRD will not limit its assistance to Third World countries, but rather hopes to create a "'new political and economic space in Europe'" where all the countries will be "'equal partners'". Hays, supra, at *2 (quoting head of the EBRD, Jacques Attali). Because of this broad vision of the EBRD, it is not apparent that the EC viewed the World Bank or the IMF as incapable of doing its current job—that is, aiding the developing countries in their transition from socialist to market economies—when it created the EBRD. But see Ex Bank Official, supra note 325, at 3 ("persistent school of thought" contends that the Western Europeans demanded the creation of the EBRD because the World Bank's "old style thinking" would not help Eastern European countries in their privatization and integration efforts).

339. See Levinson, supra note 328, at 50. Due to the fact that sound economic policies are being implemented in Latin America and Asia, the current surges of private capital into those regions are examples used as the basis for this argument. See id.
many of its members. 340

Focusing on the IMF, one analyst notes that the Fund failed early on in its mission to create a stable world monetary system, 341 and further points out that the Fund did not even play a key role in the world's shift from fixed to floating exchange rates. 342 Still another critic has commented that the IMF is "in danger of looking irrelevant in the modern world," 343 stressing that the IMF's original job is now outdated 344 and that the IMF now improperly "looks back to our lost Bretton Woods innocence—the time, not at all incidentally, when the IMF really did rule the tide of international capital—for a cure to our present-day disorders." 345

Yet the World Bank and the IMF today retain their original objectives—namely, to aid developing member countries in their quest to create better living standards 346 and to insure that member countries follow a mutually advantageous code of economic conduct. 347 Both these goals may be realized through stronger national economies. These organizations have also been successful in effectuating these goals. One need only look to Chile and Mexico for evidence of this success. 348 Therefore, it is rather imprudent to declare that the World Bank's or the IMF's "mission" is outdated.

C. Policies

1. Privatization

The World Bank's and the IMF's endorsement of privatization has been criticized on the grounds that public opinion in a developing country makes the implementation of privatization programs very trouble-

340. See id.
341. See Do We Need An IMF?, supra note 335, at 81. This commentator points out that a world money system should be judged only after asking three pertinent questions: "(1) Is it favourable to world growth? (2) Does its mechanism for balance-of-payments adjustments among countries distribute prosperity fairly among countries? (3) Does it encourage or discourage inflation?" Id.
342. Id. In fact, this reporter points out that the IMF resisted the change to a floating rate system, and asserts, in his 1976 article, that the IMF had retained only "one residual and useful role it [could] play"—namely, to "intervene to make rich countries collectively help poor countries in a way that no one of the rich, looking to its own national advantage, would willingly do on its own." Id. at 82.
343. Harris, supra note 335, at 19, col. 4.
344. This commentator describes the IMF's original job as the maintenance of "basic balance"—"an attempt to ensure that while countries would finance solid productive investment, they could not fritter away scarce international capital by borrowing to finance consumption." Id. at col. 5. He points out that capital now flows freely, somewhat mooting the IMF's influence. See id. at col. 6.
345. Id. at col. 5.
346. See supra text accompanying note 31.
347. See supra text accompanying note 42.
348. See supra notes 225-48 and accompanying text (describing the reform programs implemented by the IMF and the World Bank in Chile and Mexico).
As one critic has indicated, "privatization comes difficult because essentially people who have money are somewhat suspect, having gotten it during previous regimes in illicit ways." Furthermore, if the privatization occurs by selling to foreign entities, "there is a hue and cry that the patrimony of the country is being given away at bargain prices." Another supposed disadvantage of privatization is that governments tend to be short-sighted in their privatization policies because of their impatience for "high prices and quick deals," and often will sell to new owners who are not capable operators, or will sell industries without establishing firm government regulations. A final concern about privatization is that it inevitably leads to the destruction of jobs, which obviously leads in turn to harsher living standards for much of a developing country's population.

There is no question that reform has a price. This is certainly true with privatization. Yet despite the initial hardships that result from these reforms, the answer is not to cut out privatization programs altogether. For most countries, privatization is a necessary step in the quest for higher living standards, even if it lowers those standards in the short term. In fact, the effects of these hardships may be lessened simply by implementing privatization on a smaller scale at first, over a longer period of time, and with plenty of forethought as to the means used. This approach has not been fully adopted by the World Bank and the IMF, however, thus exposing the two institutions to the following criticism.

2. "Shock Therapy"

Once a country expresses a desire to establish a market economy, it then has to decide how to achieve this goal. The World Bank and the IMF appear to favor a “shock therapy” approach, believing that this approach will inflict "the attendant hardships for as short a time as possible." On the other hand, opponents to this approach favor an “evolutionary approach,” seeing a gradual transition as necessary to maintain political stability.

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350. Id.
351. Id.
352. See Baker, Weiner, & Zellner, supra note 218, at 56. For example, Aviacion Mexicana has faltered since its privatization in 1989, partly because no airline operators were included among its new owners. See id.
353. See Glasgall & Weiner, supra note 58, at 49.
354. See Breslow, supra note 10, at 211.
355. Id.; see also Owners are the Only Answer, Economist, Sept. 21, 1991, survey sec., at 1, 10 (supporting rapid privatization and faster change for Eastern Europe).
356. See Breslow, supra note 10, at 211. One official described the reproach more succinctly as criticizing the IMF and the World Bank "for imposing austerity programs on much lesser developed countries and thereby precipitating a political crisis of stability in those countries," and "in effect plac[ing] the greatest burden on those segments in those
An evolutionary approach has obvious appeal since political stability is essential if the reform process is to be sustained. Inherent in this assertion is that, where excessive suffering is imposed on the more vulnerable citizens of an evolving state, political instability will arise as those citizens attempt to find relief. Therefore, the evolutionary approach is preferable because it may reduce the initial pain of hardships inherent in the implementation of reforms such as privatization. Although proponents of shock therapy believe a harsher pain over a short period of time is preferable to a lesser pain over a long period of time, the citizens of the developing countries that are currently executing these reforms may beg to differ.

3. The IMF's Tax Policies

The IMF often imposes tax increases on developing countries in an effort to reduce those countries' deficits to an "acceptable" level. Given that the opposite approach—the reduction of taxes—has long been considered a fundamental reform element in renewing economic growth and decreasing inflation, it is understandable that some have labeled the IMF's tax policies as "counterproductive." Indeed, as one critic has explained, "[r]aising taxes in countries with already high tax rates is a bit like trying to sober up by having another drink." Moreover, as societies least able to bear it." Hearing of the International Finance Subcommittee, supra note 231, at 32 (statement of Senator Sarbanes).

357. As one commentator has stated,

"[T]he opportunity for constructive harmony . . . has never been so great since World War I when sharp ideological differences first began to shape the world. Today the degree of consensus on the principles of a market economy, democracy, and pluralism is truly astonishing, embraced not only by the industrialized democracies but by most of the developing world and the formerly centralized, one-party authoritarian states. . . . [Y]et just as the opportunities contained in this new consensus are immense, so are its hazards. The terms democracy and market-mechanism have been grasped by citizens of failing systems as an incantation, often without any real comprehension of what is entailed or what sacrifices will be necessary to make the shift to the newly embraced system. There is the danger that the amulet can be discarded as quickly as it was grasped." Hartland-Thunberg, supra note 336, at 33 (emphasis omitted). This same commentator explains that what is involved in many of these developing countries "is essentially a shift from a secure, riskless society to an environment offering the opportunity for individual betterment but at relatively high risk"—a risk the citizens of these countries may begin to shun if the "period of austerity" is too severe. Id. at 28. The best example of this is Poland, where "shock therapy" took such a toll on the Polish citizens that Poland recently admitted it "made too big a leap" and froze its reform measures. Engelberg, supra note 119, at D4, col. 1; see supra notes 121-25 and accompanying text.

358. For example, see Boyes, Poles Reject 'Shock Therapy', The Times (London), Oct. 29, 1991, overseas news sec., at 13, col. 4; supra notes 182-83 and accompanying text.

359. In fact, these tax increases are most often imposed by the IMF on the countries of the Western hemisphere. See Reynolds, supra note 207, at 205.

360. Reynolds, supra note 207, at 205.

361. See id.

362. See id.

363. Id.
another commentator insightfully explains, "the [IMF] often confuses ends with means. It emphasizes balancing budgets even if it means governments' imposing higher taxes on already overtaxed economies. The IMF ignores the fact that sensible tax rates yield higher revenues because they don't stifle economic growth."\textsuperscript{364}

Finally, it appears that even the World Bank does not agree with the IMF's tax policies.\textsuperscript{365} Last spring the World Bank encouraged Argentina to eliminate export taxes in order to "free up trade," while simultaneously the IMF urged the Argentines to "keep the taxes to balance their budget."\textsuperscript{366} Perhaps the IMF ought to take a cue from the World Bank. After all, the goal of long-term growth should prevail over short-term growth when the two policies conflict.

4. Preferential Treatment

The World Bank and the IMF have been criticized for giving preferential assistance to countries based on the implementation of uniform, and perhaps inappropriate,\textsuperscript{367} policy measures.\textsuperscript{368} For instance, the World Bank and the IMF have been accused of imposing a uniform formula on all borrowers, with an emphasis on economic efficiency.\textsuperscript{369} One critic has pointed out that this formula ignores what he terms "the Social Question"—in other words, "the question of how access to education, jobs and income is distributed in a society."\textsuperscript{370} Another critic has stressed that only eight percent of foreign aid programs count human development as a requirement for aid, with the World Bank and the IMF falling into the other ninety-two percent.\textsuperscript{371}

Though the "traditional formula" of monetary and fiscal reform, privatization, and trade liberalization may be appropriate in some countries—for example, in the countries of Eastern Europe\textsuperscript{372}—the "Social

\textsuperscript{364} Forbes, Jr., \textit{supra} note 217, at 193.

\textsuperscript{365} See Levinson, \textit{supra} note 328, at 50.

\textsuperscript{366} Id.

\textsuperscript{367} In fact, the "hot trend" in the World Bank is to finance those countries that are implementing the economic reforms suggested by the Bank. Yet, although these reforms are viewed by the Bank as necessary steps to revitalization, there is "no scientific certainty about what those steps should be." \textit{Id}. Furthermore, "the bank economists who now push poor countries to adopt extreme free-market policies are, in some cases, the same ones who urged them to adopt central economic planning in the 1950s." \textit{Id}.


\textsuperscript{369} The emphasis on economic efficiency embodies "monetary and fiscal reform, privatization, trade liberalization and so on." Levinson, \textit{supra} note 236, at C3, col. 1.

\textsuperscript{370} Id.

\textsuperscript{371} See Kaletsky, \textit{supra} note 368, at 23, col. 3.

\textsuperscript{372} See Levinson, \textit{supra} note 236, at C3, col. 1. Efforts to establish political liberty in the countries of Eastern Europe were not "overwhelmed by the demands of the great majority of the population for relief from their deprivation." \textit{Id}. Thus, while there is no question that Eastern European countries will suffer during the transition "to full political democracy," in significant ways the citizens of those countries are more prepared
Question” becomes very important in countries where “great majorities liv[e] in conditions of dehumanizing misery,” and forceful minorities control the wealth-producing assets of the lands—for example, in the countries of Latin America. Critics aptly argue that the World Bank and the IMF often encourage the implementation of economic policies over social reforms in regions such as Latin America because they give preferential treatment to those countries that show advancement in economic reforms. In other words, the two organizations give “high marks” to nations that make speedy progress toward market liberalization even when progress towards political democracy and human rights is discouraging, but are likely to give “low marks” to nations despite serious efforts at social reform simply because macro-economic performance is deemed inferior. In essence, the World Bank and the IMF ignore the fact that “social reforms might provide the most solid base for future economic growth.” Thus, critics rightly contend that the World Bank and the IMF ought to candidly consider to what extent a developing country is confronting the “Social Question” when deciding on whether to enter into a major international financing program with that country.

Although this argument is strong when one considers that the “Social Question” may have some bearing on future economic growth, the argument is even stronger in light of the devastating social injustices endured by the citizens of many Third World countries. In short, it is difficult to argue that economic equity is more important than social equity.

CONCLUSION

The World Bank and the IMF are the paramount international organizations responsible for furnishing financial and technical assistance to developing nations. Because of the rapid changes occurring in the developing countries of Eastern Europe, Latin America, the Caribbean, and the Commonwealth of Independent States, clearly the two organizations have their work cut out for them. In turn, some adjustments to their own policies need to be made.

For one, it is important that the World Bank and the IMF work together more closely than they have in the past—not only because the IMF and the World Bank need to share their resources in a more practical way, but more importantly because both organizations, working to-

373. See id.
374. See id.; Kaletsky, supra note 368, at 23, col. 6; Rowen, supra note 368, at L7, col. 1.
375. Levinson, supra note 236, at C3, col. 2.
376. Id.
377. See id.; Kaletsky, supra note 368, at 23, col. 6; Rowen, supra note 368, at L7, col. 1.
gether, can be a stronger force in a developing country's successful transition to a market economy.

In addition, the implementation of reform programs—particularly privatization policies—has caused internal hardships within the regions of Eastern Europe, of Latin America, and of the Caribbean. The policies of the World Bank and the IMF must be adjusted to avoid a reversal of recent achievements in these regions, as well as in other developing member countries. In short, the goal of both institutions should be the long-term, sustainable reform of Third World countries.

It follows that the economic policies of a member country should not be the only factors considered by the World Bank and the IMF when formulating aid packages. The World Bank and the IMF should also utilize their influence to increase social awareness.

One need only look at specific countries in Latin America, such as Chile and Mexico, to see that the technical assistance and financial aid offered by the World Bank and the IMF are invaluable. Barring a prolonged international recession or investor mistrust, the World Bank and the IMF will no doubt continue to play a significant role in the emergence of the nations of Eastern Europe, Latin America, and the Caribbean as strong competitors in the world markets. How effectively that role is rendered may depend upon a few easily altered policies.