The Official Institutions

Introduction

The international system that evolved after the two world wars has been characterized by the coordination of IEF by means of rules and international institutions. The analysis of IEF is conditioned by these rules and institutions. The advanced countries have significant influence on the IFIs through consultations in two forums, the G7 and the G10. A significant part of the rule making originates in the meetings of finance ministers and heads of central banks of the G7 and in the financial institutions of the G10.

The core IFIs are the IMF and the WB. The IMF is entrusted with international monetary and financial stability while the WB is engaged in structural lending, poverty reduction and technical assistance. There is major research output by both institutions that provide significant information on the world social and economic affairs, constituting a GPG (Joyce and Sandler 2007). The IMF and the WB also function as a cushion for conflicts within the G7 and also between the G7 and other groups of countries. The IMFC of the IMF is a broader group of periodic consultation of 20 countries.

The BIS is the key standard-setting institution in the world economy with such contributions as the Basel II capital adequacy requirements that are adopted by banks that account for most international transactions. The BIS is also the key world forum on issues relating to central banking, payments and settlement systems, international financial issues and global stability. The BIS also provides banking services for the gold and FX reserves of central banks. The three multilateral development banks make significant regional contributions in structured financing and information. The WTO is the vehicle for the creation of agreements on multilateral trade. These agreements provide secure property rights on international market access, according to Bagwell and Staiger (2001), which are essential in IEF.

There are central banks in almost every country. The section on central banks analyzes the institutions in the United States, the EMU, Japan and the United Kingdom. The capacity of the major central banks to manage financial crises is under severe test due to the global credit contraction. The UN is the largest IO.
The UN work on FDI is considered in Chapter 3 and the contribution on climate change is considered in Chapter 2, Volume II.

The G7 and the G10

The G7 started initially as the Group of Six, meeting for the first time in 1975 in Rambouillet, France, including the United Kingdom, the United States, France, Germany, Italy and Japan. Canada joined in 1976 converting it into the G7. The Group of Eight (G8) is the G7 including Russia, which attends meetings since 1991 but became a full member only in 1998. The president of the EC represents the EU but does not participate in political discussions. Originally, the meeting was a forum for trade and economic issues but gradually included political and security matters. Leaders appoint personal representatives, “sherpas,” who meet regularly to discuss agendas and evaluate progress (Ortiz de Arri 2004). Ministers continue to meet during the year to complete work discussed in the summit. Members rotate yearly in the presidency of the G8. It is becoming common for the G8 to invite leaders of other countries to participate in the meetings but there are no proposals to widen the membership. This participation is designed to broaden consultations among world leaders.

The G10 includes a group of industrial countries – Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. The central banks of this group cooperate to regulate international finance. The Group of Thirty (G30) is a private, non-profit institution whose members are distinguished in private and public sectors and academia. The G30 is a consultative group on international economic and monetary affairs. It meets twice a year to discuss important economic and financial events and issues.

The international financial institutions

The IFIs include the IMF, WB, BIS and MDBs – IADB, EIB and ADB. A group of nations created the IMF and WB in 1944 at Bretton Woods to promote stable economic growth. The IMF would provide short-term assistance. The WB would extend assistance to countries requiring long-term reconstruction. International rules would promote growth of world trade with falling tariffs. An important motivation for the creation of the new international economic institutions was avoiding the repetition of the failures of the Paris conference after World War I and the Great Depression of the 1930s (Boughton 2004).

The IMF

Various events changed the role of the IMF in the 1990s, according to Krueger (2004). The transition of the Soviet Union and Eastern European countries generated the need for assistance of a different nature by the IMF. That group of countries required temporary financing to implement structural reforms that