Chapter 13
IMF, World Bank, and the European Union With the Perspective of New Institutional Economics

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ABSTRACT

According to New Institutional Economics, the GDP per capita has significantly improved in the countries where the institutional quality has been improved. In addition to this information, the increase in the quality of institutional determinants has positive effect on economic performance. In this chapter, after the structures of IMF, World Bank, and European Union have been discussed, the governance debate will be made on the aforementioned institutional. Concepts about new institutional economics are discussed, as are the improvement of institutional quality and the relationship of economic development within the frame of IMF, World Bank, and European Union.

INTRODUCTION

The improvement of institutional quality determinants has a vital role for the development of institutional environment and economic progress. In other words, the quality of unofficial and official sociopolitical regulations on the development or prevention of economic performance is crucially significant.

New institutional economics and international institutions have been analyzed through various studies in the literature. However, the difference of this study from the other existing studies is to analyze the relationship between the improvement of institutional quality and the economic development with the institutions such as International Monetary Fund (IMF), World Bank (WB) and European Union (EU) which have been approached as an example. Furthermore, the approached institutions (IMF, WB and EU) have been analyzed from the perspective of institutional quality and economic development from the point of the primary concepts of new institutional economics in the study.

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In this study, IMF, WB and EU has been approached on behalf of institutions. The primary purpose of this study is to analyze the economic development which will occur when the institutional quality determinants have been concentrated sufficiently. This study has also asserted how important the institutions and organizations, that have concentrated adequately on the institutional quality determinants, are for providing the macroeconomic stability.

BACKGROUND

In the literature, there are several studies that analyze the relationship between institution and economic development. Those studies have been emphasized that institutional improvements have a positive effect on economic growth.

One of the most significant studies that has remarked the relationship between the improvement of institutions and economic growth is belonging to North. According to North, securing the property rights of individuals and decreasing transaction costs affect economic performance positively (North and Thomas, 1973: 8; North, 1984: 7).

In his study, Rodrik (2003) revealed that geography and international trade have an indirect effect on economy via institutions. In a similar way, Dollar and Kraay (2003) manifested that better institutions and high commercial shares have a positive effect on growth in their studies. In their studies, Acemoglu et al. (2004) approached Korean Peninsula in order to analyze the effect of institutions on economic development. According to Acemoğlu, the reason of the rapid increase of per capita incomes at South Korea vis-à-vis North Korea is that institutional development is more prospering in South Korea. Scilicet, the market structure is more developed, private property is protected and the decisions have been taken in a more democratic manner at South Korea.

The recent studies have approached the relationship between institutions and economic development econometrically. For instance, in their studies, Killick et al. (1992) analyzed the relationship between economic growth and the institutions by approaching a specific institution (IMF). According to the result of their studies, IMF programmes affect economic growth positively. Similarly, in his study, Javed (2015) studied the relationship between developed institutional determinants and the successful execution and completion of IMF programmes. At this point, institutional determinants have a significant role for decreasing the macroeconomic instability. It has been concluded that IMF programmes which have not sufficiently concentrated on the entity of institutional structure cannot provide the essential economic growth.

CAN INTERNATIONAL MONETARY FUND (IMF), WORLD BANK (WB) AND EUROPEAN UNION (EU) BE EXPLAINED BY NEW INSTITUTIONAL ECONOMICS?

IMF Programmes and Their Objectives

In the 1970s, a stagflation crisis that inflation and stagnation occurred together arose. In order to get rid of the crisis, the developed countries began to execute neo-liberal policies in 1980s. In this process, international debt crisis began to threat the economic system of the world. The concept of globalization