Lecture 22: International DimensionsI
The World Bank and the IMF

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14.73 Challenges of World Poverty

International Dimensions I: Plan for the lecture

- Discussion of ‘international dimensions’
- Some of the film *Bamako*—the World Bank, the IMF, and George Bush ‘on trial’ in Bamako, Mali
- Discussion of the big International Financial Institutions (IFIs)—the IMF and the World Bank
  - Thoughts from *Bamako*
  - Krueger (1998)

International Dimensions: Plan for 4 lectures

1. The IFIs
2. Trade (in goods)
3. Capital Flows (trade in assets)
4. Aid

IFIs: IMF and World Bank

- What are these ‘institutions’?
- What do they do?
- Why do we need them?
- What problems do they solve?

Initital Rationale

- IMF:
  - Prevent ‘beggar-thy-neighbor’ foreign exchange policies
  - Provide necessary foreign capital to support fixed exchange rate regime
- World Bank:
  - Promote spread of capital to reconstructing/developing countries (IBRD)
  - Thinking: private markets can’t do it (aftermath of Great Depression)

Early Activities of the IMF (‘macroeconomic’):

- Would lend to countries in face of Balance of Payments crises
  - (BOP crisis: when not enough foreign currency with which to buy necessary imports)
  - Provide necessary foreign currency to maintain a fixed FX rate
- Loans subject to ‘conditionality’ (eg government budget balance)

Early Activities of the World Bank ('microeconomic'):

- Financing 'productive' projects that aren't being funded
  - Big projects (eg Dams)
  - Why not being funded?
- Provide technical assistance for carrying out these projects
- Conditions on loans too: eg infrastructure needed user fees

Commonly-Heard Criticisms:

- Initial rationale for Bank no longer applies:
  - Private capital markets will find high returns, wherever they are
  - Can we really trust a big, bureacratic organization to 'pick winners' (ie good projects)
- WB shouldn't meddle in 'soft' issues (environment, gender equality, involvement of NGOs)
- Conditions on SALs (eg exchange rate policy, budget balance, trade liberalization, agricultural and energy price reforms, privatization, tax reform) are not good policies anyway.
- Strengthening governments (by making loans, or bailing them out of BOP crises) is exactly what you don't want to do if the government is 'bad'