

MULTILATERAL FINANCIAL INSTITUTIONS

INTRODUCTION TO INTERNATIONAL DEVELOPMENT

FALL 2014

INTA 2050

Review: International donors

Definitions

- Multilateral versus bilateral aid
- ODA

Determinants (e.g. business cycle) of amount of aid and motivation (e.g. prestige, solidarity) of donors

Major debates

- Loans or grants
- Aid allocation criteria: most in need or better governed?
- Implementation of aid programs: imposed or organic?

Agenda

1. **Bretton Woods and the creation of the IMF and World Bank**
2. The historical evolution of the IMF and World Bank
3. The BRICS bank

In pairs

In what context were the Bretton Woods institutions created? What was the overarching objective?

What were the initial roles assigned to the IMF and International Bank for Reconstruction and Development (IBRD, currently known as the World Bank)? How did the IBRD's functions change following the Marshall Plan for European reconstruction and Truman's Point Four speech?

Describe the governance structures of the IMF and World Bank. Why are they controversial?

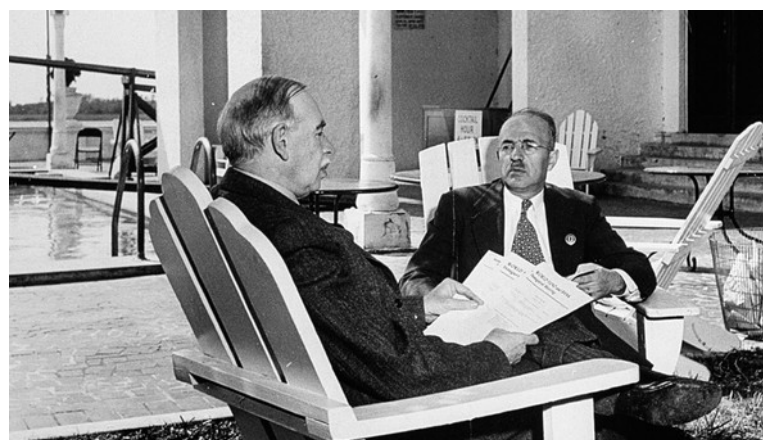
Bretton-Woods and the construction of a new regulatory architecture

Regulate trade, provide rules for relations between nations

IMF ensures currency stability (prevent trade wars), World Bank rebuilds Europe

World Bank role quickly changes: focus on development

Voting arrangement heavily favors advanced industrial nations



Keynes and White

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The 1970s: collapse of Bretton Woods and adaptation

U.S. abandons the Gold Standard (the foundation of fixed exchange rates to spur trade)

IMF's role in jeopardy: currency stability is no longer a concern, become a lender of last resort and introduce conditionality

World Bank also refashioned to serve US Cold War purposes (Robert McNamara)



Robert McNamara

1980s: Structural adjustment and conditionality

The “Debt Crisis”

IMF and World Bank offer loans

Conditionality: austerity and “shock therapy”

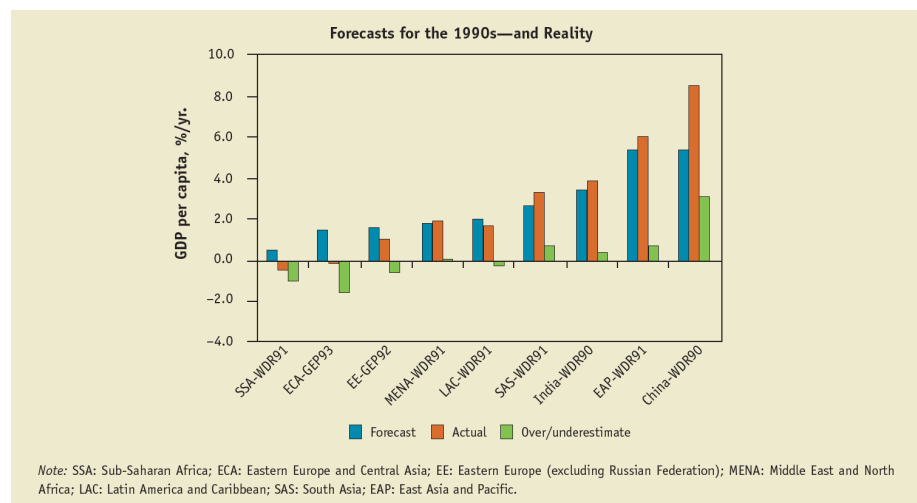


1990s: Re-evaluation

Disappointing economic performance

Financial crises

Promising alternatives



2000s: Rebuilding, re-conceptualizing

Governance and the key role of the political system for development (institutionalism)

The “comprehensive” development agenda

The new consensus: poverty reduction and empowerment



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Changing power context, changing regulatory architecture?

July 17, 2014: Heads of state from Brazil, Russia, India, China and South Africa (BRICS) establish a New Development Bank (NDB) and a Contingency Reserve Arrangement (CRA)

NDB: Finance infrastructure and sustainable development projects

CRA: Offer liquidity to members during balance of payment crises

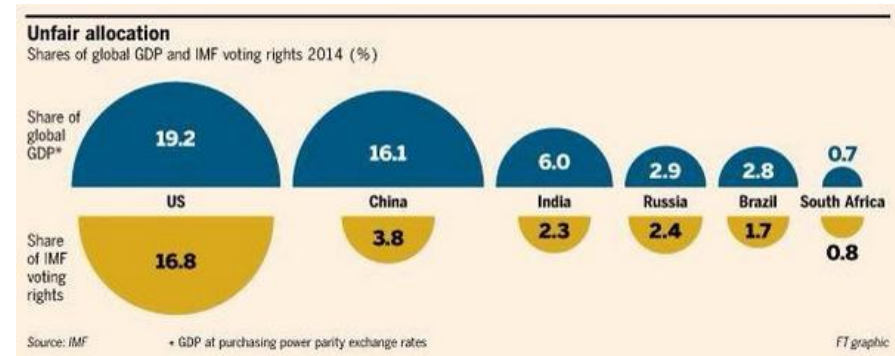


Why create a “mini” World Bank and IMF?

BRICS countries growing rapidly, outpacing increases in their voice at World Bank, IMF

But opposition among advanced industrial countries to raise BRICS voting quota

Long-standing dissatisfaction with Bretton-Woods institutions



Reactions in advanced industrial countries

Scoff: Five very different nations trying to organize a coherent framework

Worry: The US-led world order about to crumble

If you had to write an op-ed about this, what would your reaction be? What position would you take?



Next class...

The United Nations (UN) and the Millennium Development Goals

- Describe the history and governance structure of the UN (Allen & Thomas 2000)
- Discuss the Sachs and McArthur (2005) diagnosis for the failure to achieve the MDG benchmarks for 2005, and their proposed solutions

*Bring your laptops to class