

## The IMF and World Bank

For economies which suffer severe indebtedness, where debt servicing is greater than export earnings two organisations exist to aid the economy.

The IMF gives short term loans to help pay for the difference between export earnings and debt servicing payments. The World Bank lends longer term for development projects.

Loans from both organisations have conditions attached, essentially the movement towards a market friendly economy and away from (centralised) planning and a commitment to 'good governance.'

On a microeconomic level this will involve privatisation, price liberalisation and a movement toward free trade, developing industries in which the economy has a comparative advantage in. The use of free markets should improve the inefficiencies typical in planned economies due to imperfect knowledge of planners, and urban bias.

Macroeconomic stabilisation aims to keep inflation low and promote industrialisation by reducing government spending and intervention in the economy.

Critics argue that the movement toward a free market economy may be harmful due to market failures such as externalities, failure to provide or under-provision of merit and public goods and the creation of income inequalities – equality itself being a definition of development.

Price liberalisation and the movement toward free trade will lead to higher food prices and the gains from trade may be minimal due to unfavourable terms of trade, protectionist policies practised by the West and a reliance on turbulent primary product markets.

Lower government spending is also open to criticism. The developing economy needs investment in infrastructure and a health and education system. Reducing government spending means these merit goods are likely to be under-provided.

The debate continues and the World Bank continues to face criticism so introduced a further condition – the need for a 'poverty reduction scheme' – as a requirement for a loan. However, due to the way economies are aided in preparing these plans by the World Bank it is seen as dubious how much of a real change the poverty reduction plans have brought about.

*See study guide pages 59, 60.*

### Homework

Complete the 11<sup>th</sup> data response question in the study guide, entitled "African debt repayments 'imperial 21m children'" for Friday 25<sup>th</sup> February 2005.

These notes are from a lesson on 21<sup>st</sup> February 2005.