

Princeton University
Woodrow Wilson School of Public and International Affairs

Graduate Program
Spring Term 2006

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Office Hours: Tu: 3:00-4:30, 113 Fisher

WWS 594I Policy Analysis: Reforming the International Financial Institutions

This course will examine the governance, structure, and activities of the International Monetary Fund and the World Bank Group – how they were influenced by political and economic conditions when they were established, how well they adapted to the enormous changes that occurred in the subsequent six decades, and ways in which their governance, structure, and activities might be altered to make them more effective.

The course will start by recalling the economic and political conditions under which the Fund and Bank were established and the influence of then-current views about the reasons for the political and economic calamities of the interwar period. It will then review the roles of the two institutions in the postwar period – the period dominated by the Cold War and economic hegemony of the United States. It will ask how they adapted to the end of that era, the effects of decolonization on their membership and tasks, and the subsequent differentiation of the developing countries into a middle-income group that gained access to international capital markets and a low-income group that is still heavily dependent on official development assistance.

It will then take a closer look at the two institutions – how they have dealt with new needs and challenges, including those posed by the financial crises of the 1980s and 1990s, the heavy debt burdens of many low-income countries, the growing concern with inequality and poverty within the developing countries, and the demand that the Fund and Bank be made more fully accountable to the people directly affected by their activities.

The first two weeks of the course will be devoted to lectures and discussion. The next four weeks will be devoted in part to oral reports by individual students, based on the required and recommended readings. A list of the topics for the reports will be distributed at the first meeting of the course, and students will be asked to choose the topics on which they would prefer to make their own reports.

Grades in this course will be based on the students' participation in classroom discussion, their oral reports, and their written reviews of the books listed at the end of the syllabus.

Course Outline and Readings

Required readings are marked with an asterisk; all others are recommended. Readings should be completed by the dates for which they are listed.

March 29: The Origins and Aims of the Fund and Bank

The legacy of the interwar period and its impact on the design of the Bretton Woods institutions; the origins of IMF conditionality; the limited roles of the Fund and Bank in reconstruction after World War II; the consequences of decolonization.

Readings for March 29:

- *Harold James, *International Monetary Cooperation Since Bretton Woods*, 1-57.
- *Miles Kahler, "Bretton Woods and Its Competitors: The Political Economy of Institutional Choice," in Andrews et al., eds., *Governing the World's Money*, 48-59.
- Sidney Dell, "On Being Grandmotherly: The Evolution of IMF Conditionality," *Essays in International Finance* 144.

April 5: The Evolution of the Monetary System and Its Impact on the Fund

The functioning of the Bretton Woods System; the collapse of the gold-dollar standard and the move to floating exchange rates; oil, petrodollars, and the debt crisis of the 1980s.

Readings for April 5:

- *Barry Eichengreen and Peter Kenen, "Managing the World Economy under the Bretton Woods System," in Kenen, ed., *Managing the World Economy*, 3-57.
- *James Boughton, *Silent Revolution*, pp. 281-317, 359-84, 401-27, 477-519, 538-53.
- *Paul Krugman, "U.S. Policy on Developing-Country Debt," in Feldstein, ed., *American Economic Policy in the 1980s*, pp. 691-719.
- Michael Dooley, "A Retrospective on the Debt Crisis," in Kenen, ed., *Understanding Interdependence*, pp. 262-84.

April 12 and April 19: The Challenges of Change

The roles of state and market in economic development; the revival of private capital markets and the differentiation of the developing countries; concessional lending by the Bank and Fund; the campaign for debt relief, the HIPC initiative, and debt cancellation by the multilateral institutions; the new focus on poverty eradication and the quality of human resources.

Readings for April 12:

- *World Bank, *Annual Report 2005*, pp. 12-53.
- *World Bank Operations Evaluation Department, *Improving the World Bank's Development Effectiveness: What Does Evaluation Show?*, pp.1-42.
- *Sebastian Mallaby, "Saving the World Bank," *Foreign Affairs*, May/June 2005.
- *Jessica Einhorn, "Reforming the World Bank," *Foreign Affairs*, January/February 2006.
- John Williamson, "What Should the World Bank Think about the Washington Consensus?" *World Bank Research Observer*, August 2000, pp. 251-64.
- World Bank Operations Evaluation Department, *2004 Annual Review of Development Effectiveness: The Bank's Contribution to Poverty Reduction*, pp. 1-52.

Readings for April 19:

- *IMF, *Annual Report 2005*, pp. 3-53.
- *IMF, *External Evaluation of IMF Surveillance*, pp. 17-81.
- *Nancy Birdsall and John Williamson, *Delivering on Debt Relief*, chs.1-4, App. C.
- *Raghuram Rajan, "Straight Talk: Debt Relief and Growth," *Finance and Development*, June 2005.
- Graham Bird, "The IMF and Poor Countries," in J.J. Teunissen and A. Akkerman, eds., *Helping the Poor? The IMF and Low-Income Countries*.

April 26: The Fund and the Capital-Account Crises of the 1990s

The Mexican and Asian crises of the 1990s; the controversy about Fund conditionality; the debate about reform of the international financial architecture.

Readings for April 26:

- *IMF Independent Evaluation Office, *The IMF and Recent Capital Account Crises*, pp. 9-54; also Annex 1, 2, or 3
- *Peter Kenen, *The International Financial Architecture*, chs. 3-5.
- *Anne Krueger, et al., "New Approaches to Resolving Emerging-Market Financial Crises," *American Economic Review*, May 2003, pp. 70-84.
- M. Feldstein, ed., *Economic and Financial Crises in Emerging Market Economies*, pp. 297-345, 363-431, 459-494.
- Barry Eichengreen, *Toward a New International Financial Architecture*, chs. 2, 5-7.
- Stanley Fischer, *IMF Essays from a Time of Crisis*, pp. 2-32, 67-94.
- Kenen et al., *International Economic and Financial Cooperation*, ch. 3.
- Tito Cordella and Eduardo Levy Yeyati, "A (New) Country Insurance Facility," IMF Working Paper 05/23, 1005.
- Stephan Haggard, *The Political Economy of the Asian Financial Crisis*, chs. 2-3.

May 3: Reforming the Governance and Mandates of the Bank and Fund

The internal governance of the institutions; who has decision-making power and how it might be redistributed; the roles and reform of 'informal' bodies such as the G-7; the Bank's role in confronting transnational problems – disease, desertification, and other afflictions of the developing world, and its role in combating corruption and fostering democracy.

Readings for May 3:

- *Edwin Truman, *A Strategy for IMF Reform*, chs. 1-4.
- *Rodrigo de Rato, "The IMF's Medium-Term Strategy," remarks delivered in Rome, February 9, 2006.
- *Mervyn King, "Reform of the International Monetary Fund," speech delivered in New Delhi, February 20, 2006.
- *Ngairé Woods, "Making the IMF and the World Bank More Accountable," *International Affairs*, January 2001.
- *Helen Milner, "Globalization, Development, and International Institutions: Normative and Positive Perspectives" (processed).
- Peter Kenen et al., *International Economic and Financial Cooperation*, chs. 2, 5-6.
- Miles Kahler, *Leadership Selection in the Major Multilaterals*, pp. 1-49, 77-105.
- José De Gregorio et al., *An Independent and Accountable IMF*, chs 1, 4.
- Jonathan Ostry and Jeromin Zettelmeyer, "Strengthening IMF Crisis Prevention," IMF Working Paper 05/206, 2005.
- Thomas Willett, "Toward a Broader Public-Choice Analysis of the International Monetary Fund," in Andrews, Henning, and Pauly, eds., *Governing the World's Money*, pp. 60-77.

Books for Review

Each student will write a *critical* review of one of the books listed below. The review should be between 2000 and 2500 words and must be submitted no later than Tuesday, May 16.

- Paul Blustein, *The Chastening* (revised edition).
- William Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*.
- Sebastian Mallaby, *The World's Banker: A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations*.
- Joseph E. Stiglitz, *Globalization and Its Discontents*.