# Economics For Strategists

Detailed Course Notes

**National War College**

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**Economics For Strategists**
**Topic 1: Introduction – Market Systems**
"All I ever did was supply a demand." –Al Capone

# I. Introduction: Strategic Relevance of This Course

A. Strategists need a fundamental understanding of the basics of economics to make informed analyses and decisions about U.S. interests that have economic aspects.

1. **Economic growth and security are vital national interests.**
2. Economic issues affect national security (e.g. key blow in Cold War was economic)
3. Increased economic interdependence and globalization are key factors in the evolution of the world of the 21st century.
   a. Economic prosperity and stability in the rest of the world impact on U.S. growth, employment and inflation (e.g. the impact of the current Asian economic crisis).
4. The U.S. can go to war over economic issues (e.g. Persian Gulf)
5. Economics, through such means as trade, sanctions and aid, plays an increasingly important role in influencing the outcome of national security interests.

# II. Market Systems

A. **Teaching Objectives Of This Topic**

1. Economics concerns the choices made in confronting the realities of unlimited needs and limited resources. The interaction of supply and demand operating in a free market makes these choices.
2. Understand the role of government in the functioning of free market economies.

B. **Strategic Relevance:** A good deal of Cold War rhetoric concerned the competition between the capitalist and socialist systems of economic organization. Currently, some of the fiercest battles impacting on U.S. national security interests take place in the boardrooms of the IMF and the World Trade Organization and at the summits of the "Group of Eight." Often, these debates are concerned with how market economies are structured and operate.

C. **Economics is the study of how best to use limited means (scarce resources of land, labor and capital) in the pursuit of unlimited ends.**

1. Accordingly, much of economics concerns the **choices** made regarding the efficient application of scarce resources. **Opportunity cost** is the foregone value of the next best choices not selected.
2. Despite what some of its practitioners may think, **economics is a social – not a hard – science.** It is about how people behave.

Accordingly, things don't always happen the way economists and their tools predict.

**D. Market Systems**

1. Open competition on the free market makes **efficient choices** for distribution of scarce resources (or the factors of production: land, labor and capital). (Note: Economically "efficient" choices are not always what may be the preferred social or political choices.)
2. This decision is made by the interaction **of supply and demand**. The very intuitive basic point is that the more people are willing to pay for something, the more eager producers are happy to supply it; while the cheaper things are the more people will want to buy. Prices signal people about the relative scarcity of the various goods and services.
3. A market is in **equilibrium** when the quantity supplied is equal to the quantity demanded, resulting in neither a **shortage** (excess demand) nor a **surplus** (excess supply). The **law of supply and demand** states that price and quantity tend to gravitate toward the equilibrium point. Price controls, tariffs, etc. interfere with (distort) the interaction of supply and demand – creating either surpluses or shortages.
4. Other events can cause shifts of the curves and change the equilibrium point. These include (but are not limited to): changes in income levels, interest rates, taxes, etc.; changes in technology, productivity, competition, etc.
5. Other related concepts: elasticity of demand; economies of scale; production possibilities curve

E. How Economies Function: Three Propositions (See H&T)

1. **Free markets are perfect. – Adam Smith**
   Without any outside interference, the "invisible hand" of the market – the interaction of supply and demand – will most efficiently and wisely determine what and how much is to be produced, how and where to produce it, and to whom the products are distributed
2. **Markets do not function perfectly. Governments have a role and responsibility to prevent/cure problems in the functioning of economies. – John Maynard Keynes**
   a. Through fiscal and monetary policy (Topic 4), governments can help lessen the impact of the unemployment, inflation and recession that have been considered normal parts of the business cycle, i.e. periods when Smith's "invisible hand" is doing its work too slowly in readjusting to equilibrium. In addition, governments perform other basic roles essential to economic health, such as enforcement of the rule of law (e.g. protection of physical and intellectual property) and provision of currency and economic

policy (e.g. on trade and investment). Governments also seek to deal with other economic "imperfections," such as environmental pollution and inequitable income distribution.

b. The reality is that no market is perfectly competitive. There is no argument that all economies must be influenced to a greater or lesser degree by the role of government. The debate that does take place concerns the extent and nature of that government role.

3. **Markets permit the exploitation of poor workers by rich capitalists. – Karl Marx**

Marx, the father of socialism, held that the state should own the means of production so that it can protect the people (workers) from exploitation by the owners of capital. Such a system involved central government planning and operation of virtually the entire economy. (Note: Just as there are no models of pure capitalism, there have been none of pure socialism. Indeed, the inefficiencies of socialist economies stimulated some impressive, albeit underground, private entrepreneurial endeavors – and related opportunities for corruption and abuse.)

**Economics For Strategists**
**Topic 2: Economic Growth**
"Wealth is not without its advantages." –John Kenneth Galbraith

## A. Teaching Objectives

1. Understand the meaning of "economic growth" and how it occurs.
2. Review GDP and other means of measuring economic progress (e.g. GNP, PPP, HDI)

**B. Strategic Relevance:** The achievement of economic growth is a vital objective held by virtually every government in virtually every nation.

1. Growing economies offer hope to people for a better standard of living and give them a stake in a stable political future.
2. U.S. policy has strong vital security interests in international as well as domestic economic growth.
3. The U.S. promotes international economic growth through such tools as trade policy and foreign aid programs.

## C. Two Introductory Points

1. **This course emphasizes macroeconomics.**
   a. **Macroeconomics:** Concerned with the economy as a whole – e.g. aggregates of supply, demand, employment.
   b. **Microeconomics:** Concerned with individual decision units such as households, industries, businesses, particular prices and specific goods.
2. There are **three key measures of economic performance**: rates of GDP growth, unemployment, and inflation (the last two of which will be discussed in Topic 3).

## D. The Measurement of Economic Growth

1. **Growth:** An increase in real output (GDP); when the economy is able to produce more goods and services for each consumer.
   a. Declining growth: recession; increasing growth: expansion
2. **GDP**: Gross Domestic Product = private consumption + capital (investment) goods + public consumption + (Exports – Imports) or Y=C+I+G+(M-X).[*] (Note: This will be the one and only obligatory formula in this course.)
   a. In the U.S., consumer spending is approx. 2/3 GDP.

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[*] In 1992, the U.S. began measuring its growth through GDP, switching from GNP (Gross National Product). GDP focuses on what is produced within the United States itself, and includes American-based activities of foreign investors (e.g. the Toyota plant in Kentucky). GNP, meanwhile, includes American production outside the boundaries of the country, but excludes the goods and services produces by foreigners within the U.S. The actual difference between the two measurements is minimal.

3. Looking at growth through GDP alone can be misleading. Factors to consider are: population growth and size (GDP per capita), the impact of inflation (i.e. real GDP), income distribution and the size of the informal (not measured) economy (e.g. housework, crime), change in quality of goods and services.
   a. GDP ignores social issues such as inequity and pollution.
4. Other kinds of indicators which adjust for GDP measurement flaws:
   a. **Purchasing Power Parity** (PPP): adjusts for the impact of exchange rate differentials on prices (see Big Mac Index handout).
   b. **Human Development Index** (HDI): UNDP measurement considers quality of life elements such as life expectancy, educational attainment and PPP-adjusted real GDP per capita.

**E. How Economies Grow**

1. **Increased productivity is fundamental to growth.**
   a. Efficient use of factors of production: land (natural resources), labor (total workforce, skilled workers), and capital (plants, equipment, technology, entrepreneurship, infrastructure).
2. Factors that contribute to growth: 1) lower interest rates, 2) higher incomes, 3) higher consumer confidence, 4) higher business confidence, 5) higher profits, , 6) lower taxes, 7) decreased foreign competition, and 8) increased capital inflows
3. There is an important positive relationship between productivity and competitiveness.
4. Role of consumption: public (national, state, local), private
5. **Vital role of savings and investment in growth.**
   a. Savings postpones consumption (growth now), used for investment (future growth); US savings rate = +/- 5%.
   b. Investment has multiplier effect.

F. Key events that enhanced productivity/growth: steam engine, electricity, railroads, automobile, jet travel, computers

G. Constraints to Growth (war, policy (e.g. trade, role of state), inflation, recession)

**Economics for Strategists**
**Topic 3: Problems of Market Economies**

"Blessed are the young, for they shall inherit the national debt." Herbert Hoover

A. **Teaching Objectives of This Topic**
   1. Develop an understanding of the nature, causes and impact of inflation, unemployment and recession.
   2. Understand the role and nature of budget (fiscal) deficits. Develop a perspective on the problems of deficits and debt.

B. **Strategic Relevance:** Adam Smith notwithstanding, there are occasional tremors in the "invisible hand" that guides market economies.
   1. Uncontrolled economic problems (massive unemployment, runaway inflation, large-scale disinvestment, recessions, depressions) can be politically destabilizing and have severe humanitarian consequences. The fall of Suharto in Indonesia is a recent example. Such instability can impact on the U.S. economy, cause violent conflicts, and can bring about uncontrolled waves of emigration.

**C. The Business Cycle:** Of growth and recession.

**D. Recession/Depression**
   1. An aspect of the **business cycle** of ups and downs.
   2. Recession: A period of 6 months or more of declining output, income, employment and trade. Depression is a prolonged decline, marked by falling prices.
   3. Curative measures (a focus of Topic 4):
      a. Fiscal: boost gov. spending; lower taxes. Risks deficits.

**E. Unemployment**
   1. A result of inadequate market demand for labor.
   2. Three types**: frictional** (least concern - people "between jobs"), **cyclical** (greatest policy concern - result of inadequate employment demand in negative business cycle) and **structural** (greatest concern - unemployed due to changes in skills requirements, e.g. mechanization).
   3. Full employment: An evasive percentage. ('80s: 6%, early '90s: 5%; May '99: 4.2%)
   4. Impact of large-scale unemployment on the economy (social and economic costs, drag on overall demand).
   5. Hidden unemployment: e.g. people who have given up; part-time workers who want full time. These people not included in official unemployment rates.
   6. Transfer payments, e.g. unempl. insurance, make unempl. easier than in underdeveloped countries

7. Unemployment = economic inefficiency

## F. Inflation

1. **Definition:** A rise in the general level of prices in an economy.
2. Inflation occurs when demand exceeds supply (for goods, services – including labor) -- e.g. Beanie Babies.
3. Inflation measured through percentage changes in price indices (e.g. CPI).
4. Inflation impacts hardest on those with fixed incomes, usually the poor and elderly.
5. Penalizes creditors, rewards debtors
6. Impact of creeping vs. galloping (hyper-) inflation
7. Impacts on "real" income, interest rates, wages, profits, etc.
8. Increases taxes (tax bracket creep)
9. Unpredictable inflation a disincentive to productive investment (uncertain risk/return).
10. Fiscal Cure (a focus of Topic 4): Reduce gov. spending; increase taxes. Reduce gov. debt/deficits.

## G. Deficits and Debt (Further discussed in Topic 4)

1. Clarify difference between deficit (annual budget shortfall) and debt (cumulative shortfalls over time).
2. Deficits usually rise in recessions (lower taxes, higher spending), fall in booms.
3. Need to put the debt into perspective of the size of the overall economy. U.S. deficits and debt have been numerically large, but not in relation to the size of economy.
4. A budget deficit to augment gov. spending can be useful during an economic downturn to stimulate renewed growth (i.e. to stimulate demand, reduce unemployment).
5. Before 1983, U.S. deficits generally related to wars and recessions
6. At period of full employment, deficit can cause inflation and decrease investment.
7. Negative impact of debt: higher taxes and interest rates that impede growth and investment.
8. About 18% of fed debt is held by foreigners. Rest of debt paid to Americans.
9. Issue: How harmful is debt to future generations? The myth.

## H. Inequitable Income Distribution

| Country | Lowest 20% | Highest 20% |
|---|---|---|
| U.S. ('85) | 11% of income | 41.9% of income |
| Egypt ('91) | 8.7% | 41.1% |
| India ('92) | 8.5% | 42.6% |
| Peru ('94) | 4.9% | 50.4% |
| Senegal ('91) | 3.5% | 58.6% |

1. Potential problems: Social/political destabilization; humanitarian; sub-optimal economic growth (potentially inefficient use of resources)
2. Issue: How much inequity is acceptable?

**Economics For Strategists**
**Topic 4: Fiscal and Monetary Policy:**
**Tools to Strengthen or Repair Economies**

"If it sounds easy, you don't have all the facts." -James L. Brewer

## A. Teaching Objectives

1. Understand the role of monetary and fiscal policy in optimizing economic performance and addressing economic problems, such as inflation and unemployment.
2. Understand the role of, and tools employed by, the Federal Reserve System.

## B. Strategic Relevance

1. Governments have a variety of tools available to address the problems discussed in Topic 3. **The objective of fiscal and monetary policy** is to maintain the highest level of economic growth, while minimizing inflation and unemployment. Application of these tools involves some degree of political "pain," which can have security consequences.
2. Such consequences are often on display when the "cure" is proposed as part of an IMF recovery program (a focus of Topic 7). While an IMF program may cause instability and other manifestations of displeasure during the adjustment period, not addressing economic problems will, in the extreme, have the same or worse consequences. Thus, it is almost always true that the cure is, in fact, less of a risk than the disease.

## C. Economic Instability

1. Instability in the **business cycle** pushes economies away from equilibrium causing either inflation or unemployment.
2. **Economic Stabilization Policy: The objective of fiscal and monetary policy** is to maintain the highest level of economic growth, while minimizing inflation and unemployment. It is designed to enhance aggregate demand (i.e. GDP) in a recession, or reduce overblown demand in times of inflation.

**D. Fiscal Policy.*** Fiscal policy (methods advocated by John Maynard Keynes) gained prominence in the 1930s, as a means of addressing the economic hardships of the Great Depression.

1. **Definition**: A government's plan for taxation and spending; designed to increase or decrease total economic demand.

* Note: B&B has many graphs on these topics that some may find intimidating. Understanding these graphs **is not** essential to understanding this subject. H&T explanations may be more helpful.

2. **Taxation**
   a. Taxes can be progressive or regressive. Issues: Is the tax system fair? Is it effective (are taxes paid)?
   b. Types of taxes: income, sales, payroll, VAT.
   c. Most taxes are variable in accordance with growth of GDP.
   d. Taxes affect **disposable income** and, thus, consumption.
   e. Objectives of taxation: 1) produce essential government revenue (e.g. for economic infrastructure such as roads; national defense; etc.); 2) economic stabilization (i.e. removes money from the economy, thus reducing demand during an inflationary period); and 3) promotion of improved income distribution within society.
   f. Problem: In trying to stimulate growth, if taxes are cut too much, the loss of revenue can provoke fiscal deficits and inflation – which can raise interest rates and, ultimately, depress growth.
   g. Supply side theory: reduce income, corporate, and investment income taxes as a means of stimulating investment and growth.
3. **Government Spending:**
   a. Issue: What spending is discretionary?
   b. During recession, deficits can cover tax collection shortfalls and expand aggregate demand (to speed recovery).

**E. Monetary Policy** (and the Federal Reserve)*

1. **Definition:** Actions taken by the Federal Reserve (or the central bank in other countries) to alter the money supply to optimize the rates of growth, employment and inflation.
   a. Importance of the political independence of the Fed
   b. 5 Fed governors (14 yr. terms); 12 Fed districts
2. **Fed tools**: management of the money supply through: a) the rediscount rate, b) sale/purchase of bonds (called "open market operations" – this is the most used of the tools), and c) establishment of bank reserve deposit requirements.
3. **How money is created:** Fed buys securities → increasing bank reserves → stimulating new loans (i.e. "new" money) → new investment → new employment, etc. Reduction of the money supply is the reverse process.
4. Higher dollar supply → lower interest rate → more investment → greater aggregate demand → more employment → more inflation (depending on state of the economy). Inflation results in the need to reduce the money supply.

F. **Problem**: In general, economies do not respond quickly to fiscal or monetary measures. Thus, the optimal timing of their implementation (or sometimes even their necessity) is not an easy decision – for economists or politicians.

**Economics For Strategists**
**Topic 5: Globalization and Trade**

"There are some people, who if they don't already know, you can't tell them." –Yogi Berra

## A. Teaching Objectives

1. Understand the advantages of free trade.
2. Understand the means of interference with free trade and their impact.
3. Understand the role of change in successful free market economies.

## B. Strategic Relevance

1. The end of the Cold War, the lower cost and greater accessibility of modern transportation and communications, and the information revolution (i.e. computers) have facilitated the worldwide expansion of trade. Trade issues are among the top concerns of nearly all of the world's leaders and considered vital to each nation's economic prospects – and, therefore, its national security.
2. Who a country trades with and how "freely" is a high priority topic for national leadership. In many instances, it defines relationships between nations (e.g. MFN for China, Cent. European nations in the EU).
3. Trade as a percentage of U.S. GDP has grown from 5% to 25%.
4. Though its impact is debated, the interruption of trade through sanctions has become a frequently used tool of U.S. statecraft.

C. **Why Trade?**

**1.** Trade provides for optimally **efficient use of scarce economic resources.**
   a. Initial basis: different resource endowments (e.g. New Zealand vs. Singapore, Brazilian coffee)
   b. **Absolute vs. comparative advantage** (e.g. fast typing CEO)
      1) U.S. has comparative advantage in things such as aircraft, computers, and entertainment
      2) Issues to consider: specialization; physical location
   c. Economies of scale
   d. The difference between self-sufficiency and self-reliance
   e. Free trade provides consumers with the best products at the lowest cost. Industry doesn't always appreciate the competition.
   f. Low wages generally mean low productivity
   g. World prices tend to equalize at lower levels

2. Who **wins**? Consumers: more variety, better goods, lower prices; efficient producers.
3. Who **loses**? Inefficient producers; some initial employment loss.

**4. Obstacles to free trade: quotas, tariffs, non-tariff barriers, subsidies, infant industry policies**
   a. Tariffs are less damaging than quotas

   b. Trade sanctions, dumping
5. **Reasons given to protect trade**: National security interest (e.g. U.S. defense industries), protect jobs, nationalism, infant industries, corruption, bad policy (mercantilist view: exports good, imports bad)
6. **Impact of trade barriers**: higher consumer costs, less choice, corruption, inefficient use of scarce resources.
7. **High exchange rates encourage imports and discourage exports** (makes them uncompetitive). The reverse is true for low exchange rates. (Exchange rates will be a subject of the next Topic.)

**D. Multinational Corporations**

1. Take advantage of opportunities presented by lower cost and higher quality of the means of transportation, communications and information transfer.
2. Overcome market barriers by locating within the market borders.
3. Gain greater understanding of new markets by operating within them.
4. Can take advantage of market comparative and absolute advantages (e.g. cheap labor).

**E. Need for economies to change**

1. The U.S. economic progression: agriculture → manufacturing → services/technology. This flexibility has maintained/increased competitiveness and has stimulated growth. Has been key to U.S. success.
2. Examples of resistance to change demonstrate economic weakness (e.g. Caribbean sugar and bananas, European/Japanese agriculture protection policies)

**Economics For Strategists**
**Topic 6: The Money Side of Trade**

"An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today." L. Peter

**A. Teaching Objectives**: Two key measures used in assessing a nation's international economic situation are its exchange rate and international balance of payments.

1. Understand the nature, determinants and role of currency exchange rates.
2. Understand the concepts of the balances of payments and trade and their relationship to economic strength.
3. Review the nature and importance of the absolute and relative role of the U.S. in the world economy.

**B. Strategic Relevance**

1. Exchange rates are a reflection of economic and political management. This is illustrated by the current situation in Russia. Understanding what may make currencies "weak" or "strong" is key to the able strategist.
2. The absolute strength of the U.S. economy is essential to the maintenance of national power. As economies elsewhere have prospered since World War II, the citizenry and the nation's leaders have viewed the loss of relative economic strength ambiguously. The U.S. enjoyed and grew comfortable with its economic dominance. However, the economic strength of other countries, especially allies, is key to vital interests, such as world stability and future U.S. economic growth.

**C. Exchange Rates** (**Def**: price of a currency expressed in terms of another)

1. **Why countries need foreign exchange**: trade; payment of obligations (e.g. loans, bonds); financial transactions; direct foreign investment.
2. **Depreciation/devaluation:** A unit of currency purchases fewer units of other currencies. **Appreciation:** The reverse.
3. Depreciation: exports increase; Appreciation: exports decrease
4. Purchasing Power Parity (PPP): Buying power of currency.
5. **The Establishment of Exchange Rates**:
   a. **Monetary systems:** barter →gold → Bretton Woods → mixed system → float.
   b. Rates fixed under **Bretton Woods** in 1944. Dollar replaced gold as the established standard (at $35/oz.). Governments bought/sold foreign exchange to "balance" the market. System oversight by IMF.
      1) System insufficiently flexible as trade grew. Abandoned in 1971.
   c. Role of **supply and demand** in determining exchange rates
   d. **Means for determining exchange rates**: float, "dirty" float, fixed.
      1) Overvalued vs. undervalued exchange rates.

e. **Why rates fluctuate:** Inflation and interest rates (both relative to other economies), trade balance, economic growth relative to competing economies, **confidence,** etc.
f. Role of the U.S. dollar, gold, Euro (a single currency, analogous to the dollar within the U.S.)
g. Question: What is better, cheap or expensive dollar? Depends on perspective (worker vs. consumer).

**D. Balance of Payments**

1. A **BOP transaction** occurs when funds flow across borders.
    a. Outflow: debit. Inflow: credit.
2. **Current account**: goods (trade balance); services (e.g. tourism, gifts, profits, etc); transfers (e.g. aid, remittances)
3. **Capital Account:** portfolio investment (e.g. stocks, savings): foreign direct investment
4. **International reserves:** balance current and capital accounts.
5. Foreign macroeconomic events that affect US trade balance: growth, inflation, interest rates, exchange rates.
6. **Deficit/Surplus:** Difference between the quantity of currency supply and the amount demanded.
7. **To reduce trade deficit**: eliminate budget deficit, reduce aggregate demand, incr. domestic savings, discourage imports, incr. exports (depends in part on growth of other nations' economies), raise interest rates.
8. US trade balance mostly positive thru early '80s. The subsequent deficit was influenced by oil and budget deficit.
9. Is U.S. trade deficit important? Is it a threat?
    a. In part, the U.S. balance depends on the health of other nations' economies.
    b. Often reflects pblms. in the way our econ. managed (deficits)
10. Reduced budget deficit → lower interest rates → reduced exchange rates → expanded exports → improved trade balance
11. Oil is the primary factor in the U.S. trade deficit.

E. **The Role of the U.S. in the world economy**

1. Size: absolute vs. relative
2. Is decline in relative importance good or bad?

**Economics For Strategists**
**Topic 7: Dysfunctional Economies:**
**Underdevelopment and Crisis**

"We are confronted with insurmountable opportunities." –Walt Kelly

A. **Teaching Objectives**
   1. Develop an understanding of the nature and causes of economic underdevelopment.
   2. Explore the causes and impact of "economic crises."
   3. Understand the variety of organizations that respond to the problems of underdevelopment and crisis and the instruments they use.
   4. Develop a working knowledge of the role and tools of the International Monetary Fund (IMF).

B. **Strategic Relevance**
   1. Extreme poverty and underdevelopment are causes of instability that, on occasion, have resulted in U.S. military mobilizations. Such instabilities threaten the safety of U.S. citizens and investments, can unleash waves of illegal immigrants and other significant threats to the national interest.
   2. The IMF is primary weapon in confronting grave economic problems with strategic implications (e.g. Mexico, Russia, S. Korea).

C. **Underdevelopment**
   1. What is it? (e.g. hunger, illiteracy, high infant mortality, low life expectancy, high population growth)
   2. How is it measured? (Per capita GDP, PPP, HDI, $1 per day).
      a. 85% of the world's pop. live in underdeveloped countries (IBRD)
         1) 2/3 of this group live in the poorest countries.
   3. Why does it happen/persist? (Political instability, corruption, bad economic policy/investment disincentives, inadequate physical and human resources, poor infrastructure)
   4. Primary objective: Stimulate sustainable equitable growth
      a. Stimulate investment, generate employment, expand exports, improve infrastructure, upgrade technology, improve education, improve health, reduce pop. growth
      b. Establish legal system, banking system, stim. investment
      c. Eliminate bad policies: price controls, import barriers, corruption
      d. Primary needs from gov: infrastructure, education, law

D. **Economic Crises** (e.g. Russia, Mexico, Indonesia, S. Korea)
   1. What defines a crisis? (disinvestment/currency flight, massive unemployment, hyperinflation, bank failures)
   2. What causes crises?

a. Internal reasons: corruption (Indonesia), bad economic policy (crony banking policies in S. Korea; protection of inefficient industries in Brazil)
b. External reasons: Worldwide recession (e.g. '70s oil crisis).
c. Many causes of underdevelopment and crisis are similar

E. **Tools: Aid agencies**

**1.** Bilateral (e.g. USAID, CIDA-Canada)
**2.** Non-governmental organizations – NGOs (e.g. CARE, Grameen Bank, Save the Children, World Wildlife Fund)
**3.** Multilateral (e.g. UNDP, regional development banks, World Bank, IMF)

F. **The World Bank and the IMF**

1. Both have common Bretton Woods origin
2. **World Bank** (or the IBRD: the International Bank for Reconstruction and Development): Does development lending (infrastructure, education, health, etc).; Structural Adjustment Loans: related to policy performance (in close collaboration with the IMF)
   a. IBRD loans are concessional (below market interest rate, long payback period}; IDA facilities for the poorest - no interest
   b. Donor Coordination (Consultative Groups)
3. **IMF**
   a. Originally created to help promote exchange rate stability
   b. Makes loans (not very concessional) to help nations meet temporary balance of payments deficits.
   c. **Loans *always* repaid.**
   d. Conditionality is imposed on IMF loans to ensure that assisted economies are strengthened and that the Fund is repaid. IMF conditions reflect staff assessment of the causes and cures of the conditions that brought about the payment deficit.
      1) Conditions can include: floating the exchange rate; reduction or elimination of trade barriers; reduction of government deficits; privatization of state enterprises (often major contributors to budget deficits); improvements in collections of domestic revenues (e.g. taxes, utility rates)