

# D-Lab Development

2009.10.28

Bish

continuing conversation...

Mentions how countries are shifting reserve from USD to Euros because of what is happening in the world financial market. Also mentions the increase in IMF reserve as a reaction to what has happened.

We have to blame someone why development isn't happening.  
Implied in Rachel's talk was that it is the fault of the country  
one part of the story  
Country not controlling government spending

Conditionalities of what the IMF is asking

Restructuring of the economy

Conditionalities and their intended impact

Monitors are saying that for gov't to get involved in the market, distorts the economy. But in developing countries there wasn't much market as they came out of colonial rule, and gov't rule became important to create market. Can't fix a market if there is no market.

Turning point

US backing up its reserve by gold, couldn't do it anymore, and had to change that. And the IMF didn't say a word, because US has 17% of the vote. And to pass anything in IMF, you need 85%, giving the US a veto. Have power because when IMF was created, US had control.

1970s is when a lot of developmental theory came into question

8 sub policies that come under conditionalities

Condition: Devaluation of Local Currency

Intended Impact: competitive export prices and increased export.

Actual Impact:

Talking about Zambia, and the lack of agriculture. All the good land belonged to British farmers, before colonialism, with mechanization. Their needs were very different from that of the local people. They weren't able to produce enough for themselves, and forced to buy food. A problem when the price of food goes up.

There is a logic to the argument of conditionalities. But here is how it unfolds in real life.

Zambia depending on copper as its foreign exchange, and if the cost of copper goes down on the global market, what do they do? The IMF is supposed to step in, but doesn't. International institutions come and tell them to readjust the internal market...

Why is money not coming, because Zambia is in the middle of major political turmoil. What foreign investor would want to invest in that?

Argument in economics, about what really creates inflation.

1. Increased money supply creates inflation

2. Import controls can make the price of things go up, so the people who are selling, charge a higher price. There are not enough goods.

## Zambia

Rural Farmers dependent on gov't support  
for things like fertilizer...

When gov't cuts happen, these rural farmers suffer the most  
Can't get grains to market (no roads, infrastructure),  
can't sell goods  
Income is down, can't sell stuff, and the price of  
goods goes up

Capital budget of gov't gets cut first,  
future projects get stopped  
operating budget continues

Without IMF?

Might have been given credit at  
cheaper rate, w/o conditionalities  
Not for sure, just one possibility

There are many things in these countries that can be done. This  
is not to blame IMF. We are trying to look at, what is the role of  
Government, and what should they do?  
How can you have growth with such policies of inequality?

World Bank and IMF joining hands in .... Reagan?

And all of a sudden, can't get World Bank Loans w/o  
following IMF policies

Different institutions to understand...

International: IMF & World Bank, UN, WHO, World Trade Organization  
These players are supposed to monitor the global economy  
Are supposed to say if its in trouble

What happened in this past Crisis though? Who is  
responsible. Before, developing countries got all sorts  
of blame for not running gov't correctly, so what  
about now? Sometimes regulations hurt, but not always.  
Who is taking the risk? The people at the very bottom.  
Example of MIT tenured professors not having to  
worry, but the staff at the very bottom.

Kinsean Argument

If you don't control money supply, you can't have a  
growth of economy  
Kinsean, gov't intervention in capital market, labor  
market, X market, can distort the market

Rules Driven Economy

In contrast to the tribal rule that people had in  
colonies

Beuracracy is better

Why did we think that slowness is better, why is slowness  
bad?

Being slow means there is a method, a process  
When speed becomes important...  
Have gone the route of the NGO

When you run gov't programs or projects for  
development policies, 3 instruments for effecting  
outcome.

Incentives - do well, I give you better pay. Hard to  
do this in gov't. There are rules, and it is very hard  
because of beauracracy.

Sanctions - if you don't perform, I will reduce your  
salary. Can be difficult with labor organizing.

Discretion - cannot create rules for every aspect of  
behavior of the person you are assisting. Have to use  
judgment on the field of who to assist. This has come  
into question though. It is difficult to understand how  
to use this on the ground. Can be used as easily for  
fine-tuning as well as corruption.

Grassroots and NGO are saying that gov't as institution is not effective

Gov't are not efficient, opposite of Max Weber saying with government, will be more efficient than tribal structure.

If you put a monetary value on the amount of work being done by NGO, compared to the output, there is not much difference between the efficiency compared to gov't. Why? Because the NGO process is a very labor intensive process (bending over backward for the client, getting to know them, and everything else). Labor intensiveness increases cost, as well as labor intensiveness.

Voluntary work cannot lead to a large scale dissemination of an idea, at some level you have to pay. How do you factor that into the cost of the product.

NGOs, because they are voluntary... push them in the logic of market. They don't like this kind of question. If you use the argument of the market, you are insulting their morality. NGO can take a moral high ground, doing it for poor people, doing it for money. If you create a process that works without money (incentive), you have a process that is very difficult to replicate. If you don't ask questions of market, you end up with a problem eventually.

NGOs have done some amazing and admirable work. If we look at who is working with the NGOs in these countries... The very poor cannot work with the poor. The NGOs have to show results to donors. Micro lending to someone that is absolutely destitute, harder to show benefit. NGOs work with someone who has a house at least. Going to the field and working NGOs. You will see people with absolutely nothing. How to help this group, is a concern we have to consider. Often, this can be left by NGOs to the gov't.

## Flexible operations

NGO, can be more flexible. Giving 20, 20, 25, 30  
Looking at the account, why give one person x another person y.

Can't have Flexibility and Accountability at the same time. There are trade offs.

Accountability is about following rules.

Many NGOs work alone.

They say cooperate and no competition. It is much easier to work alone though. You can do it alone. Then you start to grow in size, and lose the competitive advantage of being small. When you are small, that is when you can be flexible. Larger, needs to accountability.

Need to understand the size of the organization for the type of things you want to accomplish. The type of products you want to design. Does the organization already exist? Can you help them.

Understand Technological Innovation and Managerial Style

Scale matters, and your effort is very small scale. So do you connect to larger effort.

Bish talks about the problem of working with communities and collective work.

If 5 people work on a project, that will benefit everyone

5 people build a road, and everyone uses it  
Under what conditions does a community come together?

Elanor Ostram

When you don't have a lot of resources, the community can create its own rules. When people's lives are dependent on those resources, they can self regulate.

MIT OpenCourseWare  
<http://ocw.mit.edu>

EC.701J / 11.025J / 11.472J D-Lab I: Development  
Fall 2009

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.