

POLITICAL ECONOMY RESEARCH INSTITUTE

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## **Democratizing Global Economic Governance:**

### **A PERI Symposium**

**Jane D'Arista, Keith Griffin, and Lisa Jordan**

**Commentary by James Crotty, Eva Paus, and J. Mohan Rao**

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10th floor Thompson Hall  
University of Massachusetts  
Amherst, MA, 01003-7510  
Telephone: (413) 545-6355  
Facsimile: (413) 545-2921  
Email: [peri@econs.umass.edu](mailto:peri@econs.umass.edu)  
Website:  
<http://www.umass.edu/peri/>



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**Democratizing Global Economic Governance:  
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Jane D'Arista, Keith Griffin, and Lisa Jordan  
with comments by James Crotty, Eva Paus, and J. Mohan Rao

Based on a symposium held at the  
Political Economy Research Institute  
University of Massachusetts, Amherst  
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PERI Program on Development, Peacebuilding, and the Environment

## Foreword

This working paper is the fruit of a symposium on Democratizing Global Economic Governance held at the Political Economy Research Institute (PERI) on October 20, 2000, an event co-sponsored by the Five-College Peace and World Security Studies program.

The speakers were asked not only to critique briefly the principal institutions of global economic governance – the World Trade Organization, the International Monetary Fund, and the World Bank – but also to suggest progressive alternatives. In other words, they were asked for their views on not only what progressives should be *against*, but also what they should be *for*.

A recurrent theme in their remarks is the ‘fix it’ or ‘nix it’ debate: whether to seek reform of the existing international economic institutions or their outright abolition. As several speakers suggest, the tension between these two positions can be creative, with both sides playing complementary roles in advancing a process of change. Beyond this strategic issue, however, is the more fundamental question of what would constitute a desirable and feasible institutional architecture for democratic global economic governance.

Like states, international institutions will always be imperfect. It would be ironic if those who reject the neoliberal vision of a minimalist state, in which vital decisions are left to competing private interests, in turn were to embrace a minimalist vision of global economic governance, in which vital decisions are left to competing nation-states. The struggle to build a democratic framework for such governance is among the great challenges that humankind will face in this century. The discussion presented here is intended as a modest contribution to that historic task.

James K. Boyce

Director, PERI Program on Development, Peacebuilding, and the Environment

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## ***TRADE LIBERALIZATION AND GLOBAL GOVERNANCE: SOME OBSERVATIONS***

**Keith Griffin\***

If we are serious about democracy in the global order, at a minimum this implies respect for the views of the majority, together with self-restraint by the powerful. The United States has disregarded this most elementary requirement of a democratic global environment. Senator William Fulbright warned us of this a generation ago when he spoke of the “arrogance of power.” The US has failed to heed his warnings and concerns. Instead, in recent years, as in Senator Fulbright’s time, the US has resorted frequently to unilateral action.

Here are seven examples of this disregard. First, the US government has refused to pay its full dues to a number of international organizations. The United Nations has received the most attention, but the US is also behind in payments to the International Monetary Fund, the World Bank, the Organization of American States, and a number of other international organizations. So we are a delinquent contributor. Second, we have refused to join 130 other countries in a treaty banning the use of land mines. Third, we have refused to join more than 90 other countries in creating an International Criminal Court. Fourth, we have refused to implement the chemical weapons convention, on the grounds that we will not allow inspections on US territory. It is all right to inspect other people’s territory, but God forbid that anyone should inspect ours. Fifth, the US has refused to ratify the comprehensive Nuclear Test Ban Treaty. Sixth, the US has refused to ratify the international agreement on “greenhouse gases.” Lastly, on two occasions the US has unilaterally withdrawn from major UN specialized agencies: the first was the United Nations Educational, Scientific, and Cultural Organization (UNESCO), which we have yet to rejoin, and the second was the International Labor Organization (ILO), which we have subsequently rejoined. This type of behavior is incompatible with creating a democratic order at the global level.

The second major point I wish to make is that global economic governance requires a set of supranational institutions that are able to address collectively a range of transnational issues. Trade obviously is one of these issues, but finance, global liquidity, labor migration, technology and intellectual property rights, and environmental issues must also be addressed. For these purposes, either a broad range of supranational institutions needs to be created or, as I shall suggest, the existing institutions need to be reformed.

### **Asymmetric Globalization**

Globalization, a word much in fashion at the moment, is leading to greater economic integration, but at the same time there are two important areas in which the world is becoming more restrictive and more protectionist. I want to highlight these. The first is

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\* KEITH GRIFFIN *is a professor of economics at the University of California, Riverside.*

restrictions on the movement of low-skilled labor. The second is the creation of “intellectual property rights” that restrict the flow of knowledge, ideas, and technology. These protectionist restrictions ensure that the benefits of globalization are distributed inequitably, within an asymmetric structure of global governance that favors the rich and the powerful while placing the poor and the weak at a considerable disadvantage. I shall argue, perhaps controversially, that the solution is *greater* liberalization, not less, and that this in turn requires more democratic decision-making at the global level.

Even in trade and commerce, an area where there has been a considerable degree of liberalization, the benefits of globalization have been distributed inequitably. The reason is continuing discrimination against products of particular importance to low-income countries. The process of liberalization has generally occurred much more slowly in the cases of foodstuffs, textiles, clothing, footwear, and leather products. So even in the areas where globalization has advanced most rapidly, there has been an asymmetrical relationship.

In the case of labor mobility, particularly mobility of low-skilled labor, my view is that we ought to be moving towards a world of open borders. This is part of my theme that greater globalization, not less, is desirable. I support freer movement of labor for two reasons. The first – again, perhaps controversial – is that I believe this is a “positive sum game,” from which everyone could benefit. But even if you do not accept that, even if you think that a world of open borders would significantly harm certain groups in the rich countries, I believe that we ought to do it anyway. Not only would it lead to greater efficiency in resource allocation, raising global income, but it would also improve the distribution of world income by disproportionately raising the incomes of low-skilled workers in developing countries. So open borders ought to be high on the agenda of progressives concerned with democracy in the world economic order.

In the case of patents and trademarks, the second area where I believe we are moving in the wrong direction toward more protection, we now glamorize the old terms “patents” and “trademarks” with the phrase “intellectual property rights.” I think we ought to move in the opposite direction, toward making knowledge a free good – not creating property rights in knowledge. Today we have reached an absurd situation where it is now possible to obtain a trademark on one’s name. An example that recently attracted attention in the press was the attempt by the singer Madonna to obtain a trademark on her name, notwithstanding the long-established prior use.

The situation is far more serious as regards patents on technology, as opposed to trademarks on names. Here I think we need to do several things, rather urgently. We have an institution through which we could do them, if it were reformed: the World Intellectual Property Organization (WIPO). What needs to be done is to raise the standards for patentability – that is, make it more difficult for enterprises and inventors to obtain patents. Firstly, we should make it impossible to obtain patents for minor product differentiations, a strategy that is increasingly being pursued by large multinational corporations. Secondly, we should make it impossible for firms to acquire defensive patent portfolios, whereby they take out large numbers of patents as a way to throttle

competition and inhibit innovative behavior by would-be competitors. Thirdly, we ought to prevent firms from engaging in other anti-competitive strategies, such as initiating patent litigation against smaller companies as a way to increase the costs of entry. Fourthly, I think we need an international convention that provides researchers with free, open access to patented information, so that new research and innovation are not impeded by patent monopolies. These things could be done in the short-to-medium run. In the longer term, I think we need to reconsider our entire patent system, so that the global public interest is more fully taken into account before monopoly power is bestowed on firms or individuals.

### **The World Trade Organization**

So much for areas where we are becoming more illiberal. Let me turn now to the topic of the World Trade Organization (WTO). Here again, my views may be somewhat controversial. I believe that progressives should support the WTO, not demonstrate against it as in Seattle. In the 1940s, when the Bretton Woods institutions were founded, progressives urged the creation of what was then to be called an International Trade Organization (ITO), with the purpose of completing what we now call the international financial architecture. That is to say, we would have a World Bank that would look after problems of capital supply; we would have an IMF that would look after problems of short-term balance of payments difficulties; and we would have an International Trade Organization, which at that time progressives thought would prevent the US from maintaining the total dominance of world commerce it enjoyed in the immediate aftermath of the Second World War.

The United States vetoed the idea. In fact, the issue was discussed not at Bretton Woods but in Havana. It was pushed to the periphery with the hope that it would be forgotten. And instead of the ITO, we had to be satisfied with the General Agreement on Tariffs and Trade (GATT). GATT, as we all know, was biased from its inception in favor of the trading interests of the rich countries. Indeed, most of the poor countries did not participate in GATT discussions in a meaningful way. The developing countries were quite dissatisfied with this arrangement, and after agitation over a number years, they were fobbed off with the United Nations Conference on Trade and Development (UNCTAD), of which Raul Prebisch was the original head. UNCTAD was deliberately made a weak and non-permanent body. Its life is renewed periodically, but it has never been more than a talking-shop.

In this historical context, I believe that we should regard the WTO as a considerable advance. Unlike UNCTAD, where there is not even a mechanism for reaching global agreements, and unlike GATT, where there is no mechanism for enforcing agreements once they have been hammered out, the WTO possesses both of these characteristics. It is set up so that serious and systematic negotiations can occur, and moreover, it provides a mechanism (albeit a rather weak one) for enforcing legally binding agreements.



My argument is that progressives should welcome the extension of the rule of law to the international arena, rather than relying on the traditional formula of “might makes right”. The WTO contains some provisions for compensation in cases where a country violates an agreement and thereby inflicts harm on others. It is true that this compensation mechanism is narrow, and the process of adjudication is so cumbersome that it can drag on for several years. Nonetheless, I think it is a step forward that we have agreed, in principle, that mechanisms of compensation are desirable.

Alas, the US has not hesitated to disregard the dispute resolution procedures of the WTO when it has suited its interests, and has sought in other ways get around its commitments. Perhaps the most common tactic is to invoke “anti-dumping” measures, of which there were more than 300 in force in the US in 1996. A great deal more needs to be done, therefore, to create a rule-based system of global economic governance as it applies to trade. But I would argue that we are moving in the right direction.

### **The Division of Labor Among International Institutions**

Let me now turn to another area of contention. It is my view that our institutions of global economic governance should be expected to practice specialization and a division of labor. That is, each institution should be responsible for a specific area of activity, and considerable efforts should be made to prevent overlapping jurisdiction and the resulting turf warfare, muddles, and lack of accountability. I say this not just because I have a background as a tidy administrator, but because confusion about responsibilities favors the rich and powerful, who can play one organization against another in a process of divide-and-rule. Progressives should oppose this gambit. Small countries should be able to contest an issue in one forum only, and not be forced to incur the expense of doing so in a number of fora.

This principle is relevant to two specific areas of current debate. It is my view that it is almost never sensible to use trade policy instruments in an attempt to protect the environment or raise labor standards. Indeed, I believe that the imposition of trade sanctions to correct environmental externalities or to discourage undesired labor practices is more likely to lower global well-being (and hurt the poor) than to raise it.

Environmental externalities should be tackled at their source, which is usually at the point of production, and occasionally at the point of consumption, but rarely at the point of exchange. Consider, as an example, our conventions on whaling. Efforts to protect the whale have revolved not around prohibiting foreign trade in whale meat, but in prohibiting the production of whale meat. That has been the job of the International Whaling Commission, and the commission has been quite successful. This is a model of how environmental externalities should be corrected, rather than trying to do so through trade restrictions.

Similarly, I believe that undesirable labor practices should be modified in all industries where the undesirable practice occurs, and not just in those industries which happen to be

exporting. To take an extreme example, slavery is intolerable whether the slaves are used for housework or to produce sugar for export. If we object to slavery, eliminating it is not the responsibility of the WTO; it is the responsibility of the International Labor Organization. Likewise, if we object to certain environmental externalities that have transnational implications, that is the responsibility of the United Nations Environmental Program (UNEP) – or should be the responsibility of a reformed UNEP – rather than the responsibility of the WTO. This, of course, is the way we do things nationally. We do not ask the Department of Commerce to deal with environmental and labor issues. These are the responsibilities of the Environmental Protection Agency and the Department of Labor, respectively.

### **Toward Global Democracy**

Our ultimate objective should be to apply at the global level the same principles of equity and efficiency that we advocate at the country level. This implies giving the people a voice in international institutions; that is, it requires representative democracy at the global level. We are very far indeed from that situation today. The Bretton Woods institutions are more akin to a plutocracy, since votes on their boards of directors are weighted by financial contributions. The Security Council of the United Nations represents rule by the strong, or more accurately, rule by those countries that happened to be on the winning side at the end of the Second World War. Most of the specialized agencies of the UN operate on the principle of one country, one vote, which means that a small country like Botswana (with just over a million people) has the same influence as India (with close to 900 million). In none of our existing international institutions is the principle of one person, one vote applied. People who have no voice within our existing institutions have no alternative but to take to the streets to protest. Democracy would bring the people inside the tent, and give them a voice within democratic institutions. This is the direction in which the European Community is moving. So it is not entirely utopian for us to think in terms of one person, one vote.

Today our international affairs, including our global economic affairs, are “regulated” either through the unilateral action of the dominant, self-declared “indispensable” country, or through coercion by a coalition of the rich (such as the G-7). The alternative to the status quo is a rule-based system of governance, backed by the creation of a body of international law and enforcement mechanisms that ensure that the rule of law does indeed prevail.

Finally, we need to construct a rational “architecture” of international economic institutions. In my view, this would mean scrapping those institutions that no longer serve a useful purpose (I would put the World Bank at the top of the list); strengthening those that are currently too weak to act independently of the most powerful countries (I would put the IMF at the top of that list); and creating new institutions where experience indicates that there is a pressing need for them (here at the top of my list would be a system of international courts for the enforcement of civil and criminal law). Once this architecture is in place – that is, once we can agree on the structure of governance,

including the expression of voices within that structure – then I think that the international institutions should be allowed to perform their specialized functions, and be held accountable to people worldwide for their performance.

**COMMENTARY****J. Mohan Rao**\*

This is vintage Keith. It is comprehensive, informed, relevant, opinionated, and controversial without being pretentious. I will make some general remarks, and also try to attack a few of his positions.

Candidate Ralph Nader cited Thomas Jefferson to the effect that we can have a democratic society or we can have great concentration of wealth. I suspect that if Jefferson had been reborn in our times he would have been Ralph Nader, and for much the same reasons. Concentrated property poses the key challenge to achieving 'deep democracy'. This is what worldwide experience within nations shows. To be sure, deep democracy is also very much a matter of the people themselves being active and making institutions accountable.

On the global level, the possibility of deep democracy poses even greater challenges than at the national level, for two reasons. First, global inequality of personal economic wealth and incomes is far greater than average inequality at the national level. Second, at the global level there is not even the shallow democracy that we have under the standard model of nation-state democracy. So we confront a massive deficit of democracy at the global level, even as we are rapidly marketizing the world economy.

Very simply put, the global system today is a quasi-predatory system. Its mechanisms of accountability, which Albert Hirschman abstractly termed 'exit, voice, and loyalty,' are concretely secured by big money, big voice, and the big stick. Globalization has done nothing to alter this system but on the contrary, has strengthened it.

Take, for example, the World Bank. People eager to condone its programs and policies cite the variegated personal views of its personnel. Others, keen to dismiss it, justly note its minuscule and fast diminishing share of worldwide investment. But the fact of the matter is that if there has been one big voice in the global arena promoting neoliberalism as ideology, it surely has been the World Bank. I suspect that the World Bank has more resources devoted to development research than all of global academia combined, especially if you take into account that there are increasing returns to scale in the sphere of knowledge production. And yet the Bank is not democratically accountable to the citizens of the world, or even to their national representatives.

Do we need the Bank's loans to serve as vehicles for diffusing best practices in development? In the old days, following the experience of reconstruction aid under the Marshall Plan, the Bank was seen exclusively as a development finance agency. Until

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\* J. MOHAN RAO is a professor of economics at the University of Massachusetts, Amherst, and a research associate of the Political Economy Research Institute.

about the mid-1970s, Bank lending concentrated on public infrastructure projects, essentially to supplement government funds. The idea that basic services (including education and health) needed to be in the public domain was widely accepted, both in the social democratic framework as well as in the development model. All that changed during the last quarter century. The Bank has lost its moorings as a development bank. The agenda shifted from infrastructure to liberalization, from projects to market-friendly policies, from the public domain to privatization (of anything that appeared even remotely privatizable, including health and education). The share of structural adjustment-style policy lending has grown rapidly. While positioning itself in the driver's seat of the neoliberal bandwagon, the Bank has cultivated a public image of using both its loans and its research efforts to spread so-called best practices. Despite its small and declining share of global capital flows, it has acquired tremendous leverage as an ideological institution.

As for the big stick, I would like to add to Keith's well-chosen examples. In 1998, the US simply declined to join a global court for war crimes and crimes against humanity – it is one of seven nations that are still holding out. Newspapers recently reported that the US is prepared to join the court on one condition: that its own personnel, soldiers, and officials abroad shall not be brought to 'the box' by the global court. That is what I mean by the big stick.

Big money, the chief obstacle to the possibility of democratization, has driven market fundamentalism and at the same time has fed on it. The WTO's mandates and procedures, both informed by market fundamentalism, are creating arbitrary concentrations of bureaucratic power at the global level. This is good for big business, but not necessarily for the rest of us. It should surprise no one that this fundamentalism is highly selective, as Keith has pointed out. It is a tragic commentary on the human condition that the two areas most important for the poorest countries in the world, textiles and agriculture, are the last items to come up for trade liberalization.

A second point about the influence of market fundamentalism in the structure of the WTO is that domestic regulations in respect of the environment, labor, health, safety, and other areas are to be 'least trade restrictive'. Our global institutions are constituted not in the pursuit of human goals such as life, liberty, and happiness. Rather they are to serve as instruments of mere market fundamentalism as if this were a fundamental human goal. Are we trying to create a global society or a global machine? If we are creating a global machine, we should affirm such instrumentalism. But if we are creating a global society, particularly a global democracy, we need to discuss and debate what this world society should stand for in terms of fundamental values.

Why have so many poor nations succumbed to the onslaught of global neoliberalism? This is a difficult question to answer, if we suppose that national decisions came first and globalizing institutions later. In fact, however, the sequence was the opposite. The best you can do acting alone is one thing; the best you can do acting in concert is quite another. The failure of developing nations to present a common front against the concerted efforts of corporate interests backed by powerful governments has left them to

their own individual devices. Joining institutions such as the WTO, shaped by the powers that be, might well be the best they can do under the circumstances. The point is that given the lack of global democracy, the representation of actual interests has been distorted and highly unequal. The unequal voter turnouts and campaign contributions of the poor in this country, as compared to the rich, provides a domestic analog.

This context raises further questions. We have had neoliberal ideological dominance, but do we have a neoliberal state at the global level? Some would deny that we have any global state at all. But this is patently false. We have a functioning ‘invisible state’, so the question remains. A neoliberal state would be one that confined itself to resolving global externalities and global public goods, just as at the domestic level. Does market fundamentalism serve to fulfill the agenda of such a global state? I submit that it does not. On the contrary, we are constantly reminded of global state failures in regard to the environment, health, financial instability, knowledge and information, and even peace and security (let alone equity and justice). Yet, there has been no dearth of efforts to make the world safe for the freedom of capital. This combination of negligence on the one side and Herculean endeavor on the other is a genuine paradox. If free trade and capital movement are inherently good for everyone, and markets harness self-interest, why have global free markets not come into being on their own, requiring instead enormous ‘persuasion’ efforts backed by big money and the big stick? The paradox of devotion to market liberalization and neglect of externalities is just what one would expect given the quasi-predatory system in place today. The parlous state of the global public domain reflects the lack of global justice, equity, and democracy.

Turning to the more specific points, Keith makes the very un-progressive sounding suggestion that the world needs more, not less, market liberalization. But what Keith means by “more liberalization” bears closer scrutiny. First, he backs the WTO and free trade, so that puts him squarely in the neoliberal camp. I will return to that point presently. Second, Keith calls for the unrestricted movement of people across countries (including this under the rubric of liberalization). This radical proposal is apt to be met with stony silence from liberal pundits. Third, he wants knowledge to move in the direction of becoming a free good, which is at least as radical as the open borders proposal. If this came to pass, we would no longer have to put up with the unseemly spectacle of 60% of the election debate in the world’s wealthiest country being devoted to the prices and funding of pharmaceuticals, much of it funded by the even more unseemly profits of giant pharmaceutical companies. Taking the Griffin package altogether, progressives could hardly fail to endorse it. They may accept trade liberalization as a bitter side-effect that goes with curing the big disease.

Nevertheless, reservations in regard to free trade are in order. Keith says that the WTO is moving in the right direction, referring to the case that liberals made for an International Trade Organization in the decade after World War II. I would be curious to know whether that proposal took account of Prebisch-type arguments concerning the unequalizing effects of free trade and defending development-enhancing protectionism. The outstanding features of the Kennedy and Tokyo rounds under GATT were that (1) most of the commitments on trade liberalization were made by the advanced economies

and (2) there were explicit agreements that exempted the developing countries from the disciplines and standards that were then established. The WTO, however, has come into being in an era of neoliberal dominance when the slogan of ‘level playing fields’ has replaced the idea of developing-country exceptionalism. Progressives must firmly resist the ‘one size fits all’ premise of the current dispensation and vigorously support development policy (including trade policy) autonomy for developing nations.

A second major point concerns first-best instrumentalism. Keith argues that nations should correct for externalities or other problems at their source, not at the level of trade, so that free trade emerges, in general, as the first-best policy. But second-best considerations are of enormous significance for developing countries. For example, one reason why such countries intervene in trade is because first-best instrumentalism would be fiscally infeasible or gravely inefficient. Similar considerations may well apply at the global level. The state of global public finance is reflected in the fact that foreign aid has fallen to a miserly 0.25% of advanced countries’ GDP (from more than twice that a decade ago), and in the constant US threat (not infrequently enacted) to withhold finances of the UN and sister agencies. As long as financial constraints remain binding, there is no reason why the world should sacrifice good causes at the altar of free trade as first-best policy. For example, trade instrumentalities may well prove both effective and fiscally feasible in restraining the worst abuses of child labor, flagrant violations of workers’ rights or safety, egregious depredations of the global environment, and so on. The principled defense of first-best instrumentalism and a lucid recognition of the massive problems in the global public domain together imply a very optimistic judgment of global public finance. While a large increase in the global budget financed by steeply progressive taxation would be welcomed, progressives should not count unhatched chickens. At least until the world comes to its fiscal senses, therefore, free-trade fundamentalism must be seen as part of the problem, not part of the solution. And that implies that we have no business defending the likes of the WTO.

The last point I would like to make has to do with functional specialization among global institutions. Keith expresses views about which institutions should remain, which should go, and perhaps also that new institutions should be created to fulfill new functions. Practically speaking, these proposals relate to the number and types of departments that the executive branch of global governance will have. But I think we need to talk much more about a global legislature and a global judiciary, not just a global executive. We should not succumb to the growing influence of the private corporate model – where the executive, legislature, and judiciary are unified.

This returns us to the question of democratic accountability in global governance. The present dispensation has few checks and balances, because we live in a world with a few extremely powerful and essentially unaccountable players. All too frequently, global institutions have been hijacked to serve special interests, even as they are used as fig leaves if the situation so demands. In such a world, constitutional issues about global governance should not be allowed to go by default. This necessarily raises questions of value and principle, not just of instrumentalities. The protests in Seattle must be seen in this light. Many of the groups and organizations that are agitating against globalization at

the venues of high-profile global conclaves may seem to be variously misinformed, but I think there is a deeper source of these protests: it has to do with global governance, accountability, and deep democracy.



***INTERNATIONAL FINANCE AND GLOBAL GOVERNANCE:  
WHAT ROLE FOR THE IMF?***

**Jane D'Arista \***

Criticisms of the International Monetary Fund (IMF) by progressives and non-governmental organizations (NGOs) currently focus on six issues: (i) the need for debt relief; (ii) the need to democratize the Fund's governance; (iii) the need to increase transparency; (iv) issues related to bailing-out and/or bailing-in private investors; (v) the Fund's future mission; and (vi) the need to reform the policy paradigm that countries must accept to qualify for borrowing. First I will provide a brief overview of progressive critiques on these issues. Then I will discuss other areas that also should be a focus of concern and criticism. I will conclude with some proposals for alternatives.

**Six Issues**

*Debt relief:* The NGO community has provided invaluable oversight of the Bretton Woods institutions, and in so doing has made major contributions to keeping issues surrounding global governance alive. Recently their efforts have focused on the need for debt relief. They correctly argue that debt is the critical element in the neoliberal paradigm. It has functioned as an instrument of control that has perpetuated the neocolonial form of global management since the 1950s. In the 1980s, however, it became apparent that debt also has become the primary barrier to achieving development goals.

From the perspective of the NGO community, the absence of movement for bilateral debt relief at the G-7 meeting in July 2000 was frustrating; the slow pace of the IMF in granting multilateral relief was even more so. The latter's poor response reflects its own institutional self-concern. Given that its sole source of funding is taxpayers' money, it is particularly wary of offending its largest funding source, the US Congress. The NGO community's success in getting Congressional support for debt relief is rightly seen as a strategic victory, one that may galvanize the IMF to speed-up the qualifying process for countries seeking relief.

*Governance:* On the issue of governance of the IMF *per se*, the focus has been on the undue influence of the US Treasury on IMF policy, and on the IMF's role in implementing policies favored by the so-called "Washington-Wall Street Consensus." The critics see US influence as benefiting private creditors at the expense of the less affluent and less influential IMF member states. Since affluence effectively determines influence in the IMF's current governing structure, there have been repeated calls for a

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\* JANE D'ARISTA is director of programs at the Financial Markets Center, Philomont, Virginia.

change in the quota system that would reflect shifts in global output and would introduce a role for population in determining the voting weight of members. So far, the G-7 has sidestepped this issue. The IMF's new managing director, Horst Kohler, appears to be somewhat more open to change than are the OECD member governments with the exception of Japan.

*Transparency:* Progressives object to the IMF/OECD insistence that the key to global stability simply is to require that borrowing countries provide more timely economic and financial data. They have campaigned for more transparency in the IMF's and World Bank's own dealings with borrowing countries. They also have begun to criticize the lack of transparency in the private international financial system, particularly the lack of public information on hedge funds, offshore centers, and derivatives markets.

*Bailing-out/bailing-in the private sector:* Critics maintain that it is primarily the creditors, not the borrowers, who are bailed-out by IMF loans. For the borrowers, bailouts often result in more debt on worse terms. Given that it is taxpayer money that finances the bailouts, it is primarily the finance ministers from OECD countries that are interested in this issue. The French and German governments oppose automatic lending to countries in crisis, arguing that this would relax the constraint on private lenders to moderate their risk-taking, presenting a problem of moral hazard. Instead they favor temporary moratoriums on debt repayment as a way of 'bailing-in' lenders. The US favors automatic lending, but wants countries to 'pre-qualify' for loans by meeting economic and financial criteria in advance. The US has expressed less interest in strategies for bailing-in private lenders.

*The IMF's future mission:* The future of the IMF is at the heart of the debate raised by the report of the Meltzer Commission.<sup>1</sup> In response to the conservative Meltzer/Helms/Gramm proposal to abolish or greatly diminish the role of the Bretton Woods institutions, the G-7 has agreed to scale-back IMF assistance, raise its price, and encourage private lenders to play a larger role. Meanwhile, a number of progressives also favor abolishing the IMF and World Bank. They argue that doing so would give developing countries more opportunities to evaluate and implement alternative policies. The overlaps between their position and that of the conservatives includes, by default, greater reliance on the private international financial system for development funding and liquidity. Other progressives are strongly committed to reforming the Fund and Bank, rather than abolishing them. Their reform agenda seeks ways to reduce poverty, promote international labor and environmental standards, regulate global capital flows, and cancel debts owed by the poorest countries.

*The policy paradigm:* The progressives focus their critique of the IMF's policy prescriptions on three areas:

- IMF conditionality promotes privatization and emphasizes fiscal austerity, both of which result in transfers of wealth from the poor to oligarchs and creditors. The

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<sup>1</sup> The March 2000 report of the US Department of the Treasury's International Financial Institutions Advisory Commission known after its chairman Allan Meltzer.

intent of reducing subsidies and social services is to increase the share of taxes available to repay debts.

- The IMF's emphasis on export-led growth leads to natural resource exploitation, and undermines the livelihoods of communities that need these resources for their survival.
- The IMF's insistence that developing countries liberalize their capital accounts and deregulate their financial systems has been a major source of instability. Moreover, it has allowed foreign multinationals to take-over national financial systems.

At the same time, progressives also question a number of recent neoliberal assertions:

- Neoliberals now present globalization as an irreversible trend – ‘there’s no going back,’ they say – and as an unquestioned benefit.
- Neoliberals assert that opening the capital account is necessary if a country is to participate in the global economy.
- Neoliberals see balance-of-payments crises as reversals of capital flows that are triggered not simply by fiscal imbalances, but rather by inappropriate economic or financial structures that cause domestic and foreign investors to lose confidence. Therefore, they believe that structures must be redesigned to accommodate the global economy (i.e. structural adjustment) through privatization and the curtailment of development policies that interfere with the market's allocation of resources.

In addition, progressives charge that the short-run crisis responses favored by the IMF – raising interest rates and cutting fiscal deficits, as done recently in Brazil – slow real investment and growth, thereby sowing the seeds of future crises.

### **Other Concerns**

The neoliberal assumption that private markets can and should replace public institutions in financing development must be challenged. The performance of private lenders must be analyzed in terms of both the amount of financing provided and their record in allocating resources to the most productive investments. Data from the Bank for International Settlements (BIS) indicate that development financing is, at best, a minor function of the private international financial system. As of June 2000, 78 percent of outstanding cross-border bank loans were claims on developed countries, an additional 12 percent were loaned to offshore centers, and a mere 9 percent were claims on developing countries. The access of developing countries' to international securities markets was even more limited, with their issues accounting for only 7.7 percent of the total. Moreover, the dominant issuers of securities are only a few countries in each region. In Latin America, for example, Argentina, Brazil and Mexico account for 85 percent of all funds raised in external bond markets.

The BIS data also reveal that the majority of private capital flows to developing countries are short-term. While 5-year maturities are standard terms for automobile loans to US consumers, 48 percent of private bank loans to developing countries mature in one year or less; only 35 percent carry maturities of over two years. Medium- and long-term bond markets are effectively closed to the overwhelming majority of developing countries. Given the paucity of economically attractive short-term investment opportunities in emerging and developing markets, private international lending has not, and cannot, function as a source of development finance.

Meanwhile, it is no accident that the US has received a dominant share of international capital flows. The dollar-based international monetary system ensures that US financial assets will be the choice investments for global savings. The key role of the dollar requires all developing and many developed countries to hold dollar reserves to pay for imports and to service debts. At the end of 1999, over \$900 billion of externally-owned dollar reserves were held in the US. These provide credit to US residents, not to the residents of the countries that own them. Since most are invested in US Treasury securities, dollar reserves constitute a monetary structure that ensures mandatory foreign lending to the US government.

Since only the US can issue dollars, other countries must obtain dollar reserves by exporting goods or by borrowing. The demand for dollar reserves is one basis for the export-led development paradigm. But export-led growth is a zero-sum game, in that it requires the US, as the country that issues the international currency, to import more than it exports. Over time, this has led the US to become a debtor nation with a negative net international investment position that rose to 16 percent of GDP at year-end 1999. The spectacular US growth of the 1990s has been fueled by the nation's ability to live beyond its means, but this trend is not sustainable.

The counterpart of the rising US external debt is a debt bubble in the domestic economy. This has pushed the outstanding debt of nonfinancial sectors to 189 percent of GDP, and household debt to 103 percent of disposable income. Rising debt levels have made US households and businesses more vulnerable to a slowing economy than they were at the beginning of the 1990s. Their inability to incur more debt if cash flows diminish in turn increases the vulnerability of other countries. Without credit-financed consumption in the US, the cash flows that maintain growth and service debts in other nations will cease.

### **Alternative Proposals**

In addition to the reorientation of IMF and World Bank loans as a means to achieve social and environmental goals, progressives support a variety of ideas – both old and new – for reforming the international financial and monetary architecture. They argue for using capital controls to moderate pro-cyclical private flows seeking short-term profits. Many support instituting some form of the securities transaction tax proposed by Tobin, that would discourage short-term turnover of investments in source countries (Pollin and

Baker, 2000). Palley (2000) proposes extending asset-based reserve requirements to all financial sectors and assets, so as to reestablish monetary control over the supply of credit in national markets. Eatwell and Taylor (2000) propose the establishment of a World Financial Authority (WFA) to provide global oversight of international financial institutions, on the grounds that the monitoring of global markets via national regulation is inadequate. They argue that the IMF should not be involved in financial regulation, and that a WFA is needed both to reestablish the primacy of stability and soundness as regulatory objectives and to reverse the current push for deregulation.

Elsewhere (D'Arista, 1999), I have offered three proposals to reform the international financial and monetary systems. The first is a proposal for a closed-end international investment fund for emerging markets, with investment decisions based on development goals rather than short-term profit opportunities. The fund would be financed through private institutional investors' purchases of marketable World Bank securities. As a closed-end fund, investors could sell shares without triggering sales of underlying assets. This structure would serve to insulate underdeveloped markets from volatile flows of foreign portfolio investment, while providing a highly-rated, guaranteed investment asset for institutional investors.

My second proposal is to issue new special drawing rights (SDRs) that would augment the international reserves of developing countries and reduce their debt burdens. SDRs were originally intended to become a primary reserve asset and to give the IMF limited powers to act as a lender-of-last resort (IMF, 1987). The most recent allocation, however, was in 1981, and only \$28 billion in SDRs are currently outstanding, compared to \$1.6 trillion of foreign exchange reserves. Moreover, as of yet, none have been issued to Russia and other new member countries. Yet, SDRs represent an existing mechanism for relieving the liquidity squeeze that has affected developing countries since the Mexican crisis in 1995. A new allocation, targeted to highly indebted and crisis-affected countries, could be even more effective than debt relief in re-igniting global growth.

My third proposal calls for the creation of an international clearing agency to address the basic problem in the global economy: the unraveling of the international monetary system. Failures of exchange-rate regimes and the push for dollarization and other currency blocs are symptoms of international monetary fragility. Under the privatized, post-Bretton Woods system, the volatility of changes in the valuation of currencies has widened their impact and deepened the economic damage they cause. The fact that only a few countries issue currencies that can be used in international transactions greatly exacerbates this instability. The primary objectives of the proposed clearing agency would be to allow all currencies to be used in international transactions and to shift control of international payments from private to public institutions.

This system would replace the current system of foreign exchange that is based on oligarchy. Resources would be valued in terms of the entire basket of currencies of member countries. All international reserves would be held by the international clearing agency. Changes in exchange rates would be tied to changes in the reserves of member countries and adjusted at two-week to four-week intervals. The clearing agency would

also have the means and authority (on the basis of a majority vote of its member countries) to create reserves by conducting open market operations in national markets. This power would create a true lender-of-last resort for the global economy, responsive not only to balance-of-payments problems stemming from trade and investment flows, but also to the often greater problems that can result from natural disasters and the devastation of war.

Creating an international clearing system that reestablishes public control over cross-border payments is necessary to end the pro-cyclical rule of market forces and to restore sovereign control over policy determination. It would allow national central banks to reintroduce the use of credit allocation and countercyclical policies; it would also allow governments to pursue development and growth as objectives of economic policy. Furthermore, since it would allow developing countries to pay their transactions and service their debts with wealth created in their own national economies, such a system would end the export-led growth imperative of the current system and reinstate demand-led growth as an alternative policy paradigm for developing countries.

The reform of the international financial and monetary architecture requires a democratic basis for governance. The clearinghouse proposal envisions a rotating council composed of member countries that would represent half the world's population and half the world's wealth at all times. The EU has taken steps in a similar direction by weighing both population and monetary contributions to determine voting shares within the European Central Bank. Similar criteria must be applied to shaping the governing structures of international institutions, old and new. Whatever the specifics, the issue of democratic governance must be addressed.

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**COMMENTARY****James Crotty\***

I will make two comments.

The first concerns the question of whether progressives should support a ‘nix it’ or ‘fix it’ strategy for dealing with the IMF and World Bank. The people who back one or the other of these strategies often are not far apart on the substance of the matter. Folks who want to ‘nix it’ intend to replace these institutions with new ones that will perform similar functions, but in a more humane and democratic fashion. And those who want to ‘fix it’ intend to change these institutions so radically that their position is not so different than that of the ‘nix it’ view.

My own position is this. After reading many IMF reports and many analyses of the terrible things the IMF has done to the developing world in recent decades, and occasionally talking to IMF economists over the years, I think that it would not be enough to change the policies of the IMF: you would have to change most of the personnel as well. My tongue-in-cheek suggestion is that everyone who has worked for the IMF for five years or more should be required to spend five years in peasant agriculture, preferably in the countries on which they have worked, before being allowed to return to the Fund. Without new or ‘reformed’ personnel, we can never ‘fix it’.

My second comment concerns the extent to which governments have the power to resist the IMF. I have spent some time watching the IMF work in Asia, especially in Korea, and I see IMF-country relations as quite complex. Within each country, there are different classes and industrial and financial groups that profoundly disagree on how much liberalization of different kinds should take place in the country. The internal political power of each group depends in part on its relations with outside forces including the IMF, the US and G-7 governments, and multinational firms. In Korea, it was the large conglomerates called *chaebol* and the richest families that sought liberalization. They were able to get large parts of their desired policies enacted in the 1990s in part because their external allies were pushing the Korean government in the same direction. For example, financial liberalization was a condition set on Korea’s entry into the OECD. It is not helpful, therefore, to see the liberalization process as the outcome of an ongoing negotiation between two autonomous groups, one external and the other internal. The elite position in Korea became the official government position because it was reinforced by external powers. The external powers strongly influence which among the competing positions inside the country becomes government policy.

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\* JAMES CROTTY is a professor of economics at the University of Massachusetts, Amherst, and a research associate of the Political Economy Research Institute.

I went to Korea in February 1998, shortly after the financial crisis had broken out. And because I'm very fortunate to have wonderful contacts in Korea, I was able to interview influential business, labor and government leaders. For example, I interviewed a gentleman who is a top administrative officer for the Federation of Korean Industries, the trade association of the largest *chaebol*. I asked him, in effect, "What's wrong with you people?" The Korean government had just concluded the most destructive and invasive agreement in the history of IMF-Korean negotiations. Yet Korea isn't some 'banana republic' (my apologies to all those countries that have been referred to in this way). It is a powerful economy, with one of the best development records in world history. Why, I asked, did Korea accept such a demeaning agreement, one that essentially forced Korea to change its entire economic way of life? This powerful man answered as follows. It is our view, he said, that the number one economic problem facing Korean business is the excessive strength of the labor movement since the mini-revolution of 1987. We have been trying to break the labor movement for the last decade, he said, but we have failed. Then the IMF came to us and said, 'We will break the labor movement for you, but only if you support the entire IMF restructuring package.' This package included some things the *chaebol* did not like, such as sky-high interest rates and the full opening of Korea to Japanese imports. But on balance, he said, it was an offer we could not refuse. So it is not quite accurate to think of in-country and external forces as autonomous in these negotiations. The 'bad guys' are domestically empowered by the international financial institutions and the G-7.

Finally, it seems to me that without the destructive interventions of the IMF and World Bank, the global neoliberal financial structure could not be sustained. The IMF is the organizer and enforcer of a global creditors' cartel. In the absence of this cartel, international financial flows would collapse. Consider the Asian financial crisis. Why did short-term foreign bank loans flood into Asia in the mid-1990s? Why did foreign banks double and triple their Asian loans? There was plenty of evidence available, early on, that this was largely a speculative bubble. Bankers didn't wake up one day in July 1997 to be hit with new information that their loans to Thailand may have been imprudent. I think the explanation is this: the banks knew that if they got into trouble, the IMF would come and rescue them – which, in fact, it did. The IMF always rescues foreign banks in international financial crises, but at the same time it forces neoliberal restructuring on the borrowing countries in the process. If the IMF did not play this role effectively, international financial integration would proceed at a snail's pace, international financial crises would be less frequent and less severe, and, fewer developing countries would have experienced forced neoliberal restructuring.



## ***PROGRESSIVE CRITIQUES OF THE WORLD BANK***

**Lisa Jordan\***

In recent years, the number and variety of critiques aimed at the World Bank has exploded. Although most of the critiques have come from organizations that consider themselves to be progressive, a political spectrum of sorts can be traced amongst the critics of the World Bank and other international financial institutions. At one end of the spectrum are organizations that are willing to work within the current paradigm and to use the existing global financial system to further their own goals. At the other end are those who wish to abolish the system that they view as corporate-led, out-of-control capitalism. In the middle are organizations that are oriented toward reforming the institutions that perpetuate the current system.

Two of the most prominent organizations that are challenging the system are Focus on the Global South and Fifty Years is Enough. These organizations advocate eliminating our current international financial institutions, on the grounds that they further an unjust economic order, and propose the creation of new (and not necessarily global) institutions in their place. Fifty Years is Enough was at the center of organizing the street demonstrations in April 2000 in Washington, D.C. At the other end of the spectrum, twenty of the largest non-governmental development organizations in the US sent a letter to World Bank president James Wolfensohn supporting the Bank, even as 10,000 protesters were gathering in the streets of Washington. Protest organizers suggested that this demonstrated whose bread was buttered by the World Bank. Yet all of these organizations, on both ends of the spectrum, regard themselves as progressives.

In between stand organizations like the Bank Information Center (BIC), that focus on democratizing the existing international financial institutions. Our efforts at BIC are focused on reforming three key features of the World Bank: its lack of transparency and public access to information; the exclusion of the people affected by the Bank's policies (the so-called 'beneficiaries') from decision-making processes; and the lack of accountability of staff and management at the Bank for the results of their actions, or in some instances, for their inaction. This reformist approach that encourages transparency, participation, and accountability seeks to bring people into the existing power structures that are adversely affected by them, and thereby alter those power structures.

The reformist and abolitionist stances can – and do – exist simultaneously. The abolitionists protesting on the street create political space for the demands of the reformists. At the same time, without the reformists, the international financial institutions would seek to project an image of change without truly making substantive changes. Furthermore, the 'nuts and bolts' reformist approach often deals with the more

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\* LISA JORDAN is a program officer at the Ford Foundation, and the former director of the Bank Information Center in Washington, D.C.

immediate problems that people face from decisions taken at the World Bank today. At the BIC, there are a number of people who are more closely allied with the abolitionist wing of the progressive movement. They have chosen, however, to work on a day-to-day basis to gather facts on specific projects and loans, so as to have a more immediate impact at both the grassroots and policy levels.

### **Paradigmatic Underpinnings of Critiques**

Recent campaigns to reform or abolish the World Bank have evolved around two main paradigms. The first is the sustainable development paradigm that emerged in the 1970s and came to fruition at the 1992 UN Conference on Environment and Development in Rio de Janeiro. Since that time, the BIC and like-minded organizations have struggled daily with the World Bank to ‘mainstream’ many objectives that have come out of the sustainable development paradigm, including social equity goals. Over the past decade, this activist community has made tremendous progress at the Bank. Their experience offers important insights as to whether the existing institutions of global economic governance should be reformed or abolished. The issue is whether we should work with the ‘beasts’ that we already have, or create new beasts. The fear is that the later course – creating new beasts – could wipe out many of the progressive gains that environmentalists and others have been able to get in place. This same community now is applying similar tactics and principles to the World Trade Organization.

The second paradigm that motivates and mobilizes civil society is opposition to corporate globalization. The Bank’s role as one of the chief financiers of key aspects of globalization – economic adjustment, privatization, and trade liberalization – has set it squarely in the sights of the environmental movement, the labor movement, the anti-debt campaigners and the women’s movement. As witnessed in the streets of Seattle, Washington, and Prague, concerns about globalization have brought about a convergence of these social movements, helping to ratchet-up the public debate about the type of economic and global governance models that should prevail.

In response to these two sets of critiques, the Bank has adopted a new “poverty paradigm.” Long-time activists believe that the Bank has moved away from sustainable development to the poverty paradigm in order to appear to be responding to the forces opposed to corporate globalization. This move alarms many sustainable development activists, because it allows the Bank to shift its focus and begin afresh with new sets of actors, who may not be aware of the history of contention around these issues. Furthermore, the internal actors within the Bank engaged in poverty are not the same as those engaged in environment. Long-standing ‘do-no-harm’ sustainable development policies are now under threat. For example, the Bank is redrafting almost all its sustainable development policies that protect local communities from inadvertent harm so that the policy language incorporates its new ‘poverty mission’. We have had tremendous struggles with the Bank over these new policies, and have documented the systematic weakening of citizens’ rights in this process.

A key arena of contention is in determining where nation-state responsibility begins and where Bank responsibility ends. The poverty paradigm is presented as a new social contract with developing countries where partnership between the Bank and its borrowers is the preferred relationship. The BIC is concerned about building tools that will allow the public to have access to the Bank's decision-making structure. In the current poverty dialogue, however, the Bank maintains that it is no longer in control; instead it claims that the countries themselves are in control. Thus, if critics have a problem with the way that development is (or is not) moving forward, Bank officials maintain that it is not their responsibility, and that the critics should talk to their governments. This country-driven framework is quite different from establishing institution-wide goals such as 'the Bank will no longer lend for large dams,' or 'the Bank will cut back on lending for coal-fired power plants and instead look at renewable energy resources.' The environmental community has been advocating such policies for a long time, arguing that, as a global institution, the Bank has a responsibility to protect global public goods. In the poverty paradigm, the Bank downplays its global nature. Instead, it claims to take direction from developing countries. For example, it says that it cannot lend for renewable resources because nobody wants to take its money. Nor can it 'tell countries what they should do' with their energy or forest resources. So the current dialogue is very interesting. In effect the poverty rhetoric is being used as an excuse not to practice sustainable development.

As part of the new poverty paradigm, the Bank has emphasized its role as a development institution. This differentiates the Bank from the International Monetary Fund and from the World Trade Organization, two primary targets of the 'anti-globalization' forces. But despite the talk of being a development institution, the incentive structure of the World Bank is still very much that of a bank. The primary concern is making loans. Whether or not an individual is promoted depends upon the size of the portfolio that the person manages. Shepherding big and often controversial projects, such as the Chad-Cameroon Pipeline, through the board is the way to rise through the Bank's internal hierarchy. Community-based natural resource management, small-scale development projects, and adherence to recently codified sustainable development concepts earn little recognition, and do not lead to promotions.

Much of our efforts center around getting information out to the public. Bank-produced information is often one of the best sources both for understanding the direction in which the Bank is moving and for assessing its relative successes and failures. For example, in its *Annual Review of Development Effectiveness 2000*, (ARDE), the Bank published an analysis of 28 countries by its Operations Evaluation Department (OED). The OED found that during the 1990s:

- per capita incomes in 40% of the countries were either static or declined;
- life expectancy declined in 25% of the countries;
- the percentage of people living below the poverty line in 23% of the countries increased;
- 54% of the countries experienced at least one of the following: stagnation of per capita income, decline in life expectancy, and/or an increase in the poverty rate; and

- in 85% of the countries, per capita income grew 1% a year or less.

For the first ten years that the BIC was active, the ARDE was not a public document. Due to recent pressures, however, the document is now released to the public. In addition to analyzing progress on the poverty front, or lack thereof, the OED conducts sectoral studies. In a study of the forestry sector, the OED found that countries that have gone through structural adjustment are selling their forest resources faster than other countries.<sup>2</sup> The implication is that if the Bank wants to protect forests, it should stop financing structural adjustment. This is the Bank's own evaluation. We often use these studies to point out to the US Treasury Department, the Congress, and even the Bank itself how the institution is not learning the lessons that come out of its own evaluations.

Some types of projects financed by the World Bank have proven to be particularly effective in mobilizing public opposition:

- roads, agricultural development, and population transfer schemes that have impacted forests and biodiversity;
- dam construction that has destroyed river ecosystems and displaced people;
- coal, oil, and gas development that have contributed to global climate change;
- agricultural projects have increased the use of chemical fertilizers and pesticides; and
- Bank-financed roads, dams, and the invasion of territory by extractive industries that have affected indigenous cultures.

These types of projects have helped to galvanize and bring together the sustainable development critics and the anti-corporate globalization movement. Marginalized communities often lose out in the implementation of large infrastructure and large agricultural projects. Because they do not have political power, it is easy to put a dam in their territory, or to cut a road through their farms, or to deprive them of access to ecosystems on which they rely for their daily livelihoods. These types of projects appeared on the signs that protestors were carrying in Washington in April and in Prague in September: projects such as the Yacreyta Dam on the Argentina-Paraguay border that forcibly displaced 50,000 people, and the Chad-Cameroon pipeline.<sup>3</sup> Among the Bank's most controversial projects in recent years has been the 'Western China Poverty Reduction Project,' that would have relocated 60,000 ethnic Chinese farmers into a Tibetan area, thereby supporting the Chinese government's long-term policy of transmigration and subordination of ethnic minorities. Opponents were able to stop this project.

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<sup>2</sup> World Bank OED, [Review of the 1991 Forest Strategy](#).

<sup>3</sup> For information on the Yacreyta Dam, see Kay Treakle, "Accounting at the World Bank: What Does it Take? Lessons from the Yacreyta Hydroelectric Project," Washington, DC: Bank Information Center, September 1998 (available on the worldwide web at <http://www.bicusa.org/publications/yacreyta.htm>). For information on the Chad-Cameroon pipeline, see <http://www.bicuas.org/africa/chadcameroon.htm>.

## **Advocacy Strategies**

Among the activists seeking to reform and/or shut down the Bank, it is possible to identify six strategic objectives. One is damage control, so as to decrease the destructive impacts of Bank-financed projects on the environment and people. A second objective is positive lending, an attempt to increase lending to promote environmentally and socially sustainable development. Third, some are working to expand citizen influence and public control over how development funds are spent; the fact that taxpayers support the institution lends legitimacy to this objective. Fourth, many groups seek to limit the reach of the institution, and to decrease the Bank's influence over decision-making, in the belief that development policy should be determined at the local and national level, not at the Bank.

The fifth objective is to increase accountability. A major contribution of the activist community during the last ten years has been the creation of an 'inspection panel' consisting of three semi-independent development experts. Citizens who are negatively affected by something that the Bank is trying to do can go directly to the panel and ask them to examine what is happening on the ground. They do not have to work through their governments or the Bank. The panel reports back to the Bank's board of executive directors, letting the member countries know if the Bank failed to adhere to its policies and suggesting solutions. This is the first time that anything of this sort has been implemented at any of the international financial institutions. In large part, it was this mechanism that ultimately led the Bank's executive directors to reject the Western China Poverty Reduction Project: the inspection panel was able to demonstrate that the Bank had not adhered to its own rules and procedures.

Finally, advocacy groups have worked to change Bank policies. Progressive critiques have achieved a number of policy changes at the World Bank over the past twenty years, on issues including resettlement, indigenous peoples, forests, environmental impact assessments, international waterways, and disputed lands (see Table 1). In each case, these changes can be traced to battles over particular loans. Now our battle is to ensure that these policies become standard practices in the Bank's day-to-day process of implementing loans.

**TABLE 1:**  
**HOW PROJECT CAMPAIGNS HAVE INFLUENCED POLICY CHANGES AT**  
**THE WORLD BANK**

Project	Problems	Pressure	Policy Change
<b>Chico River Dam Philippines</b>  <b>World Bank Late 1970s</b>	<ul style="list-style-type: none"> <li>◆ Invasion of indigenous territory by builders</li> <li>◆ No Consultation with local people</li> <li>◆ Displacement and destruction of local livelihoods</li> </ul>	<ul style="list-style-type: none"> <li>◆ Local indigenous population raised fierce opposition, including chasing dam builders out of their territory.</li> <li>◆ Linked to international working group on indigenous peoples and anthropological organizations</li> </ul>	<p>⇒ Raised concerns about the need for Guidelines on <i>Resettlement and Indigenous Peoples</i></p>
<b>Polonoreste Road and colonization project Brazil</b>  <b>World Bank Early 1980s</b>	<ul style="list-style-type: none"> <li>◆ Paving of road combined with government policy brought about chaotic colonization process</li> <li>◆ Massive deforestation from agriculture and timber companies</li> <li>◆ Pollution of rivers from mining</li> </ul>	<ul style="list-style-type: none"> <li>◆ Internal Bank staff raise concerns about impacts on indigenous peoples</li> <li>◆ US-based environmentalists and Brazilian rubber tappers formed international alliance</li> <li>◆ Media, congressional hearings in the US and advocacy campaigns aimed at the Bank's president</li> <li>◆ Widespread demands for environmental reform</li> </ul>	<p>⇒ First bank policy Guidelines written: <i>Tribal Peoples and Economic Development</i></p> <p>⇒ Creation of the environment department</p> <p>⇒ Contributed to the call for an <i>Environmental Assessment Policy</i></p>
<b>Sobradinho Dam Brazil</b>  <b>World Bank 1979</b>	<ul style="list-style-type: none"> <li>◆ Forced resettlement</li> <li>◆ No consultation</li> </ul>	<ul style="list-style-type: none"> <li>◆ Local opposition and the government's use of the military to evict people; led to internal changes by Bank social scientists</li> </ul>	<p>⇒ Contributed to the creation of the <i>Resettlement Policy</i></p>
<b>Narmada Dams India</b>  <b>World Bank Late 1980s/Early 1990s</b>	<ul style="list-style-type: none"> <li>◆ Forced resettlement of millions of tribal and other poor people</li> <li>◆ No environmental impact assessment before project approval</li> <li>◆ Enormous environmental impacts</li> </ul>	<ul style="list-style-type: none"> <li>◆ Fierce local protests by millions of oustees</li> <li>◆ Supported by international NGOs using press, public pressure, and US Congress</li> <li>◆ Strong support from some donor Executive Directors</li> </ul>	<p>⇒ First ever <i>independent review</i> of a bank project</p> <p>⇒ Creation of <i>Information Disclosure Policy and Independent Inspection Panel</i></p>

Source: Jonathan A. Fox and L. David Brown, eds (1998), *The Struggle for Accountability: The World Bank, NGOs, and grassroots movements*. Cambridge, MA: MIT Press.

## Conclusion

In a move that granted enormous legitimacy to activists, Czech President Vaclav Havel invited the protesters in the streets of Prague into his castle to debate with World Bank president James Wolfensohn and IMF managing director Horst Kohler. In this debate, Walden Bello, from Focus on the Global South, maintained that the World Bank is part of the problem rather than part of the solution. He argued that while they say that the Bank says it is a proponent of ‘good governance’ in fact it has supported a long list of military regimes. Bello also challenged the Bank’s claim that it is concerned about the environment, citing World Bank projects that have degraded the environment, and using OED figures that show how structural adjustment projects have negatively impacted forests. He went on to question the Bank’s dedication to combating poverty, arguing that poverty has increased during the last twenty years of structural adjustment.

Bello offered an interesting critique of the World Bank’s and IMF’s claim that they want the participation of civil society, arguing that, in fact, they have attempted to split civil society into the ‘good guys’ and the ‘bad guys.’ The ‘bad guys’ are the critics who want to reform or abolish the Bank. The ‘good guys’ are the non-governmental organizations (NGOs) who deliver social services on the ground, including the twenty NGOs that sent the letter to supporting the Bank in April 2000 as protesters were gathering in the streets of Washington.

Bello then posed the following questions to Messrs. Kohler and Wolfensohn:

- “Mr. Kohler, do you propose to give greater decision-making power in the IMF Board to the developing countries? Will you do this by diluting the voting power of the United States and the European Union countries that now dominate the board?”
- “Mr. Kohler, will you propose ending the medieval and non-transparent practice of the IMF always being headed by a European?”
- “Mr. Wolfensohn, will you advocate doing away with the equally medieval and nontransparent tradition of always having an American head the World Bank? I would like to remind the audience that had Mr. Wolfensohn not given up his Australian citizenship to become an American, he never would have become head of the Bank.
- “Mr. Wolfensohn, why did you not stand by your chief economist Joe Stiglitz and allow that powerful voice of reform to be pushed out of his staff position and later from his advisory role by influential conservative forces both within and without the Bank?”
- “Mr. Wolfensohn, what about Ravi Kanbur, who headed the *World Development Report* project? Why did you not stand by this advocate of reform and allow the

conservative forces in the Bank to stonewall him and leave him no other option but resignation?”<sup>4</sup>

All these questions have to do with the undemocratic nature of the Bank and the Fund. These are great questions, and they need to be answered. But Messrs. Wolfensohn and Kohler may be the wrong people to ask. Instead, we should ask the Group of Seven and the Group of Twenty-Four, the governments of the main donor and borrower countries.

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<sup>4</sup> Walden Bello, “The Prague Castle Debate: A Few Questions for Mr. Wolfensohn and Mr. Kohler,” Bangkok: Focus on the Global South (available on the worldwide web at: <http://www.focusweb.org/publications/2000/The%20Prague%20Castle%20Debate.htm>).



**COMMENTARY****Eva Paus**\*

Keith Griffin, Jane D'Arista, and Lisa Jordan have outlined a set of thought-provoking proposals for redressing global economic governance to enhance well-being in developing countries. Their arguments focus on the substantive agenda that needs to be pursued globally to enhance economic development; the constituent elements of a global institutional architecture that will articulate, enact, and enforce this agenda; and the nature of democratic representation in these supranational institutions.

At the risk of oversimplification, the authors' critique of the current structure of global governance can be summarized as follows. First, the 'one-size-fits-all' neoliberal policy package imposed by the international financial institutions (IFIs) is not conducive to growth and development, as it neglects the need for regulation in important areas, such as global financial capital flows and labor and environmental standards. Second, the absence of mutually agreed global rules in key areas works to the detriment of poor countries, as they have no legal recourse to counter unilateral actions by the economically powerful. And third, decision-making in the IFIs is dominated by the United States (and to a lesser extent the other economically powerful nations), leaving developing countries or groups within those countries with little voice to shape policies that affect their livelihoods.

The authors offer various proposals for change, including free labor mobility across borders, policies to ensure freer access by developing countries to new technology, substantially increased multilateral development finance, greater debt forgiveness for the poorest countries, the regulation of global capital flows to reduce financial instability, and effective promotion of international environmental and labor standards.

Among these proposals, I want to highlight the importance of increased development financing for low-income countries, not because it is more important than the others, but because it normally receives less attention among mainstreamers as well as progressives. Low-income countries generally do not have access to private capital markets, due to shallow or non-existent domestic capital markets and high-risk assessments by international banks. Between 1992 and 1998, low-income countries (excluding India and China) received only 5.1% of global direct foreign investment flows and 2.4 % of portfolio equity flows (Ocampo, 2000, p.5). These countries need higher investment rates, and therefore larger domestic and foreign savings, to achieve higher economic growth and development. D'Arista's proposal of a closed-end international investment fund for emerging markets is an innovative suggestion for channeling private savings from industrialized countries towards productive investment in developing countries through a multilateral organization like the World Bank.

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\* EVA PAUS is a professor of economics at Mount Holyoke College.

With respect to the architecture of global institutions, the authors differ on whether existing institutions should be reoriented or abolished. Jordan and D'Arista propose to reform the World Bank, while Griffin wants to abolish it. Griffin wants an IMF that is independent of the US Treasury, while D'Arista suggests replacing the IMF with an International Clearing Agency that would re-establish public control over cross-border payments and be structured to revoke what Hausman (1999) has called the 'original sin,' the fact that most countries cannot use their own currencies for international payments. Griffin also stresses the importance of establishing a system of international courts for civil and criminal law.

All three authors advocate greater democratic representation in these international bodies, with better accountability and transparency. Griffin boldly argues for applying at the global level the model of representative democracy we have at the national level. Thus a country's representation in international organizations would reflect its share in world population. For the International Clearing Agency, D'Arista proposes a governing structure where representation reflects both population and economic power.

These proposals range from reformist to utopian. Both ends of this spectrum play a useful role in stimulating debate about the need for a more democratic structure of global governance. At this juncture, it is hard to see how a broad coalition of interests can be forged in support of the more utopian aims, like free labor mobility across borders. Nevertheless, by going to the very heart of the structural inequities and sources of instability in global capitalism, such proposals expand the discourse and the space for reformist demands and action by progressives.

International institutions are not unchangeable. When first established, their structure and agenda respond to the exigencies of the moment as defined by the politically and economically most powerful players. But then they evolve in response to changing circumstances and struggles about their agendas, between those outside the decision-making circles and those on the inside, and at times among the insiders themselves. The break-up of the WTO meeting in Seattle in December 1999, for example, was as much the result of opposition from those member countries who were not allowed to participate in the backroom negotiations and of disagreements between the US and the Europeans, as it was of the protests in the streets. That NGO action can lead to tangible pro-development changes in international institutions is documented well in Lisa Jordan's paper. A recent example of successful activism outside the immediate context of multilateral organizations is the anti-sweatshop movement. It has moved beyond the activist circles to include growing numbers of consumers who demand to know the labor conditions under which their clothing was produced.

While it is clear that multilateral organizations operate within a set of systemic constraints, it is impossible to specify in advance the exact limits beyond which NGO pressure cannot reform an organization. It often seems more attractive to start from scratch and build new organizations rather than reform existing ones. But historical experience suggests that new multilateral organizations originate primarily in response to perceived potential crises, e.g. the IMF, the World Bank, and – to some extent – even the

International Labor Organization (ILO). The WTO does not fit this pattern: it succeeded the GATT when it became clear that it was no longer effective in meeting the demands for clearer and enforceable rules for world trade.

With respect to the democratization of existing organizations, it will be a challenge to get the IMF and the World Bank to cede decision-making power to economically less powerful and poorer countries. The current discussions regarding permanent membership of the UN Security Council suggest that democratization may be easier if spearheaded by some of the more powerful countries themselves. Germany and Japan have been clamoring for seats on the Security Council for some time, based on their economic might. Because of the broader demands for democratization, however, it is highly unlikely that any expansion will happen unless powerful developing countries are included as well. Brazil, Nigeria, and India are the frontrunners in current proposals.

Regarding the interaction of institutions in the new architecture of global economic governance, Griffin urges a strict division of labor among them. I would agree with him, if we lived in a world where each organization has the means to hold members accountable to the rules to which they agreed. However, the current reality is such that many organizations lack enforcement powers. The ILO is a case in point. In practice, if we want to promote countries' adherence to core labor rights, the issue has to be dealt with in the WTO, because politically it will be much more difficult to establish effective enforcement powers for the ILO than to include labor standards into the WTO negotiations.

Less powerful countries have much to gain from a set of mutually agreed upon global rules to which all countries, rich and poor, must abide. As global trade rules are defined further in the coming WTO negotiating rounds, developing countries should strive to be pro-active and advance their own agenda (at least, one agreed upon by a sizeable number of countries), rather than simply reacting to the proposals of developed countries. Progressive academics have an important role to play in contributing to the development of such an agenda.

As we think about democratizing institutions of truly global reach, we should note that much economic integration and institution building currently occurs at the regional level, principally in the context of free trade agreements. The promotion of regional democratic governance must complement developments at the global level. In many instances, it may be more feasible to bring about desirable changes at the regional level. Since regional agreements are often struck among countries of similar strength, they don't confront the challenge of addressing the tremendous disparities in economic and political power between the poor and rich countries that is posed at the global level. Yet the experience of regional institutions can provide important lessons for governance at the global level. For example, the North American Agreement on Labor Cooperation (NAALC), the labor

side-agreement of NAFTA, provides an important, if flawed, first step in linking labor rights and trade.<sup>5</sup>

Detailed studies of the development of the European Union could be instructive for enhancing our understanding of the challenges of democratizing economic governance at the supra-national level. For example, development financing for the poorer member countries (called ‘structural funds’) has been an integral element of the EU for a long time, based on the shared belief that integration can be successful only if member countries achieve a sufficient level of economic and social cohesion. In 2000, the EU spent 32 billion euros on structural funds (European Commission, 2001). Continued adherence to the principle of economic cohesion will be tested thoroughly, however, as poorer countries continue to join the Union. One implication of EU enlargement is a dramatic reduction in structural funds for the main current beneficiaries, Ireland, Spain, Greece, and Portugal. This seems to have been one of the reasons why Irish voters rejected the Treaty of Nice in a referendum in June 2001.<sup>6</sup>

It is also instructive to study how the allocation of decision-making power has been evolving in the governing bodies of the European Union. Both the size of the population and economic power have always been the determining factors for the number of votes each member state has on the European Council. After the Treaty of Nice, Germany, France, Italy, and the UK will remain the countries with the largest number of votes, with 29 each, compared to Luxembourg, for example, which will only have 4 votes. For the first time, however, Germany will become the first among equals, as the blocking of qualified majority decisions will be based on population. The other large countries, especially France, are concerned about this change in the voting rules that gives Germany an edge. This is in a context where the country with the largest population is also the most powerful one economically. Would an analogous change in voting rules have been possible if the most populous country had also been the poorest?

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<sup>5</sup> Human Rights Watch (2001) analyzed how future trade pacts have to be structured to avoid the pitfalls of the NAALC. The report identifies the lack of an independent oversight committee as one of the main reasons for the ineffectiveness of the NAALC provision to foster enforcement of each country’s labor laws.

<sup>6</sup> The Treaty of Nice, signed by all EU members in December 2000, specifies the institutional changes that will come with the enlargement of the Union. While the treaty has to be ratified by all national parliaments, Ireland is the only member country where a referendum is required.

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Focus on the Global South: <http://www.focusweb.org/>

Global Exchange: <http://www.globalexchange.org/>

Institute for Policy Studies, Global Economy Project:  
<http://www.ips-dc.org/projects/globalecon.htm>

International Financial Institutions Advisory Commission (the Meltzer Commission report): <http://www.house.gov/jec/imf/ifiac.htm>

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