

IFI's: ROLES, RELEVANCE, REFORMS? 1997-2022

By Reginald Herbold Green

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(Nature does not make haste.)

- Alfred Marshal

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Or what's a heaven for?

- William Barrat Browning

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I.

It is remarkably easy to write about international financial institution reform. Data and literature abound as does dissatisfaction with what the IFI's are doing now directed from a variety of vantage points. Indeed the data and literature are so massive as to cause on the one hand knowledge fatigue and data blizzards and on the other a suspicion that there may be nothing new under the sun to be said. On the other hand, while arguably the World Bank and Regional Development Banks are moving in positive directions, the - at least potentially - much more significant IMF and regional central bank groupings do not - except perhaps in containment of second tier economy financial crises threats to the global economy - show any very clear trends.

In writing on IFI's in the context of rapid world economy changes - fashionably headlined as globalisation - three basic problems arise.

The first pair are to ascertain what we and others are talking about and what relation (if any) it bears to present or extrapolated reality. The third is to avoid packing all proposals for desired (at least by the author) change into the baggage of whatever policy instrument or institution he is addressing at the time.

The 1990's globalisation discourse, dialogue and or diatribes of the deaf is a rerun of that of the 1970's on marginalisation/transnationalisation. In a sense it is the revenant of that era. Both pack a series of not necessarily integrally related, highly schematised world economic, social and political changes into one paradigm. True, the earlier discourse tended on balance, though not wholly, to be highly critical and the present to be on balance, though not wholly, positive. Both are characterised by tendencies to polarisation with Jobian vistas of woe (often linked to reified plotters) contending with secularised 23rd psalmists (pastures of free trade and waters of international financial flows - provided by an omniscient, omnipresent, omnipotent and equally reified market). The most remarkable misstatements go largely unchallenged e.g. that all poor countries get poorer and within them the proportion of absolutely poor always rises (both very much contrary to 1975-1995 data) and that the ratio of government revenue to GDP is inexorably falling (the exact opposite of both OECD and Sub Saharan African 1980-1995 outturns albeit the former is characterised by near universal rises and the latter by a scatter of cases converging on/averaging no trend). While these true believer *son et lumiere* presentations have their uses, serious, operationally oriented projections of likely, possible or desirable scenarios are unlikely to be among them.

The third question is that of scope. What should the roles of the Fund Regional/Central Bank groups and the World Bank/Regional Development Banks be? This is not the same question as what should be the roles and institutions of global economic governance.

There is a tendency - at least among centre to left reformers - to wish to treat IFI's as major vehicles for generalised improvement in equity of world economic outcomes and in both global and national good governance. This is on the face of it slightly startling - central banks and a specialised loans to disadvantaged groups/individuals financial institutions are not usually seen as all purpose institutions nationally. The probable main reason for the proposed

broader loading globally is that the IMF and World Bank exist and are bodies of some significance, scope and independence, but the global analogues to Ministries' of Finance, Education, Infrastructure, Social Security and (with the very partial exception of UNICEF and to a lesser extent WHO) Basic Services do not exist and the idea that ECOSOC is at present a global economic legislative body with the relevant UN Under and Deputy Secretary Generals its cabinet is palpably risible. However, the lack of present alternatives does not by itself demonstrate the falsity of comparative advantage, specialisation and division of labour or the need for multiple policy instruments/institutions to pursue multiple goals. Following reflection on the IMF/Regional Central Bank and World Bank/Regional Bank clusters, two sections will address the "global treasury" and "global economic and social legislative/executive" issues in potential institutional terms.

The purpose of this paper is not to construct a set of most probable scenarios much less to make predictions. Nor is it to design either utopias or embody the author's first best preferences. Rather it is to identify the limits of the IFI's present roles and the problems arising out of global economic change which confront them in order to make proposals as to how these challenges might be met practically but also desirably if one believes tidal wave risk and increasing inequality in a context of substantial poverty are economically, socially and/or politically costly, undesirable and/or security (broadly defined) threatening.

II.

THE WANDERING MINSTREL: THE IMF IN SHRED AND PATCHES

The International Monetary Fund is - at least in intent and designated functions - much more central to the global economic system than the World Bank. This is especially true now that the chief international capital transfers are private sector - not, as when the Fund and Bank were founded, public. This is not to assert that the World Bank is not - or at the least may not be - crucial to a group of very poor countries and useful to a wider range but that the IMF - or at any rate its functions - are crucial to the global economy and all of its members. Globalisation and liberalisation - with the associated enhanced size and importance of trade

and massive growth in scale and volatility of financial flows make the IMF's stabilising functions more important even it has never again become sure of its strategy or tactics since the end of the "fixed adjustable peg to the dollar" era of 1945-71.

In the beginning **the Fund, the International Trade Organisation** (never ratified, *ad hoc* gapfilled for by GATT and in some senses now late born as WTO) and **the Bank** were founded as the secular trinity to make the world stable, prosperous and safe from war - or at least the trade and exchange rate wars and monetary instability/trade declines of the 1920's and 1930's viewed as among the basic causes of World War II. Each was to be an apolitical institution, but their combined economic role was to safeguard peace just as much as economic stability and prosperity.

The Fund was to analyse, advise on and if need be enforce stable exchange rates pegged to the USA \$ - occasionally alterable if necessary to avert catastrophe. Domestic economic management - largely of fiscal balance and interest rates (and as a last resort exchange rates) was seen as central to achieving stability and averting competitive (predatory) devaluation. In order to give time to adjust monetary, fiscal and exchange rate policy, the IMF members had quotas which formed both the basic pool of IMF funds and the basis for drawings to meet bridging finance requirements while - under IMF supervision - restoring stability.

The ITO was to achieve a substantially more liberal trade system than that of the 1930's and one in which management would be internationally coordinated - not competitive nationalist - and barriers gradually negotiated downward. Ironically while the ITO was still born, GATT did to a large extent achieve these aims and the WTO seems set to go substantially further than the would be architects of the ITO ever envisaged. The ITO was not seen - except in preventing sudden increases in trade barriers - as safeguarding from financial crises caused by sudden market size or price swings. That was the duty of the IMF. GATT and WTO have been faithful to this division of labour.

The International Bank for Reconstruction and Development was to channel capital to countries lacking access to financial markets and/or unable to pay full commercial rates. The initial priority was the reconstruction of Europe and the second - to become first in the then foreseeable future - enhancing growth in what are now called Southern, peripheral or

developing economies. The main loans were for infrastructure as a necessary base for agriculture-industry-commerce, a source of external economies and a sector in which leading public sector roles were not then widely challenged.

The IMF was - especially as actually set up - a **central Bank manqué**:

- a. it did not in fact (as opposed to the initial proposals) create a currency or currency equivalent reserve asset (the SDR came much later and has never been issued on a scale allowing it to be a substantial proportion of reserves);
- b. it had no powers to require central banks to hold reserves on deposit with it, to conduct open market operations or to set key interest rates;
- c. it had no automatic powers of inspection and regulation of either central or commercial banks;
- d. more broadly its **only powers were of moral suasion except in respect to borrower members** (its theoretical punitive powers against structural balance of payments surplus economies have proven so politically impracticable no attempt had ever been made to use them);
- e. over time its quotas have risen less rapidly than trade - and a fortiori than international financial flows - making IMF funds by themselves inadequate in virtually all cases which has shifted its role to that of **Gatekeeper** (detering others from lending), **Approval Seal Awarder** (encouraging other official and - perhaps - commercial financial sources) and **Consortium Mobiliser** (to avert systemic risk triggering country financial meltdowns notably Mexico in 1994 and Thailand in 1997).

While the IMF has been characterised as a “**lender of last resort**” (analogous to the rescue role of national Central Banks in relation to commercial banks) this has never been true for its poorer members whose access to commercial financial sources to bridge or adjust to a crisis has always been limited to non-existent and for whom it can at least as aptly be termed a crisis bridging “**lender of first resort**”. Only for industrial and very large developing economies has it been a last - as opposed to a first - resort lender in periods of crisis.

Up to 1971 the IMF had a coherent strategy, relatively consistent programmes and - for certain types of economies and more broadly in the short run - a significant degree of success.

Its basic approach to crisis management and balance restoration was to raise interest rates and taxes and to cut government expenditure in order to reduce inflation, consumption (and to a lesser degree investment), government borrowing and import demand. If the imbalance was severe moderate (usually 10% to 25% higher forex price range) devaluations were prescribed. Bank drawings were to ensure covering trade and debt service gaps until reduced imports/spending/imports and enhanced exports/revenue closed gaps with a maximum of 1 to 3 years drawings repaid by six years after drawing at slightly sub-commercial interest rates.

This model of operation - **short term finance in the service of short term consolidation and adjustment** explains why the IMF at least up to the late 1970's insisted it **was not a development institution**.

The IMF's strategy worked to consolidate and adjust if **four conditions** were met:

- a. substantial economic slack existed which could be used to produce exports if costs fell (e.g. via a devaluation);
- b. government spending cuts and those induced by higher interest rates impact on domestic demand would also free capacity to produce for export;
- c. government spending cuts would either be sustained (as a share of GDP) or tax revisions would lead to permanent fiscal gap closure;
- d. the export led recovery would restart domestic expansion based on enhanced production and would be adequate to cover the resultant increase in imports.

The economic structures required meant that Italy and - up to a point Turkey - were optimal cases for success. And in them IMF programmes did consolidate and then adjust the economy to more sustainable growth - up to a point and for a time. With countries characterised by less flexibility, smaller industrial sectors and a larger share of exports arising from primary products produced largely for export the probabilities of adjustment were far lower. Consolidation might still be achieved - interest rate raises and public spending cuts can close

fiscal and trade deficits by creating recession even if capacity cannot shift to exports. They may well destroy basic services, savage investment, increase absolute poverty and hunger, but they can reduce fiscal and external imbalances so long as sustained. However it was **consolidation without adjustment**, doomed to be reversed whenever the government sought to relax to end the recession. That was the general Latin American result.

The model which up to a point did produce IMF Consolidation and Adjustment results in poorer, relatively inflexible economies was much later adapted as half the World Bank **Structural Adjustment** model. Because SA included a growth recovery constraint and funds to finance it, when taken seriously it usually (not always) **did restore growth** without worsening imbalances. Ironically **what it did not do was to alter (adjust) structures of production and trade (as opposed to state policies in respect to them)**.

The 1945-71 IMF approach was designed and operated in the context of pegged - but occasionally adjustable - exchange rates. Floating rates were anathema. Further, virtually all clients had sweeping capital account and some current account exchange controls (even in the UK as late as 1980) though these were frequently relaxed in times of external surplus and reinforced during crises.

In 1971 the IMF's exchange rate world collapsed about its ears - symbolically courtesy of Richard Nixon. The basic reasons related to the inherent contradictions of a national currency as an international reserve asset, but were exacerbated by US domestic policy. To be a **usable reserve asset a currency must be freely available**; to be an **acceptable one it needs to be perceived as "hard"** (unlikely to lose value). The first requires a large and growing external deficit. The second requires either an external surplus, high backing by gold or great faith in the reserve currency economy's ability to borrow abroad cheaply and to invest the funds productively. The USA met the "usable test" as its current account became negative in the 1960's (the trade account had gone negative in the early 1950's) while the long term capital account remained negative (net longer term investment abroad). But the growing ratio of dollars and dollar denominated public debt to gold reserves and the lax fiscal and monetary policies practiced in the 1960's (as perceived by Europe, the OECD and the IMF) gave the dollar increasingly uncertain acceptability. Because of the general IMF weakness in influencing non-borrower policies and the near total inability to influence the basic reserve

shore up the endangered system. US policy change (unpegging from gold) came for reasons and with a timing which were primarily domestically determined.

With the collapse of the \$35=1 oz. of gold based reserve currency system, no feasible universal rate equivalency system was practicable. The shift was to **floating rates** - free floats (virtually unknown), managed floats, “dirty” floats, “clean” floats. Many smaller currencies could not manage floats because of the narrowness of their currency markets and paucity of reserves so pegged to a currency (usually \$ or French Franc) or the newly created SDR (a minor reserve asset augmenting, IMF issued, quasi currency), but even then the peg was ultimately to a floating rate.

The nature and scope of the shift did not become clear until the late 1970's because while the IMF and its members were seeking to understand, to adjust to, to manage it the global economy was shaken by what is usually termed “the first oil shock”.

Over 1973-1976 the IMF operated a broad access low conditionality shock (‘oil’) facility. For low income countries it had a maturity of up to a decade and highly concessional interest rates. However, the ease with which the facility was created related not so much to the needs of poor countries as to the perceived risk to industrial economies and to the global economic system. For them the facility was to be backed up by the GAB (General Agreement To Borrow allowing IMF access finance from of its largest industrial members plus Saudi Arabia) and for poor countries the cost and repayment terms were softened by the Trust Fund (funded by richer member voluntary subscription).

The 1973-76 period burst of activity was not a defence of fixed occasionally adjustable rates pegged to the USA \$. These had died at the stroke of Nixon's pen. Nor was it in any serious sense a defence of the coordinated floating advocated by the stillborn Morse Report whose proposals were swept away by the 1973-75 crisis. Rather it was the **first attempt to build dykes** against financial flow waves perceived (wrongly in this case) as endangering global economic stability.

In fact no serious international financial flow management crisis arose as a result of 1973-74 shocks for two reasons:

1. the initial petro dollar surplus recipients both imported more from OECD members and placed their reserves in OECD based banks or dollar denominated securities to earn. The last thing they sought was dollar collapse (or even radical uncertainty), not least because their oil sale contracts were dollar denominated; and
2. the surpluses rather rapidly evaporated (primarily in higher imports) except for Kuwait and the UAE (Abu Dhabi).

The main flows from structural surpluses from the late 1970's to date came from the Far East - initially predominately Japan but with Korea, Taiwan, China, Hong Kong following as did to a lesser degree and less stably the Southeast Asian mini dragons. These states invested their reserves overwhelmingly in US government securities, despite the losses they faced over much of the period from the dollars depreciation relative to the yen and were thus systemic stabilisers.

The flows that came to be destabilising were in fact private sector ones. Commercial bank loans to the South - or rather to the largest borrowers in it - were the prime area of concern in the early 1980's because they could bring down commercial banks and trigger Southern meltdowns, sharp trade falls and - via these two mechanisms - OECD economy financial system debilitation and overall recession. Later other investors - external currency deposit holders, financial fund investors in money market instruments and stocks and actual hedge/speculative programme operators came to be seen as even more volatile and their actions led to unjustified booms followed by potential tidal wave withdrawals. They, not the commercial banks - nor orthodox currency speculators - triggered the 1994 Mexican/Latin American and 1997 Thai/ASEAN financial, currency and economic crises. Granted the Mexican and Thai economies had overheated and had overextended financial sectors, but overreaction to unexpected risk - not the inherent domestic position - made the latter much worse, created fallout again regional economies - however dissimilar their contexts - and threatened tsunami damage to the international financial system and economy.

One category are **highly risk adverse, interest rate arbitragers**. The most clear-cut subclass are individual foreign currency account holders who compare home and overseas interest rates and place deposits only if they perceive withdrawal as easy and short term exchange rate changes as likely to be minimal or (for the more sophisticated) predictable e.g. the pre 1994 Mexican peso and pre 1997 Thai baht and the pre 1997 Indonesian rupiah respectively. These investors are footloose if relative rates of return change, but panic stricken flight capital dashers if they perceive a risk of account freezing and capital loss linked to prospective devaluations. The same holds for short term investors in domestic currency paper - usually Treasury bills and notes or deposits with domestic financial institutions.

The second group are **investors whose normal perceived risk is doing markedly worse than their peers**. Stock market funds are the case that leaps to mind - and probably the most volatile as they can (they hope) move existing investments out rapidly as well as halt inflows. However, commercial banks are a parallel case as halting inflows can be disastrous for a country financing a commercial account deficit primarily from short term financial inflows - a fact independent of whether the deficit is the counterpart of prudent investment, private consumption, government profligacy or corruption. These financial operators are almost more a sub-species of lemming; they **all or almost rush in and out in a pack, because doing less well than peers is the greatest risk to institutional - and individual - status**.

The third group - **active risk takers** - are on occasion dominant in respect to OECD currency swings e.g. the pound in 1992. But they tend to bet on sure things (the pound - EMU rate was unsustainable) or to retreat rapidly if substantial Central Bank/Fund resistance develops. They are unlikely to be dominant in Southern economy crises because relatively narrow markets and limited financial instruments limit their options - unless, that is, a central bank creates unlimited risk for itself by exceedingly unwise forward transactions which will result in huge losses if devaluation is unavoidable. The Thai Central Bank did this whereas the Malaysian, Indonesian and Philippine ones largely limited themselves to much smaller spot market reserve sales).

A parallel crisis exacerbating sector - **commercial enterprises** - are also prudential not speculative operators. If a devaluation appears likely, any domestic enterprise will seek to settle payables quickly and collect (or at least remit) receivables slowly - increasing pressure

the combined lead/lag effect can easily be as large as 2 to 3 months current trade flows, its potential for eating up reserves and pushing other pressures beyond containable levels is evident.

In the late 1970's and 1980's the IMF's global economy role became increasingly unclear and its influence on major industrial economies (who coordinated policy - or at least rhetoric - through the Group of Ten and/or the Bank of International Settlements, the rich economy Central Bankers' club) increasingly marginal. The IMF's operational role shrank back to being a tough cop on the slum economy beat seeking to be tough on fiscal and external profligacy but with no clear understanding of the contextual causes or cures for those economic crimes. Only when dealing with larger poor or middle income countries - e.g. the larger Latin American heavily indebted countries in the 1980's - was it tackling issues at all central to global economic stability. In those cases massive defaults were perceived as **risking meltdown of the international banking system** and stock markets (the Creditanstalt collapse and Black Friday on Wall Street come again).

Over this period the IMF continued to impose variants on its 1945-71 consolidation and stabilisation package but outside and post mortem the economic (and especially exchange rate) system which had informed and undergirded it. Not surprisingly, taken by themselves they rarely 'worked' for long. Northern successes - e.g. the post 1986 OK - were largely ones in which the IMF was used to provide ammunition to economic reformulators in domestic debates and to confer an international aura of seriousness. In the South two frequent - but by no means omnipresent - means were added:

1. **external debt rollover and deferral schemes** which - until the 1990's - rarely reduced the present discounted value of future payments substantially (indeed often increased it), reduced or killed real growth (for the 1980's Latin American and SSA per capita output

growth was negative) but did buy time for the international banking system to write down losses and to alter overall loan patterns to end the risk of meltdown (at least from Southern sovereign debt default);

2. the **World Bank's structural adjustment approach** which added more articulated real economy policy adjustment (largely liberalisation and better management) plus a growth recovery constraint backed by additional medium to long term, and at least partly concessional, funding.

During this period the **IMF ceased to operate as a crisis period lender of first resort**, arguably its **chief duty under its Articles**. The reason was not a perception that shocks were less or alternative financial source access greater (at least for poor economies facing external shocks or cockcrow on no longer sustainable domestic policies). Rather it was that the IMF's basic tranche system limited small initial speedy access, low conditionality loans to nil or low previous drawing level members. Once these were used, conditionality was high and required extended negotiations before phased dispersals began - as well as resulting in frequent disbursement breakdowns or suspensions when conditions were breached. Within SA programmes, in particular all projected finance was - if anything - overprogrammed on relatively optimistic projections leaving nearly no (or even negative) margins for absorbing shocks or programme result lags. Taken together with the absence of first resort bridging finance, this overprogramming virtually ensured a high proportion of breakdowns and suspensions which could hardly be efficient in the context of sustained medium term policy, institutional rehabilitation and production recovery and adjustment programmes.

The Fund's problems in achieving positive results for itself and/or its clients since the mid 1970's have been exacerbated by five factors:

1. while its macro monetary (not monetarist) model does not *per se* depend on relative fixed exchange rates with a single base reserve asset of constant value articulating from the model to programmes is much more complicated and contextual under post 1971 and especially 1990's contexts;

3. the increasing importance, sophistication and globalisation of finance - together with inept regulation, imprudent national policies and corruption have led to a series of domestic financial sector meltdowns threatening at least national external credibility and - if enough happens at once or to large enough country - to global financial market stability;
4. the absence either of a standard approach to exchange rate management/guidance or to an agreed set of alternative approaches with guidelines as to contexts in which one or another is likely to be appropriate;
5. the limited Fund emphasis on (or directing of Fund drawings - including SAF/ESAF ones) to financial sector reconstruction and regulation combined with a failure to develop and enforce national Central Bank and financial system transparency.

The **exchange rate policy** gap has been particularly damaging because in practice the Fund has not developed credible approaches which avoid self fuelling (via inflation) near free falls and creeping overvaluation (through pegged rates). The latter are inflation containing and sustainable - for a time - by high interest rates sucking in footloose financial capital. So long as exchange rates are stable or devaluing moderately on a predictable basis (e.g. Indonesia for several years prior to the fallout of the Thai crisis) there is a semblance of sustainability and even growth. There are no simple answers and probably no fully general ones but the near abandonment of managed (or moderated) floats and crawling (basically inflation and secondarily shock adjusted) pegs may have been premature.

The **1990's fashion for \$ pegged (within narrow margins) rates sustained by high domestic interest rate attracted external financial capital leading to growing overvaluation (inevitably in a period of low OECD inflation rates) has little to commend it.** It is the failed "ultra orthodox" strategy of the late 1970's which created a false boom and then a massive collapse in the Southern Core of Latin America. Even when skilfully managed - e.g. Argentina and in a modified versions Brazil in the 1990's - it provides no evident non crisis safety valve route to vent the overvaluation build-up (other than a decade of negative nominal price and wage increases of perhaps 2% a year which even the IMF presumably would view as not a real world practicable strategy!). These inherent problems have been compounded by most of the recent pegging systems being to the USA \$. Since the dollar is both free floating and volatile, this creates serious problems unless both the main import

suppliers and export competitors to the country are either USA based or similarly pegged and the domestic inflation rate is similar to that of the USA. Thus it may be suitable for Argentina and Brazil but can hardly be so in Central/Eastern Europe (*de facto* a mark zone) or Southeast Asia (effectively a yen zone). In SEA the rapid 1990-95 appreciation of the yen against the dollar (about 50% in terms of yen per dollar) limited the creeping overvaluation impact of dollar pegs (especially for domestic market oriented producers whose dominant import competitors were Japanese or *de facto* followed Japanese price setters). But the early 1995 - 1997 full recovery of the dollar against the yen cruelly exposed the underlying problem. This **defect of single currency pegs** is, apparently, not widely recognised (at least in SEA) even now. In practice a trade weighted basket (hardly a new concept) would appear a much less risky numeraire or benchmark whether for pegging or float guiding than the \$ (except in NAFTA and perhaps Latin America) or even pegging to the most dominant single currency (e.g. yen in East and SE Asia, Mark in Central and Eastern Europe, South African Rand in several Southern African countries). This is especially true if export and import dominant currencies diverge (e.g. \$ for exports, Rand for imports in Botswana, Namibia).

The **IMF is highly interventionist** - within strict limits on scope. Pegged rates - even if adjustable - are not free market rates, nor do Central Bank set discount or government paper rates respond to, rather than setting parameters for, market forces. Similarly advice (or in the case of heavy drawers 'advice') to members to cut spending, prioritise debt service, increase taxes as well as restructure them to focus on consumption and reduce progressivity (indeed nearly eliminate it on the indirect tax side if the dominant instrument is a single rate, broad coverage VAT) is interventionist economically, socially and politically.

On the other hand the IMF until quite recently has been relatively silent on the role of governments more generally and still more so on governance. In part this reflects an earlier perception that except in stable, mature democracies continuity in Fund programme implementation for long enough to pass through consolidation to true stabilisation required not only a stable government but probably one not unduly troubled by the risk of electoral defeat. In the early 1990's the IMF did somewhat half-heartedly echo the general "good governance" rhetoric and it has been concerned with **corruption** as a barrier to proper prudential regulation and a drain on state and national resources (not least foreign exchange). However, blunt statements have been rare and the 1997 Kenya negotiations were the first to

be broken off with a public pronouncement that failure to accept anti-corruption conditions was the main reason.

The IMF has usually been relatively pragmatic as to tariff reduction but much more directive on quantitative restrictions (and especially commodity bans) on imports. It endorses competition with two caveats:

1. **prudential financial institution regulation can and should limit competition** - or at least some forms of competitive practice - in the interests of stability and sustainable growth.
2. **competition with the IMF is unwelcome** as illustrated by the absence of Fund blessed Regional IMF's analogous to the Regional Development Banks and its very muted and ambiguous response to the Japanese-Chinese-ASEAN 1997 drive for an Asian Central Bank Coordination Institution looking, at the least, like a complement, supplement or competitor to the GAB and to IMF led anti meltdown coalitions.

Both caveats are understandable and may have much to be said for them. To paraphrase Plato - **the unregulated financial system is not worth having**. On competition the IMF has suffered in both influence and authority from the shift of major economy central bank coordination to the Group of 10 and its use of the BIS (Bank of International Settlements) as a complementary (or competitive?) implementing agency. Further it suspects, that competition with 'Regional IMF's' (albeit none other than Asia is on the horizon since Latin American - without the USA and Canada or and Eastern/Central Europe Africa - without an external *deus ex machina* - simply do not have the volume of reserves to mobilise defences against tidal wave financed outflows). In the Asian case the problem area would appear to be financial system restructuring and regulation. Of the ASEAN - China/Hong Kong - Japan - Korea core, only Hong Kong can lay claim to strong financial sector balance sheets and effective regulation.

Fund positions on external debt have evolved and are now very different from the hard line servicing of all external debt in full (implicitly including private sector ones excluding only companies whose bankruptcies did not relate to macro economic policy shifts). It has not opposed debt rollover - in the Paris Club forum for state to state obligations and the London

until recently viewed these as demonstrating such economic unsoundness as to downgrade the beneficiary to second rate (or worse) access to international financial markets for an extended period. Under the impact of the 1980's Latin American external debt crisis (and probably the influence of the World Bank) it has now, somewhat hesitantly, endorsed the principle of debt writedowns for heavily indebted poor countries. It has also moved to **putting trade and external non-financial enterprise debt arrears to one side** in respect to most poor countries. The **last opposite decision was in 1983, in respect to Ghana**, insisting on Ghana's drawing \$400 million odd to repay trade credit arrears led directly to threats to stability of the adjustment programme and thus to the soft, extended period **Structural Adjustment Facility to bail out the Fund just as much as Ghana**.

The **shift to ESAF** - *de facto* a parallel, smaller IDA to finance longer term structural change - is a marked diversion from the IMF's earlier principles and practice, albeit not one really paralleled by any general model or strategic adjustment - e.g. using SAF/ESAF to fund financial sector reconstruction rather than (as at present) to avoid the need to roll over past IMF drawings by *de facto* rolling them into SAF/ESAF.

On both **financial sector reconstruction** (as opposed to regulation) and tax policy and practice the Fund has tended to see part of its previous dominant role shift to the Bank. This may be because the Fund has less sectoral, macro and contextual experience or expertise than the Bank and because ESAF - while potentially a suitable vehicle for financial sector reconstruction support - has not been so used. The shift on taxation appear to be the result of a more applied and administrative focus by the Bank. Both institutions share a fashion (perhaps now waning) for universal introduction of complete VAT systems down to retail level, despite very severe inherent operational problems and the need to retain a parallel excise/amenity tax system if indirect taxation is to be even moderately progressive. On administration both currently share a fashion for Autonomous (and often foreign contracted out) tax administrations which in some variants create both a democratic deficit and a fragmentation of policy by removing strategic and major policy decisions from Treasury/Ministry of Finance hands.

The results of greater Bank - Fund coordination - at the top in the Bank/Fund Development Committee and in the field in respect to Structural Adjustment Programmes are mixed. In

finance and taxation) and **macro real are Bank led**. In practice the approach has brought the long standing differences (flowing largely from the Bank's greater concern with articulation and contextuality) closer to transparency. In some cases - notably Mozambique - the Bank has differed virtually publicly with the Fund both on exchange rate liberalisation phasing and on fiscal policy e.g. the inflationary or otherwise risks of wholly externally funded recurrent budget expansion directed to basic services and post-war reconstruction. On the other hand in the **Public Expenditure Reviews**, which tend to be much more draconically short term balance focused than, and to override, sectoral analysis and proposals, the Fund appears to have pushed the Bank's position toward a much more monetary and contractionist stance than it would have adopted on its own.

The Fund - even more than the Bank - is widely perceived as arrogant, inflexible (both substantively and procedurally) and monolithic. To some extent each criticism is justified - as illustrated by Fund professional staffers making a distinction between 'The Fund's' (i.e. the staff's) position and the views of the Managing Director. However, it must be recognised that much of the arrogance and substantive inflexibility flows from firm belief in the Fund's macro monetary model and of a simple, uniform implementation package (reducing demand and increasing exports by raising interest rates, cutting government recurrent spending and eroding real wages, usually combined with devaluation). That outlook is reinforced by a parallel belief that almost all challenges and alternatives are at best naive and more often attempts to evade necessary policy and resource overuse corrections. The latter belief is not infrequently valid, albeit not as uniformly as Fund personnel seem to suppose. The procedural problems are very real - the **Fund is rarely a quick response agency** (despite the recent Thailand/SEA exception) which is hardly conducive to efficient crisis containment and reversal. The Fund's reasons - need for "due diligence" and frequently protracted negotiations are not irrelevant, albeit on the second the IMF is as often the cause as its clients. While there may have been some increase in streamlining procedures and fast tracking the **prompt response deficit** has risen:

- a. the *de facto* ending of low conditionality bridging drawings which were much faster greatly increases the average time from application to effectiveness;

- b. the **new dominant role of the Fund - containing crises which threaten tidal waves** overwhelming the global financial system requires ability to act fast - four days can be a very long time during a meltdown like that afflicting Mexico in 1994 and Thailand in 1997.

In fact the Fund is no longer monolithic on means - especially handling of exchange rates and domestic credit formation ceilings. The old verities of the pre 1971 fixed adjustable exchange rate/relatively limited international financial flows are gone and no unique alternative way of linking the model to actual economies has emerged. The Fund personnel tend to be no less certain at any time in any country but between countries and over time divergences are broadening. Whether this is personal predictions, febrile uncertainty or increasing contextuality is a matter on which reasonable persons can disagree - probably a bit of each.

The increasing volume of international financial transactions and especially of cross cancelling speculative, insurance, risk avoidance or calculated risk position taking ones and the increased globalisation of this volume to middle level economies **has created a new globally relevant role for the IMF**. The initial fears related to a flight from the dollar and/or a major economy security exchange implosion. Ironically the first has not eventuated, the 1987 OECD security exchange mini collapse (or major correction) was rapidly reversed and the Japanese asset valuation collapse (perhaps 50% for property and 60% for securities at its early 1990 lows and still over a third and a half today) has in practice helped stabilise the dollar by reducing Japanese interest rates and domestic opportunities for profitable investment while raising exports and the attractions of external investment (even in dollar denominated assets when the yen value of the dollar fell over a third before its near total 1995-97 recovery).

This may be just as well - there is little evidence the Fund, G10 and BIS could have mobilised the funding needed to halt or reverse a dollar meltdown. Only a binding agreement of central banks not to sell dollar denominated securities and to buy unlimited (or very large) volumes of US government paper would appear to have much chance of success. And as it took \$50,000 million to be a credible shield for Mexico a figure of \$500,000 million would appear to be the smallest warchest with any chance of winning a battle to halt massive dollar dropping rather than facilitate - by financing - it.

What the global economy and the Fund have faced **are two second tier economy/regional crises**: Mexico/Latin America and Thailand/Southeast Asia. In each case the G10 members

(led by the USA in the first case and Japan in the second) perceived that the initial financial meltdown was dangerous in itself globally and could quickly become disastrous through lemming type withdrawals from all regional economies however ill founded the belief that their problems were similar).

In each case the Fund and the nearest G10 member organised **large financial credits** - \$50,000 million for Mexico, now approaching \$20,000 for Thailand. So far as global financial market impact limitation is concerned, the Mexican crisis was contained and the Thai is to date. The key danger is a multi stage knock on impact via parallel regional devaluations - interest rate hikes - import declines tipping the Japanese economy into renewed severe recession or depression. That is a higher risk than direct Thai to global financial institution and market meltdown. For Mexico the economic, social and political costs were very high and multiple e.g. 10% to 15% of GDP to the government to avert total collapse of the banking sector (and enterprises in themselves viable but unable to survive massive external debt enhancement and ballooned interest rates); near 50% erosion of real wages. While recovery in Mexico has been fairly quick and robust the decreases in real household incomes/increases in poverty are far from reversed and the longer term of effects of real erosion of education, health and invalidity/old age security have not yet been fully recognised. Costs to Thailand may in some respects be lower e.g. 0 growth in 1996 with a recovery to 5% by 1999 or 2000 but in others could be higher - the financial system reconstruction costs could be 20% of GDP; Japanese style asset price collapse recessionary pressure could invalidate the rapid growth recovery projections; the costs of postponing physical infrastructural bottleneck breaking and improving human infrastructure enhancement services (health, education) are likely to be higher than in Mexico.

The two national crisis ridden/global crisis threatening economies have had remarkably similar characteristics:

1. **overvalued exchange rates** steadily appreciating (in real terms) against the USA \$ by 5-7½% a year up to the point of collapse. In each case that policy was IMF advised/mandated. In Thailand the relevant rate for domestic market sellers is not \$/baht but yen/baht. It shifted from about 3.5 yen per baht early in 1995 to about 5 in mid 1997 - a rapid, massive real appreciation against their chief competitor domestic market

of a total concentration on the \$/baht rate in the Yen Zone - a myopia apparently shared by all ASEAN central banks (and most of their domestic academic critics);

2. **Moderate inflation rates but ones in danger of rising**, which both increased overvaluation and formed one of the main arguments against addressing it by devaluation;
3. **Financial sectors characterised by lax regulation, substantial bad debts** (even with high growth and moderate interest rates) and with **very large proportions of assets at risk if interest and exchange rates rose sharply**. The Thai system was more vulnerable than the Mexican but in neither case was prudential management at either institutional or systemic (central bank) level adequate;
4. large and rising current **commercial account deficits met by high and rising levels of foreign capital inflows**. The rising **overvaluation** prevented direct action to limit the deficits' growth as did **parallel import liberalisation** (a policy not sensibly pursued hand in hand with rising overvaluation - a truism readily derivable from the basic IMF model which the IMF does not appear to have put at all forcibly to either country);
5. **High levels and flows of \$ denominated deposits, short term external credits, external capital market investments - all easily reversible** if doubts as to the future value of the currency arose plus substantial enterprise external borrowing by firms whose sales patterns meant there would be no or negligible devaluation gains to offset higher debt service costs;
6. **Substantial fiscal deficits** related to weak or weakly collected tax systems, politically motivated domestic spending and serious efforts to improve the quality and quantity of physical and human infrastructure;
7. **Distortion of investment** caused by the high interest rates used to draw in arbitrage capital and prescribed by IMF and domestic Central Bank orthodoxy to meet the fiscal and extern deficits (thus exacerbating the overvaluation, the trade deficit, the profit squeeze on domestic market manufacturing and the investment distortion). Manufacturing - with special, exceptions largely in the export sectors - suffered as did private sector infrastructure unless externally financed at lower interest rates while commerce and

especially up market commercial and residential property overexpanded relative to other investment and, in Thailand at least, absolutely;

8. **Inadequate financial sector regulation** (especially reserve requirements against volatile assets and strict provisioning of risky loans as well as capital/liability ratios) and absence of insurance schemes were compounded by **near total opacity** both as to the financial sector and as to Central Bank net external reserves and forward transactions - the latter totalling over \$23,500 million in the case of Thailand or about two thirds of apparent current reserves;
9. **IMF advice against devaluation** (even nominal) and on occasion (notably in Southeast Asia) for allowing upward floats to adjust to market pressures from footloose capital inflows; **for higher interest rates** (to reduce demand to shrink deficits); **lower public expenditure** hardly pointed toward stability. (The upward float and cutting of public expenditure were not followed - the higher interest rates and avoidance of devaluation were.);
10. **Notable absence of IMF insistence on rapid financial sector strengthening and on adequate transparency** ensured that when the crisis came more and more nasty surprises would turn up leading to total external and domestic lack of confidence;

The repetition of the Mexican pattern in Thailand strongly suggests that while the IMF had learned from experience how to put in place a massive funding coalition to prevent domestic meltdown global financial tidal waves it **had not devised - or at least acted on - financial sector regulation and provisioning requirements, exchange or interest rate policies or disclosure requirements adequate to avert future crises**. Nor can it be argued that the lessons of the Mexican case had been incorporated into the domestic policy prescriptions or the balance of funding raised:

- a. higher interest rates hardly helped curb outflows of risk avoiding financial capital and by their profit impact exacerbated those of portfolio capital;
- b. they also crippled previously sound businesses and reduced the possibility of taking advantage of lower real exchange rates;

- c. high interest rates and lower public expenditure (in practice cuts in human and physical infrastructure spending) worsened the underlying infrastructure bottlenecks. Only during sharp declines in output would reduced demand offset this so that at best (in macro monetary terms) the result would be consolidation without adjustment;
- d. devaluation to levels which would have corrected the initial overvaluation) which Mexico (somewhat clumsily and, in the absence of convincing lines of credit safety nets, unconvincingly) tried led to market panic and inflation which - especially in the context of high initial enterprise external borrowing in order to secure lower interest rates - precipitated both **limited real devaluation** and **massive bankruptcies of previously sound enterprises**;
- e. with the result of **totally destroying the viability not merely of shaky but of even previously sound financial institutions**;
- f. **forcing state acceptance at face value of the - policy expanded - financial sector bad assets to avoid total collapse** of that sector and the economy more generally;
- g. while **external finance (Fund and associated) was almost entirely to mitigate global shock** and was, therefore, **specifically unavailable either for covering financial sector stabilisation and reconstitution or selected sustaining of infrastructural investment**. The Thai case may prove slightly different, but because the ADB and the Japan led Asian state support consortium are making support available for financial restructuring.

This is **not a record of success at avoidance, at domestic impact limitation nor - as sketched below - at regional impact containment**. Nor is it the way the OECD economies tackled the risk of financial market meltdown in 1987. They eased monetary and fiscal policy to sustain demand and profits, to enable sound but bruised enterprises breathing space and to create a positive climate for investors. 1987 as a result was a contained correction in financial market terms and a minor blip in real economy ones.

In the Mexican case the lemming affect against quite dissimilar Latin American economies - notably Argentina - was initially severe. Perhaps fortuitously and perhaps because the IMF did publicise the differences and provide limited credit (directly or by encouraging its mobilisation) as safety nets to others, the impact - while severe and affecting real economy

growth for at least a year - was contained. The SEA case may be much more serious as illustrated by the Philippine position:

1. the Philippines had not had inherently unsustainable growth nor a construction boom self evidently excessive absolutely (as opposed to relatively);
2. it had had a total (and expensive) non-crisis financial sector reconstruction and instituted a sound regulatory system;
3. it had recognised the risks of high externally denominated deposits and footloose capital by requiring (unfortunately too late to be implemented before the baht blow-up) to banks to hold one third liquid, external assets against the former and to extend an expiring IMF agreement on which it had no intention of drawing further for normal purposes, apparently to be in a position to mobilise safety net finance if needed or/and to reassure investors;
4. while it had steadily - if slowly and with setbacks - eased interest rates down primarily to encourage long term domestic investment and direct long term rather than footloose financial foreign investments;
5. and had achieved both a stabilisation, or even decline, of the trade and remittances deficit and an increase in the proportion of long term direct investment in external financial inflows;
6. as well as targeting public spending and investor incentives on human and physical infrastructure bottlenecks with not inconsiderable results;
7. while recognising that growing overvaluation (exacerbated by the collapse of the yen vis-à-vis the USA \$ peg) was increasingly unsustainable even if dialogue had not reached agreement on a course of action before the Thai debacle;
8. and there was reasonable transparency with no massive forward transactions by the Central Bank;
9. while only 10% to 15% of reserves were expended to defend the peg before an only slightly guided downward float was adopted.

Nonetheless the peso has plunged from \$1=26.5 to \$1=35 odd (probably at the bottom of the pre fallout crisis sustainable rate range), the stock market has weakened, interest rates have been virtually doubled (with evident fiscal deficit, enterprise hardship and loan unserviceability results) and the proportion of new bad assets in the financial sector threatens to undo much of the previous reconstruction. While the Fund has publicly endorsed Philippine policy and reassured the markets as to its basic economic and financial soundness, to date this is moral suasion not tangible safety nets. The same holds true to date of the Japan led concept of a quasi Asian regional IMF. Even in terms of averting global tsunami effects, the lack of attention to providing standby safety nets to the Philippines, Indonesia, Malaysia and Singapore to insure against knock on shocks leading to a broader crisis appears imprudent. **The IMF should be the institution to evaluate and lead action on such risks and not only because of their potential global impact but also because - e.g. - the Philippines is a member with a call on its support and - as it happens - one in good standing which has accepted and acted on its advice in a sustained way over 1986-1997.**

III.

INTERSTATE DEVELOPMENT BANK: WHAT ROLES?

Interstate Development Banking (basically the World Bank group plus the Interamerican, Asian and African Development Banks plus the EU and Central/Eastern Rehabilitation and Development ones and subregional banks) is more specialised in purpose than interstate quasi Central Banking (the IMF and BIS plus, potentially, regional central bank groups notably in Asia). It has always been focused on **providing access to capital for economies which could not afford, and or did not have effective access to, commercial capital flows.**

Until recently it was totally dominated by loans to public sector entities although there have been marginal shifts. The World Bank's International Finance Corporation has a long history but neither a particularly successful, high volume nor clearly differentiated strategy one. Arguably it illustrates the difficulties of combining complementary and facilitating finance (dominantly through governments) and directly productive enterprise investment and/or merchant banking facilities.

The flagship of this sector is and has always been the World Bank. The International Bank for Reconstruction and Development was founded at Bretton Woods as a counterpart to the IMF and to the proposed (but never implemented and subsequently more or less substituted for by GATT and currently the WTO) International Trade Organisation. Its primary purpose initially was to participate (parallel to Marshall Plan soft credits and private sector commercial loans) and direct investment in the post-war reconstruction of Europe (in fact though not initial intent Western Europe) and secondarily (to become primary on the completion of rehabilitation) to speed development and growth of independent low to middle income economies - in practice up to 1960 basically Latin America, South Africa and the successor states to the British Indian Empire.

The initial thrust was on providing access and modestly sub-market rates (basically at the difference between the Bank's borrowing rate and that available to its higher credit risk members from commercial sources). The addition of IDA (the International Development Association) was primarily a response to the needs of the, in general poorer, newly independent states and the realisation that the debt servicing capacity of - e.g. - Paraguay and Nicaragua was different in kind from that of - e.g. - Mexico and Brazil.

Until the **1960's** Bank lending was almost exclusively for **large physical infrastructural or quasi infrastructural projects** - power, ports, posts and telecommunications, roads, railways, airports, water, sewerage, agriculture (including irrigation). The logic was that these - especially in poor countries - were unable to attract private investment, were necessary foundations for directly productive sector development and generated substantial external economies. The Bank did engage in overall macro and sectoral economic studies nationally and globally and did offer general policy advice but it did not then aspire to being a general macro economic guide and guardian (or pied piper and prancing pro consul to those put off by the style and disagreeing with the substance).

The **scope of lending expanded - as did volume - in the 1960's**. Health, Education, Agriculture beyond irrigation as well as public sector/joint venture directly productive projects became of growing significance. The first trio were from the Bank's perspective human infrastructure investment necessary to complement physical infrastructure in creating a context in which agricultural and industrial production, modern services in parallel to domestic and

infrastructural ones generating massive external economies leading to indirect fiscal gains via taxes on growing income and expenditure and already lending for physical infrastructure whose public finance impact often came largely indirectly via tax growth not directly via sales of services and levies of user charges, no real problem of inherent bankability was perceived. However, in practice these loans were largely to low and lower middle income economies and on the very concessional (up to 90% grant element) IDA terms.

At the beginning of the 1970's - under President McNamara - the **Bank shifted its strategic focus toward supporting direct action to reduce absolute poverty and toward being a general purpose economic advisor** (or Plutonic guardian) because it perceived macro and sectoral policies (not just micro project problems) as the basic barriers to success in poverty reduction (and, at least implicitly in other areas as well).

The direct poverty reduction focus was short lived - until resurrected in the 1990's - but both the stress on the importance of macro policy in respect to micro project outturn and, less uniformly, of the inadequacy of macro policy to achieve intended household or sector level results without its articulation to sectoral policy were to become central to subsequent World Bank operations. It needs to be noted that they inherently involve a much wider degree of Bank analysis of, and requiring conditions relating to, policies and actions outside the scope of particular loans i.e. more extensive and intensive dialogue as well as expanded and enhanced conditionality. The decline in Bank window loans to states largely seeking infrastructural finance and having access to commercial credit sources is in part a consequence of this broader approach to borrowing economies and economic policies.

By the late 1970's and - especially - early 1980's the Bank was confronted with a series of failing borrower economies some showing few signs of pulling out of post 1973 ("First Oil Shock") and even more dead in the water after post 1979 ("Second Oil Shock") crises. The Bank was not unaware that the lagged OECD economy recovery (which it had not forecast) and central economy governments' substitution of inflation reduction for growth of output and employment played a large part in these results. However, it perceived itself as having little, and its borrowers next to no, influence on this aspect of their problems so **focused virtually entirely on improved national economic management via Structural Adjustment.**

The core of Structural Adjustment was initially a set of strategic rolling country plans aimed at reducing external, fiscal and supply/demand (as represented by inflation) gaps to sustainable levels within 3 years and restoring growth of output to levels above those of population by the third year. Reduction of administrative intervention in markets and liberalisation in respect to external trade and to currency markets were seen as important, but not sole, means to these ends. Its gradual lengthening (with the Ghanaian programme's present period taking it to over 15 years) has posed problems because in fact SA was initially a real economy oriented imbalance reduction within a growth recovery constraint programme, not a medium term economic strategy i.e. it was more oriented to rehabilitation and consolidation than to development or change of underlying economic (as opposed to economic policy) structures.

In addition to time creep - imbalance reduction took longer than expected, some countries took over a decade to agree to begin structural adjustment, the external economic environment (and in Africa both war and weather as well as global markets) was consistently worse than projected - SA was modified by three additional factors:

1. the **social impact of economic decline and of SA altered policies** was greater than anticipated and became more and more unacceptable as SA time frames extended. Partly from its own feedback, substantially from borrower pressures but perhaps most of all from pressure from, and alternative analysis posed by some bilateral donors, UNICEF and some NGO's the Bank felt compelled to introduce social elements of adjustment - human investment access retitled basic services and empowering poor persons, food security and safety nets plus projects designed to include employment generation as a goal subject to avoiding major cost escalation. How effective these additions have been - like how much of post 1970 or 1978 increases in numbers of absolutely poor households in SSA relate to SA *per se* and not to the economic climate/trends which enforced its formulation and acceptance - is unclear. Not very (and not very much) seems the average answer because they have rarely been integral to national strategies or to SA conditionalities and analysis but ill coordinated add ons;
2. Northwestern pressure resulted in massive upgrading of Bank concern **with environmental and ecological sustainability** issues. In forestry and agriculture projects the Bank had traditionally incorporated environmental aspects/constraints, but it was not

The Bank has moved rapidly to build up an influential environmental section and to make environmental/sustainability issues central to many project sectors - to the considerable irritation of some, not all, of its borrowing clients. It has not, to date, integrated it into macro policy evaluation.

3. **Gender's** emergence as a generally addressed theme has been a somewhat watered down version of that of environment. It has had a somewhat stronger Southern supporting (or at least common concern) base; but one usually highly critical of specific Bank formulations. Gender implications are not a standard feature in micro or sectoral programming, let alone macro policy evaluation, and are frequently neither very contextually grounded nor complete.

From 1990 the **Bank has become increasingly convinced that structural adjustment was no longer either an economically adequate nor a saleable** (to funders as well as to borrowers) strategy. The difficulty has been on agreeing on a new strategy or strategies. In practice for Bank window borrowers there has been a partial reversion to large project lending with an infrastructure/agriculture emphasis but including enhanced attention to macro and sectoral policy context. In respect to hard core economic success clients - particularly but not exclusively in SSA - the difficulties in defining what economic transformation and renewed development strategies would be, what elements of core SA macro/sectoral frames would need continuation and which of the later SA additionalities should be integrated into them have, to date, prevented emergence of any clear strategic headlines, let alone articulated operational formulations.

The Bank's positions in respect to **governance** (by borrowers), **relationship with (including accountability to) borrowers, external trade and external debt** (and its writedown) have also evolved. Each has been characterised by learning from experience, reacting to global contexts and estimating what funders (and occasionally borrowers) "would wear". **The Bank is not a particularly ideological animal** and has always had a diversity of influencing views within it on most issues. While a source of frustration to ideological true believers and to specific focus pressure groups, as well as an inertial obstacle to rapid change, this has probably been one of its strengths enabling it to take account of diversities - both globally and contextually - and to respond to perceived problems with or opportunities for its operations.

On **governance/role of state** the Bank has usually assumed that the appropriate mode was what is now called the “**enabling state**” and that this required performance of functions well beyond law, order and market friendly regulation. In its rehabilitation and early infrastructure loan phases it generally accepted borrower state perceptions of exactly how to define these additional roles. It did accept that - especially in rehabilitation phases and in poor economies - a substantial proportion of infrastructural investment needed could only be provided by the state because external economies rendered it unattractive to private enterprise provision even when nationally desirable or because external finance was unavailable for private sector infrastructure investment even if viable.

Its present emphasis on utilisation of private investment (where available) in infrastructure - especially telecommunications and power - partly relates to experience with problems of state operation (and an optimistic view as to poor state capacity to negotiate and to regulate) but at least equally to perceiving private investment as much more available to the sector in a growing array of countries than it was half a century or even half a decade ago interacting with tighter fiscal constraints on states. Probably its present rule of thumb would be that if private sources are willing to invest, can operate properly, do not require state guarantees of revenue flows or for external debt and can be regulated to ensure propriety and provision of some external economies, then the state should encourage them to do so and transfer its limited resources to core sectors in which there is no alternative to state provision except non-provision.

In respect to basic services in health, education, water, agricultural extension and - up to a point - food security the **Bank’s position has in fact become more robust over time**. However within this general enabling state plus propriety accounting and disclosure there have been three major swings, two largely reversed:

1. **in the 1970’s the Bank developed a tolerance and in some cases enthusiasm for public sector directly productive enterprises**. Presumably the basic reason was to retain access and influence in countries in which state (or joint venture) enterprises would be a major force in the productive sector whatever the Bank did. But in some cases - notably Tanzania in respect to communal crop growing within Ujamraa villages and designation of crops to be grown in regional development schemes - “true believers” representing the

political leaders of the technical soundness and low risks of such proposals with unfortunate results. While probably never a Bank consensus position, this deviation from trend - now reversed except for intermediary enterprises designed to provide special group finance (e.g. micro credit) - did influence Bank policy in some countries especially in SSA;

2. **in the 1980's the Bank appeared to adapt a minimal state/"less is better" stance.** In fact careful reading of documents and examination of programmes suggests a public relations exercise and a core of dogmatists mostly in peripheral positions rather than a strategic shift. The Bank's Development Reports and African reviews clearly stress **improved public sector management** (not cutting out) in areas well beyond law and order. The arguments for less sectoral coverage (including near withdrawal from directly productive enterprise operation) are largely couched in terms of comparative advantages and of concentrating limited resources in sectors in which no profit oriented private alternative exists. **"Doing less things better"** would seem the fairest summary of this stance. There can be disagreement on the border between universal access basic services (state and state subsidised social sector) and additional services (preferably dominantly private insurance financed or otherwise fee supported) and on the modalities of combining state/user "cost sharing" and access for poor households. However, **the Bank at least in respect to the majority of SSA and Asian countries actually argues for state provided basic service norms well beyond what is currently provided.** In any event, the "enabling state" headline rhetoric and a downgrading of at least the initial role and level of user fees has built up momentum in the 1990's - precisely as the Northwestern judgement on neo-liberalism became "no happy morning again" with the focus on reconciling fiscal balance, access to basic services and safety nets for poor people and more efficient operation of both public and private service provision and finance, not on seeking to move to marketising literally everything from birth to death (except combat troops).
3. **At the end of the 1980's and in the early 1990's the Bank experimented with formulating an approach to governance which was inherently political and normative in a way open to substantial disagreement by reasonable persons.** "Good governance" initially meant absence of corruption, presence of accurate accounting and independent audit; removal of opacity against the public as well as to (and by) the Bank

and revision of accountability defined initially as including competitive multi party elections and participation by those effected by projects in their design, approval and operation. This approach - however desirable it can be argued to be in principle - is probably unworkable for an intergovernmental organisation and especially one whose articles require political neutrality even if it is also arguably bound by the two global human rights declarations. The Bank has partially fallen silent and partially refocused:

- a. **“good governance” for the Bank now means honesty, transparency and public accountability** in the literal sense and is demanded on the **grounds that corruption leads to serious economic and social damage while opacity and non-accountability are economically inefficient in themselves and provide room for corruption;**
- b. **participation is justified as a means to economic and social efficiency** because poor people know things officials and experts may not and, in any event, are more likely to support policies of programmes in whose preparation and operation they are involved. The pragmatism in the endorsement is underlined by noting that in some circumstances, and beyond some point, the costs of participation outweigh gains.

These revised positions may not set flawless normative targets and indeed may not be too far from what the Bank *de facto* supported in the 1960's, but they do set higher “acceptable practice” standards and if used could provide honesty - accountability - transparency leverage. Since these are, at the least, conducive to facilitating better governance in a broader sense and since neither interpreting and promoting political rights nor constitutional law are areas of Bank expertise or mandate, it is not evident that critics of the narrowed stance are correct unless they are supporters of “a World Bank World” marking out templates for all aspects of life in borrower countries, an approach most would hotly decry.

On the narrower issue of **internal governance, the Bank is built on a compromise: universal representation of members** (including - usually as part of a group - in respect to Executive Directors) and **acceptance that the main funders of banks require either a *de facto* (via voting power) or a *de jure* (by cutting off new finance) veto on key decisions.** This is as true of IDA where the borrower share of votes is higher as of the World Bank

proper (where they are very much a minority, but taken together are capable of blocking any major decision). Nothing the Bank or borrower members can do is likely to alter the constraints requiring this approach.

The real - or at least reachable - issues include:

1. greater **flexibility, humility** (or at least absence of prancing proconsul performances by some) and **acceptance of borrower participation in programme, policy and project design** by staff;
2. **actual access for - and in the extreme provision of arbitral or ombudsperson fora to - discontented borrowers, project afflicted groups or (at least in principle) resource providers.**

On both fronts the Bank has since 1990 shown substantial flexibility and willingness to seek agreed ways forward even if results to date are uneven and the culture of innate superiority still informs a significant number of its staff and consultants (not least junior Southern professionals with limited home or other operational experience).

The question of “**programme ownership**” is probably best approached within that of Bank governance. In its early years projects were in general “proposer owned” subject to Bank assessment of viability. From the early 1970’s, programme loans which involved more complex sets of policy issues created discord and/or “co-ownership”. The broad conditionality structural adjustment programmes were - without serious doubt - largely “Bank owned”. That was true even in the minority of cases in which a substantial portion of formulation was done by the recipient because the Bank - and especially the most ardent spokesman for borrower “ownership”, then SSA Vice President Kim Jaycox - **tended to assume reasonable borrowers would write programmes only marginally different from what the Bank’s drafts would have been.** It is doubtful whether this optimistic view is accurate - the Bank has at times clearly been wrong (as it has occasionally recognised explicitly and more often by policy reversal, both of the above in reinstating the absolute poverty reduction priority focus); on some issues reasonable persons can and do disagree; different contextual bases lead to different perceptions and priorities; most governments have interests of their own which may or may not be compatible with “the national interest” or the

Guardian perspectives. This is quite **separate from and beyond the fact that lenders and borrowers normally do have (and should have) different priorities**. Finding tension free 'solutions' is likely to resemble the quest for El Dorado; addressing divergences and their causes and negotiating toward agreed (necessarily compromise) positions both parties can endorse genuinely and seek to implement seriously may be more fruitful.

The Bank has always been oriented to **trade expansion** - especially, however, to reducing export barriers confronting its clients by their own action rather than to any very specific version of global free trade. In principle it views regional economic communities as valuable in this context, albeit lending to them has been limited and focused on traditional infrastructural elements. It has always been opposed to high, across the board protectionism as leading to inefficiencies and misallocation of investment, but - apart from rejection of some (not all) projects whose viability depended on high protection - this became a directly operational focus only in the 1980's with the general macro economic strategy and policy conditionalities of the structural adjustment era. In practice the Bank is contextually flexible on the shape and speed of trade liberalisation and, at times, has been incoherent with advice for higher customs revenue via higher duties and at the same time for trade liberalisation not only by removal of bans and quantitative restrictions but also by tariff reductions.

On **export composition**, the Bank has pursued a somewhat unsophisticated version of past revealed, plus short term dynamic prognosticated, **comparative advantage**. The former has for most IDA clients led to Bank pressure to increase volumes of present commodity exports and/or to diversify into new ones. This has not been paralleled by much coordination of country proposals and projections with the global ones of its commodity division creating a fallacy of composition upward bias in estimation of gains from such expansion. That may be natural in national projections by one country, but is surprising as a continuing case of myopia over fifty years in a globally, analytically oriented banker.

On other export potential and promotion the Bank has had neither a coherent strategic formulation nor even a systematic, prioritised country by country approach. For example it has usually - not always - been relatively sceptical of pre export value added processing. Exceptions have existed - e.g. where, as in Ghana, such exports had been viable but lost out through overvaluation and lack of maintenance. Certainly for SSA the Bank has not taken the

development and restructuring scenarios and options over the next two decades. The answer that it sees these as private sector is less than convincing since they presumably require physical and human infrastructure and may well require data collection and analysis to highlight then to potential private sector investors/entrepreneurs (whether domestic or foreign).

The **Bank has always been very concerned to see its own loans and credits serviced**. It has also always seen excessive debt (especially excessive external debt) as highly negative in respect to sustainability of development. Over time it has shifted its ceiling on safe external debt service to exports ratio from 10% up to about 1960-1970) to 20% today (cut-off level in respect to debt writedown proposals). **Contrary to popular opinion the Bank has shown little direct concern as to servicing of other external debt except as to its impact on overall resource access**. Thus it has stressed the need to pay the IMF and to reach agreement with bilaterals (whether formal or by *de facto* condoning of non-servicing) to maintain new money flows. Its buy back programmes (from the 1980's) have been designed to lengthen duration and to reduce interest rates vis-à-vis outstanding debt retired and usually to buy back at less (often much less) than free value.

However **until the 1990's the Bank has viewed it as imprudent to press hard and openly for general external debt writedowns**. Its own analysis for SSA by the late 1980's indicated much of the debt could not be repaid and attempts to service it were limiting recovery while standard rescheduling merely rolled the problem forward. By the 1990's it began lending to finance a modest programme of debt writedown by buyback and to convince bilaterals to increase the concessionality of their reschedulings/writedowns. However, **its high profile appearance** - and willingness to writedown a substantial amount of its own lending - has **emerged only over the last four years**. At present the Bank is leading proponent of writedowns (together with the UK and USA and the main influencer of the IMF's somewhat unenthusiastic support. The basic obstacles to action are Japan and Germany.

The actual heavily indebted low income country proposals are based on estimates of debt service levels sustainable in the context of projected moderate output and export growth levels (usually 4% to 6% annually for GDP and somewhat higher for exports). Their evident limitations are partly constricting **writedowns** to what creditors "will wear" to a degree

quantitatively eligible countries because 22 seem not - or not yet - to be on the road to meeting economic management improvement constraints and **great absence of speed** getting formal writedowns in operation (or freezing debt service corresponding to probable writedowns until they were agreed and put into operation).

The Bank apparently agrees that the delay is on occasion excessive - it awarded an IDA credit to Uganda to cover the cost of a year's delay in effective date of writedown initiation. Its views on using different model parameters which would justify larger writedowns is less clear - the nature of the negotiations to the present proposals suggests that it sees them as the best that can be financed but also as unduly tight. As to the potential additional cases (e.g. Sudan, Nigeria, Zaire) the Bank's normal stance of not projecting and seeking to finance imponderables and the difficulty of achieving adequate bilateral writedowns to finance the existing 19 proposed cases suggests it would be in favour of including from the 22 as and when their governance and economic management records improve, but at present it prioritises nailing down financial parameters for the existing 19 agenda items/country cases.

The **International Finance Corporation** represents both the Banks' belief in the uses of special financial institutions to catalyse poor country private sector development; its doubts as to whether public sector and private sector finance can usefully be under the same roof and its (and IFC's) difficulties in developing a set of marketable private sector financial commitment/merchant banking products.

It is a fact that the IFC has been - and to some extent still is - a stepchild, tolerated and within very broad guidelines allowed to go its own way but not integrated into nor backed by the mainstream Bank and IDA wings' strategies.

In its early years the IFC tended to finance poor quality projects often dependent on gross protectionism and not occasionally secured oppressive conditions on borrowers (in these cases usually joint ventures with substantial government stakes). In the 1960's and 1970's it *de facto* moved into concentration on public/private sector joint ventures. In the 1980's and 1990's it has probably improved the quality of its project participation, but its merchant bank catalytic financial mobilisation efforts have tended to appear bureaucratic and slow moving (when contrasted with private sector merchant banks or the UK's Commonwealth Development Corporation which is *de facto* a bilateral analogue to the IFC). Unless the IFC

can develop a more differentiated stance and a higher level of average performance its only evident use is to demonstrate that the World Bank group is not anti private enterprise. Perhaps surprisingly it has not played any large role in articulating, advising on, underwriting or catalysing finance for World Bank urged/required privatisation.

IDA has led shifts in patterns and forms of World Bank finance. It has been the vehicle for the increased proportion of lending to SSA and of easing debt servicing burdens on total Bank loans/credits not least in *de jure* conversions of Bank loans to IDA credits which amount to writedowns and *de facto* rollovers by use of import support IDA credits to free foreign exchange to service older Bank loans. IDA from its inception has had more emphasis on **programme/sectoral loans** packaging a number of project components and on **human** (health, education) **at least as much as physical** (roads, telecommunications) **infrastructure**. From the mid 1970's it has increasingly **provided balance of payments and budgetary support** credits to bridge the gap between policy reformulation and subsequent capacity refurbishment/reutilisation. In at least one case (Zimbabwe) it provided a retrospective external reserve restoration credit to cover the cost of commercial imports a drought caused food gap until bilateral food aid became available.

However, arguably IDA **failed to develop priority** toward or innovative programmes in respect to:

1. **export diversification** and development studies, supporting infrastructure and catalytic investment in enterprise led projects;
2. **post-war rehabilitation** (of livelihoods) and reconstruction (largely of infrastructure) including initial recurrent expenditure bridging until output, exports and tax revenue had been restored;
3. including **paying minimum efficiency wages** to basic services personnel (e.g. nurses, primary teachers, agricultural extension officers, constables, field level tax collectors, water and road maintenance technicians). The public service recovery vital to provide the basic services integral to an enabling state is very unlikely to be possible until wages for base level professional and para-professionals is of the order of two thirds household absolute poverty line budgets (usually \$50-\$100 a month) whereas in many SSA

much technical assistance, bricks and mortar finance and operating supplies assistance relative to support to the wages and salaries 30% to 50% of recurrent budgets characterises the aid picture and - except for technical assistance - IDA which might have been expected to use its greater strategic and macro/sectoral economic analytical capacity to identify this distortion and catalyse its correction has aggravated it by its stress on the capital - not the personnel - costs of basic service recovery and expansion.

However, IDA is severely constricted by a decade of near constant price stagnation and real per capita (of borrower states) erosion of funder state pledges only marginally reduced by repayment flows from early credits and transfers of World Bank profits. In large part the root cause of this constraint appears to be the general US Congressional antipathy to funding international organisations and in part general OECD member budget stringency. But in addition it is arguable that the **Bank has not made the complementarity with/precondition for expanded enterprise investment case credibly and that those of its critics who want a 'better' Bank have played into the hands of those for whom a 'better' Bank is no Bank, or at least no IDA.**

The **Regional Development Banks** are very similar to the World Bank. Too much so perhaps as closeness to regional contexts and needs should be one of their comparative advantages. Each has created an IDA style soft loan fund and moved toward co-finance with bilateral government agencies and enterprises. The Asian and Interamerican Banks have begun to demonstrate greater self designing - and self financing - capacity and links to regional particularities. The African Development Bank has developed particular problems because its ADF was never adequate and so few of its members could prudently use Bank window finance. As a direct result it ran up very large proportions of unserviced loans - unlike the World Bank it had no real leverage via influencing other donors not to cooperate until a scheme for making ADB loans current was agreed. The suspension - over 1993/96 - of ADF pledging virtually brought it to a halt just as its ambitious research programme had begun to elucidate possible components for a strategy distinct from and complementary to the World Banks. 1996's renewal of external member pledges and reconstruction of administration may lead to a more self confident and self reliant regional bank but it may also lead - at least initially - to ultra caution in project evaluation and maintaining loan quality. Further its share

of present debt writedown proposals will need to be externally financed as - unlike the World Bank, IMF, IADB or ADB - it has neither the reserves nor the profit flows to meet it.

The European Development Bank is to a substantial extent in the productive enterprise joint venture (on both investor and owner side) promotion business and is special in that its IDA is the Lome Convention's grant European Development Fund finance. The North American/European bank for (Central and Eastern) European Reconstruction and Development (from directive administered state capitalism to market driven enterprise capitalism) is a mini World Bank directed to one region with a far higher priority to directly productive enterprise and to joint ventures with the private sector.

IV.

FIRST STEPS: TO 2002

There is a temptation to specify large numbers of structural (or other) reforms for instant implementation and to do so in great detail as well as a quite different one to concentrate on one or two silver bullets which will - it is hoped/asserted - lead to radical transformation. Neither appears much related to practicable ways forward.

Major structural transformations require time (including planning articulation, phasing, tempo, monitoring and evaluation/adjustment). That is no reason not to decide on which to push promptly - *au contraire* - but is a reason not to expect instant results. To attempt a large number of structural reforms at once leads to **institutional overload** and a chance for opponents of any change to **block all of them**. A host of small, easily adopted changes are likely to prove highly marginal or even cosmetic. Detailed prescriptions for reforms - as opposed to main directions and components - are likely to be premature and to limit flexibility in ways not conducive to adaption or implementation. On the other hand the interactions between increasing economic interdependence, varying contexts and rising levels volatility of financial flows are unlikely to respond fully to one or two changes even if these are, within a broader package, useful or even necessary.

1. Increasing the IMF's role in **financial institution and system regulation** (including requirements for provisioning and capital ratios) **not merely by setting standards** but by **securing powers to inspect** Central Banks (or comparable financial sector regulators) and - if serious deficiencies are found - domestic institutions. These are an extension of the IMF's role as a Central Bank for Central Banks. In this area the powers to set standards, to inspect and to report on findings at CB level - let alone to the power to send in domestic level institution inspection teams would be a major leverage instrument even for non borrowers because of the impact of an IMF 'Seal of Disapproval'. Clearly Articles amendments would be needed to give the power as well as a refocusing of IMF staffing and missions.
2. **Organising funding for standby crisis facilities** for Asia, for Latin America, for Central/Eastern Europe and for Africa. These would need to be of the order of at least \$25,000 million each (IMF and other consortium members) and to have clear parameters for activation and guidelines for quick adoption of frame agreements to put the shield in place quickly and to articulate detailed commitments at greater leisure (no drawer would in fact refuse to negotiate seriously under the dire threat of shield withdrawal). The need for separate facilities relates to the different 'lead' members other than the Fund - e.g. USA in LA, Germany in C-E Europe, Japan in Asia, EU in SSA. The standby approach would **not** identify countries - to do so would be crisis provoking - but regions. Parallel tentative agreements with Regional Development Banks and their Funders and the World Bank group (as well as SAF/ESAF) to provide **financial sector rescue and rehabilitation finance and avoid collapse of key infrastructural funding inflows** would be a highly desirable **complement**.
3. **Exchange rate** system parameters should be addressed. Clearly **pegs to a single currency** - even if marginally flexible - **do not work well**. The way forward may be pegs to country specific weighted currency baskets with 5% swings around the norm at any time plus frequent, small devaluations (revaluations) to offset inflation excess (lower levels) in the country over (under) those of the basket currencies. Shock or domestic structural shift adjustments (up or down) would be rarer. For such a system to work interest rates need to be managed by Central Banks/Treasuries in ways conducive to avoiding cumulative overvaluation through surges of footloose fund inflows and the safety

net provisions cited above would need to be in place for averting or containing tidal wave outflows. This is, in effect, a return to the 1974 Morse Commission thrust toward crawling peg floats, managed by interest rate influencing.

4. **Transparency** should be **enforced** by the IMF in respect to Central Banks and national financial systems more generally. Exactly what data, with what permitted lag from date of data to date of publication is open to discussion but, in general, much more and much faster. e.g. Central Bank external reserve data should not be a single line statement of gross but should include components of gross and net including forward transactions. Again Article changes are needed, albeit even without a broadly agreed system regular data bulletins published by the IMF would result in market punishment of countries refusing to provide data whether or not they were IMF drawers. On the incentive side, IMF possession of such data would allow much faster activation, agreeing on condition of, deploying standby shields when needed.
5. **Financial sector reconstruction** should become an **IMF technical and financial priority**. The IMF, not the Bank, should take the lead as regulation and reconstruction are closely related areas. The Bank might will be an appropriate co-funder for particular programmes together with bilaterals and Regional Development Banks. The users would be transitional economies in Central and Eastern Europe and both middle income and poor Southern economies. In each case, restructuring can cost 10% or more of GDP (vs. under 5% in the USA savings and loan cleanup). However, standard IMF drawings are not appropriate given their repayment period, so that except for SAF/ESAF eligible countries the Funds role in respect to finance would be to lead mobilisation. (Bank window funding at 8% over 15 years including grace period could be appropriate for some middle income countries and IDA for low income.)
6. **Tax system reform** with greater attention to **administrative feasibility, collection systems and reduction of leakages** (including malgovernance 'leakages') should become a more significant focus of Fund analysis, advice and technical assistance. At present Fund efforts in this field appear to be too fashion driven and too little focused on problems of articulation and implementation and *a fortiori* of corruption. Highly autonomous, highly

7. The IMF should **return to being a crisis bridging “lender of first resort”** especially for its **poorest and weakest** members. They are more, not less, shock vulnerable even if the damage to them is unlikely to cause global financial tidal waves. To deny them such access because they are committed, with the Fund, to longer term structural adjustment is self defeating. Low conditionality, short term, bridging finance (the old Gold and First Credit tranches plus certain specialised shock facilities) could be made available (with a relatively simple, limited Articles amendment) to countries committed to and performing on longer term agreements (as well as to nil or low drawers as at present) when the Fund found they had experienced exogenous shocks which required such bridging finance. Alternatively a **special shock facility** specifically for countries committed to longer term programmes could be created.
8. **SAF/ESAF** should become specialised facilities (for low income Fund members) with three basic uses - not a parallel IDA as at present:
 - a. rolling over remaining unmanageable standard term drawings;
 - b. providing soft “first resort” shock bridging facilities;
 - c. contributing to domestic financial sector reconstruction finance and/or external debt reconstruction.
9. The **Fund and Regional Central Bank Associations** should explore the development of complementary roles. In respect to finance, only the Asian regional grouping appears likely to be a serious potential provider by 2002. But the African, Latin American, Middle Eastern and Central/East European ones could usefully expand policy coordination, data development and dissemination, discourse and - perhaps - technical assistance and advisory service provision.

In this Fund’s case, funds are not the main problem, except in respect to standby crisis consortium mobilisation. SAF/ESAF - on the basis proposed - might well be self sustaining soon after 2002 with one more pledging round related specifically to financial sector rehabilitation.

For the Bank funds are a problem especially for IDA. That is even truer of the **Regional Development Bank** (and most so for the AF Dev. Bank - or more specifically the Afdev Fund). Increases of 50% in current funding levels (at 1995 prices) of their soft loan windows are needed to provide the complementary resources for small, poor economies to build human and physical infrastructure to make private domestic and external enterprise financing of directly productive sector growth and some components of infrastructure attractive and cost efficient. However, until explorations develop new products/markets **the Bank window of the World Bank and also the IFC are if anything overfinanced** as (until more members can prudently afford to use it) is that of the AFDev Bank. The IADB and ADB Bank windows appear reasonably adequately financed but not excessively so. Beyond finance several targets can be set.

1. **Increasing the role of the regional development banks** (including the Central/East European one) - perhaps with a goal of approximate World Bank - Regional Banks equivalence in size. But in addition to greater size they should build up special expertises related to their regionality and not be mini World Banks.
2. **Speed up, extend and - probably - deepen** debt writedown for severely indebted low income countries. The first priority is to have **all 19 proposed programmes in operation and - say - two thirds completed by 2002**. The second is to **extend from 19 toward 41** as soon as peace and national economic policies return to one or more of the 22. The third is to provide added funding in cases in which **results demonstrate the present formula approach has left an unsustainably high external debt burden**.
3. Incorporate **poverty reduction** into Banks' (including Regional ones') **macro economic models and strategies not leave it in isolated projects or sectoral programmes**. At the same time, more articulation of a body of producing out of poverty approaches is needed to complement basic services and infrastructure strands in a holistic approach to poverty reduction.
4. Take the distinct characteristics of **Post War Rehabilitation and Reconstruction** seriously (especially in SSA but also in parts of Asia, the Middle East, Latin America, Central-Eastern Europe). At macro, sectoral local and household levels such programmes - while in one sense a sub-set of holistic poverty reduction programming - do have special

characteristics, not least that reconciliation/avoidance of renewed conflict friendly sub-programmes have very considerable external economies which need to be included in their assessment.

5. The **Bank window of the World Bank** and possibly the AFDev Bank need either to develop **new products** or to consider phasing down (not out) their operations. In addition the Bank should raise lending rates on this window to break-even levels in respect to marginal borrowing/lending. There is no evident case for subsidising middle income borrowers, *de facto* at the expense of internally generated IDA resource flows. With the emergence of more members able to afford 8% finance, the AFDev Bank's immediate excess supply may disappear. For the Bank **both lending to private (or private/public) enterprises in the infrastructure sector** and of **developing more merchant banking roles** in consortium design, mobilisation leadership would appear potentially useful to middle income members as would more extensive provision (for fees) of partial insurance cover for infrastructural enterprise projects.
6. The **IFC's continued separate existence comes into question** if the Bank window evolves as advocated above (to a large extent along lines sketched by President Wolfensohn). The IFC is not a great success nor an institution with large bodies of expertise which are not usable together with the infrastructural expertise of Bank window staff. Infrastructure is now a public - joint venture - private overlap area.
7. **Less apparently 'febrile fashion' waves and more sustained incremental change** building on, as well as substituting for ongoing approaches is needed. The spearheading of poverty reduction over 1970-1978; its near total eclipse until 1989-90 and its sudden re-emergence as a growing priority in the 1990's is a macro case in point. In addition new approaches - notably **poverty, environment, gender** - need to be **integrated at all levels** including macro and not marginalised/ghettoised into peripheral micro or sectoral enclaves.

In respect to openness to **dialogue and discussion**, offering **real access** to negatively affected (by programme rejection as well as approval) groups, before as well as after decisions, and on setting up functioning **ombudsperson** type 'appeal' procedures for members and other affected groups, both Fund and Bank (and Regional Bank) should give expansion and

deepening high priority over 1997-2002. In respect to dialogue, both need to attempt to involve actual programme design and implementation personnel - the gap between head office and country project or sectoral review team personnel responsiveness is frequently striking. But for the Bank this proposal is more one of maintaining an ongoing priority and process, while for the Fund (and at least some Regional Banks) it is a matter of substantial reorientation of approach to 'outsiders' (including their own members).

V.

ON TO 2022: THROUGH A CRACKED MIRROR DIMLY

In principle a wider array of more basic changes can be proposed for a 25 year than for a 5 year perspective. In practice constraints arise in the case of the IFI's.

1. the **five year programme is ambitious**. That is not in the sense it cannot be completed by 2002 or that there is limited probability of progress on most components, but that there is likely to be a **substantial carryforward**. Further - especially in the IMF case - how much stabilisation is achieved from the agenda items - and why - is a basic component in whether pushing ahead with them or further redesign will be needed.
2. **Natural disasters** - via the increasingly globalised and financial sector integrated insurance industry - may create a new tidal wave risk. Global warming is well documented, but its pace (e.g. the Indonesian fire smoke/smog wave will probably wipe out 2 to 3 years temperature increase) and its impact on catastrophic storm frequency and distribution are not yet projectable. Similarly whether earthquakes/volcanic eruptions are on an upward trend or not, the risk of a mega disaster (\$100,000 to over \$1,000,000 million) are real because of known, historically active fault lines and volcanoes now in or close to metropolises. The catastrophic risk estimation procedures and means of provisioning are beginning to get serious attention at company and national level (apparently least to date in Japan which is most at risk) but have not yet been built into global financial flow risk analysis.

relief) **measures should not fall primarily within the IFI ambit.** They should be linked to the core UN system as examined in the next two sections in which a structural transformation model set of proposals are advanced. While dialogue and promotion over 1997-2002 is essential to 2002-2022 systemic reform only marginal progress on the proposed agenda can be projected over the next five years. What the 2002-2022 outcome (and prospects as of 2002) are will largely inform what changes the IFI's should make over the 2002-2022 period.

If most of the global fiscal and economic management coordination proposals are put in place over 2002-2022 then to a large extent completion of the 1997-2002 IFI proposal package and its evolution on the basis of opportunities and gaps revealed will be the main longer term agenda for them. Especially for the World Bank/Regional Banks financial flow constraints would be reduced and global economic management leverage via ECOSOC substantially enhanced.

One special point is that **if the World Bank's IFC and Bank windows cannot achieve a new, distinctive, financially viable role set** to replace the niche status of the former and the declining business of the latter, they should be **phased down.** It is quite possible that they no longer have any substantial role in middle income country public sector infrastructure finance - historically both their largest and most successful sector.

If few of the proposals came to fruition the situation is much more difficult. As noted earlier Central Banks and Disadvantaged Group Empowerment Financial Funds (the national analogues to the IFI's) are not the main economic management coordination and policy agencies nationally - nor would many argue that they should be. National Central Banks via board appointments, reporting procedures and operating within government set policy parameters (for the goals they are to achieve by means chosen by them) are ultimately subject to bodies responsible to citizens in ways it is hardly credible to suppose the IMF could be. Therefore giving it power to implement inflation, employment and growth targets (even assuming there were an appropriate authoritative body to set them, which is not now the case) would be open to very serious good governance objections.

Therefore the most hopeful course for post 2002 IFI evolution is not direct but via global fiscal and economic management mechanisms within the UN system.

VI.

GLOBAL TAXATION: WAYS AND MEANS

The predominant objective of global taxation - at least for its proponents - has been general **redistribution from richer to poorer national economies** i.e. a global national analogue to national progressive individual income taxes. Other - related - purposes have included **financing the UN system** (usually excluding the World Bank and IMF albeit sometimes including their soft credit windows) and **of specialised programmes such as environmental protection and empowerment of women.**

The main sources adumbrated have been:

- a. **progressive per capita GDP tax** (negative for low income, neutral for a middle band, positive for one or more upper bands) linked either to official or to comparative purchasing power adjusted GDP per capita;
- b. a **tax on global trade** (whether goods alone or goods and services);
- c. a **tax on international financial transactions** - including ones within national markets and those cross-cancelling rather than leading to actual transfers (the Tobin Tax);
- d. **proceeds from royalties and taxes on users of "global commons"** primarily deep sea bed resources (though potentially including marine life and conceivably the exploitation of Antarctica which, however, most proponents of such taxes do not wish exploited.)

Looking at these taxes in reverse order, the last may be attainable in respect to seabed resources, but largely because probable revenue flows before 2022 are likely to be minimal. Precisely because it would be more lucrative (and also because enforcement of collection would pose significant problems) a deep sea marine life exploitation tax would be harder to achieve. Both are worth pursuing - if only on level playing fields/no free lunch grounds - but are hardly central to serious global taxation evolution.

relative to per capita GDP and - rather less certainly - relative to GDP within countries. The supposed supporting case of deterring 'speculative' or footloose capital transfer is more doubtful. A 1% tax would clearly not deter panic outflows and as to inflows might simply increase the interest/dividend rate margin poor economies needed to offer to attract them. The problems are twofold:

- a. collection - most such transactions do not result in actual international financial flows (or at least not of the same order as the underlying transaction) and the actors might well be able to restructure many of them to avoid the tax;
- b. lack of any politically significant support - partly because the tax has received little attention beyond specialist economic and financial circles.

Clearly this approach is not a short term proposition. If it is to be on actual decision consideration agendas by 2012 and in place by 2022 two courses of action by its proponents are necessary:

- a. to demonstrate viable collection (including anti-avoidance) mechanisms can be established (they probably can) and that the costs to desirable international commercial and financial transactions from such a tax will be absolutely low and will not lead to substantial cost inducing discrimination of a protectionist type (probably demonstrable);
- b. to build up a broader dialogue through interesting inter alia members of legislatures, religious groups, poor country governments, trade unions, journalists (including financial journalists) in the concept and by convincing a number of enterprise - including financial enterprise - leaders to endorse it. (Imponderable until attempted on a significant front over several years e.g. the present World Bank/IMF debt writedown proposals took over a decade to move from academic oddities to poor country/NGO causes, to unheralded World Bank acceptance in principle to adoption and initial implementation.)

The **trade tax** (especially including invisibles) could yield substantial revenue at low rates. The experience of national customs duties indicate that there are no inherent barriers to collection. At - say - 2% (1% on export and 1% on import) the combined protectionist effect appears limited, albeit on products involving multiple moves for different stages of production the cumulative rate could be higher. The distortion impact would, therefore, not appear likely

to be severe. There would be some progressivity because trade to GDP per capita correlations are positive but also considerable divergence of incidence within any given GDP/capita band because economic openness is quite variable for overall economic scale and economic structure reasons e.g. many Caribbean economies might well pay a higher proportion of GDP than the USA. The barriers to adoption of this type of tax are basically the same as to a Tobin Tax with potentially greater equity and distortion snags, less collection system problems (e.g. piggybacking on national systems would be feasible in most cases albeit not, e.g. on intra EU trade) and less initial educational difficulties since customs duties are fairly widely comprehended.

The progressive GDP per capita tax is on the face of it preferable to either international trade or Tobin Taxes with one potentially crucial exception. National governments would need to fund it by collecting national taxes and paying them out to the international authority charged with collecting and distributing it. There is no way a macro tax of 1% of GDP could be raised by a series of 1% levies or surcharges. For trade and Tobin taxes they could much more easily act as agents without passing the tax revenue stream through their domestic budgets.

Economically this difference is arguably (albeit not necessarily) trivial but **in political feasibility and Treasury acceptability** terms it may well be crucial, negatively crucial even if the tax is intended to substitute for 90% of bilateral aid and 90% of budgetary payments to international agencies. Whether this obstacle can be overcome is unclear until there is enough concerted effort to achieve a genuinely broad decision taker and influencer based dialogue on a serious consideration basis. Attaining that dialogue a priority because if the apparent political/Treasury roadblocks can be bulldozed or (more plausibly) bypassed this is the most readily understandable, most equitable (even if on official GDP per capita - which would actually enhance progressivity as opposed to the logically preferable but at present empirically dicier CPP GDP/capita) and probably is the most presently supported (in a vague and woolly way) of the three fiscally realistic options.

The amount to be raised depends not primarily on the vehicle of taxation (excluding the fourth) but partly on estimates of **political feasibility** and partly of **breadth of purposes**.

A broad front approach for 2022 might be:

- a. a tax of 0.5% of GDP for economies with \$5,000 to \$10,000 per capita and 1.0% over \$10,000;
- b. allocated:
- 40% to countries with a per capita GDP below \$500 (1997 prices);
 - 10% to the United Nations and its poverty basic services and poor country development focused agencies(of which UNICEF is by far the largest with WFP (excluding humanitarian) and WHO about co-equal second);
 - 10% to humanitarian/emergency support (primarily via the UN with WFP, UNICEF as main channels)
 - 10% to UN and regional conflict containment and resolution ('peace keeping') operations;
 - 15% to World Bank and Regional Development Banks (say half each) primarily to fund soft credit windows for countries with GDP under \$1,000 (1997 prices) per capita but possibly also to increase subscribed capital for merchant banking operations;
 - 15% to environmental, gender (dominantly women's livelihood and social empowerment), direct livelihood empowerment programmes for very poor households (e.g. micro credit, training and common facilities for micro enterprises, focused research - extension - initial input supply).

The broad approach does require more funds. As set out it would clearly increase transfers on grant terms to very poor countries; funding for UN agencies as a whole (especially in the emergency/humanitarian field); World (and especially Regional) Development Bank complementary soft credit funding; special focus programmes and - (less clearly) UN and (more clearly) regional peacekeeping. The cost would be somewhat lower (1.0% vs. 1.27%) than the 2000-2006 EU budget target but up to twice the present aid/international organisation budgets of the USA and UK (albeit comparable to the present expenditures on these heads of some other countries).

These proposals would not *per se* end bilateral aid or international institutional funding;

- a. softened loans to poor and not so poor countries and their enterprises perceived (often the primary provider concern) as export enhancing and early development facilitating (presumptive primary borrower concerns) would and should remain and would benefit from being seen as mutual interest, basically commercial, contracts not aid;
- b. The same applies to much environmental protection and rehabilitation programming. Reversing ozone layer erosion, averting global warming, protecting biodiversity and natural 'heritage' areas and halting/reversing desertification/and neo desertification are global concerns. In many cases substantial investment for direct rich country as well as global (and poor country) benefit can best be made in poor countries. This is an appropriate case for binding two way contracts (technology and partial finance for a defined, quantifiable set of measures and investments) not for aid in its traditional sense;
- c. NGO cross border programmes evidently would continue to the extent they are based on own resources and to some degree to the extent they are based on matching grants linked with particular provider goals not incompatible with those of recipients;
- d. some humanitarian bilateral (and regional EU) programming would continue because of public pressure and governmental humanitarian (as well as diplomatic and political concerns);
- e. certain aspects of technical assistance - e.g. scholarships and visits, some institution building and personnel provision - are seen by providers as very much in their interests and - to the extent recipients also perceive them as beneficial - would continue;
- f. peace pursuit funding provided under the scheme might not be adequate in some years (e.g. it could not possibly support an exercise of the same size as the USA-Saudi-Kuwaiti Gulf War Coalition) and special national interests (which should be nationally funded) will determine much of peace pursuit/aggression reversal operations;
- g. organisations - even if broadly within the UN extended family - which are commercial and contractual in nature - e.g. IMF, WIPO, WTO - would remain directly member financed. For slightly different reasons the same probably holds true of Regional Organisations other than Regional Development Banks and Regional Peace Pursuit Operations;

h. military assistance - largely a dominant sub category of export credits or guarantees - neither can nor should be included in the global uses except, perhaps, a training component within peace pursuit operations.

However, these heads do not, of present, seem likely to account for more than - say - a quarter of aid and international organisation budgets except for major military aid suppliers (a category in any case not included in globally compiled - e.g. OECD - aid transfer estimates).

This scheme **does not assume the unduly high proportion of personnel providing technical assistance or the misuse of external NGO's as mainstream basic service and emergency support providers in ways corrosive to national governments and social sectors (including, but rarely primarily, domestic NGO's) would remain static.** The 40% direct allocation to poor countries and - potentially - the 10% UN family international agency one would allow **greater recipient participation** in/taking of decisions, and therefore responsibility/accountability for their outcomes.

Nor does it imply that only countries with under \$500 per capita GDP would benefit. First soft credit - e.g. IDA, Regional Development Banks - could be available up to a higher level e.g. \$1,000 per capita. Second the same would apply to environmental, gender and direct poor household livelihood enhancement programming. Third most UN specialised agencies (e.g. UNICEF, WHO, FAO, ILO) provide services and fora to rich and not so poor countries as well as to poor ones. That applies a fortiori to peacekeeping which has rarely, if ever, been financed on purely humanitarian grounds as opposed to rich country perceptions of the risks and costs of out of hand conflicts "out there" to themselves.

Moving on from **broad uses to criteria for release of funds** (e.g. it is not politically plausible nor humanly desirable to support so unconditional a formula that countries such as Burma would receive it nor one allowing the additionality to be spent primarily on the armed forces and police or on leadership elite extractions) and allocations within sub groups (other than the 40% redistribution for national poverty reduction component - which would presumptively be based on population possibly with a floor and a ceiling per country - and to monitoring, guideline setting and policy changes requires moving on to global social and economic management reform. The **democratic deficit of handing these functions over to UN functionaries** (quite apart from their probable inability to agree on intra UN family sub-

allocations) **would make that route politically unacceptable to recipients and to resource providers.** The Security Council has neither the time nor the capacity to play the role apart from the dubious appropriateness of any veto (as opposed to weighted majority) provisions. Nor would the General Assembly appear to enjoy much confidence in such a role for both capacity and political reasons; a view certainly characterising most proposed resource providing states and probably a surprisingly high proportion of beneficiaries (which would include those making substantial use of the services funded through categories other than the 40%, not just the very poor).

Devising **plausible, practicable, reasonably transparent and accountable mechanisms for using and reviewing use of the large volume of resources proposed and “selling” them to governments, technocrats and electorates will be at least as much of a challenge as building a support base for funding transfers and institutions at or near these levels.** Most surveys in rich countries do suggest properly understood, transparent, accountable, humanly credible aid and international organisation allocations of up to 1% to 2% of GDP would enjoy support. **For Treasuries - and many politicians - the benefit of getting most such spending out of the Budget and on to international (legislated once for all - or with only marginal subsequent amendment) taxes in part at least would offset the higher costs.** For net recipients greater transparency and accountability would be positives aspects even if within broadly agreed criteria and guidelines. For the more user friendly and better constituency grounded UN agencies - e.g. IFAD, UNICEF, WFP - the gains could be substantial and for those with unreasonably low or vague profiles (e.g. ILO, WHO) or highly mixed to negative user perceptions (e.g. UNDP, FAO) the challenge of avoiding massive resource cuts might well induce more useful structural reform than present attempted methods.

VII.

TOWARD GLOBAL SOCIAL AND ECONOMIC MANAGEMENT?

If one believes that interaction of markets for goods, services, finance communications and - to a much lesser degree labour - is either desirable or inevitable and that it reduces the

toward **partial globalisation of economic and social management** is made unless one adapts an extreme libertarian, an extreme communalist or a syndico anarchist stance of objection in principle to national as well as global governance. Similarly unless one supposes economic and social tensions and challenges to be less important than political and security ones some capacity for obligatory - as well as authoritative but non compulsory - decisions is unavoidable.

A global economic and social management and coordination agenda can be envisaged as encompassing three main areas:

1. **United Nations economic and social institution strategic coordination, guideline setting, resource allocation and review.** This would be particularly important if the international fiscal proposals of the preceding section were adopted in whole or in part but is already seen as important. It cannot be delegated to a single agency let alone to one with its own strategic agenda, programmes of action competitive with other agencies and a general - nominally neutral as to allocation - agency fund raising remit, i.e. the present UNDP. Indeed one advantage of the fiscal proposals and of hands on ECOSOC/Economic and Social (Security) Council involvement in overall strategy and resource allocation would be to reduce the conflict of interest inherent in the present trio of UNDP roles and make it a more credible and perceived to be impartial (as opposed to self interested) operational and field level coordinator.
2. **Authoritative pronouncement, obligatory decision, binding treaty facilitating economic and social management.** Most would - at least initially - be in the first and third categories but the second is no more inherently foreign to a reinvented ECOSOC/Economic and Social Executive Council than to - say - WTO even if detailed binding conditions/actions are likely to require specialist negotiators and specialist operators.
3. **General dialogue and discourse** on themes of common concern on which authoritative pronouncements are unattainable either immediately for the foreseeable future but guidelines or partial consensi - or even in depth exchange of views - are potentially useful in shaping perceptions and partially coordinating actions.

This definition of scope leaves primarily political and security issues to the General Assembly/Security Council. These form the bulk of their present work and have a degree of immediacy and a scope for temporary management by compromise requiring rather different outlooks and competences than those for economic and social management. Realistically the GA/SC will remain the locus of ultimate UN authority for the foreseeable future including electing Economic and Social Executive Council members. That does not prevent giving authority to that Council to take binding decisions in specified areas (after appropriate amendment of the Charter).

This division of labour **requires that ECOSOC and, especially, its Council be composed primarily of experienced economic and social professionals** - broadly defined - not general purpose diplomats or second line politicians although these are not inappropriate members of delegations if they do have at least some economic and social issue expertise.

In Economic and Social Commission voting would necessarily be one country one vote. This probably has the consequential result that authoritative pronouncements require *de facto* assent by concurrent majorities of richer and of poorer (of core, semi core and peripheral) states to be effective and to influence action. In the absence of such assent it is hard to see how they can be truly authoritative except perhaps in the very long run by eroding resistance. Similarly obligatory decisions will probably be possible only by the Council. Its membership could be analogous (not identical) to that of the Security Council with permanent and rotating members or all members could be elected on a common roll subject to the recognition that non-election of certain states would make the Council ineffective. The veto should not be transplanted, but a qualified majority (either along the lines of resource providers, intermediate and resource recipient states of the previous section or some alternative - e.g. OECD Member/Other-division) would be a necessary substitute for the Charter to be amended to provide for Obligatory decisions at all. In practice - as with the Security Council - most decisions would be Authoritative rather than Obligatory. Budgetary allocations and disqualifications for mal governance would, by their nature, be obligatory.

Efficient operation would be facilitated (or may even require) a specialist, select committee system. ECOSOC - like the GA - is too large a body for detailed deliberation and most countries cannot afford to field delegations with all issue expertise. Forty member committees

- all Executive Council members plus twenty *de facto* selected by regional caucuses but subject to full ECOSOC validation might be a way forward.

However, the present **ECOSOC and its present coordinating council could toward agenda and style of operation proposed within the existing charter** rather than continuing to engage in rather unsystematic and uncoordinated review of individual UN family agencies (other than the IFI's which are required to report but do so **pro forma** and do not participate in a full critical review of their reports and WTO which is technically not a UN family institution) and even more unsystematic discourse on economic and social issues rarely directed or precise enough to arrive at operationally oriented Authoritative Resolutions rather than diffuse wish lists or agreements to disagree.

The lesser step is a feasible 2002 objective, whereas the former is a 2022 one, not only because of its global structural implications but also because in practice it cannot be brought to serious negotiation, or even pre-negotiation parameter agreement, before the present Security Council composition issues are resolved, optimistically by 2002 following a negotiating process beginning in the mid to late 1980's. Both require substantial changes in the ways other UN Institutions relate to ECOSOC and in the coordinating secretariat servicing it.

The **coordinating secretariat** should be under the UN Deputy Secretary General for economic and social affairs/development. However it should seek a division of labour to avoid duplication. In particular humanitarian affairs and human rights documentation, UNDP's field and operational coordination reports and UN family agency accounts of their work need not and should not be duplicated by the coordinating secretariat though it should pose key issues, highlight strengths and weaknesses and pose options for continuity and/or change in respect to them.

The exact role of ECOSOC and its Council in respect to agencies with interstate governing bodies (which status should be extended to the UN Regional Economic Commissions) will require exploration and pragmatic development. Unless and until fiscal provisions akin to these suggested earlier are adopted, it will have neither the power of the purse nor the power of a legally superior council over them although - since one must assume governments do pay attention to their own delegates' positions! - authoritative pronouncements should influence

governmental positions on agency governing councils as well as convincing agencies by the logic and realism of their stands. In respect to Regional Agencies which are not UN family members *per se*, only authoritative statements will be available as roads to coordination and alteration of operations unless in the case of RIFI's (regional international financial institutions) global resource allocation leverage becomes significant.

At least eight **topical clusters** can be identified for discourse, dialogue, authoritative declaration, specialised treaty/operating institution preparation and facilitation and potential Obligatory action resolutions. These **include crisis avoidance - resiliency enhancement and containment** (pre-crisis preparation and prompt execution); **national fiscal flow generation and allocation** (especially with respect to interstate production processes and transactions; **fair trade** (including level playing field, competition, abuse of dominant positions and corruption); **transparency and accountability** (at least in respect to accurate, independently audited, publicly accessible accounts and other key documents); **poverty and social exclusion** (including gender and minorities); **human and peoples' rights and obligations**; **environment** (including both ecological and human sustainability); **enabling state development**.

Crisis avoidance, resilience and preparation for/operation of containment falls to a significant degree within the operational areas of the IFIs and in that sense is a topic for review and guidance. However, resilience building and preparation/operation of containment are broader topics in particular because they include calamities and catastrophes and therefore humanitarian operations and post-war social and economic measures conducive to reconciliation and maintenance of peace. War or near war containment and termination is a Security Council area, but humanitarian assistance during and economic and social measures for rehabilitation and reconciliation after have major social and economic elements not particularly suitable to GA or SC procedures and expertise and, in practice, managed in ill coordinated, inefficient and generally inadequate ways risking the prompt re-emergence of conflict.

Fiscal flow protection from diversion to tax havens or dropping through collection nets by other means of evasion/avoidance is a potentially positive sum game on which authoritative guidelines and - at a later stage - a global treaty with an implementation/dispute resolution

the toleration of tax avoidance havens mean some inherently assessable flows are never taxed, others are taxed in the wrong place (usually a hard, convertible currency location and - less uniformly - the home base of the enterprise and/or a low tax venue) or taxed twice. None is desirable - the last because it tilts the playing field against interstate operations in a random not a purposive and selective way.

Fair trade - at least as a state topic - turns on equal opportunity (or at least reducing inequality of access) enforcing competition, penalising abuse of dominant position. All are (to varying degrees) themes in national and EU policy. Their global extension - initially by authoritative resolutions including guidelines, later by obligatory decisions to require interstate acceptance of national court decisions pursuant to laws consistent with the guidelines and finally by specialised Conventions or Treaties with enforcement mechanisms - would appear to follow from the logic of globalisation and of even facilitating state market regulation.

Corruption is likely to be most effectively confronted and reduced globally on the basis of the economic and social damage it does nationally and across frontiers (as the IFI's are now seeking to demonstrate to gain acceptance for anti-corruption withholding of finance) not on broader moral and political grounds. This is a pragmatic point, not one of principle, and is related to the fact that - as evidenced by Transparency International's ratings - no country is totally free of corruption and several OECD members fall far short of "best currently attained" norms, and to the tendency of the Northwest to turn a blind eye to corruption in client or otherwise 'favoured' states and to use (comparable or lower) levels in others as a political bludgeon.

Opposition to corruption by those who benefit from it (payers and receivers alike) is inevitable and cannot be overcome by logic or preaching. Authoritative best practice guidelines and Obligatory sanctions against flagrantly economically and socially damaging corruption are needed. But two caveats apply.

Corruption is not a North-South issue. Certainly Marcos extorted domestically and from external contractors. But in the latter case he could not have done so had they stood together refusing to seek to tilt the playing field in their individual favour by competing on level of bribes/kickbacks/commissions offered. Individual companies and - to a modestly lesser extent countries - justify this on a "prisoner's dilemma" basis. That basis can only be invalidated fully

by authoritative guidelines and coordinated North-South action. While some Northern countries, notably the USA, have moved substantially in this direction others still allow bribes (or at least foreign bribes) as tax deductible expenses.

Corruption flowing from need is morally and - more immediately relevant - curatively different from corruption flowing from greed. For example nurses paid \$20 a month when the household absolute poverty line is \$75 must require side payments, steal medical supplies (or food) and/or absent themselves to earn other incomes during much of the (nominally) working day. Enforcement of honesty - as well as restoration of professionalism and productivity - requires raising pay otherwise it will result in putting huge numbers in remand prison (as happened in respect to all health bookkeeping and accounting officers in one SSA provincial health directorate) and/or forcing them to resign to survive. Neither is particularly conducive to better core public service provision, but nor are side payment, misappropriation of stores and absence from work. Need based corruption has three further highly negative economic and social consequences. It represents several steps on the slippery slope to full greed oriented corruption. In respect to some services - e.g. law and order, tax collection - there is a high probability (not a certainty in respect to police) that payments will be made not to secure the proper services but to avoid their being carried out. To pay a nurse for a bed or a bedpan when otherwise she could not afford to be present at all is qualitatively different in consequences than to pay a customs officer not to assess full duty or a customs constable to overlook entering goods. Finally massive need based corruption provides a sea (and a constituency) of minnows in which the barracuda of greed based corruption can conceal themselves (and from whom they can gain a not so narrow passive support base); a reality demonstrated by the number of systems in which hierarchically graduated corruption has been set up and/or openly tolerated by notoriously corrupt regimes (e.g. the 1979-91 Progress Party government in Ghana, Sergeant Major Joseph Desiree Mobutu, Ferdinand Marcos). Decent pay - apart from being vital to the professionalism and productivity which an enabling state requires - can come near eliminating need based corruption and thereby expose greed based more clearly. If corruption has persisted for many years, this transformation may take time and demonstrably enforced sanctions. But it is true that modest but adequate pay (backed by a real risk of detection and at least loss of job and reputation) does result in most public (or for that matter private enterprise) servants at all levels being wholly or nearly wholly honest.

UN (not excluding IFI) pronouncements and prescriptions on corruption would command wider support (as would those of technical assistance personnel providing governments) if they were **more willing to seek out and to punish corruption by their own employees**. The high profile mid 1990's UNICEF Kenya Office (not UNICEF Nairobi as the Regional and Somalia offices also based in Nairobi were not implicated) is unusual in three respects - UNICEF itself discovered the fraud, instituted curative and penalty imposing action and was at least largely transparent in respect to what it viewed as a disaster. It is open to doubt that - except perhaps as to size and numbers of personnel involved in a single coordinated corrupt operation - it was equally unusual as to substance. Many long time residents (citizen or otherwise) of recipient countries have anecdotal (and sometimes harder) evidence that a variety of practices, especially ones relating to foreign exchange conversion, resale of duty free personal use imports and intensity of project inspection by some technical assistance personnel and agency staff give reason to suspect at the least gross conflict of interest and often outright illegalities. These cases are rarely publicised even when identified by hosts because they and personnel providers/employers usually prefer (for different reasons) to be totally opaque and to view transfer - not dismissal or prosecution - as adequate.

Transparency and accountability (in respect to accounts - including but not limited to income and expenditure numbers independently audited and publicly available) are justified - *inter alia* - on economic and social costs of opacity and non-accountability. Clearly this is not the only justification of transparency, nor the only aspect of accountability but they are probably the ones on which ECOSOC could build from discourse to authoritative resolutions. Again IFI's and UN family institutions would enhance the chances of such positive results by putting their own houses in better order.

Poverty and social exclusion issues - including but not limited to gender - are accepted international agenda items. Reasoned discourse leading to authoritative guideline setting resolutions with some impact on national policy (North and South) should be attainable. These are much more likely to be fruitfully discussed in ECOSOC primarily on that basis rather than by diatribes of the deaf between North ("You must reform your priorities and values") and South ("You must provide resources") even if both sides of the diatribes do contain selected elements of the conditions needed to reduce poverty and social exclusion.

Again it is - probably regrettably - likely, at least initially, to be more productive to focus on directly economic and social costs of poverty/exclusion, gains from their reduction and means to achieving that end. One large Southeast Asian state has a record of rapid reduction of absolute poverty and of (less rapid but tangible) erosion of exclusion of women, but an abysmal one on all domestic political rights as well as having invaded and annexed a much smaller neighbour and practiced near genocide against its people. Clearly there are social and economic aspects of poverty/exclusion reduction it would wish to address - and on which it has valid experience to contribute - but full blown individual and association self organisation and competitive, level playing field selection (and deselection) of leaders are not among them. Even if this is an extreme case, there are enough similar ones to suggest ECOSOC (not necessarily other forums) might do well to start with the narrower, less divisive more direct action oriented aspects.

Human and peoples' rights and obligations is a minefield for interstate organisations because state (not necessarily individuals and peoples') normative prioritisation in respect to them varies widely; because northwestern state championing of rights has tended to be selective both as to particular states and to particular rights in a way which is partisan as well as political; because states (especially when not one is spotless) are prone to rally to the banner of mutual protection except in the most egregious cases; and because all rights require resources to implement and contextual judgement as to what balance of priorities is most desirable. A different order problem is that not all values are compatible - the right to practice a religion of ones choice and the right of a society to set religious parameters as a social and legal framework are incompatible whatever the religious in question - whether Shia or Sunni Islam, Russian Orthodoxy, Catholicism or fundamentalist Judaism. The divisions between ecumenicism, limited functional cooperation, separatist tolerance, containment and limitation and exclusion or forced conversion exist within all major religious (albeit Buddhism has few episodes of forced conversion), not between them. However, the bulk of the divergences turn on the earlier factors not inherent incompatibility of rights e.g. in many countries some Islamic clerics are among the most vehement and potentially effective opponents of female circumcision/mutilation, usually on what they perceive as orthodox Koranic grounds.

The **broad front approach** - individual and group, political and socio/economic, (nominally) instantly implementable those which are self evidently fully implementable only over time - is,

probably counter-intuitively, more likely to generate a broad support base because almost all states are champions of some aspects. By the same token immigration policies and procedures, rights (and obligations) of resident aliens, of 'guest workers' and of refugees should be included because they are perceived (not wholly accurately) as primarily areas of northern underperformance and, therefore, reduce the appearance of ex cathedra preaching by the North at the South which infuriates southern states with relatively good rights performance at least as much as the flagrant (at least on many fronts) malperformers. In any case the divisions are highly artificial. Freedom of speech is a classic individual right, but can hardly be exercised outside a group with whom to communicate while freedom from hunger is categorised as a group right but hunger is certainly perceived as a deprivation by individuals. Political rights are usually seen as crucial to social and political ends, while economic and social rights can only be achieved and sustained within political structures. Freedom from torture is usually perceived as immediately and costlessly implementable. In fact resources are needed for police and judicial systems to substitute more proper procedures for those of coercion of confessions from persons believed (on circumstantial evidence and/or public opinion) to be guilty. In fact no state has eliminated coerced confessions and framing of accused believed to be guilty, nor in more than a handful is public opinion opposed to those tactics in respect to accused "known" to be guilty but - for whatever reason (including, but not only, innocence) - not provably so. Freedom from hunger is indeed not instantly universally attainable - albeit freedom from famine (as opposed to dearth) is attainable now at relatively modest global cost - **but less than total immediately possible attainment is not a refutation of the claim to be a human or peoples' right or there would be no universal rights at all.**

Because all rights require resources to achieve and because most are to some degree complementary, a **balance of implementation** (not all of some and none of others) **is the only evident way forward and will vary contextually.** The right to life is after all more likely to be violated in many countries by lack of achievement of the rights to food and to basic medical services than by any human rights inadequacies even though in certain cases prioritisation of those rights does require political systemic change and - therefore - rights conducive to attaining such change peacefully. **The inclusion of obligations rests on the same approach.** For example the doctrines of "shouting fire (falsely) in a crowded theatre" and of libel are entrenched in USA law. They can be seen either as limitations on freedom of

speech or as obligations not to speak individually or socially damaging falsehoods knowingly or with reckless disregard of truth or falsehood. Similarly the contention that able bodied and minded individuals with access to employment or self employment adequate to support themselves have an obligation to work, not a blanket right to depend on other members of society, is broadly accepted in most cultures. Obligations can and often are, formulated oppressively abusively, or as a camouflage for denial of rights so that analysis and discourse on responsibilities is not a 'soft' option for oppressive states.

ECOSOC should not supplant the UN Human Rights Commission. For investigation and determination of cases an independent quasi judicial (at least in the sense of a judicial Commission of Inquiry) approach is needed. But the Commission cannot by itself produce authoritative guidelines and declarations nor in egregious cases impose obligatory decisions sanctioning offenders. ECOSOC and its Council could do so. Analogously civil society/NGO work in respect to human and peoples' rights and obligations is vital to posing questions, uncovering abuses, forcing issues onto state and interstate agendas for authoritative principle setting, resource allocation to enhancement and/or obligatory punitive measures against gross offenders. But in respect to decisions on, and action to implement the agenda they are not by themselves adequate substitutes for states. Further those focused on single themes - abolition of capital punishment or land mines or starvation - are in no position to develop prioritised agendas for advance on a broad human rights front. This is not a criticism of their focus - for Halo Trust to add abolition of capital punishment and freedom from hunger in general (as opposed to the random capital punishment and hunger inflicted by mines) to its agenda would not be desirable. But nor is Halo Trust an expert on the balance of hunger and death reduction gains between demining and enhancement of extension services, drought relief and/or access to primary health care.

Environment (in terms of human as well as ecological sustainability) is a logical and a largely accepted international agenda topic because national actions and inactions have large external economics or diseconomics. International treaties with at least some binding obligations exist in respect to ozone layer depletion and global warming and may emerge on biodiversity and some aspects of desertification/neo desertification, air and water pollution and marine resources exploitation. What appears counterproductive in the overall approach - notably at Rio - is for Northern countries to demand identical (or higher) Southern ecological protection

enforcement to their own (even when the exploiters are primarily their own companies) and also to argue that costs should fall primarily or exclusively on the country in whose territory action is taken and the Southern country mirror image approach broadening environmental degradation to include all aspects of poverty and demanding that all environmental protection/poverty reduction costs be divided on the basis of achieved GDP per capita.

Again both approaches encompass certain aspects of reality. Environmental sustainability protection in the South as in the North today (and much more so during its natural resource exploitation led development phase) is inadequate with urgent change needed in the South's own interest. It is realistic and reasonable to expect the direct territorial beneficiaries to pay part of the cost. On the other hand, poverty and environmental damage do interact cumulatively and negatively. Much deforestation and land degradation (most in SSA, with the probably exception of South Africa) result from poor farmers and pastoralists having the options of starving now or eroding their natural capital stock and the survival options of their children. Only additional resources can provide a less undesirable option. Similarly while rarely dominant (although in Soweto poor household wood and coal smoke is more air polluting than motor hydrocarbon fumes) poor urban areas do pollute soil, air and water because they are poor (cooking gas and electricity are usually substantially more expensive than wood fuel and improved latrines than random defecation) and lack access to pure water and to basic sanitation infrastructure. Similarly both the fact of significant external economics and the probability that some aspects of environmental sustaining can most economically be carried out in the South even though past damage was largely inflicted in the North, do support the case for cost sharing contracts involving substantial contractual payments of cash, information and access to low pollution proprietary technology by the North to the South in return for negotiated environmental sustaining action programmes including directly relevant aspects of poverty reduction.

Discourse on the parameters of such contracts and appropriate means to ensure coordination and broad coverage would be an appropriate priority topic for a reformed ECOSOC. Even if the previous section's global fiscal resource generation and allocation proposals were adopted - as they surely will not be by 2002 - the case for contracts to parallel global intergovernmental agency resource flows is strong.

Development of **enabling** (as opposed either to disabling or minimal/unable) **states** is probably now a topic with wide enough agreement as to desirability to be viable in respect to discourse and to at least some authoritative guideline setting. That an enabling state should encompass law and order, market regulation, macro economic stability, basic service provision and at least some infrastructure provision is increasingly common ground. That implies many states need to do (and to spend) more, not less, even if with altered composition of outputs and of resource allocations.

However many issues are far from resolved even in principle and even more in specific contexts. Some examples can easily be cited. Where should the dividing line between basic public health provision and private (whether or not for profit) complementary services be drawn? How can social security - which is often 20% of expenditure in Northern budgets and 2% in Southern - be extended without attaining fiscal unsustainability or severely damaging incentives? Which infrastructure projects are likely to be appropriate for, attractive to private investment? In the case of state (including local government) services what levels of cost sharing with users by what modalities (point of use fees, quasi insurance or annual charge schemes, communal mobilisation of cash and other inputs on bases not directly related to individual household level of use) are appropriate when? What interaction between state and domestic social sector (including coordinated provision with partial state finance of domestic social sector operators) provision of basic services is appropriate when? How can the usually cost inefficient, state and domestic social sector corroding and eroding, strategic coordination destroying overkill use of external NGOs as alternative or dominant basic services (including emergency relief) providers be reversed? When should state provision (or underwriting) of services be separated from actual operation/direct provision?

These are all topics on which reasonable people can disagree and on which alternative options exist both generally and in respect to specific contexts of needs, state and domestic social sector capacities and private sector capacity (including access to finance and ability to adopt a long term perspective on profitability) and innovativeness. Given the increasing exploration of, and experience with different options, the answers may change rapidly and at least occasionally drastically. But they are areas in which narrowing down of good practice options and their interaction with contexts is practicable and in which at least semi-authoritative guideline resolutions (as well as the discourse leading to them) could have substantial

operational impact on governments and external resource and advice providers (including IFI's).

VIII.

POSTLUDE

The analysis and proposals presented above **do not lead to global governance**. They would **not be inconsistent with subsequent construction in that direction but do not require it**. Nor do they require uniformity of state positions on the role of the state - only extreme libertarian and night watchman stances are incompatible with them albeit advocates of a limited function regulatory/facilitatory state as well as of a near omnipresent, dominating one would be less in tune with them (wishing to do either more nor less) than proponents of full blooded facilitating and/or enabling roles.

The main sections basically attempt to **identify ways to increase the capacity of the IFI's to enhance avoidance of, defences against and containment of tidal wave economic and social impacts of external market, calamity (natural disaster) and catastrophic (manmade disaster) shocks as well as facilitating both public and private sector growth and reduction of poverty in poor countries**. They are global concerns because these events and trends are not confined to the initially directly affected countries but, increasingly with globalisation and liberalisation of markets for goods, services and finance, have significant external diseconomies for the global economy. It is, for example, not fatuous to suggest that meltdown of the Southeast Asian economies via its negative impact on Japanese exports - and therefore ability to avert full scale depression - could lead to a trade war among Japan, the EU and the USA (incidentally overwhelming the WTO). Those are - pace Milton Friedman who apparently now believes all interventions to reduce market failure costs carry higher intervention failure prices - **not particularly radical objectives**. What is proposed are largely **more efficient ways of doing what is done, or supposed to be done according to IFI Charters and declarations, now and/or filling gaps** which have emerged largely because of the radical changes in national and global economic contexts. In that sense their philosophy - if not necessarily all of their content or modalities - are consistent with President Wolfensohn's

capital flow liberalisation implicitly backed not simply by financial safety nets but powers to suspend transfers.

Arguably the **global transfer finance and global economic and social management and coordination proposals are both more radical and further reaching**. That they are separated from the IFI's is based on the premise - universally accepted at national level - that **overall economic and social management cannot sensibly be entrusted solely (or even primarily) to Central Banks and Enabling Finance for Disadvantaged Funds** because of institutional overload, inherent accountability limitations ('democratic deficit') and the need to achieve (or seek to achieve) an optimisation of results relative to a wider range of goals than those appropriately evaluated and prioritised by these institutions. There is indeed a good deal to be said for the IMF's contention (now, perhaps unfortunately, resiled from) that it was not in a direct sense a general purpose development institution as opposed to an international economic exchange and production facilitating and regulating one. To attempt to turn central bankers into multi-purpose specialists in - e.g. - child welfare (illfare) and related gender and household poverty issues and in ways to protect life in the short run and to reduce poverty to enhance it in the long is absurd. That is UNICEF's role among UN agencies and the appropriate Fund role is to read, and understand its analysis and proposals and to identify ways in which these can - to varying degrees - inform its own actions. To seek to duplicate - apart from being wasteful of resources - would almost surely end with the Fund being soft headed central bankers and/or hard hearted 'guardians' of children instead of the desirable combination of hard headed central bankers with soft hearts toward social welfare and protection of life.

The inclusion of finance and global economic and social management and coordination in an IFI focused paper is potentially appropriate for two main reasons:

1. because the IFI's exist, arguments for broadening their scope are inevitable unless alternative mechanisms and institutional structures are sketched;
2. the IFI's suffer from lack of coordination of existing global institutions and fora and from gaps in their coverage/deficits in their capacity.

necessarily - empowering a global institution to allocate, reallocate, review fund use and to fully or partially disqualify certain potential recipients. They are not radical in the sense that **similar systems exist - almost without exception - nationally as well as for the EU. Nor do they involve significant extension of the roles or scope of global institutions or national governments as opposed to modestly reducing the objective/finance misfit currently confronting them.** Therefore, it is not incredible that over a 25 year perspective they could be publicised, discussed and debated, brought onto the action agenda and - to a greater or lesser degree - implemented. The obstacles are substantial - especially those relating to resource providing state desires to maintain the 'power of the purse' rather than allocating it to a global institution.

The economic and social management proposals are radical in the longer, though not the shorter perspective. There is general agreement on the need for enhanced coordination and accountability of global institutions and that a growing range of economic and social issues need at least a degree of global management precisely because globalisation of trade, finance and communications has rendered separate national actions ineffective or even counterproductive with negative external (as well as domestic) economies. How far this leads to acceptance of obligatory global action as opposed to serious discourse resulting in authoritative guidelines and recommendations is unclear.

The proposal to build on ECOSOC is contentious. But it is inevitable in the short term because there is no existing alternative, while in the long the options are either to entrust the area to a reinvented ECOSOC or to create a new institution which would, *inter alia*, substitute for ECOSOC. Few would argue either that the General Assembly and Security Council now composed and operated are competent to handle social and economic management and coordination agendas or that either suffers from work underload. More fundamentally a case can be made that political and security issues - and especially prevention or containment of tension escalation - do require work styles and products rather different from longer term economic and social management. Diplomats - who dominate the General Assembly and Security Council - are far more experienced in, and oriented to, the former. Again a relatively strong case exists for specialisation and division of labour even if overlap areas and - hopefully containable - tensions between the General Assembly/Security Council and ECOSOC/Economic and Social Management Council are inevitable. Here the national

parliamentary and executive analogue may not be helpful because national legislatures are sovereign and able to take obligatory decisions to a degree neither the General Assembly, the Security Council, ECOSOC nor an Economic and Social Management Council will conceivably be by 2022 and the UN Secretary General and his staff (even if one were to include all of the UN family agencies) will be still further removed from being a global executive branch.

For advocates of global governance the proposals - both for 2002 and for 2022 - will appear excessively modest, while for fervent advocates of national sovereignty and/or unconstrained market dominated globalisation they will appear too intrusive. In terms of achieving adoption the first set of critics are only marginally relevant (especially as what is proposed could - even if it need not - be first steps on their agenda). In respect to national sovereignty objections the short answer is **that in respect to a broadening array of economic and social trends, issues and events if states do not hang together they are very likely to be hanged separately by events beyond national control.** As to the anti-interventionist critique, it can be demonstrated that **what is proposed is less interventionist than almost any (probably any functioning) state seeks to achieve nationally and is the very minimum necessary for a global context to facilitate and protect enabling states nationally.**

The proposals are pragmatic or practicability oriented in the sense of what institutions might command broad based government assent by 2002 and 2022 respectively. That is necessarily a political judgement balancing resistance to change - especially to delegation and pooling of power - and recognition of common interests more effectively (or only) pursued in common. They are probably at the outer edge of what is at all likely to be attainable. Alfred Marshall's dictum that the nature of structural change requires that it be slow has an element of truth as does Browning's appeal to attempt at least as much as is possible (and perhaps given the nature of interstate negotiations a bit more!).