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G20 Rehabilitates IMF, Marginalizes UN

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The Summit of G20 leaders on the global economic crisis held in London, April 1-2, 2009, received massive, world-wide media coverage. In contrast, a report from a Commission of Experts on Reforms to the International Monetary and Financial System tabled two weeks earlier at the United Nations was virtually ignored. Yet a comparison of the final communiqué of the London summit with the far-reaching proposals from the UN panel highlights the G20's failure both to address the systemic causes of the crisis and to propose adequate solutions.

KAIROS evaluates any initiative for addressing the global economy from the point of view of the poorest and most marginalized peoples who are the innocent victims of the current crisis. Their voices, not just those of the powerful, must be heard. Initiatives for addressing the economic crisis must also involve a paradigm shift towards an ecologically sustainable future. The global crisis requires an international response involving more than a handful of countries. Although the G20 is a more representative body than the old G8, it is still elitist. Countries like Brazil, India and China, now invited into the tent, represent themselves but not the smaller less-developed countries.

One of the strengths of the UN experts' report is that it explicitly represents the interests of all 192 UN member countries and not just those who were invited to the London Summit. The G20 communiqué, however, makes no reference to the UN report. Even though UN Secretary General Ban Ki-moon attended the Summit, the final communiqué calls on the UN to play only a minor role: "To establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable." (Final communiqué #25)

International Monetary Fund reinvigorated

The G20 leaders, representing the most powerful industrialized and "emerging" countries, made grandiose promises, claiming that they would do "whatever is necessary to restore confidence, growth and jobs; repair the financial system …; strengthen financial regulation …; fund and reform our [sic] international financial institutions …; promote global trade and investment …; and promote an inclusive, green and sustainable recovery." (Final communiqué #4)

Did the communiqué's authors realize they were claiming exclusive ownership of international financial institutions such as the World Bank and the International Monetary Fund which, nominally, belong to all 185 members? The slip is telling. One of the most significant outcomes of the London Summit is a promise to treble the resources available to the IMF to US$750 billion. However, these funds will not be immediately dispersed to countries or impoverished populations needing financial assistance due to the crisis. Rather they will be available to the IMF for future lending to countries that qualify for assistance under the Fund's strict criteria. Only about US$50 billion of the US$1.1 trillion of new funds promised for all multilateral intuitions will be available for lending to low-income countries, home to most of the 40 million additional people suffering from chronic hunger due to the crisis.

The G20's generous treatment of the IMF stands in stark contrast to the approach of the UN panel of experts, chaired by Joseph Stiglitz, a Nobel laureate in economics and former chief economist at the World Bank. The UN panel is much more sceptical of additional lending through the IMF: "Conditionality attached to official lending and support for international financial institutions has often required developing countries to adopt the kinds of monetary and regulatory policies which contributed to the current crisis …. While the IMF initiatives to reduce conditionalities are to be commended, they might be insufficient .... In many cases countries are still required to introduce pro-cyclical policies." (Recommendations to the UN #36)

The G20 assumes that the IMF has adequately reformed its past practices of inappropriate and damaging conditionality. Hence its communiqué proposes that "the IMF should implement rapidly its new Flexible Credit Line for countries with strong policies and its reformed lending and conditionality framework." (#7)

But has the IMF really changed? While the Fund claims that it will not directly apply conditions to its loans, IMF credits will go only to countries with "strong fundamentals" which include sound public finances, low inflation and a track record of access to international capital markets. In other words, the IMF will continue its pressure to adopt austerity measures involving constraints on public spending (including on social programs), high interest rates and other measures to attract foreign investors. Moreover, borrowers' performances will be reviewed every 12 months, when credits could be suspended.

In recent loans to Pakistan, Hungary and the Ukraine, the IMF demanded the same "pro-cyclical" policies, that is measures that accentuate a downturn in a recession, as in the past. While the UN panel acknowledges that austerity policies may arise from a lack of resources to pursue countercyclical policies, it also warns against "misguided policy recommendations from international financial institutions." (#36) The UN experts emphasize the need for developing countries to have more room to set their own policies independently from the IMF.

Fear of capital flight is one of the constraints on developing countries that prevents them from adopting the stimulative fiscal and monetary policies that the IMF encourages developed countries to pursue. Neither the IMF nor the G20 consider capital controls an appropriate measure to stop capital flight. Such measures would go against the G20's formula for "sustainable globalisation… [through] an open world economy based on market principles." (#3)

The UN panel has a different philosophy based on "restoring a balance between the role of the market and the role of the state." (#19) The UN experts do not hesitate to recommend that "developing countries [should] be wary of … capital market liberalization [and] … use all the tools at their disposal, price interventions, quantitative restrictions, and prudential regulations, in order to manage international capital flows." (#76)

Other financial supports

At first glance it appears that the G20 and the UN experts have similar proposals for delivering financial support to developing countries. However, there are significant differences.

The G20 wants to deliver the bulk of its promised "additional $1.1 trillion programme of support to restore credit, growth and jobs in the world economy" through the IMF. It proposes that only US$100 billion be delivered through multilateral development banks such as the World Bank. In contrast, the UN panel would minimize the role of the IMF, preferring to create a new credit facility "under the umbrella of existing institutions, such as the World Bank, where efforts are underway to remedy existing inadequacies in governance and lending practices, or in Regional Development Banks where developing countries have more equitable representation." (#32)

Both the G20 and the UN panel advocate an expanded role for Special Drawing Rights (SDRs) – a type of international reserve asset managed by the IMF. However, the UN experts' plan is much more ambitious as it proposes the establishment of a whole new international reserve system.

The G20 supports a new allocation of SDRs equivalent to US$250 billion to enhance global liquidity. But 60% of this new money would go directly to developed countries since the SDRs would be distributed according to each country's share of IMF voting rights. G7 countries alone would get 44%. There is no "link" between the issues of new global liquidity and the development needs of the poorest as was discussed in the 1970s. Then it was proposed that any new allocation of SDRs should favour low-income countries that could then turn them into dollars, yen, euros or sterling for spending on their most urgent needs. In the current G20 plan, only US$19 billion of the new allocation of SDRs would go to the poorest countries because of their low quotas within the IMF.

The UN panel has a more visionary proposal to use international assets like the SDR in a new Global Reserve System. The UN experts see two inter-related problems. One is that many developing countries have accumulated excessively large amounts of foreign exchange reserves as a defence against financial shocks. Instead of investing in sustainable development, these countries lend the funds back to developed countries by buying their low-yielding treasury bills. The second problem is the instability of the current international reserve system with its overdependence on the US dollar whose future value is likely to deteriorate given the USA's enormous international debt.

The UN panel asserts: "The global imbalances which played an important role in this crisis can only be addressed if there is a better way of dealing with international economic risks facing countries than the current system of accumulating international reserves … . To resolve this problem ***a new Global Reserve System*** – what may be viewed as a greatly expanded SDR, with regular or cyclically adjusted emissions calibrated to the size of reserve accumulations – could contribute to global stability, economic strength, and global equity. Currently, poor countries are lending to the rich reserve countries at low interest rates. The dangers of a single-country reserve system have long been recognized, as the accumulation of debt undermines confidence and stability. But a two (or three) country reserve system, to which the world seems to be moving, may be equally unstable. The new Global Reserve System is feasible, non-inflationary, and could be easily implemented, including in ways which mitigate the difficulties caused by asymmetric adjustment between surplus and deficit countries." (#47)

What is striking about the UN experts' recommendation for a new global reserve system is their assertion that it could be ***easily implemented***. When China's central bank governor Zhou Xiaochuan made a similar recommendation for replacing the US dollar with the SDR it was widely dismissed as unfeasible. But Pedro Páez Pérez, Ecuador's former Minister of Economic Policy Coordination, told a UN hearing that such a reserve system could be implemented within six months. The UN experts have promised to further elaborate on how the transition to a new reserve system could be made when they table a more detailed report in the UN General Assembly in May.

IMF gold sale

The G20 agreed to "use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries." (#5) But this measure will only amount to US$6 billion of new financing for low-income countries spread over a period of two to three years. Critics of IMF policies have long maintained that a better use of revenue from IMF gold sales would be to fund debt write-offs for low-income countries rather than saddling them with new debts, even on concessional terms.

One study, *A New Debt Crisis?*, estimates that 38 of the 41 developing countries most at risk from the financial crisis have unpayable debts worth an estimated US$270 billion that must be cancelled. However the G20 offered nothing new by way of debt cancellation, calling on the IMF and the World Bank only "to review the flexibility of the Debt Sustainability Framework." (#25) In contrast, the UN Panel proposes a more permanent solution in the establishment of a Sovereign Debt Restructuring Mechanism. (#71)

In summing up what all its various proposals for new loans, trade credits, allocation of SDRs and gold sales would mean for low-income countries, the G20 claims "the actions and decisions we have taken today will provide $50 billion to support social protection, boost trade and safeguard development in low income countries." (#25) However, Eurodad (European Network on Debt and Development) reports that the IMF itself estimates the "crisis shock" that must be absorbed by low-income countries will amount to $216 billion.

The UN panel has a different proposal for additional transfers to low-income countries: "Industrialised countries should dedicate 1.0 per cent of their stimulus packages, in addition to traditional official development assistance commitments."

Whereas the G20 merely exhorts its members to keep their past pledges to provide more Official Development Assistance, the UN Panel discusses new, viable, innovative sources of finance including more regular emissions of SDRs (rather than on a once only basis as proposed by the G20) and international taxes on such things as carbon emissions and financial services. (#78)

A Green New Deal?

The G20 concludes its communiqué with a promise "to make the best possible use of investment funded by fiscal stimulus programmes towards the goal of building a resilient, sustainable, and green recovery. We will make the transition towards clean, innovative, resource efficient, low carbon technologies and infrastructure." (#27) It also "reaffirms our commitment to address the threat of irreversible climate change, based on the principle of common but differentiated responsibilities, and to reach agreement at the UN Climate Change conference in Copenhagen in December 2009." (#28)

However, the G20 proposes no concrete measures for achieving these goals. According to *The Guardian* newspaper (04/03/09) British officials lost a battle to include a commitment to spend a substantial portion of stimulus spending on low-carbon projects due to resistance by China and other countries. The UN panel, on the other hand, does propose that revenues be collected from a carbon tax and used to fund developing countries' costs of reducing greenhouse gas emissions and the promotion of sustainable development (#79).

A global carbon tax on carbon dioxide emissions could increase from US$130 billion to US$750 billion per annum. This would double or even sextuple current levels of Official Development Assistance. A carbon tax would also deter activities that lead to greenhouse gas emissions. One feasible step towards a global tax would be for more countries to join France, Britain, Luxembourg, Norway, Brazil, Chile, Congo, Cyprus, Ivory Coast, Jordan, Madagascar, Mauritius and Nicaragua in imposing modest taxes on airline tickets, raising about US$200 million a year.

Role of the UN

While the G20 virtually ignores the United Nations and its agencies, the UN panel proposes replacing the G20 with a more representative Global Economic Coordination Council. "A globally representative forum to address areas of concern in the functioning of the global economic system in a comprehensive way must be created. At a level equivalent with the General Assembly and the Security Council, such a Global Economic Council should meet annually at the Heads of State and Government level to assess developments and provide leadership in economic, social and ecologic issues …. Representation would be … designed to ensure that all continents and all major economies are represented. At the same time, its size should be guided by the fact that the council must remain small enough for effective discussion and decision making All important global institutions, such as the World Bank, IMF, WTO, ILO and [UN agencies] would participate in the Council. It could thus provide a democratically representative alternative to the G-20." (#52)

Where do we go from here?

The prolonged diplomatic wrangling at the November 29-December 2, 2008, Financing for Development Review Conference in Doha was symbolic of the great powers' resistance to acknowledging a role for the UN in addressing the economic crisis. After much debate, the Doha meeting finally agreed that the UN would hold another conference on the world financial and economic crisis and its impact on development "at the highest level", implying participation by heads of state and government.

In the week after the G20 Summit, the UN General Assembly announced that the high level conference will take place on June 1-3 in New York and benefit from the final report from Joseph Stiglitz and colleagues, to be released in May. High level attendance remains doubtful, however, given the absence of any mention of this important conference in the G20's final communiqué. Instead the G20 summit agreed to reconvene under its own auspices rather than under the UN "before the end of the year", most probably also in New York in September, ironically during the same month when heads of government customarily address the UN General Assembly.

The world's most impoverished people are not responsible for the crisis. Yet some 200 million more women, children and men, mostly in developing economies, could be pushed into poverty if rapid action is not taken to counter its impact. Another 200 million could become climate refugees unless urgent measures are taken to reduce our dependence on greenhouse gas-emitting fossil fuels.

This is a time for action, not for diplomatic games. Although the UN experts report has many shortcomings, it addresses some of the root causes of the crisis and points the way toward a more ecologically sustainable development model. Moreover, the June UN conference offers an opportunity for low-income and less powerful countries to participate in seeking just and sustainable solutions.

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