

**Hot Air and Cold Comfort:
The DFID White Paper on the International System**

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The Section of DFID's White Paper entitled "Creating an International System Fit for the 21st Century" starts very promisingly. The very title embodies a recognition that we do not have such a system at present. This is echoed in the first paragraph:

"Much of today's multilateral system – including the UN, World Bank, IMF, and the EU – was created after the terrible destruction of the Second World War. These institutions have served the world well, but the challenges we face in the 21st century are very different to those of 60 years ago."

Of course, this does rather imply that the international system was fit for the second half of the 20th century – a view which might be questioned by the victims of the debt crisis, the financial crises, structural adjustment enforced liberalisation and privatisation, commercial globalisation, environmental destruction, escalating conflict, etc, etc. But let that pass. After all, actually recognising the system's failings in the 20th century would raise the question of why they had been steadfastly ignored for decades until 2006.

And the White paper is hard-hitting in its criticisms. "Some parts of the international system", it says "have become either too complicated and inefficient or simply do not work at all. They must change. We will use our resources and influence to encourage reform." At last! Some of us have been telling the government that for years, if not decades.

In particular, "The UN's role in development needs to be radically reformed." It should, it seems limit itself to two roles: conflict prevention, resolution and humanitarian assistance; and developing international agreements and standards. And "If the UN is to do these tasks effectively, reform is needed. UN agencies and programmes must be rationalised, and merged where necessary." No holding back here – whole organisations will be abolished, offices sold off, and staff made redundant or transported half-way round the world. But then, as the global environment is wrecked by our relentless pursuit of a perversely mistaken economic paradigm, humanitarian assistance alone will keep an ever-growing number of international civil servants in jobs: "As a result of climate change, [the humanitarian system] will need to respond to increasingly frequent disasters". And sadly, the White Paper's recommendations on economic policy (more of the same) aren't going to do a lot to change that...

If that's the fate of institutions which are merely inefficient and all too often ineffectual, what lies in store for the IMF and the World Bank, which have been responsible for this ideologically- and commercially-driven model – which have failed to solve the debt crisis for a quarter of a century, imposed structural adjustment policies, privatisation and trade liberalisation, thereby creating the "lost decade for development" in the 1980s, and then cutting the rate of poverty reduction by a further three-quarters in the 1990s? What of the institutions which initiated policies which saw poor people losing their livelihoods and being priced out of education and health care, in the name of neoliberal ideology and debt-servicing?

They, it seems, for all their lack of meekness, are to inherit the Earth – or at least the Southern five-sixths of it. As the UN scales back to its two remaining functions, the IMF, the World Bank and the regional development banks, it appears, are to take over responsibility for development entirely.

But surely they'll be made fit for the 21st century? Well, the regional development banks will: "the Asian and the African Development Banks, in particular, need significant organisational change to serve their members better". And the IMF and World Bank? Well, they "must do more to support developing country priorities and not impose economic policy conditions in areas like privatisation and trade liberalisation".

This is helpful as far as it goes. But what are "areas *like* privatisation and trade liberalisation"? Presumably this leaves the whole arena of macroeconomic policy up for grabs. And how about health policy, education policy, investment policy, agricultural policy and labour policy? Are they "like privatisation and trade liberalisation"? In any case, how much policy space will there really be for developing countries on trade liberalisation, as the WTO juggernaut roles on? Or, for that matter, privatisation, as its tentacles extend into an ever wider area with an ever more tenuous connection with international trade in any meaningful sense? And even without policy conditionality as such, IMF and World Bank "advice" in "areas like privatisation and trade policy" can be, shall we say, fairly robust....

Otherwise, "the IMF must continue to change in order to better meet the needs of poor countries". "Continue to change"? Not a lot of radicalism here. No mention even of the possibility that the Fund like to try and change a little faster than it has over the last 60 years, to make up for having fallen decades behind the real world. "The IMF should focus more on macro-economic policy advice, and less on structural issues like privatisation and trade liberalisation where its track record has been mixed" (a charitable view, one has to say...). And it "should provide advice to fragile states that is tailored to the challenges they face". Now there's a novel idea – providing advice to countries that is "tailored to the challenges they face". Why ever didn't they think of that before? OK, so this only applies to "fragile states" – but with the Fund and Bank given free rein to run development, that will soon include practically all of the South anyway.

The World Bank should "play a leading role in providing more long-term, predictable funding for developing countries", "find new ways to work with middle income countries", "help tackle the global challenges facing developing countries – focusing urgently on a financing framework for clean energy and adaptation to climate change" (only right, given its contribution to creating the problem in the first place, that it should help to limit the damage¹....), and "use its position and expertise to forge a new international framework to help developing countries tackle corruption and improve their governance".

Indeed! After all, doesn't the World Bank itself have the perfect model of governance for developing countries to follow²? A model where votes are weighted according to income, so that a small rich minority have a permanent majority of the votes; where the richest member not only has a veto on all major decisions, but always gets to appoint the President unilaterally, with no need for consultation or scrutiny, even in the face of bitter public opposition from both experts and civil society; and where the President so appointed can, as one of his first acts as President, unilaterally decide to sack the person responsible for allegations of corruption, and replace him with someone who has herself been implicated in a major corruption scandal, as part of a hand-picked cabal of dubious cronies in key positions at the most senior level?

It sounds so perfect.... What better model could there be for the governance of developing countries, and what greater expertise on good governance than the institution that operates it? And what other institution but the Bank could provide that expertise? Apart from the IMF, of course, which is surely the only other institution in the world to share this extraordinary system.

¹ An interesting echo here of the UK government, where Charles Clark attempted to argue that he should stay on as Home Secretary because he had created the complete mess it was in, and should therefore be the one to have the job of clearing it up.

² On IMF and World Bank governance issues, see *The IMF and World Bank in the 21st Century: the Need for Change*, <http://www.jubileeresearch.org/analysis/articles/imf201005.htm>.

But, as the White Paper also says, “If [the IMF and World Bank] are to remain relevant in a changing world, we believe they must reform.” Indeed they must! Even the White Paper, for all its criticisms of the UN, recognises that “The UN’s legitimacy is unparalleled. This comes from its universal membership and unique responsibilities for peace and security, sustainable development, human rights and international law.” Unparalleled it is – particularly by the IMF and World Bank. But the White paper’s authors seem less inclined to comment on why they don’t reach a similar level of legitimacy, despite membership which is almost as universal. Surely it can’t have anything to do with their exemplary governance structures.....

So *how* should the Fund and Bank be reformed? “Developing countries need more influence in the World Bank and IMF. They are weakly represented on both Boards, where voting rights are decided by financial contributions. This balance must change.” No mention of the fact that financial contributions are not voluntary, but the result of a negotiated stitch-up among the major shareholders – the developed country governments. After all, for all the highly sophisticated formulae that go into the calculation of IMF quotas, it isn’t just a coincidence that the UK and France just so happen to come out with exactly 107,635 votes each....

Nonetheless, “if their members demand it, both institutions should be ready to change how members are represented, and how decisions are made – for example through greater voting rights for poor countries”. But *only*, it seems “*greater* voting rights” (not necessarily very *much* greater rights, let alone equal treatment), and *only* “if their members demand it”. The UN is to be downsized and rationalised, and to have its functions curtailed regardless of its members wishes. But the Fund and Bank need take one small step towards basic democratic principles only if their members *demand* it. And, in assessing the strength of these demands, no doubt their wishes, like their votes, are to be weighted by wealth....

The White Paper does say robustly that “the practice of picking the heads of both institutions based on nationality should end”. This is, I suppose, a step in the right direction. No longer would an Australian hand-picked for the World Bank Presidency by the US President have to suffer the indignity of having to take US citizenship – as James Wolfensohn did when he was appointed by Bill Clinton. But the real point is not the nationality of the appointee, but the nature of the appointment *process*³. Until there is a democratic and transparent process in which *all* the members of the Fund and Bank have an *equal* say, the fundamental problem will remain.

The White Paper also recognises that “there also needs to be greater transparency in the way that the World Bank and IMF operate”. But apparently this means only that “more World Bank analysis should be disclosed”. Thanks, but I’m not sure the *quantity* of World Bank analysis is the real problem with transparency. Personally, I think we see quite enough World Bank analysis already. Now, an improvement in the objectivity of the Bank analysis which is made publicly available – that would be different....

But the real issue of transparency is that we are not permitted to know what has been said in the Executive Boards of the IMF and the World Bank – not even what *our* Director has said in *our* name, or how he has voted on *our* behalf (or, more accurately how he has said he would have voted if there had hypothetically been a vote. After all, if the Board actually voted, even the IMF and World Bank might find it slightly embarrassing to keep the vote secret!) Even our efforts to access this information under the Freedom of Information Act have been blocked. Nothing about that in the White Paper. But then, that’s something the UK government could actually do something about if it wanted....

And finally, how about the WTO? What does the White Paper have to say about the organisation which sets the terms of international trade – central to development in the current economic

³ On the appointment process for the World Bank President, see *Wolfowitz and Global “Democracy”: a Test of Blair’s Commitment to the Africa Commission*, <http://www.jubileeresearch.org/opinion/wolfowitz180305.htm>.

paradigm – through “Agreements” forced through by developed country governments through political and economic pressure⁴, which operate exclusively by limiting the freedom of action of governments, which cover an ever-greater area, far beyond trade policies, and which once signed are backed by sanctions, apply in perpetuity and are virtually impossible to amend?

What indeed! The WTO is not mentioned once. It isn't even listed among the acronyms.

One might have a little more faith in the White Paper if it showed some recognition of the reasons for the failings of international organisations. Why, after all, have UN organisations become so ineffectual? Could it have something to do with their largest and richest financial contributor deliberately falling years behind with its subscriptions to almost every organisation in the system, then using the resulting financial leverage (and its political clout) to cancel part of the arrears it has accumulated? And with the resulting under-funding of the institutions, their dependence on discretionary financing from vested interests (including, yes, the US government) which threaten to withdraw funding the moment they step out of line, and the need to allocate staff to fund-raising at the expense of core activities?

Or could it perhaps be the (increasing) regularity with which developed countries – particularly, but not exclusively, the US – throw their weight around to secure the appointment of often inappropriate, unqualified and/or incompetent individuals, occasionally corrupt or with clear conflicts of interest, to head these institutions, while blocking those with support from developing country governments and civil society? Or their proclivity for intervening with the heads they have appointed to get respected staff members sacked for saying anything which conflicts with their commercial interests, as recently happened to the WHO representative in Thailand?⁵

How about the duplication in the system? Who was it who insisted that UNAIDS be created as a separate institution from the World Health Organisation? And that the Global Fund to Fight AIDS, Tuberculosis and Malaria should be established as a separate institution from both? That wasn't the UN....

And how did the IMF and World Bank get into the business of micro-managing developing country economies through policy conditionality in the first place? Why did the IMF stray away from its mandate into “structural issues... where its track record has been mixed”? Why has the Fund's (and, one might add, the Bank's) policy “advice” to developing country governments not been “tailored to meet the challenges they face”? All this can be laid fairly and squarely at the door of the developed country governments which run both the Fund and the Bank, through their weighted votes and their appointment of the institutions' heads. And why have such archaic neo-colonial governance structures persisted, turning them into an instrument by which rich governments run poor countries? Because the institutionalised power of the developed country governments has allowed them to make damned sure it stays that way. And the White Paper seems a fairly clear indication that the current UK government isn't going to be the first to break ranks....

So what *should* the White Paper have said about all this, if the UK was *really* “strongly committed to working through the international system to reduce poverty in developing countries” and was *really* determined to “use [its] resources and influence to strengthen the international system for this purpose”?

For a start, it should have recognised the (continuing) responsibility of the developed country governments for the mess that the international system has become. It should have called for *immediate* reform of the IMF and World Bank governance systems on the basis of democratic principles generally accepted at the national level – not just for some unspecified increase in the

⁴ On how the WTO really works, see Fatoumata Jawara and Aileen Kwa (2004) *Behind the Scenes at the WTO: the Real World of International Trade Negotiations* (Zed Books).

⁵ http://www.bangkokpost.net/250606_Perspective/25Jun2006_pers009.php.

voice of developing countries from its current pitiful level, and only “if the members demand it”, but real democracy, where votes are based on people not wealth.

It should have called on developed country governments to stop using the anachronistic “traditions” of the IMF and World Bank to appoint their heads, and, failing this, undertaken to use its position in the EU to represent fairly and objectively the views of developing country governments when the next Managing Director of the IMF is appointed. And it should have called strongly for developed country governments to stop using their political and economic muscle to manipulate the appointment of the heads of UN agencies in their own interests.

It should have called for more consistent, timely and secure financing of UN organisations, and openly condemned countries which fail to pay their subscriptions for reasons other than inability to pay. It should have called for a block on funding from sources which could constitute a conflict of interest, and ensured that the threat of withdrawing discretionary financing could not be used to blackmail UN organisations, either by commercial entities or by governments. In the longer term, it should have called for a process by which international organisations could be financed directly by global taxation, to ensure their financial interdependence.

It should also, of course, have addressed the issue of the WTO. It should have called for an end to the undemocratic and non-transparent informal processes of “confessionals”, “green room” meetings and “Mini-Ministerials”, to the blatant abuse of political and economic power by (mainly) the US and the EU to blackmail developing countries into compliance in the negotiation process, and to the gross inequality in representation in Geneva, which prevents most developing countries from participating effectively in negotiations.

It should have called for observance of the principle established in the Preamble to the WTO’s founding Treaty that trade policies should be run in the interests of increased well-being and sustainable development, for a Secretariat that is genuinely neutral between developed and developing countries and not ideologically wedded to trade liberalisation above all else, as well as genuine application of the principle of “special and differential treatment” for developing countries (to which it refers in Chapter 5).

At the country level, the White Paper refers to the people’s rights “to have a say in what happens in their lives..., to be safe... to earn a decent living for themselves and their families... [and] to be treated fairly by their government and public officials” as “aspirations... enshrined in the Universal Declaration of Human Rights, and the Millennium Declaration of 2000”. But when it comes to the global level, DFID seems to have forgotten that the Universal Declaration equally enshrines the right to an “international order in which the rights and freedoms set forth in this Declaration can be fully realised”.

The UK government, it seems, thinks that the Universal Declaration only applies to developing country governments. It is time for them to recognise that the disproportionate power they have exercised in the IMF and World Bank for the last 62 years brings with it a commensurate responsibility to act to bring about the human right they seem conveniently to have forgotten – to an international system which will support other rights instead of undermining them.

In short, the White Paper should have called for the application at the global level of the standards of democracy we take for granted at the country level; and it should have called, strongly and clearly, for the developed country governments not only to stop blocking movement towards such reform, but actively to support them, and to stop their current abuse of the shortcomings of the existing system in their own ideological, commercial and geopolitical interests. Then, and only then, perhaps we could take seriously the government’s aspiration to “Make Governance Work for Poor People” and to “Create an International System Fit for the 21st Century”.

In discussing governance at the national level, the White Paper says that:

“Good governance... is about how citizens, leaders and public institutions relate to each other in order to make change happen. Elections and democracy are an important part of the equation, but equally important is the way government goes about the business of governing.

Good governance requires three things:

- State capability – the extent to which leaders and governments are able to get things done.
- Responsiveness – whether public policies and institutions respond to the needs of citizens and uphold their rights.
- Accountability – the ability of citizens, civil society and the private sector to scrutinise public institutions and governments and hold them to account. This includes, ultimately, the opportunity to change leaders by democratic means.”

Until we can insert the word international in this extract at the appropriate points, and substitute global institutions for governments, and still read it with a straight face – even when we get to the last bullet – we cannot claim to have good global governance. And, at the global level as much as the country level, “good governance is essential to reduce poverty”.