NEWS RELEASE

IMF/World Bank Wings Clipped by IFI Commission But Development Focus Still Lacking

WASHINGTON, DC - 8 March 2000. In its report today to the U.S. Congress, the International Financial Institutions Advisory Commission, chaired by Prof. Allan Meltzer, makes a significant contribution to the intensifying debate on economic globalization by calling for an extensive rollback of the powers of the International Monetary Fund and the World Bank. Its bold proposals notwithstanding, the Commission has failed to address the critical factors that, with the help of the Fund and the Bank, have sent much of the Third World down the road to increasing poverty, economic disequilibrium and financial instability.

"The Commission has missed a golden opportunity to focus attention on the key factor in the development process -- the building of the local productive capacity of each country," says Doug Hellinger, Development GAP Executive Director, who testified before the Commission in October (Civil Society Perspectives on IMF and World Bank Structural Adjustment Policies, 20 October 1999). "The Commission would correctly circumscribe the influence of these institutions, but it incorrectly suggests that the attraction of foreign private capital and the funding of anti-poverty programs, service delivery and institutional reform will yield sustainable economic development. It pays no attention to the need for the financing and support of the thousands of small and medium-sized businesses and farms and other productive enterprises that generate local jobs and income and make up the core of these economies."

Hellinger expresses surprise at this critical failing of the report. "The building and integration of local economies through private enterprise is at the core of the conservative agenda," he says. "The expectation on the part of the many conservatives on the Commission that foreign capital will tend to the needs of this developmental engine demonstrates a lack of understanding of developing and emerging economies. This failing can only have been exacerbated by the failure to call as witnesses people of the South, or Third World, who experience this reality daily."

Just as importantly, the Commission report is at best ambiguous on the question of economic policy. Like the Bank and Fund, it stresses the need for reforms to emanate from the countries themselves while at the same time identifying the key policies that it expects governments to adopt as pre-conditions for financial support. It was the nature of monetary policy, labor-market reform, financial-market and trade liberalization and related economic adjustment measures prescribed by the Bank and Fund that contributed mightily to the destruction of the productive sectors and to financial crises in Mexico, East Asia, Russia, Ecuador and other countries.

According to Hellinger, the Meltzer Commission has chosen to ignore political realities. "While we agree that the IMF's role should be limited to providing short-term emergency financing and that the influence of the World Bank should also be reduced, simply transferring some of their current functions to the regional development banks without explicitly terminating policy conditionality is to miss the point that the IFIs are there to transform those economies to the benefit of foreign investors. And without enabling a wide range of economic policy options to be shaped locally and democratically to spur integrated, locally based development is to invite another round of economic disasters at the hands of 'experts' and special interests."

The Development GAP calls on Congress to enact a number of measures to complement the Commission's recommended reduction in the size and influence of the Fund and Bank. Principal among them are:

* the conditioning of IFI financing in client countries on the achievement of objective economic, social and financial goals, set in a democratic and transparent fashion, rather than on the adoption of prescribed policies;

* a mandate for the multilateral development banks to provide financing to institutions that make affordable credit and other capital and support available to productive local enterprises that provide gainful employment and engender local development; and

* the elimination of IFI economic-policy conditions and IFI participation in poverty-reduction efforts from all multilateral and bilateral debt-cancellation programs.

The Development GAP is currently coordinating a four-continent assessment of structural adjustment policies with the World Bank and its president, Jim Wolfensohn, on behalf of 2,500 civil-society organizations worldwide. To learn more about this initiative, please visit http://www.saprin.org/.

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