THE ECONOMIC NECESSITY OF SOCIAL JUSTICE

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Following its intervention in Thailand, Indonesia and Republic of Korea, the IMF found itself under attack from all sides. The debates are wide ranging and call into question fundamentals such as the efficacy and appropriateness of the Fund's economic advice, the way the Fund operates, and its relationship with its key shareholder, the US.

The IMF, however, does not admit that some of its policy advice was wrong and generally seems unwilling to debate the issues publicly. However, in the past months there have been gradual shifts on some key policy positions. Recent letters of intent with Thailand, South Korea and Indonesia show a decided easing of tight fiscal and monetary policy by allowing interest rates to slowly drop and allowing government deficits to expand (although given dwindling government revenues due to declining taxes and loss of export earnings, deficits must be allowed to grow even larger to ensure that new money is pumped into the economy). According to IMF Asian Regional Director Hubert Neiss «the IMF is not preaching austerity at the moment, it's preaching fiscal expansion. We're in a different phase now.»

In addition, recent support for the USD 30 billion Miyazawa Plan put forward by Japan and the US proposal to establish a quick response credit facility within the Fund which would not attract the usual IMF policy conditions, recognises the need for new, alternative and flexible responses to economic crises beyond the traditional IMF formula.

Since the early 1990s, the IMF and the World Bank have been pushing countries to open their capital accounts. Almost every analysis of the causes of the Asian financial crisis identifies rapid capital account liberalisation and the subsequent uncontrolled movement of finance capital as a major contributing factor. However, the almost universal criticism of Malaysia's decision to impose currency controls shows that there is deep hostility to nations taking these matters into their own hands.

The pain of adjustment is not fairly distributed: Criticisms about the burden of private sector failure being shifted to the public sector have also been noted. World Bank Chief Economist Joseph Stiglitz, placed the question squarely on the World Bank agenda when he says «The situation is intolerable. We have an international economic architecture which has led to more frequent crises, and yet our means of responding have proved inadequate. While there is much talk about pain, the poor have absorbed more than their share of the pain without sharing commensurately in the promised gain.»

For Stiglitz, the solution lies in creating more democratic institutions «so that these silent voices are heard.» This must be a cornerstone of the new global financial architecture, but some more immediate measures have also been proposed. For example, the US and Japan have unveiled a plan to establish a G7–funded agency to buy up debts issued by overseas creditors to private companies in Asia at a discount of 20 to 30%.

UNCTAD's 1998 Trade and Development Report advocates at a global level some rules akin to the chapter 11 of the US bankruptcy code, and in particular an automatic standstill principle, to enable countries in specified circumstances to impose unilateral standstill, similar to the safeguard action allowed under the GATT. They should then be able to approach an independent international panel to justify their case and get further relief. However, the UNCTAD (United Nations Conference on Trade and Development) report warns that the IMF as presently constituted is not able to perform this task because its governance structure gives weight to the views of creditors over debtors.

Other proposals include bringing the private sector into financing bailout loans, encouraging greater private sector risk assessment, and establishing stronger insolvency and debtor–creditor regimes. However, all of these proposals are somewhat limited in that they depend to a large extent on good–will, effective domestic legislation and willingness of the private sector to assume risk. So long as the IMF provides the ultimate guarantee against private sector risk, the incentives are not strong. Perhaps a more compelling and simpler solution would be an international bankruptcy law to ensure the orderly work–out of private sector debt in a transparent and equitable manner.

The Fund has gone beyond its remit and should be overhauled: The arguments on IMF mandate have, in fact, gone in the opposite direction with many calls for expansion of the IMF's role to include environmental, labour, good governance and democracy conditions.

On this issue there are widely diverging opinions: on the one hand critics say that the Fund needs to take into account the social and environmental impact of its programs and therefore needs a broader mandate and better coordination with the World Bank. On the other hand, some argue that the Fund's role should be limited to preventing a breakdown in trade due to short–term balance of payments difficulties, and that the strictly stabilising role of the Fund should be de–linked from the long–term development mission of the Bank and other multilateral development agencies. The main drive behind this argument is that the Fund is not a democratic, accountable or transparent institution, and therefore should not be given the authority to make judgements about issues such as good governance or democracy.

The Fund –keen to extend its purview and staunch criticism– has attempted to broaden its dialogue and discuss the social impacts of their programmes. For example, in many countries the IMF has 'consulted' with labour. Not that it would pass any reasonable test of 'consultation' but at least they think that they should be doing something. Or should they? This raises an interesting question about the IMF and its mandate: does labour have a right to consult with the IMF? Does this undermine domestic democratic processes whereby governments should be accountable to workers? In Republic of Korea, this is a sensitive issue: the IMF has agreed to meet the KCTU informally, but wouldn't it be better if the labour organisation were able to extract a commitment from their government for workers' representation in negotiations with the Fund, or better still, be confident that the elected government would properly represent and protect workers' interests?

Although it is tempting to see the IMF as the *deus ex machina* which can solve the problems of Soeharto, corruption and the chaebol, this is dangerous ground. The IMF is not a democratic organisation, and can in fact take away political power and undermine domestic political development.

So far most suggestions for institutional reform have focussed on transparency and accountability. The Fund itself is completely unused to outside scrutiny, and responds to most criticisms with defensive arrogance. Transparency is seen as simply making information available and accountability means making more information available. Democracy does not seem to be in their lexicon. Again, Joseph Stiglitz made a pertinent comment on transparency when he remarked to a group of non–government organisations in Washington that transparency is only meaningful if people are willing to debate different views.

However, there are some attempts to loosen the power nexus between the IMF and US Treasury.

Obviously shaken by the cataclysmic collapse of Russia, Europe has suddenly realised that there is a crisis, and they are part of it and the people they thought were fixing the problems are not. The French Finance Minister's proposal at the recent IMF World Bank Meeting to strengthen the role of the IMF Interim Committee –a 24 member group which is equivalent to a board of governors and reflects the composition of the executive board– aims to make the Fund more directly accountable to its main shareholder governments and to break the policy stranglehold of the Board of Directors and the Washington power elite. Interestingly the proposal was supported by IMF Managing Director Michel Camdessus, himself an elite French bureaucrat, who may be looking for a way to break free of the US Treasury and save his institution.

For several decades, Southeast Asia's tiger economies were held up by the World Bank, the International Monetary fund and the US –the keepers of the «Washington consensus»– as emblematic of good development, the very model of how to do things. Then everything started to spin out of control. And even when the IMF applied the orthodox treatment, the standard IMF prescriptions, they came unstuck even more. It is the shattering of a dream –the dream of export–lead growth, free trade and financial liberalisation– in short the dream of 'globalisation,' that has finally cracked the Washington consensus. Where to now?

The Washington consensus is starting to unravel, but what will replace it? The set of reforms presently on offer is limited and seek to put the train of economic globalisation back on track. They include measures such as increased surveillance, uniform reporting and accounting procedures, better risk assessment, strengthening domestic financial institutions, more transparency in market transactions.

Many of them are absolutely necessary in the short term, such as opening the IMF to greater scrutiny, acknowledging that reckless capital account liberalisation may not be wise and that speculative money creates instability and volatility, seeking ways of ensuring that the private sector shares an appropriate proportion of risks and loss, more coherent and better coordinated policy responses by governments and international institutions and greater efforts to predict and prevent crisis. But none of this actually addresses the underlying weakness of the present system. Without effective and binding mechanisms to ensure redistribution of resources and environmental sustainability, four fifths of the world's population will continue to be excluded from the promised benefits of free trade and financial liberalisation.

Reform of the global financial architecture is now on the agenda, but instead of thinking about architecture, we should be thinking about the people that we are building it for. Any architect worth their salt starts by consulting the client, trying to understand what they want and how they live. It is a collaborative process. Designing the global financial architecture should be no different. But a word of caution about using the language of the elite. The word 'architecture' connotes institutions rather than relationships and limits our imagination. We should, instead, be thinking about the values that we want to express and promote. Only then should we think about what sort of institutions –either local, national, regional or global– we need to do the job. When the Bretton Woods Institutions were founded more than fifty years ago, there was a vision –albeit a reflection of the dominant powers– but nonetheless a vision based on shared values of a better world.

The basis for our design should be increasing political participation, economic democracy and social justice, replenishing and sustaining the environment. This means stripping the IMF of its assumed power to impose policy conditions on governments. Minimally, it means allowing governments to establish whatever kinds of barriers they think are necessary to protect their domestic economies from the unpredictable global economy. Minimally, it means recognising that there is no single solution – even though the advocates of economic globalisation would wish that it were so.

GETTING RID OF HOT MONEY

Joseph Stiglitz has called for a 'post–Washington consensus' which «cannot be based on Washington.» «One principle of the emerging consensus», he says, «is a greater degree of humility, the frank acknowledgment that we do not have all the answers.»

Humility notwithstanding, there are two items that must be given priority: getting rid of hot money and ensuring the 'post–Washington consensus' does simply reflect the views of the elite, but ensures that the silent voices – the women, farmers and day labourers, the workers and small businessmen, are heard.

There is a lot of talk about 'cooling down hot money', but we have to do a lot more than that. We have to get rid of it and discredit the whole notion that there is anything useful in speculation. The financial market, as it presently operates, serves very little useful purpose and is, for the most part, non productive. It does not create anything that you can eat or hold or sell or use. It does not add to the public good, and it distorts our collective understanding of what is valuable and productive. And, as we have seen with the recent near–collapse of Long Term Capital Management, it can threaten the whole financial system.

One of the ways of cooling down hot money is to redirect it into productive channels. And here is one of the great contradictions of the present economic system: the massive accumulation of finance and speculative capital is due to overproduction –which is a bewildering concept considering that we live in a world where four–fifths of the population struggles daily with poverty. Yet, this is true. The massive profits of transnational corporations and banks have no where 'useful' to go, so they go into speculation.

But the other side of overproduction is demand. A simple solution to the problem of overproduction is to expand markets – that is, to put more money in the hands of more people, so that they can buy the simple, basic life enhancing consumer goods that countries like Viet Nam, China, Thailand and Brazil are so good at producing. The good news for the US and Europe is that you do not need to shoulder the burden of consuming the world's output on your own! Redistribution of wealth and purchasing power to the four–fifths of the world who are not being given a chance to pull us out of this recession would give the economy a kick start, would ease the problem of overproduction, and provide all sorts of useful ways to recycle profits. It would also cool down global capital markets.

However, creating this demand requires significant social reform in terms of asset and income distribution – it means land reform and wage and labour reform. Industrialisation via cheap labour and natural resource exploitation is no longer viable. We have reached the point where further economic growth can only be achieved by expanding domestic markets and most importantly by changing our definition of what is productive to include public goods, culture, the environment and human security. We are at a moment in history where economic necessity coincides with social justice.

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