# THE BRETTON WOODS TWINS IN THE ERA OF COVID-19

## TIME FOR AN EXIT STRATEGY FOR THE GLOBAL SOUTH?


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WALDEN BELLO
Manila, Oct 10, 2020

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# EXECUTIVE SUMMARY

As they mark their 76th year, the International Monetary Fund and the World Bank have been presented with a grand opportunity, not to save the world, but to salvage their tattered reputations.

The Fund enters the annual IMF-World Bank meetings with a big image problem. Under Christine Lagarde, the former Managing Director, the Fund served as a member of the so-called Troika that had imposed what can only be described as savage austerity programs in Ireland and Greece. The IMF's role in saving European banks by squeezing the Irish and Greek peoples of the resources to pay them had shown that it had not changed its approach to economies in crisis: cut government budgets, fire people, and channel savings from this draconian process to pay off private sector creditors. These "pro-cyclical" measures are to be adopted even if they prevent an early return to growth.

As the IMF and World Bank hold their annual fall meeting online in October 2020, the question is: Are they rolling out their Covid-19 loan programs to save the world or to fix their tattered image?
*https://www.rappler.com/business/imf-world-bank-roll-out-all-lending-tools-coronavirus*

Covid-19 presented the Fund with a chance to clean up its image, and it boasted of a $1 trillion war chest that Managing Director Kristalina Georgieva said it was ready to disburse to meet a "once in a lifetime pandemic." However, developing countries have been, for the most part, circumspect in their response to the Fund beckoning them to borrow. A close examination of the Fund's initiative shows the reasons why: the Fund is offering loans, not grants; its "debt relief" initiative is really just a refinancing of loans; accepting a loan will subject a country to the same dreaded Fund conditionalities and surveillance that accompany regular IMF loans. Getting a loan, in other words, is likely to get the recipient into a similar situation as that in which Ireland and Greece found themselves.

The World Bank, for its part, enters the fall meeting backing the IMF in spurning the widespread call for debt cancellation, with its new president, David Malpass, saying that the financial markets won't like that. It is also facing charges of hypocrisy: on the one hand, warning that the world faces a world hotter by four degrees at the turn of the century; on the other, still engaging in investments in coal plants. It is also bogged down in controversies over its engagement in the REDD+ initiative, which threatens to dispossess forest communities throughout the world in the name of saving forests as carbon sinks.

The Bank used to be the loudest cheerleader for globalization and trade liberalization. It still supports these processes but its advocacy is now more muted. The reason for this is that over the last few years, globalization and trade liberalization have brought about conditions that have contradicted all the rosy assertions of the Bank's research: greater inequality within countries, better performance by countries' managed markets instead of liberalizing their economies; and an increase in global carbon emissions owing to trade liberalization. emissions.

The policies of the Fund and Bank continue to respond mainly to the interests of the United States and Europe, which hold an effective controlling share of voting power in the two institutions. The US and Europe also continue to exercise the feudal privilege of appointing the heads of the Bank and the Fund, respectively.

There have been strong calls for reform of the policies and governing structures of the Fund and the Bank over the last 50 years. In both areas, there has been, at the most, marginal and very cosmetic change. The consistent stonewalling of real change by the hegemonic powers calls into question the strategy of demanding reforms on the part of the countries of the global South. Probably more productive at this point would be strategizing for a collective exit from the two institutions and exploring ways of building up alternative institutions grounded in the principles of mutual respect, genuine cooperation, and equality to coordinate international finance, trade, and development assistance in an era of climate crisis. Current geopolitical and geo-economic realities might, in fact, make the possibility of success greater for such an approach.

I

# The IMF at 76…

A rose by any other name is a rose, says the poet. And, we might add, the IMF is, whoever is its public face, the IMF, the bearer of bad tidings for most countries of the global South.

As Covid-19 races through the developing world, some people have seen the IMF as a savior, and the Fund's new Managing Director, Kristalina Georgieva, has consciously cultivated this image, calling the pandemic "truly a crisis like no other,"[1] and promising that "we have the whole $1 trillion-lending capacity of the Fund at the disposal of our members."[2]

Unfortunately, some governments in the global South have such short memories and are likely to fall again for the Fund's con game that "this time is different because we've changed."

Those with longer memories still remember the mea culpa of the Fund following the Asian financial crisis of 1997-98, when billions of dollars' worth of "rescue funds" went to bail out the foreign creditors of the troubled Asian economies and the austerity programs it recommended pushed them into recession instead of helping them to avoid it. As it admitted in a famous memo, "the thrust of fiscal policy…turned out to be substantially different…because the original assumptions for economic growth, capital flows, and exchange rates were proved drastically wrong."[3]

Following the Asian financial crisis, there was allegedly some serious "soul searching" at the Fund. Something new was expected when Dominique Strauss-Kahn was chosen Managing Director in 2007. The Frenchman was not shy about announcing his Keynesian—as opposed to neoliberal—credentials, often quoting Keynes to that effect: "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes."[4] At the level of broad policy, there was, indeed, some questioning of traditional Fund approaches, such as "pro-cyclicality" or cutting back on government spending while the private sector was falling into recession, as happened during the Asian Financial Crisis, or the negative view of capital controls.

Strauss-Kahn indeed broke with IMF tradition with his rhetorical advocacy of aggressive government intervention to counteract the collapse of private financial institutions at the outbreak of the 2008 global financial crisis.[5] There were, however, no changes in the Fund's approach to its developing country clientele on the ground: balanced budgets and austerity measures in the name of warding off inflation continued to rule even if this tipped economies into stagnation or recession, and knee-jerk advocacy of privatization.

When Strauss-Kahn resigned after a hotel worker cleaning his room in New York in 2011 accused him of attempted rape, his replacement, fellow French citizen Christine Lagarde was expected to continue Strauss-Kahn's declared aspiration

German Finance Minister Wolfgang Schauble looks at the Greek Finance Minister Yanis Varoufakis as the latter dissects the Troika's austerity program for Greece. *https://www.versobooks.com/blogs/3637-yanis-varoufakis-s-account-of-the-greek-crisis-a-self-condemnation-part-six-the-disastrous-agreement-of-february-2015*

to mitigate neoliberalism in its policies. But it is a puzzle why her reign at the Fund from 2011 to 2019 has been described as a time that "the Keynesian worldview has to some extent become the norm at the IMF," as one publication put it.[6] This can only be attributed to the triumph of image over reality, for Lagarde presided over the most savage neoliberal programs in IMF history, as part of the so-called "Troika" whose other members were the European Commission and the European Central Bank.

## The Troika and the IMF

One of the countries subjected to the "IMF cure" by the Troika was Ireland. In return for a loan of 85 billion euros to pay its creditors in the aftermath of the 2008 crisis, Ireland was subjected to what the *New York Times* described as "the toughest austerity program in Europe," involving the loss of about 25,000 public-sector jobs, equivalent to 10 percent of the government work force, as well as a four-year, $20 billion program of tax increases and spending cuts like sharp reductions in state pensions and minimum wage.[7]

## Squeezing Ireland

"Having surrendered sovereignty in 2010," three of Ireland's top economists asserted with little exaggeration, "the Irish state remained in effect a protectorate of the Troika until the end of 2013."[8] The country went through a two-year recession in 2008 and 2009, followed by several years of stagnation until 2014. The unemployment rate rose from 6.4 percent in 2008 to 13 percent in 2013.[9] Especially hard hit were the young, with development NGO Oxfam reporting that as of February 2013, 30.8 percent of the country's under-25s were unemployed, and those in chronic long-term unemployment accounted for close to 62 percent of the total number of those out of work. Inequality was also on the rise, with those with the lowest incomes seeing them fall by more than 26 percent, while those with the highest saw theirs rise by more than eight percent. Ireland, noted Oxfam, "is likely to see rising inequality over the coming years, as it struggles to maintain the redistributive mechanisms in place prior to the financial crisis."[10] Some 610,000 people left the island between 2008 and 2015, or close to 13 percent of the country's population of 4.58 million.

IMF Managing Director Dominique Strauss-Kahn's policy rhetoric was Keynesian, but his tenure was cut short after being arrested in New York for attempted rape of a hotel worker cleaning his room in May 2011.
*https://en.wikipedia.org/wiki/New_York_v._Strauss-Kahn*

## Crucifying Greece

The crucifixion of Greece by the Troika is, of course, well known. But it is important to remind ourselves of this extremely painful experience. In return for three bailout packages consisting of 186 billion euros to pay off Greece private and multilateral creditors and a much-ballyhooed 107 billion euro- "debt write-off," the Troika imposed conditions that included the following: cutting public employees' wages by 17 percent, reducing pension benefits above 1,200 euros a month by 20-40 percent, raising the retirement age from 65 to 67, loosening labor legislation, and selling off 50 billion euros worth of public assets. It was the same pro-cyclical policy that the Fund had taken to Thailand, Indonesia, and Korea during the Asian Financial Crisis of 1997-98: cutting government spending on social benefits and services and channeling savings to pay off the loans to the banks, even if this meant cutting domestic demand and condemning the economy to stagnation or worse.

Not surprisingly, one analyst pointed out, "The more the government cut, the worse the economy suffered; the International Monetary Fund was later forced to conclude that the damage to economic activity from deficit cuts had been badly underestimated. With no recovery for sovereign debt, and with the downturn eroding private borrowers' ability to service their loans, Greek banks sat on growing unrealized losses. They were unable to channel credit to those private sector companies that might have expanded, so a credit crunch compounded the fiscal austerity to depress the economy further."[11]


As IMF Managing Director, Christine Lagarde presided over the savage austerity programs the Troika imposed on Ireland and Greece.
*https://commons.wikimedia.org/wiki/File:Christine_Lagarde.jpg*

Lagarde tried to play the "good cop" to the "bad cop," Germany's Finance Minister Wolfgang Schauble, pretending to be lending the Greeks a more sympathetic ear, but the latter were not taken in. The Prime Minister, Alexis Tsipras, accused the IMF of "criminal responsibility" for the Greek tragedy,[12] while Finance Minister Yanis Varoufakis described the Fund and its partners, the European Central Bank and the European Commission, as "a small group of bailiffs, disguised as technocrats," who supervised the implementation of a super-austerity program "designed to cause visible pain to the weakest Greeks" that "boiled down to the dismantling of basic social welfare provisions…"[13]

## Once More, with Feeling…

With Kristalina Georgieva succeeding Christine Lagarde, the IMF propaganda machine is again working at high speed to project the image of an institution bravely and swiftly and compassionately stepping into the role of de facto lender of last resort to counteract the ruinous effects of Covid-19 on the developing world, ready to deploy a war chest of $1 trillion to this enterprise.

Something is not quite right though. As of mid-June, the Fund reported having committed only $245 billion of that vaunted $1 trillion dollars, despite the Fund's earlier claims that many countries were knocking at its doors for emergency assistance. One would think that governments would be leaping at the Fund's offer as Covid-19 burns a destructive path through their economies. They are, however, being very cautious. These are, after all, loans—not grants—that would increase the already high levels of indebtedness of many countries.

Along with the G20, World Bank, and other multilateral donors, the IMF has assembled a so-called debt relief program. The response of developing countries has also been surprising: as of July 18, only 42 countries had requested an estimated $5.3 billion in relief, much less than the approximately $12 billion that it had expected in April would be requested by 73 eligible countries.[14] But the organizers should not have been surprised, for what was billed as debt relief was really just debt restructuring or refinancing. What was offered was merely a suspension of debt service payments falling due between May and December 2020. As Barry Herman points out, "The payments would not be forgiven, but would be repaid over four years, including a year of grace in 2021. Interest will be charged on the

> FOR THOSE COUNTRIES THAT DO COME TO THE FUND FOR ASSISTANCE, THE FUND IS SAYING, DON'T EXPECT MUCH LOOSENING OF CONDITIONALITIES AND SURVEILLANCE EVEN UNDER PANDEMIC CONDITIONS. "DEBT SUSTAINABILITY" WILL BE THE KEY CRITERION IN DETERMINING WHO WILL BE GIVEN LOANS, MEANING THAT "THE IMF IS REQUIRED TO ESTABLISH, BEFORE IT LENDS, THAT THE BORROWING COUNTRY'S DEBT IS SUSTAINABLE, AND THAT BY IMPLICATION IT WILL BE ABLE TO REPAY THAT DEBT."

delayed payments, making the offer essentially a refinancing loan with no element of a grant."[15] Moreover, the IMF and multilateral development banks, to whom developing countries owe a significant part of their debt, are excluded from moratorium coverage, which is limited to voluntarily participating bilateral donors.[16]

Also met with little enthusiasm is a related much ballyhooed "debt relief" program for about 25 African countries to the tune of $20 billion assembled by the IMF, World Bank, G20, African Development Bank, and all Paris Club creditors. The initiative has found few takers, with only four countries, Cameroon, Côte d'Ivoire, Ethiopia, and Senegal, making applications. While there are a number of reasons for this, a major one is that "the terms of the multilateral debt relief and loan packages will restrict future policy direction."[17] As pointed out by one analyst, "The debt moratorium is being granted on condition that the funds are spent only on critical public services. Other conditions include adhering to existing policies, reporting requirements, multilateral oversight, and transparency. Countries under the debt relief program are not allowed to incur debt from any other creditors during this time and they should use savings only to address shocks from the pandemic."[18]

## The Same Old Fund

The African countries are displaying a very rational response. They witnessed the way the Fund had mercilessly squeezed Greece and Ireland, two countries that, being European, one would have expected the European (and American)-dominated Fund to be more lenient with. Equally important was Africa's own terrible experience with the Fund over the last few decades, where, as Oxford economist Ngaire Woods pointed out, the latter stuck to its austerity-approach in its structural adjustment programs "even as studies of the IMF and the World Bank themselves consistently failed to elicit positive investment effects."[19] Despite Covid-19, African governments did not want to fall into the Fund's hands again, or, for those that had existing Fund programs, to fall deeper into its clutches.

Given the immensity of the challenge, the Fund, were it really serious about helping countries, should just have heeded the call to cancel the debt of developing countries to private, multilateral, or western government creditors. But it has simply brushed this off, saying that its policy is to advise "its members to stay current on their obligations to the extent possible."[20] As for simply writing off its own loans, not even the grim conditions of a pandemic, the Fund says, can allow this since "under its charter is not permitted to simply cancel claims or write off debt."[21] And regarding the suggestion of some that the Fund create Special Drawing Rights (SDR's) for developing countries to draw on, so they won't have to seek restrictive emergency loans, that is not even on the table.[22]

For those countries that do come to the Fund for assistance, the Fund is saying, don't expect much loosening of conditionalities and surveillance even under pandemic conditions. "Debt sustainability" will be the key criterion in determining who will be given loans, meaning that "the IMF is required to establish, before it lends, that the borrowing country's debt is sustainable, and that by implication it will be able to repay that debt."[23] Managing Director Georgieva has herself admitted that "the Fund assesses the health of institutions in each and every country. And there are some countries we have not been able to provide emergency financing because they haven't satisfied our safeguards…It is not like everybody who came in, we said, "OK, here it is, your check"…We do have… requirements. Countries have to submit

Bulgaria's Kristalina Georgieva, the new IMF chief, follows Christine Lagarde's emphasis on public relations instead of substance.
*https://www.aa.com.tr/en/energy/finance/imf-names-kristalina-georgieva-as-new-head/26772*

a letter of intent. And in this letter of intent, they take on certain obligations. Many of them have committed to do ex-post audits so we know what they spend the Covid-related money on and how effectively."[24]

The rigor of this surveillance process is laid out more explicitly in a Fund paper:

> [A]ll countries receiving emergency financing must commit to undertaking a "Safeguards Assessment". These assessments provide reasonable assurance to the IMF that a central bank's framework of governance, reporting, and controls is adequate to manage resources, including IMF disbursements. Where there are shortcomings, IMF staff make time-bound recommendations and closely monitor their implementation. Given that emergency financing is provided as an upfront disbursement, such assessments will be conducted after the disbursement, but before the approval of any subsequent financing for the member country under a more traditional multi-year financing arrangement.[25]

In short, except perhaps for the speed of disbursement of the initial tranche of a Covid-19-related loan, countries should not expect any loosening of conditionalities or surveillance when it comes to pandemic-related loans from the IMF. Despite Georgieva's characterization of the pandemic as a "crisis like no other that only comes once in a lifetime," the IMF is the same old dog of an agency with the same old, unchanging neoliberal perspectives and processes.

## The Power Elite

This is not at all surprising, for the same power realities continue to hold. Despite over 40 years of reform efforts, no change in the power equation in the organization has taken place. The United States holds 16.5 percent of voting power, which continues to give it an effective veto over any change in the articles of association or in major policies of the Fund. Next to the US, Europe is the Fund's most powerful bloc though key developing countries now have collectively a greater weight in the world economy. As Robert Wade and Jakob Vestergaard point out, "Today the four big BRICS (Brazil, Russia, India, China) have a combined share of world gross domestic product of 24.5 percent, compared with the 13.4 percent share of the four big European economies (Germany, France, Britain, Italy); but the four BRICS countries have a combined share of votes of only 10.3 percent, compared with the four European nations' share of 17.6 percent."[26] In fact, long demanded voting power shifts from developed to developing countries have been very marginal, coming to only 2.6 per cent.[27]

Moreover, the European countries continue to hold on to a very feudal privilege in one of the most important institutions of global capitalism, which is the "right" to always have a European as Managing Director. Like her predecessors Strauss-Kahn and Lagarde, Bulgarian national Georgieva is heir to this feudal prerogative that makes a mockery of universally accepted norms of meritocracy.

DESPITE OVER 40 YEARS OF REFORM EFFORTS, NO CHANGE IN THE POWER EQUATION IN THE ORGANIZATION HAS TAKEN PLACE. THE UNITED STATES HOLDS 16.5 PERCENT OF VOTING POWER, WHICH CONTINUES TO GIVE IT AN EFFECTIVE VETO OVER ANY CHANGE IN THE ARTICLES OF ASSOCIATION OR IN MAJOR POLICIES OF THE FUND. NEXT TO THE US, EUROPE IS THE FUND'S MOST POWERFUL BLOC THOUGH KEY DEVELOPING COUNTRIES NOW HAVE COLLECTIVELY A GREATER WEIGHT IN THE WORLD ECONOMY.

II

# Meanwhile at the World Bank…

The other Bretton Woods institution, the World Bank, also took advantage of the opportunity provided by Covid-19 to clean up its image. It announced a $160 billion program of loans and grants for Covid-19 relief. But, like the IMF, it spurned calls for it to cancel, much less declare a moratorium for debts developing country owed to it. David Malpass, the new president appointed by US President Donald Trump, did not hesitate to say the reason why: that the financial markets wouldn't like that. It is worth reproducing his rationale because it shows that for the key institutions of global capitalism, a pandemic, no matter how serious, must not be allowed to interfere with the relationship between creditor and debtor. Regarding the "continuing calls by some parts of the UN to extend the moratorium to debt repayments to MDBs, he said, "This would be harmful to the world's poorest countries. MDBs depend on financial markets, and instability in the payment stream would have a negative impact to the flows to client countries."[28]

## False Dawn

In the 2000s, the World Bank shared with the IMF the universal opprobrium that had met the neoliberal approach that marked their conditionality-ridden structural adjustment programs, which had brought greater inequality, poverty, and stagnation to developing countries, contrary to their official rhetoric. But with President Obama appointing Korean-American Kim Jim-Yong head of the institution in 2012, it seemed that the Bank was going to start moving in a different direction.

Formerly notorious for misleading, if not deliberately distorting, research on the impact of trade liberalization, the Bank issued a study on climate change which warned that with little movement on the part of the biggest polluters to curb their carbon emissions, the world was going to hell in a handbasket, with the strong possibility that the average rise in temperature could reach four degrees Celsius at the end of the 21st century.[29] Some Bank watchers were surprised but they credited the hard-hitting nature of the report to the fact that it was not done by in-house researchers but was commissioned by the Bank.

That, however, seemed to be the only positive product of the Kim era. "Poverty reduction is the yardstick by which the Bank seeks to be judged," noted one famous evaluation of the World Bank's work.[30] In the last few years, however, negative trends in this area have undermined the credibility of the institution. As Kevin Watkins, head of Save the Children, wrote in October 2018, "[T]he pace of global poverty reduction is slowing and the number of extreme poor in Africa is still rising. On current trends there will still be more than three million preventable child deaths in 2030. Progress on malnutrition has stalled. And in an increasingly knowledge-based global economy in which automation threatens jobs, 617 million children are either out of school or set to emerge from school lacking basic literacy and numeracy skills."[31] Watkins singled out for criticism the IMF's "fiscal policy straitjackets that accompany its loans and undercut social spending,"[32] but Watkins' other, implicit target was the Bank, whose loan programs had been based on the same neoliberal assumptions undergirding the Fund's approach. Indeed, in many instances, the Bank and Fund had jointly administered structural adjustment programs; these were renamed "Poverty Reduction Strategy Papers" when structural adjustment became an unpopular term among recipient countries but they had the same key thrusts of trade liberalization, deregulation, privatization, and commodification of land and resources at the heart of structural adjustment programs.

Critics complained, moreover, that the Bank's oracular pronouncements on climate change were contradicted by the projects it was funding. One report found that fossil-fuel investments promoted by the Bank's private sector arm, the International Finance Corporation (IFC), have included 19 new coal-fired power plants in the Philippines, while another investigation discovered IFC investments linked to 41 new coal plants between 2013 and 2016.[33]

Noted South African analyst Patrick Bond pointed out that shortly after his inauguration as president of the Bank, Kim approved in mid-2012, World Bank funds for a Kosovo coal-fired power plant "everyone admits isn't even economically efficient (yet will poison the air near


The fundamental flaw of the Bank-supported REDD+.
*https://takvera.blogspot.com/2011/01/forests-are-not-commodities-redd-under.html*

Forest communities throughout the global South face threats of dispossession from a number of World Bank funded-REDD+ projects.
*https://www.worldbank.org/en/topic/forests/brief/empower-forest-communities*

the capital city." Then Kim quickly "approved more tranches of WB's biggest-ever loan, to the South African government for its "fraud-filled Medupi power plant, along with more financing for…hotly contested Indian coal-fired power plants…And before long he was down the slippery slope into funding one killer coal-fired power plant after the next."[34]

## The REDD+ Imbroglio

But perhaps the most controversial climate-related program that the Bank saddled itself with is the Forest Carbon Partnership Facility (FCPF), a climate investment fund that is closely coordinated with and provides financial support for the United Nations "Reducing Emissions from Deforestation and Forest Degradation" initiative or REDD+. The fundamental aim of FCPF/REDD+ is to combat climate change by reducing carbon emitted through deforestation and promoting sustainable forest management. This is accomplished by providing monetary incentives from developed countries to developing countries blessed with significant forest cover. While sound in its objective of dealing with global warming, REDD+ has experienced many problems in both implementation and, more fundamentally, conceptualization.

The problems have revolved mainly around the involvement in both decision-making and sharing of benefits of forest-dependent communities estimated to number approximately 300 million people and occupy around 80 percent of the planet's forest systems.

A comprehensive review by Mucahid Mustafa Bayrak and Lawal Mohammed Marafa of REDD+ and FCPC projects implemented over a decade gives a solid exposition of the problems they triggered.

A key issue concerns the principle of FPIC, the acronym for "free, prior, and informed consent," which has been universally adopted in light of past exploitation of indigenous peoples that had included taking over their lands through fraudulent means. In selected REDD+ pilot sites in Tanzania and Papua New-Guinea, the affected communities received little information about the project, and only a few privileged villagers had knowledge related to REDD+.[35] In Lam Dong province in Vietnam, local people in the FPIC process were simply asked whether they wanted their forests to be conserved, in which the villagers answered "yes."[36] But perhaps most disturbing were REDD+ projects in Peru, where owing to the absence of FPIC, genuine community consultation, national guidelines, and strong social safeguards, there has been an "explosion" of carbon piracy in pilot REDD+ initiatives involving indigenous forest-dependent communities. "Carbon pirates," the Bayrak and Marafa study claimed, "convinced these communities to sign away their land and carbon rights in favor of commercial interest which largely ignored the protection of indigenous peoples' fundamental rights. REDD+ unintentionally provided these 'carbon pirates' an increasing control over forests and intellectual property of these communities, resulting in manipulation of costs and inequality of distribution of benefits."[37]

REDD+ and FCPC projects abounded with other problems. Where land tenure arrangements were not clear or were mainly customary, REDD+ led forest communities to expulsion by private parties or governments seeking carbon payments in return for keeping forests intact. Communities practicing swidden agriculture were negatively impacted, even rendered even more marginal, by REDD+ advocacy or interest groups that considered their methods climate-unfriendly whereas, in fact, they promoted biodiversity and were sustainable. Traditional methods of forest management that were integrated into the social and economic life of communities were disregarded.[38]

But perhaps most damaging was the fundamental perspective undergirding FCPF/REDD+, which was to commodify forests, that is, treating rights to them as exchangeable with monetary terms divorced from their social and natural contexts, something that was quite alien to the forest communities' relationship to their surroundings:

THE PROBLEMS HAVE REVOLVED MAINLY AROUND THE INVOLVEMENT IN BOTH DECISION-MAKING AND SHARING OF BENEFITS OF FOREST-DEPENDENT COMMUNITIES ESTIMATED TO NUMBER APPROXIMATELY 300 MILLION PEOPLE AND OCCUPY AROUND 80 PERCENT OF THE PLANET'S FOREST SYSTEMS.

Contrary to World Bank claims, poverty was rising in Africa even before Covid-19.
*https://blogs.worldbank.org/voices/investing-prevention-new-world-bank-group-approach-crisis*

The commodification of nature has various implications on the way local communities perceive nature, interact with the natural environment and with each other as respective members of their communities. REDD+ facilitates market transactions based on a single exchange value, namely carbon credits. This monetary fixation on nature fails to take social-cultural and ecological values of ecosystems into account, and it disregards its complexity. This could lead not only to environmental degradation but also to cultural and social deterioration of many indigenous and local communities who perceive forests in a holistic and complex way which go beyond carbon and monetary fixation. This deterioration could be worsened by the new socio-economic hierarchies that will be created because of REDD+. This involves a re-positioning of existing actors, the emergence of other, sometimes more powerful, actors, and the restructuring of unequal power relations in access to wealth and natural resources.[39]

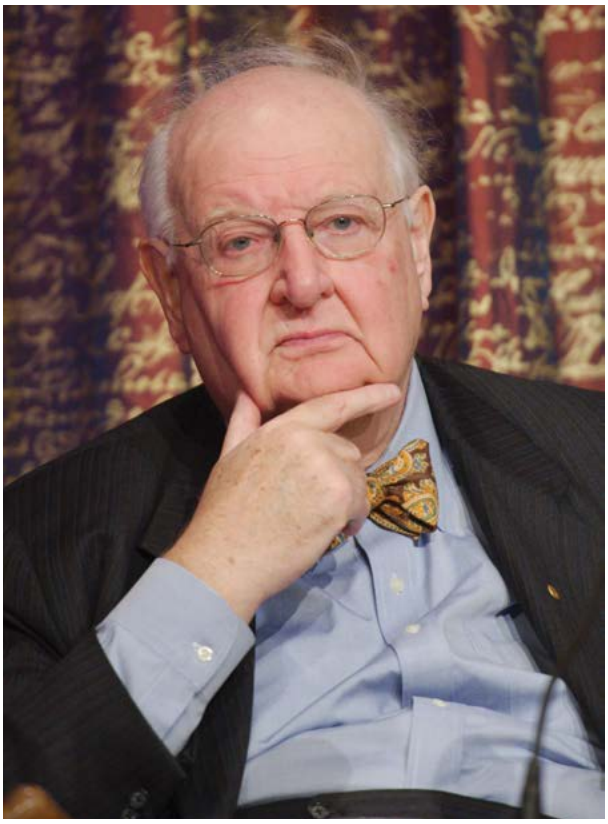
Not surprisingly, a number of REDD+ recipient countries "moved towards the carbonization of forest governance, in which they paid little to no attention to local livelihoods and biodiversity."[40] Not surprisingly, too, many indigenous peoples and their advocates resisted or were critical of REDD+ and FCPC. The Global Alliance of Indigenous Peoples and Local Communities against REDD+ and for Life has called for an immediate moratorium on REDD+-type projects because they feared that, with inadequate or missing safeguards for indigenous communities, REDD+ could result in "the biggest land grab of all time."[41]

“THE PROFESSION HAS BEEN UNPROFESSIONAL, FEARFUL THAT ANY CRITICISM WOULD STRENGTHEN POPULISM, SO THAT LITTLE WORK HAS BEEN DONE ON THE DOWNSIDES OF THESE DIFFERENT PROCESSES [OF GLOBALIZATION]. YET THE DOWNSIDES WERE APPARENT TO ORDINARY CITIZENS, AND THE EFFECT OF ECONOMISTS APPEARING TO DISMISS THEM HAS RESULTED IN WIDESPREAD REFUSAL OF PEOPLE TO LISTEN TO “EXPERTS.” FOR MY PROFESSION TO RE-ESTABLISH CREDIBILITY WE MUST PROVIDE A MORE BALANCED ANALYSIS, IN WHICH THE DOWNSIDES ARE ACKNOWLEDGED AND PROPERLY EVALUATED WITH A VIEW TO DESIGNING POLICY RESPONSES THAT ADDRESS THEM. THE PROFESSION MAY BE BETTER SERVED BY MEA CULPA THAN BY FURTHER INDIGNANT DEFENSES OF GLOBALIZATION.”

**PAUL COLLIER**
Head of Research Development
Department of the World Bank, 1998 to 2003

## The Erosion of Neoliberalism

Perhaps, along with structural adjustment programs, the greatest disservice that the World Bank has done to developing countries has been its promotion of neoliberal analysis in its research and publications. Over the years, the Bank's analytical position was summed up by the discredited proposition that "countries that used large tariff cuts to open their trade to the beneficial effects of globalization have seen more poverty reduction than those that have not."[42] This alleged solid finding was used as a battering ram against the trade policies of many developing countries, being wielded by powerful institutions like the World Trade Organization (WTO), for which the Bank served effectively as a research



Nobel laureate Angus Deaton headed a star-studded panel that came out with a famous study that was highly critical of World Bank research on the effects of trade liberalization and globalization.
*https://web.worldbank.org/archive/website01603/WEB/NOBEL_PR.HTM*

arm. Yet, there were serious problems with Bank research on trade liberalization and globalization being raised by respected analysts such as Robin Broad of American University.[43] This wave of criticism reached its peak with a review of Bank research on globalization, trade, and poverty by a star-studded panel of evaluators of Bank research headed by Nobel laureates Angus Deaton of Princeton University and Abhisit Banerjee of MIT. In an exhaustive report, the panel concluded:

> [W]e see a serious failure in the checks and balances within the system that has led the Bank to repeatedly trumpet these early empirical results without recognizing their fragile and tentative nature…[M]uch of this line of research appears to have such deep flaws that, at present, the results cannot be regarded as remotely reliable, much as one might want to believe the results. There is a deeper problem here than simply a wrong assessment of provocative new research results. The problem is that in major Bank policy speeches and publications, it proselytized the new work without appropriate caveats on its reliability. Unfortunately, as one reads the research more carefully, and as new results come in, it is becoming clear that the Bank seriously over-reached in prematurely putting its globalization, aid, and poverty publications on a pedestal. Nor has it corrected itself to this day.[44]

Among the criticisms of the panel were that alternative views on the impact of globalization with the ranks of Bank experts on the subject were not given a fair hearing and that "the official position of the Bank gave selective prominence to one set of views." But even more serious was the panel's charge that bad research was being used to buttress predetermined policy positions on globalization, trade, and aid. In diplomatic but firm terms, the panel asserted,

PERHAPS, ALONG WITH STRUCTURAL ADJUSTMENT PROGRAMS, THE GREATEST DISSERVICE THAT THE WORLD BANK HAS DONE TO DEVELOPING COUNTRIES HAS BEEN ITS PROMOTION OF NEOLIBERAL ANALYSIS IN ITS RESEARCH AND PUBLICATIONS. OVER THE YEARS, THE BANK'S ANALYTICAL POSITION WAS SUMMED UP BY THE DISCREDITED PROPOSITION THAT "COUNTRIES THAT USED LARGE TARIFF CUTS TO OPEN THEIR TRADE TO THE BENEFICIAL EFFECTS OF GLOBALIZATION HAVE SEEN MORE POVERTY REDUCTION THAN THOSE THAT HAVE NOT."

> [The] Bank reports…did not present a balanced picture of the research, with appropriate reservations and skepticism, but used it selectively to support an advocacy position. Once again, we emphasize that we do not think that the research was unusually weak relative to the literature. Nor do we challenge the appropriateness of the Bank's making the best possible case for its policies. But once the evidence is chosen selectively without supporting argument, and empirical skepticism selectively suspended, the credibility and utility of the Bank's research is threatened.[45]

The Bank's neoliberal biases were already being contradicted by reality before the 2008 global financial crisis,[46] but they have been eroded even more since then. Today, the following facts that were long denied or not acknowledged by the Bank because they did not fit its ideologically driven paradigm have gained widespread acceptance owing to their confirmation by numerous studies.[47]

First, greater global integration has greatly increased inequality within countries, though the data in inequality between countries is not clear.[48]

Second, globalization has created more disparities among different regions or income sets of countries, with "the poorest countries [falling] further behind everyone else. Not just the absolute increase, but the percentage increase in per capita wealth was much less in the low-income countries than in all other income groups, and in much of Africa wealth actually fell."[49]

Third, globalization has created in both the global North and the global South intra-country

World Bank headquarters in Washington, DC: Citadel of a failed neoliberalism.
*https://en.wikipedia.org/wiki/World_Bank*

polarization between domestic regions that prosper from trade and those that are driven to greater poverty by trade.[50]

Fourth, globalization has had differential impacts on the developing world, with East Asian countries benefiting from it because of their prior protectionist policies and managed trade during the period of globalization, and Latin America, Africa, and the Middle East drawing little benefit or indeed suffering from it—in the case of many countries in Latin America and Africa owing in part to trade liberalization.[51]

Fifth, free trade, by encouraging more unbridled consumption, is a key driver of increased carbon emissions and overwhelms whatever gains are made by greater energy efficiency. Here, we are not only talking about transportation but the creation of global value chains with big carbon footprints. As one of the most cautious studies concludes, "While trade by itself is not the main cause of anthropogenic climate change, there is evidence that trade liberalization has indirectly contributed to anthropogenic climate change through an increase in transportation activities as well as an increase in the use of fossil fuels energy (e.g., $CO_2$)."[52]

Sixth, neoliberal trade policies have triggered de-industrialization, and they have contributed to the rise of the far right among workers and residents of de-industrialized communities who have responded to the demagogic appeals of politicians like Donald Trump in the United States and Marine Le Pen in France.[53]

While Bank economists have been reluctant to acknowledge the flaws and consequences of their neoliberal research and policies, they have nevertheless become much more muted in defending them. Indeed, some have begun to see the light, one of them being Paul Collier, who was director of the Research Development Department of the Bank from 1998 to 2003 and who was identified by the World Bank evaluation panel as one of its key intellectual influences.[54] In a chapter in his latest book laced with "mea culpas," Collier admits that not only was he wrong in his defense of globalization and free trade, but the whole economics profession was guilty:

> The profession has been unprofessional, fearful that any criticism would strengthen populism, so that little work has been done on the downsides of these different processes [of globalization]. Yet the downsides were apparent to ordinary citizens, and the effect of economists appearing to dismiss them has resulted in widespread refusal of people to listen to "experts." For my profession to re-establish credibility we must provide a more balanced analysis, in which the downsides are acknowledged and properly evaluated with a view to designing policy responses that address them. The profession may be better served by mea culpa than by further indignant defenses of globalization.[55]

## Feudal Hegemony

As in the case of the Fund, the flaws of the Bank, both intellectual and in terms of policy, cannot be dissociated from the realities of power at the institution. The US is the primordial power at the Bank, where it exercises 15.7 percent of voting power. Though, formally speaking, this does not constitute veto power, as the US share does at the IMF, according to Catherine Gwin. "Decisions are, however, often worked out between the United States and Bank management before they ever get to the board, or among members of the board before they get to a vote. And most board decisions are taken by consensus. It is the weight of its voice, therefore, more than the exercise of its vote that gives the United States effective power on the board," she stated.[56]

As at the Fund, governance reform at the Bank has been marginal, indeed pitiful, given the institution's supposed commitment to be an advocate against poverty in the global South. In a recent "realignment" of the voting shares at the Bank, Africa's vote rose less than 0.2 percent, and domination by the rich North remains formidable, with high-income countries clinging onto almost 61 per cent of the vote, with middle-income countries getting under 35 percent, and low-income countries on just 4.46 percent.[57]

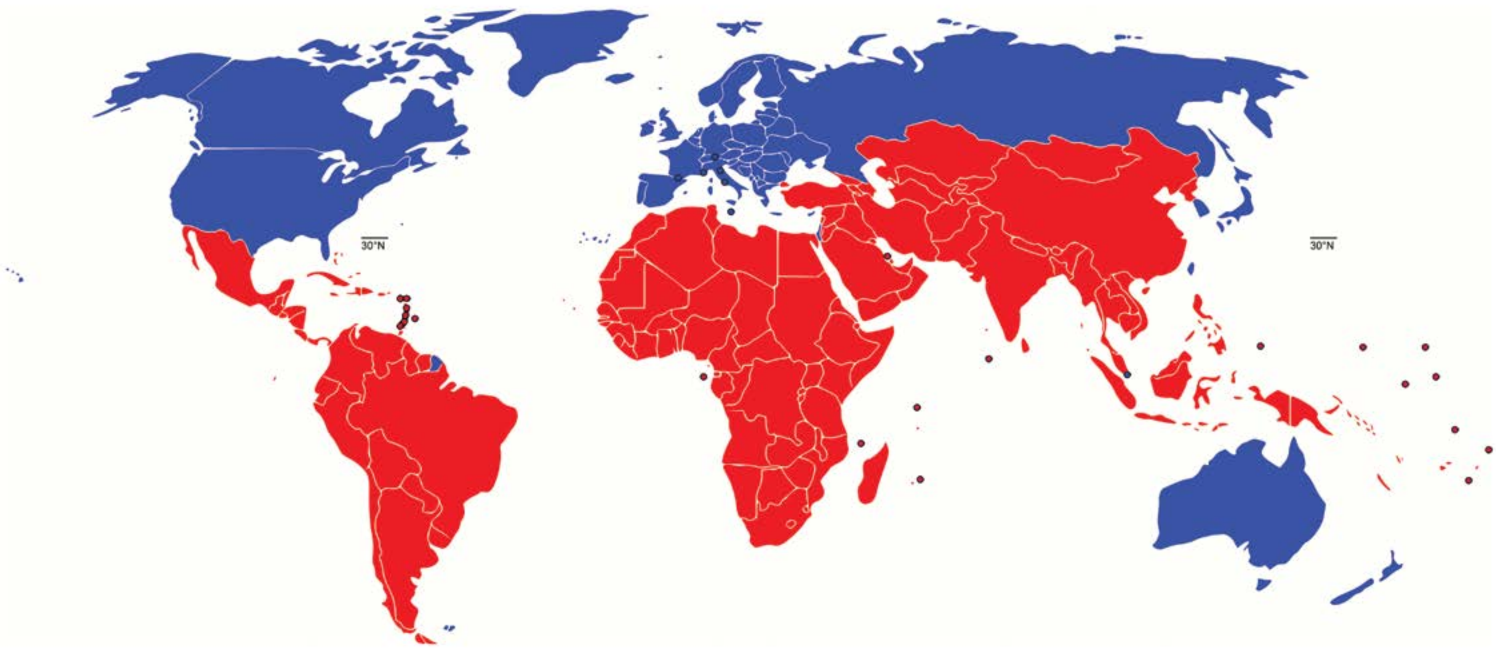
And just as Europeans assert the feudal privilege of always appointing the Managing Director of the IMF, the US does it when it comes to the World Bank. The latest president, David Malpass, is a solid Wall Street man, having served as chief economist of the investment bank Bear Stearns up to the time the latter went bankrupt during the 2008 financial crisis. Shortly before the crisis, he authored an op-ed in the *New York Times* in August 2007 that asserted that "Housing and debt markets are not that big a part of the U.S. economy, or of job creation...the housing- and debt-market corrections will probably add to the length of the U.S. economic expansion."[58] A member of the Trump economic team, Malpass was Undersecretary of the Treasury before becoming president of the World Bank.

# III

# Time for an Exit Strategy?

Serious calls for reform at the World Bank and the International Monetary Fund first emerged 50 years ago. Cheryl Payer's classic *The Debt Trap: The IMF and the Third World* served as the eye-opener for a generation that saw the promise of economic independence following decolonization begin to crumble as a new form of colonialism in which the Fund was a prominent agent emerged.[59] The World Bank also emerged as a global actor, but its potential for bringing about a better world was dissipated by its support of dictatorships under Robert McNamara and its deployment as a tool for neoliberal transformation, along with the IMF, during the Reagan administration.

After 50 years, neither in terms of policy nor in terms of changes in their power structure has significant reform been delivered by the Bretton Woods twins. The minuscule shift of voting power in the IMF—2.6 percent, from developed to developing countries—is emblematic of how much change has taken place in both institutions. Given this, is it rational for developing countries to expect change at the IMF and World Bank during the 76th anniversary of their founding? Indeed, is it rational for them to remain within the two institutions, imprisoned in ever increasing and permanent debt to both institutions?




Time for an exit strategy for the Global South?
*https://en.wikipedia.org/wiki/Global_South*

Plenary session of the historic 1955 Bandung Conference.  Is the time ripe for another non-aligned movement in the global South?
*https://commons.wikimedia.org/wiki/File:Plenary_session_during_the_Bandung_Conference.png*

Perhaps this is the time for developing country governments to begin exploring an exit strategy, to begin to seriously talk to one another about leaving and creating alternative institutions of global economic governance based on genuine mutual respect, equality, and cooperation.  "South-South Cooperation" is an ideal that has been floating around for decades.  It is perhaps time for the global South to make the resolution to push for the material realization of that ideal.  There are new geopolitical and geo-economic realities that make this enterprise no longer a pipe dream.  The weight of the West in the global economy has declined significantly.  The United States, the hegemonic power in the Bretton Woods institutions, is in its deepest political quandary in years.  The so-called Western Alliance is fraying owing to conflicts among its principals. Then there is China.

China is admittedly as much motivated by national interest as other global powers, and many in the global South are of the opinion there are disturbing signs that it is following in the path trodden by the West.  But its competition with the United States, is one the counties of the global South can use to their advantage. While presenting dangers, the US-China conflict also offers them opportunities to carve out significant political and economic space for the pursuit of progressive policies and the creation of progressive institutions,  a zone of increasing independence of both superpowers. The ability of the developing country bloc at the World Trade Organization to block significant new initiatives in trade liberalization and weaken the collective strength of the rich country bloc offers an example of what a relatively united global South amidst western disarray can achieve. The era unfolding has similarities to the 1960's and 1970's, when the Cold War between the Soviet Union and the US was a key factor in the emergence of the Non-Aligned Movement, the acceleration of decolonization, and the coming to power of national liberation movements throughout what was then called the Third World.

The IMF and the Bank would like the global South to believe that they are indispensable. They are not, and the first step towards liberation from their clutches is to embrace that truth.

# CONCLUSION

As the annual fall meeting of the International Monetary Fund and the World Bank takes place this October in Washington, both institutions are taking the opportunity to present themselves as important actors in the effort to meet the challenge posed by Covid-19 and other global problems.

But contrary to its rhetoric, the IMF is not seeking to save the world but to burnish its image after having administered, along with the two other members of the so-called Troika, savage stabilization programs in Ireland and Greece. Developing country members, however, have been circumspect in their response. This is understandable given the fact that they are being offered loans, not grants, and the debt relief that the Fund is offering is really debt structuring that has no debt reduction element at all. Moreover, whoever accepts new loans from the Fund or participates in its debt restructuring programs will have to agree to the same Fund conditionalities that have accompanied its regular loans and to be subject to IMF surveillance.

The World Bank likewise suffers from a reputational problem. Global poverty was on the increase, even before Covid-19, with it becoming especially acute in Africa, owing partly to the conditions created by its structural adjustment loans and those of the IMF. While a Bank-commissioned study has painted a world with an average temperature rise of four degrees centigrade by the turn of the century, it continues to promote investment in carbon emission-intensive coal-fired plants. It is deeply involved in the imbroglio around REDD+, with indigenous communities calling the program a recipe for the dispossession of forest-dependent communities. These reputational problems are compounded with a major credibility problem, which is the collapse of its advocacy of neoliberalism, trade liberalization, and globalization owing to these policies and trends having centrally contributed to greater poverty, greater inequality, climate change, and global economic stagnation.

Fifty years of demanding reform in the two institutions has resulted in hardly any change either in their policies or power structures. Perhaps, it is time to consider another strategy: an exit strategy that would lead to serious efforts to create a new system of international governance of finance, trade, and aid based on the principles of mutual respect, equality, and cooperation. With the decreasing relative weight of the West in the global economy, the fraying of the western political alliance, and the rise of countervailing powers like China, the global conditions might be ripe for the successful pursuit of such a strategy.

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