

# Global Governance and Threats to a Sustainable Future

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Welcome to all of you who have come – some from great distances – to contribute to this debate on the occasion of the Annual Meetings of the IMF and World Bank. Thank you for this opportunity to share my views on the role of these institutions in facing grave crises in the world.

My remarks are in three parts. First, I will reflect on this historical moment in which economic, climate and social justice crises have reached epic proportions. Second, I will address the role of the IFIs in these crises. Finally, I will provide some suggestions for actions that we as students, educators, and advocates can take to transcend these crises and work for a better world.

I begin with a story that is told in many cultures. In Turkish, I believe it is called “Ciplak Kral” – the “naked king” and in English, it is called “The Emperor Wears No Clothes.” In the story, the king walks through his kingdom completely naked and all of the men and women are very deferential. They do not dare to say anything. Only the children yell, “The King is naked.” Now, in some ways, the U.S. government is naked...exposed for being a hypocrite because it has lectured the World on the doctrine of economic discipline, but it does not practice what it preaches. The U.S. is not the only irresponsible country, but it is the ringleader.

Some of you are too young to remember, but twenty years ago, the Berlin Wall between East and West Germany fell. This was an historic moment because capitalism had triumphed over communism. In 2008 and 2009, capitalism – at least the Anglo-American form of it -- has collapsed.

In the years before it collapsed, markets became so unregulated that corporations and financial institutions took wild gambles with other peoples’ hard-earned money. Even worse, the financial titans privatized their gains and socialized their losses.

Globalization can be a force for good. But corporate-led globalization has damaged our environment and created great inequalities within and between countries. How has this happened? Well, there are three economies in the world, first, the financial economy (where speculation occurs); second, the real economy (where goods and services are traded) and third, the shadow economy (where vendors, family businesses and others – mostly women – eke out a living). During globalization, the reckless financial economy got very big; people got very rich while people working in the real economy and shadow economy got very poor. Ultimately, the financial economy destroyed real economies and threw tens of millions of people out of work and into the shadow economy.

The very rich U.S. consumers went on buying sprees to buy products made in Turkey, Germany, China and elsewhere. But now, U.S. consumers have empty wallets; they are deeply in debt. Moreover, they have done more than their fair share of bring the climate to the brink of ruin.

The West is home to only 20% of the world’s population, but due to its long-term dependence on fossil fuel, it has emitted 85% of CO2 emissions since the industrial revolution. It is terribly

unfair, but true, that the most severe impacts of global warming are not felt by the West, but by the innocent developing countries, which have emitted relatively small amounts of greenhouse gases.

Please pick up information on the display tables about the Greenhouse Development Rights Framework, which has been shaped by EcoEquity with the support of the Heinrich-Böll-Foundation and Christian Aid. This framework lays out strategies for justly reducing emissions with countries in the Global North and Global South contributing to emission reduction according to their respective capabilities.

Like most countries, Turkey has a lot at stake in curbing climate change. Turkey's 2007 report to the UN Framework Convention on Climate Change (or UNFCCC) notes that the country is expected to suffer from significant reductions in precipitation in southwestern Turkey -- which will challenge water supply and irrigation -- and increases in precipitation in southeastern Turkey, which could exacerbate flooding.

To dramatize the injustice of this situation, imagine a Mercedes-Benz speeding down a highway and smashing into a bicycle. Imagine the driver of the Mercedes rushing over to the bicycle, accusing the rider of obstructing his way and damaging the hood of his car and demanding that the bicyclist pay not only for a new bike, but also for the damages to his Mercedes. We can agree that such a demand would be outrageous! Even criminal and certainly immoral and unfair! Hence, the "Global North" -- after damaging the financial prospects of the "Global South," cannot demand that the South pay disproportionate costs for reducing atmospheric CO<sub>2</sub> by 50% to 80% by the year 2050 (as compared to 1990 levels). This is the size of the reduction in CO<sub>2</sub> needed to preserve the earth's ecosystem and life as we know it

Now, I will address the past and current roles of the IFIs, including their role in addressing climate change. Then, I will point toward some promising and hopeful strategies for addressing the convergence of crises in the world today.

### **About the IFIs**

As the annual meeting of the IMF and World Bank begins in a few days, government officials, bankers and corporate leaders will gather and applaud the institutions as "firefighters" rushing to extinguish the multiple crises. Since the markets have surged for the past few months, World Bank President Zoellick recently said, "While some [countries] are moving toward the exits, many are still being left behind in the burning house." Yet, the World Bank and the IMF are not innocent! Some claim that the institutions have been more like arsonists than firefighters. Today, we will debate that point.

The institutions are controversial for many reasons. First, the decision-making processes of their Boards of Executive Directors are Western-dominated. The IFIs have 186 of the 196 governments in the world as members, but there are only 24 seats on their Boards. So, large clusters of countries are represented by one government. For instance, all of Sub-Saharan Africa has only two Executive Directors on the Boards of the IMF and World Bank.

At present, Turkey is in a group of 8 or 9 other countries -- a so-called "constituency" -- that is represented by Austria on the World Bank's Board and by Belgium on the IMF's Board. Turkey has ½ of 1% of the votes in the Bank and somewhat less in the IMF. This is clearly unfair, particularly since each Western Government has its own seat.

Second, since 1980, many people view the content of IFI policies as highly-ideological. In exchange for financing, the IFIs required governments to privatize and liberalize their economies in the context of strict budget and monetary policies. For instance, the IFIs urged Turkey to open its borders to blasts of competition from foreign multinational companies and Turkey lost domestic industries, such as the textile industry. Such premature trade liberalization processes have been a factor in de-industrializing most of the Global South. This process has consigned many countries to exporting their natural resources and agricultural commodities in order to earn foreign exchange to buy imports and pay their debts.

Often, the IFIs require that countries implement policies that contract (rather than stimulate and expand) their economies. This is happening now. The IMF says, "no," they are allowing

governments to stimulate their economies in order to grow out of recession and depression and, in some cases, this is true. But in the overwhelming majority of cases, if the IMF allows governments to either expand their fiscal deficit or exercise strict monetary policy, for instance, by raising interest rates. The effects of expansionary fiscal and contractionary monetary policy cancel one another out with the result that many countries are now sinking deeper into recession.

The U.S. and some other countries are doing just the opposite of what the IMF advises: lowering interest rates, increasing the money supply, expanding budget deficits, and bailing out the banks!! As Larry Summers, the White House Economic Advisor and former Chief Economist of the World Bank said, “fire-fighting feels different when it is your own home that is afloat... It is easier to be for more radical solutions when one lives thousands of miles away than when it is one’s own country.”

It is hypocritical when the Western countries call upon the IMF and World Bank to require countries in the Global South to implement policies that they, themselves, would never implement. Moreover, when imposing policies on countries in the Global South, the IFIs undercut the ability of governments to respond to the needs and aspirations of their citizens. That is what democracy is all about.

Now, I will turn briefly to the IMF’s sister organization, the World Bank. In 2009, the World Bank injected \$12.5 billion into the Europe and Central Asia Region, including \$2 billion to Turkey -- \$2 billion over and above the approximately \$2 billion that Turkey is receiving annually from the Bank. At that level, Turkey is one of the three or four biggest borrowers from the Bank.

The Bank has financed programs of the Government of Turkey to promote labor flexibility, reduce the social security contributions of employers, privatize the Turkish Natural Gas Company, build gas pipelines, revamp capital markets, raising electricity tariffs, and reform health and education systems, among other things.

In addition, The World Bank is financing a \$600 million project in Turkey to increase privately-owned and operated energy production from renewable resources with the intent of enhancing energy efficiency and curbing greenhouse gas emissions.

This project has received the very first low-interest loan from the World Bank’s new Clean Technology Fund, a large, new multilateral climate fund managed by the World Bank. The G-7 has established many climate funds at the World Bank and made multi-billion dollar pledges to them. Developing country governments and their allies want the funds administered by the UNFCCC which gives developing countries a greater voice and provides grants, not loans. They are unhappy with the World Bank’s poor record in the areas of energy, climate, and the environment. For example, World Bank’s investments of \$2 to \$3 billion per year in fossil fuel projects which warm the atmosphere. And, according to the World Resources Institute, nearly 50 percent of all 2007 World Bank energy projects devoted absolutely no attention to climate issues.

### **Strategies going forward**

The convergence of these financial, ecological, and social crises can represent a turning point: the beginning of a transformation of our economies and our ways of living.

We can promote what many countries are calling a “Green New Deal” – which lifts people up by providing livelihoods and jobs on local farms, in service sectors, in manufacturing green products, and in building the capacity for renewable energy production. This will not happen magically; we all need to work to create it.

We are hoping for some progressive leadership by the Group of 20 countries. You have probably heard about the Group of 7 industrialized countries. Ten years ago, the G-7 added 13 countries, including Turkey to the group for a total of 20. Even though many G-20 countries have had major conflicts with the IMF, they have now become the IMF’s biggest benefactors and fan club! They are not showing much progressive leadership.

In April 2009 at their London Summit, the G-20 called for tripling the IMF's resources as well as boosting the capital of the World Bank and the smaller regional development banks. Essentially, the shareholders of the IFIs, led by the G-20, are writing these institutions a blank check before requiring meaningful governance and policy reforms.

In closing, there are many action points I could suggest, but I limit myself to a few. First, learn all you can about the IFI's policies and programs in Turkey and engage constructively in a debate about whether or how they can shape a Green New Deal for Turkey, which will ensure the country has a low-carbon development path.

The Green New Deal acknowledges that there are gender-differentiated impacts of finance, including climate finance. Women, are most affected when, for instance, privatization of health care, education, water and agricultural extension makes such services unaffordable. Or, when climate change causes permanent changes in weather patterns (as is happening in Turkey), which severely affects the harvest of most subsistence rain-fed farms. Such impacts are exacerbated by problems, such as women's lack of legal protection or access to capital and markets.

On the global stage, consider encouraging your government to take action in the G-20 to:

- End Western hegemony in the institutions by expanding the voting share of developing countries by 6% to 7% in the IMF and World Bank. Also, call for the U.S. to relinquish its veto power over decisions made by the IFIs and for Europe to consolidate its several seats on the Boards of the IFIs. This is necessary in order to open up seats for developing countries and give them greater voting power.
- Call for the establishment of a United Nations body to oversee the global financial system. After all, the IFIs are agencies of the UN (the so-called G-192), but these "twins" are not accountable to their parent body. To date, the G-20 is not coming forward with bold ideas for reforming the financial system, but by involving the 192 member countries of the U.N. (the so-called G-192), perhaps we can build critical consensus for a Green New Deal.

Given the fact that the U.S. is not following Europe's lead in regulating finance, we can only hope that the U.S. does not enter into a deeper recession or depression, as many predict it will. This would make the global situation even more dire because, as the saying goes, when the U.S. sneezes, the rest of the world gets pneumonia.

Many will say that, given the financial crisis, we lack the money to invest in a Green New Deal. So, we need to tell the financial titans to get honest and reclaim trillions in illegal tax havens, trillions in off-shore financial institutions, and trillions in capital flight. Together with policies, such as an international transactions tax, we have the money needed to save ourselves and the world as we know it.

All we need is political will to reclaim our financial systems and ensure that they serve real, green economies and raise people, especially women, out of the vast shadow economies where they too often go hungry and lack any social protection. We will not allow the monstrous global financial system to be our master; instead, it must be our servant in preserving all we hold dear.