WORLD SOCIAL FORUM
BELÉM, Jan. 29, 2009

NEW INTERNATIONAL FINANCIAL INSTITUTIONS FOR A NEW GLOBAL FINANCIAL ARCHITECTURE

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> "The world needs alternatives, and not merely regulation. It is not enough to rearrange the system; we need to transform it. This is a moral duty. In order to understand why, we must adopt the point of view of the victims of this system. Adopting this point of view will allow us to confront reality and to express a conviction, the reality that the whole ensemble of crises which currently afflict us – finance, food supply, water, energy, climate, social – are the result of a common cause, and the conviction that we can change the course of history."
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> Houtart, 2008)

I. Key factors of the crisis are twofold

- Objective: divorce between real and virtual money; increasing prevalence of virtual money; commoditization of money and currencies, houses, land, food, natural resources and everything that can become the object of speculation, or the creation of fictional wealth. Concentration of real money – no circulation.
- Subjective: greed, voracity to accumulate material wealth beyond its use value. The EGO of ACCUMULATION.

Key outcome: over indebtedness of individuals, families, enterprises, States. Over concentration of financial gains. Stagnation of purchasing power (real money) in a few hands.

II. Why the need of a new international financial architecture?

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Financial institutions serve a certain mode of development. The existing ones are faithful to the ideology of neoliberal capitalism that reduces development to endless growth and unlimited search for profits and capital accumulation by private actors regardless the costs for society and for the natural environment. An international financial architecture will be new if it is aimed at strengthening their members' *capacity to plan and manage sustainably their own endogenous, democratic and sustainable socioeconomic and human development*.

We need a new IFA:

- Because the existing one is collapsing, is irrational and is unsustainable.
- Because it serves the equivocal role of providing immediate profit to capital owners at any cost, while consensual confidence prevails. When the Fed/USA raised the prime rate nearly 5 percentage points, massive numbers of real estate owners could no longer pay their debt: the confidence in the whole financial system began to collapse.
- Because it provides the means for poor countries to finance rich countries (Ortiz, 2007).

III. Are the Bretton Woods Institutions[2] necessary?

- Yes. A globalized economy demands global governance. Public/democratic governance demands international institutions.
- However, the existing IFIs are neither public nor democratic. They serve mainly the interests of transnational corporations and the richest countries. They are corporatocratic, not democratic.
- The IMF, WB and WTO have served faithfully the goals of the Washington Consensus. The global financial crisis is proving the bankruptcy of the neoliberal doctrine sponsored by the IFIs!

Alternatives: either RADICAL REFORMS or totally NEW INSTITUTIONS.
The IMF, the WB and the WTO are useless for the goal of a new global financial architecture, unless:

- they are fully reshaped to serve a different mode of development, and
- they are no longer allowed to violate their Statutes.

IV. Corporatocracy and the current crisis

"We are too complex to be regulated. Give us the freedom to regulate ourselves."
* Scandals like Enron and WorldCom, the recurrent financial crises, the collapse of the real estate sector in the US, UK, Spain, etc., and the profound socioeconomic crisis of 2008 onwards prove that corporations only know deregulation! And by promoting the logic of deregulation, IFIs have constantly violated their Statutes and frustrated their mandates…
Ex.: the Isle of Jersey, one the current European fiscal havens, has a law of reverse taxation: the wealthier you are, the less you are taxed:
* Fiscal havens provide legal tools that facilitate fiscal evasion and capital flight.

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[2] BWI, or IFIs are the IMF, the World Bank and the WTO. The latter was conceived in Bretton Woods but only came into existence four decades later. Currently, the term IFIs includes the regional development banks.

* Derivatives and complex financial products: they are ‘weapons of self-destruction’ (W. Buffett) and express the endless thirst for the highest profits at whatever cost.
* Neoliberal capitalism has promoted a recent systemic shift from entrepreneurial investment risk to risk taken by parasites who speculate in order to achieve immediate gains at any cost.
* Transnational corporations (TNCs) not only prevail over the economies of nations and the world, but also influence government policy using legal and illegal means. They are key actors in the perverse transfer of capital and natural resources from the South to the North. Extreme inequalities of income and wealth are the result.

V - IFIs

Three key words help understand their role: OVERINDEBTEDNESS, DEREGULATION, BIG PRIVATE CAPITAL controlling the State and the IFIs.
False premises: “The international community is seeking to increase the transfer of funds for development assistance to the poorest countries” (World Bank). “Entrepreneurs spent better than governments” (World Economic Forum, Davos, until 2008!)

> “Rich countries are becoming richer -- and meaner. In real terms, their contributions have decreased (relative to their income) over the past decade; in the early 1990s, contributions were 0.32 percent of OECD's GNP on average. Several governments have claimed that the 0.7 per cent commitment is outside their budget envelope; however, comparing expenditures on military defense and aid, for instance, shows that it is really a question of priorities”.
> “Global savings are flowing in the wrong direction, overwhelmingly to the richest country in the world, while poor countries are crowded out of global resource transfers. The US borrows $2 billion a day from poorer countries. Thus the global distribution of net savings is very inequitable. Beyond this, this situation questions the whole logic of the current international financial system: poor countries should not be financing rich countries.” (Ortiz, 2007)

1. IMF – acts as the global policeman for creditors of the financial debt, pressuring their States for financial austerity and liberal reforms, with the exception of the largest debtor, the USA, who has not been forced to adjust…
2. WB – target loans for ‘development’ projects, often imposed on local populations or deft to their protests and demands, and ‘State reform’ under conditionalities that proved extremely harmful to host countries.
3. WTO – aims to liberalize and deregulate global trade, finance, services, technology, and everything that can be converted into a commodity. Sponsors and condones unfair trade.

IFI policies and practices have proved to deepen inequalities. In their view failed projects are always the fault of the borrowing countries. They are never ready to recognize publicly that their projects, programs and policies have failed and, worse, that their premises are flawed.

VI - GENERAL PROPOSALS that demand strategic planning to be implemented

1. Create a web of democratic international financial institutions that serve public/social purposes, and that are transparent and fully accountable to governments and to civil society. Their goal should be to strengthen their members' capacity to plan and manage sustainably their own endogenous, democratic and sustainable socioeconomic and human development plan; and to make multilateral financial resources available when necessary, with fair and equitable conditions.
2. The "overarching goal" of world and regional development banks should be *to eradicate, not just to alleviate, hunger and poverty*. This demands to tackle and overcome the factors of impoverishment (unfair and unequal trade, negative capital transfers due to interest's payments on the financial debt, other forms of capital transfers from South to North, income and wealth inequality within countries, no recognition of the right of working people and communities to own productive property and resources, etc.)
3. The Millennium Goals are important but not enough. All countries should have the obligation of deploying the means for the fulfillment of the goals. This includes making the goals a priority in the management of the public national and local budgets. IFIs should be obliged to use their funds to improve the conditions for less capitalized countries to fulfill the Millennium Goals and to aim their policies at hunger and poverty eradication.
4. Adopt democratic principles for the new financial architecture:
   (1) Money *must circulate* and must *serve public/social purposes*. It should not remain under control of a few capitalists.
   (2) The State should play *a subsidiary role with respect to the social collectives and the citizens*, supporting them in their endeavor *towards increasing autonomy and self-management, in cooperation and solidarity with one another*. We call this the Subsidiarity Principle.
   (3) Key concept: finance and banking as public services – *replace the profit motive with the human rights motive*. This implies *a shift from the exclusive property system*. Three dimensions:
      1. Finance should be *a means for the State to orchestrate endogenous development*, which provides a dignified and sustainable livelihood for the current and future generations.
      2. The State and IFIs should recognize *the right of regions, sub-regions and communities to empower themselves* so as to control and manage their own finance and their own material and immaterial wealth creation. In this context, the initiative of the South Bank (in South America) should be supported and strengthened. We call this decentralized, solidarity finance.
      3. *Complementary currencies* should be acknowledged as a social means of exchange that *empowers communities to produce and exchange their goods and services locally*, saving energy and resources, and keeping the surpluses within the community.

(4) Adopt *eco-social and human development indicators* as the main reference to plan and to evaluate economic development and the role of the IFIs; e.g., the GNH – Gross National Happiness Index.
(5) Central Banks and financial institutions should not be independent from the development planning bodies of the State, but rather be *subject to the rule of the democratic State and the priorities of the endogenous development plan*.
(6) Respect the sovereignty of nations and peoples over their natural resources, over their respective territories, their ecosystems and biomes, and their own development process.

3. Create a legal framework and ethical principles for international financial relations:
    - Eurodad - Charter on Responsible Financing/Lending
    - Alliance 21 - Charter on Human Responsibilities
    - Alliance for a Responsible, Plural and Solidarity-based Economy (ALOE) - Charter on a Responsible, Plural, Solidarity Economy
4. Empower the UN system
    - A World Solidarity Bank
    - Regional Socioeconomic Development Banks
    - A World Fair Trade Organization
    - An International Solidarity Finance Fund
    - A Global Solidarity Currency, that does not preclude the use of State and social currencies
    - A UN Sustainable Human Development Council
    - An International Tax Organization or a similar arrangement
    - Include Civil Society Organizations as active members
    - Use fiscal/tax policy as a tool for equitable management of global human development, through which a universal basic income is made possible.
    - Adopt mandatory ethical charters for every IFI and for TNCs.

VII - SPECIFIC PROPOSALS:

* Decommoditization of seeds, water, health, education and public services, the abolition of tax havens and of bank secrecy, the cancelation of odious public debts of the global South, the establishment of regional alliances based not on competition but on complementarity and solidarity, the creation of regional currencies, geoeconomic multiculturalism and geopolitical multipolarity.
* Proportional costs among agents: those who have more and benefit more should pay more for the investments. We call this the Proportionality Principle.
* Fiscal funds: tax the use of resources by large corporations to finance endogenous development.
* Loans – a new policy should include:
  - Compulsory annual public debt audit for all countries, and the creation of an independent, democratically accountable debt arbitration tribunal.
  - Shared responsibility of lender and borrower.
  - What loans can best serve endogenous, democratic development?
  - What technologies have a strongest distributive impact?

- Local development and empowerment of communities as the main criteria.

* Adopt the Subsidiarity Principle for the planning and management of infrastructure projects.
* Safeguards are indispensable. Social and ecological criteria for investment are not enough. They should follow the Proportionality Principle.
* Social and ecological concerns should be mandatory components of the strategy, the plan, and the estimation of the investment cost. “Externalities” should give place the inclusion of social and environmental costs as part of the full cost of the investment. Comprehensive targets and development indicators should serve as guidelines for investment planning and project lending.
* Government procurement:
  - Overcome the neoliberal approach: use governmental purchases as a tool to stimulate endogenous development
  - Practice the Subsidiarity Principle: first choice should be local/regional goods, services, inputs and knowledge.
  - Make rules that include and promote the purchase of ethically produced and traded products. Give preference to cooperatives and other socially-oriented enterprises.

> Charter of ALOE # 9:
> “ALOE understands human persons, communities and society as the leading agent of the development of their own potentials, and of their material and immaterial resources. The democratic State and democratized multilateral governance organizations should be development agents subsidiary to Civil Society. It is the mandate of the democratic State to serve the People, to assure that the democratically formulated national and regional development projects are carried out harmoniously, and to engender and implement public policies that guarantee access for all to productive and reproductive goods and resources and a just distribution of income, wealth and opportunities.”

References

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