The Threat From International Organizations To Economic Liberty

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It is one of the abiding ironies at the beginning of the new millennium that various international organizations set up after the Second World War to created a new Liberal International Economic Order (LIEO) are now the major purveyors of global illiberalism. How has this come to pass? Is there any need for these international organizations? As like old soldiers international organizations never die, what should be done with them? These are the three questions I will answer in this paper.

I

Liberal International Economic Order

After the Second World War partly in response to its own isolationist behavior in the inter war years which had contributed to global economic disorder and the destruction of the first LIEO built by the British in the 19th century, the US sought to put together another LIEO. But there were important differences in the instruments used by these two imperial powers in creating their LIEO's.

The 19th century LIEO was built on five pillars: free trade, laissez faire, the gold standard and free mobility of capital, free labor mobility and international property rights. In the inter war years this LIEO unraveled. The imposition of the Smoot-Hawley tariff by the US marked the end of free trade. The 'Blue Sky' laws which banned US banks from lending to foreign governments , and the collapse of the Gold standard into a whole host of dirigiste interventions in the payments regime (like exchange controls) ended the free mobility of capital. The rise of welfare states ended free labor mobility with immigration controls became ubiquitous, as welfare states create property rights in 'citizenship' with a 'citizen' having the right to pick the pockets of his fellow citizens. The international legal order painstakingly put together by a series of treaties in the 19th century disintegrated with the rise of the Bolsheviks in Russia, and Kemal Attaturk in Turkey, who repudiated any international property rights in the name of national sovereignty . Laissez- Faire became a victim to the growing dirigisme in Europe at the turn of the 19th century and in the US with Roosevelt's New Deal.

After the Second World War, at Bretton Woods, the US tried to resurrect three of the pillars on which the 19th century LIEO had been built- free trade, the gold standard, and free capital mobility. But, whereas the British Empire had fostered these by example, treaties and direct and indirect imperialism, the US instead created transnational institutions- the GATT followed by the WTO, the IMF and the World Bank. But, there was no hope of resurrecting free mobility of labor with the spread of welfare states in all the industrialized countries. Nor with the ensuing expansion of the State was there any chance of restoring laissez faire. Nor with the explosion of economic nationalism in the Third World aided and abetted by the US ' Wilsonian anti-imperialist moralism which scuttled the ill fated Suez adventure of the British and the French in 1956 to prevent Nasser's nationalization of the Suez canal was there any way in which the new nation states could be thwarted in the assertion of their national sovereignty against any purported international property rights. There was no bulwark against this disintegration of the international legal order

II

GATT, the WTO and Free Trade

Rather than follow the correct British policy of adopting unilateral free trade and then allowing its hegemony to spread the norm, the US has chosen the extremely acrimonious route of multilateral and more recently bilateral negotiations to reduce trade barriers. This is due to the fact that, unlike the British, who had correctly seen free trade as a non-zero sum game and since the repeal of the Corn Laws adhered to it and its close cousin laissez faire[1] throughout the 19th century- despite various attempts by politicians like Joseph Chamberlain to stir the pot by demanding protection in the name of ‘fair trade’- the Americans have never accepted the classical liberal case for free trade. They have always looked upon trade as a zero sum game. They have been protectionist. Only for a brief period between 1846-61 was there a relatively liberal trade policy and even then the average ad valorem tariff on the 51 most imported categories of goods was 27%.

The principle of reciprocity has been the central tenet of US trade policy ever since, and the 20th century hegemon has sought to achieve free trade through reciprocal concessions in GATT and the WTO. But, as the anti- globalization riots from Seattle onwards demonstrate, by perpetuating the myth that trade is a zero sum game, and that removing tariffs can only be done on the basis of reciprocity, the US has ensured that issues of domestic policy will inevitably spill over into trade policy.

Whilst the ostensible champion of free markets balks at accepting the principle of a unilateral adoption of free trade, an erstwhile Communist country- China- has embraced this economically impeccable principle. It is instructive to note that one of the largest unilateral movements to free trade has occurred in China since Deng Tsao Ping adopted the ‘Open Door” policy .[2]

From its inception till the early 1980's, GATT did achieve considerable liberalization of foreign trade. During this period it was the developing countries which balked at opening up their economies and were granted various special privileges and exemptions from the emerging LIEO. After the OPEC coup in the early 1970's they instead tried to use their perceived commodity power to create a dirigiste new international economic order (NIEO). With the failure to assert their fabled commodity power and as a result of the 1980's debt crisis the NIEO died. Thereafter, much of the Third World aided and abetted by the World Bank and the IMF moved towards economic liberalization. Most developing countries realized that, their best hope for prosperity was to join the Far Eastern Tigers who had shown that integration with the world economy could lead to the rapid growth which would banish poverty within the lifetime of a generation. In this new Age of Reform , many countries, notably Chile and China undertook massive unilateral liberalizations of their foreign trade regimes.

But in the early 1980's, the US, which had hitherto pursued the objective of promoting free trade through the multilateral route, chose to adopt a ‘two track’ approach , combining multilateralism to be pursued through GATT ,with the pursuit of preferential trading arrangements (PTAs) to liberalize trade with like minded countries wherever multilateral progress was blocked by other countries. The unintended consequence of this has been the explosion of PTA’s in the 1990's and the growing fragmentation of the multilateral trading system. The preferential route to liberalizing trade was prompted by the resistance of the European Union to accept free trade, partricularly in agriculture.

This is hardly surprising. For despite the classical liberal hope that by creating a larger internal European market, and successively lowering external tariffs and quotas, the EU would be a building bloc to global free trade, it has turned out to be an inward looking protectionist bloc- particularly for agricultural trade. This is largely because despite appearances and its stated aim of being an economic project it is and always has been a political one - to create a United States of Europe. The main movers in this project have been the French and the Germans- the former claiming with some justification to be riding the German horse. The aim is to recreate a new Holy Roman Empire. The French and the Germans have tried to do this in the past through force of arms, but with Napoleon's defeat at Waterloo in 1815, and the German defeats in the two 20th century World Wars, war is not seen as a feasible route to create this territorial empire. Rather, it is a neo-mercantilist project which is reminiscent of the post Renaissance European princes who, as Eli Hecksher argued, were motivated by the desire to create nation states out of the varied feuding groups which comprised their patrimony.

The turning point in the battle between two ideas, which had jousted in the early years of the EU, came with the Maastricht treaty.[3] The two ideas were the liberal one that the economic power of the state must be kept in check and the other that if nation states cannot protect their sovereignty individually, they need to create a supranational authority within which the economic power of the State can be re-established. The Masstricht treaty and now the proposed European constitution are dirigiste charters. Instead of increasing individual economic freedom they seek to centralise the exercise of political power and to harmonize taxes, labour laws, welfare provision etc. Moreover, as the antics of the French and Germans in the run up to the Iraq war showed, for these prime movers anti-Americanism is a central feature of their desired "Europe". Classical liberals must hope that this centralizing dirigiste project does not come to fruition. The best hope lies in a blocking coalition of the countries of 'new' Europe to prevent the proposed European constitution from being ratified.

But, equally important for the worldwide promotion of economic liberty is the need for the US to recognize that instead of promoting free trade the PTA's it is creating are fragmenting world trade. Being most often trade diverting than trade creating, they are major departure from classical liberal principles. The fly in the ointment has been the US' continuing adherence to reciprocity and the its demands for 'fair trade'. Its attempts and those by the EU to impose labour and environmental standards in the name of 'fair trade' are also departures from the classical liberal principle that not only the country of origin of the goods traded but also how athey are made is irrlevant for a country's own welfare. To argue otherwise in the name of a meaningless slogan like 'fair trade' is nothing else but covert protectionism. It is time for the US like the British in the 19th century to embrace the correct economic principle that unilateral free trade is to its own benefit. There would then be no need for the WTO's multilateral framework for doing deals on the erroneous principle of reciprocity and it could be shut down. Similarly the network of trade distorting bilateral and regional free trade agreements the US is promoting should be rescinded, and instead it should open its borders to free movement of goods and services and capital, as the British did in mid century, and the Chinese are doing today. The only barriers that could remain are against the dirigiste and protectionist EU, as a weapon to make it change its dirigiste ways.

III

The IMF, Exchange Rates and Financial Crises

The IMF was created to resurrect a variant of the Gold Standard- the gold exchange standard. This quasi-fixed exchange rate system policed by the IMF foundered as it was premised on controls on short term capital flows. Such flows allow a speculative attack, which can destroy a quasi-fixed exchange rate regime-- as witness George Soros' successful attack on the pound during its ill fated sojourn in the European Exchange Rate mechanism. But, with the freeing of capital markets it is not possible to distinguish between short term 'speculative' and long term 'developmental' capital flows.

With President Nixon's closing of the gold window, and the generalized move to floating exchange rates, the need for the policeman of the Bretton Woods system -the IMF - also disappeared. This is not the place to go through the various and continuing changes in its role that the IMF has subsequently sought, but it clearly has outlived its initial rationale. The current international monetary system which has been dubbed a "non-system"[4], also has the advantage for international relations that, unlike a fixed exchange rate system it is decentralized, and does not require any international cooperation[5]- with its potential for international discord.

Furthermore, ever since the 1980's debt crisis, the foreign banks faced by a default on their Third World debt have argued that this poses a systemic risk to the world's financial system, and asked in effect for an international bailout to prevent this catastrophe. The IMF has been more than willing to oblige. For since the demise of the Bretton Woods adjustable peg exchange rate regime in the early 1970's, the IMF has been like a character in Pirandello's play "Six Characters in search of an author". The debt crisis of the 1980's provided it one such play, the rocky transition of the Second world from plan to market another, and the Mexican and Asian crises a third. The IMF has increasingly become the international debt collector for foreign money center banks. It should be shut down.

Instead, there has been much talk about restructuring the global financial infrastructure with the IMF at its centre to manage financial crises.. Most of these schemes are implicitly based on an atavistic suspicion of speculation in capital markets. . Most of the current proposals to improve the so-called international financial architecture are misconceived. Clearly, with the IMF exacerbating rather than preventing debt crises it can have no role in a liberal financial economic order, except perhaps as an international country risk-rating agency such as Moodies that can make use of its existing intellectual capital and access to national statistical data. The World Bank's intermediation role is also no longer required. Its only role left, if one believes this is needed, is as an 'aid agency'.But foreign aid has been a failure.[6] It too should be shut down. This would demolish the now archaic structure put in place at Bretton Woods to meet the very different requirements of a moribund international financial system inherited from the aftermath of the Great Depression.

Would any replacement be needed? No is the short answer. Without the IMF, there would be no international moral hazard exacerbating the domestic moral hazard, already facing domestic banking systems worldwide because of deposit insurance. Although, it would be logical to end deposit insurance to prevent the domestic moral hazard endemic in any banking system with mismatched maturities, it is politically infeasible in this democratic age. Hence, the calls for greater surveillance of bank portfolios by national or international authorities. But as the governor of the Bank of England Mervyn King[7] has rightly noted, in the limit this amounts to a call for the nationalization of banks.

Nor is it credible for the IMF to be converted into an international lender of last resort. There are two functions that a lender of last resort has to perform, as set out in Bagehot's famous rules.[8] First, it should be able to create high-powered money quickly to lend to solvent banks in order to prevent a liquidity crisis. Second, it must be able to distinguish between good and bad 'paper' and thus to judge the soundness of the banks to which it is extending liquidity, with insolvent banks being shut down. The IMF can do neither. It can lend only after lengthy negotiations with a country's government and the approval of its board. Also, it has no way of sorting out the 'good' from the 'bad' loans made (for instance by foreign banks to residents in a country), and liquidating those that are 'bad'. The lender-of-last-resort function for the money center banks involved in foreign lending must therefore continue to be provided by their parent central banks.

The proposal for the IMF to be converted into an international bankruptcy agency to prevent a minority of bondholders from preventing an orderly restructuring of sovereign debt is its latest attempt to find a role. It has been prompted by the recent success of the ‘vulture fund’- Elliot Associates- in suing Peru for full repayment and interest on the $20 million of government-guaranteed commercial loans it had bought . Elliot Associates refused to accept the Brady bonds, which other creditors were willing to accept in the restructuring. Instead, it obtained a judgment for $56 million and an attachment order against Peruvian assets used for commercial activity in the United States. It targeted the interest payments that Peru was due to pay to its Brady bondholders, who had agreed to the restructuring. Rather than be pushed into default on its Brady bonds, Peru settled.

But the proposal to convert the IMF into an international bankruptcy court to deal with the likes of Elliot Associates is flawed. Because, unlike a domestic bankruptcy court where the debtor has to disclose all his assets, on which creditors can be given a fair share of their claims, no such provision is included in the IMF proposal, and for a very good reason. Unlike domestic private debtors, to whom Chapter 11-type bankruptcy provisions apply, sovereign debtors will be *unwilling* to pay their creditors well before they are *unable* to do so. This is because when they default, it is only their assets in foreign jurisdictions, which can be legally attached by their foreign creditors. There is no way in which their domestic assets can be attached. So they will be unwilling to pay well before they are unable. That Peru settled with Elliot Associates shows that it was *able* to pay. Similarly, in the major 1990s debt crises in Mexico and Indonesia, both countries had large state-owned oil companies whose assets could well have covered their debt payments if they had been willing to use them. The IMF proposal would therefore reduce the limited incentives currently existing for sovereign borrowers not to over-borrow and would lead future creditors to further curtail their lending to these emerging markets.

A simpler way to deal with the problem posed by a minority of creditors holding out in the restructuring of a country's debt, is to adopt the practice of the London markets to insert collective action clauses into international bonds. These clauses allow a 75% majority in a meeting with a quorum to amend the bonds. This stops a minority of bondholders preventing the restructuring of a country's debt. It is a decentralized and market based solution, which the IMF too is now supporting. It is also favored by the US Treasury[9] and the international banks. If widely adopted , there would be no need for the IMF as an international crisis manager.

Does this signify that there is no way to avoid the volatility of international capital flows and the periodic 'bubbles' that occur in financial markets? The simplest way to an answer is to think of international capital markets as merely an extension of domestic stock markets. No one has credibly argued that domestic stock markets, despite their undoubted volatility and proneness to 'bubbles', should be shut down or have sand thrown in their works; as these purported cures would be worse than the presumed disease. And the same line of argument applies to competitive international capital markets.[10] Although international markets are volatile and subject to 'bubbles' – and 'bubbles' always burst – any public intervention will only make matters worse.[11] So I can only echo the sage advise of Lord Palmerston in 1848 when faced by calls for public action in the face of spectacular defaults on foreign bonds. In a circular eschewing any public action, he wrote: 'The British government has considered that the losses of imprudent men who have placed mistaken confidence in the good faith of foreign governments would provide a salutary warning to others.'[12]

IV

The World Bank, Capital Flows and Foreign Aid

The World Bank, was the instrument chosen to channel capital for development to the third World. Western capital markets had been closed to developing countries since their defaults, and the passage of the inter war US 'blue sky' laws which forbade US financial intermediaries from holding foreign government bonds.13 The World Bank, or International Bank for Reconstruction and Development (IBRD) as its initial and still major component is called, was set up as a financial intermediary to fill this lacunae. Its intergovernmental ownership and guarantees allowed it to borrow at preferential rates in developed country markets and on-lend the money at near commercial interest rates to the Third World. For those countries deemed too poor to borrow at these rates, a soft loan window -the IDA- was established with money subscribed by Western governments.

The financial intermediation role of the Bank and the policy advice it gave till the late 1980's was by and large benign, and helped to promote economic liberty in the Third World. But, since the OPEC price coup in the early 1970's, and the recycling of the OPEC financial surpluses to developing countries by the off-shore money center banks, private capital accounted for a growing and larger share of total capital flows to poor countries. This trend was reversed for some years in the mid 1980's because of the debt crisis, but has re-emerged more strongly in the 1990's. The intermediation role of the World Bank is no longer needed by well-managed economies, and some major foreign aid recipients like India have recently announced that they no longer wish to receive official aid in the future

But this financial intermediation role of the Bank was soon overtaken by its role as a multilateral foreign aid agency when Robert MacNamara became its President. This was in part to play its part in the Cold War: both by tying the 'non-aligned' to the free world, and by promoting economic development. Western governments had also established their own bilateral foreign aid programs, more to compete for political influence in the Third World during the Cold War than to serve their professed aim of alleviating world poverty. As nearly all of these capital flows were mediated through multilateral or bilateral governmental channels, the access of developing countries to world capital markets was necessarily politicized. This was in stark contrast to the 19th century pattern when private capital flowed from Europe to the rest of the world on market principles

The World Bank's purpose was to create another international development program, analogous to what the British had promoted in the 19^{th} century through the propagation and enforcement of rules concerning international property rights, and through direct and indirect imperialism. As these routes were eschewed, the only instrument available was the use of 'conditionality' tied to these aid flows, to promote the appropriate development policies by changing State behavior in the Third World. But, as with sanctions to serve foreign policy goals, this ever more stringent 'conditionality' has been unsuccessful.[14] So the current development 'mantra' is that "good governance is all". But, short of direct or indirect imperialism, how is it to be promoted?

The foreign aid business is thus in serious trouble. Can there still be any role left for the World Bank? It is argued that, there is still a role for official flows to those countries- mainly in sub-Saharan Africa- whom the private market still shuns. But the reason for this is the predatory nature of their governments. Worse, from the viewpoint of the multilateral agencies, with all the sound borrowers shunning them because of their access to an apolitical private capital market, which does not impose any onerous "conditionality", their only borrowers will become the "lemons". This would have serious repercussions in their credit rating in Western capital markets, and hence in their ability both to raise money and provide loans at subsidized interest rates to their clients.

Various intangible benefits are also adduced from the operation of the World Bank and the IMF. These have more merit. My colleague Al Harberger[15] has always maintained that the most important benefit of these institutions has been their 'tutelage' role in both the in-house training offered to its international staff- many of whom have become policy makers in developing countries- in the lineaments of sound economic methods and policies, and in conveying ideas about development policy to the whole developing world. In this task, these two institutions not only collect a vast amount of data on developing countries, but also conduct research which has broadened our understanding of development. On this view the future role of the World Bank should be as a "Knowledge Bank"

While, these arguments may have carried weight in the past- and I myself have justified the Bank's operations in these terms[16]- increasingly they carry less weight. Unlike the situation in the 1950s and 1960s when many countries did not have the necessary domestic technical personnel to conduct sound economic policy, there has been a sea change in their availability over the last two decades- except perhaps for Africa. Moreover, the 'tutelage' and educational role crucially depends upon the soundness of the curriculum. Till, the coming of James Wolfensohn as President of the World Bank, despite passing fads, the World Bank's intellectual stance was in consonance with mainstream economics. But this has changed.

As Anne Krueger - a former Vice President for Research at the Bank- noted, the World Bank faced three choices in the mid 1990's, with the opening up of world capital markets to most developing countries outside Africa. These were: "(1) continue to be a development institution, focusing only on those countries that are truly poor and gradually phasing out activities in the middle-income countries; (2) continue to operate in all client countries, focusing on the 'soft issues' of development such as women's rights, preservation of the environment, labor standards, and the encouragement of non-governmental organizations (NGO's); (3) to close down"[17]. For the reasons given above, the first alternative, is becoming more and more difficult, and would involve a considerable down sizing of the Bank. No bureaucrat wants that and least of all the adoption of the third alternative, if for nothing else because of the loss of power, prestige and not least money.[18] So Wolfensohn has understandably chosen the second alternative.[19]

But, the second of the three paths chosen by Wolfensohn is unviable. In championing 'civil society' it is supporting highly contentious issues on which there is limited agreement about either ends or means, in part because some of these issues raise important differences in what I call 'cosmological beliefs'[20], and in part because like labour standards - which Wolfensohn's Bank has made a requirement for its multilateral investment guarantee branch (MIGA)- they are not only rejected by developing countries, but rightly so for going against the development objective of alleviating which the World Bank till now has rightly espoused.[21] This leaves only the third of Krueger's options for the future of the World Bank. It should be shut down.

Our conclusion can be brief. The foreign aid programs of the last half-century are a historical anomaly. They are best seen as part and parcel of the disastrous breakdown of the 19th century liberal economic order spanned by the two world wars. But just as a new liberal economic order is gradually being reconstructed, with a milestone being the collapse of the Second World and its growing integration in the world economic order, the various palliatives devised to deal with the dreadful woes bred by the past century's economic breakdown are becoming more and more redundant. It is time to pension off the Lords of Poverty. Foreign aid is an idea whose time has gone!

V

The UN, NGO's and Global Salvationism

The rise of the NGO's and their growing influence through the UN system also poses a serious threat to economic liberty particularly in the Third World. For they are the storm troopers of the anti-globalizers.

NGO's are pressure groups. They have been a feature of the political system in both the UK and the US for 200 years. While Olson and other critics of domestic pressure groups criticized them for the promotion of sectional interests, the currently active internationally oriented pressure groups - which can be collectively be included in the acronym NGO- are mainly dealing with specific causes whose resonance comes from some form of moral claim. But like the domestic pressure groups in the US castigated by Schattschneider[22] they too reflect the ideals of the global 'rich' even while claiming to speak for the global 'poor.'

Of the several thousand NGO's which currently have a formal status in the UN system, only several hundred are from developing countries, and of the developed country NGO's an overwhelming majority are from the US.[23] Most of these are environmental groups. They have large bases around the world. Thus Greenpeace based in Amsterdam has members and national organizations in 28 countries. They are also very rich and bring large resources for lobbying and litigation. [24] These resources dwarf those many poor countries have to counter the lobbying and litigation in which these environmental NGO's engage.

Furthermore, given their large size these NGO's are necessarily bureaucratic organizations, whose interest lies in creating scares to maximize their income and thereby the salaries, perks and size of their bureaucracies.

They have come to have influence by colonizing of the UN and increasingly its specialized agencies, including the World Bank under the presidency of James Wolfensohn. Their entry into the international system was provided by Article 17 of the UN charter which provided for its Economic and Social Council (ECOSOC) to consult with non-governmental organizations but in an arms length fashion, with an "insistence that the status is peripheral to the state".[25] Since the fall of the Berlin Wall, the UN shifted its focus from its traditional role of maintaining the peace to economic and social issues with a greatly expanded role for ECOSOC. It moved to center stage with the mandating of 9 conferences in the 1990's by the UN General Assembly. These were to produce a "global consensus on the priorities for a new development agenda for the 1990's and beyond"[26] Conferences were held on education, children, environment and development, human rights, population and development, social development, women, human settlement and food. Many of these touched subjects where the cosmological beliefs of many poor countries conflicted with those of the rich countries, most notably in the women's conference in Beijing in 1995 and that on population and development in Cairo in 1994- where the Islamic and Catholic countries opposed the pro-abortion agenda of the West.

In each of these conferences the NGO's provided a parallel forum in which they networked with conference organizers."As they became an integral part of the 1990's conference process, NGO's were transformed from arms-length consultants to full participants in the development and implementation of UN policies and programs."[27] The UN Secretary General Kofi Annan enthusiastically endorsed this embrace of the NGO's.[28] The UN Development program (UNDP)- though not as yet the UN secretariat- has endorsed the NGO's demands for the UN constitution to be changed so that they have equal status with governments!

By analogy with domestic politics, NGO's and their apologists claim that they represent the world's citizens and thence an international civil society. But this claim is patently false. There are no world citizens as there is no world polity. There are only citizens of nation-states to whom - at least in democracies- their governments are accountable.[29] The chief characteristic of a state is its monopoly of coercive power. In democracies this power is granted to governments responsible to the electorate. As Martin Wolf of the Financial Times has cogently argued: "to grant any private interests a direct voice in how coercion is to be applied is fundamentally subversive of constitutional democracy...Only elected government can be properly responsible for the making of law, domestically and internationally."[30]

But what is the agenda of the NGO's? It is a left wing agenda: to extend the US New Deal's regulatory system to the international arena.[31]. They are global salvationists.[32] Peeters has argued that the New Left has hijacked the economic and social programs of the UN. "The new model defies traditional values, national sovereignty, the market economy, and representative democracy. It demands radical changes in individual and social behavior and perceives culture as the last frontier of global change. The standard denounces as unethical the principles of modern industrial civilization, individualism, profit and competition."[33]

The UN and many of its specialized agencies have provided the anti- globalization environmental NGO's, as well as a host of others espousing Western politically correct causes an institutional framework to push their agenda. Even the more technocratic ones like the World Bank and IMF, as we have seen, have served their purposes. While others like the WHO seem to have stepped well beyond their purely technical arena to take up various politically correct but dubious crusades like that against smoking and obesity.[34] Others like the ILO, UNIDO, UNCTAD, FAO, UNESCO, have also served whatever initial purpose they might have had and are all incubators of various anti globalization agendas, staffed by rent-seeking international bureaucracies. They do not serve the interests of the world's poor in whose name they claim to speak.. They should all be closed, or else the US should withdraw its financial support from them and let them fend for themselves.

VI

Conversion into an INRF

The whole web of multilateral organizations created at the end of the Second World War to promote a new LIEO has served its initial purpose, and in many cases become counterproductive. They are increasingly becoming the purveyors of a 'new dirigisme'. But given the interests of self serving predatory elites around the world who look upon these institutions as a prime source of legitimate and 'moral' rent- seeking, it is unlikely that they will be shut down. But, there is one way in which they might be put to use in the cause of economic liberty. This is to deal with the problem of the many failed or failing states which have natural resource riches which provide the means to politicize economic life in these countries, and the competition for whose control often leads to political breakdown. [35]

I have recently suggested[36] an institutional response to counter the strong temptation for anyone controlling the state to appropriate the rents from natural resources for their own purposes. The various civil wars in Africa, including the ongoing ones in Liberia and the Congo, are fueled by the desire to control these rents. While it was the rents from their oil which has permitted Middle Eastern autocrats like Libya's Col. Muammar Gadaffi, Iraq's Saddam Hussain, the Iran's mullahs, and the Saudi monarchs to pursue aims as diverse as funding global terrorism, the development of weapons of mass destruction, and the export of Wahabism. What is to be done?

The answer must be to find a way to depoliticize these natural resource rents, as in failed or failing states, the political struggle surrounds their capture. Lacking any assurance about their tenure, the time horizon of the incumbent predators is understandably very short: he maybe killed or overthrown in the next battle for the control of the rents. Hence, it is rational to get out as much, as soon as possible, out of the country. Once we have such a failing state, an obvious solution, adopted for example by Alaska, is to distribute its oil revenues to citizens by writing cheques through the tax system. But such a policy is not available in countries that have no functioning state.

An international extension of the UN oil-for food program in Iraq could provide a prototype for a solution. However, given the US' understandable lack of confidence in the UN after its recent shenanigans concerning the Iraq war, another agency would have to be found for this long term development task. Nor could the US do it through a purely domestic institution because of the nationalist passions that this would unleash.

But there are two multilateral institutions, - the World Bank and the IMF - which might be suitable for this undertaking. They should be amalgamated and given a new role. They can call on the expertise of an international technocratic bureaucracy, and unlike the UN are not subject to populist international pressure (though there maybe doubts on this score about the present day World Bank). And given their weighted voting systems, are likely to be acceptable to the US. A conjoining of their staff to form an International Natural Resources Fund (INRF) would thus be desirable.

The purpose of the INRF would be to obtain the rents from the natural resources of failed or failing states. These revenues would be put in escrow by the fund for use *only in the country in which they were generated.* The funds from these country escrow accounts would only be released on the authority of the INRF for purposes determined by the fund's managers in consultation with the local government -mainly for social and economic infra-structure projects. These projects would be subject to the international bidding, controls and monitoring procedures of the World Bank. This would de-politicize the deployment of the natural resource rents and remove one of the major reasons for the failure of states.

How could predators be prevented from attacking and capturing the mines and wells generating the rents? Here the military prowess of an Imperial power or a coalition of such powers is crucial. Such a power could follow the example of China during the inter-war period. Foreign companies could be leased territory which they could protect with their own police forces, in return for royalties to the INRF. But even this privatized solution would require the imperial power to maintain "gunboats and Gurkhas" at the ready, in case some local predator decided to mount a challenge to the private controllers of these mines.

In time, as properly deployed resource rents led to general prosperity and the development of efficient political institutions, the INRF could hand back the escrow account to the local government. But this is likely to be a long haul, and it is an open question whether the US and its allies have the will to sustain such "nation building". But without it, the natural resources which should have brought prosperity to the populations of failed states will continue to be stolen by predatory elites and used to oppress them. Worse, they may be used to fund the global terrorism that remains a serious source of international disorder.

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Notes

1.See Lal (2003) for why even in the modern theory of trade and welfare the two should again be linked..

2.see Lardy (2002), (2003)

3.Wolf (1994)

4.Corden (1977)

5.see Lal (1990/1994) for a rebuttal of the flawed arguments made for international monetary cooperation in a floating exchange rate system.

6.see Lal (1996)

7.M. King (1999).

8.W. Bagehot (1873)

9.J. Taylor (2002)

10.Eichengreen and Bordo (2002) examine both the two periods of globalization- pre 1914 and post 1971. Contrary to common perceptions they find that currency crises were of longer duration pre 1914, but in banking and banking cum currency crises, recovery was faster than now. They attribute this to the fact that 19th century banking crises were less likely to undermine the currency, as most countries were expected, in the long run, to adhere to the Gold Standard rules.

Delargy and Goodhart (1999) provide a detailed comparison of pre-1914 crises and the Asian crisis and find great similarities.

11.see Lal (1990) for a fuller discussion.

12.cited in Lipson (1985)

13.W.A.Lewis (1978a) p.49

14. As shown by the detailed study by Collier et al (1997)

15.Harberger (1984)

16.see Lal (1983) p. 56-7. Also this was the thrust of the annual reports on the Bank’s research budget that, as its Research Administrator between 1984-7, I had to submit to the Board to justify the expenditure on research.

17.Krueger (1998), p. 2006.

18.Vaubel (1996) argues that the IFI’s engage in bureaucratic maximization, and much of their lending is to promote the bureaucracy’s interests rather than to assist poor countries. While Frei (1997) provides a survey of international organizations from the public choice perspective.

19.Krueger, op. Cit., fn, 85, p. 2010. Also see Wade (2001) on the making of the Bank’s 2000 “World Development Report”. He writes: “Over the 1990's extensive consultation exercises have been held with non-governmental organizations (NGOs) as they have demonstrated their power to affect the Bank’s survival” (p.1436)

20.Lal (1998)

21.Equally deplorable is the World Bank’s embrace of the WHO’s politically correct crusade against tobacco. This damages rather than helps the poor. See Lal (2000) and Lal, Kim, Lu and Prat (2003).

22..The political scientist Schattshneider saw many pressure groups as combinations of the well -heeled.: “The flaw in the pluralist heaven is that the heavenly chorus sings with such an upper class accent. Probably about 90 per cent of the people cannot get into the pressure group system’

23.Barfield (2001) p.80.

24.See an unpublished manuscript by Marguerite A. Peeters “Hijacking Democracy: Global Consensus on Global Governance” (American Enterprise Institute, Washington D.C. 2001)cited in Barfield, op.cit., p. 88.

25.Otto (1996),p.110.

26.Peeters, op.cit., Chp. 1, p.23 cited in Barfield (2001) p.78

27.Barfield, op.cit., p.79

28.In 1997 he stated:”I see a United Nations keenly aware that if the global agenda is to be properly addressed, a partnership with civil society is not an option it is a necessity” Peeters, op. Cit., p. 34, cited in Barfield, op,.cit. P. 80.

29. Kenneth Anderson (2000) notes:”When international NGO’s assert that they are the voice of the world’s citizens, the assertion makes no sense because the world is not a polity that has citizens- it has, to be sure, people, many of them with great needs- but to be a ‘citizen’ is to be part of a constituted polity, not just a supporter of an NGO and it’s agenda” (p.108)

30.Martin Wolf, column in Financial Times, 1 Sept. 1999, p.12

31.see Raustiala “The Participatory Revolution” ,cited in Barfield, op.cit., p.90

32.This is Henderson’s apt term for them.

33.Peeters, op.cit,,chp.1, p.2.

34.see Lal (2000b), Lal,Kim,Lu,Pratt (2003), Scruton (2000)

35.See Lal- Myint (1996)

36. Lal:” A force to lift the curse of natural resources”, *Financial Times*, October 3, 2003.