

GLOBALIZATION OF THE WORLD ECONOMY, SUSTAINABLE DEVELOPMENT, AND THE IMF

I. Context: the globalized world economy

At the present time, the benefits of globalization of the world economy have captured the headlines and the support of broad sectors of world opinion. Indeed the benefits for many us, particularly for those of us in industrialized societies, have been significant and should continue to raise the living standards of the different countries and social groups for years to come.

I would also like to point out, however, that globalization of the world economy has brought profound changes in the relative strength of major international actors affecting the development process and the environment. Of those forces, two are increasing their influence:

- the private sector, which is expanding its influence around the world and driving the globalization process;
- civil society, that amalgam of community based groups, NGOs, advocacy organizations, whose influence is increasing as these organizations try to address the social and environmental failures of economic growth model.

Two forces are declining in relative influence:

- national governments, whose functions and scope, both as an economic agent and as the guarantor of social equity, are diminishing;
- international development institutions, whose mandate has been supplanted by the expanded, dynamic role of the private sector.

II. Today's new challenge

In this new international context of the globalized economy, from WWF's point of view the basic strategic issue facing us today is: What alliance of forces will oblige the private sector to pay for its social and environmental costs? Stated in other terms as it pertains to the IMF: What role can the IMF play in ensuring that governments, while maintaining sound macroeconomic policies, also develop sound policies which will ensure that the growing private sector will promote sustainable development, not just short-term profit maximization?

III. IMF's Function in the Global Economy

Since Mr. Utara will (or has) explain the role of the IMF in addressing sustainable development (social equity, environmental sustainability) I will simply state in most succinct form its functions and position on environmental issues.

The IMF is an international financial institution whose primary function is to facilitate economic growth by promoting international monetary cooperation and exchange rate stability and by helping member countries solve their balance of payments problems. The principal means the IMF uses in pursuing those goals is through its work with national governments to ensure that they promote sound macroeconomic policies. It is in this function of shaping government policy that the IMF has a fundamental role to play in promoting sustainable development.

As we know, the current economic system is characterized by what are known as market failures as regards the environment. Specifically, this means that growth economics externalizes, or fails to pay the social and environmental costs associated with economic expansion. Therefore, it is the function of public policy, and the role of governments responsive to the public, to correct these market failures by implementing policy that promote the common good, that oblige private economic agents to pay for those costs. Without adequate policy corrections by government, the private sector will continue its unchecked consumption and destruction of natural resources.

Despite the fact that the IMF is a major force in shaping government policy around the world, the institution does not assume responsibility for the monitoring or promoting policy which encourage the sustainability of the countries macroeconomic policies. As the Fund has stated in its public documents, the IMF believes it should address environmental performance only, and I quote, “should resource depletion or environmental damage in a country be so severe as to affect seriously the longer-term viability of its balance of payments.” [Gandhi, 1996]

Its operative assumptions are that the current market and policy failures are not of enduring consequence and will not generate long-term threats to the viability of societies, including the economic vitality of those societies. The IMF promotes a “growth at all costs” approach in which the social and environmental costs are either disregarded or addressed only if they provoke disruptions in macroeconomic performance. The IMF’s approach leaves intact the full range of environmental market failures endemic to the current economic growth model and does not try to address the policy failures as regards the environment of its member governments.

These failure becomes clear when we analyze the impact of IMF stabilization programs. One of the most important economic tools employed by the Fund for restoring macroeconomic balances is draconian fiscal cutbacks. While fiscal constraint is urgently needed in many countries, the broad-brush IMF approach lacks gradualism and recognition of its enduring social and environmental impacts of its current approach. Specifically, while the across-the-board reduction in the functions of government has the positive effect of reducing the role of government as an economic agent, in practice this

approach has also emasculated the ability of government to promote social equity, to redistribute wealth, and to manage the environment. I would encourage Mr. Utara and his staff to read the WWF book in this regard which documents how in 8 out of the 9 countries studied, social inequality worsened significantly. To survive, those vulnerable social sectors increased pressure on the natural resource base, adapting a wide range of survival tactics which drew down and destroyed natural patrimony. Following the stabilization phase those impacts continued and, in fact, the displaced vulnerable sectors were frequently left on the margin of economic reforms and consequently continued their survival practices which destroy the very assets on which they depend.

A second major problem with the current stabilization approach regards monetary policy. In order to control inflation IMF requires, and rightly so, tightening of the money supply. For a period of several years the combination of fiscal retrenchment and tight monetary policy induces economic contraction and recession. As the adjustment policies of the World Bank and other donors begin to encourage expansion of economic activities in the post-stabilization phase, the private sector plays a far more active, powerful role. While there are clearly benefits to the rekindled economic growth, one of the enduring effects of the Fund's stabilization programs is that the government's ability to manage the environment has been emasculated by the stabilization process. Governmental capacity to monitor the environmental impacts has been dismantled and the ability to manage the natural patrimony has virtually disappeared. This dismantling of government capacity then leaves a vacuum in which the reinvigorated private sector can gain access to, use, and spoil the environment with impunity. Again I would invite Mr. Utara to consult the WWF publication for the ways this process unfolded in eight of the nine countries we studied. The end result is renewed economic growth and benefits for some but by sacrificing longer-term social stability and environmental sustainability.

IV. What role can the IMF play in promoting sustainable development?

Returning to our original question: Can IMF be a partner in helping correct the market and policy failures which have generated the environmental crisis confronting nations and the world today. Can it promote government policies for the long-term common good, which would oblige the private sector to take responsibility for its social and environmental costs?

Our basic response is that yes, but if and only if an additional function is added to the 6 purposes articulated in Article I of its Articles of Agreement. Specifically, that addition would require the Fund to ensure that the six other specific functions now mandated do not generate enduring environmental damage.

Unless such a reform is forthcoming, the Fund will remain an un-nuanced pro-growth institution which operates on the premise that growth is the basic answer to the major problems facing humanity. In the future, as today, neither policy nor practice of the IMF will allow it to address the underlying questions of social equity and environmental

sustainability which already are undermining prospects for growth in numerous countries in the developing world.

V. What do we propose for the IMF, even in the short term?

Does this mean that WWF has repudiated all opportunities to collaborate with the IMF? Not at all. To the contrary, we have sought on numerous occasions to involve the IMF in our efforts to reform the policies and practices of national governments and the international development community. For example, WWF

- invited the Fund to participate on the international committee which oversaw the production of the book, *Structural Adjustment, the Environment, and Sustainable Development*; The Fund refused.
- we invited them to participate in our efforts to improve the system of national accounts to reflect environmental values, including the international conference hosted in Washington with the World Bank; The Fund refused;
- we invited them to work together in developing improved methods of public environmental expenditures; Though the Fund has not totally rejected the invitation, they have tried to shift the burden of promoting these changes to WWF, rather than seeing this as a fundamental function it should be carrying out.

What then do we believe the IMF can and should do to improve its environmental performance? I would like to list 5 points in this regard:

1. Take a leadership role in helping develop a monitoring system for public environmental expenditures with national governments. We have written a policy framework for this work and we ask the IMF to now take concrete steps with us to develop this system;
2. Take concrete, yet effective steps in monitoring environmental assets, both goods and services, and integrating those assets into policy prescriptions and its Policy Framework Papers. The IMF should work with the World Bank and other international institutions in developing this capability.
3. We recognize that the IMF has increased its monitoring of social expenditures in past year. This is a positive step. However, it has not taken demonstrable steps to alter the fact that the burden of Fund-sponsored stabilization continues to fall most acutely on the most vulnerable sectors of society. Not only should monitoring expand, it should take greater responsibility in its country policy work with governments, particularly ESAF recipient countries, to ensure that the burden of structural reforms is more evenly distributed.

Two more general policy reforms remain unfulfilled

4. Alter the current “growth at all costs” approach which is not only counterproductive in the long run but actually undermining economic prospects for the current generation. This

will require revising, as mentioned above, Article I of the Fund's Articles of Agreement. Perhaps, in the long run, no reform is more important than this one.

5. Reconsider and reform its attitude toward working with civil society. As with the Bank a decade ago, and the WTO today, the Fund continues to take refuge behind the privilege of government confidentiality. Sooner or later it will have to deal with the fact that civil society is altering the functions and character of government action, seeking in most countries greater accountability and cooperation. The IMF would serve its members, and the world community, by seeking new opportunities to collaborate with civil society beyond those occasions, such as the conference today, to defend its policies and practices.

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