

# Meltzer Report on Bretton Woods Twins Builds Case for Abolition but Hesitates

Wednesday 20 December 2006, by [BELLO Walden](#) (Date first published: April 2000).

## Contents

- [Pushing Meltzer to the Max!](#)
- [Meltzer Report on Bretton \(...\)](#)

## Introduction

### Pushing Meltzer to the Max!

AS thousands of protestors descend on Washington for the 16 April action against the World Bank and the International Monetary Fund, they can take comfort in the fact that a growing number of people in high places share their views.

In the latest issue of *The New Republic* (17 April), former World Bank chief economist Joseph Stiglitz aired his unflattering assessment of the IMF, accusing the Fund of secrecy AND bad economics. (To Stiglitz's credit, secrecy is the greater sin.) And just last month, the US Congressional International Financial Institution Advisory Commission (the Meltzer Committee) released its findings, capturing headlines with its unanimous call to radically downsize the IMF and the Bank and to immediately cancel large amounts of debt. While the report was saying nothing more than what many critics have been saying for years — that these institutions are deeply flawed and are doing more harm than good — it has revived the languishing debate on the international financial architecture.

In this issue of *Focus on Trade*, Walden Bello looks closely at the Meltzer Report, and concludes by calling on those gathering in Washington to pick up where the Meltzer Committee left off by calling for the Bank and the Fund to be closed down.

## Solidarity or Sanctions?

Trade and labour linkages is one of those issues guaranteed to provoke strong reactions, which is not surprising because it cuts to the heart of ideology. In this issue of *Focus on Trade*, Mike Waghorne from the international trade secretariat Public Service International writes a letter to the editor, Peter Waterman writes an letter to ICFTU general secretary Bill Jordan, Patrick Bond writes about the dilemmas facing civil society in South Africa (an everywhere else) and David Bacon writes about the many views on labour linkages inside the trade unions. Enjoy the debate but don't expect a happy ending!

In the final (and related) article, Walden Bello provides a stock-take of the 'third wave of democratisation.' Is it really happening, or is it just part of the globalisation hype?

---

## **Meltzer Report on Bretton Woods Twins Builds Case for Abolition but Hesitates**

### **Walden Bello**

During the heated debate on whether or not to raise the US quota in the IMF in 1998, the US Congress voted for the quota increase but attached several conditions, including the creation of an independent body to look at the missions and performance of the World Bank and the International Monetary Fund.

The report of the International Financial Institution Advisory Commission, better known as the “Meltzer Report” after its chairman Alan Meltzer, serves as a striking confirmation from the mainstream of what progressive critics of the Bretton Woods Institutions have been saying for the last 25 years. Among the most important claims in the corpus of critical literature that the report supports are the following:

- instead of promoting economic growth, the International Monetary Fund institutionalises economic stagnation;
- the World Bank is irrelevant rather than central to the goal of eliminating global poverty;
- both institutions are to a great extent driven by the interests of key political and economic institutions in the G-7 countries-particularly, in the case of the IMF, the US government and US financial interests;
- the dynamics of both institutions derive not so much from the external demands of poverty alleviation or promoting growth but to the internal imperative of bureaucratic expansionism or empire-building.

There is little in the report that was not earlier documented in such works as Cheryl Payer’s *The Debt Trap*, Bruce Rich’s *Mortgaging the Future*, Susan George’s *Faith and Credit*, and the Food First trilogy *Aid as Obstacle*, *Development Debacle: The World Bank in the Philippines*, and *Dark Victory: The US, Structural Adjustment, and Global Poverty*. But then the importance of the document lies not only in its critique but in the fact that a significant part of the establishment has embraced much of the progressive analysis, and, even more significantly, has made fairly radical proposals for the future of the Bretton Woods twins.

Criticisms of the IMF have found a very receptive global audience recently owing to the devastating performance of the Fund during the Asian financial crisis. To the credit of its authors, the Meltzer Report was not taken in by the World Bank’s propaganda that, in contrast to the IMF, it has turned a new leaf. The report shows that the much vaunted Poverty Reduction Strategy or Comprehensive Development Framework articulated by ideological entrepreneur James Wolfensohn is largely a public relations effort to save the Bank and that, although it is billed as a new development paradigm, it is largely devoid of substance.

### **The IMF: No Redeeming Value**

While diplomatic in its language when discussing the IMF, the report finds little of redeeming value in the institution. It shows that the Fund’s foray into macroeconomic reform via structural adjustment institutionalised economic stagnation, poverty, and inequality in Africa and Latin

America in the 1980's and 1990's-precisely what we had documented in detail in our 1994 book *Dark Victory: the US, Structural Adjustment, and Global Poverty*.

It confirms that the Fund's duty of ensuring a stable global financial order was derailed by its prescription of indiscriminate capital account liberalisation for developing countries, its habit of assembling financial rescue packages that simply encouraged moral hazard or irresponsible lending and speculative investment, and its prescribing tight fiscal and monetary policies that merely worsened the situation in the crisis countries instead of reversing it.

The report is on the right track when it recommends the closure of the structural and extended structural adjustment programs, now renamed the "Poverty and Growth Facility." And it is correct in recommending downsizing the IMF in both size and its scope of responsibilities, though as we shall argue below, it would do better to recommend an outright abolition of the Fund.

The report is, however, wrong in its recommendation that the IMF should serve as a "quasi-lender of last resort" to countries suffering a liquidity crisis. The IMF, by the Commission's own account, has handled this function badly in the past. Moreover, the Commission's recommending of strict conditions under which the IMF may extend credit contradicts its own criticism of "the use of IMF resources and conditionality to control the economies of developing nations."

Particularly objectionable is the Commission's proposal that the Fund provide liquidity assistance only to those countries that "permit freedom of entry and operation for foreign financial institutions" on the ground that these entities would, among other things, "stabilise and develop the local financial system." This recommendation is problematic for two reasons. First, foreign financial institutions such as hedge funds, which have taken full advantage of "free entry and operation," have helped precipitate one financial crisis after another. Second, forcing countries to adopt western-style free market norms governing ownership of foreign financial subsidiaries and their local operations violates the first core principle it proposes for IMF reform-that is, "sovereignty-the desire to ensure that democratic processes and sovereign authority are respected in both borrowing and lending countries."

This contradiction between the logic of the analysis and the prescription reminds us that the Commission is, after all, a US government-appointed body, many of whose members come from the banking sector, conservative think tanks, and establishment universities who are very wary about placing significant restrictions on the free flow of finance capital globally, even when the evidence they are staring at underline the destructiveness of unchecked capital mobility.

### **The World Bank: Hype versus Substance**

When it comes to the World Bank, the report is equally devastating. The rhetoric about focusing on poverty alleviation, it says, is contradicted by the reality that 70 per cent of the Bank's non-aid lending is concentrated in 11 countries, while the Bank's 145 other member countries are left to divide the remaining 30 per cent. Moreover, 80 per cent of World Bank resources have gone, not to poor countries with poor credit ratings and investment ratings, but to countries that could have raised the money in international private capital markets owing to their having investment grade or high yield ratings.

In terms of achieving a positive development impact, the Bank's own evaluation of its projects shows an outstanding 55-60 per cent failure rate. The failure rate is particularly high in the poorest countries, where it ranges from 65 per cent to 70 per cent. And these are the very countries that are supposed to be the main targets of the Bank's anti-poverty approach.

The picture that is drawn of the World Bank is that of a massive institution that is driven to lend more by institutional imperatives than actual need in the recipient countries, that is burdened by high failure rates both in its project lending and its program (adjustment) lending, that has poor monitoring capabilities of the sustainability of its projects, that competes with rather than supplements the regional development banks (Asian Development Bank, Inter-American Development Bank, and African Development Bank). The stark reality is that of a dinosaur that is slowly sinking in a bog of its own making but which flags a “new approach” of “Poverty Reduction” or “Comprehensive Development” to mask a fundamental crisis of identity and direction.

## **Reform or Abolition?**

The Meltzer Report’s basic conclusion is that the IMF and the Bank are monolithic institutions that have outlived their usefulness. Now, institutions should be saved and reformed if their functioning, while defective, nevertheless broadly achieves their basic objectives. They should be abolished if they have become fundamentally dysfunctional in achieving their basic objectives. The IMF, in the Report’s view, has become part of the problem rather than part of the solution in global development and financial governance. The World Bank likewise has become irrelevant rather than central to the alleviation of poverty. Despite adjustments here and there, the two institutions are imprisoned within paradigms and structures that cannot handle the multiple problems confronting the world economy during this phase of globalisation.

To borrow the language of Thomas Kuhn’s classic *Structure of Scientific Revolutions*, both institutions are like paradigms in crisis, and the solution when a paradigm is in fundamental crisis is not to try to reform it with endless minute adjustments that merely prolong its inevitable demise, but to cut cleanly from it in favour of a simpler, more relevant, and more useful paradigm—in a manner similar to the way the founders of early modern science simply junked the old, hopelessly complex Ptolemaic paradigm for explaining the cosmos (the sun and other celestial bodies moving around the earth) in favour of the simpler Copernican paradigm (the earth moving around the sun).

In other words, rather trying to find a function for the Fund and assigning to it the role of being a lender of last resort, we would do better to scrap it totally and create a new institution that does not have the baggage of institutional failure and an obsolete institutional mindset and is thus better positioned to manage financial crises in this era. Rather than expect the highly paid World Bank technocrats who live in the affluent suburbs of Northern Virginia to do the impossible—designing anti-poverty programs for folks from another planet: poor people in the Sahel—it would be more effective to abolish an institution that has made a big business out of “ending poverty,” and completely devolve the work to local, national and regional institutions better equipped to attack the causes of poverty. And this task should not fall to the regional development banks so long as they are imprisoned by World Bank-type structures.

The Meltzer Report does not go far enough. It does not follow the logic of its analysis to its inevitable conclusion: the abolition of the Jurassic Bretton Woods institutions. It is up to the masses of people gathering in Washington, DC, on the occasion of the IMF-World Bank spring meetings in mid-April, to uncompromisingly deliver that message to the powers that be.

---

## **P.S.**

\* From FOCUS ON TRADE, Number 48, April 2000.

\* Dr. Walden Bello is executive director of the Bangkok-based Focus on the Global South and professor of sociology and public administration at the University of the Philippines.