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G-7 MUST CHALLENGE ROLES OF IMF, WORLD BANK:

FAILED ECONOMIC MODEL AT HEART OF MEXICO'S COLLAPSE

International Monetary Fund and World Bank leaders will be closely watching events in Halifax, hoping that the near meltdown of the Mexican economy will move the G-7 to increase their powers and resources. According to the Fund and the Bank, what happened in Mexico was a warning sign -- the "first crisis of the 21st century" -- and they claim that only they can prevent such crises in the future. Some G-7 members seem to agree that providing new roles and financing for the Bank and the Fund is the only way to avoid future Mexicos.

The 50 Years Is Enough Campaign -- a coalition of over 145 U.S. citizens' groups calling for fundamental change of IMF and the World Bank -- disagrees. "These institutions are part of the problem, not the solution. They have a lot of nerve putting their hands out to the G-7, asking for more money and power," said Marijke Torfs of Friends of the Earth U.S., a co-founder of the Campaign. "It would be irresponsible for the G-7 to further empower the very institutions that played a key role in engineering the conditions for Mexico's economic collapse. To give them greater power in such crises is as wise as giving the fox increased surveillance powers over the chicken coop."

At the heart of the model of development promoted by the World Bank and IMF are some extremely dangerous contradictions that threaten the economic stability of developing nations around the world. To address these contradictions, the logic and direction of the Bretton Woods institutions must be completely rethought and reformed and their policy tools must be redesigned.

"The single-minded pursuit of structural adjustment policies by the World Bank and IMF has turned the economies of developing nations into casinos for wealthy investors," charged Doug Hellinger of The Development GAP, another co-founder of the 50 Years Is Enough Campaign. "The Bank and the Fund have poured billions into Mexico since 1982, making it attractive to international investors seeking the best short-term return, and have failed to address the long-term needs of workers, the poor, and small enterprises and farms. This same pattern is being repeated in country after country forced to follow the 'advice' of the Bank and the Fund."

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Under structural adjustment programs, governments relax their regulatory role, remove restrictions on trade and investment and encourage high interest rates to attract speculative capital and prop up currency rates. Meanwhile, labor standards and wages decline. This strategy crowds out investment in local production, heightens the vulnerability of national economies to external shocks and places an unacceptable and unsustainable burden on the poor. The Mexican crisis made it clear that the "hot money" from speculators that flows into a country can flow out again with just one touch of a computer key.

"To rephrase a slogan of a recent U.S. presidential campaign: It's the economic model, stupid!" said John Cavanagh, an analyst at the Institute for Policy Studies, a Campaign member. "Rather than increasing stability and improving the lives of the poor, the economic policies of the World Bank and IMF -- and their G-7 supporters -- are fueling speculation and increasing poverty. Without drastic, fundamental change in the Bank and the Fund, and the economic models they promote, there will be many, many more Mexico-style financial crises to come."

The 50 Years Is Enough Campaign urges the G-7 to implement the following reforms:

- **JETTISON THE CURRENT CROP OF STRUCTURAL ADJUSTMENT POLICIES** -- Structural adjustment policies as currently defined should be halted and immediate steps taken to include affected women and men in the formulation, planning, application, monitoring and evaluation of macroeconomic policy. The state should be recognized as having a legitimate role in regulating currency flows and shaping investment. Any lending for economic-policy reform should: support the productive activities of the rural and urban poor -- particularly for sustainable food production, address women's lack of access to resources and decisionmaking structures, ensure environmental sustainability and allow for increased investment in small-scale production and social and physical infrastructure.

- **REDUCE DEBT** -- The crushing burden of debt -- US$ 1.9 trillion of which US$ 304 billion is owed to the World Bank and IMF -- is forcing countries to use scarce resources to generate export earnings to service this debt and to maintain high interest rates and low wages to attract foreign investment. Reducing the debt burden would free resources to invest in productive sectors and lessen dependency on outside capital. The G-7 should call for the immediate reduction of 100 percent of the bilateral, World Bank, IMF and regional debt owed by the Severely Indebted Low Income Countries and 50 percent of that owed by the Severely Indebted Middle Income Countries.

- **DEMOCRATIZE ECONOMIC DECISIONMAKING** -- The G-7 should direct the World Bank and IMF to work with civil society to reexamine their policies and lending practices. But for that to happen, the Bank and Fund must themselves first be democratized. To that end, the G-7 should initiate a process that equally includes governments and citizens' organizations from the North and the South to develop a program to restructure the Bretton Woods institutions. Ministries, parliaments and non-governmental organizations such as labor unions, women's groups, indigenous organizations and religious and environmental groups should all be included.

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- **END THE SECRECY** -- IMF surveillance functions should be accompanied by open access to information. The Fund should invite the participation of government agencies beyond the central banks and ministries of finance, as well as representative non-governmental organizations, in regular Article IV consultations. The results of these consultations should be made public, along with Policy Framework Papers and other IMF program related documents. The G-7 should instruct the World Bank to put in place a blanket policy of availability of all Bank documents at the earliest possible stage of loan or guarantee consideration. This policy should extend to all members of the World Bank Group.

- **REIGN IN CAPITAL** -- The G-7 should explore proposals such as that made by the Government of France to impose a fee on international currency flows to discourage speculation and to finance a global monetary stabilization fund. It should also explore codes of conduct that link government programs that benefit corporations to corporate adherence to basic worker rights, gender equity and environmental standards.

- **ENCOURAGE VIGOROUS DEBATE OF THE WORLD BANK'S ROLE IN THE PRIVATE SECTOR** -- The rapid growth in the percentage of overall World Bank lending to the private sector and the stated intent of the new Bank president to attract greater private capital flows to developing nations, raise important questions about the appropriateness of public banks subsidizing private, profit-making concerns. The G-7 should inaugurate a vigorous public debate on this issue, engaging both the member countries of the World Bank and affected men and women.

- **NARROW THE ROLE OF THE IMF** -- The G-7 should insist on a clearer separation of functions between the World Bank, which was designed to fund development projects, and the IMF which was established to guarantee stable exchange rates. To that end, the Fund's Enhanced Structural Adjustment Facility (ESAF) should be shut down and the Fund's role in directing overall economic development policy should be severely narrowed. The creation of an External Audit Department would ensure that the Fund is held accountable to *all* member governments, whether borrowers or creditors.

- **REMOVE IDA FROM WORLD BANK MANAGEMENT** -- The economic and social crises that have been spreading across Latin America pale in comparison to the devastating impact of economic-policy lending in Africa. If concessional financing is to continue to these countries, it must be extended without the conditionality that binds poor countries to a no-win situation. Therefore, the International Development Association (IDA) should be removed from the World Bank Group and be run by a combined government and NGO board to provide support to the poorest countries for initiatives and reforms that help the least privileged of their societies.

"Five decades after their founding, the World Bank and the IMF must demonstrate their relevance -- not simply assert it," said Cam Duncan of Greenpeace U.S., a member of the 50 Years Is Enough Campaign's steering committee. "In trying to carve out for themselves predominant roles as architects, builders and inspectors of global economic development the Fund and the Bank are displaying the same arrogance that has made them unable to deal effectively with the fast-paced economic crises of our time. The G-7 must take advantage of this opportunity to seriously challenge the relevance and roles of the World Bank and IMF."

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