
Glorifying Mediocrity | International Economy, The

by Jeffrey Sachs

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It's the age old story: two powerful, outdated bureaucracies fighting change. But why is the Clinton Administration in on an act that's clearly doing disservice to the global poor? Bill Clinton, call your office! Ask for the Department of Presidential Legacies.

This March, the International Financial Institution Advisory Commission chaired by Allan Meltzer issued a report to the U.S. Congress on reforming the International Monetary Fund and the World Bank. The report calls for both institutions to refocus their activities on their core mandates -- in the case of the IMF, helping to preserve global financial stability, and in the case of the World Bank, helping to reduce global poverty. The Commission charges that both institutions have lost their way as the United States and Europe have extravagantly overused and misused them. In the past twenty years, the IMF has been assigned with managing developing country debt crises, managing Western aid to post-communist economies, and running financially bankrupt and economically destitute Sub-Saharan countries. The World Bank, for its part, has been called upon to lend everything to everyone, with no sense of prioritization by country or by type of lending.

The report immediately produced a rather heated controversy in Washington, at least as international economic matters go in a city much more interested in domestic politics. It has been denounced in fervid and hyperbolic terms by both the Clinton Administration and Democratic leaders in Congress, as if the report called for the closure of these institu-

tions, or insisted the U.S. had no interest in poverty alleviation. Even though the report calls for greater U.S. aid to poor countries, as well as outright debt cancellation for the poorest countries, the Administration and its congressional allies have denounced the report as extreme and neo-isolationist. They have attacked specific details -- many of which are presented in the report as illustrations, not as key conclusions -- while typically avoiding or ignoring the report's major themes.

This is all another case of permanent government working overtime to ensure that no job, no responsibility, no task is ever taken away from powerful Washington bureaucracies without a down-in-the-dirt battle. Even though the IMF joined the business of poverty work by accident in the 1980s (over the doubts of many skeptical governments) and has had a shoddy record ever since, the Clinton Administration and IMF management are aghast that anyone would suggest that poverty relief is not the calling of a monetary institution designed for short-term lending with a revolving fund of credit. But to hear tell from Washington, all sorts of terrible things are bound to occur in countries like Mali and Chad should the IMF leave. It never occurs to these stalwart IMF defenders that the modest help ostensibly delivered by the Fund to those countries could more usefully be deployed by the World Health Organization or UNICEF. But then again, those organizations are in Geneva and New York, respectively, and thus not in Washington's daily grip.

The Meltzer Commission could point the way toward a bipartisan U.S. approach to foreign assistance in the post-Cold War era if the Clinton Administration were not so intent on saving every existing job within the IMF and World Bank. The report makes

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the following broad points, which are at the core of its recommendations. First, the IMF should focus on short-term macroeconomic stability by being available as a rules-based, short-term lender of last resort to countries that face financial emergencies. Countries should be pressed to reduce the frequency of crises and to reduce their overuse of IMF funds through a set of banking and fiscal reforms. Such reforms should be phased in as pre-qualification standards for borrowing from the IMF, though such standards can be waved if IMF loans are needed to respond to global systemic crises. Second, while the IMF should be a short-term lender of last resort, it should cease being a long-term lender of first resort, as it now is to dozens of countries around the world. And despite the deliberate provocations of the Administration and several congressional offices to turn the Commission into a partisan brawl, the Commission members voted unanimously to urge the IMF to get out of the long-term lending business.

Third, the World Bank should refocus its efforts on providing only those services the borrowing governments cannot obtain or provide by themselves. If a developing-country government has an investment-grade or higher bond rating, or if it is above an income threshold (the Commission suggested \$4,000 per person per year), it does not need World Bank financing, at least not in comparison with the couple billion people in countries cut off from private capital flows and in much poorer circumstances. Thus, the report urges the Bank to phase out lending to the first group of countries (those with bond-market access and/or those above an income threshold) and re-double its attention to the needs of the world's poorest countries. It calls the U.S. Congress to increase the U.S. financial support for the poorest countries, in conjunction with an improvement in the effectiveness of the aid programs.

Fourth, the Commission notes that the World Bank could do more good if it spent more time providing «global public goods,» such as increased knowledge

about health and agriculture problems of tropical countries, and less time providing conventional banking operations easily (and often more efficiently) delivered by private-sector financial institutions. Increasing research and development in technological areas of priority to poor countries (health, environment, energy use, climate change, biodiversity, and so forth) is greatly needed, which a reformed World Bank could help to mobilize.

Fifth, the Commission calls the United States, the other rich countries, and the IMF and World Bank to completely cancel the debts owed by the heavily-indebted poor countries, also known as HIPC's. These impoverished countries are utterly dependent on the IMF and World Bank because they are broke – not just poor, but crushed by debts. Rather than maintaining the falsehood that these debts can be paid, the IMF and World Bank should cancel these debts once and for all, in conjunction with developing economic and social reforms programs in the debtor countries. The Commission urges the World Bank, not the IMF, to be responsible for linking debt cancellation to reform programs.

These five points provide a sensible basis for the role of U.S. assistance and the role of international financial institutions to the developing world. They reflect the accurate position of the conservative wing of the U.S. Congress, which correctly believes the IMF and World Bank are vested with too much power and discretion, which results in ineffective programs. They also reflect the accurate position of the liberal wing of Congress, which believes the U.S. could and should do more for the world's poorest peoples, many of whom are suffering from disease, malnutrition, and plummeting life expectancies. The Commission surmises that the American people would support more help for the world's poorest, if America could be assured that its help would be effective, and not squandered by corrupt recipient governments or wasteful bureaucracies in Washington.

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The basic logic is strong, but so too is the readiness of the international institutions and the Administration to fight to hold their turf. The Administration surely likes the fact that it can call upon the IMF and the World Bank to do its bidding on one project after another without strong limits on the roles of these institutions. But everybody in Washington should realize that two vastly over-extended institutions with mediocre records of accomplishment cannot deliver long-term benefits for the U.S. or the rest of the world, much less maintain their legitimacy and financial backing in the long run.