For Human Rights Council Panel Discussion

18 January, Session I, 11.00 to 13.00 CET

Speaking Notes from Jayati Ghosh

Excellencies and colleagues,

Thank you for this opportunity to speak to this august Council on the critical question of how international financial institutions can be reformed and their functioning improved, so as to ensure the human rights and developmental obligations of member states.

It is now widely accepted that the International Financial Institutions (specifically the IMF and the World Bank) that were created 80 years ago, are no longer fit for purpose in a global economy that has changed dramatically. The relative size and significance of different national economies has changed and there have been other major such as the rise of private financial flows. These have led to major inadequacies in the organization and the functioning of these institutions. The sharply increasing economic and ecological inequalities across the world are thereby accentuated, creating social and political tensions and geopolitical conflicts that are ever more intense and impacting on human rights. Despite growing recognition that humanity faces common challenges that require Global Public Investment on a large scale, the institutions that should be enabling this—the IMF and the World Bank—are too slow, unwieldy and (let’s admit) miserly in their responses. They do not provide anything near the required finance to meet urgent needs and address the enormous human rights and development challenges. Instead, global financial flows currently operate to exacerbate these problems.

Moving beyond critique, there are important steps that can and must be taken to make the IFIs fit for purpose in the current context, particularly to deliver on human rights and create the foundations of a human rights economy. Three types of reforms are necessary: organizational and governance reforms, along with changes in functioning and programme implementation; immediate measures; and medium-term strategies to ensure that these institutions can remain relevant to meet likely future challenges.

Consider first organizational and governance reform. The quotas and voting rights in both institutions are currently skewed heavily in favour of a few rich economies, which is no longer justified by their shares in global output or world trade, and has affected their credibility and legitimacy. This must be revised to better reflect both changed economic significance in the world economy as well as the rights of all stakeholders, irrespective of economic size, so that only large economies with relatively few people do not have disproportionate voice and power to influence decisions. The “gentlemen’s conventions” on the leadership of these institutions (with an American at the head of the World Bank, and a European at the head of the IMF) can no longer be justified on any grounds. More open, transparent and democratic processes must be introduced for choosing the leadership. The IMF’s Executive Board should be expanded to ensure more representation from Global Majority countries, especially from Africa. For important decisions, the adoption of a double majority voting mechanism would ensure that the decisions have the support of both principal shareholders and the majority of shareholders. There should also be a general increase in quotas and shares to reflect the changed size and distribution of the global economy.

Changes in organization and manner of functioning may be even more important than formal governance reforms. For too long, both institutions have operated within a narrow and excessively market-oriented economic framework. This has repeatedly failed in terms of resolving the problems of indebted countries and those with foreign exchange difficulties, and is unable to address the big questions that fall outside the very restrictive and unrealistic assumptions informing the economic model. The result has been the imposition of conditions that have been associated with lack of development, extreme volatility and periodic crises in many countries and repetitive need for assistance. This economic model must change, to take account of demand side factors, fiscal multipliers, the impact of specific policies on employment, economic inequalities, access to basic goods and services, social protection and environmental conditions, as well as climate change.

Significantly, the programmes and agreements signed by both institutions (as well as other multilateral financing institutions like development banks) **do not explicitly take account of human rights**, particularly with regard to the impact of the conditionalities imposed on recipient countries. This has to change: recognizing and adhering to the human rights responsibilities of governments must active elements of both preparing and implementing any loan programmes. For example, fiscal austerity measures (such as cuts in public social spending) that operate to reduce social and economic rights should not be approved, and taxation measures should be progressive rather than regressive.

Even within the current restrictive framework of the IFIs, there is potential for immediate actions that would significantly improve the external conditions for the global majority countries. One of the most obvious is the issuance of new Special Drawing Rights (the liquidity created by the IMF) and subsequent annual new issues in line with the increase in global GDP. The UN Secretary General’s High Level Advisory Board (of which I was a member) has recommended that the IMF introduce a system of new allocations based not on quotas (since this disproportionately provides SDRs to rich countries that do not need them or use them) but on “selective SDR allocation”. This would mean that only those countries that face weak external positions would receive additional SDRs, with specific conditions (such as climate shocks, terms of trade shocks, interest rates shocks, capital flows resulting from global changes, etc.) under which these SDR allocations would be automatically triggered.

Along with this, the IMF should develop its own exchange rate swap facility, which would provide support with minimal or no conditionality in cases of global shocks as well as climate shocks This would ensure a swifter global response, as well as provide an embryonic but automatic global financial safety net, which is one of the most important reasons for the very existence of the IMF.

In addition, there are clearly changes required in the international system for dealing with sovereign debt, with a multilateral legal framework that ensures the participation of all public and private creditors in debt workouts, and debt relief packages that ensure the revival of economic activity and the progressive realization of human rights.

For the medium term, it is important for the IFIs to be equipped and ready for the emergent challenges created by climate change, potential health and environmental challenges in a context of geopolitical fragmentation and open conflict between nations and to recognize universal human rights in this uncertain and difficult context. Multilateral development banks need to be expanded in quantity and scope, to be more actively involved in financing for socio-economic rights and development and planetary goals. Regulatory structures have to be re-oriented to serve the interests of people and the planet, rather than simply safeguarding the interests of large capital. Such regulatory changes currently come against legal barriers created by overlapping international trade and investment agreements, which must be reformed. Financial regulators also need to set more stringent targets for financial asset portfolios in support of climate goals.

International tax reform, which is currently ongoing at the UN developing on the prior work of the OECD, should promote fairer and more equitable tax systems to ensure that all countries can benefit in the global tax system, based on fair taxation of multinational companies and of very high net worth individuals. This should prevent illicit financial flows and jurisdiction-hopping and regulatory arbitrage to avoid taxation.

All these changes are possible, but clearly require political will. The Human Rights Council is eminently well-placed to push for such political will at national and international levels, which would generate the broader conditions for a human rights economy.