

Congress of the United States
Joint Economic Committee — Minority

OPENING STATEMENT

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REFORM OF THE IMF AND THE WORLD BANK

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Last week, the United Nations reported that 1.2 billion people, or about a quarter of the world’s population, currently live in poverty. That is 4½ times the number of every man, woman and child in the United States. These 1.2 billion people barely survive on \$1 a day.

Half the world’s population live on just \$2 a day.

These statistics are rather startling, especially given the euphoria over the current prosperity we are experiencing in the United States.

Over much of the last 50 years, the number of people living in poverty has fallen, but since 1996, the number of people living in poverty has actually increased.

If these facts are not enough to get your attention, allow me to provide you with one more. By the time this hearing concludes this morning, more than 1,100 children and 400 adults in places like India, Sudan, and Mozambique, will die due to starvation and hunger-related illnesses. That number will increase to 24,000 by the end of the day.

It should be obvious from these few facts that we are not doing enough to end poverty and improve the lives of all people around the world. It makes me wonder if these so-called “development organizations” that we are discussing this morning are part of the solution or part of the problem.

The amount of global wealth created over the last 50 years is unparalleled in modern history. Given all the achievements, it is difficult to understand why we haven’t been able to do more to eradicate global poverty and improve the well-being of all workers and their families. Wealth creation has not translated into poverty reduction. If there is one lesson to be learned from the last 50 years, it is that wealth creation alone is not enough to improve standards of living.

Apparently, the World Bank and the International Monetary Fund have not learned this simple, yet important lesson.

Although these economic institutions established after World War II have contributed to the creation of wealth around the world, they have not succeeded in enabling everyone to share in that wealth. In fact, some might say these same organizations which were established to reduce poverty and economic hardship, have, in some cases, actually made things worse, not better.

In this week’s New Republic, Professor Joseph Stiglitz, former World Bank Chief Economist and former member of President Clinton’s Council of Economic

Advisors, writes that “all the IMF did was make East Asia’s recessions deeper, longer and harder.”

Recent criticism of the International Monetary Fund and the World Bank is justified. The Fund’s effectiveness has been hampered by its almost single-minded focus on economic growth and financial stability and almost total disregard for the well-being of individuals. Both the IMF and the World Bank are captivated by the neo-classical view that fiscal deficits, regardless of their cause, are always bad, and that the only tools available to economic policymakers are interest rates. The Fund and the Bank take advantage of countries when they are most in need, coercing them to adopt policies which will benefit the rich at the expense of the poor. This seems to reflect a gross misapplication of the true objectives of “economic development.”

We can no longer afford to turn a blind eye to this arrogance.

The consequences of this arrogance are felt primarily by the country in trouble, but also by other countries around the world. For example, as a result of the Asian financial crisis, US manufacturing employment fell by ½ million jobs. This is equal to the entire population of Washington, DC. Imagine if within a span of 6 months to a year, everyone in DC lost their job, health care, and pension. We are not immune from financial crises which break out in countries on the other side of the globe.

We desperately need to reform these institutions; not destroy them. In fact, we need to do more, not less, to help reduce poverty and economic hardship around the world.

When John Sweeney, President of the AFL-CIO, testified before the International Financial Institution Advisory Commission, he stated that “these institutions are necessary for stable, pro-growth international order.” He went on to say, “However, the policies of the International Financial Institutions need to be drastically altered before they can fulfill this important mandate. Their current policies too often hurt workers by imposing draconian conditions designed to promote ‘labor market flexibility,’ but which actually undermine workers’ fundamental human rights to form unions and bargain collectively.”

These institutions have ignored labor rights and environmental protection in their single-minded pursuit of growth. Protecting workers and the environment are not barriers to economic development. Just the opposite – the only economic development that can be sustainable over the long run is one which is based on ensuring that all workers enjoy the highest possible conditions and that the environment is protected.

The flip side of the race for profits is the “race to the bottom” in terms of workers’ conditions and their living standards. As firms attempt to cut costs, they cut into the livelihood of individual workers and their families. In fact the vast majority of workers around the world do not even enjoy the most basic labor market protections. Instead, labor rights, as well as environmental protection, have become bargaining chips in the current model of globalization.

We need a new model of globalization, one that is founded on the rights of workers, not corporations; one that is more sensitive to the environment, and not indoctrinated by the religion of the free market.

Some claim that labor standards and environmental protection are outside the realm of the IMF and the World Bank. The Bank seems more interested in getting projects approved than making sure that these projects do not harm workers and the environment. The IMF is willing to insist that a country's banking system meet certain reporting requirements, but it is not willing to insist that all workers in a country be afforded certain internationally-agreed upon basic rights. The fact that the Fund and the Bank do not yet have the expertise to advise countries on labor standards and environmental protections, does not mean that these two institutions should ignore these important considerations. Ignorance is no excuse for irresponsibility.

Dr. Meltzer and his colleague suggest little to correct this injustice. They devote pages of their report to which exchange rate a country might have, while giving only scant reference to the need for basic labor standards and environmental protection. Does it really matter if a country has a crawling peg or a pegged currency when 10 year old boys and girls are being forced to work under unsafe and unsanitary conditions? Where are our priorities?

In his dissent of the Commission's report, Mr. Jerome Levinson, whom I welcome to the Committee this morning, calls on the International Financial Institutions to pay more attention to labor standards and environmental protections. Unfortunately, Dr. Meltzer has decided not to allow the public to consider this view. By refusing to include the dissenting reports on the Commission's web site, Dr. Meltzer is guilty of the same lack of transparency for which he criticizes the IMF and the World Bank. The International Financial Institutions Advisory Commission was established by the US Congress, not the IMF. All those interested in reforming the International Financial Institutions should have access to all points of view, not just those of Dr. Meltzer and his colleagues.

In their attempt to make the IMF and World Bank more free-market-friendly, Dr. Meltzer and his colleagues ignore the real challenge to the International Financial Institutions – how to do more to reduce poverty, improve working conditions, protect the environment and avoid financial and economic crises.

Maybe the IMF and the World Bank should issue one less glossy publication extolling the supposed virtues of free-market structural reforms and instead inform the world of labor and environmental abuses so that we might be able to gather the courage to stop them.

I hope that as we debate the intricacies of IMF financing and its gold holdings this morning, we don't lose sight of our primary objective – reducing poverty and economic hardship and protecting the environment while ensuring economic and financial stability.