Reforming the Bretton Woods Institutions to support a global Green New Deal

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A decade on from a financial crash so cataclysmic in its force that its impact is still felt today, a crisis of multilateralism engulfs the future of international cooperation. From climate breakdown to the global inequality crisis, the pressures facing the survival of our people and planet are global in their nature and require a multilateral response. Yet it is precisely at this critical time that its future looks increasingly uncertain. Amid the chaos, a flurry of new ideas and visions have emerged and, while much of this space has been coopted by the radical right, the Green New Deal provides an opportunity for a broader reimagining of a sustainable global economy.

If this bold agenda is to be genuinely transformative, it must begin with an understanding that the economy and ecosystem are interwoven, and recognise that concrete efforts to safeguard against climate breakdown necessitate a reimagining of the global financial rules. The radical task of ecological transformation to avoid irreversible climate disaster requires challenging misguided assumptions underpinning areas of mainstream economics: Without, for example, acknowledging that extractive financial networks undercut the tax revenue required for green job creation, that decades of hacking away at regulation has fuelled the dilapidation of our ecosystem, or that the default response to crises management undermines the capacity for state-led democratic ownership of a just transition, the Green New Deal will fall short of being truly transformative.

A limitation of the Green New Deal in its current form as proposed in North America is that its state focus does not address underlying concerns amassing from an integrated global economy, falling short of capturing what Adam Tooze describes as “the amorphous global conglomerate”. The twin goals of climate justice and social justice espoused by this idea are bigger than any state. Operationalizing a form of global Green New Deal will require a joined up approach between states, regions, banks, a medley of public and private actors and international financial institutions alike.

This year marks the 75th anniversary of the creation of the International Monetary Fund (IMF) and World Bank, following the Bretton Woods conference of 1944. The institutions have departed from their Keynesian roots, expanding their perceived mandates over the past three-quarters of a century to become vehicles through which the pillars of neoliberalism – privatisation, austerity and deregulation – have been channeled, often paving the way for a deepening of financialisation. Such measures have been met with decades of protest, uprising, and resistance from civil society around the world. Last year alone, campaigners called for an end to the World Bank-backed privatisation of water in Jakarta, and anti-austerity protests erupted amid IMF programmes in countries such as Tunisia, Argentina, Jordan and Brazil.

While the landscape is changing - in no small part down to proliferation of new multilateral development banks and China’s escalating role as a global lender - the Bretton Woods Institutions remain massively influential, as do states like the UK that play an powerful role in driving their agendas. From their neocolonial governance structures to their market-first approach, status quo international development finance is not yet compatible with the twin goals of the global Green New Deal. With just over a decade left to stop irreversible climate breakdown, tinkering around the edges is not an option.

The following sets out some of the key barriers to achieving a such a deal under the current policies and practices of the Bretton Woods Institutions, and offers steps – shaped by key, demands from global civil society organisations and trade unions – that states like the UK could take to help this transformative vision.

1 — Sustainability is in the grip of finance – we need to reclaim it

As the climate crisis escalates, the push for divestment from fossil fuels has celebrated important wins — not least the pledge by the World Bank to cease project lending for ‘upstream’ oil and gas projects after 2019 — but a full just transition is far from a reality, as climate activists call for an end to other fossil fuel funding and improved accountability mechanisms to monitor progress.

A recent drive to push market-based solutions to achieving the Sustainable Development Goals has sent alarm bells ringing among activists. The controversial Maximising Finance for Development strategy being advocated by the G20 and World Bank Group is an illustration of such a drive. Here, they have embarked on a re-engineering of finance to maximise the profits of new asset classes, rooted in a volatile shadow banking system to enable so-called investable opportunities in areas such as water, health, education and infrastructure. In light of this, academics, led by renowned shadow-banking expert Daniela Gabor, called for a reformed agenda in line with the Paris Agreement and the Sustain-
able Development Goals, as well as a resilient global safety net and a framework for managing volatile portfolio flows into local securities markets.

Research by Somo furthermore revealed that by encouraging a ‘light touch’ approach to lending by using third-party financial intermediaries, the World Bank’s International Finance Corporation (IFC) — with a portfolio worth a colossal $57 billion — has been embroiled in a string of environmental and human rights scandals. Moreover, as highlighted by Counterbalance, adding to the alarm is the new generation of top-down and mega-infrastructure projects that envisage infrastructure as a financial asset class. And, as Xavier Sol points out, critiquing infrastructure is often challenging:

“How is it possible to criticise an infrastructure-related agenda in countries where basic needs of the population — which could be well served by better infrastructure and public services — are not met? At the same time, the multi-faceted impacts and dimensions of such infrastructure projects — ranging from transparency, corruption, tax, debt, poverty eradication, human rights and environmental impacts — imply that a great diversity of local communities and social movements will inevitably face the challenges raised by this agenda in the coming years and decades.”

Experts and campaigners have called for an end to an approach that seizes wealth from communities, often with harmful environmental outcomes, and for infrastructure that prioritises social and environmental justice, including exclusions for coal and upstream oil and gas funding in all financial intermediary investments, and to help past damages by ensuring financial intermediary clients redress affected communities. There further remains a need for a consensus between institutions, such as multilateral development banks and investors, about what precisely constitutes as sustainable infrastructure — including how best to align infrastructure projects with national and international climate commitments and human rights obligations, as well as a need to integrate comprehensive consultation with project-affected communities.

Discussions around plugging the infrastructure gap in accordance with a just transition must also involve concrete steps towards debt restructuring and relief, as discussion below, as well as elevating the financial instruments needed for low-income countries to see a just transition, such as increasing grants-based financing and expanding concessional lending — a point of particular importance for wealthy states like the UK. Predicated on the basis of making polluters pay, organisations such as Stamp Out Poverty have proposed a Climate Damages Tax, meaning that those responsible for the climate problem could raise approximately $300 billion a year for Loss and Damage to support the most vulnerable deal with the worst impacts of climate change.

Another way in which selling development finance to the market is transforming infrastructure investment in to bankable projects is through public-private partnerships (PPPs), which have been aggressively exported by the World Bank and, to a much lesser extent, the IMF. The World Bank among other international actors has attempted to leverage the private sector under the guise of achieving the SDGs and plugging the infrastructure finance gap. As illustrated by the trail of devastation left in the wake of the Carillion collapse, PPPs carry problems such as contingent debt liabilities that squeeze the fiscal space needed for public investment — a point of particular concern in fragile and low-income economies. A World Bank-backed PPP hospital in Lesotho, for example, was a world report by Oxfam International to have locked one of the poorest nations on the planet into an 18-year contract that consumed more than half of its annual health budget, and a recent Eurodad report exposed that such partnerships often carry devastating social and environmental consequences.

Disappointingly, the UK continues to play a central role in exporting this failed model. Last year, over 150 global civil society organisations called for an immediate moratorium on all PPPs and for support to be provided to countries to find the best financing method for public services in social and economic infrastructure.

The need to hold the institution to account for its decisions is of particular importance following the historic US Supreme Court ruling against World Bank’s claim of absolute immunity, after Indian fish workers sued the IFC for harm caused by a coal-fired power plant — a move that shadowed calls for bolstered accountability and transparency in areas such as the World Bank’s weak safeguards in forest protection, which campaigners argue has harmed communities and failed to protect forests.

Changing the ethos of finance in relation to climate breakdown must also extend to other actors, such as central banks, and a commitment to a joined up approach between the financial sector and international institutions. Following pressure from the likes of the New Economics Foundation, 34 central banks and supervisors representing five continents — and 50 per cent of the global greenhouse emission — supported the monitoring of climate-related financial risks in day-to-day operations, the integration of sustainability in to portfolio management, enhancing assessment of climate-related risks, and building in-house capacity and sharing knowledge with other stakeholders on management of climate-related financial risks. Disclosure alone, however, is not enough to inspire the systemic change needed — mandatory enforcement would be a more tangible step towards greening finance.

2. The need to reimagine crisis interventions in an age of climate disaster

The default response to economic crises management has been to impose contracting fiscal and monetary policies, usually accompanied by a series of structural reforms such as attacks on workers’ rights and wages, social security and pension cuts, deregulation, and privatisation, in order to meet the rigid fiscal targets.

The current treatment squeezes the fiscal space necessary for long-term, transformational, sustainable investment needed to make the Green New Deal a reality. As illustrated in the case of Jamaica, where the IMF requires a primary surplus of 7 per cent of GDP, the short-term approach of meeting severe fiscal benchmarks hinders the long-term investment needed for a just transition. Concerns such as this add weight to the growing movement, led by the Wellbeing Economy Alliance, to transgress beyond such narrow fiscal benchmarks as the measurement for a healthy economy.

Moreover, the promise of cutting your way to prosperity has not materialised, and the corrosion of the state has often had a detrimental impact on the health, training, qualifications and livelihood of the workforce. For the jobs potential of the Green New Deal to be achieved, it will require investment in universal, publicly owned vital services — in accordance with internationally agreed development goals — to support workers.

Thus far, the IMF’s primary contributions to the climate debate have focused largely on carbon pricing and energy subsidy reforms in particular. In order to address the twin goals of the Green New Deal, the basic policy decisions of the IMF will need to be re- evaluated.

Such decisions do not exist in a vacuum, as demonstrated by recent research revealing that structural adjustment increases income inequality, and further that the current approach is hindered by the habit of governments to fulfill internationally-agreed human rights obligations. Indeed, a UN report last year criticised both institutions’ aggressive promotion of privatisation, arguing that widespread privatisation of public goods in many societies is ‘systematically eliminating human rights protections and further marginalising those living in poverty.’ A Eurodad report...
found a grand total of 506 conditions attached to 53 World Bank Development Policy Operations, and while the IMF has taken important steps to changing its attitude in recent years in areas such as gender and inequality, the integration of this into its mainstream policy agenda has been slow. Another Eurodad study found that in IMF programmes approved in 2016-17, 23 out of 26 programmes were still conditional on austerity, and the IMF’s own conditionality review this year found that structural conditions have been on the increase. Entangled in the austerity debate is a need to explore alternative means of creating fiscal space, as suggested by the International Labour Organisation, such as the reallocation of public expenditures, wealth taxes, clamping down on tax avoidance, debt relief and restructuring or the adoption of a more accommodative macroeconomic framework. Indeed, last year, over 50 global civil society organisations wrote a joint letter to the IMF, calling on the institution to radically rethink its approach to conditionality in favour of one that protects the achievement of Sustainable Development Goals and human rights commitments – a move that would completely transform conditionality.

As well as their policy influence over international financial institutions, the extractive domestic policy of many wealthy economies often eats away at tax revenue needed for a just transition in other states. The UK – and its collection of tax havens - is a prime example of a financial system engineered to perform precisely this. A Tax Justice Network report found that UK territories and dependencies made up eight of the ten jurisdictions who received the highest corporate tax haven scores for enabling tax avoidance – just one of the many toxic legacies of colonialism embedded in the global ecosystems of finance. Given that the exploitation of tax loopholes and use of tax havens is estimated to cost developing countries $100 billion of lost corporate income tax, it is clear that in changing the rules of finance will require a fundamental redesign of the current abusive tax system. A good start for the UK would be to adhere to the demands of the G77, representing over 130 developing nations, who called for the creation of a UN intergovernmental tax body to push governments to commit to not corrode the tax yield of others. Moreover, the UK’s irresponsibly low corporation tax rate teamed with an exploitative tax haven network fuels a global race-to-the-bottom. Over the past decade, the UK’s main corporate tax rate has been slashed from 28 per cent to just 18 per cent, and soon to be cut further to just 17 per cent. IMF research demonstrates that if multinationals were to be taxed in line with the countries where employees work, developing countries would see their tax yield rise by over 30 per cent on average.

Loan conditionality, technical assistance and policy advice is further seen to deteriorate the sovereignty of borrower nations, corroding the state-led democratic ownership of economic and development strategies. Adding to this is the criticism that lending programmes protect creditors while failing to address the underlying causes of debt, paving the way for a future of monstrous debt-service payments, which, as stated by experts such as Dinah Musindarwezo, disproportionately harm women and minorities. This is of crucial importance when dealing with unprecedented climate breakdown. Entire regions such as the Caribbean are intensely vulnerable to climate crisis-related disasters. As noted by Jubilee Debt UK, damage in Dominica from Hurricane Maria alone has been estimated to amount to the equivalent of 330 per cent of GDP. Another illustration of climate destruction is that of Mozambique, which was recently hit by two devastating cyclones in the immediate aftermath of a debt crisis shaped by secret loans from London-based banks – A stark reminder that the actions of the UK’s banking class have global repercussions. Despite describing Cyclone Idai as “the worst and costliest natural disaster ever to strike the country” and issuing an emergency loan, the IMF deemed the situation not damaging enough to warrant debt relief. Re-emphasising the cross-border
nature of the calamity, the Mozambican case also highlights the failure of Western lenders - like UK-based banks - to comply with legal frameworks, and the subsequent need to reform how financial regulators hold them to account for their actions.

Strengthened by the fight against climate breakdown, civil society organisations, such as Jubilee Debt Caribbean, have called for urgent reforms such as the creation of a fully independent debt workout mechanism that could pave the way for debt restructuring and relief, as well as a global consensus around the need for stronger and creditor responsibility, increased loan transparency in the form of new mandatory rules to ensure lenders disclose information on loans to governments, and debt moratoriums following climate disasters.

### 3 — Changing the players to change the game

Aggravating the debtor-to-creditor power imbalance in the Bretton Woods Institutions is their neocolonial governance structures. The influence wielded by North America and Europe – major creditors - as dominant shareholders is of longstanding concern and paves the way for the marginalization of low and middle-income states. As Fanwell Bokosi, director of Afrodad, said, three quarters of a century after its founding, “the IMF quota system still reflects the colonial mentality that prevailed at its establishment.”

The current structure is also over-representative of the worst offenders of fossil fuel emissions. The governance debate thus needs to move beyond a proxy-struggle between the US and China, and towards concrete democratic commitments such as ending the archaic, anti democratic ‘gentleman’s agreement’ which stipulates that the IMF managing director is a European and the World Bank’s president is from the US - significantly increasing the number of Executive Directors in regions such as Sub-Saharan Africa, applying a cap on the number of states grouped in constituencies, and exploring alternative voting processes, like double majority voting.

Considering that so much of status quo crises management is characteristic of a market-based approach, there is also a need to enhance the plurality of voices and perspectives within institutions. Following previous accusations of ‘groupthink’, which were cited as being partly responsible for the IMF failing to predict the financial crisis, a UN report highlighted that between 1980 and 2000 almost 74 per cent of all senior staff appointees had been educated in the US or UK. Aggravating this is the fact that only 5.4 per cent of B-Level IMF economists were from Sub-Saharan Africa, meaning that people from some from some of the countries most affected by IMF policies are least represented in shaping them.

As demonstrated by the calls for an independent debt workout mechanism and the creation of a UN tax body, the World Bank and the IMF have adopted roles that extend beyond their institutional mandates and competence. The reversal of mission creep to roll back the encroachment of other institutions’ mandates and enhanced the democratic ownership of development-related policy making will require a renegotiation of the Relationship Agreements between the IMF, World Bank and the UN to clarify the boundaries of responsibility between each institution and work towards integrating internationally agreed climate and human rights-based agendas in to the operations of the Bretton Woods Institutions.

### 4 — Moving forward as an ally

The risk of irreversible ecological breakdown and worsening inequality necessitate urgent and collaborative action. In order to achieve the twin goals of social and environmental justice espoused by the Green New Deal, and in order for international institutions to galvanise legitimacy amid a crisis of confidence, the multilateral landscape requires a radical overhaul: questions around who makes the financial rules and in whose interests should rest at the heart of this.

While some progress has been made, the policies and programmes of the Bretton Woods Institutions have deepened financialisation and failed to create sustainability development at a devastating human and environmental cost. The capture of the language of sustainability involved in everything from marketing the murky world of shadow banking to the exporting the failed PPP model – something that the UK has been at the forefront of – is illustrative of the limitations of market-based solutions to bring about transformational change. As the clock ticks, we need actions that extend far beyond a rhetoric shift, towards a reimaging of the operations and make-up of international institutions and the wider financial landscape.

Yet lessons can be learned as to how the UK goes about doing this: We have traditionally played a central role in shaping financial rules that have accelerated ecological breakdown and exacerbated inequality, in no small part due to our role as an international financial hub and global creditor. While it is welcome to see discussions emerge around Green New Deal, many of the key demands outlined above would be novel here, but not elsewhere. People and organisations in affected states have been resisting the neoliberal policy agenda for decades and demanding a radical overhaul, towards one in line with the twin goals of environmental and social justice. The UK is late to the party, and it is important to bare that in mind moving forward.

Some of the most transformative actions the UK could take would be to dramatically shift its approach to financial regulation and tax policy at a state level. A good start would be to tackle extractive tax havens draining tax revenues needed for a just transition, increase corporation tax to a responsible level to halt the UK’s role in that race-to-the-bottom, and reform the culture within and regulatory oversight of the UK financial sector to ensure that environmental disasters such as the one in Mozambique are not worsened by corrupt behaviour of UK-based banks.

The UK’s role in reforming the Bretton Woods Institutions to help support a global Green New Deal will also require playing a different position in the international community more broadly, with regards to what is supported, who key allies are, and in reviewing scope of influence.

Adhering to demands set out above to ensure that policies and programmes of the institutions support international commitments such as the Sustainable Development Goals, the Paris Agreement and human rights obligations would be a huge divergence from the current approach. Importantly, building on this, the vision of a global Green New Deal offers an opportunity to reassess central powers and allies on the international stage, and reposition the UK as a champion of the voices of global trade unions and civil society organisations, sourcing policy inspiration from voices of affected communities. By throwing its weight behind the voices of the G77 in calling for a UN tax body, the 150 global civil society organisations that demanded a moratorium on PPPs, or the longstanding demands for the creation of an independent debt workout mechanism, for example, the UK could use its influence not as a trailblazer, but in solidarity.

Part of this process should further entail knowing when to take a step back and let others lead the way. The overrepresentation of the likes of Europe and North America on the IMF and World Bank boards is emblematic of deep structural imbalances in a multi-lateral system that too often marginalises the other voices; inequality that is reinforced by a financial landscape that too often drains the finances of low income countries and bundles it to already wealthy nations. Elevating the voices of underrepresented states and regions must simultaneously involve lessening the voices of those that have traditionally dominated this landscape.
References


