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ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS (MDGs) REQUIRES FUNDAMENTAL REFORMS IN THE INTERNATIONAL FINANCIAL ARCHITECTURE

*Development-oriented macroeconomic policies, debt mechanisms
and innovative financing measures are critical to achieve the MDGs*

*United Nations General Assembly hearings on the Millennium
Development Goals*

June 15, 2010, New York

In the last few years, as the world economy has experienced both a financial and an economic crisis of magnitude proportions, the predominant arrangements and assumptions of the model for economic development and global finance has also come into a fundamental crisis of its own.

As the shock waves of the global financial crisis rippled over the developed world, painful repercussions were generated for developing countries, which are still reeling from the deep contraction in world demand and the consequent decreases in export earnings, FDI and private capital flows, and remittances, despite news headlines and official reports that say the world is now in a 'post-crisis mode.' These effects not only exacerbate the already existing challenges in achieving the MDGs, but also point to systemic flaws and gaps in the economic development model pursued by most developing countries, such as macroeconomic policies, debt measures and financial liberalization.

National development strategies are critical for achieving the MDGs

The MDG strategies, through the framework of the 8th goal to “develop a global partnership for development,” should strive to reinforce the importance of national development strategies which build the productive capacities and social and economic infrastructure of developing countries through pro-active and strategic policies. Only then can the massive scaling up of public spending and investments necessary to achieve the MDGs take place.

Such an emphasis can be further strengthened and elaborated in **Paragraph 30 in the Draft Outcome Document for the MDGs, under the heading “The Way Forward – An Action Agenda for Achieving the MDGs by 2015,”** which states, *“We reaffirm our commitment to adopt and implement comprehensive national development strategies to achieve the internationally agreed goals, including the Millennium Development Goals. We call on the United Nations system to support the design and strengthened implementation of these strategies, at the request of Member States.”*

The successful development lessons of history clearly illustrate that the achievement of comprehensive advances in human development has been a result of economic development models characterized by economic diversification, job creation, and technological upgrading driven by concerted public spending and investments and national policy space for selective trade protections, financial caution, and industrial policy tools, among other flexibilities.¹

However, many developing countries have not had the national policy space, market and technology access, and symmetry of rules required in the international economic architecture to be able to pursue a development-oriented national strategy. **In this sense, there is a fundamental mismatch between the ambitious framework of the MDG targets and the predominant economic model in many developing countries, including the least developed countries (LDCs).** This economic model is characterized by an agenda of financial and trade liberalization which results in a serious lack of public investments and spending that scale up productive capacities through strategic economic diversification and employment-creation, and through the development of public social services in health, education, and housing.

This disjuncture highlights the underlying need to lay out a conceptual and analytical basis for new MDG-based national development strategies, not just indicators, for post-2015. **A central challenge in creating this basis is not the lack of explicitly economic goals in the MDG framework, but rather the challenge of formulating a policy strategy, in the context of an imbalanced global financial and trade system, that would back up the human-development ambitions of the MDG framework.**²

We call for urgent efforts to enhance the policy coherence, governance and consistency of the international monetary, financial and trading systems order to foster a supportive and enabling international environment for development and achievement of the Millennium Development Goals. In this regard we stress the pressing need for substantive and comprehensive reform of the international economic and financial system and architecture to better enable it to respond to and

¹ See, for example, Reinert, Erik S., *How Rich Countries Got Rich ... and Why Poor Countries Stay Poor*, 2007, London: Constable Press.

² United Nations Conference on Trade and Development (UNCTAD), “Reconnection the Millennium Development Goals to the development agenda: an UNCTAD perspective,” Note by the UNCTAD secretariat, Trade and Development Board, Forty-ninth executive session, Geneva:8-9 June, http://www.unctad.org/en/docs/tdbex49d3_en.pdf.

prevent financial and economic emergencies, effectively promote development and equitably serve the needs of Member States.

MDG Goal 8: To build a global partnership for development

Goal 8 of the MDG framework, the goal to build a global partnership for development, is meant to reflect the efforts of the international community in supporting developing countries to achieve their economic and social development goals. **MDG #8 can also be understood as a fundamental precondition for the achievement of the first seven goals.**

It incorporates six main targets: (a) develop further an open, rule-based, predictable, non-discriminatory trading and financial system; (b) address the special needs of the LDCs; (c) address the special needs of LDCs and SIDS; (d) deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term; (e) provide, in cooperation with pharmaceutical companies, access to affordable essential drugs in developing countries; and (f) make available, in cooperation with the private sector, the benefits of new technologies, especially information and communications.

Three key areas in the international financial architecture impeding the MDGs

There are three key areas in the international economic and financial architecture that impede the realization of MDG #8, and thereby the realistic achievement of the MDGs, by blocking the ability of developing countries to implement policies that prioritize domestic revenue creation, public spending, and investments for broad-based and equitable development.

The first is that of the pro-cyclical and deflationary macroeconomic framework that has dominated policymaking both globally and nationally. This framework, institutionalized and promoted by the International Monetary Fund (IMF), capital markets, and many aid agencies, has obliged policymakers to focus on macro-stability. IMF loans to crisis-stricken countries across the world still, as in the past, carry fiscal and monetary conditions for fiscal austerity, monetary policy tightening, and a prioritization on debt repayment and maintaining open capital accounts.

This macro-stability focus predominantly serves creditors, investors, and markets, often at the expense of development-oriented macroeconomic policies that allow for consistent and scaled-up public spending, access to credit, and long-term investments in public services and production sectors across agriculture, industry, and services. It is through such concerted spending and investment that the creation of domestic revenue, wage growth, skills- and capacity-based employment, as well as education and health advances can take place.

This relates to Paragraph 20 in the Draft Outcome Document for the MDGs, which states that “successful policies and approaches from countries that could be replicated and scaled-up,” include that of “forward-looking macroeconomic policies that lead to sustained, inclusive and equitable growth.” This paragraph can be

further strengthened and expanded by articulating the need to reform current macro-economic policies that prioritize stability through low inflation and deficit levels, and debt structures which prioritize external debt servicing over domestic import and spending needs, in order to allow developing countries to significantly increase public spending and investments for MDG achievement.

The second constraint to scaling up investments for national development strategies that can achieve the MDGs is that of debt sustainability in developing countries and the palpable absence of an international debt resolution mechanism able to guarantee a speedy and fair solution to sovereign debt crises. While the recent crisis has created soaring debt burdens across the developing world, the ‘debt overhang’ in most countries has persisted over many decades as result of the liberalization- and deregulation-led economic model that promotes borrowing as a source for capital.

The consequence of debt burdens for public revenue in developing countries is critical, as foreign exchange earnings are funneled into external debt servicing obligations rather than to the current account for key imports payments necessary for building the domestic economy or to public investments vital to strengthen the health and education sectors.

The United Nations has proposed the creation of a sovereign debt resolution mechanism for a number of years, also echoed by academics and policymakers in the wake of the current crisis. The Stiglitz Commission (2009), the South Centre (2009), and the Group of 77 (G77) proposal to the UN Conference on the World Financial and Economic Crisis in June 2009, all stress the need for an independent and fair debt arbitration court that can provide a single statutory framework for debt relief by ensuring that both creditors and debtors cooperate to restructure sovereign debt, with respect to a country’s unique economic conditions.³

A third impediment to development in the international financial architecture is that of capital account, or financial, liberalization which allows for the free cross-border mobility of capital, and the liberalization of financial services. Numerous voices have argued that the intense unpredictability and volatility of capital movements resulting from the concerted surge in financial liberalization around the world is one of the key drivers of recurring financial and currency crises.

Financial liberalization enables speculative trading, capital inflow surges, and ‘panic exits’ of capital, which are some of the root causes behind financial crises. Financial liberalization has been internalized across many developing countries “..as part of the stabilization and adjustment policies which marked the 1980s and 1990s,” and while the rhetoric that promoted financial liberalization promised greater growth and stability through more efficient allocation of capital, the track record has demonstrated repeated negative effects for growth, stability, equality, and policy

³ Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, 21 September 2009, Report, http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf.

space in the world economy.⁴

The IMF has long espoused the liberalization of the capital account in its economic surveillance and loan provision, and in many emerging market economies and middle-income countries that the Fund has provided loans to, the maintenance of an open capital account has often been financed by the loan money.

Furthermore, North-South free trade agreements (FTAs), bilateral investment treaties (BITs) and World Trade Organization (WTO) commitments often contain provisions that tie the hands of developing countries to regulate their capital account and their financial services sectors. Trade agreements can thus increase the likelihood of a financial crisis and make it more difficult to take the necessary measures to deal with one once it occurs.

⁴ UN Non-Governmental Liaison Service, "Decent Work and Fair Globalization: A guide to policy dialogue," 2010, United Nations: New York and Geneva.