Institutional Accountability in pro-Human Rights Growth Policies: The IMF Perspective[1]

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for

Commission on Human Rights – Social Forum
Geneva, Switzerland
July 21, 2005

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Good afternoon,

First of all, may I say how pleased I am to be part of this panel and to participate in this year's social forum on the theme of "*Poverty and Economic Growth: Challenges to Human Rights*". Ever since my participation last year in the Human Rights Commission's High-Level Task Force on the Implementation of the Right to Development, I have been reflecting on the issue of the relationship between economic development and human rights. I am not sure that these reflections have completely matured—and I count on our panel discussion to help fill in the gaps—but I will try to share with you my perspective on the complex issues involved, which is my own and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

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Today, I have been asked to focus on the topic of "*Institutional Accountability in pro-Human Rights Growth Policies*". Admittedly, the topic involves a number of complex notions (i.e., institution, accountability, human rights, and development) with a no less complex set of relationships among them. Needless to say that it is far beyond the scope of my remarks to do justice to these long-debated issues. Given the limited time available, let me disentangle the topic into two parts, starting with a discussion of the concept of pro-human rights growth policy before turning to a brief discussion on the kind of institutional accountability needed to promote such policies.

I. PRO-HUMAN RIGHTS GROWTH POLICIES

One can think of two different definitions of what constitutes a pro-human rights growth policy. It could be defined as a growth-oriented policy that contributes, to the extent possible, to the realization of human rights. As economies grow and resources become more abundant, societal trade-offs become easier to make and countries can progressively afford the full realization of human rights, especially the more costly economic, social, and cultural ones. It is a well-established fact that more advanced economies have higher standards of living, including access to food, clothing, housing, medical care, social services, and so on. Alternatively, a pro-human rights growth policy could be defined as a policy-based approach to human rights by promoting economic growth. According to this definition, human rights, especially economic, social, and cultural ones, are not progressively achieved as a result of the development process, but rather as a result of deliberate policies, notably by empowering the poor with core economic rights. This definition is in turn based on the empirical evidence that countries with a record of human rights' violation, notably economic rights, are usually mired in a poverty trap.

Those two definitions would, a priori, call for different development strategies and different sets of macroeconomic policies. The first definition would tend to emphasize the importance of promoting highly sustainable pro-poor economic growth that would contribute to the progressive realization of human rights. Since the adoption of the PRSP process, the MDGs and the Monterrey consensus, this first approach is relatively well-known territory for the development community. The second definition would stress the importance of empowering people with rights—that is, with entitlements that give rise to legal obligations—as the main engine of economic development. While elements of a rights-based approach to development resonate with the PRSP process, notably the participatory element, this approach is relatively more familiar to the human rights community. Let me say a few words about each of these approaches and the different interpretations and policy recommendations that they can lead to.

Pro-poor economic growth

Ever since Kuznets (1955), scholars have been arguing about what constitutes pro-poor economic policies. It has been perceived that the fruits of economic growth are not always fairly distributed, that they tend to confine and concentrate in some groups and areas, and that the so-called trickle down effect too often fails to reach the poor and needy, even in the long run. In other words, growth and equity are not always perceived to go hand in hand. Historically, this perception has generated two types of policy response: one aimed at expanding the role of states, and the other aimed at expanding the role of markets.

The state-oriented policy response stems from the existence of public goods and from the perception that markets, especially in developing countries, are not always efficient, in that they are subject to failures and externalities that can lead to

undesirable distributional outcomes. In order to address these market deficiencies, countries have experimented with varying degrees of government control on the production, distribution, and consumption of goods and services. For instance, price controls are introduced on basic foodstuffs and other goods deemed of importance to the poor, on housing rents, or on public utilities. A minimum wage, unemployment benefits, and other legislation for the protection of employment are introduced to increase the poorest workers' standard of living. Tariff and non-tariff barriers, such as quotas, are imposed on imports to encourage local production, import substitution, and employment. Current and capital account transactions, including FDI, are made subject to restrictions to control the use of foreign exchange. I could give more examples. However, notwithstanding the good intention of protecting the poor, it is fair to say that these and other government interventions have often failed to deliver the results intended and at times have even had the perverse effect of delivering the opposite, thereby confirming over and over again Merton's (1936) law of unintended consequences of policy actions.

In contrast, a market-oriented policy response will recognize that developing countries' various market failures, notably in the markets for credit, insurance, land, and human capital, may simply result from state regulations or institutional imperfections. Instead of expanding the scope of the state to deal with these imperfections, it would be preferable to address them at source. For instance, as pointed out by Balcerowicz (2004), regulations aimed at controlling prices, wages, rents, interest rates, and so on, can lead to shortages and the rationing of goods, employment, housing, and credit, which in turn prompt public intervention to fill the void and correct a so-called market failure. However, in these instances, the void does not pre-exist the public intervention; it is created by it. Typical examples are housing, where rent controls generate demand for social housing, or employment, where ill-designed labor market regulations generate structural unemployment.

While the superiority of market-based solutions to the development problems facing the poor may have gained momentum in the last few decades, this is no magic bullet, particularly as regards the realization of the panoply of economic, social, and cultural rights. The truth may be that we still know too little about what constitutes pro-poor economic growth and that given this lack of understanding, the classical doctor's dictum "first, do no harm" is in order.

Investigating the link between income of the poor and overall income for 80 countries covering four decades, the World Bank (Dollar and Kraay, 2002) came to the conclusion that, contrary to popular myth, standard pro-growth macroeconomic policies were good for the poor as they increased the poor's income to the same extent as they increased the income of other households in society, with no significant adverse effect on the distribution of income. The basic policy package of such standard pro-growth macroeconomic policies would include (1) expanding access to productive assets through the protection of private property rights; (2) delivering the public good of macroeconomic stability; (3) promoting fairness in markets, reducing barriers to entry, and ensuring that the rule of law applies equally to all participants; and (4) ensuring openness to trade. On the other hand, the authors find no evidence that a large degree of government spending on social services has any effect on the income of the poor. Furthermore, they found that this growth-poverty relationship had not changed over time, did not vary during crises, and was much the same in both rich countries and poor.

Rights-based economic growth

Turning to the rights-based approach to development, I would suggest that a debate similar to that on the role of states and markets in the promotion of pro-poor

economic growth is taking place as to the nature of the rights with which to empower people, including the poor, in a rights-based approach to economic growth. While most scholars would have no difficulty in including the panoply of civil and political rights from the International Bill of Human Rights, including the important elements of participation, non-discrimination, and transparency, they may argue about the exact nature and scope of economic rights to consider. In particular, should a rights-based approach to development emphasize the positive rights identified in the International Covenant on Economic, Social, and Cultural Rights, or should it rather embrace the concept of economic freedom?

It is certainly legitimate for the UN to embrace a rights-based approach based on the instruments of international human rights norms that have acquired the highest level of global legitimacy, in particular the Universal Declaration of Human Rights and the two International Covenants on Civil and Political Rights, and on Economic, Social, and Cultural Rights. However, to the extent that such a rights-based approach relies on positive rights—that is, claims on third parties through government coercion—for instance through regulation and taxation, it is unlikely to provide a new development paradigm. For instance, there is no doubt that providing everyone with the panoply of economic, social, and cultural rights, including the right to food, clothing, housing, health, education, and other social services, would make poverty history and solve the development puzzle. However, there is something tautological in this approach that offers little guidance on how to bring about the development process and the resources needed to fulfill these rights in the first place.

Furthermore, a rights-based approach based on the realization of positive economic rights raises a number of conceptual issues ranging from the notion of a positive list of rights (how do we reconcile differing views on what such a list should include?), to the scope of those rights (what exactly is “adequate housing”?), the enforcement of

such rights (who is the duty-bearer?) and to the broader logical issues related to the progressive realization and indivisibility and interdependence of such rights. At the more philosophical level, a number of critically demanding scholars still considers that the only genuine human rights are negative rights, i.e., rights that impose only negative duties on individuals and states. Hayek (1976) has elaborated on this traditional distinction between negative rights and positive rights to conclude that positive rights are fundamentally incompatible with a free society, in which individuals determine their own position according to their own goals and means.

Yet, a rights-based approach that would empower the poor and make them the true subject of their own development has potentially a lot to offer to the development community. Looking at the economic, social, and cultural rights that would be relevant from an economic development perspective (as opposed to a humanitarian assistance perspective) would lead one to highlight a completely different set of economic rights than the economic, social, and cultural rights usually discussed in UN debates. In the same way that civil and political rights are about civil and political liberties, economic, social, and cultural rights ought to focus first and foremost on the protection of economic, social, and cultural freedom. The key ingredients of economic freedom would include personal choice, voluntary exchange (both domestically and internationally), freedom to compete, and protection of person and property. Economic freedom has also to do with the extent to which a market economy is in place—that is, the degree to which it entails the possibility of entering into voluntary contracts within the framework of a stable and predictable rule of law. Such a framework should uphold contracts and protect private property, with a limited degree of interventionism in the form of government ownership, regulations, and taxation. Although the concept of economic freedom is difficult to measure, empirical evidence generally shows that economic freedom is closely associated with economic development in a positive causal relationship.

Let me conclude this first part by highlighting that, far from being inconsistent, there is a potentially strong congruence between the development and human rights "frameworks" in the promotion of pro-human rights growth policies. As we have seen, there are versions of the development and human rights approaches to economic growth and poverty reduction that are mutually supportive and internally consistent as regards the respective role of states, markets, and individual rights in the development process. Notwithstanding the complex cause and effect chains, the maintenance over a lengthy time period of institutions and policies consistent with civil, political, and economic liberties is a major determinant of current cross-country differences in per capita GDP. In terms of social achievements, according to Economic Freedom of the World (2004) for instance, countries with more economic freedom have substantially higher per capita incomes, including for the poorest 10 percent of the population, longer life expectancy, higher adult literacy, lower infant mortality, lower incidence of child labor, better access to water sources, and greater overall human development achievement as measured by the UN. The second part of my presentation will briefly touch upon institutional accountability in the promotion of such pro-human rights growth policies.

II. INSTITUTIONAL ACCOUNTABILITY

Human rights are essential elements of a society's institutional framework. In that sense, a rights-based approach to development clearly belongs to the institutional school of economic growth. Human rights influence the nature of institutions, their mandates, and the structure of rules and norms that, in turn, impact on economic freedom, economic behavior, and development. The accountability of institutions is thus of particular importance to a theory based on the respect of individual rights and the rule of law. The natural level of accountability in this institutional setting is that of

the nation state and, at a much lower degree, that of supra-national actors. I will thus discuss the accountability of domestic institutions before turning to the accountability of international institutions such as the IMF.

Domestic institutions

In politics, and particularly in representative democracies, accountability is an important factor in securing good governance and protecting the public's interest. It constrains the extent to which elected representatives and other office-holders can willfully deviate from their theoretical responsibilities, thus reducing corruption. Accountability also resonates with responsibility and transparency at all levels of the state apparatus (executive, parliamentary, and judiciary). From a human rights perspective, I presume that states ought to be accountable and responsible for the protection of all civil and political liberties, including economic freedom. This means, among other things, the protection of persons and properties against all forms of violence, theft, and fraud, the establishment of a legal system to provide for the enforcement of contracts and the mutually agreeable settlement of disputes, and the guarantee of and respect for the rule of law.

Accountability from a human rights perspective should also recognize that protecting the rights of some citizens may be at the expense of the rights of others. In general, the degree of government coercion should not go beyond the extent necessary for the citizens of a community or nation to protect and maintain liberty itself. For instance, when governments tax some people in order to provide transfers to others, they reduce the freedom of individuals to keep what they earn. When government spending increases relative to spending by individuals, households, and businesses, government decision-making is substituted for personal choice, and economic freedom is reduced. In the same vein, when government enterprises increase their share of total output,

economic freedom is reduced as government enterprises play by different rules from those to which private enterprises are subject and often operate in protected markets. Restrictions that limit entry into occupations and business activities would also hinder economic freedom.

That being said, the pursuit of civil and political liberties and economic freedom does not mean that there is no role or scope for government activities. Instead, it calls for limited, but effective government. For instance, government should be accountable for collecting resources in an equitable, efficient and transparent manner, for managing and allocating these resources equally equitably, efficiently and transparently, and for reporting on the use of public resources. Government should also be accountable for providing citizens with access to sound money. As Keynes (1919) observed "by a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens." Inflation not only confiscates wealth and erodes the value of property, but also distorts pricing, misallocates resources, raises the cost of doing business, and undermines a free society. Hence, the importance of the central bank having a clear and accountable mandate to pursue price stability as its primary objective. One could multiply the examples of what constitutes domestic accountability at all levels of government, but let me turn to the institutional accountability of supra-national actors like the IMF.

International institutions

The issue of whether the IMF should be accountable to, or legally bound by, the International Bill of Human Rights, in particular the Covenant on Economic, Social, and Cultural Rights, has been widely debated. A number of legal arguments have been put forward to justify the applicability of the covenant to the IMF. Under one approach, the Fund, as a subject of international law and a specialized agency within

the UN system, would be bound by general norms of international law, particularly those that are adopted pursuant to the UN Charter. The conclusion would be that the covenant has a direct effect on the Fund, which is bound to implement its provisions. Under a second approach, the covenant would not apply directly to the Fund, but would have an indirect effect on it through its members, which would then have to discharge their obligation of cooperation with other states.

Gianviti (2001), the former General Counsel of the Fund, provided a comprehensive examination of the relationship between economic, social and cultural human rights and the activities of the IMF with a view to determining the extent to which the provisions of the covenant had a legal effect on the IMF, to what extent the IMF was obligated to contribute to the achievement of the covenant's objectives, and to what extent it might do so under its Articles of Agreement. He concluded that the IMF was not bound either directly or indirectly by the covenant. Institutional accountability for the IMF, as for any other international institution, means that the IMF is not free to disregard its own legal structure for the sake of pursuing goals that are not its own mandated purposes.

The fact that the Covenant on Economic, Social, and Cultural Rights does not apply to the Fund does not mean that the Fund does not contribute significantly to the achievement of the economic and social objectives of the International Bill of Human Rights. There is a close—albeit indirect—congruence between the purposes of the IMF as specified in its Articles of Agreement and the objectives of the covenants. It can be argued that the overarching purpose of the IMF is to help establish the economic and financial conditions that are a prerequisite for the achievement of economic and social human rights. These conditions include sustainable economic growth, a stable macroeconomic environment, a vibrant, market-based business environment for trade and investment, good governance through sound and

accountable institutions and a transparent legal framework, sound social policies, including cost-effective basic social expenditures, employment-generating labor market policies, and well-targeted safety nets to protect the poor during periods of structural adjustment.

Yet, within this broad framework, the appropriate mix of policy to be applied at any given time by any given government is an elusive matter. And mistakes can be made. Continuous adjustment of policies is an inescapable requirement, and results are never assured. In this context, what the international financial institutions can provide is advice and financial assistance intended to help countries establish and maintain the economic basis without which the states parties to the covenant are not in a position to fulfill their undertakings. For its part, the IMF is contributing to the objective of maintaining an international monetary system that provides a framework for facilitating economic growth. It is also pursuing certain economic rights that have a bearing on the achievement of social rights in an open economy, such as unrestricted payments for current international transactions, including family remittances. In providing financial assistance, the Fund is generally supporting market-based solutions that are consistent with economic freedom, taking into account the special needs of developing countries. In so doing, it helps the states parties to the covenant achieve their commitments under the covenant.

Another basis for Fund involvement is its assessment, as a condition for its assistance, that the member's program is viable and likely to be implemented. This means that if a program is so strict that it is likely to generate strong popular opposition, it may not be implemented, and the Fund should not support it. It also means that if egregious or systematic violations of human rights lead foreign governments or creditors to suspend financial assistance or other forms of external financing, the program may not be implemented, and the Fund should not support it. Clearly, this does not

establish a direct link with the objectives of the covenant. However, to the extent that major violations of economic and social human rights would trigger civil unrest or a lack of foreign financing, there would at least be an indirect link. Whether or not a program might create such problems is a matter of judgment for the Managing Director when transmitting the member's request to the Executive Board and for the Executive Board when deciding on the request.

Let me conclude simply by saying that, in principle, all development actors concerned about human rights, i.e., individuals, associations, civil society, states, international institutions, can be made accountable within their respective mandate, expertise and responsibility for the promotion of coherent pro-human rights policies. This sounds quite straightforward. The difficulty is that pending a broad understanding among these actors on the core elements of what constitutes a pro-human rights development strategy, they will remain accountable to bodies with different and, at times, inconsistent sets of values and norms, thereby making the quest for coherence in institutional accountability too often elusive.

Thank you.

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