

International Financial Architecture as a Global Public Good

Expert Roundtable in Support of Our Common Agenda (28 March 2022)

Remarks

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Where have we come from? Where are we going?

(and therefore: have we made progress? And what progress do we need to make?)

Where have we come from?

Early 2000s. Many of today's issues were on the table 20 years, when Anthony Atkinson led a UNU-DESA/UNU-WIDER on 'Innovative Development Finance', at the request of the UN-General Assembly (ECOSOC).² Specifically: taxing global public 'bads' to invest in global public 'goods' (especially climate action); increasing SDR allocations; mobilizing new sources of development finance (blending official and private capital and leveraging more private finance using ODA); Tobin taxes; debt relief (HIPC especially³); policy conditionality attached to multilateral and bilateral finance; and more. At the time (UN's F4D Summit in Monterrey, March 2002) there were very large estimates of the financing needed for the Global South. These are even bigger today, not least because of the still (largely unmet) need for climate finance.

Late 2000s/Early 2010s 'Global' Financial Crisis (though 'North Atlantic' in origin). Many parallels with the 1930s drawn at the time. Another large injection of liquidity by central banks (following monetary easing after 09/11; helped stimulate the financial system's leverage that ultimately sparked the GFC). Favourable financial environment from 2011 onward for sovereign debt issue by LICs and LMICs (credit re-rating after HIPC, and commodity super-cycle). Food price shock 2009 (exacerbated by easy credit). Some reconsideration of the virtues of financial liberalization and light financial regulation (but not enough).

Early 2020s. Covid-19 pandemic: and another big quantitative easing, in the context of global interest rates which were still low a decade after the GFC.⁴ In 2020, debt-default risk jumped, but with global QE many LMICs were still able to place sovereign issues (though Zambia defaulted) partly because commodity earnings rebounded after initial hit. Overall, a [disappointing international response](#) e.g. Debt Suspension Initiative: [only one private creditor has participated](#). But promising UN initiatives such as the UN-ECA [Liquidity and Sustainability Initiative](#), the UN's engagement with [credit rating agencies](#), as well as many constructive [proposals](#). SDR allocations finally increased (but not enough) and the World Bank's pandemic bonds paid out too little, too late. A leading donor (UK) reneged on its 0.7% aid commitment. COP26 financing commitment (\$100bn) disappointed (yet again). Carbon taxes got pushed higher up the agenda

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² Atkinson, A.B. (2004). '[New Sources of Development Finance: Funding the Millennium Development Goals](#)', UNU-WIDER Blog, which summarises the findings of Atkinson, A.B. (ed.) (2004). [New Sources of Development Finance](#), Oxford University Press for UNU-WIDER (Open Access Publication).

³ Addison, T., H. Hansen, and F. Tarp (eds) (2004). [Debt Relief for Poor Countries](#). Basingstoke: Palgrave Macmillan for UNU-WIDER.

⁴ Addison T., K. Sen, and F. Tarp (2020). '[COVID-19: Macroeconomic Dimensions in the Developing World](#)' WIDER Working Paper, 2020/74 (June).

(only to slide back down again as oil & gas prices rebounded in late 2021). Remittances held up better than expected at the start of the Covid-19 pandemic ([\\$589 billion in 2021](#)).

Similarities between today & early 2010s. ‘Triple Crisis’ of Climate, Finance, and Food (inflation).⁵ Inflation is much higher today: [OECD area inflation rate](#) hit a 30-year high in 2021 (6.6%).⁶ Fed & other central banks are signalling much higher rates. Very uncertain monetary policy environment given structural inflation (Covid legacy of disrupted global supply chains; energy price spike; food price spike consequent on Ukraine war). LICs and MICs sovereign debt (floating rate, dollar denominated) vulnerable to rate ‘overshoot’ and dollar appreciation. Debt position is unclear: 40% of LICs have not published any sovereign debt data for more than [two years](#) (inc. [opaque ‘resource-based loans’](#)). Private creditors are hard-nosed (binding contracts) and OECD-DAC donors are (mostly) ungenerous given their own post-Covid fiscal and debt positions. There is now greater attention to domestic tax and financial mobilization given the unfavourable aid environment, but there are limits to how much more progress LICs can make in pushing up their tax/GDP ratios: shocks such as Covid-19 rapidly overwhelm their public finances without quick and extensive international financial support.⁷

Meanwhile: illicit financial flows continue to grow and morph; tax havens continue; rise of crypto currencies; role of US dollar in reserve system (and implications of financial sanctions); sovereign wealth funds as bigger financial players; reconfiguration of international aid system (rise of China as a donor) and (relative) decline of role of multilateral finance (but regional development banks and AIIB bigger players).⁸

Where are we going?

- (i) Future direction of inflation, rates and global liquidity will be a key determinant of the scale of financial distress in next two years e.g. occurrence of financial contagion events in bond and equity markets and prospects for developing world finance and debt-service (and related need for IMF assistance). Back to the 1980s (‘the adjustment decade’)?
- (ii) Where does the climate crisis as the most important global public good now sit in priorities of policymakers? Can we accelerate the delivery of the necessary climate finance to the developing world to ensure that the SDGs are met? If not, then the energy poverty and the poverty and climate goals will be unachievable.
- (iii) Ultimately the situation of the international financial architecture in any decade reflects, and interacts with, the state of geopolitics (1930s depression, 1945 post-war recovery, Cold War start and end, Ukraine War), and balance of power (global financial hegemon, powerful versus weak states in setting the rules and determining the flows of finance). Is the era of financial globalization over? And what does this mean for the developing world?

⁵ Addison, T., C. Arndt, and F. Tarp. (2011). [‘The Triple Crisis and the Global Aid Architecture’](#). *African Development Review*, 23(4): 461–78.

⁶ In 2009-11, food prices spiked but [global inflation](#) peaked at 4.8% in 2011, which is less than today.

⁷ See UNU-WIDER’s Domestic Resource Mobilization Project, supported by NORAD <https://www.wider.unu.edu/about/domestic-revenue-mobilization-programme>

⁸ We have only reviewed the last 20 years. Many of these issues go back even further (e.g. the debt crises of the 1970s and 1980s); policy conditionality attached to concessional lending and grant aid has been a constant theme for 50 years and more; and the rise and fall of the international reserve currencies is a centuries-long story.