The Threat to Economic Liberty from International Organizations

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It is one of the abiding ironies at the beginning of the new millennium that various international organizations set up after the Second World War to create a new Liberal International Economic Order (LIEO) are now the major purveyors of global illiberalism. How has this come to pass? Is there any need for these international organizations? These are the questions I address in this article.

Liberal International Economic Order

After the Second World War the United States sought to create a new LIEO. That effort was partly in response to its own isolationist behavior in the interwar years, which had contributed to global economic disorder and the destruction of the first LIEO built by the British in the 19th century. However, there were important differences in the instruments used by these two imperial powers in creating their LIEOs.

The 19th century LIEO was built on five pillars: free trade, laissez faire, the gold standard and free mobility of capital, free labor mobility, and international property rights. In the interwar years this LIEO unraveled. The imposition of the Smoot-Hawley tariff by the United States marked the end of free trade. The "Blue Sky" laws, which banned U.S. banks from lending to foreign governments, and the collapse of the gold standard into a whole host of dirigiste

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interventions in the payments regime (like exchange controls) ended the free mobility of capital. The rise of welfare states ended free labor mobility, and immigration controls became ubiquitous as welfare states created property rights in "citizenship"—with a "citizen" having the right to pick the pockets of his fellow citizens. The international legal order, painstakingly put together by a series of treaties in the 19th century, disintegrated with the rise of the Bolsheviks in Russia and Kemal Attaturk in Turkey, who repudiated any international property rights in the name of national sovereignty. Laissez faire became a victim to the growing dirigisme in Europe at the turn of the 19th century and in the United States with Roosevelt's New Deal.

After the Second World War, at Bretton Woods, the United States tried to resurrect three of the pillars on which the 19th century LIEO had been built: free trade, the gold standard, and free capital mobility. But, whereas the British Empire had fostered these by example, treaties, and direct and indirect imperialism, the United States instead created transnational institutions: the General Agreement on Tariffs and Trade (GATT) followed by the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank. But, there was no hope of resurrecting free mobility of labor with the spread of welfare states in all the industrialized countries, or of restoring laissez faire with the ensuing expansion of the state. Likewise, with the explosion of economic nationalism in the Third World, aided and abetted by the U.S. Wilsonian anti-imperialist moralism that scuttled the ill-fated Suez adventure of the British and the French in 1956 to prevent Nasser's nationalization of the Suez canal, there was no way in which the new nation states could be thwarted in the assertion of their national sovereignty against any purported international property rights. Indeed, there was no bulwark against this disintegration of the international legal order.

GATT, the WTO, and Free Trade

Rather than follow the correct British policy of adopting unilateral free trade and then allowing its hegemony to spread the norm, the United States chose the extremely acrimonious route of multilateral and more recently bilateral negotiations to reduce trade barriers. Unlike the British, who had correctly seen free trade as a positive-sum game and since the repeal of the Corn Laws adhered to it and its close cousin laissez faire throughout the 19th century (despite various attempts by politicians like Joseph Chamberlain to stir the pot by demanding protection in the name of "fair trade"), the Americans have never accepted the classical liberal case for free trade.[1] They have always looked upon trade as a zero-sum game. They have been protectionist. Only for a brief period between 1846 and 1861 was there a relatively liberal trade policy, and even then the average ad valorem tariff on the 51 most imported categories of goods was 27 percent.

The principle of reciprocity has been the central tenet of U.S. trade policy ever since, and the 20th century hegemon has sought to achieve free trade through reciprocal concessions in the GATT and WTO. But, as the anti-globalization riots in Seattle and elsewhere demonstrate, by perpetuating the myth that trade is a zero-sum game, and that removing tariffs can only be done on the basis of reciprocity, the United States has ensured that issues of domestic policy will inevitably spill over into trade policy.

While the ostensible champion of free markets balks at accepting the principle of a unilateral adoption of free trade, an erstwhile communist country—China—has embraced this economically impeccable principle. It is instructive to note that one of the largest unilateral movements to free trade has occurred in China since Deng Xiaoping adopted the "Open Door" policy (see Lardy 2002, 2003).

From its inception until the early 1980s, the GATT did achieve considerable liberalization of foreign trade. During that period, the developing countries balked at opening up their economies and were granted various special privileges and exemptions from the emerging LIEO. After the OPEC coup in the early 1970s, the developing countries tried to use their perceived commodity power to create a dirigiste new international economic order (NIEO). With the failure to assert their fabled commodity power, and as a result of the 1980s debt crisis, the NIEO died. Thereafter, much of the Third World aided and abetted by the World Bank and the IMF moved toward economic liberalization. Most developing countries realized that their best hope for prosperity was to join the Far Eastern Tigers, who had shown that integration with the world economy could lead to rapid growth, which would banish poverty within a generation. In this new Age of Reform, many countries, notably Chile and China, undertook massive unilateral liberalizations of their foreign trade regimes.

But in the early 1980s, the United States, which had hitherto pursued the objective of promoting free trade through the multilateral route, chose to adopt a "two-track" approach—combining multilateralism to be pursued through the GATT with the pursuit of

[1]See Lal (2003) for why, even in the modern theory of trade and welfare, free trade and laissez faire should again be linked.

preferential trading arrangements (PTAs) to liberalize trade with like-minded countries wherever multilateral progress was blocked by other countries. The unintended consequence of this has been the explosion of PTAs in the 1990s and the growing fragmentation of the multilateral trading system. The preferential route to liberalizing trade was prompted by the resistance of the European Union to accept free trade, particularly in agriculture.

This is hardly surprising. For despite the classical liberal hope, that by creating a larger internal European market, and successively lowering external tariffs and quotas, the EU would foster global free trade, it has turned out to be an inward looking protectionist bloc—especially for agricultural trade. This outcome is largely because despite appearances and its stated aim of being an economic project, the EU is and always has been a political one—namely, to create a United States of Europe. The main movers in this project have been the French and the Germans—the former claiming with some justification to be riding the German horse. The aim is to recreate a new Holy Roman Empire. The French and the Germans have tried to do this in the past through force of arms, but with Napoleon's defeat at Waterloo in 1815, and the German defeats in the two world wars, war is not seen as a feasible route to create this territorial empire. Rather, it is a neomercantilist project reminiscent of the post-Renaissance European princes who, as Eli Hecksher argued, were motivated by the desire to create nation states out of the varied feuding groups that comprised their patrimony.

The turning point in the battle between two ideas, which had jousted in the early years of the EU, came with the Maastricht Treaty (Wolf 1994). The two ideas were the liberal one that the economic power of the state must be kept in check, and the other that, if nation states cannot protect their sovereignty individually, they need to create a supranational authority within which the economic power of the state can be reestablished. The Masstricht Treaty and now the proposed European Constitution are dirigiste charters. Instead of increasing individual economic freedom they seek to centralize the exercise of political power and to harmonize taxes, labor laws, welfare provisions, and so on. Moreover, as the antics of the French and Germans in the run-up to the Iraq war showed, for these prime movers in the European project, anti-Americanism is a central feature of their desired "Europe." Classical liberals must hope that this centralizing dirigiste project does not come to fruition—a hope that is strengthened by the recent rejection of the proposed constitution in the French and Dutch referenda.

But, equally important for the worldwide promotion of economic liberty is the need for the United States to recognize that instead of promoting free trade, the PTAs are fragmenting world trade. Being most often trade diverting than trade creating, they are a major departure from classical liberal principles. The fly in the ointment has been the continuing adherence by the United States to reciprocity and the demands for "fair trade." The attempts by both the United States and the EU to impose labor and environmental standards in the name of "fair trade" are also departures from the classical liberal principle that, not only the country of origin of the goods traded, but also how they are made is irrelevant for a country's own welfare. To argue otherwise in the name of a meaningless slogan like "fair trade" is nothing else but covert protectionism. It is time for the United States, like the British in the 19th century, to embrace the correct economic principle of unilateral free trade. There would then be no need for the WTO's multilateral framework for doing deals on the erroneous principle of reciprocity and it could be shut down. Similarly, the network of trade-distorting bilateral and regional free-trade agreements the United States is promoting should be rescinded, and instead the United States should open its borders to the free movement of goods, services, and capital—as the British did in mid-19th century, and the Chinese are doing today. The only barriers that could remain are against the dirigiste and protectionist EU, as a weapon to make it change its dirigiste ways.

The IMF, Exchange Rates, and Financial Crises

The IMF was created to resurrect a variant of the gold standard—namely, the gold exchange standard. This quasi-fixed exchange rate system policed by the IMF foundered, as it was premised on controls on short-term capital flows. Such flows allow a speculative attack, which can destroy a quasi-fixed exchange rate regime—as witness George Soros's successful attack on the pound during its ill-fated sojourn in the European Exchange Rate mechanism. But, with the freeing of capital markets it is not possible to distinguish between short-term "speculative" and long-term "developmental" capital flows.

With President Nixon's closing of the gold window, and the generalized move to floating exchange rates, the need for the policeman of the Bretton Woods system—the IMF—also disappeared. This is not the place to go through the various and continuing changes in its role that the IMF has subsequently sought, but it clearly has outlived its initial rationale. The current international monetary system, which Max Corden (1977) dubbed a "non-system," also has the advantage for international relations that, unlike a fixed exchange rate system, it is decentralized and does not require any international cooperation—with its potential for international discord.[2]

Furthermore, ever since the 1980s debt crisis, foreign banks faced by a default on their Third World debt have argued that a default poses a systemic risk to the world's financial system, and have asked in effect for an international bailout to prevent this catastrophe. The IMF has been more than willing to oblige. Indeed, since the demise of the Bretton Woods adjustable peg exchange rate regime in the early 1970s, the IMF has been like a character in Pirandello's play "Six Characters in Search of an Author." The debt crisis of the 1980s provided the IMF one such play, the rocky transition of the Second World from plan to market another, and the Mexican and Asian crises a third. The IMF has increasingly become the international debt collector for foreign money center banks. It should be shut down.

Instead, there has been much talk about restructuring the global financial infrastructure with the IMF at its center to manage financial crises. Most of these schemes are implicitly based on an atavistic suspicion of speculation in capital markets. Most of the current proposals to improve the so-called international financial architecture are misconceived. Clearly, with the IMF exacerbating rather than preventing debt crises it can have no role in a liberal financial economic order, except perhaps as an international country risk-rating agency such as Moody's that can make use of its existing intellectual capital and access to national statistical data. The World Bank's intermediation role is also no longer required. Its only role left, if one believes this is needed, is as an "aid agency." But foreign aid has been a failure (Lal 1996). It too should be shut down. This would demolish the now archaic structure put in place at Bretton Woods to meet the very different requirements of a moribund international financial system inherited from the aftermath of the Great Depression.

Would any replacement be needed? No is the short answer. Without the IMF, there would be no international moral hazard exacerbating the domestic moral hazard already facing domestic banking systems worldwide because of deposit insurance. Although, it would be logical to end deposit insurance to prevent this domestic moral hazard endemic in any banking system with mismatched maturities, it is politically infeasible in this democratic age. Hence, there are calls for greater surveillance of bank portfolios by national or international

[2]For a rebuttal of the flawed arguments made for international monetary cooperation in a floating exchange rate system, see Lal (1990, 1994).

authorities. But as the governor of the Bank of England, Mervyn King, has rightly noted, in the limit this amounts to a call for the nationalization of banks (King 1999).

Nor is it credible for the IMF to be converted into an international lender of last resort. There are two functions that a lender of last resort has to perform, as set out in Bagehot's famous rules (Bagehot 1873). First, it should be able to create high-powered money quickly to lend to solvent banks in order to prevent a liquidity crisis. Second, it must be able to distinguish between good and bad "paper" and thus to judge the soundness of the banks to which it is extending liquidity, with insolvent banks being shut down. The IMF can do neither. It can lend only after lengthy negotiations with a country's government and the approval of its board. Also, it has no way of sorting out the "good" from the "bad" loans made (for instance by foreign banks to residents in a country), and liquidating those that are "bad." The lender-of-last-resort function for the money center banks involved in foreign lending must therefore continue to be provided by their parent central banks.

The proposal for the IMF to be converted into an international bankruptcy agency to prevent a minority of bondholders from preventing an orderly restructuring of sovereign debt is its latest attempt to find a role. It has been prompted by the recent success of the "vulture fund"—Elliot Associates—in suing Peru for full repayment and interest on the $20 million of government-guaranteed commercial loans it had bought. Elliot Associates refused to accept the Brady bonds that other creditors were willing to accept in the restructuring. Instead, it obtained a judgment for $56 million and an attachment order against Peruvian assets used for commercial activity in the United States. It targeted the interest payments that Peru was due to pay to its Brady bondholders, who had agreed to the restructuring. Rather than be pushed into default on its Brady bonds, Peru settled.

But the proposal to convert the IMF into an international bankruptcy court to deal with the likes of Elliot Associates is flawed. Because, unlike a domestic bankruptcy court where the debtor has to disclose all his assets on which creditors can be given a fair share of their claims, no such provision is included in the IMF proposal, and for a very good reason. Unlike domestic private debtors, to whom Chapter 11-type bankruptcy provisions apply, sovereign debtors will be *unwilling* to pay their creditors well before they are *unable* to do so. This is because when they default, it is only their assets in foreign jurisdictions that can be legally attached by their foreign creditors. There is no way in which their domestic assets can be attached. So they will be unwilling to pay well before they are unable. That Peru settled with Elliot Associates shows that it was *able* to pay. Similarly, in the major 1990s debt crises in Mexico and Indonesia, both countries had large state-owned oil companies whose assets could well have covered their debt payments if they had been willing to use them. The IMF proposal would therefore reduce the limited incentives currently existing for sovereign borrowers not to overborrow and would lead future creditors to further curtail their lending to these emerging markets.

A simpler way to deal with the problem posed by a minority of creditors holding out in the restructuring of a country's debt is to adopt the practice of the London markets to insert collective action clauses into international bonds. These clauses allow a 75 percent majority in a meeting with a quorum to amend the bonds. This stops a minority of bondholders preventing the restructuring of a country's debt. It is a decentralized and market-based solution, which the IMF too is now supporting. It is also favored by the U.S. Treasury and the international banks (see Taylor 2002). If widely adopted, there would be no need for the IMF as an international crisis manager.

Does this signify that there is no way to avoid the volatility of international capital flows and the periodic "bubbles" that occur in financial markets? The simplest way to an answer is to think of international capital markets as merely an extension of domestic stock markets. No one has credibly argued that domestic stock markets, despite their undoubted volatility and proneness to "bubbles," should be shut down or have sand thrown in their works, as these purported cures would be worse than the presumed disease. And the same line of argument applies to competitive international capital markets.[3] Although international markets are volatile and subject to "bubbles"—and "bubbles" always burst—any public intervention will only make matters worse (Lal 1990). So I can only echo the sage advise of Lord Palmerston in 1848 when faced by calls for public action in the face of spectacular defaults on foreign bonds. In a circular eschewing any public action, he wrote: "The British government has considered that the losses of imprudent men who have placed mistaken confidence in the good faith of foreign governments

[3]Eichengreen and Bordo (2002) examine both the two periods of globalization: pre-1914 and post-1971. Contrary to common perceptions they find that currency crises were of longer duration pre-1914, but in banking and banking cum currency crises, recovery was faster than now. They attribute this outcome to the fact that 19th century banking crises were less likely to undermine the currency, as most countries were expected, in the long run, to adhere to the gold standard rules. Delargy and Goodhart (1999) provide a detailed comparison of pre-1914 crises and the Asian crisis and find great similarities.

would provide a salutary warning to others" (cited in Lipson 1985: 44).

The World Bank, Capital Flows, and Foreign Aid

The World Bank was the instrument chosen to channel capital for development to the Third World. Western capital markets had been closed to developing countries since their defaults, and the passage of the interwar U.S. "Blue Sky" laws that forbade U.S. financial intermediaries from holding foreign government bonds (Lewis 1978: 49). The World Bank, or International Bank for Reconstruction and Development (IBRD) as its initial and still major component is called, was set up as a financial intermediary to fill this lacunae. Its intergovernmental ownership and guarantees allowed it to borrow at preferential rates in developed country markets and on-lend the money at near commercial interest rates to the Third World. For those countries deemed too poor to borrow at these rates, a soft loan window—the International Development Association (IDA)—was established with money subscribed by Western governments.

The financial intermediation role of the World Bank and the policy advice it gave until the late 1980s was by and large benign, and helped to promote economic liberty in the Third World. But, since the OPEC price coup in the early 1970s, and the recycling of the OPEC financial surpluses to developing countries by the off-shore money center banks, private capital accounted for a growing and larger share of total capital flows to poor countries. This trend was reversed for some years in the mid-1980s because of the debt crisis, but has reemerged more strongly in the 1990s. The intermediation role of the World Bank is no longer needed by well-managed economies, and some major foreign aid recipients like India have recently announced that they no longer wish to receive official "aid" in the future.

But this financial intermediation role of the World Bank was soon overtaken by its role as a multilateral foreign aid agency when Robert McNamara became its president. This was in part to play its part in the Cold War: both by tying the "nonaligned" to the free world, and by promoting economic development. Western governments had also established their own bilateral foreign aid programs, more to compete for political influence in the Third World during the Cold War than to serve their professed aim of alleviating world poverty. As nearly all of these capital flows were mediated through multilateral or bilateral governmental channels, the access of developing countries to world capital markets was necessarily politicized. This was in stark contrast to the 19th century when private capital flowed from Europe to the rest of the world on market principles.

The World Bank's purpose was to create another international development program, analogous to what the British had promoted in the 19th century through the propagation and enforcement of rules concerning international property rights, and through direct and indirect imperialism. As these routes were eschewed, the only instrument available was the use of "conditionality" tied to aid flows, to promote the appropriate development policies by changing government behavior in the Third World. But, as with sanctions to serve foreign policy goals, this ever more stringent "conditionality" has been unsuccessful (see Collier et al. 1997). So the current development mantra is that "good governance is all." But, short of direct or indirect imperialism, how is it to be promoted?

The foreign aid business is thus in serious trouble. Can there still be any role left for the World Bank? It is argued that there is still a role for official flows to those countries—mainly in sub-Saharan Africa—whom the private market still shuns. But the reason for this is the predatory nature of their governments. Worse, from the viewpoint of the multilateral agencies, with all the sound borrowers shunning them because of their access to an apolitical private capital market, which does not impose any onerous "conditionality," their only borrowers will become the "lemons." This would have serious repercussions in their credit ratings in Western capital markets, and hence in their ability both to raise money and provide loans at subsidized interest rates to their clients.

Various intangible benefits are also adduced from the operation of the World Bank and the IMF. These have more merit. My colleague Al Harberger has always maintained that the most important benefit of these institutions has been their "tutelage" role in both the in-house training offered to its international staff—many of whom have become policymakers in developing countries—in the lineaments of sound economic methods and policies, and in conveying ideas about development policy to the whole developing world (Harberger 1984). In this task, these two institutions not only collect a vast amount of data on developing countries, but also conduct research that has broadened our understanding of development. On this view the future role of the World Bank should be as a "Knowledge Bank."

While, these arguments may have carried weight in the past—and I myself have justified the World Bank's operations in these terms (Lal 1983: 56–57)[4]—increasingly they carry less weight. Unlike the

[4]Also this was the thrust of the annual reports on the World Bank's research budget that, as its research administrator between 1984 and 1987, I had to submit to the board to justify the expenditure on research.

situation in the 1950s and 1960s when many countries did not have the necessary domestic technical personnel to conduct sound economic policy, there has been a sea change in their availability over the last two decades—except perhaps for Africa. Moreover, the "tutelage" and educational role crucially depends upon the soundness of the curriculum. Until the coming of James Wolfensohn as president of the World Bank, despite passing fads, the World Bank's intellectual stance was in consonance with mainstream economics. But this has changed.

As Anne Krueger—a former vice president for research at the World Bank—noted, the Bank faced three choices in the mid-1990s, with the opening up of world capital markets to most developing countries outside Africa. These were "(1) continue to be a development institution, focusing only on those countries that are truly poor and gradually phasing out activities in the middle-income countries; (2) continue to operate in all client countries, focusing on the 'soft issues' of development such as women's rights, preservation of the environment, labor standards, and the encouragement of nongovernmental organizations (NGOs); (3) close down" (Krueger 1998: 2006). For the reasons given above, the first alternative, is becoming more and more difficult, and would involve a considerable downsizing of the Bank. No bureaucrat wants that and least of all the adoption of the third alternative, if for nothing else because of the loss of power, prestige, and not least money.[5] So Wolfensohn has understandably chosen the second alternative (Kreuger 1998: 2010, fn. 85).[6]

But, the second of the three paths chosen by Wolfensohn is unviable. In championing "civil society," the World Bank is supporting highly contentious issues on which there is limited agreement about either ends or means, in part because some of these issues raise important differences in what I call "cosmological beliefs" (Lal 1998). Moreover, like labor standards, which Wolfensohn made a requirement for the Bank's multilateral investment guarantee branch (MIGA), many of the issues surrounding "civil society" are rejected by developing countries, and rightly so because they go against the development objective of alleviating poverty, which the World Bank

[5]Vaubel (1994) argues that the international financial institutions engage in bureaucratic maximization, and much of their lending is to promote the bureaucracy's interests rather than to assist poor countries. Frei (1997) provides a survey of international organizations from a public-choice perspective.

[6]Also see Wade (2001) on the making of the World Bank's 2000 *World Development Report*. He writes: "Over the 1990s extensive consultation exercises have been held with non-governmental organizations (NGOs) as they have demonstrated their power to affect the Bank's survival (p.1436).

until now has correctly espoused.[7] This leaves only the third of Krueger's options for the future of the World Bank. It should be shut down.

In sum, the foreign aid programs of the last half-century are a historical anomaly. They are best seen as part and parcel of the disastrous breakdown of the 19th century liberal economic order spanned by the two world wars. But just as a new liberal economic order is gradually being reconstructed, with a milestone being the collapse of the Second World and its growing integration in the world economic order, the various palliatives devised to deal with the dreadful woes bred by the past century's economic breakdown are becoming more and more redundant. It is time to pension off the Lords of Poverty. Foreign aid is an idea whose time has gone.

The UN, NGOs, and Global Salvationism

The rise of the NGOs and their growing influence through the UN system also poses a serious threat to economic liberty, particularly in the Third World. They are the storm troopers of the anti-globalizers.

NGOs are pressure groups. They have been a feature of the political system in both the United Kingdom and the United States for 200 years. While Mancur Olson (1965) and other critics of domestic pressure groups criticized them for the promotion of sectional *interests*, the currently active internationally oriented pressure groups—which can be collectively be included in the acronym NGO—are mainly dealing with specific *causes* whose resonance comes from some form of moral claim. But like the domestic pressure groups in the United States castigated by Schattschneider (1975), they too reflect the ideals of the global "rich" even while claiming to speak for the global "poor."[8]

Of the several thousand NGOs that currently have a formal status in the UN system, only several hundred are from developing countries, and of the developed country NGOs an overwhelming majority are from the United States (Barfield 2001: 80). Most of these are environmental groups. They have large bases around the world. Thus

[7]Equally deplorable is the World Bank's embrace of the World Health Organization's politically correct crusade against tobacco. This damages rather than helps the poor (see Lal 2000 and Lal et al. 2003).

[8]The political scientist Schattshneider (1975: 34–35) saw many pressure groups as combinations of the well-heeled: "The flaw in the pluralist heaven is that the heavenly chorus sings with such an upper-class accent. Probably about 90 per cent of the people cannot get into the pressure group system."

Greenpeace based in Amsterdam has members and national organizations in 28 countries. They are also very rich and bring large resources for lobbying and litigation (see Peeters 2001). These resources dwarf those many poor countries have to counter the lobbying and litigation in which these environmental NGOs engage.

Furthermore, given their large size these NGOs are necessarily bureaucratic organizations, whose interest lies in creating scares to maximize their income and thereby the salaries, perks, and size of their bureaucracies.

They have come to have influence by colonizing the UN and increasingly its specialized agencies, including the World Bank under the presidency of Wolfensohn. Their entry into the international system was provided by Article 17 of the UN charter, which provided for its Economic and Social Council (ECOSOC) to consult with nongovernmental organizations but in an arm's-length fashion, with an "insistence that the status is peripheral to the state" (Otto 1996: 110). Since the fall of the Berlin Wall, the UN shifted its focus from its traditional role of maintaining the peace to economic and social issues with a greatly expanded role for ECOSOC. It moved to center stage with the mandating of nine conferences in the 1990s by the UN General Assembly. These were to produce a "global consensus on the priorities for a new development agenda for the 1990s and beyond" (Peeters 2001: 23). Conferences were held on education, children, environment and development, human rights, population and development, social development, women, human settlement and food. Many of these conferences touched upon subjects in which the cosmological beliefs of many poor countries conflicted with those of the rich countries, most notably in the women's conference in Beijing in 1995 and that on population and development in Cairo in 1994—where the Islamic and Catholic countries opposed the pro-abortion agenda of the West.

In each of these conferences the NGOs provided a parallel forum in which they networked with conference organizers. "As they became an integral part of the 1990s conference process, NGOs were transformed from arm's-length consultants to full participants in the development and implementation of UN policies and programs (Barfield 2001: 79). The UN Secretary General Kofi Annan enthusiastically endorsed this embrace of the NGOs.[9] The UN Development program (UNDP)—though not as yet the UN secretariat—has

[9]In 1997 he stated, "I see a United Nations keenly aware that if the global agenda is to be properly addressed, a partnership with civil society is not an option it is a necessity" (Peeters 2001: 34).

endorsed the NGOs' demands for the UN constitution to be changed so that they have equal status with governments.

By analogy with domestic politics, NGOs and their apologists claim that they represent the world's citizens and thence an international civil society. But this claim is patently false. There are no world citizens as there is no world polity. There are only citizens of nation states to whom—at least in democracies—their governments are accountable.[10] The chief characteristic of a state is its monopoly of coercive power. In democracies this power is granted to governments responsible to the electorate. As Martin Wolf of the *Financial Times* has cogently argued, "to grant *any* private interests a direct voice in how coercion is to be applied is fundamentally subversive of constitutional democracy. . . . Only elected government can be properly responsible for the making of law, domestically and internationally" (Wolf 1999: 12).

But what is the agenda of the NGOs? It is a left-wing agenda: to extend the U.S. New Deal's regulatory system to the international arena.[11] They are "global salvationists."[12] Peeters (2001: 2) has argued that the New Left has hijacked the economic and social programs of the UN: "The new model defies traditional values, national sovereignty, the market economy, and representative democracy. It demands radical changes in individual and social behavior and perceives culture as the last frontier of global change. The standard denounces as unethical the principles of modern industrial civilization, individualism, profit and competition."

The UN and many of its specialized agencies have provided the anti-globalization environmental NGOs, as well as a host of others espousing Western politically correct causes, an institutional framework to push their agenda. Even the more technocratic ones like the World Bank and IMF, as we have seen, have served their purposes. While others like the World Health Organization (WHO) seem to have stepped well beyond their purely technical arena to take up various politically correct but dubious crusades like that against smoking and obesity (see Lal 2000, Lal et al. 2003, Scruton 2000). Others like the ILO, UNIDO, UNCTAD, FAO, and UNESCO have also served whatever initial purpose they might have had and are all

[10]Kenneth Anderson (2000: 108) notes: "When international NGOs assert that they are the voice of the world's citizens, the assertion makes no sense because the world is not a polity that has citizens—it has, to be sure, people, many of them with great needs—but to be a 'citizen' is to be part of a constituted polity, not just a supporter of an NGO and it's agenda."

[11]See Raustiala's article "The Participatory Revolution," cited in Barfield (2001: 90).

[12]This is Henderson's apt term for them (see Henderson 2000, 2001).

incubators of various anti-globalization agendas, staffed by rent-seeking international bureaucracies. They do not serve the interests of the world's poor in whose name they claim to speak. They should all be closed, or else the United States should withdraw its financial support from them and let them fend for themselves.

Conclusions

The whole web of multilateral organizations created at the end of the Second World War to promote a new LIEO has served its initial purpose, and in many cases become counterproductive. They are increasingly becoming the purveyors of a "new dirigisme." But given the interests of self-serving predatory elites around the world who look upon these institutions as a prime source of legitimate and "moral" rent-seeking, it is unlikely that they will be shut down. So the best one can hope for is that they do no harm.

If the United States were to accept the correct classical liberal principle of unilaterally adopting free trade it could rescind the spaghetti bowl of PTAs it has signed. Having adopted free trade, the United States would not be the subject of any disputes in the WTO. Instead, the United States could use the multilateral agreements signed by various countries through the WTO to promote the adoption of free trade by other reluctant states—particularly the EU—through the WTO's dispute settlement system. But more important, the acceptance by the current world hegemon of unilateral free trade would provide a norm that many other countries would seek to emulate, as they did in the 19th century.

The IMF's role should be redefined to be that of a financial adviser. Its research and statistical services could continue to provide an international public good, providing international credit ratings of countries like Moody's. But it should be made to forswear any lending in crises, as this merely adds international moral hazard to the domestic one created by deposit insurance.

The World Bank's foreign aid arm—IDA—largely serves as an instrument for assuaging Western guilt. A useful analogy is with the money people give to street people, knowing full well that this will be used to fuel their drug habits or alcoholism, as it makes them feel virtuous. Similarly, all IDA money should be looked upon as assuaging this Western guilt, and be given as grants rather than loans, without any illusion that this is promoting development. The financial intermediation arm of the World Bank—the International Bank for Reconstruction and Development—should resurrect the only sort of loans at near commercial interest rates for which there might still be a demand in middle-income countries—namely, loans for infrastructure. Under pressure from the global salvationists the World Bank has foolishly moved away from lending for dams, ports, roads, and so on—the very sort of projects that countries like India and China find difficult to finance from the public purse and that private capital finds too risky to fund because of the breakdown of the 19th century international legal order. Restoring lending for infrastructure will require reversing Wolfenshon's embrace of the NGOs. They should be kept at the arm's-length, as they were for most of the Bank's existence. This also requires the ending of the "entryism" of the NGOs into the UN system through ECOSOC. The best route would be to abolish ECOSOC, so the UN can concentrate on the task of maintaining world peace for which it was set up. Similarly, the specialized agencies like WHO should be kept on a tight financial leash and told to stick to their task. Though not ideal, hopefully, this would at least stem if not end the threat currently posed to economic liberty by international organizations.

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