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Statement by the Hon. **FELIPE PEREZ MARTI**,  
Governor of the Bank for **VENEZUELA**,  
at the Joint Annual Discussion

## Democracy and Equality of Opportunity at the Global Level

Address by Felipe Pérez Martí at the Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank

Washington, D.C., October 29, 2002

Venezuela welcomes the IMF's determination to introduce mechanisms for crisis prevention and resolution. Now is the time for the IMF to take on the role of lender of last resort, in order to prevent the imposition of spurious considerations such as contagion on fundamentals, as a means of introducing lower Pareto equilibria. Following the breakdown of the Bretton Woods Agreement in the 1970s, the lack of an appropriate architecture to regulate the global financial system became an increasingly obvious problem with the advent and proliferation of financial crises that caused economic and social disasters, especially in the developing countries. In the same way that the absence of a central bank in a country can trigger runs on solvent banks, the lack of such a financial architecture since the breakdown of the Bretton Woods Agreement has caused widespread runs on the currencies of the more vulnerable countries. Capital flight has had an impact on countries such as Venezuela, where the private sector saved abroad but the local economy was deprived of investment and endured a succession of weak and indebted governments. These governments were ill-equipped to solve the severe social and political problems generated as a result of these crises, which reflected the weakness and volatility of the external value of a local currency that had previously been very strong and stable relative to the dollar. We look forward to a brighter future, thanks to the new mechanisms that are now being forcefully advocated.

We also welcome the plan to address the need to restructure debt through multilateral assistance, debt forgiveness, and other methods for aiding the poorer countries. In fact, we believe that a historic realization has occurred; namely, that if we are to have a global economy, a global market, we must absolutely have a global community to regulate that market and that economy. This global community should be concerned not only with correcting capital market failures, it should also produce and promote the production of public goods at the global level, such as the creation of know-how and technology. The global community should seek to curb societal evils such as environmental degradation, it should rein in the inappropriate use of market power, and it should prevent the unethical behavior of certain transnational enterprises. Furthermore, the global community should promote transparency as a means of counteracting information asymmetry and should foster the use of appropriate standards and protocols at the global level. It should also pass legislation on security and enforce global laws through legitimate judicial bodies and systems of safeguards that are not influenced by private agendas but which reflect broadly applicable rules and principles.

However, if we are to have a global community, we ought to consider what goals it should pursue. And as the matter should not be decided by the few representing the many, we must rely on the unrivaled mechanism for defining such objectives: namely, democracy. If a democratic system is to be the cornerstone of policy-making and decision-making within a

particular country, that same democratic system must serve as the basis for the rules and institutions that we mentioned earlier, both with regard to financial regulation and in all other areas. We cannot afford to be inconsistent or hypocritical as we call for democracy and respect for human rights. To avoid accusations of high-handedness or passivity (as the case may be), when we urge other nations to embrace democracy we should not merely give our blessing to democracy in the global community, we should actively encourage it. Nonetheless, democracy must be predicated upon human beings. The power exercised by the people of a democracy must derive from the individual; it follows that in a global community, fundamental decisions—particularly economic decisions—must respect the principle of one person one vote. The lack of democracy currently on display at the United Nations is unacceptable, from this standpoint, in the new millennium.

Specifically, in a democratic country, when decisions are made concerning an economic program that includes fiscal rules—for example, rules pertaining to taxes—it is unthinkable that one person should have more votes, more decision-making power than another, purely because that person is richer. Likewise, in the decisions of an economic institution belonging to the global community—such as the IMF or the World Bank—it is wholly inappropriate for one country to exercise more power than another simply because it is wealthier. Furthermore, a society needs more than just a central bank and a development bank. It also requires a tax collection mechanism to finance its operations, such as the delivery of public goods, or to make revenue transfers in pursuit of democratically selected principles, such as equality of opportunity. Needless to say, in a society of altruists—based on some degree of genuine compassion—voluntary give-and-take produces a harmonious equilibrium in which equality of opportunity is automatically assured. However, judging by the reality of global inequality—or should I say involuntary inequality?—and the related phenomenon of involuntary unemployment, clearly documented by the World Bank and mentioned today by World Bank President Mr. Wolfensohn, the degree of altruism shown by the richer countries from one day to the next is not sufficient to offset growing inequality, or to achieve the Millennium Development Goals. As has been empirically documented, inequality generates economic stagnation and violence. If the global community wishes to grow in a harmonious and sustained fashion, it must address the problem of poverty, as well as guarantee education and health care for the marginalized members of society. If we are serious about preventing terrorism, we must tackle poverty and inequality. This has been demonstrated by such authors as Gary Becker of the University of Chicago, who, in his discussions of the economics of law and the incentives to commit crimes, argues that an unequal society is an insecure society, not conducive to long-term investment.

However, since the requisite degree of altruism is still wanting, the democratic principle of majority rule in fiscal matters is bound to produce a transfer mechanism that safeguards the principle of equality of opportunity. And let us say this: the wealthy countries are not solely responsible for their wealth, just as the poor countries are not solely responsible for their poverty. Have we not learned that circumstances are decisive in such matters? This is hard for the wealthy countries to understand, but the poor have no such difficulty, as Jesus of Nazareth pointed out. In this case, democracy ensures that truth will triumph. Thus, the global community should also institute a democratically selected means of transferring

revenue from rich to poor, one that upholds the principle of equality of opportunity. The objective, however, is not to reward those who seek to avoid work, but rather to level the playing field so that individuals can make their own decisions on a basis of parity.

Are the wealthy countries aware that if there had been more accountability in the institutions they traditionally dominate—such as the IMF—there would be less poverty in the world today? Considering the unfair advantages amassed by the wealthy over the years, many of the debts of the poor countries ought to be forgiven, and borders should be opened to trade and global production. It is also essential that principles of fair competition be embraced, so that local entrepreneurs can compete on an equal footing with their counterparts in the wealthy countries. Otherwise, cutthroat behavior in an imperfect market as well as in the social sphere—which takes no account of the most harmonious, efficient equilibria—will consign local entrepreneurs to poverty and inequality.

Let me close by saying something more specific. The supervision of loans granted to prevent crises, or of loans for development, should not be subjected to biased political criteria. For example, in a critical situation such as the one facing Venezuela, which has a fairly standard market economy program, politically explosive measures such as instantly quintupling the price of gasoline are not practicable. We have cut primary spending by three percentage points of GDP and introduced modest increases in the value-added tax and the tax on financial transactions. We are also working on a feasible and progressive plan for bringing gasoline prices into line with prevailing conditions. However, at a time when our fiscal revenue has fallen 35 percent because of the abominable acts of September 11, 2001 and the consequent substantial decline in the demand for oil, we need some understanding. In a year when debt service consumes nearly half of all tax revenue (despite the fact that Venezuela's debt is among the lowest in Latin America, its maturities are unevenly distributed), we also need understanding. But that is not what we have been getting so far, despite Mr. Köhler's wise pronouncements. Dare we hope that the marvelous principles espoused today at the beginning of this session will be followed by those lower down in the bureaucracy of the IMF and the World Bank?

We fervently hope that this will be so, as the hour of truth, intelligence, and wisdom approaches, a time when ideals are contrasted with reality—or at least with what is to come. The best prescription for growth, for the economy, for business, and for workers is also the morally sound solution: true democracy, equality of opportunity, harmony, peace and love. Thank you very much.