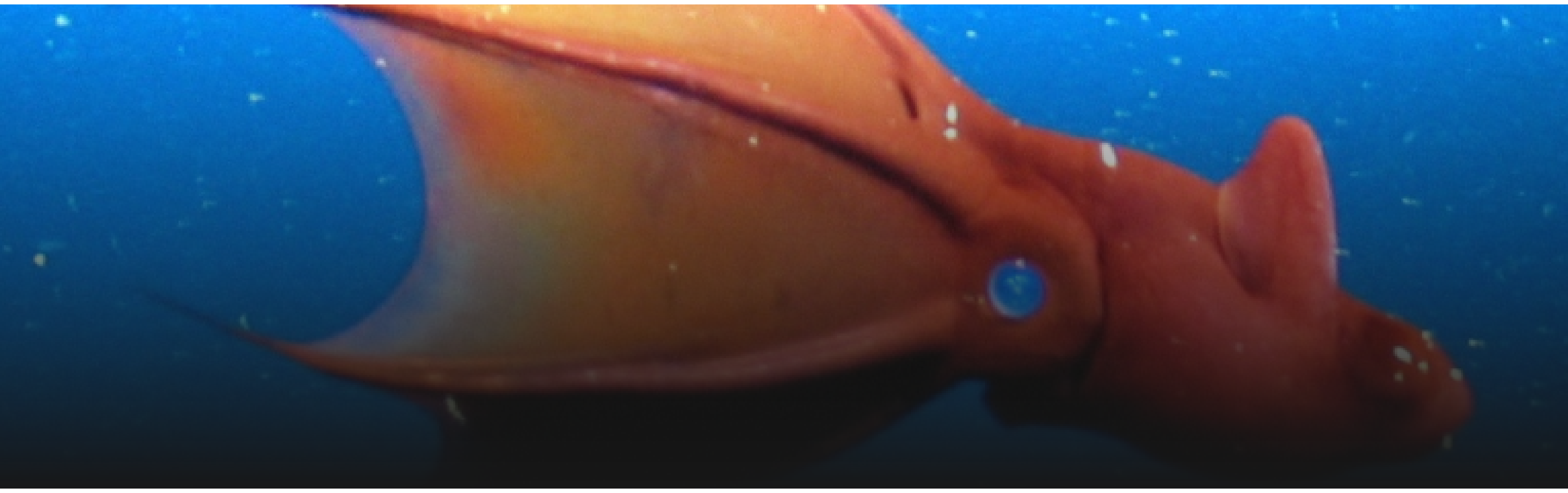


Duncan Green May 13th, 2025

# What's wrong with the International Financial Architecture, and how can it be fixed?

Attended a discussion on the International Financial Architecture this week. Some super eminent speakers, even a Nobel laureate. Felt like a bit of a timewarp – haven't really talked IFA since some I was involved with some work Oxfam did around the 2008 Global Financial Crisis, but it was super interesting. Even better, it was held under the Chatham House rule, so no need to remember who said what.

The framing from the organizers, a super interesting programme at SOAS, the Development Leadership Dialogue, was that we have already spent a lot of time discussing the problems with the IFA – volatility, the excessive power of short term, speculative capital, the lack of accountability, the vulnerability to crisis- and policy solutions (everyone has their IIRTW – if I ruled the world – recipe). This time they wanted to hear about strategies for change.

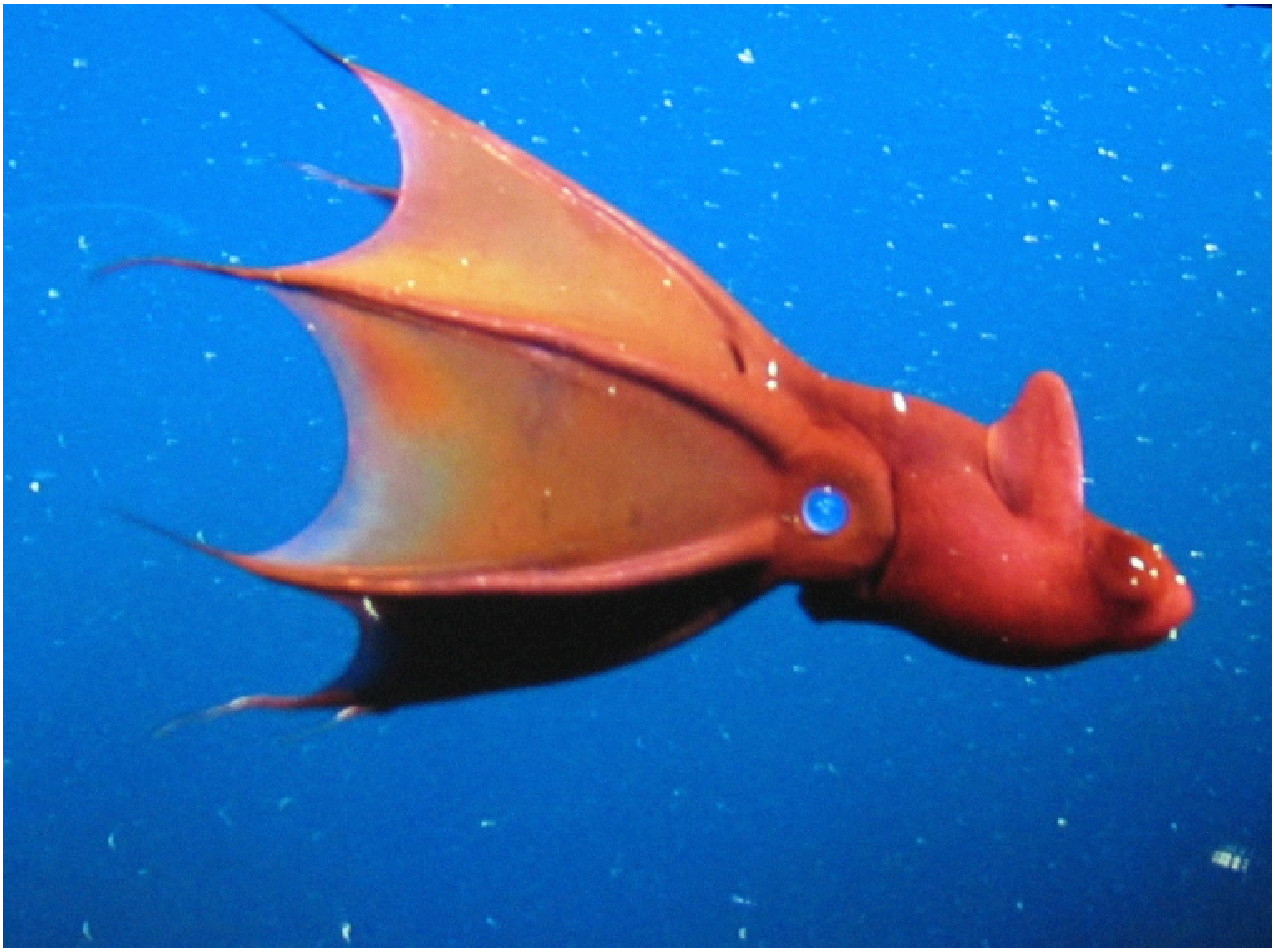
## Problems and solutions

They got a bit of that, but only after a lot of problem analysis and policy solutions. Some highlights:

We are now in a 'G minus one' world, where coalitions of the willing will have to run things, because the US has gone AWOL.

The IFA is based on a bizarrely incoherent supply chain. The sources of capital often have long term time horizons (eg Pension Funds); the end users of capital want long term investment. In between is a manic short termist speculative vampire squid, causing crisis after crisis. Is that the best we can do?

At a national level, many developing countries have far too little 'fiscal space'. They are forced to pay super high interest rates on their debts, raise far too little in domestic taxation, and rich nationals and transnational corporations suck out vast quantities of capital and send it abroad. Back to the vampire squid.



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One thing that is new, compared to 2008 and previous IFA discussions, could be AI, crypto and robotics. 'Robots have no trade unions': the China model of industrialization based on super-cheap labour won't work as well because robots can reshore many of those jobs to the rich countries. Poor countries will have to raise their game on tech capability very fast.

Africa needs to wean itself off dependency on inward capital flows because they are on a 'hiding to nothing'. Harnessing domestic savings (including through digital taxation, and cracking down on capital flight, especially the illicit variety) are one way. But African governments will also have to restore faith in the banking system, or people will keep stashing their savings under the bed, or in Switzerland. That means transparency, predictability, rule of law etc.

When pushed on what were viable reforms, there were some interesting suggestions:

- In the US, stick to highly technical reforms, because there's a good chance the current White House team won't understand them (e.g. improved IMF Debt Sustainability Analyses, or changing the rules of New York debt contracts – half the world's debt contracts are drawn up there.)
- Press on with the UN's attempts to come up with global tax rules and try and stop the rich countries 'forum shopping' – i.e. trying to relocate the discussions to the OECD, where they have a

majority.

- Digital taxes kept coming up
- 'Control what you can, see what happens with the rest' – e.g. for poor countries, focus on boosting domestic and regional sources of capital
- 'agreements that are both broader and narrower than at the WTO' – e.g. a Green transition agreement that pulls together research, intellectual property rules, investment and trade.
- Build momentum with some quick wins, such as a campaign to stop or restrict stock buy-backs, which were only legalized in the US in 1982.

Economists often say 'we have a market failure' and then look rather pleased with this insight, in much the same way activists and the occasional political scientist decry 'we have a lack of political will'. Both, in the title of a blog I wrote 16 years ago, are 'lazy and unproductive'. *Why* is there a market failure? In whose interest is it? What kind of process might correct it?

## From diagnosis to strategy

Which brings me to my bit. I ran through what our Activism, Influence and Change participants would do with the morning's conversations in order to turn them into a strategy, as requested at the outset:

- Convert all the diagnoses into a problem tree/fishbone diagram
- Identify a few feasible 'points of entry', where this group of people (academics, UN, multilateral development banks, private investors, CSOs) might have credibility and traction
- Identify the actual decision makers over the issues around each point of entry, and who/what influences them (i.e. stakeholder analysis)
- Come up with some tactics to build and strengthen the change coalition, and if necessary, weaken the blockers
- Realize that progress might require a suitably large shock to open up a window for change.

I asked the panel what kind of shock might be enough, given that in 2008 we expected to see a total overhaul of the IFA and nothing much happened. There were some interesting/alarming suggestions:

*Robots have no trade unions: the China model of industrialization based on super-cheap labour won't work*

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- A 1930s level Great Depression. The dismantling of the IFA means the kind of coordinated international Keynesian response that ensured that the 2008 crash did not turn into a Great Depression may make that a grim possibility.
- An AI/crypto shock that reshapes the global financial markets for a decade or so, during which all that is solid melts into air, and then a new architecture appears that is 'neither fixed nor jelly-like'.
- and an elephant in the room was the third shock – cataclysmic war (which is what transformed the IFA in the past).

Always good to end on a positive note…. Thanks to SOAS for the invite, great way to spend my birthday!

## About the author

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