

## **II GENERAL ASSEMBLY OF THE CLUB OF MADRID**

**1 - 2 November 2003**

### **FINAL DECLARATION**

We, the members of the Club of Madrid, all former heads of state and government of democratic countries from all corners of the earth, gathered in Madrid for our annual General Assembly on November 1-2, 2003, to assess the relationship between the International Monetary Fund (IMF) and countries undergoing democratic transition and consolidation that faced severe financial crises during the past dozen years. We also pondered the Fund's relations with the main industrial democracies. We have focused on these issues because we believe that democracies must deliver on the promise of a better life for their citizens. The prospects for democratic survival and success require more effective international cooperation to assist democratic governments in times of financial crisis and to prevent crises from recurring.

We drew on the considerable expertise of our membership regarding democratic leadership to address urgent public demands for economic, social, and political change. We expect to issue a report regarding the relationship between the IMF and democratic countries in early 2004. But now we wish to make public certain conclusions concerning the essential role of democracy in achieving the IMF's goals and the impact of IMF policies on democracy.

We reaffirm the inherent value of democratic institutions and practices: liberties of citizens to express their ideas and to associate as they wish, respect and protection of the rights of minorities to sustain their beliefs and ways of life, an independent media and a vibrant civil society. Democracies should deliver fairness and justice for their citizens, and a concerted effort to reduce poverty.

We encourage all democratic governments to pursue sound economic policies within the framework of a market economy and their own democratic procedures. We urge them to focus on effective strategies to foster and enhance sustainable development in the long run.

We examined in particular the cases of Brazil, Korea, and Poland. We celebrate that these countries surmounted their profound economic crises while at the same time they sustained and strengthened and, in Poland's case created, their democratic political systems. They achieved this with the assistance of many governments and organizations in the international community, including the International Monetary Fund. We recognize that other nations also have been successful, while many have been less fortunate in their dealings with the international community and less successful in stabilizing their economies. Different lessons could be extracted from those cases.

The solution to the crises that Brazil and Korea faced required making creative use of democratic institutions and procedures. The crisis broke out as each country was in the midst of a presidential election. The key agreement that the IMF reached with Brazil and Korea was subscribed to not just by the IMF and the respective governments but also by the main presidential candidates. The agreement with the IMF worked thanks to the effective commitment of democratic leaders, parties, and voters from government and opposition to sustain the panoply of economic policies required to overcome the crises. Democratic legitimacy enabled the incoming governments to make economic programs their own, thereby facilitating their credibility and sustainability.

Poland's complex transition to democracy and the market economy required several agreements with the IMF but also the rotation through the presidency and cabinet of many political leaders and parties. Democratic Poland in this way came to design, shape, and own its market-economy transition. Plural democratic participation and political learning resulted in binding agreements to implement effective policies. Poland's democratic diversity was a key to securing cooperation between parties and the most credible guarantee that future Polish governments would abide by the agreement with the IMF.

Democracies are much stronger with good economic policies and performance. The experience of these three countries demonstrates that democracies can implement good economic policies, and that

the IMF should be sensitive to the importance of strengthening, not weakening democracies.

We exhort the IMF to deepen its efforts toward transparency in formulating, communicating and explaining the economic policy requirements that it expects from governments that seek its assistance. Such transparency should enable governments to debate and choose policies that respond to the democratic values and aspirations and the social and economic needs of their own citizens, while they at the same time carry out their agreements with the IMF. Policies must be technically correct, but citizens must also perceive them to be politically and socially fair.

The IMF should also endeavor to become more democratic in its own operations, including the composition of voting rights and the transparency of its proceedings. We recognize the crucial role played by the Managing Director of the IMF and we stress the need to improve the methods and procedures used to identify and appoint her or him.

We reaffirm the importance that greater attention be paid by the international community, especially by developed countries, to the urgency of updating the international financial architecture so that it can better meet its original goal of stabilizing the world economy. Challenges such as increasing the resources to be put at the disposal of countries under financial strain, as well as identifying mechanisms to prevent and control erratic flows of short-term capital, must be

addressed. It is no less important for developed nations and the Bretton Woods institutions to finance long-term investments in economic development, education, healthcare, and the environment, which are beyond the present capacity of the IMF.

The Club of Madrid also calls attention to the fact that the economy has become global, but politics has not. Hence the importance of working towards democratic global governance to address issues as crucial as sustainable development and social justice.