2010
ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Press Release No. 2

October 8, 2010

Address by **DOMINIQUE STRAUSS-KAHN,**
Chairman of the Executive Board and
Managing Director of the International Monetary Fund,
to the Board of Governors of the Fund,
at the Joint Annual Discussion

Opening Address to the 2010 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund

By Dominique-Strauss-Kahn
Managing Director, the International Monetary Fund
Washington, DC - October 8, 2010

"A New Globalization for a New World"

Mr. Chairman, Governors, other guests: it is my pleasure to welcome you on behalf of the IMF to the 2010 Annual Meetings.

I want to thank my good friend Bob Zoellick for his dynamic leadership of the World Bank; Chairman Aganga, and all of you, for your steadfast support; and the staff and Board of the IMF who have made these Meetings possible.

We gather at a pivotal moment in history, facing a very uncertain future. Yes, the recovery is here—and when we look at the data, we see that at the global level, growth is coming back. But we all know that the recovery is fragile and uneven—and fragile *because* it is uneven.

In Asia and Latin America, things are going rather well. Even in Africa, where most countries in Sub-Saharan Africa have returned to growth much faster than they did in the past. Previously, when there was such a global crisis, there was a delay of something like a year before African countries would catch up. This time, it didn't happen, and they are now really growing fast. In Europe, as we all know, the recovery is sluggish, and in the United States, it remains subdued.

But nevertheless, we at the IMF are rather on the optimistic side, and we don't expect a double dip. This doesn't mean that there are no downside risks—there are a lot of downside risks, and I would like to just say a few words about four of them.

The first one is public debt. During this crisis, the debt ratio increased a lot, especially in the advanced economies. Our forecast is that starting from an average of 75 percent of GDP before the crisis, the debt ratio in the advanced economies is going to increase to about 110 percent of GDP by 2014. That's an increase of 35 percentage points. It's a lot, and we have to take care of this.

But make no mistake—this increase of 35 percentage points is mostly due to low growth, to expenditure linked to the rescue of the financial sector, to lack of revenue because of the economic downturn. Only about one-tenth comes directly from the stimulus. So the lesson is clear: the biggest threat to fiscal sustainability is low growth.

What do we have to do? In the medium term, our message is clear: all countries—especially advanced economies with a high level of debt—have to go back to fiscal sustainability. It

means plans have to be announced—and markets have to believe—that governments are committed to go back to a debt ratio which is more sustainable.

What does this mean in the short term? In the short term, it is a bit more difficult, because it depends a lot on the situation of the country. Some countries are at the edge of the cliff, and they have no choice—they have to fix the fiscal problem. Others have more fiscal room. What we expect is a decrease in the deficit by roughly one percent of GDP, as an average, starting in 2011. But this one percent is an *average*. It means that depending on the country—depending on the specifics of the country—it can be rather different. Nobody would expect that the advice of the IMF to Germany will be the same as the advice of the IMF to Greece, for instance.

I sometimes read in the newspaper that the message of the IMF is a bit blurred, not that clear; that the IMF doesn't know exactly if it's pushing for growth or pushing for fiscal retrenchment. Our message is clear and consistent. In the medium term, there is a need for fiscal sustainability. Everything has to be done to go in this direction in the short term. But while the recovery is still fragile, all the fiscal room still available has to be used to boost growth. So we have to go for fiscally sustainable growth.

The second downside risk has to do with a jobless recovery. Growth is fine, but growth may not be enough if it is growth *without jobs*. In many countries, either growth will not be high enough to decrease unemployment; or growth will be very high, but with such high productivity that the impact on unemployment will be very low.

So we need to go for *growth*—but we also need to go for *jobs*. During this crisis, the global economy lost about 30 million jobs. On top of that, in the coming decade, 450 million people are going to enter the labor market.

We face the risk of a lost generation. When you lose your job, your health is likely to be worse. When you lose your job, the education of your children is likely to be worse. When you lose your job, social stability is likely to be worse—which threatens democracy and even peace.

So we shouldn't fool ourselves. We are not out of the woods yet. And for the man in the street, a recovery without jobs doesn't mean much. We need to go for sustainable growth, but we also need to go for jobs.

The third downside risk is linked to the financial sector. We all know how this crisis began—it originated in the housing market in the United States. We all know that a lot of promises were made by the leaders in Pittsburgh—well, in London first, then in Pittsburgh, and also in Toronto—saying we won't see these problems anymore in the future. We will fix the financial sector. We will create new rules, have a safer financial sector.

And it is fair to say that a lot has been done. Recently, as you all know, the so-called Basel III rules were released. And while we can debate all the consequences of this very important move, I think these new rules are very well done and very important.

But that is not all of the story. As the IMF has insisted since day one, the question is not only regulation—certainly regulation is important—but we also need better supervision. You may have the best rules you want—but if they are not supervised, if they are not implemented, it is as if you did nothing.

And you don't only need supervision to try to prevent future crises. You also need a crisis resolution mechanism—because nobody would be so naïve to believe that we will avoid any crisis in the future. And on crisis resolution, there is still a lot to do. We are not in a situation where, if we had a crisis—which I don't forecast—in the coming days, in two years, in five years, in ten years, we could say that we had fixed the problems, that we have a new financial system which is safe enough to prevent a new crisis from being as big, as severe, as the one we just had.

So we have promised a lot—but we haven't delivered enough. We need to go for growth, we need to go for jobs, but we also need to go for change in the financial sector.

Let me come to the fourth risk, which is the vanishing of the commitment to cooperation. Cooperation was a big thing during this crisis—and we avoided a crisis as big as the Great Depression because all nations worked together. Maybe many among you, two years ago, just after Lehman collapsed, were predicting a crisis that could be as big as the Great Depression. But we avoided that altogether—and we avoided it because the leaders and the nations were able to work together, cooperatively, and to produce the correct response to the crisis.

Now, this commitment to international cooperation hasn't disappeared—there is still momentum—but it is not as strong as it was before. And it is understandable that with the idea that with the crisis is over—which is certainly a wrong idea, but an idea that many may have—countries are going back to their domestic problems and paying less attention to international cooperation. But those are really problems for tomorrow.

I hear ideas floating around about a currency war. Even if "currency war" is probably too strong a phrase, it's true that there is this idea that currencies could be used again as a weapon. History has shown that this is not a solution, and that it can even lead to a very bad situation. There is no domestic solution to a global problem.

It is understandable that some individual countries facing huge capital inflows want to resist this kind of volatility, this source of instability and possible bubbles. So I am not blaming countries which try with one shot to limit the influence of capital inflows. But it cannot be a long-lasting solution. What we need is more cooperation on the monetary side and in the international monetary system.

During the last two years, we at the IMF have tried to change the international monetary system, and not only at the margin—I think it is more important than that—by creating the so-called flexible credit line and recently, the precautionary credit line, to try to help countries to avoid building up reserves and, by this process, creating more imbalances.

We are now proposing a new kind of analysis, spillover reports, which will analyze better the consequences of a policy taken in one country on the rest of the world. This is a way to show the linkages between the different economies, which are now much bigger than they were before.

We are also trying through the analysis we are preparing for the G-20's Mutual Assessment Program, to show that working together is a win-win process. We are showing that with the correct policies, everybody can be better off. 2.5 percent more global growth over five years can be won. Thirty million jobs can be saved or created. More than 30 million people can be lifted out of poverty.

All this comes from this win-win process of working together. And I insist on this because I am afraid that with better growth at the global level, the idea that there is an absolute need in a globalized world to work together may lose some steam. That is why we need more initiatives on systemic stability.

So we certainly need to go for sustainable growth, to go for jobs, to go for change in the financial sector, but we need to go for cooperation, too.

Is it enough? It's probably a good part of what we need to do to exit the crisis. But when we are out of the woods—will it be enough? Probably not. We're facing bigger changes than that, and the growth model after this crisis will not be the same as the one before it. Everybody knows this.

What are the changes? We are beginning to see them. The Industrial Revolution, which started two centuries ago, is coming to an end. It created something that had never happened before in the history of mankind. Some countries, not that big, with *proprietary* technology that they were able to keep for themselves, have had the power to dominate the world—even if the countries were not that big. European countries, then the U.S., were—and are still—in this situation.

This had never happened in the preceding centuries. Before, the strength of a nation was measured by the population--primarily because technology was almost the same for everybody. This hasn't been the case for the last two centuries. But we're now coming back to a situation where technology is available for almost everybody.

This is not going to change overnight; it's going to take a decade or two. But after these two decades, we will come back—after this very special period in history—to what has been the rule: that a large country is very likely to be stronger than a small country.

This has many consequences for our growth model. It means that we need to think about new sources of growth, including green growth. It means that we have to think more about rebalancing the structure of growth between the private part of growth and the public part of growth. It means that we need also to work on rebalancing, between surplus countries and deficit countries. And it means that we need enhanced cooperation and governance. This is the last point on which I want to elaborate a little.

As you know, we're in the process at the IMF of reviewing our governance. It's necessary. If multilateral institutions are to help—and they need to—then they need to be legitimate. To be legitimate, they need to reflect these changes that I just mentioned, which mean that the balance of power in the future is going to be slightly different from the balance of power that we experience today.

But we're changing our balance of power, as reflected by changes in quotas and chairs in the IMF. With this goes a change in responsibility. If you have a bigger stake, a bigger say, a bigger responsibility, then at the same time you have to make choices that take into account not only your own economy, but the whole economy. The more you are at the center, the more you are responsible for the whole. And so countries which until now were at the border of the international system, wanting to come to the center of the international system, wanting this to be reflected in the quotas, in the chairs in an institution like the IMF—they too must take more responsibility in the stability of the global economy.

We're working on that. We're not totally there. It's no secret that discussions are tough among the membership. I think that we have a good chance to see the quota review completed and the chairs question solved in the coming weeks. And if this is done—and it has to be done—then we really will have at the beginning of next year a totally legitimate institution. Most of you were kind enough to recognize that during this crisis the IMF has proved its relevance. It needs now to prove its legitimacy. When this is done, I think you will really have a new institution, which can help build a new globalization for a new world.

That's what we have to do. And to accomplish this, you need to work together:

If you want to restore confidence in an uncertain world, *you need to work together.*

If you want to put people back to work, *you need to work together.*

If you want to build a better and safer world for our children and grandchildren, *you need to work together.*

And these Annual Meetings are certainly the place to do so.

Thank you.