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The IMF at 70: Making the Right Choices—Yesterday, Today, and Tomorrow

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Introduction

Mr. Chairman, Governors, honored guests:

On behalf of the IMF, let me warmly welcome you to these Annual Meetings. And on the occasion of our 70th anniversary, let me wish you, and all of our 188 member countries, a very happy birthday!

I would like to recognize my good friend and excellent colleague, President Jim Kim, and his great teams who are doing such good work at the World Bank. Happy birthday to you too!

This is a moment to reflect on the 70-year journey that we have all taken together. Even more importantly, it is a moment to look ahead. The choices we make today will shape our future.

So let me begin with a story:

In Lewis Carroll's classic, *Alice in Wonderland*, there is a scene in which young Alice comes to a fork in the road, where she meets the Cheshire Cat. Alice asks the cat which way she should go:

"That depends a good deal on where you want to get to," says the cat.

"I don't really care where," says Alice.

"Then it doesn't matter which way you go", says the Cheshire cat.

Why do I begin with this story? For a simple reason: the path we choose at a critical fork in the road has crucial consequences.

It *matters* where we want to go in order to decide which way we go.

Forks in the Road

Almost exactly a hundred years ago, the world took a dramatically wrong turn. This was a period of great technological advances, a time of optimism and openness. And yet, instead of

using these technological wonders for the betterment of humanity, they were turned toward massive destruction.

The gates of cooperation were bolted shut.

Because of this wrong turn, the world went through three decades of carnage, chaos, and calamity. But then something changed.

Seventy years ago, in 1944, the world faced another fork in the road. This time, it chose the right path. It was the original “multilateral moment”, which gave birth to institutions of cooperation like the Fund and the Bank.

John Maynard Keynes called it “that bigger thing we are bringing to birth”.

This choice has paid off over the decades—with rising prosperity, greater stability, and lower poverty. The IMF has played an essential role: helping to fight crisis after crisis; helping low-income and transition countries gain a foothold in the global economy; and helping to build capacity, strength, and resilience across our entire membership.

Today, the Fund continues to respond to conditions on the ground, forcefully and flexibly. Since 2008, we have committed almost \$700 billion to countries in need, provided training to all of our members, and technical assistance to 90 percent of them. Over the last several months alone, we provided fresh financial assistance to Ukraine, the Arab transition countries, and the African nations hit by Ebola.

Seventy years after Bretton Woods, the international community stands at another fork in the road. The tried-and-true modes of cooperation seem to be fraying around the edges. The sustainability of the global economic engine itself is increasingly being questioned.

Can it really deliver the jobs, the incomes, the better living standards that people aspire to?

There are **three key collective choices** to be made:

- First, how do we achieve the growth and jobs needed to advance prosperity and ensure social harmony? I would call this the choice between **acceleration and stagnation**.
- Second, how do we make this interconnected world a more inclusive, safer place for all of us to thrive? This is the choice between **stability and fragility**.
- Third, how do we strengthen cooperation and multilateralism, instead of isolationism and insularity? This is the choice between **solidarity and seclusion**.

Our future hinges on our choices.

1. Acceleration or stagnation

Let me start with the first and most basic choice of all—acceleration or stagnation. The prospects for growth and jobs. When we look down the road, we all know that there are huge obstacles in our path.

We experience unprecedented demographic change, as the workforce in many of the world's most dynamic economies—both advanced and emerging—enters their twilight years. In less than a decade, the over-65s will outnumber the under-5s—for the first time ever.

There has been a staggering rise in inequality—7 out of 10 people in the world today live in countries where inequality has increased over the last three decades. And yet, we know that excessive inequality saps growth, inhibits inclusion, and undermines trust and social capital.

And again, we live in a period of dramatic innovation, with all its potential. But the digital revolution is not job-intensive, and it could contribute to further inequalities.

If we are not careful, the ghosts of the 19th century will haunt the 21st century.

Think also of the ecological carnage that comes with a rapidly warming planet. We all know the stark facts—the 12 warmest years on record have occurred in the last 17 years. The incidence of weather-related disasters has increased threefold since the 1960s. By 2030, almost half of the world's population will live in regions of high water stress or shortage.

But the threats to growth do not just come from the future, they assail us from the past.

What do I mean? I mean that it is taking a very long time for the global economy to climb out of the hole dug by the Great Recession. We expect growth of only 3.3 percent this year, and still under 4 percent next year.

Of even more concern: we are stuck in a painful jobs crisis. 200 million people around the world are looking for work today—if the unemployed formed their own country, it would be the fifth largest in the world. In some regions—southern Europe and North Africa—youth unemployment is now a chronic social problem, leading to widespread disenchantment and disengagement.

As Dostoyevsky once put it, “deprived of meaningful work, men and women lose their reason for existence”.

All told, we risk getting stuck in a “new mediocre” of poor growth and paltry job creation. To overcome it, we need “new momentum” on the policy front.

On the demand side, monetary policy should certainly continue to support the recovery—and with careful attention to potential spillovers and spillbacks. Fiscal policy must be customized to country circumstances—and we must not give up the gains that have accrued in recent years. At the same time, fiscal policy must be as growth- and jobs-friendly as possible.

On the supply side, we need movement across many dimensions. Opening up cozy monopolies in service industries. Boosting infrastructure investment. Improving educational opportunities, financial inclusion, and the business environment—especially in many emerging markets and low-income countries. Using fiscal instruments—like carbon pricing—both to help make energy use more efficient and to encourage people to make green choices.

These are not new insights, but action in the past has often lacked. This time the challenge is for real. We must aim higher, try harder, and work better together to achieve higher growth outcomes.

We also need to make the job market more inclusive. This means active labor market policies and training programs to help young people. It means more family-friendly policies like affordable child-care and flexible working arrangements to entice more women into the workforce.

Remember, an estimated 865 million women around the world are being held back. Yet we know that enabling women to participate on an equal footing with men is an economic game-changer.

The IMF stands ready to help our members with this agenda—offering country-specific advice on the reforms needed to make growth more sustainable, job-rich, and inclusive. That’s what we are here for.

2. Stability or fragility

What about the second big choice—between stability and fragility? Just as there are present and future threats to growth, there are similar threats to financial stability.

While the real economy might suffer from too little investment, the financial sector might be flying too close to the sun. Putting it another way, there is too little *economic risk taking*, and too much *financial risk taking*.

Again, monetary policy needs to stay accommodative, to get the growth we need. Yet one side effect is the danger, once again, of a rush toward reckless risk taking.

While there are a number of warning signs, the risks are particularly acute in the nonbank sector. One example: mutual funds now account for 27 percent of global high-yield debt, twice as much as in 2007. At the same time, risks are more concentrated—the top ten global asset management firms now control a whopping \$19 trillion. This is larger than the world's largest economy—the United States.

History teaches us a clear lesson—the bigger the boom, the bigger the bust. A sudden shift in sentiment could easily cascade across the entire globe.

This feeds into the longer-term issue that affects financial stability—the increasing interconnectedness of the world economy. As you know, financial flows can zap and zoom across the world at lightning speed.

The degree of financial integration has jumped tenfold since the IMF was founded. In the two decades before the crisis, international bank lending—as a share of world GDP—rose by 250 percent.

This interconnectedness offers great benefits—allowing more people to access global financial networks. But it also comes with a dark side: it makes financial crises more likely to occur, and more virulent when they do occur. 2008 was a stark reminder of this.

Ultimately, we need to be able to garner the good and banish the bad. We need to be proactive, not passive.

As Tagore once said, “You can't cross the sea merely by standing and staring at the water”.

That means we need the right tools and policies. If financial markets are more challenging, then policies must be more powerful, and regulators and supervisors must be better equipped. The bottom line? We must complete the financial sector reform agenda, and we must continue to update it as financial minds are creative and fertile in seeking out new loopholes.

We have made good progress, especially on banking regulation. Yet we still need to overcome the too-important-to-fail problem. We need better rules for nonbanks, better monitoring of shadow banks, and better safety and transparency over derivatives. We need to strengthen macroprudential safeguards.

And let's be candid: we need to see a change in culture and behavior. We need to move away from the myopic mentality that led to the crisis—the tendency to prize profit over prudence, self-interest over service, excess over ethics.

The IMF has a key role to play in coping with this new world of interconnections.

A world of large capital flows means that we need a large global safety net. Regional arrangements—including the new BRICs contingency reserve arrangement—certainly have an important role to play. But the IMF, as the only truly global institution focused on financial stability, must have adequate instruments and resources.

It is a lesson that has been learned many times over the past 70 years: a strong global economy requires a strong IMF.

3. Solidarity or seclusion

Let me now turn to the third and final big choice facing us—solidarity versus seclusion. Do we lift high the banner of cooperation or do we sink low into the mud of provincialism?

You all know the answer. You know that the most fertile ground is common ground; the best form of self help is mutual help; the best kind of knowledge is shared knowledge. This is why we are all here today.

It is why you are members of the IMF!

Yet you also know that the global economy is undergoing radical shifts. Fifty years ago, the emerging markets and developing economies accounted for about a quarter of world GDP. Today, it is half, and rising rapidly. During the global crisis, it was the emerging markets that contributed most to global growth.

This diffusion of power is not restricted to nation states. Aided by technology, we also see the rapid rise of a more diverse network of global stakeholders: NGOs, cities, and even citizen activists. Powered by social media, they have proven their ability to force policy change.

This new reality demands a new response—but not a new philosophy. It requires us to update, adapt, and deepen our modes of global cooperation. It requires using the wonders of technology for the betterment of humanity. It requires what I have called a “new multilateralism”.

In the words of Maya Angelou: “to give birth again to the dream”.

What does this mean in practical terms? For a start, it means a re-commitment to the values of open trade and investment. It means resisting the lure of “beggar-thy-neighbor” economics. It means placing the global good above individual self-interest.

There are three areas where progress is vital:

- First, in the financial sector: we need cooperation to come to an agreement on the cross-border resolution of megabanks.
- Second, we know that tax competition especially hurts low-income countries as they strive to mobilize badly-needed revenue. The international community needs to go further in making it more difficult to shift taxes from one country to another simply for profit.
- Third, on external imbalances: we know that behind every current account deficit lies a current account surplus. Countries on both sides must take responsibility for balance and stability.

Renewed solidarity also calls for global action to turn the tide of climate change. 2015 is shaping up to be a make-or-break year. If we miss this chance, then we are failing the world's poorest people, the generations to come, and the planet.

So we must not fail. The new multilateralism must prevail. And the IMF has a pivotal role to play.

Every day—and often nights as well—our magnificent staff and Executive Board are working hard for you. They are a uniquely talented group of people—dedicated to the ideals of international public service, steadfast in their zeal to make the world a better place. I am immensely proud of them—and all of those who have served the Fund so well over these 70 years. I know you are proud too.

Here, let me pay special tribute to a dear member of our family, Wabel Abdallah. Wabel was our resident representative in Afghanistan, and he was brutally killed by a terrorist attack in Kabul earlier this year. He represented the Fund at its very best. Wabel devoted his life to helping the people of Afghanistan, and he died doing his duty. We miss him dearly. As they say in Arabic, “*lel fakeed al rahma*”—mercy to the departed.

At the Fund, we have mourned Wabel's loss together. But we are honoring him day by day through our continued commitment to global cooperation. This includes our work with higher-risk countries, where it is more important than ever to work toward sound institutions, so that people will one day face a better and more stable future.

We will continue to adapt to changing realities on the ground. And we must strive to be even more representative of our dynamic global membership.

That makes completing the 2010 governance reforms so crucial. Our membership knows what needs to be done.

The right choice must be made.

Conclusion: Our Choices

Mr. Chairman, Governors, let me conclude:

At this key fork in the road, let us choose acceleration over stagnation, stability over fragility, solidarity over seclusion.

Let us choose the path of 1944, not 1914.

I began with a popular children's story, let me end with another. In J.K. Rowling's *Harry Potter*, the protagonist is given this key piece of advice: "It is our choices, Harry, that show what we truly are, far more than our abilities".

Our choices.

Thank you.