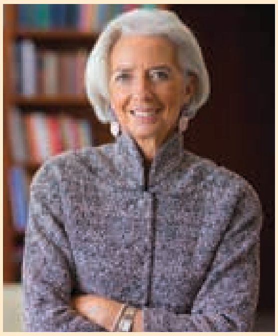
Focus, Flexibility, Service

Founded 70 years ago, the IMF will remain true to its mandate by adjusting to new challenges that directly affect the global economy



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THE uniqueness of the IMF lies in its ability to adapt and change with circumstances. Founded at the end of the Second World War, its purpose has been economic stability and prosperity through the bonds of cooperation and integration. Its "constitution"—the Articles of Agreement that emerged from Bretton Woods—has proved to be a remarkable feat of engineering: strong enough to stand the test of time and flexible enough to enable the IMF to respond to the many challenges that have faced its membership through the years.

The IMF began by contributing to reconstruction in Europe after the war. It moved on to include newly independent nations, helping them gain a foothold in the global economy after decolonization, and its membership also thrived as it assisted former communist countries in making the transition to market economies following the fall of the Iron Curtain.

The IMF helped the global economy adapt to a new and unnerving world after the original system of fixed exchange rates unraveled in the early 1970s. Since then, it has supported its members in overcoming a variety of financial crises in different regions—in Latin America in the 1980s, Asia in the 1990s, Latin America again in the 2000s, and all over the world in the wake of the Great Recession.

Unprecedented response to the crisis

The recent crisis generated unprecedented challenges, and the IMF responded in an unprecedented way—through its early call for global fiscal stimulus; through the sheer scale of its financial support; and through the creation of new tools like zero interest loans for low-income members and crisis prevention insurance for middle-income members. The IMF has also been a highly sought-after partner in capacity building: demand for its technical advice and training courses has originated from across the entire membership in recent years.

This crisis prompted the IMF to rethink its analysis and adapt its policy advice. It became more acutely aware of the growing interconnectedness of the global economy—and conscious of how policies in one country can affect others through economic and financial "spillovers." Analysis of risks and vulnerabilities is now front and center in the IMF's surveillance work, and the distillation of cross-country experience remains a hallmark of its policy advice.

The road ahead

In the near future, the IMF will need to continue to help members deal with the consequences of the financial crisis, especially low growth and high unemployment.

For fiscal policy, the key is to reduce the onerous burden of public debt in a way that is attuned to the pace of growth and the impact on people's lives. For monetary policy, the challenge is to navigate the "new normal"—easing out of highly accommodative and unconventional support with minimal disruption. For the financial sector, the goal is to urge and support the completion of reforms to make the system safer, sounder, and more service oriented.

Looking further into the future, the breathtaking advance of information and communication technology will propel financial integration toward a scale not yet quantified, and to corners of the world not yet reached. Deeper integration will fuel growth and feed risks. Experience teaches us an important lesson: greater financial integration raises the probability and size of financial crises. That calls for sharpening the IMF's tools for crisis prevention and strengthening its support for crisis resolution.

The emergence of new economic and financial centers, linked through global trade and ever larger financial flows may eventually lead to a new paradigm in the global financial system, 40 years after a new order emerged from the demise of the gold-based Bretton Woods system.

A new multilateralism must be able to cope with a greater diffusion of economic power, and possibly the rise of limited currency arrangements providing new if yet untested anchors for regional economic stability. As the primary guardian of the global monetary system, the IMF must continue to adapt its work and emphases accordingly—focused on its mission but flexible in its approach, accommodating structural shifts in the world economy, so as to best serve its membership.

Focus, flexibility, service: these will remain the IMF's guiding principles.

Beyond the realm of finance, the IMF's member countries will have to come to grips with a number of emerging macrocritical challenges: the stark rise in income inequality, the relentless march of climate change, and—in many areas—the continued exclusion of women from economic life.

Mitigate income inequality

One of the leading economic narratives of our time is the growing disparity between rich and poor. Over the past three decades, the richest 1 percent of the population increased its share of income in 24 of the 26 countries for which we have data. Across many advanced economies in particular, inequality is edging to levels last seen during the Gilded Age.

Recent IMF research—which looked at 173 countries over the past 50 years—found that more unequal countries tend to have lower and less durable economic growth.

For the IMF to strengthen its focus on growth and stability, it needs to worry about excessive income inequality. Fiscal policy can be especially effective here, given its good record of reducing social disparities through transfers and income taxes, and expanding access to education and health care remains a universal priority. The key is to promote measures that do the most good and the least harm, both in IMF surveillance and in the design of IMF lending programs.

Address climate change

A second major 21st century obstacle to sustainable growth and prosperity is climate change. Average temperatures are rising, and with that rises the risk of more frequent natural disasters, more volatile agricultural output, and greater food and water insecurity. In the poorest countries, the effects of climate change will exacerbate their already fragile state.

Again, this has serious implications for growth and stability—and for the IMF. A big part of the solution relates to getting prices right—including the price of all externalities. This will help reduce the harm today and spur investment in the low-carbon technologies of tomorrow.

Phasing out energy subsidies is thus an important part of the solution. In many cases, the very behavior that is destroying our planet is being subsidized through bad policy choices: direct subsidies and the loss of tax revenue from fossil fuels ate up almost $2 trillion in 2011 alone. To make matters worse, these subsidies mostly benefit the relatively affluent—so there is much that can be done to fight both climate change and poverty.

Increase the participation of women

With these looming threats to growth and stability from income inequality and environmental degradation, the global economy will need to seek other avenues of vitality in the years ahead. One such avenue involves enabling women to participate more in labor markets. This is especially pertinent as demographics evolve: bringing more women into the labor force will help counteract the slower growth that comes with population aging.

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Yet there is a long way to go. Women may represent half of the world's population, but they account for far less than half of measured economic activity. Gender gaps in labor force participation are worldwide—ranging from 12 percent in Organisation for Economic Co-operation and Development economies to 50 percent in some emerging market and developing regions. Eliminating these gaps in regions like the Middle East and North Africa or south Asia could lead to a jump in income per capita of about 25 percent.

This is why the IMF supports policies to level the playing field of labor for both genders. Again, it is fiscal policy that can take the lead here—including through publicly funded parental leave programs; quality, affordable child care; and tax credits and benefits for low-wage workers. For developing economies, policies often center on boosting access to decent health care, education, and financial services.

These issues—inequality, climate change, and women's exclusion from labor markets—increasingly threaten the macroeconomic health of the IMF's member countries. In that respect, these problems must become more a part of our work. We can and must cooperate more effectively with others that are engaged in these areas, and we must make the most out of the number of ways in which we can help directly.

Representation and governance

The stage is set for a world, 20 or 30 years from now, in which economic power will be far less concentrated in the advanced economies—and more vastly dispersed across all regions. The IMF must be representative of, and mirror, these shifts in order to stay relevant. As an institution owned by 188 member countries, working for the benefit of 7½ billion global citizens, the IMF's governance needs to remain representative and true to the principles set out in the Articles of Agreement.

In the short term, this means that the ratification of the 2010 IMF reform, including the 14th Quota Review, must be completed soon. This will help ensure that, over the longer term, the IMF continues on a path that provides it with the resources and legitimacy necessary to fulfill its mandate of maintaining global economic and financial stability. ■