currency reserves and increasing their SDR holdings.

Third, the IMF should actively encourage members with excess SDR holdings to use them to help meet global challenges such as climate change and pandemics—for example, by lending them to the IMF's Poverty Reduction and Growth or Resilience and Sustainability Trusts, multilateral development banks, or other prescribed holders of SDRs; by purchasing SDR-denominated securities issued by those entities; and through similar mechanisms. Member countries should not restrict their policies on the use of SDRs by requiring SDR-denominated claims to remain liquid. Excess reserves need not be liquid if they indeed exceed requirements. Moreover, these SDRs remain in the system, adding permanently to global liquidity.

Regular annual allocations of SDRs would support IMF members in pursuing national and global economic objectives such as climate change mitigation and adaptation. In addition, by lowering the risk and cost of financial crises, SDRs lower the cost of market borrowing, giving policymakers confidence and relaxing external constraints on economic growth policies.

SDRs are not a magic bullet that alone will solve today's pressing global economic and financial challenges, but they are one of many instruments that can contribute. Reform of the IMF's governance is not the only structural challenge facing the institution today. Continued reform and institutional evolution are essential if the Fund is to maintain its central role in the promotion of international monetary cooperation.

When the IMF celebrates its 100th anniversary 20 years from now, may commentators commend the mid-2020s leaders for their vision and imagination in sustaining the institution in the role assigned to it at Bretton Woods. F&D

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No Time for Half Measures

CHARLIE BIBBY/FT

Martin Wolf

The agenda for making the IMF work better has four vital elements

The decision to launch the International Monetary Fund, made eight decades ago at Bretton Woods, New Hampshire, signaled determination more than optimism. The countries represented at this seminal conference wanted to make the postwar world they envisioned altogether different from the one preceding the catastrophe.

This differed starkly from aspirations back in 1918, when the main aim, as John Maynard Keynes noted in a letter written in 1942, was to get back to 1914. In 1944 no one wanted to go back to 1939. The next era, everyone agreed, had to be quite different—and it has been. The world has enjoyed remarkable progress over the past 80 years, with the IMF playing a valuable part.

Yet the world in which the IMF operates now is arguably more challenging than at any time since its founding. In a piece published in *Finance & Development* in 2019, in celebration of the IMF's 75th anniversary, I noted eight crucial features of this changing world: a huge shift in relative economic and political power from long-established high-income countries toward emerging market economies, especially China; growing rivalry between the US and a rising China; an increase in populist politics, including within established democracies; a backlash against the notion of globalization; new transformative technologies, especially the internet and, more recently, artificial intelligence; pervasive financial fragility, notably including rising public debt to GDP across much of the world; a lengthy period of secular stagnation, characterized by ultra-easy monetary policies and low inflation; and, finally, the rising salience of climate change.

> "Cracks in the edifice of global cooperation are deeper, pressure on global institutions is greater, and long-term economic performance has deteriorated."

In the five years since that article the world has endured a series of shocks, notably the pandemic, Russia's war in Ukraine, and the Israel-Hamas war. Secular stagnation is the only trend that seems to have improved—in part thanks to those shocks. But sudden jumps in inflation and higher interest rates have taken its place. Cracks in the edifice of global cooperation are

deeper, pressure on global institutions is greater, and long-term economic performance has deteriorated.

Firefighting has inevitably been the focus of much IMF attention over the past five years, as in the preceding decade. According to Kristalina Georgieva, managing director, "Just since the pandemic, we have provided about $1 trillion in liquidity and financing to our 190 member countries." New lending facilities have been introduced, notably the Resilience and Sustainability Trust. Operational since October 2022, it is funded by voluntary long-term loans from members with strong external positions, including those wishing to channel some of their special drawing rights for the benefit of low-income and more vulnerable middle-income members.

Equally important is the IMF's surveillance of individual countries and the world economy. One highlight was a proposal by Ruchir Agarwal and Gita Gopinath to end the COVID-19 pandemic, published in May 2021. Another was the decision to point out the economic costs of the backlash against globalization. Yet another was skepticism over the rush to embrace active industrial policies. The IMF has also rightly pointed to the dangers of excessively loose fiscal policies.

Yet none of this work, sensible as it is, has been enough. Bretton Woods was intended to launch the world on a path of cooperation, economic integration, and accelerated economic development. After the fall of the Soviet Union in 1991, it appeared to be the path the world would follow. This is no longer the case. Fundamental changes are needed if hope for a better world is to be renewed. The fault here lies not with the IMF or, for that matter, the other international financial institutions (IFIs), but with their masters, especially the long-dominant high-income countries.

As Harvard's Lawrence Summers and N. K. Singh, former chairman of India's Fifteenth Finance Commission, note in an April 2024 piece for Project Syndicate, "Higher interest rates have left developing countries crushed by debt, and half the poorest economies haven't recovered to where they were before the pandemic. Growth is weak across large swaths of the world, and inflation remains persistently high. And behind it all, the thermometer keeps inching up."

The agenda for making the IMF and the broader universe of IFIs work better has four vital elements. They will be difficult to achieve. But the time for half measures is over.

First, dealing with unserviceable debt overhangs must be radically improved. The need to coordinate traditional official lenders organized in the Paris Club, Chinese institutions, and private lenders presents novel difficulties. It is widely agreed that the Group of Twenty common framework for debt relief is not doing enough to help poor countries. How can it, when, as Summers and Singh note, "rising interest rates and bond and loan repayments meant that nearly $200 billion flowed out of developing countries to private creditors in 2023, completely dwarfing the increased financing from IFIs"? The world's poor countries cannot manage the risks imposed by higher interest rates in high-income countries. As Anne O. Krueger, then the IMF first deputy managing director, rightly argued back in 2002, the world needs a sovereign debt restructuring mechanism. It did then. It needs one even more today.

Second, far more resources are needed. Only then can the IMF and other IFIs provide desperately needed insurance against shocks as well as play their essential catalytic role in financing development and providing essential global public goods, especially a stable climate. The IMF's role is, above all, to provide backup funding. But it needs substantially more resources if it is to be able to do so.

Third, voting shares must reflect the scale of the changes in the balance of global economic influence over the past four decades. If that does not happen, the IMF and other IFIs will not be the global institutions the world needs. At present Japan's quota share in the IMF is bigger than China's, and that of the UK is bigger than India's. It is possible to argue that possession of a convertible currency justifies the overweighting of high-income countries. But this degree of imbalance destroys the institution's legitimacy.

Finally, the long-standing custom of a European IMF managing director and a US World Bank president must yield to the search for the best possible candidate from anywhere in the world.

No one looking at the world today can doubt the scale of the challenges ahead. Maintaining effective global institutions is going to be immensely hard. In a time of worsening global tensions, reviving the necessary cooperation might even seem a forlorn hope. But it's the only way to prevent the world from looking even worse five years from now. F&D

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