

# F&D

FINANCE & DEVELOPMENT

INTERNATIONAL MONETARY FUND

**PERSPECTIVE**

*A Consensus for  
IMF Reform*

**PRIMER**

*Globalization  
Today*

**SPECIAL SECTION**

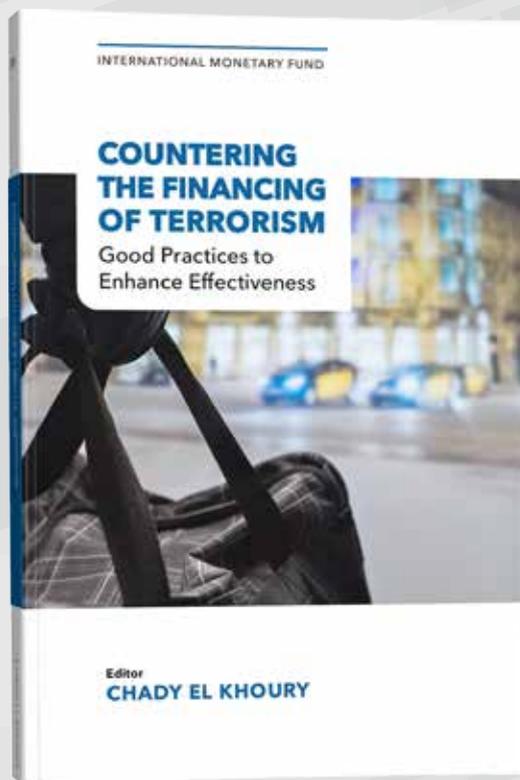
*F&D Celebrates  
60<sup>th</sup> Anniversary*

JUNE 2024



*An IMF for Tomorrow*

# RECOMMENDED READING



## A guide to enhance the integrity of international financial systems

This book identifies key challenges and good practices for enhancing the effectiveness and integrity of counter terrorism financing frameworks.

Chapters cover issues such as improving the understanding of terrorist financing risks, international cooperation in combating the financing of terrorism, and much more.



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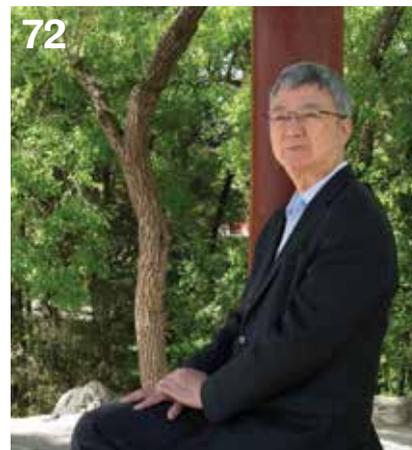
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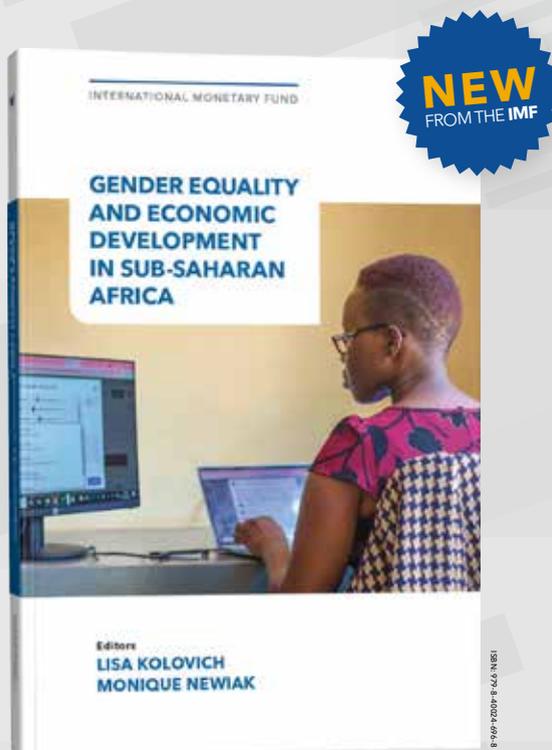


**On the Cover**

Our June 2024 issue reflects on how the IMF should evolve in response to a changing world as the institution approaches its 80th anniversary. Cover artist Daniel Liévano depicts a window into an idyllic future of prosperity, growth, and environmental resilience.

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# SUMMER FEATURED TITLE



**This book showcases some of the emerging analytical work and country examples that can help policymakers improve the effectiveness of macroeconomic policies to drive inclusive, sustainable development.**

Traditional engines of growth have weakened globally, and sub-Saharan Africa grapples with a shock-prone environment amidst a significant funding squeeze. Promoting gender equality can help boost and sustain inclusive growth over the medium term.

**“Highly recommended read for all who are interested in the intersection of macro policy and gender equality—and for governments in search for new sources of economic prosperity.”**

**GARGEE GHOSH**

President, Global Policy and Advocacy, Bill and Melinda Gates Foundation



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— The F&D editorial team



# F&D

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## Editor's Letter

# A Fund for the Future

**“PROSPERITY, LIKE PEACE, IS INDIVISIBLE,”** US Treasury Secretary Henry Morgenthau Jr. said as he opened the Bretton Woods conference in 1944. It was, as he put it, an “elementary economic axiom” to help guide the founders of the IMF.

Today, these words are more important than ever. Our biggest challenges—from global warming to demographic and technological transformations—cannot be resolved by countries acting alone.

Yet just when we need greater international cooperation, we get the opposite: more fragmentation, conflict, and global disengagement; more zero-sum thinking that risks leaving our world poorer and less secure.

As we mark the IMF’s 80th anniversary, we ask: How can the Fund continue to adapt to the new realities and the changing needs of our 190 members? This F&D issue seeks to provide answers that are inspiring and thought-provoking.

IMF Managing Director Kristalina Georgieva strikes an optimistic note and calls for “21st century multilateralism”—a framework for international cooperation that’s more open and representative, with a better balance between advanced economies and the voices of emerging market and developing economies.

These voices are represented in this issue by top policymakers such as Barbados’ Prime Minister Mia Mottley, Kenyan President William Ruto, and Pablo García-Silva, a former vice-governor of Chile’s central bank. The economic fortunes of their regions depend, in many ways, on a better multilateral system, and they suggest ways in which the IMF can deliver that for its members.

On that point, proposals abound. Adam Posen reckons that narrowing the IMF’s mandate to its core macroeconomic mission and giving it greater operational independence would make it more evenhanded. Raghuram Rajan makes a related point: delegating more authority to the IMF’s management—coupled with reform to more fairly allocate quotas, the financial contributions paid by each member—could help bring a fragmented world together on critical issues.



**“How can the Fund continue to adapt to new realities?”**

Among these is climate change. That brings us to Masood Ahmed’s piece, which considers the ongoing debate over the IMF’s proper role in addressing the climate threat.

The Fund, of course, has long adapted to change. The IMF’s Ceyla Pazarbasioglu shows how much the organization has evolved in its regular reviews of member economies and its regional and global analyses. In a similar vein, historian Harold James draws lessons from the past for global financial risk management.

As we move forward, one thing remains clear. “We cannot have a better world without international cooperation,” notes Georgieva. Taking inspiration from John Maynard Keynes, one of the IMF’s founding fathers, she concludes: “Keynes would encourage us to go even further as a global ‘transmission line’ for sound economic policies, financial resources, knowledge—and as the ultimate platform for global economic cooperation.”

We also mark the 60th anniversary of this quarterly magazine, *Finance & Development*. Just as the Bretton Woods institutions and the global economy have adapted, so too has F&D. Today we are a platform on which thought leaders in many fields and from many countries explain and debate issues central to the global economy.

I want to express my gratitude to all our readers and contributors as we look forward to another 60 years of fresh thinking and inspiring debate. **F&D**

**Gita Bhatt**, editor-in-chief

# Kaleidoscope

A global view, in brief



**THE BIG PICTURE:** Japan is the largest contributor to IMF capacity development. Since 1990, Japan-financed technical assistance and training have helped government officials around the world build capacity for formulating and implementing sound economic policies in the fiscal, monetary, financial, and statistical areas of specialization. Above, pedestrians cross a street in Tokyo's Shinjuku district. IMF Photo/Noriko Hayashi.

## Geopolitics Is Reshaping Global Economy

**GEOPOLITICS IS RESHAPING** global economic ties, Gita Gopinath, IMF first deputy managing director, said at Stanford University. Countries are reevaluating their trading partners based on economic and national security concerns. New trade restrictions have more than tripled since 2019, while geopolitical risks have spiked.

Foreign direct investment flows are also being redirected. After Russia's invasion of Ukraine, trade and FDI flows between geopolitical blocs declined by roughly 12 and 20 percent more on average than flows within blocs, respectively.

Some countries are reevaluating their heavy reliance on the dollar in their international transactions and reserve holdings. For China-leaning countries, the dollar's share of trade finance payments has declined since early 2022, while the renminbi's share has more than doubled.

Policymakers are increasingly—and justifiably—focused on building economic resilience. But if the trend continues, the costs could significantly outweigh the benefits, Gopinath said.

“  
What we've seen in  
the last few years  
is like nothing we've  
seen since the end  
of the Cold War.”

—IMF First Deputy Managing Director Gita Gopinath at the Stanford Institute for Economic Policy Research in May 2024.



## Overheard



“We lived in a world where economics dominated politics. Now politics is determining economics.”

—Gordon Brown, former UK prime minister, speaking at an IMF–Peterson Institute for International Economics conference in April 2024.



“The recent rise in global interest rates has revealed a flawed IMF lending framework for middle-income countries that no longer supports debt sustainability. It is in desperate need of reform.”

—Mia Mottley, prime minister of Barbados (see “The IMF Must Lead on Debt Sustainability,” this issue of F&D).



**AROUND AND ABOUT:** On his death in 1946, the great economist John Maynard Keynes bequeathed his collection of rare books and papers to King’s College, Cambridge, where he had studied, taught, and become a fellow. IMF Managing Director Kristalina Georgieva toured the Keynes Library in March before giving a lecture inspired by Keynes as part of the Conversations at King’s series. (See “Economic Possibilities for My Grandchildren,” this issue of F&D.) *IMF Photo/Kim Haughton*

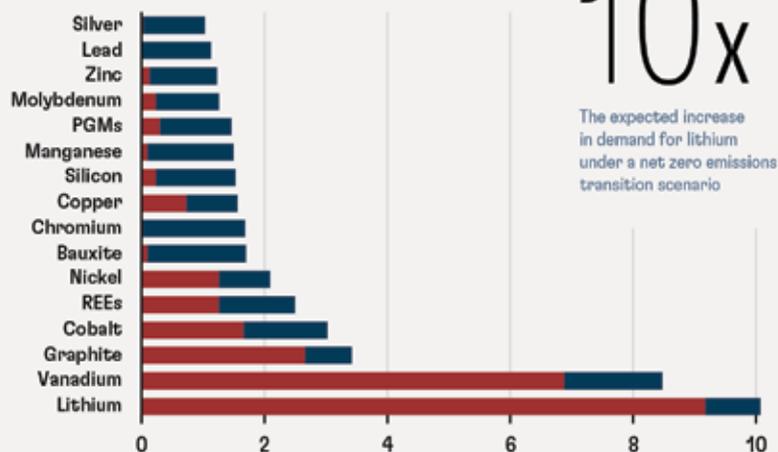


## By the numbers

According to the IEA’s net zero emissions scenario, global demand for energy transition minerals will rise significantly in the coming decades.

### DEMAND IN 2050 VS. 2022

■ ENERGY TRANSITION ■ OTHER USE



SOURCES: International Energy Agency (IEA), *World Energy Outlook 2023*; and IMF staff calculations.  
NOTE: Demand in 2022=1; PGMs = platinum group metals; REEs = rare earth elements.

## Back to Basics



# Globalization Today

*Updated rules for international trade, coupled with stronger domestic policies, could make globalization more inclusive and sustainable*

**Adam Jakubik and Elizabeth Van Heuvelen**

**FOR AT LEAST 150 YEARS**, global economic forces have by turns pulled countries closer together and pushed them farther apart. Ever since the industrial revolution and emergence of the first truly global economy in the 19th century, countries have at times sought more economic integration and at other times more isolation, depending on geopolitics, ideology, technology, and other factors. Today we may be at another turning point in globalization's history. So what is this powerful force that does so much to influence the world economy? How is it changing? And can it be improved?

Globalization refers to the process of connecting the world economy more closely through the flow of goods, services, investment, technology, data, ideas, and workers. It began around 1870 and took off in the decades after World War II as countries started reducing restrictions on capital and trade flows in anticipation of benefits to growth and welfare.

This process started within geopolitical and regional blocs and later broad-

ened after the fall of the Berlin Wall, financial deregulation, and the rounds of trade liberalization that led to the establishment of the World Trade Organization (WTO) in 1995. It received a further boost from technological developments that reduced the costs of trade and financial transactions. Sea and air transportation became cheaper with innovations such as container shipping, deepwater ports, and jet engines.

Organizational and transactional costs further declined as a result of widespread adoption of information and communication technology—from the introduction of fax machines, to personal computers and mobile devices, to the continuing global rollout of internet connectivity. The world seemed smaller as a result, and doing business across borders became easier.

### Upsides and downsides

These developments unlocked a vast latent potential for value creation in the world economy. Production activities

were unbundled into multiple stages, allowing each stage of production to take place where it could be done more efficiently. This reorganization of production meant that the same resources could produce more output than before. At the same time, foreign competition prompted companies to become more productive. Consumers, for their part, were able to access a greater variety of goods at more affordable prices.

Most economists think that globalization—and trade reforms in particular—had a positive overall impact on growth, especially for countries that were previously less integrated. Developing economies in particular benefited from contributing to global value chains—sprawling production networks that span the world—because they did not have to develop entirely new domestic industries to export more sophisticated products. During the period of expanding globalization, world income levels converged, and poverty rates decreased from 47 percent in 1980 to 16 percent in 2010.

But globalization had its downsides. Within countries, the shift to a new production structure was sometimes difficult, as workers and capital had to move from one industry to another. Domestic policies, such as labor market support and social insurance programs intended to facilitate this adjustment, differ vastly. Some countries have managed the process better than others. In a number of places and industries, workers—especially those with lower skills—lost their jobs or saw their wages decline. These negative consequences have been concentrated, sometimes harsh, and often prolonged.

Some economists reckon that globalization of finance made the world economy more volatile and crisis-prone. Stronger macroeconomic governance and institutions could help prevent this, they say. Globalization may also have contributed to rising income inequality over the past four decades, but differences in countries' approaches to taxation and redistribution arguably played a greater role, as did technological advances that benefited high-skilled workers and investors.

## Measuring globalization

Traditionally, globalization has been measured by statistics such as trade openness, which is the total value of imports and exports as a share of GDP, or openness to foreign direct investment and policies such as tariffs and capital account restrictions. Other dimensions of globalization are captured by the value of daily cross-border financial transactions or the number of visas for foreign students and workers. Looking at these statistics in aggregate shows that globalization expanded rapidly from the 1980s until the global financial crisis, after which it plateaued. However, this story is overly simplistic given changes to the global economy.

Newer metrics that look at participation in global value chains and trade in services, particularly digital services, show that globalization has actually accelerated in some areas. Traded products increasingly contain value added originating in a variety of upstream countries and sectors. Accounting for this embedded value added is crucial to assessing trade integration and to correctly identifying each country's sectors of relative strength and weakness. A global increase in the foreign value-added content of exports from about 19 percent in the mid-1990s to 28 percent in 2022 points to continued deepening of trade integration.

Meanwhile, services are able to flow more easily across borders thanks to the rise of digital technology. Digitally delivered services, including accounting, design, and media services, already account for 54 percent of services trade, following growth of 8 percent annually over the past two decades. These digital services are a potential future engine for development.

Despite the story these metrics tell about the state of globalization, cracks are emerging. Heightened concerns about national security and supply-chain resilience, punctuated by the COVID-19 pandemic, Russia's war in Ukraine, and an intensification of geopolitical rivalries, have pushed policymakers to shift inward.

Policies at the intersection of trade and national security are being used more broadly, and trade and foreign

**“Reversing globalization would almost certainly reverse its gains, increase poverty, and result in a costly transition.”**

direct investment restrictions have proliferated, increasing about threefold since 2018. Industrial policy is making a comeback, with trade-disrupting measures affecting at least a fifth of global trade in 2023. Many of these restrictions are inspiring tit-for-tat reactions, increasing tensions between trading partners. The multilateral trading system is ill-equipped to respond, and its credibility is suffering as a result.

And there are other worrisome trends. Recent studies point to a rotation of trade toward geopolitically closer partners, in particular in strategic sectors. But rather than reducing vulnerabilities, this may simply be lengthening supply chains and increasing costs. Even digital services, a potential bright spot for the global economy, face high levels of policy restrictiveness, which has increased in the past decade.

## Sharing the benefits

The benefits of globalization are worth preserving and extending. However, support for continued open economic policies has faced opposition over concerns about inequality, worker dislocations, and unfair competition. Some critics point to overdependence on geopolitical rivals, especially in times of crisis, such as during the pandemic.

Reversing globalization would almost certainly reverse its gains, increase poverty, and result in a costly transition. IMF research shows that global losses from trade fragmentation could range from 0.2 to 7 percent of GDP. The costs may be higher when accounting for technological decoupling. It is therefore critical that policymakers come together to preserve and extend globalization's benefits while also making it more sustainable.

How might policymakers go about this? An essential component is ensuring a well-functioning system of global trade rules, underpinned by the WTO, to maintain trade openness and to ensure the stability and predictability that are so important for trade and growth. This necessarily involves governments working cooperatively to fix underlying sources of trade tensions. Accelerating WTO reforms to strengthen transparency and rules, including on subsidies; restoring a fully functioning dispute settlement system; and updating the rulebook to take into account the growing share of services and digital trade in the global economy are essential.

Plurilateral agreements, among subsets of WTO members interested in deepening cooperation in particular areas, can help advance reforms in e-commerce and investment facilitation without keeping others from joining.

Another critical area for policymakers is stronger domestic policies to share the benefits of trade, globalization, and technological advances more fairly. To be successful, these must be built on solid foundations of sound macroeconomic governance, financial regulation, and supervision to avoid the buildup of risk from financial globalization, and they must include a tax system geared toward efficient revenue mobilization.

Labor market and fiscal policies are key tools for addressing worker dislocations and inequality and are ever-more vital to counter disruptions caused by new technologies, especially artificial intelligence. These policies are complemented by the provision of high-quality basic public services, including education and health and social safety nets.

Finally, international organizations can play a pivotal role in uncertain times, serving as a buffer for unexpected circumstances, promoting commonly agreed-on rules of the road, and acting as a conduit for greater dialogue and cooperation—even when the prevailing winds are blowing in a different direction. **F&D**

**ADAM JAKUBIK** is an economist and **ELIZABETH VAN HEUVELEN** is a senior economist in the IMF's Strategy, Policy, and Review Department.

## Point of View

# Reform or Risk Irrelevance



**Raghuram Rajan**

*Eight decades after Bretton Woods, the IMF must professionalize and depoliticize its decisions*



If the IMF didn't already exist, we would have to invent it. After two once-a-century catastrophes in quick succession—the pandemic and the global financial crisis—countries have borrowed massively to help their people and institutions survive. More disruptions threaten as the planet warms and new pathogens emerge. Meanwhile, rising barriers to trade and investment hamper the usual mechanisms to bridge opportunity gaps between aging industrial countries and young developing economies. That growing disconnect has spurred millions of migrants to brave dense jungles and open seas to find a footing in the developed world, in turn increasing calls against global integration.

To better meet these challenges, we need an IMF that steers countries toward policies that support the fair international exchange of goods, services, and capital, and complements the World Trade Organization by underscoring the harm from not doing so. The Fund should also offer an independent voice on national

policies—especially those that threaten the country's macroeconomic stability—and serve as lender of last resort for countries that lose the trust of the markets. Unfortunately, while we do have an IMF, its anachronistic structure leaves it ill-positioned to carry out all these functions.

### Legitimacy

The IMF requires legitimacy to meet the needs of its members. The Fund was established when the United States was the only superpower, endowed with economic strength that allowed it to remain largely above the fray and enabling it to be a credible, mostly impartial, enforcer of the rules governing exchange. Other countries did not begrudge its power to veto key decisions or its control, together with allies Canada and western Europe, of managerial appointments and operational decisions. This Western alliance has remained largely unchallenged until recently; in its heyday during the Cold War, the Soviet Union (and its satellite countries), although a military superpower, was still an economic midget and largely outside the global trading system. At its peak in the late 1980s, Japan, while a substantial economic power, was too dependent on the United States to challenge its hegemony—indeed, it is effectively part of the Western alliance today. Western control has been challenged only recently by China's rise as it becomes both an economic and military superpower.

Of course, complaints about underrepresentation of countries outside the Western alliance have been growing for a while. IMF member quotas represent their voting rights and the amount of their capital subscription payment to the Fund. The maximum a country can borrow under various circumstances from the IMF is also proportional to its quota. Japan's 6.47 percent quota exceeds China's 6.4 percent, even though the latter is now an economy more than four times

as large. Similarly, India's quota is less than those of the United Kingdom and France despite its economy having overtaken both in size. It is hard to see the rationale for such underrepresentation today, other than the Western alliance's desire to hold on to power.

### The case for redistribution

The IMF needs perceived legitimacy and good governance, not just to facilitate negotiation of rules and to enforce those rules impartially but also so that it can decide how to deploy its resources correctly. There are reasons the Western alliance is no longer fit for purpose.

Unfortunately, US fears of being overtaken economically and, eventually, militarily, combined with its shrinking fiscal space, mean that domestic politics have moved toward greater isolationism. The United States has moved steadily from being the referee, generally motivated by the idea that openness benefits everyone, to becoming a player, wanting openness on its own terms. Yet it still wants to referee in organizations like the IMF. Politically, also, it is very difficult for any US or European administration to give up any of the powers they have, no matter how much their holding on diminishes IMF effectiveness.

With fiscal capacity tight across the world, the IMF increasingly must lend to troubled countries without additional support from the Western alliance. Because potential IMF loan losses are not visible on any government's books in the short run, and the Western alliance bears only a fraction of eventual losses (proportional to its quota share), it is tempting for it to use Fund resources to help friends or neighbors in need, even if lending is not economically viable. Although there has always been a political component to IMF lending, the IMF has had a greater chance of designing a successful rescue program and recovering its loans because of outside assistance from the Western alliance. For example, the United States contributed a hefty share of the 1994 rescue package for Mexico's crisis. The IMF may increasingly have to go it alone,

**“The United States has moved steadily from being the referee to becoming a player, wanting openness on its own terms.”**

with the Western alliance exercising control though with much less of its own money at stake.

Finally, the Western alliance itself is fraying. Donald Trump's administration had serious trade differences with Canada and western Europe, and it is not unthinkable that as the political makeup of governments changes, there will be less and less consensus in the alliance on economic direction. This could result in unpredictable decision making if the alliance still controls the IMF.

### Quotas and oversight

If the Western alliance cannot be relied on to continue providing good governance, the case for redistributing IMF quotas based on the relative size of economies becomes even more important. But it also may have unintended consequences. As geopolitical differences fragment the world, could a hypothetical China-centered alliance, for example, block loans to countries tied closely to the Western alliance, or vice versa? Isn't dysfunctional governance better than absolute paralysis?

It might be, which is why a change in IMF governance should accompany quota reform: the executive board should no longer vote on every operational decision, including every lending program. Instead, independent professional management should make oper-

ational decisions for the benefit of the global economy. Board members should set broad objectives and periodically examine whether they are being met, perhaps with the help of the Independent Evaluation Office. In other words, the executive directors should focus on governance, much as corporate board directors do. They should set operational mandates, appoint and change management, and monitor overall performance, leaving day-to-day decisions to management.

In short, the way to avoid paralysis is to professionalize decision making and depoliticize it. When the IMF was established, John Maynard Keynes, fearing the undue influence of the United States, wanted a nonresident board. In the immediate postwar period, when long-distance communications were costly and travel, largely by steamship, took time, this implied a non-executive board and empowered management. Keynes was overruled by Harry Dexter White, the US negotiator at Bretton Woods. It is time to reexamine Keynes's idea, but given the improvements in communication and travel, to explicitly require that the nonresident board be decidedly nonoperational.

The board would select top IMF officials based on which candidates enjoy the broadest consensus, rather than giving certain countries or regions the right to appoint. Such a process would be unavoidably political, but as long as the board sets some basic qualifications for appointees, politicking will help forge consensus behind candidates, ensuring they can function effectively.

### New versus old

The political impediments to dramatic IMF reform are sizable, including dominant members unwilling to cede power if they see it as potentially signaling political weakness domestically. It is far easier for member countries to take incremental steps, such as the recent quota review, and tell themselves that this is progress. Tough decisions can be kicked down the road to the next government and inevitably postponed again. If this is how the future evolves, the organization will carry on, but will be less legitimate

and relevant to the world's needs. The IMF will still be of value to developing economies but will have much less influence when it comes to helping the global economy adapt.

If quotas do shift to reflect economic strength without any other change in governance, China may eventually have the largest quota. Then, under the IMF's Articles of Agreement, IMF headquarters would have to move to Beijing. The politicization Keynes feared would continue, but potentially with a new set of political players and rules and a new set of dissatisfied and disengaged countries.

If, however, members reform quotas and governance simultaneously, an independent IMF could bring a fragmenting world together on key issues. To be palatable to the rest, such comprehensive reforms should happen soon, else the rest could well believe this is an attempt by the Western alliance to hold on to some influence just when power is finally shifting.

A reformed IMF could help determine new rules for international exchange, for instance by setting out a preliminary list of issues to be negotiated, taking the changes in the world economy into account. Given the complexity of the issues, it could bring together a small set of countries to do the initial negotiations under its *multilateral consultations* framework. If the IMF gains sufficient broad trust, it could shape these new rules and enforce their implementation. And it could sharpen its analysis and better advise countries on macroeconomic and external sustainability while lending more effectively to set countries back on track.

Eighty years after Bretton Woods, the world must decide whether to reform the IMF to better engage with members and address their challenges—or fail to act and let the Fund fade away. **F&D**

**RAGHURAM RAJAN** is a professor at the University of Chicago Booth School and previously served as governor of the Reserve Bank of India and economic counsellor at the IMF.



## Special Drawing Rights Reconsidered



**Edwin M. Truman**

*Countries could better address the world's economic challenges with help from the IMF's global reserve asset*

**C**ongratulations to members, staff, and leadership on the 80th anniversary of the IMF's foundation at Bretton Woods, New Hampshire. The Fund is the crown jewel of the post-World War II international architecture. It was designed by idealists determined to construct a set of institutions to deter aggression among the major powers and prevent resumption of the interwar economic and financial unilateralism.

The IMF's principal purpose, according to its Articles of Agreement, is to promote international monetary cooperation by providing "the machinery for consultation and collaboration on international monetary problems." In the turbulent period following the end of US dollar convertibility to gold in August 1971, members demonstrated that principle and quickly completed the Smithsonian Agreement by December. The agreement's new par values for fixing currencies to the US dollar did not hold, though, and within two years, the Bretton Woods exchange rate regime dissolved into a system of managed floating exchange rates.

However, members cooperated in making the transition to this system and maintained the principle of exchange rate policies as a focus of mutual concern, which underlies IMF surveillance today.

In addition to monitoring members' exchange rates and other policies, the IMF plays a central role in crisis management, drawing on the experience and expertise of its staff. The IMF's prepositioned stockpile of financial resources is crucial to this role. When a member country needs financial assistance, help can be available without having to pass the hat.

The key to the IMF's success in its first 80 years is its continued evolution. Harry Dexter White and John Maynard Keynes would not recognize the institution today. The Fund's leaders and members have supported innovation in response to new challenges. The IMF and its members must not tread water; continued evolution is essential to continued success. The most critical challenge is governance. The most enticing opportunity is the IMF's global reserve asset, special drawing rights (SDRs).

### Governance challenge

The United States and Europe have gradually relaxed the convention that the managing director of the IMF should be a European male, the first deputy managing director a US male, and the president of the World Bank a US male. However, that transformation is incomplete. A more critical challenge is the persistent ability of certain countries (the United States) or groups of countries (the Europeans) to block crucial decisions of the IMF and the desire of other countries (China) to join in.

For more than a decade, I argued within the US government against the use of US veto power over major IMF decisions as our principal talking point when we requested that the US Congress approve an increase in our IMF quota or commitment to the New Arrangements to Borrow. The global economy has expanded more rapidly than the US economy, so the technical and policy rationale for US dominance has grown increasingly tenuous. I also reminded my colleagues at the

US Treasury that if we cannot persuade a few other countries to support it, our position is probably wrong. Charles Dallara, US IMF executive director in the 1980s, expresses a similar view: "I learned quickly that building a consensus among like-minded directors is the key to being effective in representing US interests."

The answer to this thorny problem is a grand bargain involving the United States, Europe, China, and Japan. Today's leaders of the IMF and its key members must marshal the ambition and imagination to shape such a bargain.

### SDR opportunity

More than 50 years ago, members approved the first amendment to the Articles of Agreement authorizing the IMF to allocate special drawing rights. The negotiations lasted the better part of the 1960s. The result was a complex compromise of strongly held views about how best to sustain the Bretton Woods system.

SDRs are allocated in proportion to IMF members' quotas. Each member receives an interest-bearing reserve asset and corresponding long-term liability on which it pays the same rate. The SDR's value is based on a basket of currencies with weights adjusted periodically by the IMF board. Its interest rate is a weighted average of the short-term government interest rates for the constituent currencies. An SDR allocation adds to a member's unconditional liquidity. Unlike unconditional liquidity derived from borrowing or current account surpluses, the liquidity is costless until the SDRs are transferred to another holder.

The initial allocation of SDRs annually over a three-year period starting in 1969 proved to be too little too late to save the Bretton Woods exchange rate regime, but nevertheless it was a pathbreaking and historic example of international monetary cooperation. The second amendment to the articles, in 1978, not only preserved the IMF's authority to allocate SDRs but also established a two-part obligation for members to collaborate on "better international surveillance of interna-

tional liquidity" and "making the special drawing right the principal reserve asset of the international monetary system." Both elements of the obligation have proved to be more aspirational than operational.

A second allocation of SDRs was authorized for the three-year period 1979–81 after the amendment of the IMF articles and the start of the floating exchange rate regime. The SDR then remained in the IMF's closet for 30 years until 2009, when the Fund allocated \$250 billion in SDRs during the global financial crisis. The most recent allocation occurred in 2021, when the IMF issued \$650 billion in SDRs to help members manage the economic and financial consequences of the COVID pandemic.

The SDR has demonstrated its value as a crisis management tool. Now the IMF should build on that success and further enhance the SDR's role in the international monetary system.

*First, the IMF should resume annual allocations to maintain and gradually increase the share of SDRs in members' holdings of SDR reserves and currencies, which is now roughly 7 percent.* Based on recent trends, an annual allocation of \$100 billion to \$200 billion in SDRs should achieve this objective. Regular annual SDR allocations would ensure steady growth in global liquidity, as envisioned when the instrument was established and in the amended Articles of Agreement, without dramatic effects on the international monetary system. SDRs are an efficient, low-cost, and nondistortionary way of boosting countries' international reserves and have the added advantage that they remain permanently in the global stock of international reserves.

*Second, the interest rate on SDRs should be raised by incorporating a blend of long-term as well as short-term interest rates on government securities denominated in the currencies in the SDR basket.* This reform would slightly reduce the subsidy on what are in effect perpetual loans to countries that mobilize their SDRs. It would also offer some compensation to countries that facilitate mobilization, by reducing their

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**

**EDWIN M. TRUMAN** is a research fellow at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School and a former US Treasury and Federal Reserve Board official.

# No Time for Half Measures



**Martin Wolf**

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

**T**he 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.

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

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



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 develop-

ment. 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**

**MARTIN WOLF** is chief economics commentator at the Financial Times.

# THE EVOLVING IMF

*Over the past 30 years the IMF has adapted to global shocks and evolving member needs*

## THE IMF HAS ALWAYS ADAPTED

to the evolving needs of its member countries, responding to challenges like volatile commodity prices in the 1960s, oil price shocks in the 1970s, the debt crisis of the 1980s, and the transition from centrally planned to market economies in the 1990s.

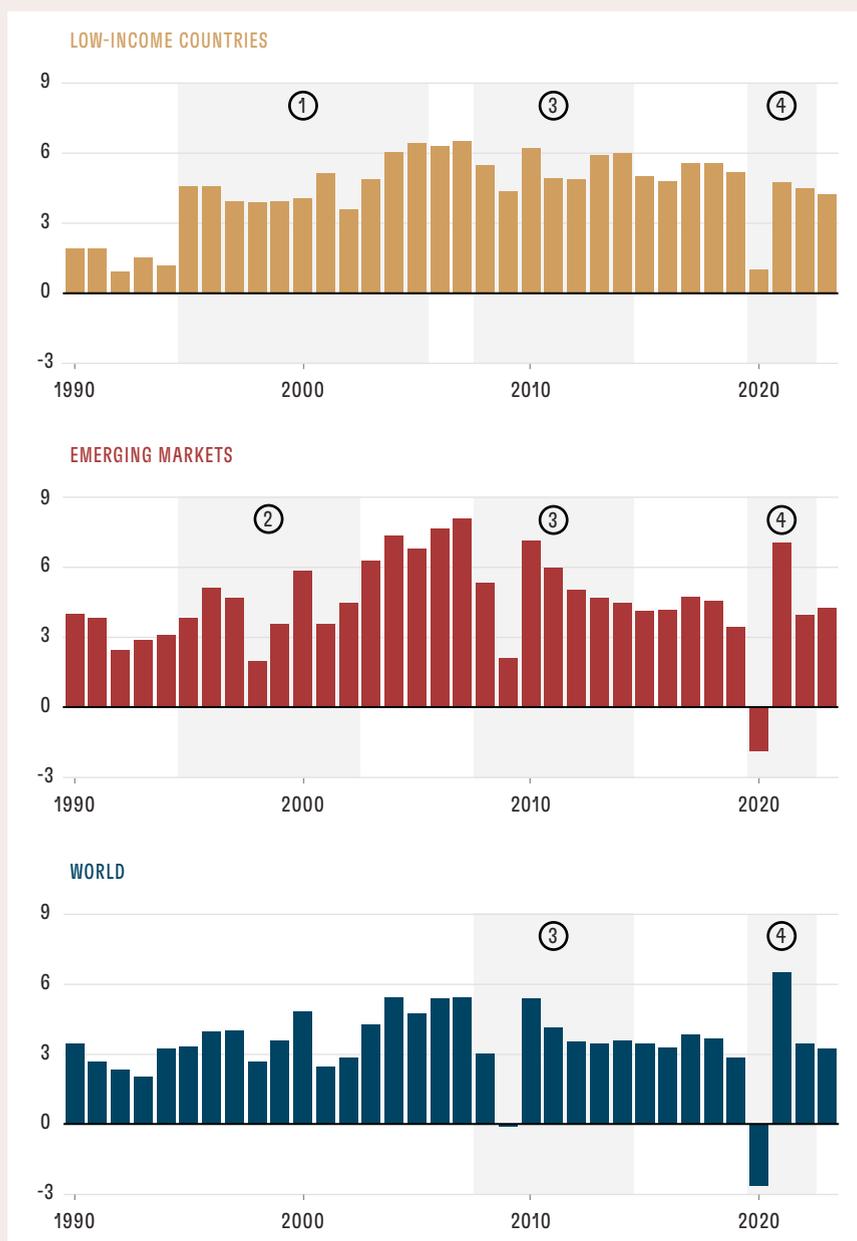
In the past 30 years, however, the pace of change has accelerated. In response to financial crises, the IMF not only stepped up lending (see charts) but also enhanced its crisis prevention and resolution tool kits. Shifts in global economic conditions and new ways of thinking have also driven numerous reforms. For example, after a decade of sluggish growth in low-income countries in the mid-1990s, the IMF refocused its approach to prioritize growth and poverty reduction. Global imbalances emerged in the mid-2000s, and the IMF revised its surveillance framework and developed new tools to better assess exchange rates and reserve adequacy.

More recently, the IMF has helped its members address governance, gender equity, digitalization, and climate change adaptation and mitigation where these issues are macro-critical, alongside providing advice on macroeconomic, financial, and exchange rate policies. As the global landscape continues to evolve, the Fund remains committed to its mission, constantly innovating within its mandate to promote both domestic and external economic and financial stability. With this commitment, the IMF is well prepared to meet the complex challenges of today and the unforeseen events of tomorrow. **F&D**

**ATISH REX GHOSH** is IMF historian.  
**ANDREW STANLEY** is on the staff of Finance & Development.

## Charting change

Spurred by shocks and crises, IMF surveillance, lending, and capacity building have evolved rapidly over the past 30 years. (GDP growth, percent)



SOURCE: IMF, World Economic Outlook database, April 2024.  
 NOTE: Low-income countries are those eligible for the Poverty Reduction and Growth Trust.

### 1. 1995–2005: LOW-INCOME-COUNTRY LENDING REFORMS

In response to poor macroeconomic performance and declining per capita incomes during the debt crisis, the IMF reformed its lending tool kit in the mid-1990s to focus on growth and poverty reduction for low-income countries. It also extended full debt relief on outstanding obligations.

### 2. 1995–2002: EMERGING MARKET FINANCIAL CRISES

The emerging market financial crises prompted the IMF to enhance its exchange rate and financial sector surveillance, develop early-warning models, focus on debt sustainability and sectoral balance sheet analysis, and improve data provision and dissemination. The IMF streamlined its conditionality and created contingent financing instruments for countries with strong policies but suffering contagion from crises in neighboring countries or global shocks.

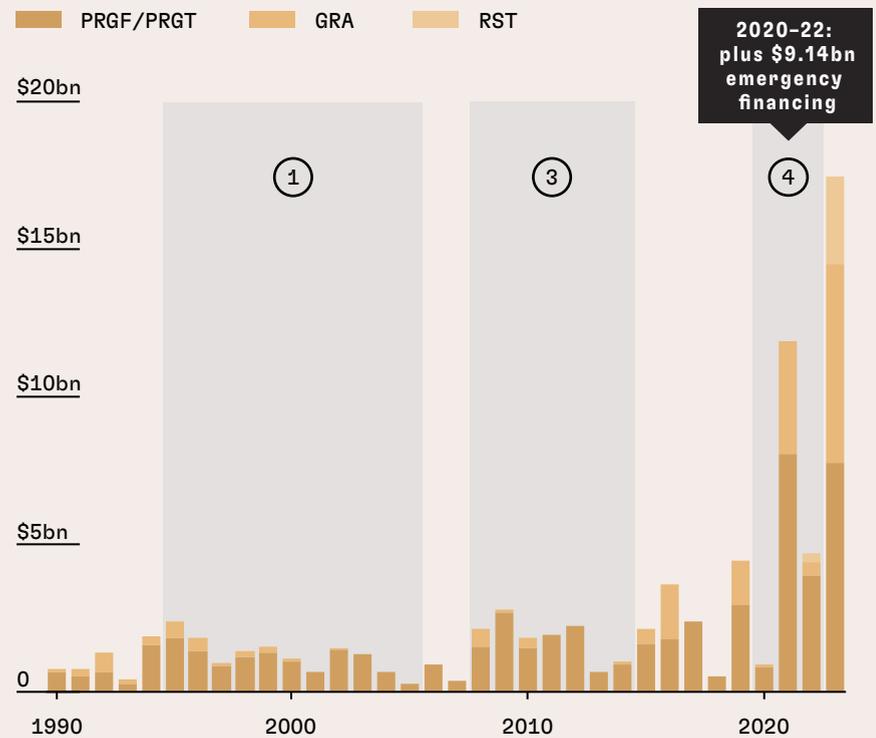
### 3. 2008–14: GLOBAL FINANCIAL CRISIS

During the global financial crisis, the IMF increased its lending, streamlined conditionality, enhanced its tool kit, and issued \$284 billion worth of special drawing rights (SDRs). It improved its crisis prevention tools and surveillance framework to better capture cross-border spillovers and help countries manage volatile capital flows.

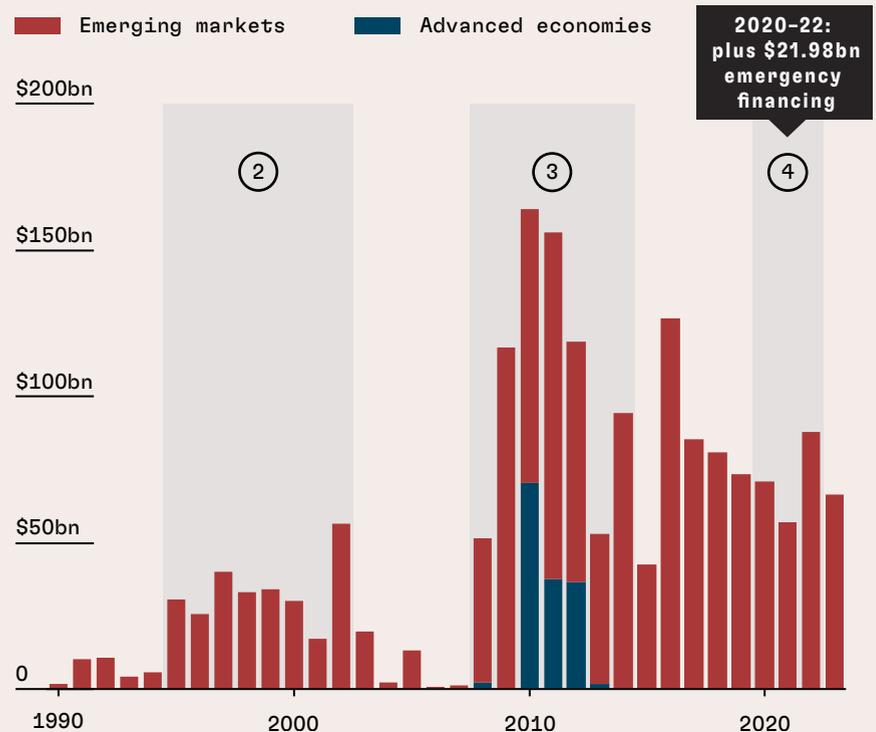
### 4. 2020–22: COVID-19 PANDEMIC

During the pandemic, the IMF swiftly provided unprecedented emergency financing and suspended debt-service payments for its poorest members. It also issued \$650 billion worth of SDRs, with the RST allowing wealthier members to channel SDRs to countries in greater need.

## IMF financing to low-income countries

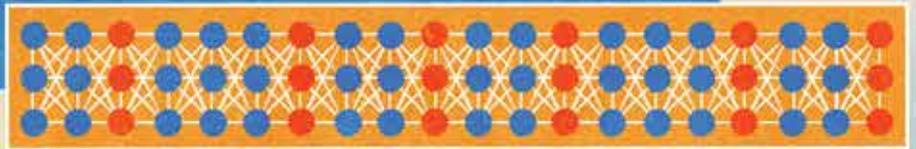


## IMF financing to all other members

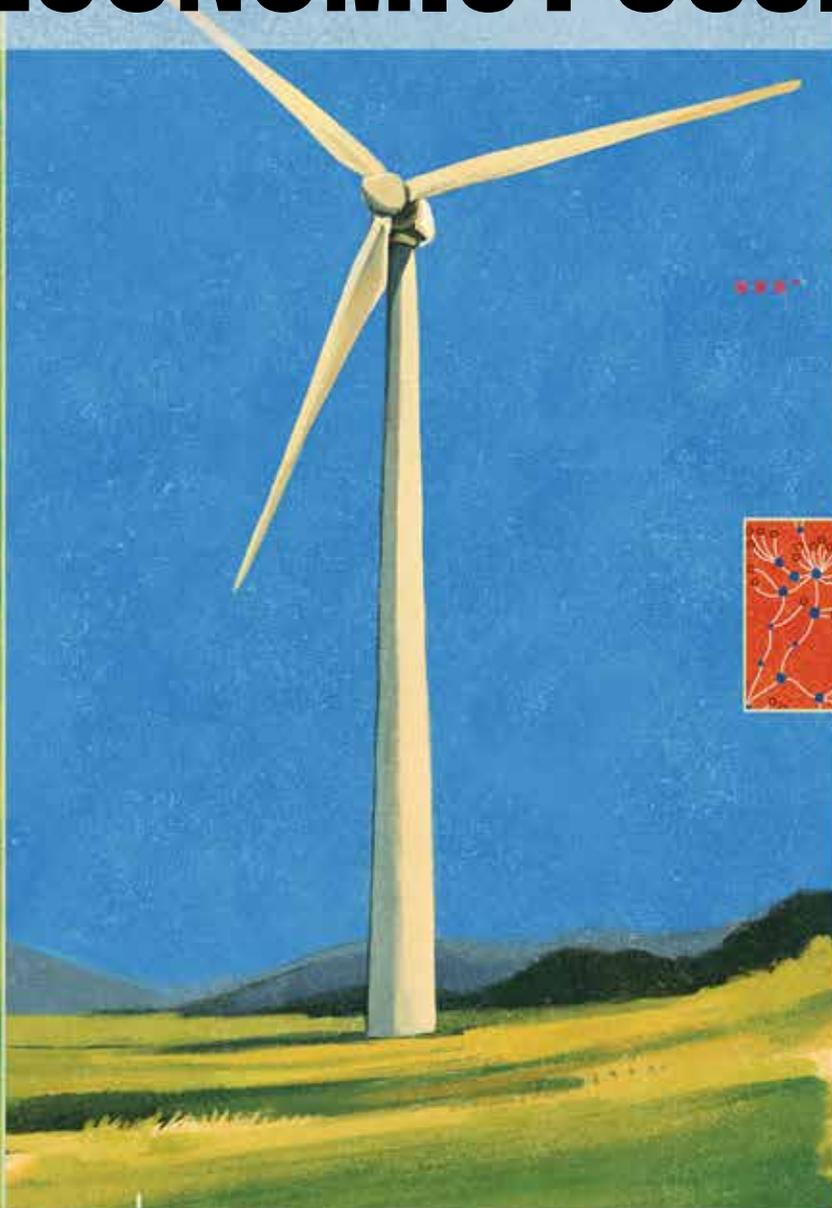


SOURCE: IMF, Financial Data Query Tool, May 2024.

NOTE: Amounts approved in billions of dollars. GRA = General Resources Account; PRGF/PRGT = Poverty Reduction and Growth Facility/Poverty Reduction and Growth Trust; RST = Resilience and Sustainability Trust.

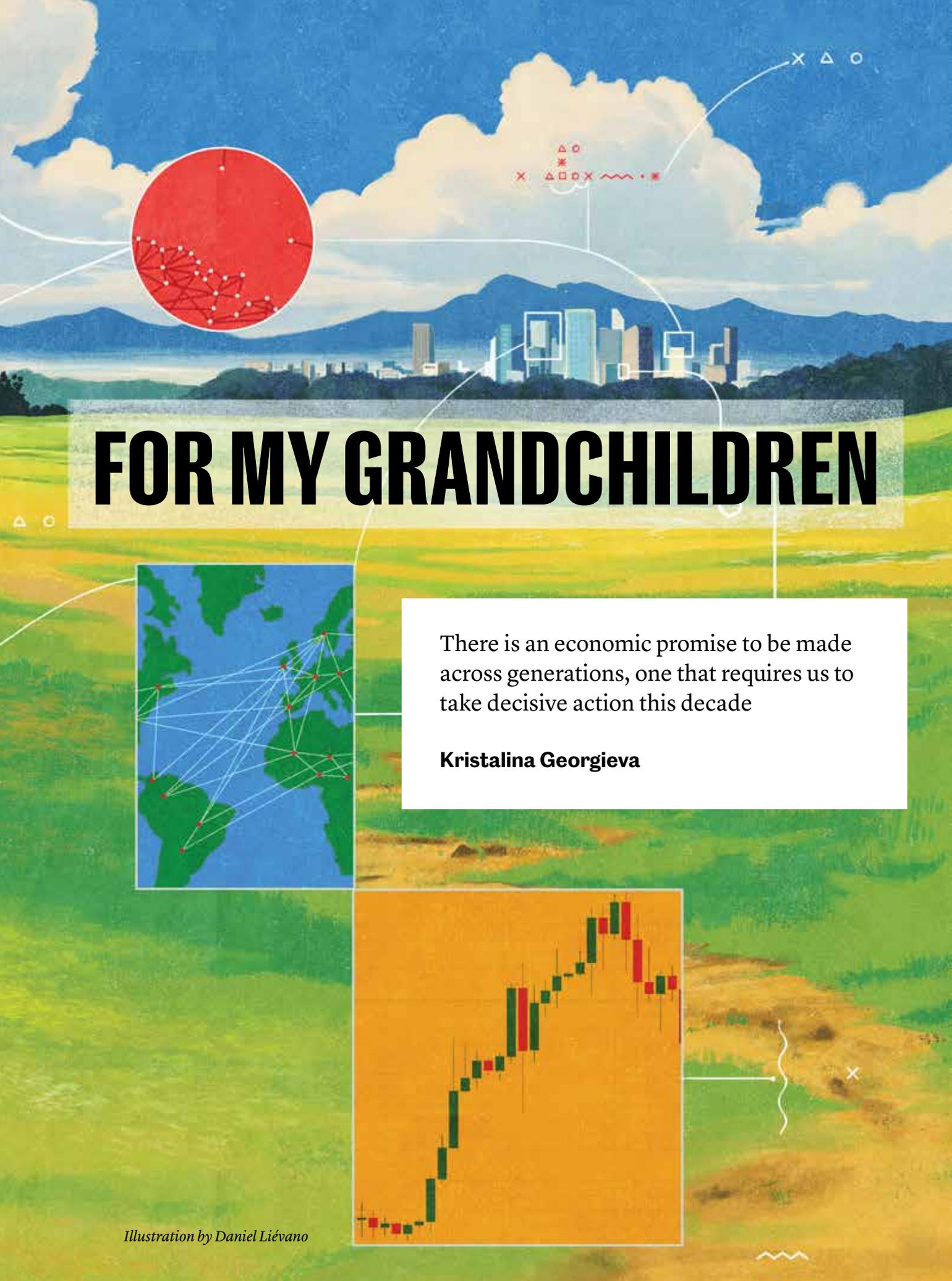


# ECONOMIC POSSIBILITIES



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# FOR MY GRANDCHILDREN



There is an economic promise to be made across generations, one that requires us to take decisive action this decade

**Kristalina Georgieva**

**W**hen I recently visited Cambridge University, I raised a simple question: How can we build an economy that benefits not just this generation but also those that follow?

Finding the right answer is more important than ever. Geopolitical tensions are on the rise, and the world economy is facing its weakest medium-term prospects in decades. Young people especially face enormous challenges, from paying for their education, to finding work and buying a home, to grappling with the potentially costly impact of climate change on their lives.

Many people feel that the economy is not working for them. Many are not just anxious but angry. And we are seeing this play out in society and in politics, raising the specter of an “age of anger,” of further polarization and instability.

But it need not be this way. I am inspired by an essay the great economist John Maynard Keynes wrote in 1930: “Economic Possibilities for Our Grandchildren.” This essay has a special place in my heart. Why? Because I think a lot about the future of *my* grandchildren, and because I share Keynes’s relentless optimism. Even in the dark days of the Great Depression, he saw a brighter future.

Keynes predicted that, in 100 years’ time, living standards would be as much as eight times higher, driven by gains from technological innovation and capital accumulation. His forecast proved to be remarkably accurate: even as the global population has quadrupled over the past century, per capita global income has risen eightfold. Keynes’s insight into what drives prosperity holds as true today as it did then.

It is the foundation of a promise of progress that spans the generations. And like Keynes, I want to take the long view in considering it. First, I want to look back to see how that promise played out over the past century. In addition to the massive leap in living standards, the world saw unprecedented poverty reduction. Over the past three decades alone, 1.5 billion people lifted themselves out of poverty, and hundreds of millions entered the middle class. Consider also the dramatic improvements in life

expectancy, infant mortality rates, literacy rates, and education levels—especially for girls—that have taken place.

In short, the world has in recent decades seen more progress for more people than ever before. Two of the drivers of progress—technology and capital accumulation—worked just as Keynes predicted. On top of them came economic integration. Over the past 40 years, we have seen a six-fold expansion in global trade, and global capital flows rose more than tenfold. This has boosted productivity and investment, especially in emerging market economies.

In my own country, Bulgaria, per capita income has quadrupled since the fall of the Iron Curtain, mostly due to the benefits of integration with the EU and from global trade. Bulgaria’s progress also reflects a “special ingredient”: international cooperation, including coordination of economic policy in times of crisis. This cooperation underlies what some scholars have termed the post-1945 “long peace”—an absence of direct conflict between great powers. Put simply: the more we talk, the more we trade, the more we thrive.

But there have been policy errors—especially a failure to share the benefits of growth more widely and a failure to do enough to support those hit hard by dislocations from new technologies and trade. As a result, economic inequality is way too high within and across countries. Some three-quarters of the world’s wealth today is owned by just one-tenth of the population. And too many developing economies are no longer catching up to advanced economy income levels. More than 780 million people face hunger.

High levels of economic inequality have a corrosive effect on social capital and trust—in public institutions, in companies, among individuals. And we see trust diminishing among nations, too. Geopolitical tensions could drive the global economy toward fragmenting into rival blocs, leaving our world poorer and less secure. Tragically, this is

**“My grandchildren’s prospects will hinge on whether we can allocate capital to where it is needed most and will have the greatest positive impact.”**

already happening just when we need cooperation more than ever—to tackle issues that are borderless and cannot be resolved by any individual country, notably climate change.

So where do we go from here? If the past 100 years are a guide, we can be reasonably confident in our ability to achieve astounding progress once again. Add to this a clear understanding of what did not work in the past and we gain the ability to deliver on the promise to our grandchildren.

### Power to change course

Here are two scenarios for the next 100 years, developed by IMF staff. In what we might call the “low-ambition scenario,” global GDP would be about three times larger and global living standards twice as high as they are today. In the “high-ambition scenario,” global GDP would be 13 times larger, and living standards would be 9 times higher.

Why the huge difference? The low-ambition scenario is based on the lower-growth experience of living standards in the 100 years before 1920, while the other is based on the much higher average growth rates from 1920 until now. I believe our grandchildren will enjoy the better of the two.

To get there, we will need a continued commitment to placing our economy on sound fundamentals—from price stability to sustainable public debt levels and financial stability—as well as to opening trade and entrepreneurship to boost growth and jobs. But this will not be enough. We will need better international cooperation and a different kind of growth—more sustainable and equitable. IMF research shows that lower income inequality can be associated with higher and more durable growth.

And we must use capital accumulation more wisely. My grandchildren’s prospects will hinge on whether we can allocate capital to where it is needed most and will have the greatest positive impact. So where should capital go? Let me highlight three priority areas of investment.

*First, the climate economy:* Today climate shocks are hitting economies everywhere—from droughts,

The economist John Maynard Keynes at His Majesty’s Treasury in 1945.



## Keynes’s optimistic vision

John Maynard Keynes is remembered most for his 1936 book, *The General Theory of Employment, Interest and Money*, which arguably created modern macroeconomics. Less well known is a short essay he published six years earlier, “Economic Possibilities for Our Grandchildren.” It was based on a lecture he gave to the Anglo-Spanish Friendship Society in Madrid. Keynes argued that the problems of the Great Depression had blinded revolutionary and reactionary pessimists alike to the possibilities of the next 100 years. He predicted that technological change set in motion by the scientific and industrial revolutions would solve humanity’s “economic problem” of daily subsistence forever. Workers might satisfy all their material needs by working just three hours a day. Keynes did not get everything right—only a fortunate few can live lives of leisure. Yet the essay continues to inspire readers today, including Kristalina Georgieva, who used it as the starting point for a lecture this year at King’s College, Cambridge, where Keynes studied and worked.

wildfires, and floods to less visible impacts in areas such as supply chains and insurance markets. Pessimists say humanity faces a disastrous reckoning. But I see a different picture: if we act decisively, especially in this decade, we can reach a carbon-neutral economy and help ensure a livable planet. We must promise to do so.

It will mean mobilizing trillions of dollars in climate investments—for mitigation, adaptation, and transition. And it will mean addressing the terrible market failure that has polluters damaging our planet free of charge. Our research shows that pricing carbon is the most efficient way to accelerate decarbonization.

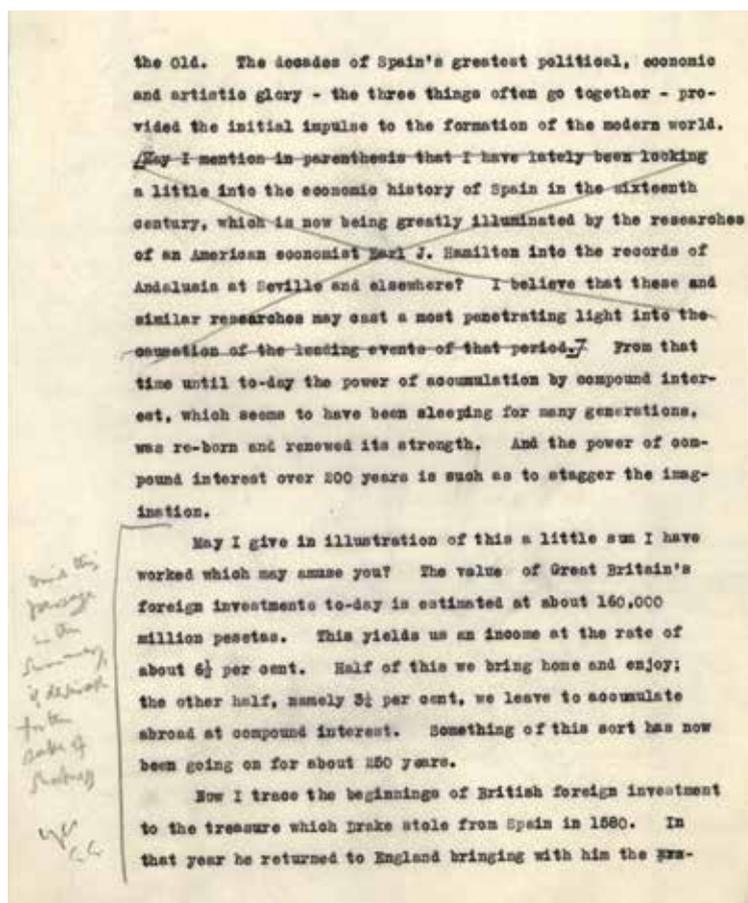
We have a long way to go—the average price per ton of carbon dioxide emissions today is only \$5, way below the \$80 we need to reach by 2030. But there is progress: carbon pricing programs now cover a quarter of global emissions, which represents a doubling since 2015. And investors are responding: for every \$1 spent on fossil fuels, \$1.70 is now spent on clean energy—compared with a ratio of 1:1 five years ago.

More climate investment could create millions of green jobs, increase innovation, and accelerate green technology transfer to developing economies. It could break the historical link between growth and emissions—such that, as countries get richer, people enjoy better living standards without hurting our planet.

*Second, investment in the next industrial revolution:* from quantum computing to nanotechnology, from nuclear fusion to virtual reality, from new vaccines to gene therapy. Innovation is accelerating, transforming how we live and work.

Take artificial intelligence. It could turbocharge productivity and growth everywhere. And I am especially struck by its potential to shrink gaps in human capital in the developing world, helping income levels catch up with those in advanced economies.

But it also comes with risks. IMF research shows that, in advanced economies, about 60 percent of jobs could be affected by AI. Half of them may see benefits from AI tools, but the other half



Typescript of "Economic Possibilities for our Grandchildren," a lecture given to the Anglo-Spanish Friendship Society on June 10, 1930.

may simply be rendered obsolete. This could drive unemployment up and wages down—Keynes himself warned of this when he wrote about "technological unemployment."

Clearly, we need to ensure that AI serves humanity. Instead of deepfakes and disinformation, we want scientific, medical, and productivity breakthroughs. We want AI to reduce inequality, not increase it.

Countries must start preparing now by scaling up investment in digital infrastructure and expanding access to retraining and reskilling. We also need global principles for the responsible use of AI—guardrails—to minimize the risks and maximize the opportunities for everyone.

*Third, investment in people:* The greatest dividends are paid here—by investing in health and education and stronger social safety nets and by empowering women economically. This lies at the heart of better and fairer capital accumulation.

Nowhere is this clearer than in Africa—home to the youngest and fastest-growing populations. By the end of this century, Africa's share of the global population is set to reach close to 40 percent. At the opposite end of the spectrum are regions such as Europe and East Asia, where populations are rapidly aging, and some are even shrinking.

How can we better connect Africa's abundant human resources with the abundant capital in advanced economies and major emerging markets? For African countries, the key is to attract long-term investors and ensure stable trade flows. This will mean promoting better growth: from improving the business environment to raising more revenue and weeding out inefficient spending. For countries that are already facing strained budgets and high debt, this would create more room for vital social spending.

Just one example from IMF research: by building tax capacity, low-income countries could boost their annual budget revenues by up to 9 percent of GDP—a big increase that would bring their tax effort in line with that of emerging market economies.

If the right kind of international support can be combined with the right kind of domestic policies, we could see Africa attracting long-term flows of investment, technology, and know-how. This could unlock the full potential of its young people.

It would mean more jobs in and less outward migration from Africa; higher returns on capital that could be used in advanced economies, including to make their pension systems more sustainable; and overall, a more dynamic global economy. In short, a prosperous world in the coming century requires a prosperous Africa.

Investment in these three key areas—climate, technology, and people—is critical. But again, we cannot do it without international cooperation.

### **Twenty-first century multilateralism**

As one of the founding fathers of the IMF and the World Bank, Keynes helped the world draw the right lessons from the Great Depression and World War II. Instead of inward-looking policies that can lead to crises and conflict, countries should rely on a new framework for international cooperation. That vision became reality—a “multilateralism for the 20th century,” which served us well.

Now we must update it for a new era. Think of how “21st century multilateralism” could become

**“We need better international cooperation and a different kind of growth—more sustainable and equitable.”**

more open to fresh thinking and more representative, with a better balance between advanced economies and the voices of emerging market and developing economies. And think of how we can update multilateral institutions, including the IMF.

Over the decades we have built our financial strength, the scope of our work, and our character. Just since the pandemic, we have injected about \$1 trillion in liquidity and financing into our 190 member countries. We introduced programs for emergency financing and direct debt relief for our poorest members. And our macroeconomic work now includes a focus on climate, gender, and digital money.

We are the institution empowered by our members to carry out regular “health checks” on their economies. Providing impartial analysis and advice is critical, especially in a world of fake news and political polarization. I think Keynes would like what he sees and would encourage us to go even further as a global “transmission line” for sound economic policies, financial resources, knowledge—and as the ultimate platform for global economic cooperation.

We cannot have a better world without cooperation. On this most fundamental of points, Keynes was right again. He is perhaps best remembered for something he wrote in 1923: “In the long run, we are all dead.” By this he meant that instead of waiting for market forces to fix things over the long run, policymakers should try to resolve problems in the short run.

That was a call to action, a vision of something better and brighter. And it's a call to which I am determined to respond—to do my part for my grandchildren's better future. After all, as Keynes put it in 1942, “In the long run almost anything is possible.” **F&D**

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**KRISTALINA GEORGIEVA** is managing director of the IMF.

This article draws on a lecture, “The Economic Possibilities for My Grandchildren,” delivered by the author on March 14, 2024, at King's College, Cambridge.

# MOVING TO COMPLEXITY

Harold James

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As the IMF turns 80, its history holds lessons for future international risk management

**T**he 1944 United Nations Monetary and Financial Conference, held in July of that year at Bretton Woods, New Hampshire, holds out a powerful narrative about how countries may tackle global collective challenges. It stands as the opening of a novel epoch in world history, an age of sustained recovery, widespread prosperity, dynamic growth, crisis-free development, and political stability. Bretton Woods still inspires. Policymakers and academics alike regularly attempt to revive, reinvent, or recast it.

The conference was underpinned, first, by a big political vision of how—as US Treasury Secretary Henry Morgenthau Jr. put it—prosperity and peace are indivisible. Neither could be managed separately from the other. This message came at a time when the whole world was consumed by war: the Second World War was much more genuinely global than the First. The push for a new world order drew lessons from the war: how murderous conflict had been the product of the global economic collapse, the Great Depression; the ensuing political radicalization; and the disintegration of world order into competing blocs.



The United Nations Monetary and Financial Conference, at the Mount Washington Hotel in 1944.

Second, there was a precise economic mechanism envisaged for managing the world's monetary affairs. Countries were obligated to follow a rule on the exchange rate, and if the rate was threatened they would be assisted by an IMF designed as a credit cooperative, or an insurance mechanism. The intellectual foundation lay in an interpretation of the Great Depression as following from unhindered capital movement, so-called hot money flows. The founding fathers of the Bretton Woods institutions were convinced that such destabilization should not occur again, and the Articles of Agreement provided for continued maintenance of capital controls even during the transition to trade liberalization.

### From vision to reality

These underpinnings, political and economic, crumbled, and the broad-brush vision of Bretton Woods was not implemented as its founders intended. It had been envisaged as a genuinely global system, but the Soviet Union—which was powerfully represented at the conference—decided not to ratify the Articles of Agreement. The IMF was excluded from the big US push for

European reconstruction, the Marshall Plan. The world was divided by the Iron Curtain. In its first years, the IMF even appeared to be withering away. It really only sprang into life as a result of the mixing of a security and financial crisis in 1956, when the United States was appalled by the intervention of Britain and France in the Suez Crisis and the big European countries faced great financial strain.

Almost immediately a debate developed over whether reserves were adequate and whether there was sufficient liquidity. Economic leaders found stopgap solutions. By the 1960s, as countries struggled over plans to reform the international monetary system, complaints arose that they couldn't see the Bretton Woods for the Bretton trees.

The remaking of Bretton Woods in the 1970s also resulted from the conjunction of a security challenge with an economic and financial problem. The breakdown of the fundamental rule of Bretton Woods, the par value system (which specified an exchange rate), came at the beginning of a push by oil producers to raise prices as well as exert more political leverage. Countries felt vulnerable; democracies were under pressure. The IMF responded with new procedures to use borrowed

resources in support of developing economies hit by higher energy prices—the Oil Facilities.

Capital movement produced new vulnerabilities. In 1982, a debt crisis, most pronounced in Latin America, threatened to bring down the world financial system. At this moment, the IMF started to operate in a new way, as a lender of last resort, as well as a coordinator of rescue packages in which countries would adjust and banks would be bailed in, obliged to put up new money.

### Lender of last resort

Fifty years after Bretton Woods, IMF Managing Director Michel Camdessus styled the Mexican peso crisis “the first financial crisis of the 21st century.” It followed an unprecedented surge of money into middle-income countries. The crisis of 1994 was quite different from the Latin American shock of 1982, which had also begun with a Mexican problem. There were now very diversified foreign holders of Mexican securities—not a relatively restricted number of banks—who responded quickly to the coalescence of worries about economic overheating and political instability, after a major insurrection and a prominent political assassination in the year of a presidential election. The vast multiplicity of creditors could not be corralled into putting up new money. The obvious answer, a sovereign bankruptcy mechanism, perhaps coordinated and enforced by the IMF, remained elusive. Only a very-second-best approach, putting up large sums of new money, remained—and that persisted as the prevailing philosophy in response to crises produced by volatile capital flows.

The specific crisis was partly resolved by an IMF program, but the IMF on its own did not have enough resources to act simply as the lender of last resort. Mexico also required a large-scale bilateral package from the US, in the form of \$20 billion from the Exchange Stabilization Fund, a largely forgotten Depression-era body that conveniently avoided the need for the US administration to get approval from a hostile Congress. The rescue was controversial, and some policymakers argued that it was not proper for the IMF to lend to one country to avoid an adverse effect on another.

The mid-1990s produced a recognition that in the light of the size of capital markets, traditional rescue mechanisms were likely to be inadequate. The lesson was reinforced by the Asian crisis of 1997–98, when all the packages required a mixture of IMF and bilateral funding.

The policy consequences were drawn at the June 1995 Group of Seven heads-of-state meeting in the Canadian city of Halifax, which tried to redefine the

tasks of the IMF in light of what would soon be generally called globalization. The summit communiqué called on the IMF to establish benchmarks and procedures for the timely publication of key economic and financial data. The IMF’s response was the creation of the Monetary and Capital Markets Department in 2001—designed to “play a central role in the Fund’s conceptual work”—together with the publication of the new biannual *Global Financial Stability Report*, born of the merger of the previous publications *Emerging Market Financing* and the *International Capital Markets Report*.

Beginning in the 1990s, there was no longer a clear and simple rule, and no longer one institution at the center of the management of international risks. Both surveillance and crisis management took place in multiple institutions, with overlapping responsibilities and multiple sources of new money. In its financial sector surveillance, the IMF applied the methodologies evolved by the Basel Committee of Banking Supervisors, a group initially representing only industrial countries. In Asia, the Association of Southeast Asian Nations evolved a parallel complementary surveillance mechanism. Bilateral currency swaps under the Chiang Mai Initiative of 2000 were intended to complement IMF operations.

More and more coordination was needed. The response to the Asian crisis was the establishment of the Financial Stability Forum (FSF); in 2009 this group was strengthened and renamed the Financial Stability Board (FSB). The rescue apparatus became the Global Financial Stability Net, with various providers working through regional financing arrangements. The 2009 Group of Twenty London summit repeated a crucial move of Bretton Woods, transferring authority from the central banks that had run the FSF to control by a wider group of governments in the new FSB.

### Lessons for risk management

There are several lessons from this complexification of global financial risk management.

*First, the threat to stability can come from anywhere.* After Mexico in 1994–95 and the Asian financial crisis of 1997, which then spread to Brazil and Russia in 1998, there was a widespread assumption that the shocks would emanate from emerging markets opening up to capital flows. There were no IMF Financial Sector Assessment Programs for the US and the UK, two countries that proved to be at the epicenter of the financial crisis when it erupted after 2007. The IMF was good at seeing threats to a country from the periphery. At the end of 2006, for instance, its staff had prepared a simulation of potential capital market crises in central and eastern Europe. The simulation seems in retrospect to be an

uncannily accurate version of the speculative attack that in 2008 briefly made Hungary look like the epicenter of a new global contagion. The anticipation helps explain the speed and very substantial size of the program agreed with Hungary in 2008. But the Fund's prescience was limited: the IMF missed the much bigger shock that started with the US mortgage market and financial system.

*Second, the extent of the threat depends on linkages, which may be difficult to determine in advance with any precision.* The aftermath of the 2008 global financial crisis produced devastating critiques, including from the IMF Independent Evaluation Office, that the Fund had "fallen short" on its key objective because of a "high degree of groupthink; intellectual capture; and a general mindset that a major financial crisis in large advanced economies was unlikely." The response was to move, with the 2012 Integrated Surveillance Decision, to joining up previous practices of bilateral and multilateral surveillance. In particular, spillover reports focused initially on the impact of developments in the major economies and then moved to thinking of systemic linkages.

*Third, the precise character of the linkages is often opaque.* Managing complexity in a system in which multiple institutions work is not easy. Who looks at the wood, and who measures the trees? The linkage between the microprudential and the macroprudential remained a key source of weakness. What exactly is in banks' balance sheets during waves of financial globalization? What are the links to off-balance-sheet institutions? These are issues individual bank supervisors could analyze but that were not—and could not be—regularly passed on to an international institution such as the IMF. (The Articles of Agreement in fact absolve governments from the responsibility to provide data about specific corporations.)

Consequently, there was a continual strain. The supervisors meeting in the Basel Committee on Banking Supervision in a sense knew more: they could see the individual trees very clearly. The broad-level global approach saw the woods but could not really investigate the trees.

*Fourth, long-term challenges may bring immediate threats to stability and thus must be addressed.* Climate change—or more generally perhaps the damage done by the Anthropocene—is a major and increasingly difficult challenge, requiring prompt action. It would also be reasonable to be disappointed by efforts so far, and the recent COP28 was widely seen as weak. An insufficiently noted lesson of history is relevant here. Phenomena will remain in the sphere of abstract discussion, nervousness, or concern, unless they can be accurately measured.

**“Security or political issues need to be solved hand in hand with economic and financial challenges.”**

Providing data about costs is essential to building a consensus about finding solutions.

At the time of Bretton Woods, the World Bank and the IMF could think differently about development because of a framework of national income accounting that had been developed largely in the industrial countries to meet the challenge of mobilizing resources for war. Today, when newspapers report on the twice-yearly IMF-World Bank meetings, they focus on the assessments of GDP development. They think that GDP matters because the IMF still puts that metric at the center. But when it comes to thinking about the biosphere, GDP is a drain rather than an asset; it erodes rather than enhances the long-term wealth of nations.

*Fifth, security challenges can also lead to financial destabilization.* Today, we are living in a world where security concerns—often loosely described as “changing geopolitics”—dominate economic news: whether the debate at the western end of the Eurasian landmass about Russia's gas provision and pricing or rising tensions around Taiwan Province of China and in the South China Sea on the eastern side. One underrecognized feature of the Bretton Woods settlement is the parallelism between the IMF and the World Bank on one side and the wider United Nations Organization on the other. The largest five members by quota of the Bretton Woods institutions were identical with the five permanent members of the Security Council: the United States, the Soviet Union, China, the United Kingdom, and France. The symmetry was broken when the Soviet Union did not join.

The extended war that followed Russia's 2022 attack on Ukraine produced a new kind of IMF program: an agreement with a country at war. The financing assurance program needed to be changed to take into account the peculiarities of countries facing “exceptionally high uncertainty.” The program also required safeguards in the form of assurances from bilateral creditors that they would provide debt relief once the exceptional uncertainty was resolved. Ukraine's suffering sheds new light on the lessons of 1944—that security or political and military issues need to be solved hand in hand with economic and financial challenges. With the Russia-Ukraine war now fought all over the world, most spectacularly in Sudan, conflict and not prosperity is globalized. Finding adequate answers to uncertainties created by conflict is a key step in casting off the zero-sum thinking that in the past led the world to catastrophe. **F&D**

**HAROLD JAMES** is a professor of history and international affairs at Princeton University and IMF historian.

# CORE MISSION

Adam S. Posen

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The IMF must use its unique focus to assert its independence as geopolitical divisions intensify

**A**s the IMF turns 80, its core macroeconomic mission still deserves to be pursued and prioritized. The ongoing corrosion of globalization—reinforcing and being reinforced by geopolitical fragmentation—increases the vulnerability of all but the largest economies to foreign economic shocks, arbitrary swings in current account balances, interruptions in access to dollar liquidity, and accumulation of unsustainable debt. The increasing politicization of international finance and commerce by China, the European Union, and the United States has, however, put at risk the IMF's ability to assist member countries and limit exploitative behavior by the governments of the three largest economies. For the sake of global economic stability, the IMF must get out in front of these dangers.



But stability will not be achieved by broadening the institution's remit in an effort to pander to the changing whims of the largest shareholders, though that response might be understandable as a short-term political approach. Instead, the IMF must emphasize its unique role as a multilateral conditional lender and a truth teller regarding international debt and monetary issues. This role justifies greater operational independence, along the lines of central banks.

*First, the broader and more discretionary the core IMF agenda, the greater the vulnerability of member countries to the geopolitical machinations of large-economy governments and the market flows they influence—which is precisely the threat that is currently on the rise.*

*Second, broad consistency in both substance and process in dealings with member countries is critical to the legitimacy of the IMF's decision making, especially when members are most vulnerable. Technocratic evenhandedness is essential to successful buy-in by all members over the long run, even at the expense of some local support in short run. Inconsistencies of the sort imposed by the US on successive programs with Argentina or by the EU's "troika" role in the euro area crisis are likely to grow over time.*

*Third, although there are other international forums to address inequality, climate, and other global issues, only the IMF can be a quasi-lender of last resort and speaker of truth to economic power on debt and monetary issues.* The IMF cannot put up substantial funds for longer-term development and global public goods—or mobilize private financing on an ongoing basis—as others can. It should be ready to trade its seat in these discussions for greater institutional (not just de facto) independence in its core mission.

We are likely at the early stage of a cycle of cross-border distrust among the big three economies feeding demands for self-reliance and then demanding that smaller economies choose sides. The IMF may have only a brief window to build its institutional strength before it is pressured recurrently to choose sides between major shareholders.

### More central than ever

The IMF's core macroeconomic mission is to address member nations' vulnerabilities that arise through cross-border commerce and financial flows and manage the international monetary system that underlies those flows. In their recent assessment, *Floating Exchange Rates at Fifty*, Douglas Irwin and Maurice Obstfeld point out that many of the problems the IMF and the Bretton Woods agreements were designed to address are inherent to international finance. These problems remain, even though the postwar fixed exchange rate system was abandoned in favor of today's non-system:

- Exchange rate flexibility allows for monetary independence, yielding low inflation, but still does not prevent sudden stops and financial crises.
- Foreign economic shocks are still transmitted, often with substantial effects on smaller and lower-income countries.
- Capital flows often drive large rapid fluctuations in current account deficits.
- Interruptions in the availability of dollar liquidity to member economies have major repercussions, sometimes causing financial crises.
- Self-insurance efforts by large-surplus economies—whether through currency manipulation or replacement of imports with subsidies and tariffs—reduce global growth and impose adjustments during recessions on others.



“Given growing distrust among the US, the EU, and China, there should be mutual agreement to give the IMF that operational insulation.”

As a result, there is no getting away from crisis lending with conditionality when member economies lose access to financial markets or suffer capital flight. The IMF’s ability to provide credible conditional adjustment financing, cushion groups of economies from common economic shocks, and restore access to market liquidity while restructuring international debt obligations is therefore more, not less, central than ever.

Only the IMF can provide this support on a multilateral, nearly universal basis. Any other institution or bilateral intergovernmental arrangement offering emergency financing will give that lender prejudicial influence over the borrowing country.

### Benefits of surveillance

Surveillance of spillovers from the misguidedly excessive self-insurance policies of the largest economies, if consistently pursued, has a good shot at benefiting the global economy. Small achievable changes in the policies of those economies can aid many significantly, boost IMF credibility, and reduce risk. Similarly, by seeking to coordinate on cross-border debt and monetary issues, the IMF can generate benefit by influencing small changes in (or offsetting) behavior by lenders and reserve currency issuers. The more independent the IMF, the greater its legitimacy in its interaction with members.

The IMF must also call China, the EU, and the US to account through surveillance of their increasingly political and bullying control of access to their markets and its spillovers to the rest of the world. When China or the US conditions access to its payment systems or fossil fuel exports on national security goals, uncertainty reverberates through the rest of the world. Emerging markets’ growth prospects rise and fall as the big three economies arbitrarily determine who gets to produce their imports and who does not.

Let the other international economic and financial institutions—the World Bank, the Organisation for Economic Co-operation and Development, the Group of 20 major economies, and so on—take their seats at every arguably relevant table and maximize their funding. The IMF is the only multilateral institution that deals directly with cross-border spillovers and macroeconomic volatility. The IMF is the only multilateral institution that can engage in macroeconomic conditionality with any hope of legitimacy and of changing borrower policies. The IMF is the only international entity that can force negotiation, albeit not necessarily rapid restructuring, by private sector investors. And the IMF is the only international organization that can chide the big three economies in precise terms with respect to their *policies* and not just ask for more contributions to public goods.

In surveillance, as in lending and other policy decisions, the EU, the US, and China have a common interest in making sure that each is criticized according to the same criteria, with the same frequency, and through the same public channels. The IMF should lock in on independent frankness rather than a mutual nonaggression pact over US fiscal deficits, Chinese exchange rates, and the EU’s ill-timed austerity, which served the world so poorly in the 2000s and 2010s.

### Confronting new challenges

To better achieve its mandated goals and shore up its legitimacy, the IMF should aim for greater operational independence, akin to that of most central banks, while maintaining external evaluation of its competence by its members and having them set its overall goals. This is already taking place to some degree with respect to executive board approval of specific program decisions, for example. Continued progress will likely require narrowing down the IMF’s mandate to its core functions in exchange for more autonomy in specific policy decisions. Yielding some turf is what the Fund must do in terms of governance deals without compromising its even-handed treatment of members.

Given the growing distrust among the US, the EU, and China, there should be a way forward to a mutual agreement to give the IMF that operational insulation. Securing such an agreement, with clear limits on what the IMF can address, would assure each of the big three economies that the other two will not be able to exercise control in situations that really matter to them. All macroeconomic institutions depend upon such a mutual recognition that it is better to yield control to be confident that there will be no abuse of power in turn. The absence of adequate insulation of IMF operations will likely splinter the global financial

safety net, with divergent politicized conditionality; allocate access to funding unevenly, if not unfairly; and diminish stability of the international monetary system.

By focusing on its core mission, the IMF can adapt to the new global economic challenges arising from the fragmentation of geopolitics and the corrosion of globalization. Particularly worrisome is the largest economies' increasing tendency to link access to their markets to various political loyalty tests or side payments. All manner of access is affected—exports to those countries, employment and technical knowledge in high-tech and other industries deemed “critical,” financial services and liquidity, foreign direct investment into and from those countries, and cross-border aid and lending. Intentional or not, this is the kind of national-security-driven fragmentation that the creation of the Bretton Woods institutions 80 years ago was aimed to prevent.

There are of course other imminent global challenges: climate change first and foremost, but also pandemics, food security, technology competition, trade wars, real wars, and the mass migrations all these induce. For member countries other than the big three, these challenges are likely to be experienced as recurring, increasingly frequent macroeconomic shocks. To the extent that these are simultaneous shocks across many member countries, the IMF should provide special facilities or lending to those members on common terms and insist that the big three economies change their behavior or offset the shocks.

### Exercising best practice

For the majority of its members, then, it is essential that the IMF's advice on macroeconomic policies to manage shocks and the vulnerabilities they expose follow best practice, and is consistent for all members, whatever the source of the shock. This is in the long-term best interest of the big three economies as well. But their governments are increasingly tempted either to insert their geopolitical preferences into IMF decisions or to shield their protectionist self-dealing from surveillance, despite the large impact on others.

The IMF can thus best serve its membership—including the big three—as a bulwark of technocratic multilateralism against politicized bullying in financial and other market access. A significant step in this direction would be greater IMF executive board ability to pass decisions by qualified majority voting—meaning restriction of the largest shareholder's ability to exercise a veto—except on long-term or quasi-constitutional issues. This exchange of narrowness for the

**“The Bretton Woods institutions must be more reliable if the big three economies continue to retreat from rules-based globalization.”**

sake of operational independence would be helpful because the IMF would not be putting more US taxpayer funds at perceived risk or using them to serve mission creep.

Another step forward would be to adopt stricter and more consistent rules limiting IMF lending to economies at war, for example, with respect to Israel, the West Bank and Gaza, and Ukraine today. There is, of course, a need for support and eventual reconstruction assistance, but if the IMF is seen as taking sides while conflict is ongoing, it may split the world economy even further. For the first time since the 1980s, military conflicts directly involving the major powers' allies on opposite sides are occurring and are likely to continue. The IMF should forestall falling into this trap.

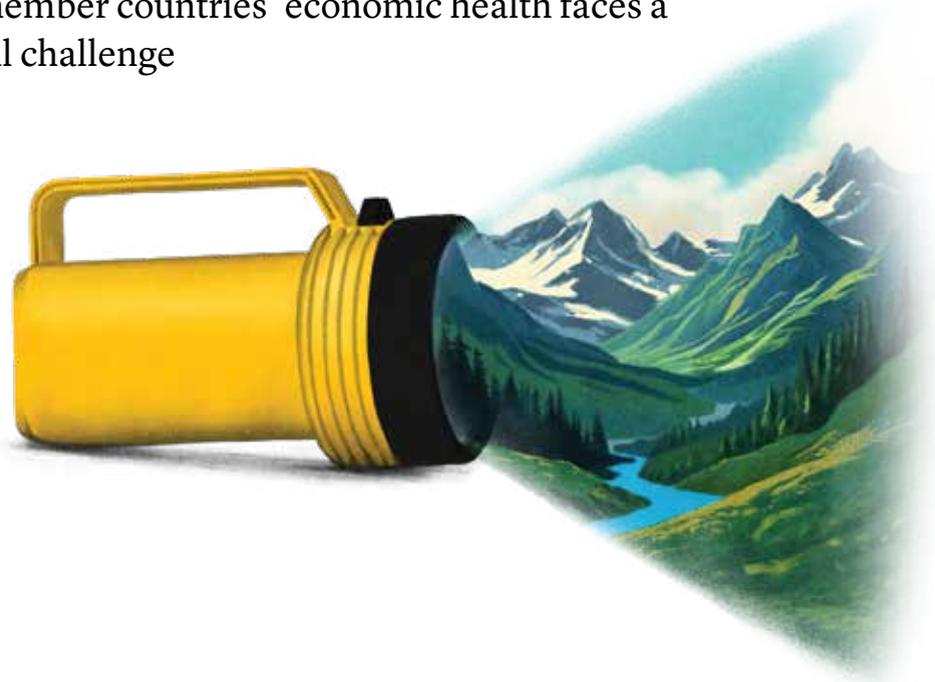
Beyond China, the US, and overrepresented EU economies, the IMF's members, particularly low- and middle-income countries, should view these challenges as an opportunity to have more say on matters that affect them deeply. Enhanced operational independence would go hand in hand with continued IMF accountability to its board for evaluation of its policy execution and for goal setting. The Bretton Woods institutions must be more reliable in the coming years if the big three economies continue to retreat from rules-based globalization in favor of with-us-or-against-us exclusionary economics. For all the immediate pressure on the IMF, well intentioned or otherwise, to respond to its largest shareholders on any given issue, insulation from increasing geopolitical division would be more than prudent. Greater operational independence is the prerequisite for addressing any and all of the other global economic challenges as geopolitics corrodes globalization. **F&D**

**ADAM S. POSEN** is president of the Peterson Institute for International Economics.

# NEW SURVEILLANCE TESTS

Ceyla Pazarbasioglu

IMF monitoring of member countries' economic health faces a new and generational challenge



**F**rom artificial intelligence to climate change, demographic shifts, and the proliferation of industrial policies, the world must navigate major structural transformations in the coming decades. The IMF's surveillance function—its all-important checks of member countries' economic health—can serve as both map and compass. Its analysis of these important shifts can inform more robust policy frameworks to help countries withstand shocks and seize new growth opportunities. But just as countries must evolve and adapt, so too must IMF surveillance.

The Fund has faced challenges before and has shown its ability to change. At times, the IMF has been rightly criticized for its policy advice or for focusing narrowly on some policy adjustments at the expense of others. It has learned lessons,

though, and promoted peer learning to underpin good policy advice, at times more successfully than at others.

At its core, the IMF is a learning institution.

A first key pivot in the Fund's surveillance occurred after the collapse of the Bretton Woods system of fixed exchange rates. This prompted changes to the IMF's Articles of Agreement in 1978, which expanded its mandate beyond exchange rate policies to include monetary, fiscal, and financial policies. The Fund realized that such policies had an impact on domestic and external stability in the new system of floating exchange rate arrangements.

A second key watershed was a string of capital account crises in the 1990s and early 2000s. Mexico's 1994 devaluation was followed by crises in East Asia (1997–98), Russia (1998), Brazil (1999),

Türkiye (2001), Argentina (2002), and Uruguay (2003). These spurred the IMF to sharpen its exchange rate and financial sector surveillance, develop early-warning models, and focus on debt sustainability and sectoral balance sheet analysis.

The capital account crises demonstrated that markets lacked sufficient information—both in terms of data and regarding the authorities’ policy intentions—to make informed decisions on when and where to invest. Markets tended therefore to overreact to any negative news, precipitating a rush for the exit and a self-fulfilling currency crisis. Accordingly, the IMF emphasized that—in addition to providing timely data to allow effective surveillance by the Fund—member countries should publicly disseminate data (notably on the central bank’s foreign reserves) and adhere to transparency standards for monetary and fiscal policies.

The IMF also sought to deepen its understanding of crisis dynamics, viewing them as a combination of an underlying vulnerability (typically a currency, maturity, or debt-equity mismatch) and a specific crisis trigger, which could be domestic or external—economic, financial, or political. In 2001, the IMF developed the Vulnerability Exercise to identify a country’s near-term macroeconomic risks. This exercise has been regularly updated and covers the majority of member countries across different income levels.

During the 2000s, the IMF updated and expanded its surveillance in the context of rising global macroeconomic imbalances, when (mostly) Asian current account surpluses matched the US current account deficit. The Fund sharpened its analytical tools for exchange rate surveillance, including by developing a model to analyze currency valuations in an explicitly multilateral context.

### Important shortcomings

Despite these significant advances, the global financial crisis of 2008–09 revealed important shortcomings in IMF surveillance. As the Fund acknowledged in 2009, “surveillance significantly underestimated the combined risk across sectors, and the importance of financial sector feedback and spillovers.” In response, the IMF introduced spillover reports for the so-called systemic five economies (China, euro area, Japan, United Kingdom, United States) that subsequently shifted to a more thematic approach focused on key spillover issues. It also introduced a requirement for explicit discussion of risks in Article IV consultations. And, given the speed at which developments in the financial sector could ignite and propagate crises, financial stability analysis was integrated more systematically into surveillance. In 2010,

## IMF surveillance in a nutshell

The IMF conducts periodic health checks of its members’ economies via “Article IV consultations,” or bilateral surveillance. As part of this process, which also takes place at the global and regional levels, the IMF seeks to identify potential risks and recommends appropriate policy adjustments to maintain economic well-being—to sustain economic growth and promote financial stability.

During a typical Article IV process, IMF staff assess major economic developments, discuss the national authorities’ intended policy responses (and the possible policy spillovers), and report back to the executive board, thus bringing the collective insights, experience, and advice of the international community to bear on the economic and financial challenges facing the member country. Through its bilateral surveillance, the IMF seeks to complement the views of national policymakers and add value by bringing an external technical perspective, informed by cross-country experience.

The IMF also promotes worldwide economic and financial stability via its multilateral surveillance. It monitors developments in the global economic and financial system, analyzes cross-border spillovers in systemic economies, promotes information sharing, and provides policy advice.

regular assessments under the Financial Sector Assessment Program became mandatory for countries with systemically important financial sectors. Thus, the focus of IMF surveillance broadened to include policies related to members’ domestic and balance of payments stability as well as global stability through spillovers.

During the latter part of the past decade, the IMF further adapted surveillance in response to criticism that it did not sufficiently tailor its policy advice to diverse member countries. In 2020, the IMF introduced the Integrated Policy Framework, which jointly considers monetary, exchange rate, macroprudential, and capital flow management policies and their interactions with each other and with other policies. This framework is used to assess policies implemented by countries and calibrate IMF advice accordingly. In so doing, the IMF has focused more on tailored and granular recommendations in bilateral analysis, underpinned by analysis of country-specific circumstances. Multilateral flagship reports also now provide differentiated analysis and recommendations for countries in different income groups, complemented

by regional economic outlooks that offer targeted advice on the key policy challenges facing each geographic region.

### Greater resilience

More recently, IMF surveillance has had to grapple with the combination of a once-in-a-century pandemic, the rise of geopolitical tensions, new wars, geoeconomic fragmentation, and a surge in inflation and interest rates, along with a slower outlook for medium-term growth, especially for emerging market and developing economies. These shocks have taken an unconscionable toll on lives and livelihoods, with the most vulnerable countries and people hit hardest.

Most emerging market economies have shown much greater resilience to this recent turmoil than to the global financial crisis. Sound macroeconomic and financial policies and strong institutions, consistent with IMF policy advice, are important contributors to this resilience.

Going forward, the IMF's immediate surveillance priorities are to help all member countries achieve sustained disinflation, implement adequate fiscal consolidation, safeguard monetary stability, and address postpandemic debt overhangs and financial sector vulnerabilities. Given low productivity and deteriorating medium-term growth prospects, the IMF's surveillance is developing policy advice to reinvigorate growth while preserving the hard-won gains of decades of global economic integration.

More work is needed, though, if IMF surveillance is to effectively help member countries navigate emerging transitions. This requires focused macroeconomic analysis and policy advice, in close coordination with other relevant international institutions.

In the area of climate, the Fund adopted a strategy in 2021, reflecting growing recognition of the threat climate change poses to growth and financial stability. Since then, the Fund has made significant progress in integrating climate issues into its multilateral analysis and bilateral surveillance.

Artificial intelligence, meanwhile, presents a promising opportunity for international cooperation to both maximize the benefits and manage associated risks. A set of global principles for the responsible use of AI could achieve this. Here, too, IMF surveillance can help anticipate macroeconomic impacts, identify spillovers, and foster prudent policy responses.

As more countries pursue industrial policies to enhance competitiveness in a more fragmented world, IMF surveillance has assessed the economic effects of these policies and analyzed their cross-border spillovers. Such policies often do more economic harm than good, trigger tit-for-

tit retaliation that reduces net benefits, and can be captured by special interests (Ilyina, Pazarbasioglu, and Ruta 2024). In this area of surveillance as in all others, the IMF must continue to play the role of ruthless truth teller.

Of course, all these challenges will prove difficult for countries to manage without inclusive growth strategies. Amid a widening gap in income levels within and across countries, the need to reverse declining productivity and growth trends is urgent. We have proposed a framework for prioritizing and sequencing macrostructural reforms to accelerate growth, alleviate policy trade-offs, and support the green transition in emerging market and developing economies (Budina and others 2023). It shows that prioritizing the removal of the most binding constraints on economic activity could boost global output effects by about 4 percent in just two years. Our work integrating gender into surveillance shows that narrowing gender gaps in labor markets and access to finance pays large dividends for growth and stability.

### Pursuit of prosperity

The past 80 years of IMF surveillance offer some valuable insights. A robust assessment of economic policies is critical to garner credibility and traction with policymakers. Surveillance must stay ahead of the curve and anticipate problems that threaten domestic or external stability, including spillovers from the policies of systemically important countries. This is because correct policies take time to identify, implement, and take effect. The essence of surveillance is its agility and responsiveness to the IMF's diverse membership.

As we navigate an increasingly fragmented and uncertain world, the IMF's surveillance role is even more critical. It's not just about safeguarding the economy—it's about uniting us all in the pursuit of a prosperous future in a dynamic yet stable global economy. In so doing, IMF surveillance will remain an essential and valued global public good. **F&D**

**CEYLA PAZARBASIOGLU** is director of the IMF's Strategy, Policy, and Review Department.

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# THE IMF'S CLIMATE CHANGE DEBATE

Masood Ahmed

The institution has a role to play in addressing this threat, but there are limits on how far it should go

Climate change poses a special challenge to the International Monetary Fund. While the IMF's *World Economic Outlook* offered its first substantive discussion of the matter back in 2008, the executive board didn't agree on a strategy for helping member countries address it until 2021. To this day, the issue provokes strong reactions both from those who want the IMF to do more and from those who argue that it has already strayed beyond its core mandate and expertise.

Why should an issue that is widely considered an existential threat to the planet raise such controversy about the work of the IMF? In part, not everyone appreciates the seriousness and urgency of addressing climate change and its risks for global prosperity. Even some of those who do maintain that it has little to do with the core mission of the IMF.

The executive board laid the basic question to rest in its 2021 strategy paper. "Climate change has emerged as one the most critical macroeconomic and financial policy challenges that the IMF's membership will face in the coming years and decades," the board wrote. "Climate change is bound to affect macroeconomic and financial stability through numerous other transmission mechanisms, including fiscal positions, asset prices, trade flows, and real interest and exchange rates.... No country can expect to be spared entirely."

The emphasis on "macroeconomic and financial stability" is important because that is the lodestar guiding the Fund's activities. "Macro-criticality" has long been the test for determining what issues the Fund should address. Even so, there's an ongoing debate over just how extensive the IMF's involvement should be and what form it should take.

Turbines from the Roth Rock wind farm spin next to the Mettiki Coal processing plant in Oakland, Maryland.



## Two schools of thought

One camp starts from the historical purpose and core expertise of the IMF. It argues for limiting the organization's focus on climate change to what is strictly necessary to deliver on the core mandate. In this view, the immediate and longer-term implications of climate change for the fiscal, monetary, financial, and external accounts of member countries and for the global economy are very much the Fund's business.

This suggests a strong case for the IMF to research, assess, and advise on various policy tools—in these same domains—that countries can deploy to adapt to climate change. Helping countries build the institutional capacity to design and implement such policies would also be an important corollary of the need to focus on climate change.

The case for the Fund's engagement becomes less clear for this group if the organization extends its coverage to advising on policies or mechanisms for slowing climate change, or if it takes on the task of mobilizing private financing to tackle climate mitigation. For example, the Fund has long studied and advised on the removal of subsidies for fossil fuels, but linking this to a country's mitigation commitment is more controversial. The Fund shouldn't assess the progress countries make on their international green transition commitments on policies and financing, or report on that as part of its surveillance process, this group argues.

Those who urge restraint on the part of the IMF do not claim that these issues are unimportant. Rather, they say it is not the job of the IMF to deal with them. They voice concern that focusing on these areas would draw the Fund's attention and energy away from pressing macroeconomic and financial risks that no other institution is geared to address. For them, the Fund's strength comes from sticking to its core business and avoiding the mission creep that has diluted the effectiveness of some other international organizations.

Overloading the IMF's surveillance or its program conditionality would risk diluting its focus on core fiscal, monetary, and financial risks, this group argues. Fund staff members may not have the necessary expertise in these areas, and it would be difficult and costly to build an effective skills base in a competitive market, according to this point of view. It might also lead the Fund to "poach" staff from other organizations with a more direct mandate for dealing with climate change. And in an era of tight organizational budgets, more resources devoted to addressing climate change might well come at the expense of retaining the staff needed to deal with core macroeconomic and financial issues. The conservative

**"It is neither feasible nor sensible to retreat from the advances the IMF has already made in building climate change into its work."**

culture of the institution is an asset to preserve, this group maintains.

Those in the other camp start from a very different point. Climate change is already affecting the lives of billions of people and poses an existential threat to future generations. Thus, this group maintains, it is incumbent on every organization to do whatever it can to address the threat. If this entails a change in focus, business models, or skill sets, that needs to be dealt with but should not become a reason to stand on the sidelines.

From this perspective, the IMF is an underused player on the global stage, and the actions that the Fund has taken to date simply do not go far enough. The history of the IMF is rich with instances when the organization adapted to meet the changing needs and priorities of its members, this group argues. Climate change is simply the next big global challenge that requires the institution to evolve.

The IMF has already taken steps to develop frameworks and tools for integrating aspects of climate change into its surveillance, technical assistance, and lending work, but many technical questions remain unexplored. These range from building state-of-the-art tools and research approaches for assessing climate risks to building macro fiscal and financial frameworks that incorporate the substantial investments needed to transition to a low-carbon economy and the policy tools that will make those frameworks operational.

### **Mobilizing climate financing**

Many countries face constraints on fiscal and debt sustainability even as they come under pressure to invest more in accelerating their low-carbon transition. The Fund needs to help countries find the right balance and to adapt its own debt sustainability frameworks to reflect these flows, according to people in this camp. The IMF should devote more resources to and put a higher priority on advancing this research and analytical agenda, they argue.

It is now widely accepted that low- and middle-income countries will need to spend trillions

of dollars a year for climate-related adaptation, mitigation, and resilience. It is also clear that while governments will have to mobilize the better part of this financing domestically, a substantial share will need to come from external public and private sources. For example, emerging market and developing economies other than China will have to spend about \$2.4 trillion a year by 2030, according to estimates by the Independent High-Level Expert Group on Climate Finance, commissioned by the United Nations Climate Change Conferences of 2021 and 2022. About \$1 trillion a year of that will have to come from external sources.

Raising that much money has proved to be much more difficult than expected. In that context, accessing the IMF's \$1 trillion in financing capacity seems like low-hanging fruit to people in this group. The argument that these resources need to be safeguarded for a possible global financial crisis is not convincing if that means neglecting financing of the green transition, which could make such a crisis more likely, according to this line of reasoning.

The IMF set up the Resilience and Sustainability Trust (RST) in 2022 to help countries finance resilience and green transition projects. But those who want the IMF to do more argue that the RST is too small—with total disbursements so far of just \$1.4 billion—and that the requirement for a regular IMF financing program to accompany such funding makes it less attractive for many countries because of the associated conditionality and reputational stigma.

Moreover, like regular IMF financing, the RST just adds more debt—even though over a much longer maturity period—limiting many countries. That concern prompted some people in this group to call for a reexamination of current policies for issuing and deploying special drawing rights (SDRs), which bolster the official reserves of member countries. During the pandemic, the IMF issued SDRs equivalent to \$650 billion, which, notwithstanding the fact that 67 percent went to rich countries that didn't need this financing, greatly relieved pressures on some low- and middle-income countries. Why not, ask those who want the IMF to expand its climate change footprint, have large and regular distributions of SDRs? At the same time, perhaps the institution should change the SDR allocation rules and target countries that need them and/or link allocations to spending on climate change, they argue.

The IMF could also use its convening power to mobilize global action and financing to address climate change. As a global organization where finance ministers and governors meet regularly, the Fund could raise awareness of the policy and financing actions that only they can take to address

climate change, this group suggests. According to the IMF's 2021 strategy paper, "climate change mitigation is a global public good and requires an unprecedented level of cross-country policy cooperation and coordination. As a multilateral institution with global reach, the IMF can assist with coordinating the macroeconomic and financial policy response."

### One step at a time

It is easier to outline the points of dispute over the IMF's climate change mission than to resolve them. This is another manifestation of the broader ambiguity in the international response to climate change. The communiqués of world leaders regularly recognize the seriousness of the threat and the need for urgent and coordinated action. And yet, concrete policies and financing commitments languish.

In this context, it is simply not realistic to expect the IMF's membership to agree to a bold new consensus that would make the fight against climate change a core IMF priority. For now, we should also rule out making regular distributions of SDRs to finance climate-related spending or tasking the Fund or its governing bodies to play a central role in mobilizing international policy and financing responses.

At the same time, it is neither feasible nor sensible to retreat from the advances the IMF has already made in building climate change into its analytical, surveillance, and capacity-building work. Rather, the focus on these aspects will need to deepen as countries feel more pressure to address climate threats and seek the Fund's help. The RST should become a more significant source of IMF financing. The Fund also has an important contribution in terms of intellectual leadership or through the power of ideas for shaping public thinking and awareness of the links between climate change and the economic prospects of its member countries.

Perhaps the IMF's best way forward on climate change will be to "cross the river by feeling the stones," as the Chinese say: one step at a time. The Fund has already made considerable progress in integrating climate change into its activities. It has, after a hesitant start, strengthened its partnerships with the World Bank and other institutions with complementary skills and mandates. And it has recruited a cadre of specialists who can help link the climate change agenda to the traditional focus and skills of the institution. The demands for going further are only likely to grow. The challenge for the institution will be to harness them in ways that both serve the membership and attract broad support. **F&D**

**MASOOD AHMED** is president of the Center for Global Development, a Washington-based think tank.

## REGIONAL PERSPECTIVES

# THE IMF MUST LEAD ON DEBT SUSTAINABILITY

Mia Amor Mottley



**W**hen considering the economic and development challenges of developing economies in the face of the climate crisis, most people tend to view debt as a complicating factor at best and a source of many of our problems at worst. There are good reasons for this. Rising public debt across the developing world—and the surging interest bills that accompany it—is diverting public funds from already underfunded health and education programs. It threatens to push more countries into outright distress and more people back into poverty.

Yet there is no escaping the fact that debt will continue to be a critical component of the funding developing economies need to meet their sustainable development goals—particularly climate resilience—and fulfill their economic development potential more generally. The challenge, therefore, is to both lend and borrow “better.” What does this mean?

Well, for sure it means ensuring that public borrowing is anchored in sustained fiscal discipline. However, it also means avoiding debt that

*Reform of its lending arrangements for middle-income countries is overdue*



is very likely to prove unsustainable. While overall debt sustainability is determined by multiple factors, experience teaches us that the rate of economic growth is the most important driver of debt dynamics. There is a simple rule to help determine when the terms of new borrowing are unlikely to prove sustainable over time, at least when it comes to cost: put simply, rates of interest that are likely to exceed the rate of future nominal growth cannot be considered sustainable. The more such rates feature across a public debt portfolio, the greater the likelihood of sovereign debt distress in the future.

## Flawed framework

Although there has been much focus on the very high interest rates paid by some developing economies on their Eurobond issuances since the start of 2024, the problem of unsustainably high borrowing costs is also evident in lending by the official sector. In fact, the recent rise in global interest rates has revealed a flawed IMF lending framework for middle-income countries that no longer supports debt sustainability. It is in desperate need of reform.



People clean sargassum seaweed from a beach in Barbados.

Let's start with the central issue of cost. At the start of the millennium, surcharges were introduced on all IMF lending to middle-income countries through the General Resources Account (GRA), which includes Stand-by Arrangements (SBAs), Extended Fund Facilities (EFFs), and Rapid Financing Instruments (RFIs). The surcharge structure comprises a level-based surcharge of 2 percent on GRA borrowing that exceeds 187.5 percent of quota and an additional 1 percent "time-based" surcharge on the portion of GRA credit above this threshold that is outstanding for more than 36 months (or 51 months in the case of the EFFs).

The IMF introduced these surcharges when it was trying to extinguish the flames of the first emerging market debt crises, including by burning through its own capital. The underlying objective of the new surcharges was to dissuade large and prolonged borrowing from depleting the IMF's resources, particularly among higher-rated emerging market sovereign borrowers. The surcharges worked well, and these countries quickly regained investment grade ratings after the crisis. Years later the approach worked well

**"The rise in global interest rates has revealed a flawed IMF lending framework for middle-income countries that no longer supports debt sustainability."**

again: Organisation for Economic Co-operation and Development countries that had been forced to borrow from the Fund during the global financial crisis were able to prepay their IMF liabilities once the worst of the instability problems had subsided, thanks to deep domestic capital markets.

But the world has changed radically over the past 25 years. For a start, the IMF has gone from having precautionary balances of \$6.2 billion as of April 1999 to approximately \$33 billion as of April 2024. It has also succeeded in making a much-needed pivot, gradually expanding its role as a lender of last resort to become a partner of some of the poorer and most fragile countries in the world at a time when their access to liquidity has been severely compromised.

The scale of IMF lending has also increased. In fact, 187.5 percent of quota is no longer a big deal: as of April this year, 21 middle-income countries had borrowed above this level from the Fund. Compared with a decade ago, the average per capita income of countries with active EFFs has fallen by a factor of 4.

Yet the Fund's surcharge regime remains unchanged and has exposed fragile sovereign borrowers to the full force of rising world interest rates, even though the IMF is now well capitalized and does not rely on market borrowing to fund its lending arrangements.

### Surcharge regime

As of June this year, the minimum all-in interest rate payable on GRA disbursements (this covers SBA, EFF, and RFI disbursements) had surged to 5.1 percent a year, with sovereigns paying 7.1 percent on the portion of their drawings that exceeds 187.5 percent of quota. GRA liabilities outstanding for three years or more (or four in the case of the EFF—less than halfway to final maturity) now have a record interest rate of 8.1 percent. The IMF cannot argue that its lending programs have debt sustainability at heart when its own lending to middle-income countries cannot be considered sustainable.

This is a problem the IMF must address. Incentivizing sovereign borrowers to repay the IMF is not wrong in itself, but it is wrong in a world where

most GRA borrowers have no reliable access to alternative sources of sustainable financing. The IMF's surcharge regime needs to be reformed urgently—either through a radical overhaul that includes caps that take into account the interest rate cycle or preferably by scrapping it outright.

But costs are not the only area of IMF lending that needs urgent reform. Tenor matters, too. Take the EFF—an instrument designed to address balance of payments imbalances caused by structural weaknesses in the economy. It is widely accepted that structural reform is a complex task that takes time to implement and years to bear fruit. Yet in the EFF we have a lending instrument that disburses over only three or four years and has to be repaid in seven (on a weighted average basis). A facility that is so constrained is simply not fit to support structural reform at a time of “polycrisis” and in light of the increasingly devastating effects of the climate crisis.

### Perpetual programs

It should come as no surprise, therefore, that so many middle-income countries are locked into perpetual programs, borrowing from the IMF just to repay the IMF. This is not good for sovereign borrowers, it is not good for the IMF, and it is not good for the people the IMF is meant to serve.

Forty-five years have passed since the EFF was last reformed, in 1979. Fresh thinking on IMF support for middle-income countries from what we know to be dedicated and capable management and shareholders is long overdue.

It is therefore fortunate that the IMF, under its current leadership, has in recent years already demonstrated a capacity for fresh and innovative thinking, often moving before others. This was evident in the quick rollout of the RFI and the Rapid Credit Facility soon after the pandemic broke out and the subsequent allocation of a record \$650 billion-equivalent in SDRs. More recently we have seen the introduction of the Resilience and Sustainability Facility—a facility funded by rechanneling a portion of the new SDRs and designed to help finance climate resilience and adaptation for countries that already have an IMF upper-credit-tranche arrangement. Critically, this new facility has a final maturity of 20 years and carries no surcharges.

As they confront the multiple crises of the early 21st century, middle-income countries need lending arrangements that are fit for purpose. It's time for the IMF to switch its attention to fundamental reform of its existing lending arrangements for middle-income countries.

**MIA AMOR MOTTLEY** is prime minister of Barbados.

## REGIONAL PERSPECTIVES

# A CONSENSUS IS FORMING FOR IMF REFORM

William Ruto



For over eight decades, the IMF has stood as a pillar of global macroeconomic and financial stability. Originating from the Bretton Woods conference attended by 44 delegations, the IMF now encompasses 190 member countries, with Africa's 54 members forming the largest regional group. This growth reflects a significant evolution from the original framework designed to support the gold standard of fixed exchange rates. The collapse of that system 50 years ago shifted the IMF's role from underwriting fixed exchange rates to promoting flexible exchange rates.

In response to these shifts, the IMF has evolved into a development financing institution. Its current portfolio stands at \$112 billion spread across 90 countries, translating to just over \$1.2 billion per borrower. Excluding Argentina (\$32 billion), this figure falls to \$900 million per borrower, and further to just under \$700 million when excluding the top three borrowers (Argentina, Egypt, and Ukraine), which account for 46 percent of the portfolio.

If a conference akin to Bretton Woods were convened today, it would likely focus on the inter-

*The IMF must listen to the needs of its global membership and adapt to emerging challenges*



Aerial view of African men drawing water for livestock amid persistent drought in Kenya.

twined challenges of development and climate change. Recent global conferences, including the UN Sustainable Development Goals Summit and COP28 climate summit, have underscored our shortcomings in addressing these challenges, primarily because of underfunding and a dysfunctional financial system.

### Critical driver

The critical driver of future global economic growth will be the Global South, with sub-Saharan Africa expected to double its share of the global workforce, from about 13 percent today to 25 percent by 2050. Addressing this potential hinges on reforming the multilateral financial system to better respond to today's realities, such as climate vulnerability and economic fragility exacerbated by global shocks.

In East Africa and the Horn of Africa, we are only beginning to recover from four seasons of drought, the worst in half a century, which resulted in the loss of an estimated 9.5 million head of livestock, with 2.4 million in Kenya alone. Currently, we are experiencing devastating floods, the worst since the 1997

El Niño. The deluge has already claimed over 250 lives in Kenya, Tanzania, and Burundi; displaced thousands of people; and caused severe damage to property, crops, and infrastructure.

In my recent discussions with international officials, a consensus has emerged on four key areas of IMF reform: lending instruments, issuance of special drawing rights (SDRs), addressing debt distress, and governance reforms.

*Lending instruments:* There is broad consensus on the need to decouple lending from quota systems. The current "exceptional access policy" is not only restrictive but also imposes punitive surcharges that reflect an outdated system. Today's economic challenges, such as climate-induced disasters and pandemics, demand a recalibration of financial instruments to more flexibly address these crises. I advocate unbundling lending instruments so that each is subject to its own relevant eligibility criteria and tailored to government interventions that respond to specific needs, as opposed to the current situation in which all instruments are tied to the IMF's standard macroeconomic program.

Consider the case of the Resilience and Sustainability Facility (RSF). The RSF is a welcome innovation that recognizes climate change vulnerability as a driver of economic fragility. However, to access the resilience facility, a country must have an IMF program already in place. This poses a challenge for climate-vulnerable countries with sound economic management that may wish to access the facility to build resilience.

*Special drawing rights:* The issuance of SDRs remains a vital tool for crisis management. However, recent allocations highlight the need for reform, with low-income countries, which most need a financial safety net, receiving a meager 2.4 percent of the 2021 allocation. The entire African continent received only 5.2 percent. By contrast, developed economies—which do not require financial support—received 64 percent. Wealthier nations have pledged to redirect \$100 billion in SDRs to support vulnerable countries. While these pledges have augmented the IMF’s capacity and provided seed financing for the RSF, the slow deployment of these funds underscores inefficiencies in current practices.

Residents are rescued on a boat in an area heavily affected by floods following torrential rains in Tanzania.



**“The current voting rights in international financial institutions do not reflect the economic and demographic realities of today.”**

*Debt distress:* The developing world is facing a debt crisis reminiscent of the conditions that led to the IMF’s and World Bank’s Highly Indebted Poor Countries initiative of the mid-1990s. The World Bank’s latest international debt report confirms this prognosis, reporting that sovereign defaults in 10 countries in the past three years surpass the total for the preceding two decades. Moreover, the number of emerging market economies with bond yield spreads in distress territory (1,000 basis points or more over comparable US Treasury bonds) has risen tenfold, from 2 to 20 since 2020. With rising interest rates compounding debt-servicing challenges, there is an urgent need for comprehensive debt-refinancing programs, similar to the Brady Plan response to the Latin American debt crisis of the 1980s, to provide relief and support sustainable development.

*Governance reforms:* Global economic governance has lagged behind the economic rise of the Global South and other geopolitical shifts. The current voting rights in international financial institutions do not reflect the economic and demographic realities of today, particularly the significant contributions of the Global South, which already accounts for half of global GDP and 80 percent of the world’s population. Corporate governance principles suggest a need for more equitable representation and independence in decision-making processes.

The future relevance of the IMF will depend on its ability to adapt to these emerging challenges and listen to the needs of its global membership. The path forward involves significant reform, but with cooperative and concerted effort, we can ensure the IMF remains a cornerstone of global stability for generations to come.

**WILLIAM RUTO** is president of Kenya.

## REGIONAL PERSPECTIVES

# LATIN AMERICA AND THE IMF

Pablo García-Silva



*A strong multilateral system is crucial for advancing the region's economic prosperity*

**A**t the Bretton Woods Conference, 19 out of 44 delegations came from Latin America and the Caribbean. By the time the IMF started operations in 1947, an overwhelming majority of Latin American countries—representing more than 40 percent of the Fund's initial membership—had signed its Articles of Agreement. This underscores both Latin America's commitment to a post-World War II system geared toward growth and stability as well as the region's essential role in making it happen.

Eighty years on, progress in some areas of the world economy has been far greater than the IMF's founding members could have dreamed. In others, however, progress has been disappointing. This is true for Latin America, too. On one hand, Latin Americans overall value the benefits associated with the rules-based international system. Vibrant civil societies and innovative entrepreneurial spirit thrive in many corners of the region. Inflation and fiscal profligacy—for decades the scourge of the region—have been dramatically tamed in all but a handful of cases.

On the other hand, there is still great inequality of income and opportunity. This creates signif-

icant security, crime, and social challenges. The encroachment of Cold War tensions between the US and the Soviet Union on domestic politics left scars that are still painful, hampering national consensus on how to achieve inclusive growth. Inflation must be defeated completely and permanently across the region.

Since the 1980s, IMF-supported programs, with strong domestic ownership, have proved effective in many countries, from Chile and Mexico to Brazil and Jamaica. This is evidence that successful programs are key to preventing the repeated use of Fund resources and the associated stigma. The lessons from past successes and failures should inform present and future programs so as to avoid the at times tumultuous relationship between the IMF and some countries in the region.

## Multilateralism's importance

Latin America's future will continue to depend on multilateralism and the achievement of the IMF's core mandates, as set out in Article I. The Fund must double down on these objectives—not lose sight of them. This is the only way for Latin America to achieve sustained growth and economic stability. Of



course, the world economy is very different from that of 1944. This poses quite different risks and opportunities for the next 80 years. The IMF must continue to adapt to provide for the needs of Latin America.

At the turn of this century, the combination of rising economies in Asia and an international monetary system based on the US dollar benefited Latin American economies that had established credible monetary and fiscal frameworks along with clear rules for sound domestic macroeconomic management. This allowed them to achieve growth and stability as they opened up further to both trade and finance. Disappointing growth in the past decade has not put a dent in the achievements of price and financial stability; several Latin American central banks are well along the path of easing monetary policy after having withstood major global shocks.

Future global risks, however, loom large. Geoeconomic fragmentation threatens to unravel the hard-earned gains stemming from an integrated world. Whereas major economic zones and countries—with their large internal markets

A woman harvests lemons in Pica, Chile.

and diversified production structures—have some resilience in the face of potential global fragmentation, Latin American economies are much more at risk, with their relatively small size and heavy specialization in natural resources. Their comparative advantage still lies in the abundance of natural resources, and while regional integration could in theory provide a measure of diversification, the internal and regional infrastructure gaps remain major obstacles.

### **New cold war**

A major geopolitical break that disrupts trade and finance between the main economic zones in the world would be catastrophic for the overwhelming majority of Latin American economies. Even if the worst did not happen, global political tensions from a second cold war could again spill over and wreak disruption on Latin American domestic politics and societies.

This need not be the case, however. Unlike in 1947, at the dawn of the Cold War, the extent of



A worker in a textile factory in southern Peru.

economic integration today is such that the costs of reverting to autarky are evident to all major global stakeholders and their societies. The *raison d'être* of the international financial architecture is precisely to prevent the dislocations that made autarky and aggressive war feasible political goals in the 1920s and 1930s. As long as the IMF's governance continues to adapt to the new global circumstances, it will remain the prime forum for international economic cooperation.

Speaking truth to power, particularly regarding the risks for small and medium economies from disruptive deglobalization, must remain a guiding principle for the IMF if it is to mitigate risk and the effects of fragmentation on Latin America.

The other major global risk is the dramatic implications of climate change. The direct impact of disruptions from a hotter planet are an obvious net negative for the world. Yet in Latin America the reality is more complex and varied. In countries that depend heavily on the exploitation of fossil fuels for fiscal revenues, the transition to clean energy

**“Speaking truth to power, particularly regarding the risks from disruptive deglobalization, must remain a guiding principle for the IMF.”**

will be exceedingly painful. It will be much easier for countries with natural resources such as lithium and copper and comparative advantages in the renewable energy needed for the transition; they can expect positive tailwinds for years to come. But the scenario is not clear-cut. Sound institutions are crucial so that opportunities are not squandered and to manage climate finance properly—and to deal with other thorny problems, such as water scarcity, climate migration, and energy security. The IMF will be called on to support national efforts in the region through technical assistance and financing with other partner institutions.

Avoiding economic fragmentation and facing the risks of climate change require well-functioning multilateral institutions such as the IMF. The success of this global order since 1945 is evident. It shows that the sum is indeed more than the parts when it comes to international cooperation. But each part needs to play a constructive role.

On one hand, the US—as the main architect of the post-World War II era—has an outsize responsibility for a well-functioning international financial architecture and for peaceful prosperity in the Western Hemisphere. A US withdrawal from internationalism would knock out an essential cog in the machinery of globalization, and taking Latin America for granted could make the aches and pains of the past more evident, fueling anti-US sentiment in the region.

On the other hand, the enormous economic achievements of China have made it a major economic player in international trade and global affairs, including in Latin America. A constructive approach by both the US and China toward peaceful multilateralism in the next decades is a necessary ingredient as the IMF continues to support the future of Latin America. **F&D**

**PABLO GARCÍA-SILVA** is a professor at the business school of Universidad Adolfo Ibañez and currently chairs a panel conducting an external evaluation of the IMF's Independent Evaluation Office. He is a former vice-governor of the Central Bank of Chile and a former member of the IMF executive board.

# THE LIFE AND TIMES OF FINANCE & DEVELOPMENT

**Anna Postelnyak**

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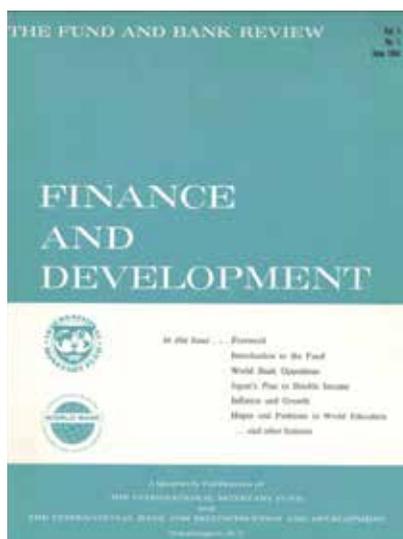
For 60 years, the magazine has been a window into the IMF and the evolving global economy

# TIMES OF ELOPMENT

**T**he year is 1964. The Beatles are all the rage. The US Congress passes the Civil Rights Act. Nelson Mandela is condemned to life in prison in South Africa. Audrey Hepburn stars in *My Fair Lady*. And in Washington, on a quiet corner of 19th Street, NW, a magazine is born.

The debut of *Finance & Development* (F&D) in June 1964 may not have been as momentous as other events of that year, but it marked the opening of a unique window for the public to peer into the workings—and thinking—of the IMF and the World Bank. Over time, it would also allow the Bank and Fund to see how outsiders view a variety of economic and financial topics critical to their work.

When IMF Deputy Managing Director Frank A. Southard Jr. proposed a “less technical periodical” to reach government officials, bankers, journalists, and students he envisioned a Fund-only product (as it later became, when the World Bank dropped out in the 1990s). However, he welcomed World Bank President George Woods’s suggestion for a joint publication, which opened the magazine to a broader range of topics and widened its appeal to readers in the developing world.



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## The beginnings

The early issues of *The Fund and Bank Review: Finance & Development* set the stage for the rest of the decade, its mission firmly anchored in information for the general reader about the World Bank and the IMF. There were articles on the origins of the two institutions, their financial structures, and operations. Shorter pieces demystified Fund jargon—such as Stand-By Arrangements, balance of payments deficits, and multiple currency practices—and detailed both institutions’ financial transactions and activities.

F&D was not produced in a vacuum. During the 1960s, the developing world, in the throes of decolonization, aspired to catch up to wealthier countries. At the Bank, following the development logic of the time—industrialization leads to growth; growth helps the poor—the emphasis was on project lending for infrastructure and industry. F&D carried numerous articles profiling Bank-funded projects and explaining the practicalities of lending for development.

Since the first illustrated cover, in March 1968, showcasing Kenyan villagers at a new World Bank-financed water tap, F&D has portrayed successful projects as symbols of modernity and prosperity. The September 1968 cover and its accompanying article highlighted how new irrigation dams were turning a Mexican desert into fertile farmland. Visitors to the 1968 Olympic Games, it promised, could thus expect to dine on produce “grown by the farmers of this newly prosperous area.” Another piece described the Western Highway in Honduras—financed by the International Development Association’s first loan—as “the hypodermic needle by which the vaccine of modern life is being injected into the countryside.”

“Several articles from the late 1960s discussed the intertwined problems of the US balance of payments and global liquidity.”

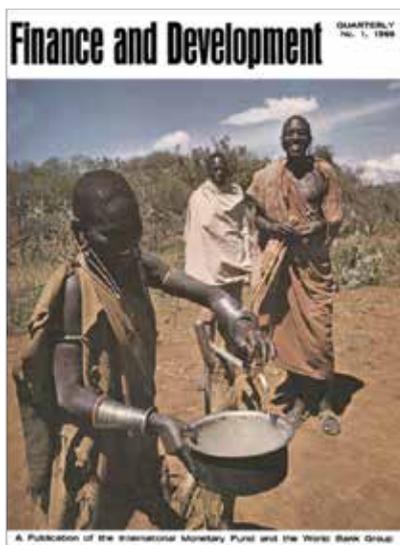
Yet by the end of the decade, the paradigm of industrialization-driven development was being challenged. In his 1968 book *Asian Drama: An Inquiry into the Poverty of Nations*, Nobel Laureate Gunnar Myrdal asserted that “development is not a mechanical process of adding to capital stock, human skills, technological knowledge and artifices but a matter of institutional change, of attitudes and behavior patterns, of all those intangible elements that distinguish a human society from a field of particles or a colony of ants.” To the World Bank’s economists this was heresy, and in June 1969, F&D published a lengthy rejoinder—not so much questioning Myrdal’s thesis as critiquing his lack of practical solutions.

By the next year, however, Bank President Robert S. McNamara was calling for development indicators that “go beyond the measure of growth in total output and provide practical yardsticks of change in the other economic, social, and moral dimensions of the modernizing process.”

This was also the heyday of the Bretton Woods system: a 1966 article proudly proclaimed 20 years of fixed exchange rates. But the system was already under strain. Several articles from the late 1960s discussed the intertwined problems of the US balance of payments and global liquidity until the IMF introduced an artificial reserve asset, special drawing rights (SDRs), featured prominently on the December 1969 cover. For developing economies, which had hoped for a link between SDR allocations and development finance, the IMF could trot out only its standard policy prescription—reiterated in several F&D articles—that monetary and exchange rate stability were the sine qua non of economic development.

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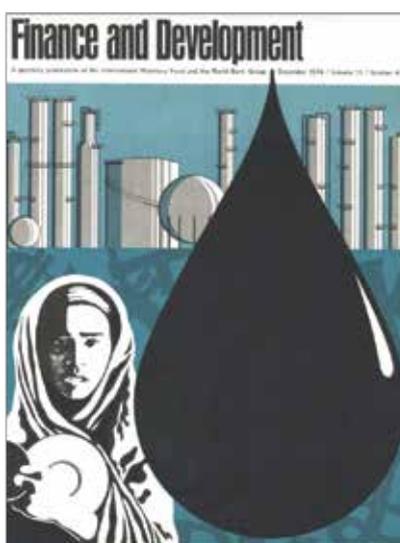
Cover:  
*Finance and  
Development*,  
June 1964,  
Vol. 1, No. 1



02



03



04

02

Cover:  
*Finance and  
Development*,  
March 1968

03

Cover:  
*Finance and  
Development*,  
December 1969

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Cover:  
*Finance and  
Development*,  
December 1974

As the 1960s neared their end, so did the Bretton Woods system, which would collapse only a few years later. But F&D was a success: between 1964 and 1968, circulation in its three original languages—English, French, and Spanish—rose from 20,000 to 85,000. The magazine had established itself as a serious medium for communicating the work of the Bank and the Fund. Tentatively at first, but with increasing confidence, its editors began playing with color and graphics by including larger and more frequent photographs, maps, charts, and illustrations.

### The turbulent 1970s

The 1970s was a stormy decade—punctuated by the collapse of the Bretton Woods system, massive oil price shocks, and international terrorism. But it was also a time of experimentation. The Second Amendment to the IMF's Articles of Agreement, in 1978, allowed members to choose their exchange rate regime—fixed or floating. More significantly, as the Fund's economic counsellor explained in F&D's June 1976 issue, it represented a revolution in thinking about the stability of the international monetary system.

Under Bretton Woods, stability was premised on countries maintaining fixed exchange rates against the dollar. After the Second Amendment, countries would direct their monetary and fiscal policies toward domestic stability, with exchange rate stability emerging from good economic policies, regardless of choice of exchange rate regime. Future IMF surveillance, therefore, would expand to include not only external stability but domestic policies and stability as well. This would open the door to an expanding scope of Fund surveillance, which today covers such diverse topics as gender equality, governance, and climate change.

The road to the Second Amendment was bumpy, and F&D strove to inform readers of efforts to reform the international monetary system, debates on fixed versus floating exchange rates, dislocations caused by oil price shocks, and the practicalities of implementing the amended Articles. Developing economies again clamored for an SDR-development link and were again rebuffed. Instead, the IMF offered the Extended Fund Facility, which provided for longer arrangements (and repayment periods) than the traditional Stand-By Arrangements, and made its first foray into concessional lending through a new trust fund (given prominence in F&D's December 1976 issue). The magnitude of the oil price shock meant that to meet its members' demands, the IMF had to supplement its quota resources with the funds it borrowed from oil exporters—in effect,

“The 1970s was a stormy decade—punctuated by the collapse of the Bretton Woods system, massive oil price shocks, and international terrorism.”

recycling petrodollars. In June 1975, F&D added an Arabic language edition.

The World Bank was also undergoing a revolution. F&D reported extensively on the 1973 Nairobi Annual Meetings, at which McNamara stressed the need to tackle absolute poverty directly. The Bank (and the broader development community) was beginning to recognize that gross national product growth “often does not filter down.” But the answer was not handouts: McNamara figured that the only durable solution was raising the *productivity* of the (mostly rural) poor. F&D explored the types of World Bank projects, writing that they were no longer “the monolithic, engineering projects of the late 1940s and early 1950s” but multifaceted, complex, sophisticated operations. Throughout the 1970s, F&D showcased Bank initiatives to help the small farmer access credit, seeds, and fertilizer, complemented by expanded provision of education, health care, irrigation, and public transportation.

Back at the editorial offices of F&D, the editors experimented with funkier fonts and formats, as seen in the March 1973 issue. More substantively, they began exploring novel topics. A 1969 F&D article first spotlighted weather as “a key variable in economic development to which economic and financial institutions have so far given little attention.” In December 1971, Margaret de Vries—the Fund’s pioneering female division chief—wrote a compelling piece on women’s role in economic development. The magazine also highlighted the benefits of guest workers in Europe, noting the advantages for both migrants and host countries, even as the latter were beginning to grapple with immigration’s social and political impact.



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### 1980s: The lost decade

In advanced economies, the Margaret Thatcher-Ronald Reagan years are remembered for Wall Street’s excesses. But for much of the developing world, the 1980s was a lost decade.

At the end of the 1970s, the Federal Reserve pulled hard on its monetary reins to curb high US inflation. Soaring global interest rates brought the easy-money lending of the previous decade to an abrupt end and sent indebted developing economies into a tailspin. At the IMF, the new watchword was “conditionality.” Not only was meeting certain policy conditions the key to unlocking Fund resources—as F&D’s March 1981 cover made clear—it was also essential to successful adjustment, so that fresh lending did not simply mean piling on more debt.

At the World Bank, there was increasing recognition that investment projects, regardless of their internal rate of return, could never thrive if the macroeconomic environment was in disarray. The answer was a new type of lending: structural adjustment loans providing budget support for economic reforms. Both Bank and Fund programs stressed the need to restore internal and external balance—on the demand side, by cutting budget deficits and imposing monetary discipline, and on the supply side, through devaluation, privatization, and liberalization.

Developing economies resented this new direction. Critics decried the harsh measures and strict conditionality, which they claimed unnecessarily exacerbated economic hardship, especially for the poor. F&D played a crucial role here in explaining that timely and orderly adjustment, despite short-term pain, would lead to longer-term gains, includ-

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Cover:  
*Finance and  
Development*,  
March 1981

ing higher growth, improved living standards, and better income distribution.

Other articles advocated market-oriented reforms, especially trade liberalization over protectionism and import substitution. The East Asian economies were showcased for their successful adjustment and lauded for their trade openness, which—F&D authors claimed—had resulted in faster recovery and growth (although, in reality, these countries were also distinguished by extensive government intervention). F&D also began to take notice of China, which had just embarked on market-oriented reforms; in June 1983, it began to publish in Chinese.

As the debt crisis dragged on and adjustment fatigue set in, it became increasingly clear that aggressive adjustment had a disproportionate impact on the poor. To be politically sustainable, programs would need to do more to protect the most vulnerable. Through the pages of F&D, readers could trace the evolution of the international community's debt strategy: an initial emphasis on adjustment; the 1985 Baker Plan premised on countries "growing out" of their indebtedness; and finally acceptance, under the 1989 Brady Plan and Paris Club Toronto terms, that only debt relief—from both market and official bilateral creditors—could resolve the crisis.

F&D also covered the World Bank's growing involvement in environmental concerns, which began with the establishment of a small unit in 1970 and received further impetus during Barber Conable's presidency (1986–91). Against a backdrop of public criticism of the environmental impact of certain World Bank projects, F&D began publishing articles on the Bank's shift toward viewing environmental preservation as part of sustainable development.

F&D opened up to external authors, starting with Nicholas Kaldor in June 1983. Guest articles were clearly identified, lest there be any confusion that they represented institutional views, and Kaldor's piece—questioning IMF orthodoxy about currency devaluations—was published alongside a rejoinder by F&D's editor-in-chief. Nonetheless, these articles helped introduce an element of debate, paving the way for F&D to become less a vehicle for disseminating Bank and Fund views and more of a platform for discourse.

## 1990s: Transition

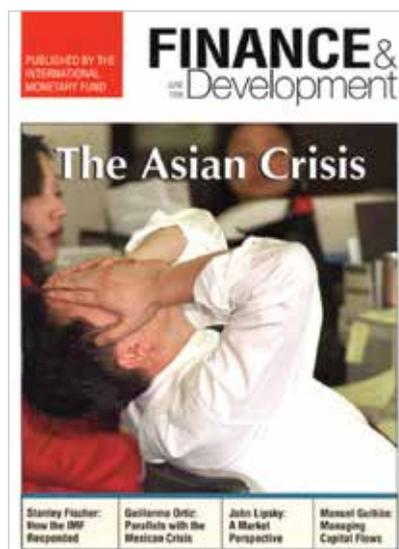
With cover art reminiscent of 1930s Soviet propaganda posters, F&D's March 1990 issue explored the biggest story of the decade: the fall of communism and seeming triumph of liberalism. The Bank and the Fund—together with the Organisation for Economic Co-operation and Development



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Cover:  
*Finance and  
Development*,  
December 1988

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Development*,  
March 1990

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*Finance and  
Development*,  
June 1998

and the nascent European Bank for Reconstruction and Development—were already at work on *A Study of the Soviet Economy*, which concluded (as a 1991 F&D article explained) that the required reforms were interconnected: gradualism would not work; “shock-therapy” was needed. Subsequent F&D issues explored various aspects of the transition—fiscal consolidation, monetary reform, privatization, reorientation of industries, corporate governance—occasionally giving voice to those who called for “less shock, more therapy.”

Outside the transition economies, developing economies and emerging markets were also transforming, accepting most of the ideas and broader impetus toward liberalization—while rejecting the rhetoric—of the so-called Washington Consensus. However, as the Bank’s *East Asian Miracle* report—referenced on the cover of F&D’s March 1994 issue—acknowledged, state intervention could be constructive, provided there was “good governance.”

Optimism about unbridled market capitalism was tested by the 1990s emerging market crises. As part of liberalization efforts, many emerging market economies had dismantled their capital controls, inviting large inflows. Before long, however, the 1994 devaluation by Mexico—followed shortly by Thailand, Korea, Indonesia, Russia, Brazil, Argentina, Uruguay, and Türkiye—demonstrated the devastating consequences of sharp reversals of capital flows. While the roots of individual capital account crises were country-specific, in each case, balance sheet mismatches—such as loans denominated in dollars that had to be paid off from assets that generated local currency—left economies vulnerable to destabilizing events, whether domestic or external, economic or political.

Having unveiled for the first time the dark side of financial globalization, the 1997–98 Asian Crisis and its lessons ushered in numerous IMF reforms, detailed in the June 1998 F&D. Emerging market crises more generally spurred various initiatives (such as standards and codes, the Financial Sector Assessment Program, and early-warning systems) to strengthen the international financial architecture.

Transition economies and emerging markets may have grabbed F&D headlines, but low-income countries were no less important. The IMF had long maintained that macroeconomic stability was necessary for growth, and growth for poverty reduction. The intellectual leap—articulated in F&D’s *How We Can Help the Poor* (December 2000)—was

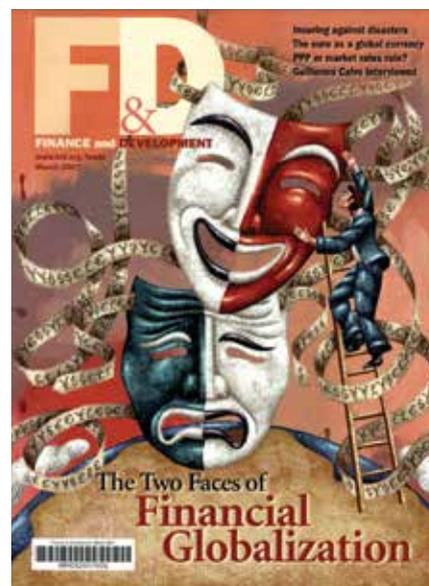
**“The magazine became a platform where topics of importance to the Fund could be debated by the world’s leading experts.”**

recognizing that “necessary” did not imply “sufficient”: poverty reduction should be a goal of its own, alongside growth. Accordingly, the Fund’s marquee Enhanced Structural Adjustment Facility became the Poverty Reduction and Growth Facility. Government officials and civil society would now craft their own poverty reduction strategies in a participatory process, enhancing program ownership. In recognition of countries’ reform efforts, the Fund and Bank also agreed to debt relief under the Heavily Indebted Poor Countries Initiative (supplemented in the mid-2000s by the even more ambitious Multilateral Debt Relief Initiative).

F&D itself changed profoundly. Soon after James Wolfensohn arrived at the World Bank in 1995, the Bank withdrew from the F&D partnership. The Fund, however, recognized F&D’s value and agreed to finance it on its own. Despite this shift, F&D’s 110,000+ subscribers would see little change in the coverage of topics. More noticeable was the new emphasis on visual communication, with arresting covers and four-color printing, as well as more external—and even critical—perspectives. In March 1996, F&D also began supplementing its print editions with digital content.

### Into the new millennium

Over the next few years, F&D emerged in its modern format. With the advent of greater transparency and publication of IMF documents, there was less need for F&D to act as its mouthpiece. Instead, the magazine became a platform where topics of importance to the Fund could be debated by the world’s leading experts. The issues also became more thematic.



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Cover:  
*Finance and  
Development*,  
March 2007

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Also in the early 2000s, emerging markets arrived on the world stage. Asian economies led the pack: the crisis countries had recovered, and the sleeping giants—China and India—had awakened. But it was not only Asia: Latin America’s and even Africa’s performance and prospects were much improved. The major emerging markets, now accounting for a growing share of world output but still holding only a minority of IMF quotas, started demanding a larger seat at the table.

But East Asia’s export-led boom was not without drawbacks. As emerging markets—especially China, which became a manufacturing and exporting powerhouse after its 2001 World Trade Organization accession—made inroads into the advanced economies’ industrial sectors, they sparked a protectionist backlash. Even as the Doha Round of trade liberalization stalled, the Bretton Woods institutions continued to champion trade and globalization: all countries could improve their lot by *Trading Up* (F&D, September 2002). For poorer countries, the prescription was still that trade liberalization—as much as increased aid—held the key to boosting growth and eradicating poverty. Meanwhile, advanced economy workers’ worries about job losses were dismissed on the grounds that trade creates enough winners that they *could* compensate losers.

At a macroeconomic level, Asia’s rise was reflected in “global imbalances”—principally, China’s surplus and the US deficit, causing trade and exchange rate frictions between them. The systemic concern—which prompted the IMF in 2006 to convene its first Multilateral Consultation—was



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Cover:  
*Finance and  
Development*,  
September 2011

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Cover:  
*Finance and  
Development*,  
March 2015

that the buildup of US liabilities could reach a tipping point, and investors might lose confidence and dump their dollars, precipitating a global crisis. In fact, the imbalances were but a symptom: the roots of the 2008 crisis were deeper.

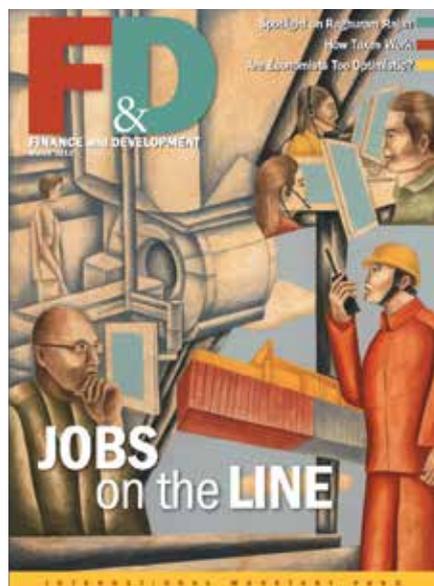
By the mid-2000s, the world economy was booming, but only as a result of a triple bubble:

- Excess saving and production in Asia could be sustained only by the huge current account deficit of the United States, which became the consumer of last resort.
- Stagnating real wages and a declining share of labor income in the US—including as a result of manufacturing jobs moving to emerging markets—meant that middle-class consumption could be sustained only by ever-increasing amounts of consumer credit (often in the form of equity withdrawals from rising house prices).
- In the euro area, a similar bubble sustained northern European surpluses and southern European deficits.

These factors were enabled—and exacerbated—by financial sector excesses that flourished under poor regulation. While F&D picked up on some of these elements, it failed, along with most other observers, to connect the dots and recognize that, as these bubbles burst, the world economy would suffer its worst crisis since the Great Depression.

## Crisis and recovery

Even before the bankruptcy of US investment bank Lehman Brothers sparked global financial panic, F&D’s June 2008 issue pointed to opaque, complex mortgage-backed securities, coupled



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with excessive leverage and regulatory failures, as the source of the financial problems in the United States. Lehman's failure in September and the spread of the ensuing full-blown crisis to the rest of the world, received ample coverage in F&D's December 2008 issue.

Over the following year, the magazine detailed the IMF's crisis response: overhauling its lending tool kit to make it more flexible and responsive to countries' needs; improving surveillance to better anticipate crises and take account of spillovers; and, together with the Financial Stability Board, strengthening its oversight of the global financial system. The Fund also provided additional support to low-income countries and revived SDRs—its first allocation since the 1970s—to boost the global economy with an immediate injection of unconditional liquidity.

As the crisis broke, Managing Director Dominique Strauss-Kahn famously called for emergency fiscal stimulus. Countries heeded the call, with Asia leading the way. China's massive fiscal expansion in particular served as a locomotive for the rest of the global economy. Major central banks pumped emergency liquidity into their markets, established cross-border swap lines, and engaged in quantitative easing. These actions were essential to avoiding an implosion of the world economy, though they also resulted in unwanted surges of capital flows to emerging markets.

By December 2009, the worst of the storm had passed. But the scars of the crisis—structural unemployment, income inequality, protectionism, and anti-globalization sentiment—ran deep. These now became the focus of F&D. In *Jobs on the Line*—whose cover drew inspiration from Diego Rivera's 1932 homage to the American worker—F&D explored how migration, outsourcing, technology, and trade were affecting job prospects. It pointed to a basic dilemma for policymakers: greater openness to migrants, trade, and technology brought economic benefits but also political costs, as the middle class felt threatened. While retooling and further education were part of the answer, F&D said, “for displaced workers near the end of their working lives, redistribution may be a more practical solution than acquisition of new skills.”

The September 2011 F&D explored a related issue: public resentment of growing income inequality in advanced economies, in part because of perceptions that banks had been bailed out on the backs of workers. The risk was that people would “no longer support open trade and free markets if they feel that they are losing out while a small group of winners is getting richer and richer.”

**“F&D has stayed true to its purpose of engaging, educating, and entertaining its readership.”**

### **A fraught, fragmented world**

By 2016, after the United Kingdom voted to leave the European Union, fragmentation was no longer a risk but a reality. Just as the global recovery seemed to have reached an inflection point, it faced setbacks from rising nationalism, protectionism, and populism. Earlier doubts about globalization now turned into open trade wars and xenophobia. Movements like Occupy Wall Street morphed into calls for antiestablishment politicians and wholesale rejection of expertise. Not only had the consensus and cooperative spirit of the early days of the crisis melted away, it had turned into a willful desire to break agreements, reconsider alliances, and retreat from multilateralism.

F&D sought to diagnose this new reality. The December 2016 issue—featuring a stolid blue-collar worker on its cover—explored the hollowing out of the American middle class and the root causes of disaffection gripping electorates in advanced economies. While globalization seemed like the obvious culprit, the March 2017 issue evaluated a different hypothesis: secular stagnation. The key question—as F&D posed it—was whether advanced economies should resign themselves to anemic growth or whether policies could revive productivity. Summing up the mood of the era, the December 2018 F&D, *Age of Insecurity*, asked what remains of the social contract in the 21st century, when the elderly worry that they will outlive their pensions while millennials fret that they will never earn theirs in the first place.

The COVID-19 pandemic dealt the next blow. The IMF pulled out its crisis playbook, swiftly providing emergency financing to an unprecedented number of countries. It also issued a record number of SDRs, with the 2022 Resilience and Sustainability Trust finally providing an ingenious—albeit partial—workaround in response to developing economies' long-standing gripe that allocations are proportional to quota rather than countries' structural



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financing needs. But what should have brought the world together instead amplified divisions, culminating in “vaccine protectionism.”

Beyond assessing the pandemic’s immediate impact, F&D pondered its longer-term implications for economic opportunity, inequality, technology, health, and the praxis of fiscal policy. It also urged its readers to see the pandemic as an opportunity for healing the fractures and building back a better world (September 2020 F&D).

Russia’s invasion of Ukraine delivered the next set of shocks: refugees, supply-chain disruptions, food and energy shortages, high inflation, and unstable financial markets. Against the backdrop of rising US-China rivalry and the world’s dangerous drift into distinct economic blocs, the war has reinforced the sense that countries must take sides. To help its readers make sense of this landscape, F&D explored its impact on policymaking, the global economy, energy insecurity, and disintegration of global trade.

What next for the Fund? Forged in the crucible of war and created to foster multilateralism and international cooperation, its mission is more vital than ever. But to fulfill it effectively in an increasingly complex and shock-prone world, its staff need to look up from their spreadsheets and study issues outside their traditional domain. F&D is doing its part, delving into a panoply of topics ranging from health, demographics, and inequality to digital currency and artificial intelligence. Its most recent issue takes stock of what it all means for the economics discipline itself.

### Ahead of its time

F&D was originally intended to keep readers abreast of World Bank and IMF developments; it has done so admirably. But it has also evolved into a vital forum for debate on critical economic issues. And on some topics—the environment, the role of women, the rise of China—F&D has been ahead of the curve.

In June 2019, the magazine carried a fictional account of John Maynard Keynes returning to visit the Fund on its 75th anniversary, where he marvels that—despite myriad changes—the institution remains true to its purpose of serving its membership. Over the past 60 years, F&D, too, has witnessed—and experienced—numerous transformations while staying true to its purpose of engaging, educating, and entertaining its readership. **F&D**

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Cover:  
*Finance and  
Development*,  
December 2016

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*Finance and  
Development*,  
June 2018

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*Finance and  
Development*,  
December 2023

**ANNA POSTELNYAK** is a senior research officer in the IMF’s Strategy, Policy, and Review Department. She is a member of the IMF History Project team.

# The Poisoned Chalice of Debt

Mark Aguiar

**SOVEREIGN BORROWING—MEANT TO SPUR INVESTMENT AND SMOOTH UPS AND DOWNS IN REVENUE—MAY DO JUST THE OPPOSITE**

Since the 1970s, emerging market and developing economies have aggressively tapped into global sovereign debt markets, seeking to jump-start growth or make up for transitory shortfalls in output and tax revenue. Has this borrowing had the intended effect? An analysis of the data suggests that sovereign borrowing may actually leave citizens worse off, increasing volatility and lowering investment.

The ratio of external sovereign debt to GDP rose dramatically between 1970 and the mid-2000s, based on the average and median for a balanced sample of 52 developing and emerging market economies. Over the last 20 years of the sample, this trend has partially reversed, as shown in Chart 1.

Greek pensioners  
march in central  
Athens in November  
2014.



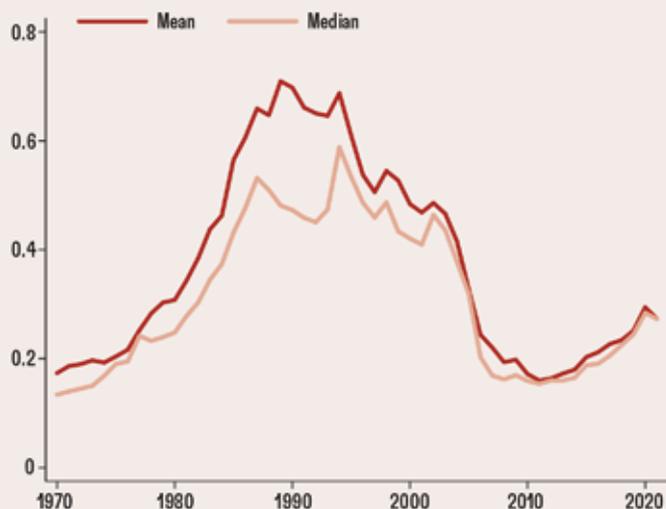


CHART 1

## Borrowing rises

Emerging market and developing economies sharply increased their borrowing as a share of their economies after 1970.

(public debt as a share of GDP, percent)

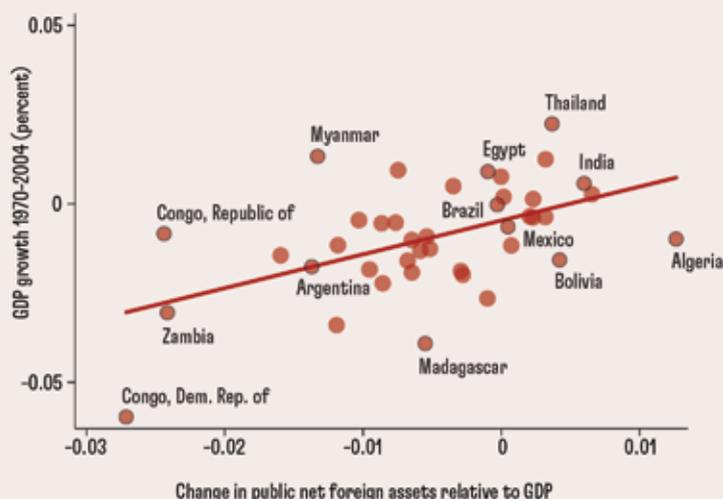


SOURCE: World Bank, World Development Indicators.

CHART 2

## Savers vs. borrowers

Countries that borrowed grew more slowly in 1970–2004 than countries that saved.



SOURCES: Lane and Milesi-Ferretti, External Wealth of Nations dataset (2018); and World Bank, World Development Indicators.

NOTE: The horizontal axis shows the difference in net foreign assets as a ratio to GDP over the sample period, expressed in annualized changes. Only selected countries are labeled due to space limitations.

What are the costs and benefits of the surge in sovereign borrowing for the citizens of these economies? The promise, implicit or explicit, in standard economic models is that access to global capital markets facilitates investment and allows economies to insulate (“smooth”) government spending from large fluctuations in output. That is, borrowing can fund large investment projects or cover temporary shortfalls in revenue, without drawing on domestic private savings. I refer to this as the “neoclassical paradigm.” It predicts that countries that borrow (all else equal) should have faster growth and less volatile spending. However, this is exactly the opposite of what we see in the data. Chart 2 shows a scatter plot of the increase in government net foreign assets (foreign reserves minus external debt) on the horizontal axis and annualized per capita GDP growth relative to the United States on the vertical axis. The time period is 1970–2004, the period of the large increases in debt seen in Chart 1. The data show countries that had external public *savings* (foreign reserves exceeding external debt) experienced faster growth, while those that borrowed stagnated.

### Impatient politicians

An alternative to the neoclassical paradigm holds that governments borrow due to present bias. That is, political incumbents prefer spending to occur while they are in office, which, without a sound set of political checks and balances, leads to excess borrowing. Given a large stock of debt, governments are tempted or forced to tax private activity, including private investment and capital income. This alternative perspective, developed in detail in my papers with Manuel Amador and Gita Gopinath, predicts that public borrowing *crowds out* private investment and retards growth. This is consistent with the scatter plot of Chart 2. It also makes a sharp distinction between public and private flows, a feature also consistent with the data. Chart 2 implies that over the long run, countries with low *trend* growth rates tended to borrow more.

The preceding focused on the period in which countries dramatically increased their debt. As noted, the latter half of the sample shows a decrease in debt to income, on average. The correlation depicted in Chart 2 does not hold for the later period. In fact, countries that decreased debt relatively more had slower growth in the period 2004–22. One issue with the latter sample is that the reductions in debt sometimes resulted from debt forgiveness or default and restructuring. The data suggest that starting from low debt (as most countries did in 1970) is inherently different from low debt due to forgiveness or default. That is, the

PREVIOUS SPREAD: LOUISA GOULIAMAKI / AFP VIA GETTY IMAGES

level of debt matters, but so does the history that led to that level of borrowing.

This suggests that countries that have large levels of debt differ along many dimensions besides debt. Indeed, countries differ in political institutions, which in turn induces differences in the level of debt. The ideal experiment would change the stock of debt without changes to other underlying fundamentals. In the absence of such an experiment, the best we can do is combine theory and data to distinguish cause and effect. Doing so makes a strong case that government debt crowds out investment and lowers growth. The neoclassical paradigm, in which debt and investment go hand in hand, faces a tougher challenge when confronted with the data.

### Smoothing volatility

The neoclassical paradigm also holds that sovereign borrowing allows countries to smooth fluctuations in income. This is also counterfactual in the sense that over longer horizons, countries that borrow show more volatility in government expenditure and private consumption. In particular, there is a positive relationship between changes in debt and volatility of spending, indicating that more borrowing is associated with more volatile public spending. Again, this is contrary to the “smoothing” motive for borrowing predicted by the standard model.

One consideration is whether countries borrow due to large negative shocks, such as natural disasters or military conflict, generating a positive correlation due to luck rather than policy. Again, this is why it is important to have a long enough time series to smooth out the effects of temporary shocks. If a country frequently experiences large, negative shocks, they eventually come to be expected, and governments should respond by building up a buffer stock of reserves to be drawn on when necessary, rather than increasing debt levels. Clearly, this is not the case on average in the sample of countries depicted in the chart.

The data suggest that sovereign borrowing is associated with lower long-run growth and investment and greater volatility in spending. This runs counter to the neoclassical conventional wisdom but is consistent with a model of present bias due to political turnover combined with capital taxation. In short, sovereign borrowing generates volatility rather than smoothing it, and it is a drag on growth, rather than a means to tap into global savings to fund investment. We now turn to the question of whether the citizens of emerging market and developing economies would be better off if their governments had zero access to sovereign debt markets.

“Sovereign borrowing may actually leave citizens worse off, increasing volatility and lowering investment.”

### Welfare consequences

There has been a large literature developing quantitative models of sovereign debt. This class of models can successfully replicate key empirical patterns, including large run-ups in debt and subsequent defaults. The key ingredient in these models is that the government faces a volatile income process and taps into international debt markets to delink spending from revenues. If the government defaults, it is excluded from international debt markets for a period of time and suffers a reduction in output, reflecting the disruption of trade and financial markets often associated with default. Given the costs involved in default, and the shocks to income that may induce default, there is the question about why governments borrow rather than build up a buffer stock of reserves. Typically, the models assume governments are much more impatient than lenders, and thus their present bias leads them to default.

A few features of the models’ prediction are worthy of note. One is that governments default when debt is high and output is low. Second, lenders price debt with a view toward breaking even on average; in particular, interest rates are higher than the comparable risk-free bond, but lenders only get paid if output turns out to be relatively high. This implies that bond prices vary over the business cycle, with the spread over risk-free interest rates increasing when a recession is likely, and decreasing in a boom. This induces the government to borrow *more* in a boom than a bust, the opposite of smoothing income shocks. Thus, government consumption goes up in booms, partly due to the increased income and partly due to the additional borrowing. This is the procyclical fiscal policy observed in many emerging market and developing economies.

With the models in hand, we can ask a simple question. If the private citizens are relatively patient compared with their governments, does access to sovereign debt markets increase or decrease the welfare of the population? Would the typical citizen prefer a government that has to balance its

## “The value of sovereign debt markets to the borrowing countries is ambiguous, whether viewed from the perspective of the data or quantitative models.”

budget year to year over one that can borrow or save? Simple calculations following my paper with Manuel Amador and Stelios Fourakis show that a modest amount of disagreement about how to discount the future generates the striking result that the citizenry would be better off if the government was denied access to debt markets. The extra volatility induced by procyclical borrowing and subsequent default is not in the best interests of private agents if they are not as present-biased as their governments.

This raises another question: Would making debt markets more efficient improve welfare? If citizens and their governments agree on how to evaluate the costs and benefits of borrowing, then the answer is a clear yes. If there is disagreement, however, then removing frictions to make credit markets operate more smoothly may only make matters worse.

### Lenders of last resort

Take, for example, the fact that debt markets are vulnerable to runs (or self-fulfilling panics). Specifically, a government that needs to roll over maturing debt must find a willing set of new bondholders that enable it to repay maturing debt without issue. Otherwise, it experiences a failed auction in which it cannot sell new bonds and thus is forced to default on maturing bonds. Either outcome may happen, depending on lender beliefs about how other lenders will behave. This mechanism is the same as a classic bank run. The typical policy prescription is to have a third party (in the international context, for example, the IMF may play this role) promise to lend if there is a failed auction. Lenders then have no need to worry about default due to self-fulfilling panics, and actively participate in bond auctions. Thus, the panic outcome can be eliminated.

Without such a third-party lender, other lenders demand a high premium to cover the risk of a run. This limits the amount an impatient government is willing or able to borrow. The advantage of this is that it constrains an impatient govern-

ment's borrowing, increasing the welfare of the average citizen. The disadvantage is that there may still be a run, after which the citizens bear the costs of default. Again, calculations using a model with runs indicate that if the citizens are not excessively impatient, they may prefer a world *without* a lender of last resort. While the country is exposed to panics, the benefit is that the government cannot easily borrow.

The value of sovereign debt markets to the borrowing countries is ambiguous, whether viewed from the perspective of the data or quantitative models. With small differences over the rate of time discounting or risk-reward valuations, it may be that access to sovereign bond markets leaves economies worse off. The political economy distortions in many developing or emerging markets are severe enough that governmental access to global capital markets turns out to be counterproductive, increasing volatility and lowering investment. Even something like a lender of last resort that can unambiguously identify a panic may make things worse, not better.

This conclusion is undoubtedly provocative. It is not meant to be the last word on the subject. Rather, the approach is to use data and theory to show that the welfare calculus behind the conventional wisdom may indeed be wrong. There should be a heavy dose of skepticism of the promises made by the neoclassical paradigm. The implication for practical policymaking is to proceed with extreme caution in facilitating borrowing in developing and emerging markets. This may involve raising the threshold for interventions in a crisis or reconsidering the welfare costs of direct lending. It also calls for more research into the costs and consequences of sovereign borrowing. **F&D**

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**MARK AGUIAR** is the Walker Professor of Economics and International Finance at Princeton University. He is also the director of the International Economics Section.

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# The Messy Legacy of Harry Dexter White

James M. Boughton

**IMPORTANT CONTRIBUTIONS BY ONE OF THE INTERNATIONAL MONETARY FUND'S MAIN FOUNDERS ARE OFTEN OVERLOOKED**

**W**e cannot expect a boy to do a man's job," Harry Dexter White wrote of the IMF just two years after it opened, calling on both it and the World Bank to have the capacity to match their responsibilities. "The job has grown to giant size, while the man to handle it has, figuratively speaking, shrunk to a mere boy."

Had the product of Bretton Woods—which White was so instrumental in creating—really gone wrong so quickly? And if the IMF was not up to the job at the outset, how can we be sure that it will be the right institution to oversee the international financial system in the 21st century?

The first question, of course, is who was Harry Dexter White? The answer has long been an intriguing puzzle. John Maynard Keynes's first biographer, Roy Harrod, put it succinctly: "In Britain, [White] is too often thought of as some dim scribe, some kind of robot, who wrote... an inferior version of the Keynes plan—mainly to vex the British! Far different was the real man. He was a remarkable

figure, who should be accorded an honourable place in British annals." Even in White's own country, the United States, he is frequently portrayed as a junior partner to Keynes and as possibly disloyal to his country, neither of which is true.

White was born in Boston, Massachusetts, in 1892, the seventh and last child of Lithuanian immigrants. His education was interrupted multiple times, as he was orphaned and compelled to work at an early age; he then enlisted as an officer in the US Army and served in France during the First World War. Persevering, he earned a doctorate in economics at Harvard University when he was 40. Soon afterward, in 1934, he accepted a junior position at the US Treasury, where he rose rapidly through the ranks. By the time the United States entered World War II in 1941, he was the Treasury's chief economist.

The Treasury secretary, Henry Morgenthau Jr., asked him to develop a plan for organizing postwar economic and financial relations with the rest of the world. That led to the Bretton Woods conference

in 1944, at which the 44 allied countries adopted what was essentially the White plan as the blueprint for the IMF and the World Bank. In 1946, White became the first US executive director of the IMF, but his health deteriorated rapidly, and he died of a heart attack in 1948.

## Peace and prosperity

White's vision for the IMF was that it would foster international financial cooperation so that countries would be able to trade freely and develop their economies. Perhaps his most famous statement was that "prosperity, like peace, is indivisible." The message to his fellow Americans was that the US economy could not thrive unless people and companies in other countries could buy its output. To ensure that all the allies would support his plan, he insisted that they all have an opportunity to contribute to the design.

Keynes, by contrast, wanted to cook up a deal between the United Kingdom and the United States and present it to the other allies. Keynes feared that a large conference would be a "most monstrous monkey house." White organized a series of meetings for smaller groups of countries before bringing more than 700 delegates together in New Hampshire.

The Bretton Woods conference lasted three weeks. It was not a monstrous monkey house, and it succeeded in creating the two great financial institutions. But White quickly became disillusioned about how well the IMF was equipped to carry out his vision. What went wrong?

What worried White was that neither he nor anyone else at Bretton Woods had imagined that the world economy would grow by leaps and bounds after the war. They had known only depression, volatility, financial chaos, autarky, and war. All they hoped to do was to restore stability and get back to a predepression level of activity.

Within two years, as international trade recovered from depression and war, and as the onset of the Cold War put additional pressure on national budgets, the potential demands on IMF resources were large. The IMF was too small to satisfy them. White responded with a proposal for a new international financial asset he called "trade dollars." It was not enacted at the time, but it was a prototype for the special drawing rights (SDRs) two decades later. Today, the SDR is recognized as a crucial component of the IMF's tool kit for helping countries manage their finances.

The dynamic world economy is not the only factor that has forced the IMF to evolve away from the vision White brought to Bretton Woods. In the 1940s, private sector financial transactions such as international bank loans and internationally



Harry Dexter White, one of the two great intellectual founders of the IMF and the World Bank.

sold bonds were practically nonexistent. They had been decimated during the Great Depression of the 1930s and then further crushed by the world war. The possibility that they might again become important was widely viewed as a hot money threat to economic stability.

White and Keynes agreed that the IMF should discourage countries from being open to capital flows. The Fund's charter specified that countries could borrow from the IMF only to finance trade deficits, not to counteract large capital outflows. It also authorized the IMF to require countries to impose capital controls when necessary. But the global economy changed as it grew. Because bank loans and international bonds became more widely used to finance trade between countries, the IMF eventually reversed course and began urging most countries to open their financial markets to foreign competition. Today, the IMF takes a more cautious approach, recognizing both the benefits of openness and the risks of volatility and loss of control.

## International commerce

White's vision for the IMF was strongly motivated by the ideal of universal participation in international commerce. That was impossible in 1944, because the world was split between the Grand Alliance and the Axis forces in the world war, and most low-income countries were under colonial rule. Part of White's vision was to encourage the enemy countries to join later, once they were ready to accept the terms of membership. That vision was realized gradually, spurred on by the accession of Germany and Japan in 1952. Decolonization led directly to an even greater increase in membership, from 40 countries in 1946 to 190 countries today.

Still another part of his vision was to preserve the core of the Grand Alliance, which was leading the war effort—including the Soviet Union. In an unpublished manuscript written in 1945, White argued that “no major war is possible unless [the United States and the Soviet Union] are on opposing sides... The major task that confronts American diplomacy—and the only task that has any real value in the major problems that confront us—is to devise means whereby friendship and military alliance can be assured between the United States and Russia.”

Within three years, that dream was dashed by the onset of the Cold War. The Soviet Union never joined the IMF, nor did much of the Soviet bloc in central and eastern Europe. Only after the dissolution of the Soviet Union in 1991 was this part of White's vision finally realized.

Although White wanted every member country to have a voice in governance, he also took the very practical view that financial control should be in the hands of the major creditor countries that would be supplying the IMF's financial resources. In the run-up to Bretton Woods, he scorned Keynes's efforts to give debtor countries—especially the United Kingdom—a controlling voting power. At the outset, most of the IMF's usable assets came from the United States, and the US Treasury was by far the most powerful force behind its policies and its work.

To compensate for this level of control, White insisted that the many small and mostly poor members should have at least 10 percent of the voting power. The dominance of large countries has waned over the decades, but the United States and now the European Union still hold the reins. Even though the number of small member countries has risen greatly, their share of voting power has been eviscerated.

Overriding all these issues was the question of the fundamental purpose of the IMF. On that issue,

Keynes and White were in full agreement: the IMF was to be what we would now call a “Keynesian” institution. That is, its purpose was to promote prosperity through sound and effective policymaking and by helping countries avoid actions “destructive of national or international prosperity.”

## Sound policies

Through the years, the most persistent criticism of the IMF has been that it is perceived as promoting austerity rather than economic growth. The IMF's essential defense is that prosperity cannot be sustained unless it is underpinned by sound policies. Countries in economic distress must often undergo short-term pain before they can achieve longer-term success. Keynes and White would both have supported that view, but the question remains as to whether the balance is right: How much pain is needed to get as much gain as possible? Without a séance to reach the ghosts of the intellectual giants, both of whom died young in the very early days of the IMF, we can only speculate on how severe their criticisms might have been.

Finally, what about that charge of disloyalty? During the postwar Red Scare, two former members of the Communist Party of the United States accused White of being a Soviet agent and of passing secret documents to Soviet intelligence. Although the evidence for those charges was always flimsy, they gained credence because the cases against some of White's friends and colleagues were stronger.

Guilt by association was very much in vogue at the time.

White also was suspect because his duties at the Treasury brought him into frequent contact with Soviet officials throughout the war (when the United States and the Soviet Union were allies) and especially in the planning for the Bretton Woods conference. As more recent evidence has accumulated, it has become clear that White was a target of Soviet prying for information, not an agent for their interests.

Throughout his life, White never sought the limelight. Bretton Woods endowed him with a little fame that was greatly overshadowed by that of Keynes. Posthumous attacks badly tarnished his reputation. Ultimately, though, his legacy must rise or fall with the value of his greatest achievement, the IMF. **F&D**

“Ultimately, White's legacy must rise or fall with the value of his greatest achievement, the IMF.”

**JAMES M. BOUGHTON** is a senior fellow at the Centre for International Governance Innovation and formerly historian of the IMF. He is the author of *Harry Dexter White and the American Creed*.

# A New Economics of Industrial Policy

Réka Juhász and Nathan Lane

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## SUCCESSFUL INDUSTRIAL POLICY MUST ACCOUNT FOR POLITICAL ECONOMY

Once relegated to the junk heap of economic ideas by mainstream policymakers, industrial policies, or state actions to change the composition of economic activity, are making a comeback. In the United States alone, major new industrial policies grapple with the green energy transition, geopolitical competition, and supply-chain resilience. And the US is not alone; it's part of a global renaissance of industrial policy.

Industrial policy is back in advanced economies, but so are questions about its merits, drawbacks, and practicality. Yet these debates don't address the wide variation in global practice, why policies succeed or fail, or which policies are feasible in the real world. Although new literature has started to update our empirical understanding of these policies, we argue that this "new economics of industrial policy" (Juhász, Lane, and Rodrik, forthcoming) calls for serious consideration of the political forces behind policymaking.

Politics imbues industrial policymaking, sometimes more so than in other areas of economic policy. Since industrial policies have concentrated benefits and diffused costs, their allocation is often politi-

cally fraught. They may also lead to rents that are subject to lobbying. Transformative policies can be politically controversial and may threaten incumbents who rely on the economic status quo.

Although market failures and economic constraints may shape policy choices, so do policymakers' political incentives. Thus, economics alone cannot explain the vast differences in experiences with industrial policy. The industrial policies that go into effect are those that correspond with our political world, yet modern political economic analysis of this area is sparse.

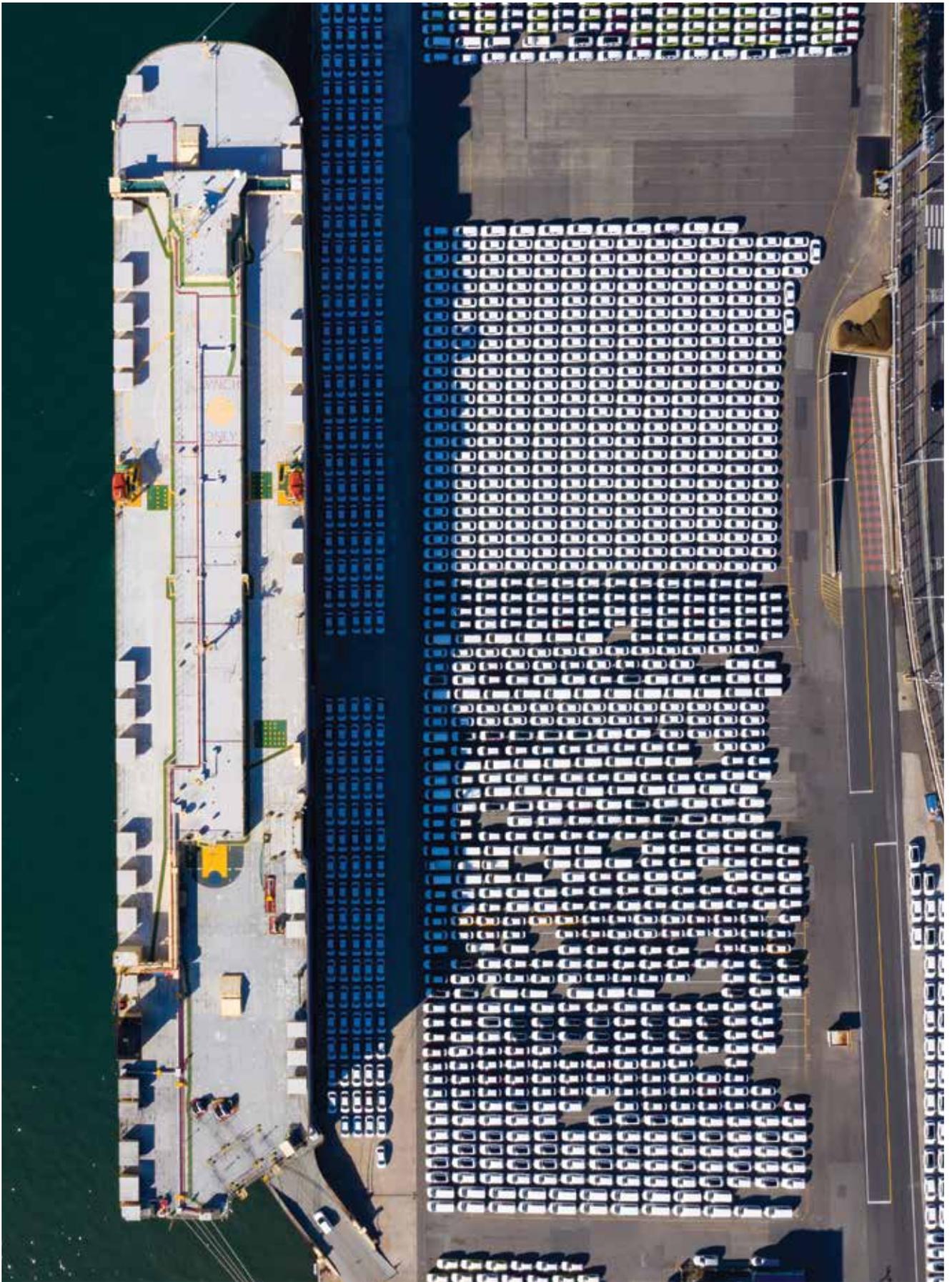
### Optimists and skeptics

New empirical work in economics, which, along with Dani Rodrik, we call the new economics of industrial policy, shows that some episodes of industrial policy have delivered large, positive, and, at times, transformational effects.

The Heavy and Chemical Industry push under President Park Chung-hee in the 1960s set out to transform South Korea into a heavy-industry powerhouse—a proposition so fantastic that no external funder, including the World Bank, was willing

Hyundai Motor Co. vehicles bound for export await shipment at a port near the company's plant in Ulsan, South Korea.

SEONGJUN CHO/BLOOMBERG VIA GETTY IMAGES



to finance it. This initiative drove increased output and export development in targeted sectors, shifted comparative advantage toward these same sectors, and made the economy better off—just as policymakers had envisaged (Lane 2022).

Postwar Italy pursued a decades-long massive industrial policy aimed at jump-starting development in lagging southern regions. The policy launched durable clusters of economic development both in targeted high-skill manufacturing jobs and the knowledge-intensive service jobs that emerged to support them (Incoronato and Latanzio 2023). It is estimated that the policy raised national industrial production, which suggests that it did more than merely shift production from untargeted to targeted areas (Cerrato 2024).

Yet not all industrial policy has the scale and scope of these efforts. Case studies from Latin America show that much-smaller-scale industrial policies contributed to export market success (Sabel and others 2012). Examples include cargo flights by state-owned airlines to transport flowers from Colombia to the US export market, as well as collaboration between private growers and research and extension services in agriculture to bring soy cultivation to the northern savannas of Brazil. Similar proof-of-concept demonstration projects show signs of success in Africa (Bienen and Ciuriak 2015). One example is a multipronged policy to promote cut flower exports in Ethiopia.

The new economics of industrial policy has revealed its potential, but skeptics rightly point to the many flops that litter development economics. The debacles of industrial policy in postindependence African countries and the disappointing performance of Southeast Asia's "Look East" policies have informed thinking about government failures: interventions that introduce more inefficiencies and distortions than they resolve. Where market failures justified industrial policy intervention, government failures repudiated them. Concern surrounding government failures and industrial policy coalesced at the crest of big development in the 1970s. After decades of enthusiasm, developing economies found themselves, in the words of Anne O. Krueger, "mired down in economic policies that were manifestly unworkable."

The risks and failures around industrial policy are real. However, economists' skepticism has translated into strong and deterministic claims. If government failure is an endemic feature of industrial policy, there is little reason to pursue it. Nor are there reasons to question success. At the extreme, economic pessimism has culminated in whole cloth, impossibility theorem-style rejections of industrial strategy. Some scholars have argued that industrial

policy is impossible—best exemplified by economist Gary Becker's 1985 assertion that "the best industrial policy is none at all."

For decades, much mainstream economics embodied varying degrees of this view. The debate over whether to pursue industrial policy left little room for understanding of the conditions for success, much less the means. Political economy may lie at the heart of mainstream economics' traditional theory of failure, but its deterministic nature rules out a consistent account of success.

## Mind the constraints

Yet taking politics seriously helps us understand the wide variations in industrial policy's successes and failures. On one hand, successes were supported by the domestic political environment. Sound policies were politically feasible, were favored by those with power, and worked within the parameters of the state's administrative capacity. On the other hand, policies that were incongruent with the political world at the time failed. Restated in the language of modern political economy, government failure is most likely when industrial policy choices violate political economy constraints.

In practice, industrial policy is constrained by both politics and state capacity. Policy decisions are shaped by political institutions and those with political power and by their underlying incentives. Societal conflict means that policies implemented are often far from ideal in economists' eyes. Even growth-enhancing policies may not be politically viable. For example, new export-promotion policies may threaten both incumbent industries reliant on import protection and their political benefactors. The most efficacious policies may be those facing the steepest political resistance.

State capacity is manifest in state administrators' ability to implement policies in the real world. Even if fortuitous politics promote the adoption of good industrial policy, a government must still be able to implement it. For example, the successful export policies of one environment may entail a platoon of skilled administrators, detailed data on export performance, and more. Implementing such policies in a low-capacity environment may be entirely impractical without more investment in administrative capacity.

Through the lens of these governance constraints, the East Asian miracle was as much about the political environment as it was about the policy mix. South Korea's political environment in the 1960s and 1970s supported outward-oriented industrial policies and the controversial reforms they required. The country's all-out export-based industrial policy was forged under external duress;

enduring military threats from North Korea aligned political and industrial elites, and recurring balance of payments problems made early import-substitution industrial policy unsustainable.

Such conditions fed political demands for new policies to spur industrialization and a sustainable source of export revenue. South Korea's political climate allowed it to pursue a total export push that entailed devaluation and investments in competitive bureaucracies.

Thus, the East Asian miracle is miraculous not because of the export-oriented industrial strategy per se, but rather because of the fortuitous political environment that allowed it to emerge. The political economy constraints on large-scale, sweeping policies—such as those behind the East Asian growth miracle—can be binding in many cases. Duplicating policies without understanding their compatibility with local political constraints often leads to failure. The incomplete adoption of East Asian industrial policies in Malaysia and Thailand is a case in point.

Industrial policies, thus, should be considered within the constraints imposed by the political world. Best practices can be gleaned from others, but understanding the politics at play is critical.

### Lessons for policymakers

Given this context, we highlight three key lessons for success with industrial policy.

First, policymakers should carefully evaluate how industrial policy aligns with the domestic political environment. They must consider who will benefit, who stands to lose, and how political incentives support good policies. It is important to consider how policies implemented today will change the future political environment and which are most likely to hold up across political cycles.

Second, countries' ability to implement various industrial policies differs vastly, in ways beyond direct political constraints. Such policies must be tailored to administrative and fiscal capacity. For example, developing economies may not have the fiscal capacity today to implement green industrial policy with the tools currently deployed in advanced economies. Since there is no one-size-fits-all approach, we should expect industrial policies to differ across countries.

Third, industrial policy almost always requires investment in administrative capacity. This was true in South Korea in the 1960s and 1970s, when the government centralized bureaucracies and invested in administrative capacity, and it is true today. For example, the US Department of Energy Loan Programs Office has expanded to disburse 10 times more funding since enactment of the Infla-

tion Reduction Act. (The office also claims that its administrative processes and institutional safeguards are much improved since the ill-fated decision to fund Solyndra over a decade ago.)

Overall, we agree with the critics of industrial policy who say that ignoring politics is perilous. A pessimistic reading of this criticism is that the political stars must align—and such circumstances are rare. An exceptionally conducive political environment may be necessary to pursue the scale and scope of policies used across postwar East Asia, but that is not the point. Carbon copies of these policies are not necessary; smaller-scale successes across the globe attest to that.

To us, this suggests that the risks of government failure can and have been overcome in the past. When industrial policy is chosen to work within the local political and governance constraints, and when the state aggressively invests in building the required administrative capacity to deploy and monitor industrial policy, the odds are stacked for success.

There is still much to learn about the “how” of industrial policy. The literature is only beginning to explore empirically the diverse and rich experience of industrial policy; more measurement and evaluation are essential. Economists and policymakers must focus not only on the market failures and the policy mix, but on the politics as well. **F&D**

**RÉKA JUHÁSZ** is an assistant professor of economics at the University of British Columbia.

**NATHAN LANE** is an associate professor of economics at the University of Oxford. They are cofounders of the Industrial Policy Group.

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*An  
Economist's Pledge  
for People, Planet,  
and Progress*

The Philosophical Theorist

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**WE ENTRUST ECONOMISTS WITH THE HEALTH OF  
THE WORLD ECONOMY. SHOULD THEY, LIKE MEDICAL  
DOCTORS, TAKE AN OATH OF ETHICS?**

I am but one drop amid many in the vast ocean of social, political, and economic realities. Yet, bearing the essence of the entire ocean, I will carry out my duties with detachment, free from emotional ties to outcomes or to the allure of recognition.

As I dedicate myself to understanding our world and enhancing individual freedoms, informed by past wisdom and the universal principles that bridge human experiences, I pledge to set aside my fleeting urges and elevate my feelings, thoughts, and actions toward wisdom, liberty, and service.

### People behind the numbers

I will always remember that behind the numbers and codes there are people with dreams, aspirations, and needs.

### Tradition and freedom

In crafting policies, I will respect local traditions, yet be informed by universal human freedoms, while ensuring that my values guide but do not dominate.

### Humble listening, thoughtful speaking

With imagination and curiosity, I will aim to uncover unseen layers of people, places, and ideas, valuing understanding over quick judgments.

### Diversity in understanding

I will honor truths from diverse voices, regardless of background, eloquence, or identity.

### Mindful of motives, yet objective

I will be honest about my personal leanings, politics, and ambitions while making a sincere effort to anchor my work and advice in objectivity.

### Truth through data

I commit to using data to uncover and measure the deeper truths of our economic lives, even before I look for cause and effect.

### Grit and grace in learning

I promise to continuously hone my expertise, learn from missteps, and stay open to fresh insights, even those that question my core beliefs.

### Progress with perspective

Beyond the promotion of individual and national incomes, I vow to enhance progress rooted in human well-being and inclusive prosperity.

### Clarity amid complexity

I will communicate my insights clearly and without pretension so that complex ideas are both accessible and respected for their intricacy.

### Shared stewardship

Engaged with civil society, I will spur broader participation in economic dialogue, emphasizing our shared stake in the economic future.

### Principled pragmatism

Real-world constraints may push me toward quick wins or voter-safe solutions, but I will strive for policies rooted in sound principles and social welfare.

### Mentorship for tomorrow

By guiding and inspiring future economists, I will ensure that the torch of wisdom and curiosity shines brighter across eras.

### Future focus

I will endeavor to shape an economy that benefits the planet and future generations, placing suitable value on the distant rewards of sustainable growth.

### Seeing the unseen

Aware of potential distortions from varying interests, I will remember the unrepresented, weighing visible benefits against unseen costs for silent stakeholders.

### Principled path

Even in the absence of external rules or laws, my ethical stance will remain steady—advance progress or avoid harm and never forget my work's societal implications.

With this pledge, I hold in my heart a commitment to apply my knowledge and efforts for the greater good, ever conscious of my duty to people, planet, and progress.



GILLES SABRIÉ

## People in Economics

# The Internationalist Economist

Henny Sender profiles **Zhu Min**, China's "international civil servant" who builds bridges with the West

**THE WORLD HAS NEVER WORKED THE WAY** economists may wish. Today, though, the world seems to represent the antithesis of everything Zhu Min believes and has worked toward, whether during his long tenure at the top of the IMF or at the heart of the policy debate in Beijing.

The IMF, like Zhu himself, has always stood for a borderless world where capital, people, technology, and trade flow fairly freely. It's not surprising, therefore, that Zhu believes the biggest challenge facing this polarized planet—and the IMF itself—is anti-globalization.

"The world has changed," Zhu concedes. "Yet the world still needs an international organization and a decent policy broker. Since I came to the IMF, I have stood for cooperation and financial stability. We are so interconnected; spillovers are everywhere."

He is speaking over a seafood hotpot in a Beijing compound on a glorious spring day as tourists and residents stroll beneath cherry and peach trees blossoming under cloudless blue skies.

There is little of the theoretical economist in Zhu. Even now, eight years after he left the IMF following a fixed five-year term as a deputy managing director, Zhu identifies closely with the institution. "He is first of all an international civil servant," says his former colleague Yan Liu, now deputy general counsel at the IMF.

Born in Shanghai in 1952, Zhu was caught up in the cultural revolution before earning a degree in economics from the prestigious Fudan University in 1982. As China relaxed restrictions, Zhu moved to the United States, where he completed a master's in public administration at Princeton and a doctorate in economics at Johns Hopkins. He worked as an economist at the World Bank in the early 1990s, before returning to China to, he says, help rid the country of the poverty that he experienced.

After rising through the ranks of the state-owned Bank of China, he became deputy governor of the People's Bank of China in 2009.

With China's increased economic clout, it was inevitable that the IMF would seek to bring a senior Chinese official to Washington. Yet, in 2010, when Zhu, then 58, became a special advisor to the then managing director, Dominique Strauss-Kahn, and then a deputy managing director under Christine Lagarde, nobody could have predicted how quickly Zhu would adapt to his new home, nor the way he would make the IMF more responsive to the needs of all its member nations.

"Min is water," says Siddharth Tiwari, who was then at the IMF's Strategy, Policy, and Review Department, referring to Zhu's adaptability and his ability to survive under the most challenging circumstances.

"He came from a domestic Chinese system... and yet was able to totally integrate himself to an international financial network and an idiosyncratic institution. He is a person who shows that diversity brings strength not fragmentation."

Zhu's love for the institution is not unconditional, however. He believes the IMF must transform itself to rise to the challenges facing both the world and the institution itself, and to remain relevant as an honest broker. "The IMF has to think about its own independence and identity and commitment to the global commons," he adds. "It needs to reposition itself."

But can it? And will its largest shareholder, the US, allow it to do so?

Since Zhu left the IMF, China has changed a lot, the institution not so much. "Min represents the way things worked in China's boom time. His formative years were when growth and reform were the primary concerns," says one former IMF official who knows Beijing well. "It was all about integrating China with the world and a technocratic governance system in Beijing."

## Cultural revolution

Zhu himself rarely refers to the searing circumstances that shaped him growing up in Shanghai during the cultural

# "Zhu has always served as the mediator between China and the West. Can he bring China and the IMF to a middle ground of consensus?"

revolution. Few of his generation of the urban elite did. "The cultural revolution meant suffering," says Liu. "It either crushed you or made you stronger."

For most of that turbulent decade, from the mid-1960s to the mid-70s, Zhu worked in a fish-canning factory in the city. He was, at least, more fortunate than his brother, who was sent to the countryside of impoverished Anhui province. Neither sibling ever graduated from high school but both managed to get into Fudan University after a 10-year hiatus in which all universities remained shuttered.

Yet, at least on the surface, Zhu displays few of the scars that mark his contemporaries, whose anger at the loss of the best years of their youth and lack of trust in all but the closest family members lie close to the surface.

He is *yuan hua*, says Helen Qiao, now Hong Kong SAR-based head of Asian economics for Bank of America, by which she means, he is like a pebble in a stream that has been smoothed by years of adversity. "Like many people from Shanghai, he isn't open about what has shaped him."

He would never say so, but Zhu displays few of the character traits that many Westerners (rightly or wrongly) associate with elite members of the mainland government: the hierarchy, the stiffness, the language of politi-

cally correct campaigns. Indeed, he is almost self-effacing.

Zhu is most often likened to former central bank governor Zhou Xiaochuan in their shared idealism and embrace of change. But the styles of the two senior officials differ markedly. "Min was always a team player. He played an advisory role and took a softer approach," says the former IMF official. By contrast, "Zhou was always the aggressive reformer, always out front."

At the IMF, Zhu quickly left his mark on key initiatives. In his first year, he helped bring about a 6 percent shift in quota shares to emerging market and developing economies, giving them greater sway over the institution. Then, in 2015, he pushed for the inclusion of the Chinese renminbi in the basket of currencies that determine the value of special drawing rights, international reserve assets created by the IMF. Both were important reforms.

At one point, when the IMF was under pressure to help with the euro area debt crisis, Zhu was instrumental in persuading China to contribute \$4.5 billion to the cause. "It was by far the largest contribution," Tiwari recalls. "Few Chinese could have the heft to do this."

Zhu has always been both inclusive and practical, even as he preferred to work behind the scenes. "The institution

was always so rigid,” says a second former IMF official with years of experience on the mainland. “He looked to have an impact where he could make a difference. He was the one who worked to give small island member states a voice.”

In addition, Zhu embraced the civil society aspect of life in Washington. He was constantly engaged in the volunteer activities that characterize American life, creating a book club (inspired by the two sons of his secretary, Malinee Ramiscal) and repairing and renovating housing on weekend missions to the poorer neighborhoods of his new home city.

Before returning to Beijing when his term ended, everyone from the electrician who changed his light bulbs to Tiwari received gifts to remember him by. (He presented Tiwari with a huge cloisonné vase that sat in his office. Every four years, Ramiscal, who was born on leap-year day, receives flowers from her former boss.)

### Reforming mission

It has been eight years since Zhu returned to Beijing, where he is now deputy chairman of the China International Economic Exchange Centre, a think tank. Yet he continues his mission to reform the IMF.

His call for profound change comes at an awkward time, however. This is because the dominant voice in the IMF comes from the US, which is turning ever-more populist and protectionist. And that in turn raises the question of whether the IMF can actually control its own fate—supposing it even has the willingness to do so.

For example, despite so-called US exceptionalism (a term Zhu avoids), economic power in the world today is shifting away from the US. But voting rights at the IMF do not reflect the reality that half of global GDP comes from emerging markets. “The governance structure and voting rights at the IMF are way behind on this,” Zhu says.

Today, “nobody has suffered more than China from failure to adjust to these new economic realities,” says another of the several former IMF officials who spoke about Zhu. “It is in line

with Chinese thinking and in line with the Global South.”

Moreover, at least indirectly, Zhu’s agenda challenges the dominance of the US—albeit in a way that will resonate with developing economies. For example, he is uneasy about the preponderance of the US dollar as the only currency with reserve status globally—a status that it maintains despite the explosion of the Federal Reserve balance sheet and the huge size of the fiscal debt. Instead, he wishes to see special drawing rights become more liquid and marketable.

He also believes that the needs of emerging market members are very different from the far narrower requirements of the small group of developed markets that set the IMF agenda in the past. The organization must broaden its focus from its traditional emphasis on current account balances, fiscal balances, and exchange rates to a policy stressing jobs and growth in the developing world while reducing income inequality. “It took me two-and-a-half years to get the board to agree to this,” he notes dryly.

In addition, Zhu wishes for the IMF to provide an early-warning system when crises are just beginning to emerge and then help build resilience through constructing regional safety nets. (Think of the Chiang Mai Initiative, which was formed shortly after the Asian financial crisis to provide multilateral swaps between the nations of Southeast Asia, Japan, South Korea, and China—and was in part meant to reduce dependence on the IMF.) Even more ambitiously, Zhu sees a coordinating role for the IMF in supporting carbon neutrality given the failure of both governments and capital markets to manage climate risk. “The World Bank can do projects,” he says. “But who can support global fiscal policy for financing the transition? Nobody is there.”

How realistic is this clarion call to action? Many recommendations go well beyond the IMF’s limited role today—and indeed it isn’t certain if any international organization has the capabilities Zhu calls for.

### Constructive cooperation

Zhu may define himself ultimately as a reformer working for a world in which countries cooperate to foster a sustainable financial system, and where capital flows smoothly and efficiently to bring about productive growth, but he also lives in a Chinese world.

“He has always been an advocate of international harmony,” says Eswar Prasad, who has known Zhu since they were both at the IMF. “He wants China to play a constructive role and have a balanced dialogue on matters such as how to restructure the international monetary system.”

But that mission today is complicated by contentious issues between the IMF and Beijing concerning both China’s role in debt resolutions involving third countries and the IMF’s criticism of mainland government economic policy. Moreover, in an increasingly polarized world, it isn’t clear whether to be balanced is to be seen as out of step with policy in China while at the same time running the risk of being seen in the West as a spokesperson for Beijing.

It is precisely Zhu’s role as a bridge in the past that makes him seem a bit of an anomaly today. Can Zhu, who has always served as the mediator between China and the West, bring China and the IMF to a middle ground of consensus?

“He understood two worlds and spoke two languages,” says one of the former IMF officials. “But the people who could play that role are less influential today. When there are fewer people willing to play that role, without the Mins of this world on both sides, the potential for disastrous misunderstandings is there.”

Zhu, however, remains optimistic and patient. “He always told us, it may take years to move the mountain,” says Liu of the IMF. “But if it takes a long time to move the mountain, don’t wait. Move yourself.” **F&D**

**HENNY SENDER** is a financial journalist and founder of *Apsara Advisory*, a financial consultancy in New York.

## Book Reviews

# High-Quality Growth

Vivek Arora

**DANIEL SUSSKIND'S NEW BOOK** is an effort to persuade a general audience that economic policy should broaden its focus from aiming primarily to boost GDP growth to considering the costs of such growth as well.

Susskind, of King's College London and Oxford, notes that economic growth has brought unprecedented gains in human prosperity and well-being across the world for over two centuries now. Governments place a high priority on GDP growth, regarding it as a summary indicator of economic strength associated with higher wealth, lower poverty, better health, and other benefits.

More recently, the urgency of climate change, inequality, and social fragmentation has led to concerns about the price of growth. The side effects of fossil fuels, which provide much of the energy for rising production, are clear. In many countries, higher inequality and a hollowing out of communities have accompanied growth and led to social and political fractures.

Policymakers must now confront the question of how to manage economies in a way that harnesses the benefits of growth while reducing the costs. Susskind's book is part of a growing body of literature that calls for economic policy to broaden its focus beyond income to considerations of social well-being that are wider and that also take the future into account.

Some people would ignore the trade-offs between growth and its undesirable side effects—denying that they exist and continuing with business as usual or, at the other extreme, reversing course on growth—but a more relevant discussion is how to manage the trade-offs. “It falls to us to confront the tradeoffs presented by growth's promise and its price,” Susskind writes, by ameliorating them where possible but, where that is not possible, accepting the need to choose between objectives.

For example, policies could seek to induce technological progress that is more environmentally friendly and provide incentives to foster growth that is less reliant on fossil fuels. Susskind suggests that taxes and subsidies, laws and regulations, and social narratives and norms are among the instruments that can be used. But, beyond a certain point, policymakers may simply need to accept that meeting climate and other social objectives could require slower growth. When it becomes necessary to choose among objectives, Susskind



**GROWTH**  
A History and a  
Reckoning

Daniel Susskind  
Belknap Press  
Cambridge, MA,  
2024, 304 pp.,  
\$29.95

*“Susskind's book is part of a growing body of literature that calls for economic policy to broaden its focus beyond income.”*

suggests leaving this choice “to the world of politics.”

Susskind casts his arguments in terms of things that “we” should do, which may assume a common set of interests. A practical difficulty for these proposals is that people's preferences about the right balance between growth and other objectives differ sharply across and even within countries in both the developed and the developing world. A common view may be particularly hard to find in polarized environments, although a framework is not discussed for how policy should take account of these differences in determining the trade-offs among objectives. These may be subjects for future work.

Some of the book's content will not be new to economists, who generally are familiar with the notion of trade-offs between growth and other objectives. The IMF, for example, incorporated climate change into its work relatively recently, but it has long recognized that the quality of growth is important. In 1994, then-Managing Director Michel Camdessus urged a need for “high-quality growth that... is sustainable, reduces poverty and distributional inequality, respects human freedom and national cultures, and protects the environment.”

Susskind's synthesis of these issues is a useful addition to the public discussion of growth in a longer-term context. As he says, “We must treasure the future as much as [we] revere the past.” **F&D**

**VIVEK ARORA** is deputy director of the Independent Evaluation Office of the IMF.

# Lessons from Keynes

Douglas A. Irwin

**FEW BOOKS IN ECONOMICS DESERVE** much notice a century after their publication. One that does is John Maynard Keynes's *The Economic Consequences of the Peace*, published in 1919. The short tract is a scathing indictment of the Paris Peace Conference after World War I and the reparations demanded of Germany. With its blend of sharp analysis, vivid prose, and polemic disgust, the book was an immediate sensation. It generated enormous controversy and made the English economist famous worldwide. The book is still remembered for lamenting the bygone era of pre-1914 globalization and its vivid sketches of the principal protagonists, including Georges Clemenceau, David Lloyd George, and Woodrow Wilson.

The 100th anniversary of *The Economic Consequences*, in 2019, was the occasion for a major conference in Cambridge, England. This volume is the result. The book brings together historians, political scientists, economists, and economic historians to weigh in on many aspects of Keynes's book and its enduring influence. The editors conceive of it as a "concerted reflection on the terrible events and the underlying factors that a hundred years ago undermined decades of unprecedented economic globalization, destroyed empires, and redefined the balance of power among regions and countries."

The editors open with a panoramic view of the past century. So much of the 20th century was shaped by the failure to establish a lasting order after World War I. Keynes was prophetic about the potentially catastrophic consequences of the Paris conference. The 1920s and 1930s were indeed terrible decades filled with economic and political turmoil, culminating in another disastrous world war in the early 1940s. Only after World War II was Keynes's vision of strong international economic institutions providing stability finally realized.

There are 16 substantive chapters. While there's not room to address them all, Michael Cox provides an informative chapter that sets out the reasons Keynes wrote the book and its reception once published. Cox notes that modern historians have been "generally quite critical of Keynes" and believe that he "just got a lot wrong." Keynes's work "continues to seduce people into thinking that Versailles was a total failure," while historians—having greater sympathy than Keynes did at the time for the constraints under which the negotiators were operating—view it as a flawed or incomplete success. Still, it is certainly the case that, as Harold James and Andrew Koger point out, "The Paris Peace Conference failed fundamentally in its objective of creating a durable and just world order."

Among economists, the book is best remembered for Keynes's claims about Germany's inability to pay the



**KEYNES'S  
ECONOMIC  
CONSEQUENCES OF  
THE PEACE AFTER  
100 YEARS**  
Polemics and  
Policy

Edited by  
Patricia Clavin,  
Giancarlo  
Corsetti,  
Maurice Obstfeld,  
and Adam Tooze

Cambridge  
University Press

Cambridge, UK,  
2024, 451 pp., \$155

punishing reparations bill and his analysis of the transfer problem. Keynes feared that in "demanding the economically impossible of Germany the allies would not only be hurting themselves... but would make any kind of European recovery impossible," as Cox puts it. In fact, the Treaty of Versailles in 1919 did not specify how much Germany should pay; the gap between what France believed it should pay and what could realistically be paid was simply too great. The figure was set only in 1921, and even Keynes thought that amount was more reasonable; in any event, Germany paid very little because the reparations schedule was revised in light of Germany's hyperinflation in 1923. But the political damage of attempting to extract a lot was done.

The debate about whether Germany was asked to pay too much in reparations is considered in several chapters. Peter Clarke assesses the views of Keynes's critics on this point. Simon Hinrichsen very usefully compiles data on past indemnities and reparations to put the Germany World War I case in historical context. In the end, Keynes was probably wrong about the capacity of Germany to pay but right about the political consequences of trying to make it do so.

The book, of course, deals with much more. Chapters are devoted to the responses to Keynes's book by economists and policymakers in Sweden, France, and Türkiye. Other chapters discuss Keynes as a foreign exchange trader, interwar international trade politics, the gold standard and the tripartite monetary agreement of 1936, the evolution of the international monetary system since 1919, and the evolution of Keynes's thinking on the international economy from 1919 to Bretton Woods.

This informative volume serves as a reminder that the international system always reflects a mix of economics and geopolitics. With the rise of economic nationalism today, and the associated concerns about international security, the book is, unfortunately, a very sobering reminder of the stakes involved. **F&D**

**DOUGLAS A. IRWIN** is an economics professor at Dartmouth College.

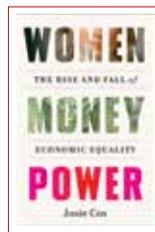
# Stepping Up for Equality

Lisa Kolovich

**WEAVING POWERFUL STORIES AND EYE-OPENING** statistics throughout the well-researched book *Women Money Power*, Josie Cox offers a thought-provoking exploration of the intersectionality of gender, wealth, and influence in contemporary society. Cox delves into this complex topic by examining issues ranging from gender discrimination in the workplace to the evolving landscape of female leadership in the corporate and political spheres. The book's engaging prose gives readers a better understanding of the persistent nature of gender discrimination while also spotlighting success stories of women striving for financial empowerment and equality.

One of the book's strengths lies in its comprehensive analysis of long-standing structural and cultural barriers that hinder women's economic advancement. Cox's telling of the story of Anna Mae Krier conveys how subtle biases, overt discrimination, and institutional inequalities are all driving factors in gender disparity in pay and promotions. Krier, along with thousands of other women in the United States, joined the industrial and military workforce during World War II, holding roles that had traditionally been filled by men but receiving half their wages. Yet despite demonstrating their capability and commitment, when the war ended, these Rosie the Riveters got pink termination slips rather than parades and accolades. The financial well-being and professional opportunities for millions of women quickly evaporated.

Cox continues her narrative by skillfully navigating the fits and starts of progress in gender-equal power and representation through the stories of other well-known, and in some cases virtually unknown, female activists, leaders, and game changers. Drawing from contemporary case studies and historical precedents, she traces the gradual but significant shifts in societal attitudes toward gender roles and expectations. Legal activists, reproductive rights champions, and civil rights pioneers all contributed in fundamental ways to breaking down gender norms and challenging stereotypes. The stories of Pauli Murray, Margaret Sanger, and Muriel Siebert, among many others, bring to life these struggles and successes. Cox, a financial journalist, also showcases the more recent evolving narratives



**WOMEN MONEY POWER**  
The Rise and  
Fall of Economic  
Equality

Josie Cox

Abrams Books

New York, NY,  
2024, 336 pp., \$30

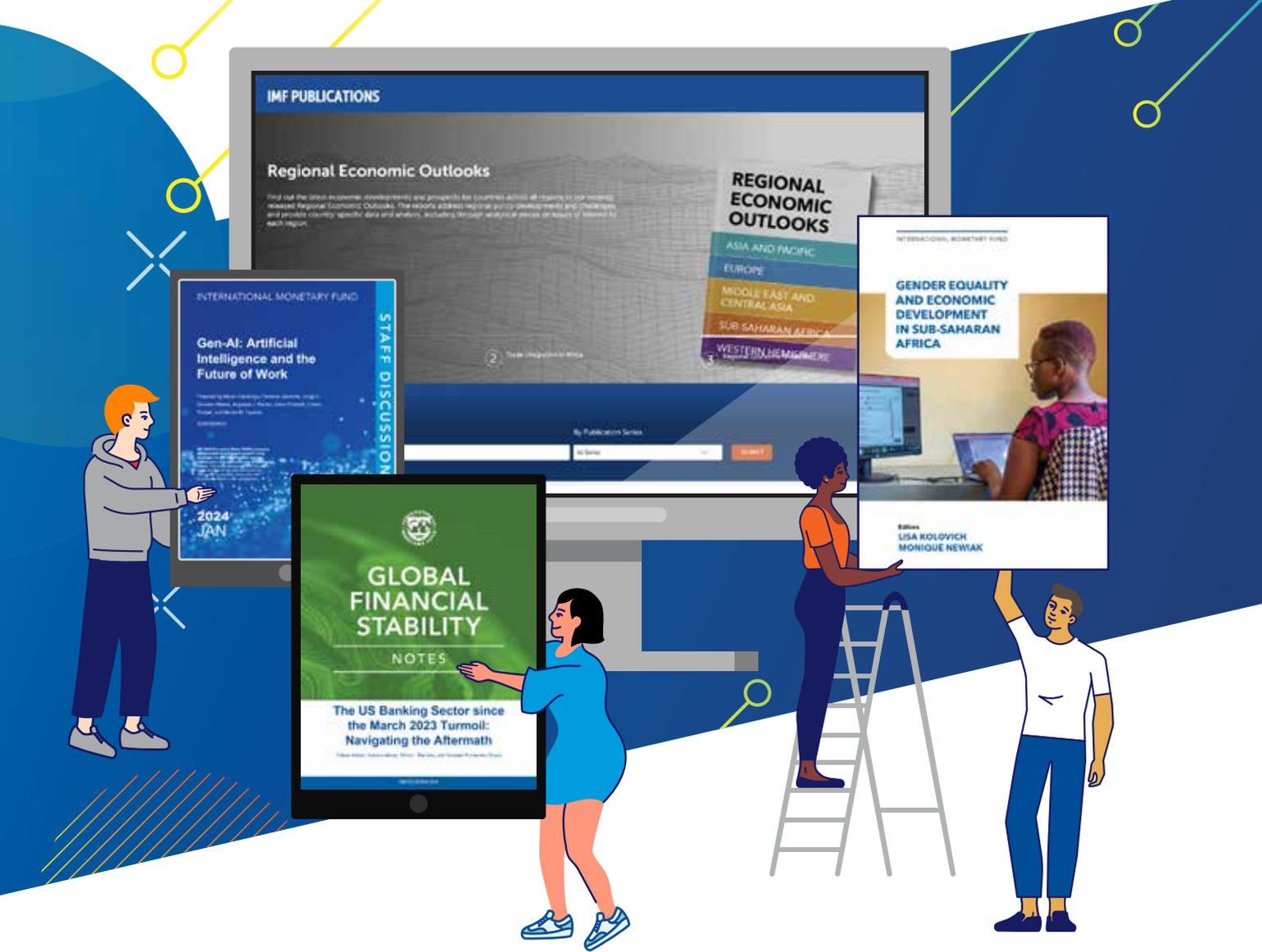
*“Cox offers actionable insights and strategies to advance gender equity in both the public and private spheres.”*

of women asserting their agency and reshaping traditional power dynamics. She spotlights the #MeToo movement's impact on workplace harassment and the rise of female corporate and political leaders.

Beyond documenting challenges, *Women Money Power* offers actionable insights and strategies to advance gender equity in both the public and private spheres. Cox advocates policy reforms such as pay transparency legislation, affordable childcare, parental leave policies, and reproductive rights as crucial steps toward a more inclusive and equitable work environment. Transformative shifts are far more likely when women have equal access to opportunities and resources; ultimately, gender equality can be a source and driver of greater economic and social prosperity.

While Cox's narrative is largely optimistic about progress in recent years, she does acknowledge persistent obstacles and setbacks. This balance gives the reader a clear picture of the complexity of gender equality and discrimination while still inspiring advocates to press on with resilience and determination. Her meticulous research and expert analysis shine in this compelling and empowering narrative. Ultimately, this book is both a call to action and a beacon of hope for a future where equality is a reality for all, regardless of gender. **F&D**

**LISA KOLOVICH** is a senior economist in the IMF's Strategy, Policy, and Review Department.



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# The Money Archive

Melinda Weir

*The Smithsonian's National Numismatic Collection is thought to be the world's largest of its kind*



Early coins and knife-shaped money from ancient Greece, Lydia, and China are included in the National Numismatic Collection in Washington, DC.

**HIDDEN AMONG THE VARIED WONDERS OF THE** Smithsonian Institution's National Museum of American History in Washington, DC, is an unassuming, storage-cabinet-filled room, known as "the vault," home to an estimated 1.6 million forms of physical money and transactional objects.

This is the National Numismatic Collection (NNC), believed to be the world's largest collection of its kind, featuring historical artifacts from around the world as well as the United States. Ellen Feingold, curator of the NNC, says these items "represent every inhabited continent, and they span more than 3,000 years of human history."

A small sample: a tiny electrum coin, the size of a stud earring, from 7th–6th century BCE Lydia, in present-day Türkiye. From China, a 2,000-year-old example of "knife money," a bronze, knife-shaped piece of money designed not for practical use but to *represent* something of value, and a 14th century Ming Dynasty-era banknote. Early banknotes from the American colonies, with their wide variety of motifs and inscriptions (including "'Tis Death to counterfeit"), and personal checks signed by early US presidents.

The collection's obsolete US banknotes feature diverse imagery beyond the typical Founding Fathers or Lady Liberty, according to Feingold. "You see symbols of industry, like shipbuilding and trains. You see a woman milking cows and a

child snuggling bunnies. You see images that are respectful and thoughtful, and others that are degrading and inappropriate from our lens," including depictions of slavery or stereotypical images of indigenous communities, she says.

As the world grows increasingly digital, there are lessons to be learned from these collections of physical money, Feingold believes. These artifacts reveal insights not only into political history but also into cultural ideas related to values, trust, artistic beauty, and collective identity. She points out a 5th century BCE coin from ancient Greece: "This has the owl, who represents Athens. And on the other side, you will see Athena. Athens is using the coins to say, 'This is who we are; this is our patron goddess.' This is a really meaningful step forward in how a community represents itself and uses money as a way to do that." She also says that the types and quality of materials used offer a glimpse into the economic health of past societies.

The NNC's vault is accessible to researchers by appointment, and the collection is being gradually digitized. Selected items from the collection are on public display in the museum's exhibition "The Value of Money"—featuring a tire-size stone ring from the island of Yap in Micronesia—and Really BIG Money, an exhibition for children. **F&D**

**MELINDA WEIR** is on the staff of Finance & Development.

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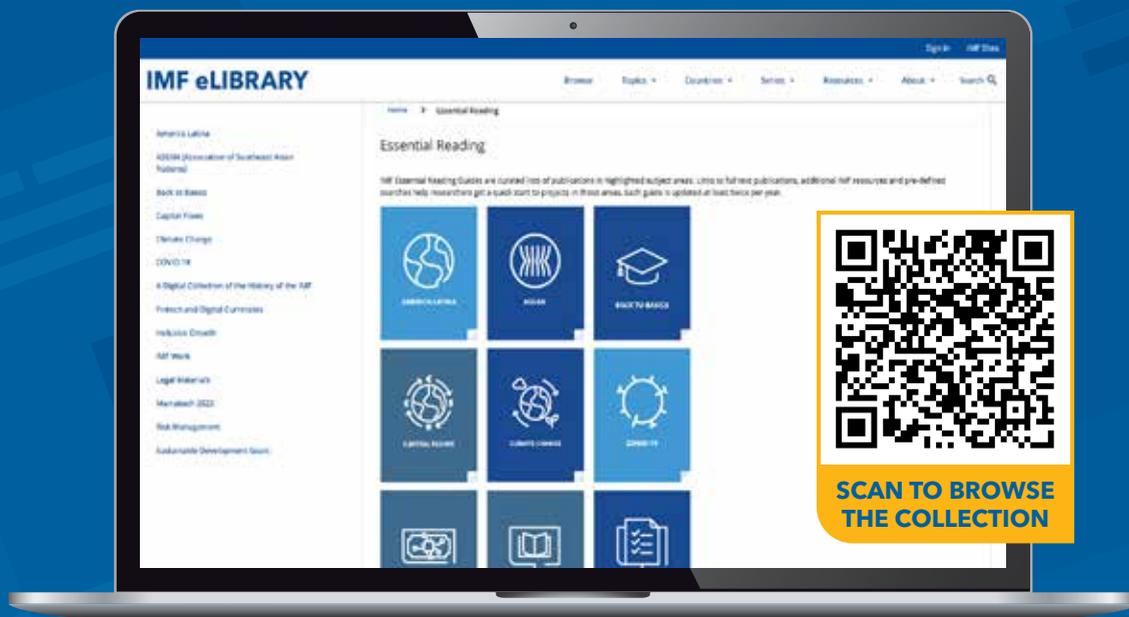
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A 14th century banknote from China, where paper money is believed to have started.

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