

SHINING A LIGHT

Bringing money out of the shadows means improving governance

David Lipton

Global GDP last year was \$87 trillion, up from just \$11 trillion in 1980. While GDP is just one among many measures of well-being, the improvement is remarkable. But before we start celebrating, consider these numbers, which point to the dark side of the global economy:

\$7 trillion

That figure, equal to 8 percent of global GDP, represents the amount of private wealth estimated to be hidden in offshore financial centers, much of which likely comes from illicit activities.

\$1 trillion

That's the gain in government revenue, by one calculation, that could be achieved by reducing corruption around the world by one-third.

These numbers shine a light on the hidden corners of the global economy, the money that escapes the reach of tax collectors, regulators, and law enforcement. These are the ill-gotten gains of graft, the proceeds of regulatory arbitrage, and the profits from tax domiciles that some consider to be the equivalent of tax evasion. Taken together, they detract from the public good. It is money lost that could be put to use improving people's lives.

The rise of digital finance, crypto assets, and cyber-crime adds to the challenges. Consider the so-called dark web, a hidden marketplace for everything from stolen identities to arms and narcotics.

Illegal or legitimate, these practices have a big impact on government revenues around the world, and increasingly the international community is being called upon to eliminate the regulatory gray areas.

But it is not just a matter of law enforcement. Governments are being pressed to adjust to rapid changes in the global economy that—if properly handled—can bring considerable benefits. That is certainly the case with fintech and, potentially, crypto assets.

Demands on government resources are building—to boost growth in some advanced economies, build infrastructure in emerging markets, and improve health and education in the developing world. So the draining away of trillions of dollars represents a threat to our well-being. It contributes to a weakening of trust in government and undermines its ability to address key economic problems like inequality and poverty.

IMF research shows that countries with lower levels of perceived corruption have significantly less waste in public projects. And among low-income countries, the share of the budget dedicated to education and health is one-third lower in more corrupt countries. That reduces the effectiveness of social spending.

So how do we address these problems?

That's where the IMF aims to make a difference. We have worked closely with national authorities, multilateral bodies, and the private sector for nearly two decades to combat money laundering and the financing of terrorism. We have been at the forefront of the effort to strengthen fiscal transparency and, increasingly, to confront corruption.

It comes down to the core notion of governance—how a country defines and implements its economic policies in all their myriad detail and how it adheres to the rule of law. Last year, the IMF adopted a comprehensive framework for enhanced engagement on governance that encompasses the functions most relevant to the economy, things like tax collection, central banking, and financial sector oversight and market regulation.

Improving governance isn't easy; it requires sustained effort over the long term. It's not only the right thing to do, it also brings tangible benefits to millions of people. Joint action will help ensure success. **FD**

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