

## KEY POINTS

- The CIGI Survey on the Progress of International Economic Governance is relatively pessimistic in its assessment of progress in five areas of international economic governance.
- Despite the political constraints placed on it by shareholders, the IMF has an important role to play in promoting progress in each of these key areas of economic governance.
- By fully leveraging its mandate as well as its substantial intellectual resources, the IMF can improve the rate of progress in the five dimensions assessed in the CIGI survey, helping to revise the gloomy assessment.



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## THE IMF AND THE PROGRESS OF INTERNATIONAL ECONOMIC GOVERNANCE

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“There is no agreed vision of what the future financial architecture should look like, and by implication, no agreed vision of what the appropriate financial regulation should be... We are still unsure about the right role of securitization, the right scope for derivatives, the role of markets versus banks, and the role of shadow banking versus banking” (Blanchard 2013). Without multilateral consensus on a vision of international financial architecture, it is difficult to make progress on its governance.

The inaugural CIGI Survey on the Progress of International Economic Governance<sup>1</sup> is relatively pessimistic in its assessment of progress in five dimensions of international economic governance: macroeconomic policy cooperation; international cooperation on financial regulation; development; international trade; and climate change. The International Monetary Fund’s (IMF’s) description of its mission is to promote international monetary cooperation and exchange rate stability, facilitate the balanced growth of international trade and provide resources to help members in balance-of-payments difficulties or to assist with poverty reduction. Its mission has an impact on all five dimensions in the CIGI survey. This note discusses options for the IMF to “push the envelope” and contribute to improving the rate of progress.

In evaluating the performance of the IMF, there is an important caveat to bear in mind. The Fund is a shareholder-controlled organization, with an effective American veto. The IMF staff present diagnoses and suggest policy prescriptions, but are limited in their ability to make changes by national governments, and specifically the United States, and what they will permit. What *could* the IMF do to accelerate progress in international governance? What are the most progressive initiatives that could be hoped for in the IMF’s activities — surveillance, technical assistance and training, lending and research?

To improve international macroeconomic cooperation, the Fund should emphasize the promotion of the September 2013 *Update of Staff Sustainability Assessments for the G-20 Mutual Assessment Process*. This IMF product identifies large and persistent imbalances against “indicative guidelines.” The IMF’s staff diagnoses are compelling, and the policy prescriptions are appropriate. But the tone is subdued and the communication strategy is seemingly focussed on backroom processes. The analyses on China and the United States are particularly acute, but the “soft sell” reticence of the assessment will relegate it to a dusty shelf. The IMF leadership should consider a more aggressive communication strategy.

On the IMF’s own governance, IMF Managing Director Christine Lagarde’s post-St. Petersburg G20 Summit statement was anodyne: “I welcome G-20 support for completing the IMF’s 2010 quota reform agreement, and I urge the few remaining countries to quickly ratify the measures necessary to implement this important agreement” (Lagarde 2013). While inoffensive, a less analgesic statement would be more helpful.

In the area of financial regulation, and the potential role of a global macroprudential facilitator, the IMF can make substantial contributions. Potentially useful is its stated intention to “step up its macroprudential dialog with its member countries through its bilateral surveillance, financial sector assessment programs, and technical assistance” (Viñals 2013).



The updated assessment for the Mutual Assessment Process noted that with respect to rules for over-the-counter derivatives, “additional progress is needed on completing the process of designating systemically-important institutions, strengthening the regulation of money market mutual funds, reducing the systemic risk in the tri-party repo market, carefully implementing the Volcker Rule, and progressing with Basel III implementation” (IMF 2013). The IMF contribution on these issues could be substantial.

For the development dimension of international governance, the IMF should comply with the Busan Partnership for Effective Development Co-operation Agreement to make information on development cooperation and other development resources better available and publicly accessible. The Busan Partnership Agreement is to provide a common, open standard for electronic publication of timely, comprehensive and forward-looking information on resources for development cooperation by the end of 2015. The commitment required schedules for implementation of the common standard for aid information to be published by December 2012. The Organisation for Economic Co-operation and Development created a template for countries and international organizations to develop and publish their implementation schedule. The IMF has endorsed the agreement, but has not yet published its schedule.<sup>2</sup> The delay is not helpful.

For the climate change dimension, the IMF could be a key player and catalyze action in climate finance — an apparently hopelessly deadlocked area. It could revisit ingenious applications of special drawing rights and re-energize the stalled effort to eliminate inefficient fossil fuel subsidies. The Fund could suggest options for equitable application of taxes with international dimensions, such as airfare levies. Most important, the IMF could provide customized advice on fiscal options for each country.

When Christine Lagarde speaks, the world listens. Her remarks are reported widely. There are, of course, limits to how far she can push things, but she should push them. By exploiting its substantial intellectual resources, the IMF can improve the rate of progress in international economic governance, helping to revise the gloomy assessment of the CIGI survey.

## Works Cited

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Lagarde, Christine. 2013. “Statement by IMF Managing Director Christine Lagarde on the G-20 Leaders’ Summit.” Press Release No. 13/327. IMF. September 6. [www.imf.org/external/np/sec/pr/2013/pr13327.htm](http://www.imf.org/external/np/sec/pr/2013/pr13327.htm).

Viñals, José. 2013. “Making Macroprudential Policy Work.” Remarks at the Brookings Institution, September 16, Washington. [www.imf.org/external/np/speeches/2013/091613.htm](http://www.imf.org/external/np/speeches/2013/091613.htm).

## Endnotes

1 The interactive CIGI Survey on the Progress of International Economic Governance is available at <http://interactive.cigionline.org/survey-of-progress>.

2 See [www.oecd.org/dac/aid-architecture/acommonstandard.htm](http://www.oecd.org/dac/aid-architecture/acommonstandard.htm).