IEO Panel November 16, 2021

It's a great pleasure to comment on the thoughtful and provocative paper by Nicoletta Batini and Prakash Loungani. They start off with a distinction between the problems of the recent past, especially financial crises and their costs, and likely new "super-crises" of the future, and think about a reorientation of the Fund, and of how the IEO can support – or even spur – that process of what the Managing Director today identified as the crucial task of learning: or radical rethinking. Here are some thoughts, in part a consequence of thinking about the long-run trajectory of the IMF, its role in an evolving topography of international institutions and global governance and the type of "poly-crisis" that is likely to dominate the coming years. In particular, some themes – the measurability of challenges and the international political or security challenges – appear as recurring themes, resurfacing in new and more threatening forms as the world changes.

First, the core expertise (as well as some unhappy and unpleasant experience) of the Fund has been in the management of financial crises, and in particular assessments of debt sustainability and what governments and lenders need to do to ensure a return to sustainable debt. It was a debt crisis in East Asia that originally produced the need to establish an IEO, and many of the IEO's most incisive reports have dealt with the approach of the IMF to debt crises. There is no reason to think that the IMF's expertise on debt and debt sustainability, and the learning from past errors, will be less relevant in the next years – in the immediate future. On the contrary, Covid has pushed much of the world – outside some big and rich industrial countries – into heightened vulnerability. Interest rates are already soaring: the difficulties have started even before the Fed's interest policies have pivoted. The *Fiscal Monitor* (October 2021) sketches out the problems and challenges of the deterioration of fiscal space quite accurately. The difficulties are heightened by the exposure of many poor countries to China as a creditor; and that brings new risks also for Chinese management. The Euro debt crisis was in part also a problem of the European creditor countries: addressing China as a creditor brings some of the European challenge of the 2010s to a global scale.

Second, it is correct to identify climate change – or more generally perhaps the damage done by the Anthropocene – as a major and increasingly difficult challenge, requiring prompt action. It would also be reasonable to be disappointed by efforts so far, and especially by the recent COP26 in Glasgow. Multilateralism can very easily slide into what Greta Thunberg memorably characterized at Glasgow as "blah blah blah." In making multilateralism effective an obvious but not sufficiently noted lesson of history may be helpful. Phenomena will remain in the sphere of abstract discussion, nervousness, concern, unless they can be accurately measured. 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. National income accounting was then used to build peace through development and a realization of the productive capacity of members: and providing data to the IMF was a core obligation set out in Article VIII/5 of the Articles of Agreement ("Obligations of Members"). Today, when newspapers report on the twice yearly Fund meetings, they focus on the assessments of GDP development. They think that GDP matters because the IMF puts that at the center: but when it comes to biosphere, GDP is a cost or a drain rather than an asset: an erosion rather than an enhancement of the wealth of nations.

There is thus a need to reconsider what information and data should be at the core of the IMF's work: perhaps not GDP? Partha Dasgupta's 2021 review of biodiversity for the UK government has highlighted the need to think differently about growth, and including a measure for the depletion of natural resources in the biosphere, for living on capital. There is, Dasgupta argues, a need to identify the wedge between "the prices we pay for Nature's goods and services and their social worth in terms of what economists call 'externalities'." If such accounting is treated as a simply rhetorical exercise in persuasion, the result will be no action. Prices drive behavior: only when we see the prices can we effectively ensure that the externalities are returned to the inside of the economic system.

Third, the threat of degradation of the biosphere is not the only development that provokes or should provoke concern. A megatrend that will increasingly influence the IMF's work is the data revolution, and also the application of new techniques to manage it – including AI. The data provided needs to be much more detailed, and more frequently updated: the ideal is real time data provision, not big jumps every six months with the release of a new WEO and its forecasts. The correct and timely provision of data by member countries has from the beginning been a contentious issue in the Fund: the requirement in the Articles of Agreement to communicate reserve information, including on gold supplies, was probably responsible for one of the fateful early decisions that profoundly affected the role of the IMF in the postwar architecture: the Soviet refusal to participate in December 1945 in the ratification of the Bretton Woods agreements.

Fourth, the anxieties of the mid-twentieth century are still with us. We are living in a world where security concerns – often loosely described as changing geopolitics – are dominating economic news: whether the debate at the western end of the Eurasian landmass about Russia's gas provision and gas pricing, or the escalation of tensions around Taiwan and in the South China sea at the eastern side. One of the under-recognized features of the Bretton Woods settlement was the way in which there was a parallelism between Fund and Bank on the 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. Stalin's non-ratification of the Bretton Woods agreement meant no Soviet membership; while after the Chinese revolution the Bretton Woods representation remained until 1980 with the Republic (Taiwan).

The IMF should be concerned with properly accounting of the wealth of nations: that is a task for which it must equip itself with the latest tools and analysis, but in which it will also have to negotiate between powerful and not necessarily aligned interests of increasingly assertive and even angry states. Information – reliable, voluminous, detailed and frequent data - will be its critical instrument in defusing anger and promoting constructive engagement.

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