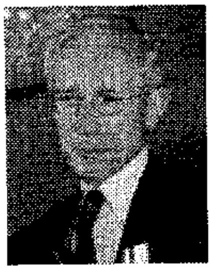

Stanley Fischer

Biography

E-Mail Notification
Subscribe or **Modify** your subscription

Lunch Address by Stanley Fischer
Acting Managing Director

International Monetary Fund
Given at the Conference on "Promoting Dialogue: Global Challenges and Global Institutions"
at American University
Washington, D.C., April 13, 2000

Mr Chairman. Ladies and Gentlemen.

It is a great pleasure to be with you here today and to take part in this timely discussion of globalization and the role of the international financial institutions. As you know, we and our neighbours across 19th Street have a lively few days ahead as ministers gather for our spring meetings. At a press conference last week, one journalist suggested that we might need to airlift participants into the building by helicopter. I hope it does not come to that!

We are, of course, taking the demonstrations and protests planned for this weekend seriously. Not simply because of their logistical inconveniences, but also because of the message they send. Some of the protesters are in favor of debt relief for the poorest countries. The HIPC initiative debt reduction process is now well under way. Others, in common with the protesters against the World Trade Organisation in Seattle last year, are protesting against globalization.

So I will talk about globalization. I want to underline the enormous benefits it has created for billions of people around the world. Integration into the world economy is the best way for countries to grow. Stopping globalization, putting up barriers against the rest of the world, is the surest way to condemn a country, particularly a small developing country, to poverty. We must support poor countries' efforts to integrate into the world economy.

But we should not dismiss the concerns of those who feel threatened by globalization. We must ensure that the process is managed properly, and I will end by asking what the international institutions - the Fund in particular - need to do to help ensure that happens.

Globalization has many dimensions. Consider three of the most significant: trade in goods and services, trade in assets, and flows of information. The last - information flows - has changed most spectacularly. Forty years ago, Marshall McLuhan said that electronic technology was shrinking the planet into a global village. That was true up to a point then, but all the more so now. In 1956 the first transatlantic cables could carry 36 telephone calls simultaneously; their modern equivalents carry 10 million. The cost of processing, storing and transferring information is estimated to be halving every 18 months. I do not need to go through all the superlatives that will describe the amount of information any of us can access in a few minutes, relative to what was available even a few years ago. The number of internet users has reached 250 million on some estimates and is rising at a dizzying speed. All this has helped to undermine the importance of national borders and strengthened other aspects of globalization.

Trade in goods, and capital flows, have been increasing rapidly too, but with occasional setbacks as a result of war or changes in government policies. The ratio of country exports to world output rose from 6% in 1890 to 9% in 1913. It fell back as globalization went into retreat between the wars, but was 13% and rising by 1990. Developing countries have come to play an increasingly important economic role, with their share of manufactured exports rising from less than 20% in the 1960s to nearly 30% by 1999.

Economic theory tells us that international trade and capital flows should be to the benefit of all. Trade encourages specialization, increasing productivity and living standards, and providing consumers with access to a wider range of better-quality goods at lower prices. The argument for the free movement of capital is essentially the same: money can be channelled to more efficient uses, financing investment and giving savers better returns.

But this is not just theory. This theory has been borne out in practice. In recent decades trade growth has driven growth in output. Between 1950 and 1999 world real GDP grew by 4.3% a year on average, while world trade grew by 5.7% a year. Even taking a large increase in the world population into account, this has delivered impressive rises in people's material well-being. Between 1913 and 1950 - a period of de-globalization - GDP per head rose less than 1% a year, but after 1950 it rose more than 2%. This is no accident.

Globalization - and a willingness to be open to it - is a key driver behind economic progress and rising living standards. Export-oriented policies helped transform East Asia from one of the world's poorest regions 40 years ago to the prosperous and dynamic region it is today. Industrial countries have also benefitted, as development elsewhere has been a spur to increased efficiency, as well as offering consumers more choice and value for money.

Conversely, look what happens when countries close themselves off. When barriers were erected around the world in the 1930s, trade shrank and all major regions saw per capita incomes decline relative to those of the leading nation. More recently, inward looking policies in Africa and Latin America depressed growth and squandered opportunities to reduce poverty in the 1970s and 1980s. The communist economies also performed poorly in part because they were relatively closed. The lesson of history is clear - openness works.

Openness to information and ideas from abroad goes hand in hand with trade in goods and capital. We have seen how politically and culturally empowering this can be. I am sure that the end of the Cold War owes much to the information revolution, which clearly revealed the existence of a better way to millions of people behind the iron curtain. And openness to information and ideas will continue to promote democracy around the world.

The critics of globalization point out that the economic gains have been spread unevenly. Per capita incomes have risen three-fold in the poorest quarter of the world over the past century; but six-fold in the richest. However, a different picture emerges if you look at the Human Development Index, a broader measure of living standards that takes in account social conditions, such as health. On this measure inequality has probably declined. To look at it another way: today's poor countries have lower real incomes than today's rich countries did in 1870. But in terms of the Human Development Index, they are much better off.

The technological revolution - for example, the development of the internet - offers the potential for much greater and faster convergence between rich and poor nations as information flows more easily. But remember that wage gaps have widened in the industrial countries between those who can use the new technologies and those who cannot. With 85 per cent of internet users confined to just 10 industrial countries at the end of 1997, this underlines the importance of investing in education and training in poor countries. To make such investments requires a stable and sustainable economic environment.

In addition to concern about growing inequality, globalization fuels other anxieties:

- Mobile short-term capital threatens financial crises.
- Workers feel threatened by low-wage competition and new technology.
- Governments seem less able to offer social protection.
- Competitive pressures could create the temptation to lower labor and environmental standards.

These concerns are real. But the solution is not to abandon globalization; rather to manage it better.

So what role do the international institutions have to play? Our objective must be to ensure that everybody has a chance to benefit from globalization, including the many millions who are currently falling behind. If we want countries to keep their economies open - to the benefit of everybody - then we have a responsibility to make the international financial and economic system work better. We must minimize the risks that globalization creates and the costs that it imposes on vulnerable groups. So what in particular can the IMF do?

First, the Fund is a powerful voice and actor for free trade. Our Articles of Agreement define this as one of our main purposes: "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy." To that end, we are unapologetic in urging industrial countries to open their markets more fully to developing nations.

Second, we are seeking to reduce the risk of financial crises in a world of volatile capital flows. This will be one of the most important themes of these spring meetings, as it was last year during our annual meetings. The Fund is already promoting crisis prevention in several ways. We have sharpened our surveillance of economic policies, focusing more on vulnerabilities, exchange rate regimes, debt structures, financial sector health and capital account developments. Crisis prevention is also served by moves towards greater transparency. For example, we have a pilot scheme under way to assess and publicise the extent to which countries match up to a variety of international standards and codes of practice. We also offer precautionary credit lines to countries with good policies that nonetheless feel threatened by spillover effects from crises elsewhere.

In addition to crisis prevention, we are also working to ensure that we manage crises more effectively when they cannot be prevented. We have already created a facility which allows us to lend large sums quickly to countries in crisis, to restore confidence and support the policy reforms necessary to address their underlying problems. And this weekend, ministers will discuss the progress we have made in defining a strategy to involve private creditors in crisis resolution.

Third, the Fund can help spread the benefits of globalization to millions who have not yet benefited, by supporting - with our colleagues at the World Bank - good policies in the poorest countries. Operating through our new Poverty Reduction and Growth Facility, the Fund, in close cooperation with theBank, will remain focussed on our core areas of expertise - macroeconomic and exchange rate policies, plus structural issues like tax policy, fiscal management, budget execution, fiscal transparency and tax and customs administration.

But through our work with the Bank, our advice will be attuned much more effectively to the ultimate objective of promoting poverty reduction. The debt relief available under the HIPC initiative makes a valuable contribution too. One clear lesson of recent experience is that countries themselves must drive the development process, and the PRSP, the Poverty Reduction Strategy Paper, is designed to do that, by requiring the country to develop its own growth and poverty reduction strategy in partnership with civil society, the Bank and the Fund, and donors.

Fourth, the Fund will do what it can to create a stable global economic environment. This means encouraging the biggest countries to run sound economic policies that will promote global stability. Ultimately, however, the destiny of any country lies in its own hands. Good policies by and large get their just reward, while poor ones are almost always punished. Here there is good reason to be hopeful. In the wake of the recent emerging market financial crises, policymakers almost universally resisted the temptation to close themselves off from the world economy. In doing so, they helped avoid a catastrophic rerun of the inter-war years and laid the foundations for the impressive economic recovery which is now under way.

The steadiness that policymakers showed under fire has only increased the sense of responsibility that we at the Fund feel about making the global financial system run better. That way we can help globalization work to the benefit of everyone. The Fund is now deeply engaged in a process of ongoing reform. We are making ourselves more transparent. We are sharpening our surveillance of economic policies. We are overhauling our lending facilities. We are taking steps to ensure that our loans are not misused. And we will be subjecting our activities to the scrutiny of a new Independent Evaluation Office.

In these and other areas, the spring meetings give our 182 member countries the opportunity to say how they think we are doing and to tell us what they think we should be doing next. These meetings, together with the role of the Executive Board, are an essential element in the process by which we are held accountable to our shareholders.

We look forward to hearing what our shareholders, the governments that own us, will tell us, and how they will instruct us, as we move forward.

IMF Home Search Site Map Site Index Help What's New
About the IMF **News** Publications Country Info IMF Finances Standards & Codes