



Stanley Fischer

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Remarks by Stanley Fischer

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Fred, thank you very much for those extremely generous remarks. I am looking forward enormously to working with Horst Köhler. We have been talking to each other frequently about the challenges that will face him when he takes over probably early next month. Let me also echo Fred's thanks to the Bretton Woods Committee for what they have done on behalf of the Bretton Woods Institutions over the years. I know what the Bretton Woods Committee did during the most recent quota review; they played a critical role in making that succeed and I would like to record here our thanks and gratitude for what you, Henry, did and what the Committee has done, and to say that we look forward to your continued support for reform in the period ahead. In addition to having the pleasure of being among friends, let me also say that it is a pleasure to be a member of this panel, where I have my own Congressman. In all my time in the United States, Barney Frank, who represents among other districts Newton Massachusetts, is the only congressman I have had who actually has a vote in Congress. I also have other colleagues here including Mr. Noriega from Mexico whom I am very pleased to be on the panel with.

The IMF can hardly complain about not getting any attention, these days, and IMF reform is something which lots of people have weighed in on, in the last year or so. There have been several independent reports: the Council on Foreign Relations had an interesting report; there was one out of Geneva; Larry Summers in London last November; and the Meltzer commission of course; and countless other papers that cross my desk. Now, there are two approaches to reform. One is to start from the very beginning and ask why we have an IMF or why we might even need one, as sort of first principle approach. And then the other one is one that says well there is a living breathing institution here, it's not exactly doing what we think it should be doing, how could we change it to make it operate better? And that second approach starting from where we are is more in a pragmatic Anglo-Saxon tradition. But it happens that I believe in this case that both those approaches give us good indication about what needs to be done. And it is worth going back briefly from time to time to first principles and asking why one needs an institution like the IMF. The basic fundamental reason is that the international

financial system left to itself does not work perfectly, and it is possible to make it work better for the sake of the people who live in that system, that is to say the citizens of our member countries. Now, economists will make a fancier description by talking about the need to provide global, public goods. And what are those public goods? There is, in the first instance, and I am drawing now on the Articles of Agreement of the IMF, there is a need for an institution in which ground rules and decisions about the international system are discussed and a mechanism for implementing them is in place; there is also a need for a mechanism for consultation on the international system. The IMF serves that role. There are many institutions out there and there are many recommendations; but when the time comes to finalize them and to ask somebody to put them into practice, that usually comes down to the IMF. This is a mechanism for consultation. Secondly, the international system is short of information that is needed for its efficient operation. The IMF puts out enormous amounts of information, both in the form statistics but equally about the behavior and performance of member countries. There is, from time to time, in the international system, a crisis, a panic, as international lenders flee from countries. We then undertake crisis lending; we step in when others step out. That's the international lender of last resort idea which is controversial, but if properly understood and within the limitations of the IMF (we do not print the money, our main limitation) is something that we do. Those are things that are missing in the international system and that the IMF can provide to make it operate better. A great deal of what we do to make the system operate better relates to the policies of individual countries. And we also make the system work better by helping countries improve their domestic policies because those spill over into the behavior of the international system. That means that we work on balance of payments, we work on exchange rate systems, we work on monetary and fiscal policies, we work on structural policies that underlie the monetary and fiscal systems and the financial system. Those should be the center of the activities of our institution in helping the international economy work better. Our goals are to prevent crisis, to create stability and to promote economic growth. Those have been our goals for 55 years now. And in promoting growth, we also promote poverty alleviation and that is something I wanted to come to at the end of my discussion. Those are the first principles from which we should begin, for if you started pragmatically from the institution that exists, you would come up with a reform agenda that is not very different from one you would arrive at if you started from new principles.

There is one thing that I wanted to emphasize about the IMF that I think has been neglected in the recent debate, as I work inside the institution and I find it to be of enormous value. It is that the IMF is a cooperative institutions with 182 member countries which, by belonging to it, have accepted certain rules of behavior that they will follow in trying to make the international system and their own economies work better. That sounds like sort of international do goodism, but it's much more

profound than that. The fact is that there is an agreement among our members on things like the desirability of an open trading system, the desirability of good economic policies, the desirability of currency convertibility. This is fundamental to the way we view this, and I speak now as an American citizen, the way we, the United States, view the operation of the system, and fundamental to the success it has demonstrated over the past 55 years. Why do I emphasize that? I emphasize it because a lot of proposals for reform that we are getting ignore the fact that this is the institution where all members make decisions; it is not an institutions in which one group of countries tells another group of countries what to do. And that aspect is one of the joys of working in this institution. One of the reasons why it has worked very well. And you ought to ask yourself, as you hear various proposals for reform: are the developing countries in the IMF supporting those criticisms of the IMF that are being made by the critics? And you will be amazed at how frequently that is not the case, and how frequently the developing countries in the Fund support what the Fund is doing and what it is criticized for doing. We should never forget the cooperative nature of this institution.

Now let me, without going into details, say something about the reform of the IMF. I have been at the fund for five and a half years. The institution in those five and a half years, and is not due to me but it is due to events, has reformed almost completely. But it is an institution in which reform is continuous and not revolutionary. We published essentially nothing five and a half years ago. We now publish almost everything and, if you do not believe it, look at our website. Details of programs were not known five years ago. They are now available to everybody. We did not do very much about the financial sector five years ago. We do a great deal about the financial sector today. The notion of standards and codes was not there five years ago, three years ago. It's well underway at present. Our basic crisis lending facility, the SRF, the Supplementary Reserve Facility, did not exist until 1997, it now exists. The contingent credit lines did not exist. They now exist. We have eliminated four lending facilities. And I can go on and on.

There is a revolution underway but it is a gradual revolution and it goes in the direction we should be going. Let me, because Fred has told me to limit myself to 10 minutes, just mention two other things. We perform our function in three ways. We undertake surveillance. We provide information about what is happening in the world economy. We create that information. Our role in surveillance, the level of surveillance, has increased enormously in the past five years. There is further to go. There are issues about what needs to be published, what should be published. The management is generally being a bit ahead of some members of the Fund, but I believe we are moving in the right direction. We provide technical assistance to our members, that is our second function. We have to do more and more of that as the desire to have countries meet international standards increases, and we will be doing more of that.

And we lend in three modes. First, in crisis. There is no controversy that that is what we should be doing. Second, we lend in preventative mode. Countries not yet in a crisis, but headed towards one. I think of Turkey in 1999 to whom we made a very important loan. I think of many other countries to whom we lent who were not in systemic crises, but we helped them. That role of lending to keep countries out of crises, to strengthen policies by, frequently, extend precautionary loans, is a very important function that many who follow the fund do not appreciate but that I believed should be there. And then the third form of lending, and this is where I will end, is lending to our poorest member countries. This is controversial because there are many who say the IMF should not be in the poverty business; poverty is primarily the business of the World Bank; and lending to deal with poverty and to reduce poverty is primarily the business of the World Bank and should be done by them and the regional banks. But the poorest members of the world community belong to the IMF; they have macroeconomic problems; they have a right like every other member to access the facilities of the IMF. And so, I do not accept the view that when it comes to our poorer member countries, we should not be lending to them, but should turn it over to someone else. Have we lent to them perfectly in the past? No. Is the poverty reduction and growth facility, is the new poverty reduction strategy paper which we are all working on jointly with the world Bank, is that going to be an improvement in the way we deal with countries? Absolutely. Why? Because it puts poverty reduction in the center of what we are doing. It now becomes poverty reduction and growth, the two essential elements, and it forces us, in cooperation with the World Bank, to make sure the macroeconomic framework is fully consistent with what needs to be done for social reasons. We should continue to do that. We should not get out of the poorest countries. They are our members, they do not want us to get out, and if we value the fact that this is a global institution we should not want them to get out either. There is not a different macroeconomics for poor countries than for middle income and emerging market countries. Inflation is bad for the poor, everywhere. That's a macroeconomic phenomenon. Macroeconomic instability is bad for everyone everywhere. That is the business of the IMF. That is why we should remain in these countries. But we cannot do that in a way that ignores the fact that poverty is the main problem confronting those countries, and that there must be massive efforts, spearheaded by the World Bank, to reduce poverty in these countries. That is what we are doing under the PRGF. That is what we should continue to do under the PRGF, and I believe with the support of our members, that is what we will continue to do under the PRGF. Thank you.

