



Economic Letter November 2021



Empowering the IMF and United Nations

The International Banking Seminar organised by the Group of Thirty following the Annual Meetings of the IMF and World Bank provides a nice summary of the main themes of the meetings. The Seminar on October 17 this year featured addresses by Kristalina Georgieva of the IMF, the new Governor of the Bank of England, the Governor of the People's Bank of China, Mark Carney, former Governor of the Bank of England who is now the UN Special Envoy on Climate Change, and Lawrence Summers, Harvard Professor and former Secretary of the US Treasury.

The main themes of this year's seminar were summarised by Jacob Frenkel, Chairman of the Group of Thirty and former Governor of the Bank of Israel. There were three: one, the new equilibrium for the world economy and society is far away from where we are now; two, a new agenda is needed for the IMF and other international financial institutions; and three, the United Nations and its agencies must be reformed in a fundamental way. This commentary is my take on each of these three items.

We are far away from a new equilibrium

At the moment, global strategies are failing with respect to every one of the major challenges that are headlined in the daily news: on Covid-19, on the climate, on biodiversity and species extinction, on poverty and inequality and on access to health, education, sanitation and basic services. It is not simply that we will not attain the targets to which the world aspires and which are essential to the survival of our civilisation; worse than that, the world remains on a downward trajectory, further and further away from the targets. The rate of deforestation in the Amazon, the Congo basin and other tropical rainforests

continues unabated, the glaciers continue to melt, Covid-19 vaccinations in Africa remain scandalously low, the poorest countries are the slowest to recover from the pandemic, and fossil fuels still account for about 90 percent of energy worldwide. The pledges that have been made with respect to every one of these challenges are insufficient, most countries have not taken concrete actions needed to fulfill their pledges on schedule, and the poor are expected to share the burden with the rich, even though that makes the elimination of absolute poverty an impossibility.

A new agenda is needed for the IMF and World Bank

The world's most inclusive and influential international financial institutions were set up after World War Two to protect currency values in terms of the US dollar standard, and to mobilise finance for the reconstruction of war-ravaged economies. Neither mandate remains relevant today. What has replaced the original mandate is an agenda that is feeble, in comparison to current challenges. The solution to the world's existential challenges requires a massive transfer of finance from the world's richest nations, in North America, Europe and East Asia, to the rest of the world. Compared with what would be necessary to vaccinate 80 percent of the world's population, to arrest global warming, to reverse the increase in plastic pollution, to eliminate absolute poverty and the compulsions that drive massive migration, the recent SDR allocation and the amounts being considered for debt relief are drops in an ocean. The IMF and World Bank should be tasked with pulling together best estimates of the funding required for initiatives that are required to meet long term targets, broken down to show what has to be attained, stage by stage, to stay on course. Having done so, they need to devise mechanisms for securing transfers of the right magnitude, to bring poor countries up to speed, while at the same time eliminating absolute poverty and providing the public services and infrastructure needed for modern lifestyles.

The United Nations and its agencies must be reformed in a fundamental way

There is a disjuncture in the structure of the United Nations which renders it ineffectual: the fact that every nation has a single vote on resolutions, irrespective of size, power or economic weight. As a practical matter, that means that the largest, most powerful and weightiest countries will seldom if ever have an incentive to abide by UN resolutions. The speech the head of government makes at the UN General Assembly does not confer any extra power or influence on any country, if that country's GDP is less than that of Nassau County on Long Island. The reform of the United Nations must begin by apportioning decision making power on the basis of measures of the actual political power and economic weight of nations, as is done for the IMF and World Bank, while maintaining a forum for every member country to have a voice in the General Assembly. Only then will it be feasible to push for the transfer of major responsibility for addressing threats to mankind to be transferred to the United Nations.