International Financial Institutions: Dealing with New Global Challenges

Michel Camdessus

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Contents

Page

Foreword v

Opening Remarks
Andrew D. Crockett 1

International Financial Institutions: Dealing with New Global Challenges
Michel Camdessus 3

Biography 21

The Per Jacobsson Lectures 23

The Per Jacobsson Foundation 25

Foreword

On Sunday, September 25, 2005, a lecture sponsored by the Per Jacobsson Foundation was presented by Michel Camdessus, Honorary Governor of the Banque de France and Former Managing Director of the International Monetary Fund, at the George Washington University campus in Washington. Mr. Camdessus spoke on the topic, "International Financial Institutions: Dealing with New Global Challenges."

The lecture was delivered in conjunction with the Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank, as is traditionally the case. Per Jacobsson Foundation events, which include not only lectures but also occasional symposia on topics in finance, economic policy, and international cooperation, are also sometimes held in the context of the Annual General Meeting of the Bank for International Settlements (BIS) in Switzerland.

The Per Jacobsson Foundation was established in 1964 to commemorate the work of Per Jacobsson (1894–1963) as a statesman in international monetary affairs. Per Jacobsson was the third Managing Director of the IMF (1956–63) and had earlier served as the Economic Adviser of the BIS (1931–56). Per Jacobsson Foundation lectures and contributions to symposia are expressions of personal views and intended to be substantial contributions to the field in which Per Jacobsson worked. They are distributed free of charge by the Foundation. Further information about the Foundation may be obtained from the Secretary of the Foundation or may be found on the website, www.perjacobsson.org.

Opening Remarks

ANDREW D. CROCKETT

Ladies and gentlemen, let me, on behalf of the Per Jacobsson Foundation, welcome everybody to this year's lecture. We are enormously privileged to have Michel Camdessus speak to us.

I don't think it would be useful, necessary, or a best use of time to spend a long time introducing Michel Camdessus to this audience. He is well known to each and everybody in the room. He has served at least three or four functions, any one of which alone would merit an invitation to deliver this lecture. As you all know, he has been, among other things, Chairman of the Paris Club, head of the French Treasury, Governor of the Banque de France, and, of course, he was appointed for an unprecedented three terms as Managing Director of the International Monetary Fund. I don't think we could have anybody better placed to speak to us on the subject of this afternoon's lecture, on which I know he has both thought deeply and felt passionately.

International Financial Institutions: Dealing with New Global Challenges

MICHEL CAMDESSUS

It is a great honor to have been invited by the Per Jacobsson Foundation to deliver this address, and so to be given another opportunity to walk, albeit briefly, in the footsteps of the great third Managing Director of the IMF, Per Jacobsson. Not only that, but looking at the list of my predecessors at this podium, you seem to have given me a quasi guarantee of immortality.

On 13 occasions, I had the privilege to address the world financial community at the Annual Meetings on emerging global challenges and the best ways for our institutions to address them. Let me say, by the way, that Rodrigo de Rato and Paul Wolfowitz did this yesterday in outstanding ways.

So, when I was invited by Andrew Crockett and Leo Van Houtven to dwell once again on these issues, I thought that I would try to do something that might have been seen as presumptuous of me 10 or 15 years ago—namely, take a long-term view, and put current problems in a long-term perspective. This is what I would like to do today for a very pressing personal reason, namely, that I have become a grandfather of eight children and, as all of you who share the blessing of grandchildren will understand, I am concerned about the kind of world we are preparing for them. Of course, the prospects for further rapid progress of globalization, and with it rapid growth in living standards and further steps toward world unity, could justify optimism, but reasons for concern are no less obvious. Trying to imagine the international climate in which they will live—will it be one of cooperative partnership, or of harsh resentment and conflict?—I see particular importance in the roles of the World Bank and IMF and the other international financial insti-

tutions (IFIs). They can make a major difference, and this matters to me.

Our institutions have vital roles, in particular, in helping to provide a global environment of stable and sustainable growth, and in helping the world address two key challenges: helping emerging countries become more advanced and helping the poorest to reduce poverty—at least to reach the Millennium Development Goals: a welcome, unprecedented initiative by the international community—and thus to reduce exclusion and associated threats to security, including terrorism. These challenges invite us to evaluate our present efforts by looking ahead 10–15 years, to 2015–20. Of course, looking this far ahead is less a matter of baseline scenarios than one of minimizing risks and maximizing opportunities in an uncertain future. But I will suggest that one of the surest ways of achieving it is to continue to support the IFIs in a spirit of multilateralism—the approach of the founding fathers when they created these institutions to help the world face a future full of uncertainties in 1944.

So let me try to identify what will likely be the key global challenges of the next 15 years, and a few elements of a strategy to face them. I will naturally focus particularly on the IMF, and I emphasize that any views I express are strictly personal.

* * *

FACING THE FUTURE

I have just referred to the need for global stability, and the challenges of helping emerging market economies make rapid progress toward the most advanced status, and fighting poverty.

Just by mentioning these issues, we already see how central the roles of our institutions should be in the decades to come. But looking ahead more broadly, we see a longer list of challenges that are global in nature, which can be dealt with effectively only by institutions with global competence, acting in close coordination with national authorities. Consider, for instance,

— the many potential sources of instability in emerging markets;

— the magnitude of global current account imbalances;

— the ongoing worldwide demographic transitions;

— the global energy crisis;
— the HIV/AIDS crisis and other pandemics;
— the present challenges to global public goods such as prevention of conflicts, health, and environmental preservation;
— the threat of global warming; and
— terrorism and other global threats.

We are very familiar with this list of challenges—too familiar, perhaps, as we tend to lose sight of the magnitude of these threats.[1] We must face them, and in a way that takes on board the ethical requirements embraced today by international public opinion, namely:

- good governance, including transparency, openness, and accountability, as well as elimination of collusion, corruption, and nepotism as basic requirements for economic success;
- the importance of public ownership of policies, because of the mutually reinforcing relationship between the quality of policies and their success, on the one hand, and, on the other, the participation of civil society, including the poorest, in the formulation of policies and, of course, in the benefits of those policies; and
- the need for partnership between developing and developed countries, instead of past patterns of assistance and cooperation that have not delivered on all their promises.

Beyond these, the IFIs will have to build further on the almost universal recognition of the convergence between respect for fundamental ethical values and the search for efficiency required by market competition.

The IFIs must endorse these values, if they are to maximize their chances of helping the world to realize the full potential of globalization for universal sustainable development and to con-

[1]Take as a very simple example, the "demographic revolution":

— Associated with extreme poverty, it can generate major social turbulences, uncheckable migrations, and, to say the least, increased insecurity. Have we taken real measure of the fact that, in a world of 9 billion people in 2050, 90% of the 2.5 billion additional human beings will be citizens of developing countries?
— Associated with under-financing of pensions in advanced economies, population aging can be at the root of major financial, if not social and political, disruptions.

tinue to be seen as relevant. This suggests a long-term reform agenda, and we could try to identify now a few of its elements, beyond those already under way.

* * *

ELEMENTS FOR A REFORM AGENDA

To establish a reform agenda we have to reconsider the missions of the institutions, their human and financial resources, and their instruments of governance.

Adapting the Missions to the New Challenges

Having in mind the essential challenges that I mentioned for the coming years, I would underline three key priorities for the IFIs:

— strengthening IMF surveillance,

— better equipping the IMF for its missions, and

— adapting the financing instruments of the IFIs to the needs of their members.

Strengthen Surveillance

Surveillance is the primary responsibility of the IMF. To make it more effective, I suggest particular concentration on four areas. I am happy to understand that the IMF is looking at these at the present time.

- To reinforce the messages of the IMF—particularly on the major countries, given the systemic importance of their policies—I suggest that the preliminary conclusions of staff missions be submitted to broader public debate in these countries before their transmission to the Executive Board. With due precautions and the agreement of the authorities, these discussions could be open to civil society organizations, academic circles, parliaments, and regional partners, to provide the staff with a diversity of views and enrich their assessment, and also to increase the attention paid by the authorities to the Fund's conclusions.
- Second, more attention should be paid to long-term, structural developments that, if left unaddressed, can over time

create intractable rigidities and obstacles to growth. These include labor market rigidities, the consequences of demographic trends like aging, and even the accumulation of international reserves, such as we have been seeing in Asia.

- Third, of course, the inter-relations between countries and the systemic impact of policies should be a key focus of surveillance. The growing and chronic global payments imbalances are an obvious case in point. In a long-term perspective, this is an inescapable issue, even if the temptation is strong to bury our heads in the sand. These imbalances are unlikely to be resolved smoothly without a cooperative effort to facilitate what is becoming every day more difficult and hazardous. Let me enter a plea for the Fund to take a bold initiative in this area. In a previous incarnation, before joining the Fund, I had the chance to be involved in the efforts of the G-5 and G-7 to address cooperatively a similar problem of global imbalances—efforts that became successful, through the Plaza and Louvre agreements. These disciplines were—to my regret—abandoned. Now is the time for a similar effort, led this time by the IMF, because many of the key actors are not members of the G-8 and, more basically, because there is no other—I insist, no other—legitimate, global forum to tackle such a systemic problem. By the way, the G-20 does not fit the bill, either. This is a situation where the comparative advantage of a multilateral, global approach is obvious.
- Last, still on surveillance, as far as developing countries are concerned, more precise analysis is needed of their own efforts and of the international support they receive in their progress toward the MDGs, through the joint monitoring of the IMF and the World Bank.

Better Equip the IMF for Its Missions

In view of the risks of a financial world dominated by huge private capital flows, one of the missions of the IMF—to adapt the international financial architecture to the evolving global economy and to be prepared for the unexpected—is more pressing than ever. If we want a more stable and safer globalized world, the international community should accept now, without

further procrastination, that the IMF must be equipped with explicit competence and proper instruments in three domains:

1. liberalization of capital transactions,
2. orderly debt workouts, and
3. its role as a lender of last resort.

Orderly capital account liberalization

Capital flows have been central both to the tremendous advances of the past decades and to their crises. It was, then, natural for the international community to consider whether to extend the IMF's mandate to include capital account liberalization, and to amend its jurisdiction to allow the Fund to promote the process. Indeed, eight years ago, at the Annual Meetings in 1997, in Hong Kong, the membership acknowledged that it was time to add this new chapter to the Bretton Woods agreement.

The emerging market crises brought the issues into sharper focus. Since capital account liberalization is irreversibly under way, should we accept a haphazard, piecemeal, and potentially volatile process, or should the IMF help countries to manage the process in a way that enhances economic stability and growth? The Asian crises gave rise to second thoughts and arguments on the merits of exchange controls, but in fact controls did not significantly reduce the negative impact of the crises. With the benefit of hindsight, we should now revisit the issue, taking advantage of the lessons learned. Future global financial market integration would gain from taking place within a well-structured framework paying due regard to the stability and economic security of the countries concerned. Proper sequencing should be recommended. In particular, countries should avoid premature opening up to short-term borrowing; several countries suffered from this in the 1990s, having ignored IMF warnings.

The IMF has a major contribution to make in this field, provided it is accorded the same kind of jurisdiction it has for current account transactions. It could help countries in this process of liberalization to satisfy key prerequisites, prime among which are a sound macroeconomic framework and a robust, well-supervised financial system.

Since this will necessarily take time, it would be best to start right away. In doing so, we should not forget that exchange con-

trols are never a substitute for the right policies and are an expensive way of buying time. Moreover, they typically lead to corruption and distortions, and also to inequity, since those who can most easily circumvent them are usually the most affluent.

Orderly debt workouts

On the best ways to provide for orderly debt workouts, the IMF has devoted an incredible amount of work since the onset of the Latin American debt crisis more than 20 years ago. Even if consensus is still elusive, experience has been gained, and I welcome, in particular, the adoption of collective action clauses in international bond issues, and the adoption of "principles for stable capital flows and fair debt restructuring."

On the question of a sovereign debt restructuring mechanism (SDRM), recently a concrete proposal has been shelved. I believe that on the basis of that proposal or of a slightly different one, a debate must take place and a mechanism established; whatever it could be, the IMF should play a central role in its enactment and its operation; no institution is better placed and qualified for it.

A lender of last resort

On this point, allow me to be personal, as someone who on two or three occasions was confronted with the risk of an immediate systemic collapse, and who does not need any additional sophisticated argument to be convinced that a globalized financial system needs a lender of last resort, and that the IMF is the only institution equipped and prepared to play such a role in extreme circumstances.

Using Walter Bagehot's classic criteria, a domestic lender of last resort, in the event of a national systemic crisis, would provide the system with unlimited amounts of liquidity, unconditionally, at penalty interest rates, to borrowers who have good collateral. Of course, there is no simple parallel between the national and international levels. Nonetheless, the IMF is the closest that the international financial system has to a lender of last resort. It is a function that it has been performing, and adapting to, for over 50 years, and it would be timely to confirm the Fund in the role of providing the international community with this vital guarantee with enough scope for judgment to avoid any risk of moral hazard.

In the crises of 1997–98, when several systemically important countries simultaneously needed large-scale support, the resources of the IMF were stretched to the limit. In an even more widespread conflagration, what would happen? The IMF's resources, substantial though they are, could be completely inadequate. This is clearly a situation when it would be justified to be able to create additional liquidity on a temporary basis. How? I don't see any better way than by making an innovative use of the SDR, the IMF's more and more forgotten reserve currency. It is not unreasonable to expect that in a grave crisis the leading countries would collaborate to inject international liquidity to underpin confidence in the international system. But such support, and its provision in a timely way, cannot be taken for granted. This is why it is important that the IMF be authorized to inject international liquidity when such need arises, and to withdraw it when the need has passed, in a manner analogous to that of a national central bank, through the creation and selective allocation of SDRs. The international community has been cautious in authorizing SDR allocations in the past quarter century, in part because of concerns about its notional inflationary potential. But experience reinforces the case for considering the tremendous potential that this instrument could have for the stability of the global economy. It would suffice to put in place a contingency system of allocation, to be activated in the event of a systemic credit crunch. It would be understood that in such cases all countries would receive allocations, but that countries not significantly affected by the crisis would put their allocation at the disposal of an administrative account in the Fund to be lent conditionally to countries facing a severe liquidity squeeze.

Adapt the Financing Instruments to the Needs of Their Members

Contrary to pessimistic views expressed recently, all continents, including Africa, can significantly accelerate their progress toward the MDGs, and the international community has demonstrated a readiness to improve quantitatively and qualitatively its contribution to this end. Even if a lot remains to be done, the decision taken for debt reduction in favor of the HIPC countries, whatever the modalities of that—a few of them calling, indeed, for some second thoughts—the pledge of an

additional US$25 billion a year of ODA by 2010, and the decision taken in March in Paris to really, deeply improve the quality of ODA are important steps, as would be the adoption of the suggestions of a few countries, including mine, to complement present ODA with innovative financing (and I am sure that you are all prepared to pay a little bit more for air travel). These steps should encourage African countries in their reform efforts, and their progress should lead donor countries to double the extra US$25 billion contribution for the subsequent period to 2015. This may appear ambitious. It is not. It is amply within the possibilities of the international community, and we should not forget that by limiting their ambition to a mere halving of global poverty, the MDGs are far from what is both necessary and feasible.

This observation makes particularly pressing the need for all partners in development, particularly the IFIs, to concentrate their means and leadership in contributing to the MDGs. This is primarily the task of the World Bank and the regional development banks (RDBs), which have critical roles to play over the next decade in making progress toward the MDGs. In my view, the Bank does a remarkable job and continues to demonstrate its courage and adaptability in responding to new requirements. I have no doubt it will continue on this path of excellence. But may its shareholders understand that, contrary to what Keynes said, the World Bank is a bank, and that,

— if it was important to reintroduce grants in the panoply of its instruments for development, and

— if it is essential also to work hard to progressively bring market financing to the emerging countries, an enormous task remains to be accomplished by the Bank as a long-term lender. I would even suggest that, contrary to views frequently expressed, and particularly given the need for more rapid progress toward the MDGs, this role should be increased, with

1. the Bank concentrating more on infrastructure investment;
2. the Bank shifting more of its attention from nation states, its traditional clients, to cities, particularly mega-cities, where the most critical unfinanced needs will be;

3. the Bank using its unique leverage to facilitate, through guarantees, the first steps of subsovereign borrowers in financial markets;
4. the Bank continuing with its technical assistance and guarantees to the development of local financial markets in mobilizing local savings;
5. the Bank intensifying its cooperation with RDBs, which have undertaken remarkable reforms and whose increasingly valuable role should be further expanded. This evolution will still leave the World Bank with huge responsibilities, including as the world's key think tank on development issues and the leader in exceptional circumstances and projects;
6. let me also make here a more unconventional suggestion. Our institutions have embarked boldly on the fight against corruption; this is of tremendous importance as we know that the economic cost of corruption is huge. Taking the longer-term objective, of its eradication, the institutions should help to provide a missing link that I discovered in my conversations with spiritual leaders in developing countries. If corruption is so pervasive, they say—including in advanced countries—it is partly because many leaders of the private and public sectors have never benefited, in their education, from exposure to the basic ethical requirements of business or official life. Would it not be a positive contribution to the quality of the business and official worlds, in a medium-term perspective, to contribute to the dissemination of such teachings in universities and business schools around the world? If there are doubts about the potential value of such an initiative, I would refer you to the World Faiths Development Dialogue, which Jim Wolfensohn took the excellent initiative to create a few years ago.

Let me turn now to the particular responsibilities of the IMF in contributing to the financing of the poorest countries. This is a slightly controversial issue, although the fact that it is controversial has always been a mystery to me.

- The membership should reaffirm the mission of the IMF in support of its poorest members as an essential part of its purposes under the Articles of Agreement, in response to the recurrent suggestion that they be considered the exclusive responsibility of development institutions.

- It has to be recognized that too many programs have failed, or not delivered many of their promises, because their overall financing was inadequate or no contingency contributions were defined to compensate for delays or for the default of expected contributors. These considerations suggest higher access to the concessional windows of the IMF. I know that current thinking could be in the opposite direction, but I beg to disagree. Having spent a year as a member of the Blair Commission for Africa, looking carefully at the detailed situations of many of the poorest countries, and analyzing the reasons for the suboptimal results of a number of programs, I see it as thoroughly unrealistic to believe that the IMF could fulfill its tasks with a tighter access to its concessional windows.

- As recommended by the Blair Commission, more effective and earlier contributions are needed in post-conflict situations as well as in the case of external shocks such as sudden and dramatic falls in commodities prices. I am delighted to learn that steps are being considered at least in the latter direction. While suggesting more boldness in responding to the financial needs of countries, I would in no way propose to relax the disciplines of conditionality, whatever people say who oppose them in the name of local ownership by the countries. In well-designed programs, there is no such contradiction: conditionality only reflects the key actions recognized as necessary by the countries and the institutions together to maximize the chances of success of the programs.

- Lastly, the membership should re-examine the relative importance they attach to debt reduction or even cancellation and real transfers of resources. The Commission for Africa has made crystal clear that in a medium- to long-term perspective, real transfers of resources should be given highest priority.

Adapting the Resources to the New Missions

I would like here to mention some personal views on human and financial resources.

Human Resources

Staffs of exceptional quality remain the best asset of our institutions, and we should always insist on "the highest standards of efficiency and of technical competence" as stipulated under the Fund's Article XII. But let's recognize that high competence, effectiveness, and professionalism have a price. I would therefore urge the key shareholders—when they exert firmly, as they must, their budgetary responsibilities—never to lose sight of this essential reality and of the growing challenges they themselves urge the IFIs to stand ready to confront. Staff resources in the Fund's country work are spread very thin, while coping with an increasingly demanding agenda. I am told that the average country team in the Fund is limited to just over 2½ staff years. This calls, if anything, for strengthening, not downsizing. The same applies to the Fund's responsibilities in the area of global financial stability and oversight of the financial markets. The shareholders have been right to give the Fund this important responsibility; they should make sure that it is properly equipped to discharge it.

A change that is needed, however, is to broaden and deepen the culture of the staff and to reduce its "cloning syndrome." The two central institutions would benefit greatly in selecting for their dialogues with officials facing the complexities of political life, staff members with national experience, or a broader culture in social studies than the one that is generally required for their recruitment. I would suggest that those in charge today of recruiting the staffs—which 15 years from now will form the backbone of the institutions—keep this high on their agenda.

Financial Resources: Quotas and SDRs

The IMF must remain a quota-based institution, and its shareholders should refrain from arguing that "quotas are taxpayers' money" to restrict the size of successive increases of quotas, leading over time to a progressive shrinking of the Fund relative to the size of the world economy. I have heard—and I still hear—many times representatives of the U.S. government and other

governments telling me about the difficulties they have with legislation relating to the Fund on Capitol Hill or their parliaments, but would it be impertinent to suggest that they tell the Congress and their parliaments the truth, namely that quotas and SDR holdings have never cost a single cent to the taxpayer and that, rather, they earn a market-based interest rate?

In view of the foreseeable challenges for the long term, quotas should be seen for what they are: the least expensive public way of providing for a common global good. This is the reason why I will continue to argue, as I always have, for significant periodic increases in quotas.

Lastly, at a moment when the supply of world liquidity is overabundantly provided for by private flows (and U.S. current account deficits), but when the inflationary risks remain well checked, I fail to understand why we should continue adopting a doctrinaire attitude regarding any suggestion for periodic allocations of SDR. These

— would allow the poorest countries to receive foreign exchange reserves without having to borrow them on the markets at excessive risk premiums;

— would be the most appropriate answer to the obvious need of developing countries for "long-term liquidity"; and

— would allow for some revitalization of the SDR, which is one of the few instruments that could play a decisive role if an unexpected shrinking of global liquidity were to materialize in the uncertain future we are facing.

Adapting Governance

The legitimacy of the Bretton Woods institutions is increasingly questioned. Indeed, the world faces mounting universal demands for more participatory governance at all levels of governance in society, including, of course, in the multilateral institutions, which must accommodate the growing role of new players. A lot is at stake for the international climate of the next decades, depending on whether these new players will be invited soon to share global responsibilities or they will have to fight for them. Progress so far has been slow, to say the least. Knowing pretty well the hesitations, I suggest four measures that could distinctly strengthen world governance in a participatory direction.

Make more explicit the real political responsibilities

The first would respond to the demands of world public opinion for citizens to be involved, through their legitimate representatives, in the decisions taken at the world level. A reform proposed years ago—the introduction of a supreme decision-making body for the IMF—would respond to this demand. It would consist in (finally!) implementing a decision adopted on the occasion of the Jamaica amendment of the Articles of Agreement in 1976 and transferring to a "Council"—which would be a political decision-making body—the major strategic decisions presently in the hands of the Executive Board, a body of high expertise but technical in nature. The Council would replace the present International Monetary and Financial Committee, which has only a consultative role. With a governing body of a political nature, the institutional setting would be in better harmony with reality. The Council, working on the basis of staff analysis and Executive Board deliberation, would be the ideal place to discuss the policies needed, to address global systemic issues with a global membership, and thus to take the place also of the G-10, G-20, and other Gs. It would provide the present G-8 and the "Global Governance Group" I will suggest later with all the needed preparatory work, without requiring the creation of a permanent and cumbersome secretariat.

No similar provisions have been considered for the World Bank. The Bank nevertheless would gain credibility in adopting a similar structure. This could be done by transforming the Development Committee into a decision-making body and providing it with more effective control over the activities of the Bank. Moreover, its purposes would be, inter alia, to "review the transfers of real resources to developing countries." This change would strongly signal the importance of the involvement of governments in this matter, making sure, for instance, that all the important orientations defined in Gleneagles are well taken into account.

Far from leading to an undue politicization of the two institutions, this would place responsibilities squarely where they belong, namely, with governments. This would, nevertheless, also invite new decisions concerning the size and composition of the Executive Boards.

Reopen the debate on the size and composition of the Executive Boards

The size and composition of the Boards also call for major changes, even if, due to the quality of their members, they continue to be effective in spite of their size. This reform would simultaneously respond to the situation newly created by the progress of the European Union toward its integration, the growing importance in world economic terms of the emerging markets, and the difficult issue of "voice" for Africa, which still awaits a convincing response.

One must recognize that the legitimacy of Fund and World Bank decision making in the eyes of the general public can only be tarnished by growing distortions between the new size of economies and their respective quotas and Board representation. I will not dwell here on the tremendously complex issue of the quota formula even if I always saw the lack of significant consideration of population size as a regrettable flaw. Whatever the formula adopted, a practical solution would consist in reducing to one the number of European executive directors, while providing the new single chair with an appropriate number of alternates to ensure that the presence of the major European countries and all the diversities of Europe are well taken on Board.

A similar concentration should take place among other chairs to avoid an excessive imbalance between the major players—the U.S., European, Chinese, Indian, and Japanese chairs—and others. This would allow a significant reduction in the size of the Executive Boards, and improve their efficiency, particularly if on the occasion of such reform the seniority and caliber of Directors were upgraded. The growing—and indeed exceptional—importance of their new role would amply justify it.

I recognize that this reform cannot be enacted immediately. Legal issues must be resolved, on both the European Union and Bretton Woods sides, but they are not intractable.

Such a change should be initiated, for its chances to be maximized, by the European countries, in light of their unique experience of multilateral governance, as part of a well-articulated package of world governance reforms. Of course, this move would be of major political importance and, from a European point of view, can only be seen as justified and be actively pro-

moted in the context of a global reform aimed at strengthening the multilateral character of the global institutions in the face of the challenges of our times.

Reform the procedures for the selection of management

The rules and practices for the appointment of the Managing Director of the IMF and the President of the World Bank should also be changed and the new system enacted on the next relevant occasion. Both Europe and the United States should renounce their present "privileges." On that basis, the changes introduced in the IMF in 2004—provided they make the process unquestionably open to all candidates whatever their national origin—should be extended to the World Bank. This would, no doubt, reinforce the "legitimacy" of the two institutions.

In sum, these reforms, to be carried out in both institutions, would provide several significant improvements from a participatory and multilateral long-term point of view:

— they would provide management and staff with even stronger incentives to anticipate and address the systemic issues and to suggest to the membership the measures that are difficult to envisage in the national frameworks;

— they would place the Ministers, notably from developing and emerging market countries, in a stronger position of political responsibility in the governing bodies of both institutions;

— they would better contribute to the alignment of the strategies of the IFIs with the global priorities decided by the "Summits"; and

— they would protect them better from a very broad tendency of the public opinion to use them as the ideal "scapegoats" for errors or negligence of shareholder governments.

These reforms, nevertheless, would be insufficient if the global system of world governance, at its highest level, was not adapted in the same spirit.

Contribute to a more participatory world governance

To gain increased relevance, the G-8 must continue opening itself up. Drawing the lessons of the experiences of recent years, we could propose, in this regard, that each G-8 summit be coupled

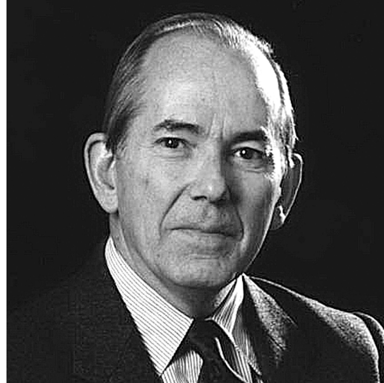
with an “extended meeting” to which all heads of state and governments from the countries represented in the new Council should be invited. This would be a way to put in place a “Global Governance Group,” whose orientations would carry much more credibility, legitimacy, and influence than the G-8 and G-20 today.

Provided its meetings were prepared with the active participation of the two institutions and of all the countries of the respective constituencies, this would provide a good representation of the entire membership of 184 countries. As it would be attended also by the Secretary General of the United Nations and by the heads of the other relevant multilateral organizations, it would offer a way of establishing a clearer and stronger link between the multinational institutions and representative groupings of world leaders. This could be a good way to address properly the broader issue of world economic governance, far from the illusion of promoting some utopian world government, but with the more limited, but necessary, ambition of finding a global response to inescapable global problems.

* * *

Now, as you have been so patient with me, listening to my remarks for too long, let me be very candid with you. To try to speak about the long term was for me a way to dispel my anxieties about the world in which my grandchildren will live but also another way to pay tribute to Keynes who wrote a wonderful paper about the world in which his grandchildren would live. You remember certainly that on that occasion, he explained that one of the best things which could occur would be that economists become as professional and modest as dentists. I believe that the economist community has still a few steps to go in that direction. But Keynes thought that even more than that was needed, and he devoted the energy of his last years to the design of our institutions. Today, we hear the view—shared fortunately only by a minority of economists—that “60 years is enough” and that smaller IFIs could be enough for a cozy universe where markets could solve all the problems of humanity. Let me tell you that thinking about the world in which I would like to see Julie, Paula, Camille, Ugo, and others to live, I cannot see how it could become a more human place, if the IMF, the World Bank, and

other IFIs were allowed to slide into obsolescence or only to become the mere instruments of coalitions of nation-states. What I see, rather, is the formidable potential for a better world their continued reforms and strengthening could generate. There are too many uncertainties in the world to come, to fail to take advantage of it. Good luck to those in charge.



Michel Camdessus

Former Managing Director of the International Monetary Fund, Michel Camdessus, is Honorary Governor of the Banque de France and Personal Representative of the French President, Jacques Chirac, for the New Partnership for Africa's Development (NEPAD). He is a member of the Commission for Africa, which is chaired by the British Prime Minister, Tony Blair.

Mr. Camdessus was educated at the University of Paris and earned postgraduate degrees in economics at the Institut d'Etudes Politiques de Paris and at the Ecole Nationale d'Administration Publique.

Following his appointment as Administrateur Civil in the French Civil Service, Mr. Camdessus joined the Treasury in the Ministry of Finance in 1960. After serving as Financial Attaché to the French delegation at the European Economic Community in Brussels from 1966 to 1968, he returned to the Treasury and went on to become Assistant Director in 1971, Deputy Director in 1974, and Director in February 1982. From 1978 to 1984, Mr. Camdessus also served as Chairman of the Paris Club, and from December 1982 to December 1984 as Chairman of the Monetary Committee of the European Economic Community. In August 1984, Mr. Camdessus was appointed Deputy Governor of the Bank of France and, in November 1984, Governor of the Bank of France. Mr. Camdessus was named Alternate Governor of the IMF for France in 1983 and Governor of the IMF in 1984.

Mr. Camdessus was appointed as Managing Director and Chairman of the Executive Board of the IMF on January 16, 1987. On May 22, 1996, the Executive Board of the IMF unanimously selected him to serve a third five-year term as Managing Director, beginning January 16, 1997. Mr. Camdessus was the seventh Managing Director of the IMF. He retired from the IMF on February 14, 2000.

Mr. Camdessus is married to Brigitte d'Arcy. They have six children.

The Per Jacobsson Lectures

2005 *International Financial Institutions: Dealing with New Global Challenges.* Lecture by Michel Camdessus.

2004 *The U.S. Current Account Deficit and the Global Economy.* Lecture by Lawrence H. Summers.

Some New Directions for Financial Stability? Lecture by C.A.E. Goodhart, CBE (Zurich).

2003 *The Arab World: Performance and Prospects.* Lecture by Abdlatif Yousef Al-Hamad (Dubai).

2002 *The Boom-Bust Capital Spending Cycle in the United States: Lessons Learned.* Lecture by E. Gerald Corrigan.

Recent Emerging Market Crises: What Have We Learned? Lecture by Guillermo Ortiz (Basel).

2001 No lecture took place due to the cancellation of the Annual Meetings of the IMF and the World Bank.

2000 *Ten Years On—Some Lessons from the Transition.* Lecture by Josef Tošovský (Prague).

Strengthening the Resilience of Financial Systems. Symposium panelists: Peter B. Kenen, Arminio Fraga, and Jacques de Larosière (Lucerne).

1999 *The Past and Future of European Integration—A Central Banker's View.* Lecture by Willem F. Duisenberg.

1998 *Managing the International Economy in the Age of Globalization.* Lecture by Peter D. Sutherland.

1997 *Asian Monetary Cooperation,* Lecture by Joseph C.K. Yam, CBE, JP (Hong Kong).

1996 *Financing Development in a World of Private Capital Flows: The Challenge for International Financial Institutions in Working with the Private Sector.* Lecture by Jacques de Larosière.

1995 *Economic Transformation: The Tasks Still Ahead.* Symposium panelists: Jan Svejnar, Oleh Havrylyshyn, and Sergei K. Dubinin.

1994 *Central Banking in Transition.* Lecture by Baron Alexandre Lamfalussy (London).

Capital Flows to Emerging Countries: Are They Sustainable? Lecture by Guillermo de la Dehesa (Madrid).

1993 *Latin America: Economic and Social Transition to the Twenty-First Century.* Lecture by Enrique V. Iglesias.

1992 *A New Monetary Order for Europe.* Lecture by Karl Otto Pöhl.

1991 *The Road to European Monetary Union: Lessons from the Bretton Woods Regime.* Lecture by Alexander K. Swoboda (Basel).

Privatization: Financial Choices and Opportunities. Lecture by Amnuay Viravan (Bangkok).

1990 *The Triumph of Central Banking?* Lecture by Paul A. Volcker.

1989 *Promoting Successful Adjustment: The Experience of Ghana.* Lecture by J.L.S. Abbey.

Economic Restructuring in New Zealand Since 1984. Lecture by David Caygill.

1988 *The International Monetary System: The Next Twenty-Five Years.* Symposium panelists: Sir Kit McMahon, Tommaso Padoa-Schioppa, and C. Fred Bergsten (Basel).

1987 *Interdependence: Vulnerability and Opportunity.* Lecture by Sylvia Ostry.

1986 *The Emergence of Global Finance.* Lecture by Yusuke Kashiwagi.

1985 *Do We Know Where We're Going?* Lecture by Sir Jeremy Morse (Seoul).

1984 *Economic Nationalism and International Interdependence: The Global Costs of National Choices.* Lecture by Peter G. Peterson.

1983 *Developing a New International Monetary System: A Long-Term View.* Lecture by H. Johannes Witteveen.

1982 *Monetary Policy: Finding a Place to Stand.* Lecture by Gerald K. Bouey (Toronto).

1981 *Central Banking with the Benefit of Hindsight.* Lecture by Jelle Zijlstra; commentary by Albert Adomakoh.

1980 *Reflections on the International Monetary System.* Lecture by Guillaume Guindey; commentary by Charles A. Coombs (Basel).

1979 *The Anguish of Central Banking.* Lecture by Arthur F. Burns; commentaries by Milutin Ćirović and Jacques J. Polak (Belgrade).

1978 *The International Capital Market and the International Monetary System.* Lecture by Gabriel Hauge and Erik Hoffmeyer; commentary by Lord Roll of Ipsden.

1977 *The International Monetary System in Operation.* Lectures by Wilfried Guth and Sir Arthur Lewis.

1976 *Why Banks Are Unpopular.* Lecture by Guido Carli; commentary by Milton Gilbert (Basel).

1975 *Emerging Arrangements in International Payments: Public and Private.* Lecture by Alfred Hayes; commentaries by Khodadad Farmanfarmaian, Carlos Massad, and Claudio Segré.

1974 *Steps to International Monetary Order.* Lectures by Conrad J. Oort and Puey Ungphakorn; commentaries by Saburo Okita and William McChesney Martin (Tokyo).

1973 *Inflation and the International Monetary System.* Lecture by Otmar Emminger; commentaries by Adolfo Diz and János Fekete (Basel).

1972 *The Monetary Crisis of 1971: The Lessons to Be Learned.* Lecture by Henry C. Wallich; commentaries by C.J. Morse and I.G. Patel.

1971 *International Capital Movements: Past, Present, Future.* Lecture by Sir Eric Roll; commentaries by Henry H. Fowler and Wilfried Guth.

1970 *Toward a World Central Bank?* Lecture by William McChesney Martin; commentaries by Karl Blessing, Alfredo Machado Gómez, and Harry G. Johnson (Basel).

1969 *The Role of Monetary Gold over the Next Ten Years.* Lecture by Alexandre Lamfalussy; commentaries by Wilfrid Baumgartner, Guido Carli, and L.K. Jha.

1968 *Central Banking and Economic Integration.* Lecture by M.W. Holtrop; commentary by Lord Cromer (Stockholm).

1967 *Economic Development: The Banking Aspects.* Lecture by David Rockefeller; commentaries by Felipe Herrera and Shigeo Horie (Rio de Janeiro).

1966 *The Role of the Central Banker Today.* Lecture by Louis Rasminsky; commentaries by Donato Menichella, Stefano Siglienti, Marcus Wallenberg, and Franz Aschinger (Rome).

1965 *The Balance Between Monetary Policy and Other Instruments of Economic Policy in a Modern Society.* Lectures by C.D. Deshmukh and Robert V. Roosa.

1964 *Economic Growth and Monetary Stability.* Lectures by Maurice Frère and Rodrigo Gómez (Basel).

The Per Jacobsson lectures are available on the Internet at www.perjacobsson.org, which also contains further information on the Foundation. Copies of the Per Jacobsson lectures through 2005 may be acquired without charge from the Secretary.

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