



Ministro dell'Economia e delle Finanze

***The role of the Fund and of the IMFC***  
remarks by the Chairman, Tommaso Padoa-Schioppa  
IMFC lunch,  
*Washington DC, 20 October 2007*

- Let me use the few minutes allowed to me by the schedule to share with you some thoughts on the role of the IMF and the IMFC. I take the chair of this Committee at the challenging juncture in which the IMF is implementing an ambitious new Medium-Term strategy and adapting its *modus operandi* to an ever increasingly interdependent world. For the Fund to accomplish its role effectively, we will have also to reflect on the way IMFC operates. Concerning the chair of the Committee, there are two aspects on which I have already stated my view. Firstly, the IMFC chair should have a time limit; three years look to me as a reasonable period. Secondly, the chair should rotate among geographical areas. On these and other issues, I am keen to hear your views as soon as time allows it.
- The essence of interdependence lies in the fact that the achievement of one player's goals depends on the behaviour of others. Even in the unlikely case in which each and every country fully complied with sound economic principles and common rules, the interplay of independently set policy agendas can result in inconsistencies, tensions, and possibly conflicts. So, just as all countries share the benefit of the common good of global macroeconomic and financial stability, they all must accept to share the cost of producing it. Indeed, agreement on burden sharing is the crux of the matter in many of the thorny issues of international economic policy.
- Against this background, I will touch upon a few key elements of the IMF as an institution: mission, legitimacy, instruments, leadership.

- **Mission.** What should stand on top of our thoughts on IMF is the mission: would we need to create an IMF if one did not exist, and for what purpose? An increasing number of persons have doubts. My answer is: yes we would have to create it, and the key word defining its mission should be *stability*. Global stability stands as an essential condition for growth and development of every country, as the detrimental effects on economic activity of international crises have periodically reminded us.
- Stability is the Fund's mission, just as 'allocative efficiency' is the mission of the WTO and 'solidarity' (or 'equity') that of the World Bank Group. The intuition of the founders in the early '40s was that this triad of goals has not only a domestic, but also an international dimension. With an immensely increased interdependence these three goals need even more, in my view, to be pursued jointly and cooperatively.
- In the aftermath of World War II, interdependence and stability were linked in a straightforward manner. They hinged on a system of fixed (and infrequently adjusted) exchange rates, in a world where the scope for cross-border transmission of economic turbulence was limited by the exiguity of trade relations and lack of private capital flows.
- The old system became the victim of its own success. The exponential growth of trade opened the way to international capital mobility and eventually to handing over to the market the two functions that the founders had reserved to the IMF: the determination of exchange rates and the international allocation of savings. Such a fundamental shift from the public to the private sphere made the stability goal all the more important, but it also made it increasingly difficult to pin down and pursue effectively.
- Of course, not all forms of instability fall within the IMF mandate. Global interdependence and the systemic dimension should remain the compass guiding the day-to-day implementation of the IMF mission. They should also be the

benchmarks when creating new tools and adapting old instruments to our rapidly changing world economy.

- **Legitimacy** is the next element. In a world where national sovereignty is still seen as incompatible with any restriction, the Fund can have an influence only if it enjoys a strongly established legitimacy: membership and governance are the key words here. *Universal membership* makes the IMF uniquely fit to pursue stability with a truly universal reach, as a global public good. The success in the setting of codes and standards provides clear evidence of this.
- Universal membership, however, is not enough. To perform its function adequately the Fund needs to be assured that each member perceives its *governance* as fully representative. This is why our discussion on quotas and voice, and more generally on improving the governance of the Fund, is so important.
- **Instruments.** No mission, however important, can be fulfilled without effective instruments. In the case of the IMF the key tool has been, for very long, the scarcity of finance, the provision of otherwise unavailable finance to member countries. Nowadays, however, finance is abundant and the link between economic imbalances and the need for Fund money has been severed for most countries.
- In this new situation new instruments have to be developed and traditional ones need to be revamped for the IMF goal of stability to be pursued with success. Indeed, I submit, the toughest challenge for the IMF today is shaping effective instruments. Mission and legitimacy do not suffice. We will have to devise effective instruments for the Fund of tomorrow. An encouraging example is the emergence of a new surveillance framework, spurred and shaped by this Committee. Much, however, remains to be done.
- **Leadership.** In a global institution, with almost 200 members, in the face of diverging views and possibly contrasting short-term interests, to agree and act

may be very difficult. Leadership is indispensable to overcome such difficulties. Leadership is the ability to look far ahead, to take a special responsibility for the future, to make the common interest prevail over narrow self interest.

- This brings me to the IMFC. Because of its composition and size, our Committee bears a special responsibility for the IMF. We are those who collectively share the duty to look farther in the future, to ignore the sirens of short-term interests, to move beyond our individual countries' advantage, bearing in mind that the interdependence of our economies and societies will continue to tighten.
  - The need for leadership is pressing at this juncture, when we are faced with the issue of quota and voice – an issue that, as I have just recalled, is vital for the legitimacy of the Fund and potentially divisive. This must be our first priority.
  - However, our leadership is needed for a much broader range of issues. Such issues concern primarily the mission and instruments of the Fund. The implementation of the Medium-Term Strategy launched in the Spring of 2005 should be the focus. The change in this Chair, the coming of a new Managing Director and the fact that more than half of the persons around this table were not there when the Strategy was adopted, indicate that an opportunity for reflecting on it should be created. This is why I suggest that - in our next meeting in April - we take some time to discuss and prioritize the IMF Strategy in a kind of brainstorming session.
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