

AS PREPARED FOR DELIVERY



Statement By Stanley Fischer
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It is a pleasure for me to be here and participate in your deliberations on the role of the International Monetary Fund. As demonstrated in the many seminars and conferences organized this year on the occasion of the fiftieth anniversary of the Bretton Woods conference, this is a very broad topic indeed. Accordingly, and given the time constraint, I am grateful that the organizers of this gathering have asked me to discuss three aspects in particular. Slightly reorganized, they are: first, on-going efforts to increase the openness of the IMF's activities; second, the role of the IMF in the development process; and third, the relationship of multilateral development assistance to poverty alleviation as well as differing national labor and environmental standards.

To analyze these issues, particularly openness, it is important to understand how the Fund operates and makes decisions. I will therefore start by briefly describing the objectives of the IMF and its institutional structure.

1. IMF: Objectives and Structure

The Fund was established in 1944 by delegates of 44 nations gathered at Bretton Woods in New Hampshire. Its membership has grown steadily and, with the entry of the republics of the former Soviet Union, now totals 179 countries. Its basic objectives, as set out in its Articles of Agreement-- and it is striking how much the day-to-day life of the Fund is guided by the Articles--include promoting international monetary cooperation, facilitating the balanced growth of international trade with a view to achieving high levels of employment and prosperity worldwide, and assisting member countries to deal with balance of payments difficulties.

The highest decision-making body in the Fund is a Board of Governors, composed essentially of ministers and central bank governors from each of the member countries. The Board of Governors meets annually; this year's Annual Meeting took place in Madrid in October.

The Fund's operational decisions are taken by a resident Executive Board composed of 24 Executive Directors and chaired by the Managing Director. The 24 Executive Directors represent the 179 member countries. Executive Directors for eight countries, among them the United States,

represent only that country, and in effect are appointed by it. Other countries are grouped into constituencies, each of which jointly elects an Executive Director, who then speaks and votes for the countries. Executive Directors are typically from the Treasury, Finance Ministry, or Central Bank of their countries.

The Executive Board meets regularly, typically two to three times per week, to consider a wide range of topics. These include:

- the Article IV consultation--an annual examination by the staff of the economic and financial situation of each member, and an assessment of its exchange rate policies, undertaken in collaboration with the authorities of that country;
- use of Fund resources--member countries' requests for financial assistance from the Fund under its various facilities to support governments' economic adjustment and reform programs;
- policy issues of systemic importance to the world economy--such as developments in the world economy, international trade, the international financial system, financial flows to developing countries, the international debt strategy, etc.; and
- aspects relating to the operational strategy and management of the Fund itself.

The Article IV consultations and the discussions on the international economy are part of the work that the Fund describes as surveillance, to which we give heavy emphasis. The surveillance process involves Board discussions of Fund staff's reviews and analyses of individual economies and the international monetary system. The Fund's Board of Governors and the Executive Board are uniquely placed to serve as fora in which the Fund's almost universal membership can discuss policy matters of mutual interest, and in which the experience of the Fund staff can be called upon by member governments as they consider developments in other countries and the world economy.

There are also regularly scheduled reviews of the effectiveness of the Fund's activities. Specifically, the Executive Board evaluates the Fund's role in the area of surveillance, the impact of the economic programs supported financially by the institution, and the contribution of its technical assistance to member countries' growth and development efforts.

It is through the Executive Board and the Board of Governors that the Fund is accountable to its member governments. All Fund decisions are made by the Executive Board, or the Board of Governors, under a system of weighted voting, according to rules set out in the Articles of Agreement. Executive Directors act as the conduit to the members that appointed or elected them, and report directly to, and are in constant touch with, the national authorities. The decisions of the Fund are the decisions of its

membership, and so reflect the deliberations of all 179 members; this fact is fortified in practice, because the management and staff of the Fund work very closely with the Board on a day-to-day basis.

2. Disclosure of Information

As you can imagine, there is ample documentation that provides the basis for Board discussion and decision taking. This documentation is prepared by IMF staff, and is submitted to the Executive Board after internal reviews and approval by management. Fund procedures involve a normal circulation period of 3-4 weeks as a minimum--i.e., subsequent to the issuance of the documentation and prior to its consideration by the Board--to allow for transmittal to national capitals and for review by member governments.

All Board documents--which means the documentation for and of all decisions and recommendations of the IMF--are automatically available to member governments through their Executive Directors. The distribution of these documents within each government varies from country to country, reflecting each country's established procedures.

The Fund also plays an important role in disseminating information to the public at large through its regular and ad hoc publications; reflecting the international character of the institution, several of these are available in different languages. Thus, the Fund publishes a comprehensive collection of macroeconomic data, including the International Financial Statistics, which I found invaluable for analyzing economic policy issues in my previous life as a university professor. It has regular publications analyzing developments in the international economy, the most important being the six-monthly World Economic Outlook (the WEO), as well as the Annual Report. In addition to books and periodicals, the Fund publishes regular studies on specific areas such as international capital markets, financing for developing countries, and international trade and payments. On-going research is made available in the form of working papers. Finally, through its public affairs activities, the Fund maintains a continuous and open dialogue with non-officials, labor unions, NGOs and others.

The IMF maintains contact with the press and broadcast media of its member countries. Press Releases and News Briefs (about 100 a year) are issued whenever the Executive Board approves financial assistance to support the economic program of a member country, or wishes to inform the public of other Board decisions. The Managing Director convenes press conferences from time to time to explain major policy initiatives approved by the Fund, or to set out the Fund's views on issues confronting the world economy.

Despite the increasing openness reflected in this broad range of publications and other contacts with the public, the Fund has been pushed in certain quarters to be more open. This has involved, in particular, requests to make public the documentation relating to the Fund's Article IV consultations and country specific lending operations. These documents are

available to governments; the issue is whether they should be published and made available to the general public.

That is an issue for the member governments of the Fund, operating through the Executive Board, to decide. In this context, the Executive Board agreed recently that the background reports on individual countries (known as the Reports on Recent Economic Developments, or REDs) will be available to the public unless the particular member objects. The Executive Board has also encouraged countries undertaking structural adjustment programs supported by the Fund to release their Policy Framework Paper, which is prepared by the Government in consultation with the Fund and World Bank. Some countries have also released their Letter of Intent accompanying their request to the Fund for financial assistance; these letters, which are the property of the government submitting them, outline the economic adjustment and reform measures that the government is committed to implement in the context of a Fund-supported program.

Executive Directors are scheduled soon to review the issue of openness. In particular, they will discuss the possible publication of Article IV consultation documents, and the possibility of opening the archives, on a basis to be agreed upon, presumably consistent with the practices of member countries. With respect to Article IV papers, the issue will be whether the Board will vote to allow governments that want to publish the Article IV consultation to do so. Several countries have indicated their willingness to publish, while others are concerned that publication would inhibit the frankness of the discussions between the Fund and the member country that form the basis for the Article IV consultation.

There is indeed quite likely to be a tradeoff between publication of Article IV documentation, and the frankness of the discussion that the Fund staff will be able to have with some member governments. The precise terms of the tradeoff will differ from country-to-country depending on the policy-making tradition and degree of openness in that country, and the Executive Board will reach a decision that is based on their evaluation of that tradeoff.

3. The Role of the Fund in the Development Process

The role of the Fund in the development process of member countries starts from a well accepted premise--namely, that a stable macroeconomic environment is essential for sustained high economic growth, economic and social development, and poverty alleviation. The Fund's approach recognizes that stabilization is necessary but not sufficient for growth, and therefore also encourages structural reforms in the fiscal sector, trade and foreign exchange markets, the financial sector, the labor markets, and domestic goods markets that have a longer term as well as a stabilization focus.

In order to promote the adoption of the necessary economic and financial policies, the Fund maintains a regular macroeconomic policy dialogue with all its member countries, through the Article IV consultation

and at other times. It also provides technical assistance with a view to strengthening the national institutions and human implementation capacity that are at the heart of rapid development and economic growth. Finally, it provides financial assistance to member countries in support of their implementation of appropriate economic and financial policies. At this time, the Fund has approved or is in the process of discussing financing arrangements for 112 countries.

By providing loans, the Fund helps member countries maintain imports and thereby reduce consumption and investment less than they would otherwise have to when adjusting to the impact of external shocks or past policy mistakes. The Fund also helps borrowing members by mobilizing financing from other official creditors and the domestic and external private sector.

In the past, the Fund has been accused of having a uniform--or one size fits all--approach to programs. While there are certain fundamentals in bringing macroeconomic stability, such as ensuring that budget deficits can be financed with the available resources, and that excessive inflation is bad for growth, Fund programs in practice vary widely from country to country. In recognition of the diversity of country circumstances, the Fund has also evolved a range of lending facilities. These include those with a short-term stabilization emphasis and others with a longer term stabilization/structural reform emphasis.

Fund loans are made from a pool of resources maintained by the institution on the basis of member country contributions, or quotas. These contributions are related to the economic strength of the member countries, as reflected primarily in the size of GDP, but reflecting also the history of the Fund and other special circumstances. Loans are based on a set of policy measures the member agrees to take--Fund conditionality--with the goal of strengthening their economies, thereby also enabling them to return the borrowed resources to the pool.

A key goal of the financing provided under the Fund's various facilities is to ensure that the funding is consistent with the borrowing member's viability--that is, with its ability to sustain high economic growth and financial stability. Recognizing the difficult situations faced by low income developing countries, the Fund introduced in the 1980s highly concessional lending facilities. The most important of these today is ESAF, the Enhanced Structural Adjustment Facility. The favorable lending terms on ESAF loans (including an annual interest rate of 0.5 percent) have enabled the Fund to support low income countries' adjustment and reform programs without aggravating their debt and debt service situation.

A final aspect worth mentioning here is the Fund's ability to respond quickly to developments of a systemic nature that adversely impact countries' economic development efforts. In recent years this has included, inter alia, helping countries deal with the debt crisis and alleviating the impact of higher international prices and disruption in demand resulting from the 1990 Gulf crisis.

4. Poverty Alleviation, Environmental Standards and Labor

The primary manner in which the Fund contributes to poverty alleviation, employment creation, and reversal of environmental degradation is by supporting the sustained implementation of appropriate macroeconomic policies--through policy advice, technical assistance, and financing. Indeed, there is now widespread acceptance that a sound macroeconomic environment is an essential component to an integrated economic and social development strategy. But because it is not sufficient, the Fund has supplemented its approach with targeted efforts in consultation with other international and regional institutions.

Fund advice, technical assistance, and financial support seek to ensure appropriate emphasis on social sectors within the overall macroeconomic strategy. Accordingly, in discussing the structure of the budget and structural policies, attention is paid to social sector issues, especially in such areas as health and education. Since reform programs often involve major structural changes, emphasis is also placed on the adequacy of social safety nets in the process of transition. These include unemployment insurance, job retraining schemes, and well-targeted welfare expenditures. The Fund's Fiscal Affairs Department provides technical assistance in support of these reforms.

The nature of the Fund's basic work means that it has to rely on other institutions for much of the research and policy recommendations relevant to member countries' environmental protection and aspects of labor markets. Nonetheless, in recent years the Fund has increased its work on both of these issues.

We have started to compile information on member countries' environmental strategies, with a view to improving our understanding of the interactions between macroeconomic policies and the environment. In this context, the staff also collaborates with other institutions such as the World Bank and the OECD in analytical work on environmental issues, including the proper accounting for the environment in the specification of national account data. In May 1993, the Fund hosted a conference on the relationship between macroeconomic policies and the environment, bringing together IMF staff, academics, and 20 leading environmentalists representing non-governmental organizations from a range of countries. In November 1993, the staff reported to the Executive Board on progress that has been made in integrating environmental considerations into the work of the Fund.

The Fund also discusses with member countries issues relating to labor policies. In many cases we discuss with governments and, sometimes, with labor unions, options for the protection of minimum living standards and safety nets and, more generally, improving the functioning of labor markets with a view to sustained employment creation. In recent years, the Fund has built up its contacts and cooperation with a variety of organizations dealing with labor issues, including the International Labor Organization,

the International Confederation of Free Trade Unions, and the World Confederation of Labor.

5. Concluding Comments

The International Monetary Fund prides itself on being responsive to the changing needs of its member countries. In the fifty years of its existence it has grown and evolved, developing new approaches and facilities to deal with new challenges. It maintains intensive policy dialogues with most of its member countries, gives wide ranging technical assistance, and provides financial assistance in support of adjustment and reform policies.

Due to the structure of the Fund, its contribution to the international economic system is more than the sum of its country-specific activities. The Fund provides a unique and invaluable forum for international deliberations on a range of economic and financial issues--issues that are key to countries' abilities to meet their economic and social development potential.

The Fund's overall work program, as well as specific decisions, are the outcome of the deliberations of its member countries through their Executive Directors. This structure has demonstrated its ability to evolve with the times and respond to emerging challenges while meeting its basic objectives of promoting international cooperation, trade, and growth and employment in individual countries. I am confident that it will continue to do so.

