

# A New Multilateralism for the 21st Century

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## ■ Introduction: The Legacy of Bretton Woods

Good evening. It is a great honor to be invited to deliver this year's Dimpleby Lecture, and I would like to thank the BBC and the Dimpleby family for so kindly inviting me—and especially David Dimpleby for his warm words of introduction.

This evening I would like to talk about the future. Before looking ahead, however, I would like to look back—for the clues to the future can often be read from the tea leaves of the past.

I invite you to cast your minds back to the early months of 1914, exactly a century ago. Much of the world had enjoyed long years of peace, and giant leaps in scientific and technological innovation had led to path-breaking advances in living standards and communications. There were few barriers to trade, travel, or the movement of capital. The future was full of potential.

Yet 1914 was the gateway to 30 years of disaster—marked by two world wars and the Great Depression. It was the year when everything started to go wrong. What happened?

What happened was that the birth of the modern industrial society brought about massive dislocation. The world was rife with tension—rivalry between nations, upsetting the traditional balance of power, and inequality between the haves and have-nots, whether in the form of colonialism or the sunken prospects of the uneducated working classes.

By 1914, these imbalances had toppled over into outright conflict. In the years to follow, nationalist and ideological thinking led to an unprecedented denigration of human dignity. Technology, instead of uplifting the human spirit, was deployed for destruction and terror. Early attempts at international cooperation, such as the League of Nations, fell flat. By the end of the Second World War, large parts of the world lay in ruins.

The 44 nations gathering at Bretton Woods were determined to set a new course based on the principle that peace and prosperity flow from the font of cooperation.

I now invite you to consider a second turning point—1944. In the summer of that year, the eminent economist John Maynard Keynes and a delegation of British officials embarked on a fateful journey across the Atlantic. The crossing was risky—the world was still at war and enemy ships still prowled the waters. Keynes himself was in poor health.

But he had an appointment with destiny, and he was not going to miss it.

The destination was the small town of Bretton Woods in the hills of New Hampshire, in the northeastern United States. His purpose was to meet with his counterparts from other countries. Their plan was nothing less than the reconstruction of the global economic order.

The 44 nations gathering at Bretton Woods were determined to set a new course based on mutual trust and cooperation, on the principle that peace and prosperity flow from the font of cooperation, and on the belief that the broad global interest trumps narrow self-interest.

This was the original multilateral moment, 70 years ago. It gave birth to the United Nations, the World Bank, and the International Monetary Fund—the institution that I am proud to lead.

The world we inherited was forged by these visionary gentlemen—Lord Keynes and his generation. They raised the phoenix of peace and prosperity from the ashes of anguish and antagonism. We owe them a huge debt of gratitude.

Because of their work, we have seen unprecedented economic and financial stability over the past seven decades. We have seen diseases eradicated, conflict diminished, child mortality reduced, life expectancy increased, and hundreds of millions lifted out of poverty.

Today, however, we are coming out of the Great Recession, the worst economic crisis—and the great test—of our generation. Thanks to their legacy of multilateralism—international cooperation—we did not slip into another Great Depression that would have brought misery across the world yet again. We all passed the test—rejecting protectionism, reaffirming cooperation.

Yet there will be many more tests ahead. We are living through a time every bit as momentous as that faced by our forefathers a century ago. Once again, the global economy is changing beyond recognition, as we move from the industrial age to the hyperconnected digital age.

Once again, we will be defined by how we respond to these changes.

As we look ahead toward mid-century, toward the world that our children and grandchildren will inherit from us, we need to ask the questions: what kind of world do we want that to be—and how can we achieve it?

As Shakespeare says in *Julius Caesar*: “On such a full sea are we now afloat, and we must take the current when it serves, or lose our ventures.”

This evening, I would like to talk about two broad currents that will dominate the coming decades—increasing tensions in global interconnections and in economic sustainability.

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I would then like to make a proposal that builds on the past and is fit for the future: a strengthened framework for international cooperation.

In short, a new multilateralism for the 21st century.

## ■ Tensions in Global Interconnections

### GROWTH IN INTERCONNECTIONS

I will start with the first major current: tensions in global interconnections, tensions between a world that is simultaneously coming closer together and drifting further apart.

By “coming together,” I mean the breakneck pattern of integration and interconnectedness that defines our time. It is really the modern counterpart of what our ancestors went through in the fateful years leading up to 1914.

Just look at the great linking of the global economy over the past few decades.

For one thing, world trade has grown exponentially. We are now in a world of integrated supply chains, where more than half of total manufactured imports, and more than 70 percent of total service imports, are intermediate goods or services. A typical manufacturing company today uses inputs from more than 35 different contractors across the world.

Financial links between countries have also grown sharply. In the two decades before the crisis in 2008, international bank lending—as a share of world GDP—rose by 250 percent. And we should expect this to rise further in the future, as more and more countries dive into the financial nexus of the global economy.

We are also living through a communications revolution. It has produced a starburst of interconnections, with information traveling at lightning speed from limitless points of origin. The world has become a hum of interconnected voices and a hive of interlinked lives.

Today, 3 billion people are connected to each other on the Internet. Three million emails are sent each second. There are almost as many mobile devices as people on the planet, and the “mobile mind-set” is deeply embedded in all regions of the world. In fact, the highest rates of mobile penetration are in Africa and Asia.

Back in 1953, when people tuned in to the coronation of Queen Elizabeth II, their experience was mediated essentially by one voice—the masterful Richard Dimbleby, whom we honor today. In contrast, when Prince George arrived last summer, his birth was heralded by more than 25,000 tweets a minute.

With such a dizzying pace of change, we can sympathize with Violet Crawley, Downton Abbey’s countess, who wondered whether the telephone was “an instrument of communication or torture.”

## BENEFITS AND COSTS OF INTERCONNECTIONS

This brave new world—this hyperconnected world—offers immense hope and promise. Stronger trade and financial connections can bring tangible benefits to millions of people—through higher growth and greater convergence of living standards. The dream of eliminating extreme poverty is within our reach.

The communications revolution too can be a potent force for good. It can empower people, unleash creativity, and spur change. Think about how Twitter messages helped to galvanize the participants in the Arab Spring, or how social media carrying the message of Malala in Pakistan pricked the conscience of the entire world.

It is not all bright skies, however. When linkages are deep and dense, they become hard to disentangle. In such an interwoven labyrinth, even the tiniest tensions can be amplified, echoing and reverberating across the world—often in an instant, often with unpredictable twists and turns. The channels that bring convergence can also bring contagion.

Because of this, the global economy can become even more prone to instability. If not managed well, financial integration can make crises more frequent and more damaging. Consider, for example, where and how the recent global financial crisis began—in the mortgage markets of suburban America—and spread all around the world.

The communications revolution too has a dark side. It can sow discord, instill factionalism, and spread confusion. Instead of an online forum for ideas and expression, we could have a virtual mob or a global platform to promote intolerance or hatred. Instead of a beautiful symphony, we could have an ugly cacophony.

So the key challenge for us in all this will be to magnify the good and diminish the bad.

## DIFFUSION OF POWER

If managing the great “coming together” were not difficult enough, it will be further complicated by the other current that I mentioned: the tendency for the world to grow further apart, even as it draws closer together.

This is a paradox. What do I mean? I mean the diffusion of power across the world—toward more diverse geographical regions and more diverse global stakeholders. Unlike with integration, our forefathers experienced nothing like this. It is a defining feature of our hyperconnected age.

One of the major trends of our time is the shift in global power from west to east, and from north to south—from a few to a handful to a myriad.

Fifty years ago, the emerging markets and developing economies accounted for about a quarter of world GDP. Today, it is half, and rising rapidly—very likely to two-thirds within the next decade.

The diffusion of power also goes beyond country relationships, extending to a whole host of networks and institutions that inhabit the fabric of global society.

Think about the rising nexus of nongovernmental organizations, which can use the communications revolution to extend their reach and amplify the voice of civil society. In just 20 years, the number of these groups associated with the United Nations rose from 700 to nearly 4,000.

Think about the growing power of multinational corporations, who now control two-thirds of world trade. According to some research, 12 multinational corporations now sit among the world’s top 100 economic bodies in terms of sheer size.

Think about powerful cities—31 of them are also on that list of the top 100. And they continue to grow. By 2030, about 60 percent of the world’s population will live in cities.

Think also about the rising aspirations of citizens who feel increasingly part of, yet not quite adjusted to, our interconnected “global village.” By 2030, the global middle class could top 5 billion, up from 2 billion today. These people will inevitably demand higher living standards, as well as greater freedom, dignity, and justice. Why should they settle for less?

This will be a more diverse world of increasing demands and more dispersed power. In such a world, it could be much harder to get things done, to reach consensus on issues of global importance.

The risk is of a world that is more integrated—economically, financially, and technologically—but more fragmented in terms of power, influence, and decision making. This can lead to more indecision, impasse, and insecurity—the temptations of extremism—and it requires new solutions.

## ■ Tensions in Economic Sustainability

We will also need solutions for the second broad current that will dominate the next few decades—tensions in economic sustainability, those between staying strong and slowing down.

Of course, the immediate priority for growth is to get beyond the financial crisis, which began six years ago and is still with us, as the markets remind us these days. This requires a sustained and coordinated effort to deal with problems that still linger—a legacy of high private and public debt, weak banking systems, and structural impediments to competitiveness and growth—which have left us with unacceptably high levels of unemployment.

You are used to the IMF talking about these issues, I know. Tonight, however, I want to set these issues in the context of longer-term impediments. Three in particular—demographic shifts, environmental degradation, and income inequality. As with global interconnections, some of these problems would look familiar to our ancestors—rising inequality, for example. But others are new and novel, such as pressures on the environment.

## DEMOGRAPHICS

Let me start with demographics. Over the next three decades, the world's population will get much larger and much older.

In 30 years time, there will be about 2 billion more people on the planet, including three-quarters of a billion people over the age of 65. By 2020, for the first time ever, there will be more people over 65 than children under 5.

The geographical distribution will also change: young populations in regions like Africa and south Asia will increase sharply, while Europe, China, and Japan will age and shrink. In the coming decades, we expect India to surpass China, and Nigeria to surpass the United States, in terms of population. And both China and India will start aging in the near future.

This can create problems on both ends of the demographic spectrum—for youthful countries as well as for graying ones.

Right now, the young countries are seeing a “youth bulge,” with almost 3 billion people—half the global population—under age 25. This could prove a boon or a bane, a demographic dividend or a demographic time bomb.

A youthful population is certainly fertile ground for innovation, dynamism, and creativity. Yet everything will depend on generating enough jobs to satisfy the aspirations of the rising generation.

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This calls for a single-minded focus on improving education—and, in particular, on the potentially massive effects of technological change on employment. Looking ahead, factors such as the Internet revolution, the rise of smart machines, and the increasing high-tech component of products will have dramatic implications for jobs and the way we work. Yet governments are not thinking about this in a sufficiently strategic or proactive way.

Aging countries will have different problems, of course. They will face slowing growth precisely at a time when they need to take care of a retiring generation—people who have contributed to society and expect, as part of the social contract, to be provided with decent social services as they move into their twilight years. This too can create tensions.

Migration from young to old countries might help to release some pressure at both ends.

Yet it could also inflame tensions—the brain drain could sap productive potential from source countries, and a sudden influx of people could erode social cohesion in host countries and fuel nationalism. Yes, migration can help, but it must be managed well.

## ENVIRONMENTAL DEGRADATION

So demographics is one potential long-term obstacle. A second is environmental degradation, the newest and greatest challenge of our era. We all know what is at stake here. More people with more prosperity will stretch our natural environment to the limit.

We can expect growing pressure points around water, food, and energy scarcity as the century progresses. By 2030, almost half of the world's population will live in regions of high water stress or shortage.

Hovering over all of this is the merciless march of climate change. Because of humanity's hubris, the natural environment, which we need to sustain us, is instead turning against us.

Make no mistake, it is the world's most vulnerable people who will suffer most from the convulsions of climate. For example, some estimates suggest that 40 percent of the land now used to grow maize in sub-Saharan Africa will no longer be able to support that crop by the 2030s. This will have hugely disruptive implications for African livelihoods and lives.

A few years back, Prince Charles gave this very Dimpleby Lecture. He used the occasion to make an impassioned plea to respect the natural law of ecological sustainability. “In failing the earth,” he said, “we are failing humanity.”

The bad news is that we are getting perilously close to the tipping point. The good news is that it is not too late to turn the tide despite the rising seas.

Overcoming climate change is obviously a gigantic project with a multitude of moving parts. I would just like to mention one component of it—making sure that people pay for the damage they cause. Why is this aspect—getting the prices right—so important? Because it will help to reduce the harm today and spur investment in the low-carbon technologies of tomorrow.

Phasing out energy subsidies and getting energy prices right must also be part of the solution. Think about it: we are subsidizing the very behavior that is destroying our planet, and on an enormous scale. Both direct subsidies and the loss of tax revenue from fossil fuels ate up almost \$2 trillion in 2011—this is about the same as the total GDP of countries like Italy or Russia. The worst part is that these subsidies mostly benefit the relatively affluent,

not the poor. Reducing subsidies and properly taxing energy use can be a win-win prospect for people and for the planet.

## INCOME INEQUALITY

Demographics and degradation of the environment are two major long-term trends—disparity of income is the third. This is really an old issue that has come to the fore once again.

We are all keenly aware that income inequality has been rising in most countries. Seven out of ten people in the world today live in countries where inequality has increased over the past three decades.

Some of the numbers are stunning—according to Oxfam, the richest 85 individuals in the world own the same amount of wealth as the bottom half of the world’s population.

In the United States, inequality is back to where it was before the Great Depression, and the richest 1 percent captured 95 percent of all income gains since 2009, while the bottom 90 percent got poorer. In India, the net worth of the billionaire community increased twelve-fold in 15 years, enough to eliminate absolute poverty in this country twice over.

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With facts like these, it is not surprising that inequality is increasingly on the global community's radar screen. It is not surprising that everyone from the Confederation of British Industry to Pope Francis is speaking out about it—because it can tear apart the precious fabric that holds our society together.

Let me be frank: in the past, economists have underestimated the importance of inequality. They have focused on economic growth, on the size of the pie rather than its distribution. Today, we are more keenly aware of the damage done by inequality. Put simply, a severely skewed income distribution harms the pace and sustainability of growth over the longer term. It leads to an economy of exclusion, and a wasteland of discarded potential.

It is easy to diagnose the problem, but far more difficult to solve it.

From our work at the IMF, we know that the fiscal system can help to reduce inequality through careful design of tax and spending policies. Think about making taxation more progressive, improving access to health and education, and putting in place effective and targeted social programs. Yet these policies are hard to design and—because they create winners and losers—they create resistance and require courage.

Nevertheless, we need to get to grips with it, and make sure that “inclusion” is given as much weight as “growth” in the design of policies. Yes, we need inclusive growth.

More inclusion and opportunity in the economic life also means less cronyism and corruption. These problems must also rise to the top of the policy agenda.

## ROLE OF WOMEN

There is one more dimension of inequality that I wish to discuss here—one that is close to my heart. If we talk about inclusion in economic life, we must surely talk about gender.

As we know too well, girls and women are still not allowed to fulfill their potential—not just in the developing world, but in rich countries, too. The International Labor Organization estimates that 865 million women around the world are being held back. They face discrimination at birth, on the school bench, in the board room. They face the reticence of the marketplace—and of the mind.

And yet, the economic facts of life are crystal clear. By not letting women contribute, we end up with lower living standards for everyone. If women participated in the labor force to the same extent as men, the boost to per capita incomes could be huge—27 percent in the Middle East and North Africa, 23 percent in south Asia, 17 percent in Latin America, 15 percent in east Asia, and 14 percent in Europe and central Asia. We simply cannot afford to throw away these gains.

“Daring the difference,” as I call it—enabling women to participate on an equal footing with men—can be a global economic game changer. We must let women succeed, for ourselves and for all the little girls—and boys—of the future. It will be their world—let us give it to them.

## ■ A Multilateralism for a New Era

I have talked tonight about the main pressure points that will dominate the global economy in the years to come—the tension between coming together and drifting apart, and the tension between staying strong and slowing down. I have talked about pressures that would have seemed familiar a century ago, and some that are entirely new.

Now, how do we manage these pressure points? Where are the solutions?

### HARD AND SOFT COOPERATION

Overcoming the first tension really boils down to a simple question: do we cooperate as a global family, or do we confront each other across the trenches of insularity? Are we friends, or are we foes? Overcoming the second tension requires us to face common threats that are not bound by borders. Do we face adversity together, or do we build yet more borders and Maginot Lines that will be mere illusory protections?

The response to both tensions is therefore the same: a renewed commitment to international cooperation, to putting global interest above self-interest, to multilateralism.

As Martin Luther King once said, “We are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly, affects all indirectly.”

This is really an old lesson for a new era. At such a momentous time as this, we need to choose the ethos of 1944 over 1914. We need to rekindle the Bretton Woods spirit that has served us so well.

That does not mean, however, that we need to go back to the drawing board.

Thanks to the inheritance of history, we have specific, working forms of cooperation at hand. Again, think about the United Nations, the World Bank, the World Trade Organization—and of course the IMF. We might call these concrete—or “hard”—forms of global governance.

We also have a number of “soft” instruments, such as the G20 at one end and networks of nongovernment organizations at the other. These entities have no formal mandates or legal powers of enforcement, but they do have value. They can move quickly, and they can wedge open the doors of dialogue. And, as Winston Churchill famously said, “to jaw-jaw is always better than to war-war.”

We have seen the power of multilateralism in action, both “hard” and “soft.” For an example of soft cooperation, we need look no further than right here in London five years ago, when the G20 countries rallied to turn back the tide of crisis, and made sure the world did not slip into a second Great Depression.

As for more concrete forms, I invite you to consider the historic role played by the IMF down through the years—helping Europe after the war, the new nations of Africa and Asia after independence, the former Eastern Bloc after the Iron Curtain fell, and Latin America and Asia after crippling crises. During the current crisis, we made 154 new lending commitments, disbursed \$182 billion to countries in need, and provided technical assistance to 90 percent of our member nations. And we have 188 of them.

## REQUIREMENTS OF THE NEW MULTILATERALISM

The beauty of the new multilateralism is that it can build on the old—but go further. The existing instruments of cooperation have proven extremely successful over the past decades, and they must be preserved and protected. That means that institutions like the IMF must be brought fully up to date, and made fully representative of the changing dynamics of the global economy. We are working on that.

More broadly, the new multilateralism must be made more inclusive—encompassing not only the emerging powers across the globe, but also the expanding networks and coalitions that are now deeply embedded in the fabric of the global economy. The new multilateralism must have the capacity to listen and respond to those new voices.

The new multilateralism also needs to be agile, making sure that soft and hard forms of collaboration complement rather than compete with each other. It needs to promote a long-term perspective and a global mentality, and be decisive in the short term to overcome the temptation toward insularity and muddling through.

Fundamentally, it needs to instill a broader sense of social responsibility on the part of all players in the modern global economy. It needs to instill the values of a global civil market economy—a global guildhall, as it were.

What might this mean in practice? It clearly means many things, starting with all global stakeholders taking collective responsibility for managing the complex channels of the hyperconnected world.

For a start, that means a renewed commitment to openness, and to the mutual benefits of trade and foreign investment.

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It also requires collective responsibility for managing an international monetary system that has traveled light-years since the old Bretton Woods system. The collective responsibility would translate into all monetary institutions cooperating closely—mindful of the potential impact of their policies on others.

In turn, that means we need a financial system for the 21st century. What do I mean by that?

I mean a financial system that serves the productive economy rather than its own purposes, where jurisdictions only seek their own advantage provided that the greater global good prevails and with a regulatory structure that is global in reach. I mean financial oversight that is effective in clamping down on excess while making sure that credit gets to where it is most needed. I also mean a financial structure in which industry takes co-responsibility for the integrity of the system as a whole, where culture is taken as seriously as capital, and where the ethos is to serve rather than rule the real economy.

This has special resonance right here in the city of London. As a financial center with global reach, it must be a financial center with global responsibility. And with all due respect and admiration, that goes beyond hiring a Canadian to head the Bank of England.

We also need the new 21st century multilateralism to get to grips with big-ticket items like climate change and inequality. On these issues, no country can stand alone. Combating climate change will require the concerted resolve of all stakeholders working together—governments, cities, corporations, civil society, and even private citizens. Countries also need to come together to address inequality. As but one example, if countries compete for business by lowering taxes on corporate income, this could make inequality worse.

Overall, the kind of 21st century cooperation I am thinking of will not come easy. It might get even harder as time passes, when the curtains fall on this crisis, when complacency sets in—even as the seeds of the next crisis perhaps are being planted. Yet given the currents that will dominate the coming decades, do we really have a choice?

A new multilateralism is nonnegotiable.

## CONCLUSION

On that note, let me end by going back again to the beginning—to Keynes and that famous tryst with destiny.

Referring to that great multilateral moment, he noted that “if we can so continue, this nightmare, in which most of us here present have spent too much of our lives, will be over. The brotherhood of man will have become more than a phrase.”

History proved Keynes right. Our forefathers vanquished the demons of the past, bequeathing to us a better world—and our generation was the main beneficiary.

We are where we are today because of the foundation laid by the generation before us.

Now it is our turn—to pave the way for the next generation. Are we up to the challenge? Our future depends on the answer to that question.