

Age of ingenuity

Christine Lagarde reimagines 21st century international cooperation, when the world delivers a new burst of creativity in solving shared challenges

Tonight, December 4th is actually an important date for another reason. I will not tell you why just yet. You will have to wait until the end of my remarks. When I walked into the Great Hall this evening I immediately thought about two things. The first are my sons, one of whom is an architect. He would love this magnificent space. The second is my native country, France, as well the country I was just in two days ago for the G20 Summit, Argentina. Why?

When this structure was completed in 1897, the chief engineer remarked that the Palais Garnier — the Paris Opera House — was the “*the prime suggestion*” for the new Library of Congress. That makes sense, since the Paris Opera House was completed twenty years earlier, in 1875. Now I think the French may have borrowed a bit themselves. Perhaps from the original Teatro Colón, the Opera House in Buenos Aires, which was finished in 1857.

What does this tell us? Well, first of all, that valuable intellectual property was of great interest across borders, even back then, at least among architects who happily borrowed from each other, learned from one another, and became inspired. Second, it reminds us that, they understood that building something lasting means linking the solid foundations of the past with a spark of imagination.

That kind of creativity and long-term vision, rooted in history and informed by our successes and failures from the past, is my theme this evening. First, where have we been? How has creativity in international economic cooperation helped bring prosperity and peace to the world. And second, where can we travel together? How can creativity and informed visionary thinking help adapt the international system to our current challenges?

75 Years of creativity and vision in international economic cooperation

Let me begin with the shared history of the United States and the IMF over the past 75 years.

In the first half of the 20th century, the dominant economic and military powers used force to assert their self-interests at enormous cost in terms of human life and physical destruction. The tragic results compelled nations to find a better way. In 1944, they found it. The US emerged as the major global power and did something unprecedented.

Informed by the devastating ultimate outcome of the Versailles Treaty at the end of World War I, the US decided to use its power in the service of cooperation. It was an experiment that would shape our modern world. In his inaugural lecture in 2001, Dr Kissinger called the innovations of the postwar period, *“a great burst of creativity that brought security to the world.”*

We must build on what worked, change what does not, and continually evolve, improve, and imagine a better future for all people

How did the US do it? With generosity, with consideration for its self-interest, and with a little help from some friends. Let us look at some of the turning points over the last 75 years.

Think first of the creation of the Bretton Woods system itself. The principal architects, John Maynard Keynes of the UK and Harry Dexter White of the US, were deeply influenced by the period between the great wars. They witnessed a moment in history when flawed domestic policies poisoned international relationships, which themselves were built on troubled foundations.

The result was protectionism and competitive currency devaluations. Imploding world trade deepened the Great Depression, and caused massive economic, financial, and social upheaval. Ultimately, these pressures gave rise to nationalist and populist movements and, eventually, catastrophe.

Emerging from the Second World War, the US and some 40 other countries gathered in Bretton Woods, New Hampshire and decided to create the International Monetary Fund and the World Bank. They charged the Fund with three critical missions: promoting international monetary cooperation, supporting the expansion of trade and economic growth, and discouraging policies that would harm prosperity.

It was revolutionary. It was visionary And it worked.

From the very beginning, the IMF helped countries address major new challenges through collaboration. Complementing the Marshall Plan, we helped Europe rebuild from the rubble of war. Our loans gave countries breathing space to stabilize their economies in difficult times and implement policies to promote growth. It is a mission that we continue to this day — as you may have seen recently in countries as diverse as Argentina, Egypt, and Ukraine.

The genius of this collaborative system was that it was designed to adapt and change. In the early 1970s that change arrived. In his landmark speech, *The Challenge of Peace*, President Nixon suspended the US dollar's convertibility into gold. The decision shocked the world and forced a year-long negotiation that led to the modern floating exchange rate structure.

At the time, some thought that this particular change would mean the end of the IMF. But all our members, including the US, knew that the goals of stability and prosperity extended well beyond fixed exchange rates. They recognized the benefits of a global financial firefighter that could help countries in times of need. They built on what worked, changed what did not, and adapted.

In response to the oil crisis of 1973, the IMF created new tools to help countries facing an energy emergency in line with the Fund's role to help smooth shocks and prevent harmful spillovers. As a debt crisis hit Latin America in the 1980s, the IMF, with creative ideas and support from the US, stepped in to calm the waters. After the fall of the Berlin Wall, we took on a new challenge: helping nations in the former Soviet bloc transform themselves from centrally planned to free market economies. In the 1990s, the Fund assisted countries in overcoming, first, the Mexican peso crisis, and then the Asian financial crisis.

Throughout all of these challenges we continued to help countries around the world with their economic fundamentals — their fiscal, monetary, and exchange rate policies — and with steps to build stronger economic institutions. These efforts enabled better policies that opened markets, boosted trade, created jobs, and unleashed economic potential.

Then came 2008 and the global financial crisis. The ensuing great recession reminded us that international cooperation is essential, not optional. As the French Finance Minister, I was part of that international response. G20

nations and the Federal Reserve took extraordinary steps to save the system. The IMF deployed its own firepower, committing over \$500 billion to help secure the global economy. In the decade since, we supported economic programs in over 90 countries and adapted our lending instruments, including zero-interest loans to help low-income countries.

But the global economy needed more than liquidity and stimulus. We worked with our membership to craft stronger financial sector regulations so that, together, we could prevent the next crisis. We learned from the past, got creative, and changed for the better.

None of this would have been possible without the United States. This country challenged the international economic order when it needed challenging. It forged compromise when compromise was necessary. Why? Because a stronger and more stable world paid dividends for the US. It enabled the US to enjoy some of the longest runs of sustained economic growth the modern world has ever known.

Since that meeting at Bretton Woods nearly 75 years ago, real US GDP increased by a factor of eight. The average American's real income has quadrupled. This success did not come at the expense of other nations. On the contrary. This country's collaborative leadership paved the way not only for decades of opportunity here in America, but also for growth that spread across the world.

Today, the landscape has shifted again. Part of this change is driven by geopolitics and the shift in some economic power from west to east. Part of it by the rise of non-state actors, including multi-national companies. And part of it is driven by technology and the rapid acceleration of everything in our lives.

As I am sure the curators of this library are well aware, 90 percent of the world's data was created just over the last two years. As a daughter of two classics professors, I know my parents would find this fact very hard to believe. But the truth is all things — from information, to money, to disease — travel more quickly in our modern world. These transformations can bring enormous opportunities, but also unprecedented risks. Why?

Because more than ever before, what happens in one nation can impact all nations. Think about it: from weapons of mass destruction, to cyber-security, to the interconnected financial system, many of our current challenges do not recognize borders. So, when support for international cooperation falters, we must remember the lesson the United States and her allies taught the world over the last 75 years: solidarity is self-interest.

That principle endures in our changing world. Our challenge now is to adapt and reform once more.

The next chapter: how to reimagine international cooperation

I believe that this next year, 2019, can be another turning point in our journey — a moment when the world delivers a new burst of creativity in solving our shared challenges. We can draw inspiration from our surroundings. Inscribed on the walls above us are the words of the poet Edward Young, *"They build too low, those who build beneath the stars."* Imagine what the world might look like if we fail to build and adapt: We could live in an Age of Anger.

By 2040, inequality could surpass the levels of the Gilded Age. Strong tech monopolies and weak governments with ineffective domestic policies could make it impossible for start-ups and entrepreneurs to succeed. Health breakthroughs could allow the richest to live past 120, while millions of others suffer from extreme poverty and disease. Social media would bombard the 'left-behind' population, underscoring the disparity between their reality and the possibility of a better life.

The aspiration gap fuels resentment and anger. Trust between nations breaks down. The world would be more interconnected digitally, but less connected in every other way. International cooperation for mutual benefit would be a concept studied in libraries like this one, but rarely practiced on the world stage, due to the supremacy of national interests and a singular focus on domestic policies. To borrow from Dr. Kissinger in his book *World Order*, we might be, *“facing a period in which forces beyond the restraints of any order determine the future.”*

That is a very dystopian scenario, isn't it? But I do not believe it is our destiny. Neither does Dr Kissinger, by the way. We have overcome existential threats before and can do so again. Think of the world if we make 2019 the start of a different kind of 'AI' — an Age of Ingenuity. This would be a future fueled by creativity and cooperation.

By 2040, we would see flourishing economies predominantly running on renewable energy. Women would be fully empowered in the workforce, proving to be an economic and social game-changer. New pension systems and health care portability would reflect the changing nature of work in the digital economy. Corporations would embrace social responsibility as part of their business models. Technological wizardry could save lives and create millions of jobs. We would see an end to mass migration. Trade would expand across the world and peaceful co-existence between nations would prevail.

Am I being too optimistic? I have to be optimistic. I am thinking of the world my grandchildren will inherit. But it does present us with a fundamental choice: stand still and watch discord and discontent bubble over into conflict; or move forward, reimagine the way nations work together, and build prosperity and peace.

What does this mean in practice? It means countries working together to put people at the centre of all of our efforts — focusing on real results that improve lives. It also means governments and institutions being more

transparent and accountable — which includes listening to more diverse voices. It means ensuring that economic benefits of globalization are shared by the many, not just the few.

I have called this the “*new multilateralism*.” You might call it common sense.

Let me be very clear here: good international cooperation cannot substitute for good domestic policy. Of course, individual countries have a responsibility for the well-being of their citizens. In fact, strong domestic policies can form the foundation for effective international cooperation. And in our modern world, there are some issues that can only be addressed through international cooperation.

I want to discuss four such issues in that respect. To be successful in each, we will need the creativity and vision of the IMF’s 189-member countries, including our founding member — the United States.

a. Keys to the Age of Ingenuity

First, trade. I have been saying for some time now that we need to “*fix the system*.” More recently I have been urging countries to “*de-escalate*” trade tensions. It was encouraging to see progress on this front at the G20 over the weekend.

Now we must continue the de-escalation, while at the same time improving the trading system for the future. This would include eliminating distortionary subsidies, whichever form and colour they take. It would also mean protecting intellectual property rights without stifling innovation and getting rid of rents.

New trade agreements could unleash the potential of e-commerce and trade in services. I should stress that better macroeconomic policies would reduce the external imbalances — including trade surpluses and deficits — that

have been the backdrop for rising trade tensions. All of this is critical because trade lifts productivity and accelerates innovation.

My second issue where we need more cooperation: international taxation. Companies now have a world-wide presence, but governments have not figured out a world-wide answer on tax. Right now, too many tax dollars are left on the table thanks to tax optimization and the bad kind of creativity. So countries need to work closely together to collect what is owed and avoid a tax race to the bottom. They can close the loopholes that lead to what is called base erosion and profit shifting.

The IMF is working with our partners, so our members can share best practices and devise regulations for a digital economy in which many companies have no single established base of operations.

Why the need for this revenue? Because all countries should be investing in their future. Public and private funding working together can strengthen infrastructure, improve education, and prepare all of us to adjust to the technological transformation on our doorstep.

My third issue: our climate. From the recent major hurricanes in the Caribbean to the wildfires in California, the dangerous effects of climate change are becoming more tangible by the day. A new US government study shows that the economic impact from climate change could significantly reduce America's GDP in the coming decades.

The collaborative agreement reached in Paris in 2015 is the best toolbox we have to start fixing this planetary challenge and move towards a zero-carbon economy. It also reflects the ideas that I have highlighted tonight — creativity, visionary thinking, and a global commitment to the common good that serves self-interest. This is a matter of survival for our children and grandchildren.

Now each of these issues — trade, tax, climate — is worthy of its own Kissinger Lecture. But there is one issue that I believe is the bedrock for progress nearly everywhere else. That is why the fourth and final area I want to discuss is good governance, free from the shackles of corruption. The simple fact is that without confidence in our institutions, none of the change we seek will be possible. So, let me focus on this briefly.

b. Fighting corruption, promoting good governance

Why is corruption so corrosive? Because when people start believing the economy no longer works for them, they start disconnecting from society. Corruption saps economic vitality and siphons off desperately needed resources. The money diverted from education or health care perpetuates inequality and limits the possibility of a better life. The annual cost of bribery alone is over 1.5 trillion dollars — roughly two percent of global GDP.

Millennials feel the problem acutely. A recent survey of global youth revealed that young people identify corruption — not jobs, not lack of education — as the most pressing concern in their own countries.

There is wisdom in this insight — because corruption is a root cause of many of the economic injustices young men and women feel every day. That is why the IMF, with the support of all our membership, is scrutinizing anew the impact of corruption on a country's macroeconomic health. So far, we have worked with over 110 countries on improving their efforts to tackle money laundering and terrorist financing.

And this is only a small part of the wider work needed to promote good governance. Investing in institutions is indispensable, as is persistence to verify that institutions actually deliver. Here is the fundamental point: corruption is a cancer that does not recognize borders.

Think of how fintech is changing the economic game. New innovations — including cryptocurrency — can be used by cyber-criminals to funnel illicit financial flows and fund illegal activities worldwide. This is not one nation's problem or within one nation's power to resolve. It can only be fixed through cross-border collaboration.

But it is something fixable. The same innovations that create cross-border challenges can also be used to help us fight back. Through biometrics, blockchain, and more we can find creative ways to build a better, safer system for the long-term. Governments can and must work with the world's best engineers to build stronger cyber security systems that protect people's bank accounts and their well-being. This is a common good we must choose to support.

If we take on the challenge of corruption, it can be a model for cooperation in each of the areas I have raised tonight. It can be the sign that "*the brotherhood of man*," as Keynes called it, is ready once again to meet the call of history. Except this time, women will play a starring role!

This is how we start restoring trust, the most precious and in-demand commodity in our society. This is how we begin to adapt once more and reimagine international cooperation. This is how by working together, we can create the Age of Ingenuity.

Conclusion

Now, before I conclude, there is one thing left to do. I began my remarks by mentioning that December 4th was an important date. Has anyone guessed the significance?

On December 4th, 1918, one hundred years ago to the day, President Woodrow Wilson set sail for France to help negotiate what he hoped would be a lasting peace. He became the first sitting US President to travel to Europe. In

some ways, we can trace the origins of creativity and visionary thinking in US foreign policy to this date.

It is a humbling reminder that our plans do not always work out as intended. But it is also a signal that we must try and try again to overcome. We must build on what worked, change what does not, and continually evolve, improve, and imagine a better future for all people. It was the vision that inspired the leaders of this country. It must be the mission that will guide all of us in the days ahead. ■

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