



A Delicate Moment for the Global Economy: Three Priority Areas for Action

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1. Introduction

Good morning—I would like to thank my friend Tom Donohue and the Center for Capital Markets Competitiveness for inviting me to this important event.

When I walked into this magnificent hall this morning, I was struck by the powerful image of the 12 flags. These are the banners of 12 great explorers, who opened new avenues for trade and planted the seeds of commercial and industrial growth in the New World.

That spirit is at the heart of the US Chamber of Commerce, which has been working hard for more than a century to help foster the American dream. The Chamber and the IMF have much in common.

They both take an international perspective; they both advocate for greater collaboration between government and the private sector; and, above all, they both are deeply committed to promoting *growth, jobs, and opportunities* for all.

So this is a most fitting venue to discuss how to make growth more sustainable and inclusive; how to reduce trade tensions; and how to strengthen confidence and trust—in the economy and institutions.

These are also issues that Finance Ministers and Central Bank Governors will discuss next week at the IMF and World Bank's Spring Meetings here in Washington.

They will confront a changing economic landscape that places a premium on the right kind of policy action.

As President Theodore Roosevelt once put it: "*There is every reason why we should face the future seriously, neither hiding from ourselves the gravity of the problems nor fearing to approach these problems with the unbending, unflinching purpose to solve them aright.*"^[1] ([#_edn1](#))

I would like to focus on how we can harness this "unbending purpose" for the benefit of all.

2. The Global Economy: A Delicate Moment

Let me begin with the global economic weather map.

A year ago, I said, "*the sun is shining—fix the roof.*" Six months ago, I pointed to clouds of risk on the horizon. Today, the weather is increasingly "unsettled". What do I mean by that?

In January, the IMF projected global growth for 2019 and 2020 at around 3 ½ percent—less than in the recent past, but still reasonable. It has since lost further momentum, as you will see from our updated forecast next week.

Only two years ago, 75 percent of the global economy experienced an *upswing*. For this year, we expect 70 percent of the global economy to experience a *slowdown* in growth.

But, to be clear, we do not see a recession in the near term. In fact, we expect some pickup in growth in the second half of 2019 and into 2020.

So you see what I mean by “unsettled”. Indeed, the global economy is at a “delicate moment”.

Global growth has been slowing, largely because of rising trade tensions and financial tightening in the second half of 2018. At the same time, global economic activity is set to *benefit* from the now more-patient pace of monetary normalization by major central banks—led by the US Fed—and from increased stimulus, in China for example.

These policy responses have supported an *easing* of financial conditions and increased capital flows to emerging markets, where currencies have strengthened relative to the US dollar.

But, again, to be clear: the expected rebound in global growth later this year is precarious. It is vulnerable to downside risks—including *country-related* uncertainties, such as Brexit, and *broader* uncertainties such as high debt in some sectors and countries, tensions around trade policy, and a sense of unease in financial markets.

For example: should there be a sharper-than-expected tightening of financial conditions, it could create serious challenges for many governments and companies in terms of refinancing and debt service—which could amplify exchange rate movements and financial market corrections.

3. Three Areas of Policy Action

So indeed, this is a delicate moment that requires us to “handle with care”. This means that we must not only avoid policy missteps, but also be sure to take the *right* policy steps.

I see three mutually reinforcing areas of action: In *domestic policies*; in *cross-border policies*; and in coordinated efforts to tackle the major *global challenges* we all face.

Let me touch on each of these:

(a) Domestic Policies to Build More Resilient and Inclusive Economies

First and foremost, policies must provide conditions at home for people to succeed. You might have heard me say “*we should fix the roof!*”—especially when it comes to structural reforms that can help boost productivity and long-term growth. There is no one-size-fits-all, of course—policies should be customized to meet the needs of individual countries.

Broadly speaking, however, macroeconomic policy should aim to secure growth and stability. Monetary policy should remain accommodative where inflation is below target, and should anchor expectations. Exchange rate flexibility should be used, as needed, to help absorb shocks. And the financial sector should be strengthened and risks reduced by maintaining the impetus of regulatory reform.

The reality is that many economies are not resilient enough. High public debt and low interest rates have left limited room to act when the next downturn comes, which inevitably it will.

For many countries, this implies making smarter use of fiscal policy which, in turn, means striking the right balance between growth, debt sustainability, and social objectives.

As a former Finance Minister, I know that this is not so easily done. It involves building fiscal buffers in good times, while creating enough fiscal space to act in bad times. It involves the continual hard work of upgrading tax systems, mobilizing domestic revenue, prioritizing growth-friendly expenditure, and reducing public debt where needed.

It also involves addressing excessive inequality. Here fiscal policy can play a key role, including through progressive tax measures that would need to be country-specific, and stronger safety nets that can help address dislocations caused by technological change and globalization.

Above all, fiscal policy can help create broader opportunities by providing access to quality education, healthcare, and infrastructure—especially for those who have been left behind or left out. In many countries, this means paying special attention to young people and to women.

This kind of policy action can help build confidence and trust—and overcome perceptions of an unfair sharing of economic benefits.

One area where these perceptions are growing is in the increasing concentration of market power by a few corporate giants.

New IMF analysis^{[iii] (#_edn2)} shows that, over the past two decades, rising corporate market power in advanced economies had only a very small effect on investment, output, and the share of national income paid to workers.

But we also found that a small number of highly dynamic companies accounted for the highest price markups. In other words, there is a “winner-takes-most” dynamic at play—especially pronounced in the digital economy.

I am not saying that we currently have a “monopoly problem”. But I am saying that we should take appropriate measures—so that it does not become a problem.

That means reducing barriers to entry for new firms and reforming competition frameworks to ensure a level playing field in all sectors, whether traditional or high-tech.

(b) Cross-Border Efforts to Provide a More Level Playing Field

This brings me to my second priority area for action: cross-border policies. Here there are a wide range of economic issues to be addressed: upgrading financial regulations, improving debt transparency, tackling illicit financial flows—to name a few.

But when it comes to leveling the playing field across borders, no issue looms larger than trade. This is an area where the Chamber and the IMF share much common ground.

We know that, for many decades, trade integration has helped to increase prosperity, reduce poverty, spread new technologies, and boost productivity. For people all over the world, it has reduced the cost of living and created millions of new jobs with higher wages.

At the same time, we know that not everyone has benefitted, that there are distortions in the trade system, and that it needs to be reformed.

We also know that trade barriers are *not* the answer. More new research from the IMF—about to be released—shows just how important it is to avoid policy missteps in this sphere.

Analyzing experience from 180 countries over the past six decades, we have found that trade integration clearly boosts investment—in plant, machinery, and many other high-job-creating areas. Conversely, trade barriers clearly *damage* investment and employment.^{[iii] (#_edn3)}

This finding is of particular relevance now, at a time when trade tensions could further damage investment—and at a time when investment is already weak.

So, again, it is a *delicate moment*, and we should be careful.

Specifically, we have looked at what might happen if tariffs^{[iv] (#_edn4)} on all goods traded between the US and China went up by 25 percentage points. That alone would reduce annual GDP by up to 0.6 percent in the US and by up to 1.5 percent in China.^{[v] (#_edn5)}

These are potentially self-inflicted wounds that should be avoided.

And yet, discussions about trade distortions or unfair practices are often bound up with the concept of bilateral trade deficits and surpluses—and tariffs.

The fact is that, historically, bilateral trade balances have been driven mostly by *macroeconomic* factors, not bilateral tariffs. In other words, the most effective way to reduce a bilateral trade deficit is to *steer clear* of tariffs—because tariffs on the goods of *one* country only divert trade flows to *other* countries.

Nobody wins a trade war—you might have heard me say that as well! That is why we need to work together to reduce trade barriers and modernize the global trade system—so that we all win.

That means addressing issues such as state subsidies, intellectual property, and data privacy. It also means *new* deals to unlock the full potential of tradeable services and digital commerce. And it means having rules-based frameworks to ensure fair competition and a level playing field.

So, as we move forward, we need collective action to modernize the key functions of the World Trade Organization: from negotiation, to transparency, to dispute resolution. This will create a stronger and more flexible system.

Of course, leveling the playing field across borders is not only about trade. In recent days—as you may have seen—the IMF has also emphasized the need to improve the framework around international corporate taxation.

I have gone so far as to say the system is fundamentally out-of-date. And I believe that we share the Chamber's view that it is counterproductive for countries to take a unilateral approach.

We need a cross-border effort.

Reforming international corporate taxation is a challenge for all countries. But developing economies rely especially on corporate tax revenues to fund essential investment in people and infrastructure.

Our analysis shows that non-OECD countries lose about \$200 billion a year because companies are able to shift profits to low-tax locations.^{[vii] (#_edn6)}

This foregone revenue makes it even more difficult for low-income countries to increase growth, employment—and to meet the Sustainable Development Goals by the agreed target date of 2030.

The good news is that efforts to modernize the international corporate tax system are underway. But there is a lot more to be done. The IMF has put forward some options on how to work together to make the system fairer and fit for the future.

I have so far talked about two priority areas for policy action: *domestic* and *across borders*. Let me turn to my third and final priority area: global challenges.

(c) Partnership to Address Global Challenges

These are issues that no country can solve alone—and the list is long: demographics, migration, cyber-risks and, of course, the existential threat of climate change.

On that issue, I know that the Chamber sees great potential in public-private partnership as well as innovation and technology to reduce greenhouse gas emissions. We at the IMF are also deeply engaged on this issue—taking a macroeconomic perspective, of course.

We have focused in particular on pricing carbon emissions and reducing energy subsidies—which amount to about \$5.2 trillion per year, or 6.5 percent of global GDP.^{[viii] (#_edn7)} Both of these policy tools would go a long way to help mitigate the effects of climate change.

Having just recently become a grand-mother, I must say that the challenge of making the planet a better place for our children—and grand-children—has taken on a special resonance for me.

In my conversations with young people all over the world, I have also learned that climate change is one of the two challenges that they see as of greatest importance to their future.

The other one is corruption.

This, too, is an area where the IMF has stepped up its focus on the macroeconomic effects on our member nations.

The annual cost of bribery alone is over 1.5 trillion dollars^{[viii] (#_edn8)}—roughly two percent of global GDP. Money laundering and the financing of terrorism are other serious dimensions of the problem—where the IMF has been working with over a hundred countries.

Our latest research underlines the high *fiscal cost* of corruption, leading to a massive loss in public revenue and lower-quality public spending. This new analysis confirms what we had all long suspected: corruption lowers growth. It increases inequality. It feeds distrust.

Is there any hope in combatting corruption? We think there is—and we *do* believe that the right policy responses can make a significant difference.

In a new study, we estimate that within a group of similar economies, *less corruption* is associated with *higher tax* revenues—in fact, a very significant difference of up to 4 percentage points of GDP between countries.^{[ix] (#_edn9)} Better governance is also associated with higher student test scores and more efficient spending on vital infrastructure: from roads, to schools, to hospitals.

This highlights the potentially huge benefit of curbing corruption—and not only fiscal benefit, but also the potential benefit to *society* at large.

There is clearly an *international dimension* to this. Transparency International, for example, recently updated its Corruption Perceptions Index^[x] (#_edn10)—where 100 means “very clean”. By that measure, two-thirds of *all* countries **score below 50**, indicating that they have serious problems in preventing corruption.

Certainly, countries must accept responsibility for what happens within their own borders. But corruption is an *international* plague. To fight it effectively requires *international* cooperation.

4. International Policy Cooperation and the IMF

I know that the Chamber recognizes the value of cooperation. Ever since World War II, in country after country, in crisis after crisis, working together has served the world well.

The IMF has often been at the center of those efforts.

During the global financial crisis, the Fund was able to commit over \$500 billion to help prevent another Great Depression. In the decade since, we supported economic programs in over 90 countries.

And our work continues. Consider the Fund’s advice to countries to help them open up their markets and encourage investment.

Or think about our recent support for critical country programs in Egypt, Tunisia, and Jordan. Think about Ukraine. Or Argentina.

To do our job effectively, of course, we need to be sufficiently well-resourced into the future. For that, we rely on the support of our 189 member countries. This is another issue that I expect our Ministers and Governors will discuss at our Spring Meetings next week.

I am confident that the support from our membership remains strong.

5. Conclusion

To conclude, I want to return to the inspirational nature of this magnificent building.

Inscribed on the walls of the original Chamber building was a quote from the great American statesman Daniel Webster. He said:

“Let us develop the resources of our land, call forth its powers, build up its institutions, promote all its great interests, and see whether we also, in our day and generation, may not perform something worthy to be remembered.”

At this *delicate moment* for the global economy, let us work together to do something worthy to be remembered.

Thank you.

[i] (#_ednref1) Inaugural Address, 1905.

[ii] (#_ednref2) April 2019 World Economic Outlook, Chapter II, “*The Rise of Corporate Market Power and its Macroeconomic Effects.*”

[iii] (#_ednref3) April 2019 World Economic Outlook, Chapter III: “The Price of Capital Goods: A driver of Investment Under Threat?”

[iv] (#_ednref4) This analysis includes tariffs, non-tariff measures, and bilateral purchase agreements.

[v] (#_ednref5) April 2019 World Economic Outlook, Chapter IV: “The Determinants of Bilateral Trade and Spillovers from Tariffs.”

[vi] (#_ednref6) IMF Working Paper (<https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Base-Erosion-Profit-Shifting-and-Developing-Countries-42973>): “*Base Erosion, Profit Shifting and Developing Countries.*”

[vii] (#_ednref7) Globally, energy subsidies amounted to about \$5.2 trillion in 2017; forthcoming IMF Working Paper: "Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates".

[viii] (#_ednref8) IMF Staff Discussion Note. (May 2016): "Corruption: Costs and Mitigating Strategies." This estimate for 2015 is an extrapolation by Daniel Kaufmann based on his earlier estimate of \$1.1 trillion in Kaufmann (2005).

[ix] (#_ednref9) April 2019 Fiscal Monitor.

[x] (#_ednref10) Transparency International, 2018 Corruption Perception Index (January 29, 2019). Forbes [article](https://www.forbes.com/sites/niallmccarthy/2019/01/29/where-global-corruption-is-rampant-infographic/#4ce4890c7333). (<https://www.forbes.com/sites/niallmccarthy/2019/01/29/where-global-corruption-is-rampant-infographic/#4ce4890c7333>)

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