

By Brian Matthew Wemple

On June 17, 2016 in Vienna, Christine Lagarde spoke about the “Case for Europe.” Six days later that case would be brought to the first of a series of trials in the Brexit Referendum. She spoke of the UK being a “more diverse... and more creative country” as a result of migrant inflows and openness to external markets. However, her most prescient comment regarding the referendum held less than a week after she spoke was “as in all countries, there are people who are struggling in this new environment.”¹ The numbers of citizens struggling or perceiving themselves as struggling became evident after the Brexit vote, the election of Donald Trump, the defeat of Matteo Renzi’s constitutional referendum, and the thin margins of victory in both the election of Alexander Van der Bellen in Austria and the general election victory of Mark Rutte’s VVD in the Netherlands. The sentiment among mass publics in Europe and elsewhere against globalization has become tangible at the ballot box, and new approaches to addressing and alleviating the fears of these citizens are necessary.

The Global Financial Crisis of 2007/2008 and the Euro Crisis of 2010 were a pair of massive shocks not only to the global economy but also the global consciousness. These shocks have been attributed by many as the leading cause for the backlash against globalization. However, this view discounts decades-old sentiments that have sat at the foundations of the movements we are seeing now. Institutions such as the IMF and World Bank are ill disposed to deal with many of the underlying causes of this desire to “de-globalize.” Ethnocentrism, ultra-nationalism, populist-authoritarianism, religious-fundamentalism, and democratic backsliding are multivariate phenomena that IMF lending facilities and World Bank development loans are unsuited to address.

¹ Lagarde. *Unity in Diversity: The Case for Europe*.

What is needed from these institutions is a rethinking of how to use resources at their disposal to alleviate economic concerns among member-country citizens and the malaise resulting from these concerns. The IMF via its Article IV consultative role should encourage member-states to adopt policies regarding social welfare consistent with long-term fiscal sustainability and an equitable division of income among their citizens. Benefit entitlements often already exist in advanced members but have become dysfunctional and inefficient. The IMF must encourage countries to restructure and streamline these programs while averting disincentives to work among potential recipients. Furthermore, the IMF not only needs to encourage utilization of its intellectual resources by members *during* Fund programs, but also promote such resources as *perpetually accessible* global public goods.

The World Bank is uniquely disposed to providing the capital necessary to create an environment in which the citizens of member countries are the main targets and recipients of project loans. The IFC especially is well geared towards spurring market creation in cases of nascent or nonexistent markets, and buttressing faltering yet fundamentally sound markets. The IFC in its private sector mission must continue to support large firms in their pursuit of growth, but must begin to make such support contingent on firms not expatriating all their profits from the country of creation and mandating reinvestment of such proceeds into the communities of origin. Furthermore it would be *highly* advisable to begin targeting a majority of IFC funds towards medium and small enterprises to incentivize local market creation, help reorient resources when old firms and markets fall by the globalized wayside, and thus revitalize the lives of citizens who now feel dispossessed.

When the Bretton Woods institutions were conceived in 1944 it was in a world ravaged by two world wars in less than 30 years. The interwar period had shown the necessity of

international economic cooperation with the consequences of non-cooperation manifest in the economic collapse of 1929, the competitive devaluations and tariffs of the 1930s, and the devolution into another war in 1939. After three weeks in July 1944 a new order emerged. “Embedded liberalism” became the norm in a world characterized by expanding corporatization, unionization, and US economic and geopolitical preponderance. That norm would last less than three decades until the move towards floating exchange rates and the end of the Bretton Woods System in 1973. The institutions necessarily changed their mission in the new environment of “neoliberalism” then and they must change again. “Embedded neoliberalism” must be the new imperative if these institutions are to maintain their relevance and foster global economic prosperity.

References

Lagarde, Christine. "Unity in Diversity: The Case for Europe." 17 June 2016, Finance in Dialogue, Vienna. Accessed: 17 February 2017.
<<https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp061716>>