

# Cahiers Papers

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International financial institutions  
in the 21st century



BANQUE EUROPEENNE D'INVESTISSEMENT  
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### **Jacques Attali**

*A well-known author, Mr. Attali has written more than 20 books on matters spanning economics, politics, current affairs, sociology and history.*

*From 1981 to 1991, Mr. Attali served as Special Advisor to the President of the French Republic, a post he relinquished after founding the European Bank for Reconstruction and Development (EBRD) and becoming its first President in 1991. In 1993, Mr. Attali returned to France as Conseiller d'Etat, where he now heads a consultancy firm.*

*He obtained his doctorate in economics from the University of Paris IX Dauphine, after attending the Ecole Polytechnique, the Institut d'Etudes Politiques, the Ecole des Mines and the Ecole Nationale d'Administration. In addition, he holds honorary doctorate degrees from the Universities of Kent and Haifa. His achievements have been recognised by his selection as a Chevalier of the French Legion of Honour. He is also a member of the International Academy of Cultures.*

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### **Alfred Steinherr**

*Alfred Steinherr is Head of the Directorate for Economics and Information and Chief Economist of the EIB. Previously, he was professor at the Université Catholique de Louvain, and has held positions at the IMF and the European Commission. He has a doctorate from Cornell University.*

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# A discussion between Alfred Steinherr and Jacques Attali

**Alfred Steinherr:** As you know, we have received a number of interesting papers for our volume on “International Financial Institutions (IFIs) in the 21st Century”. The articles have raised several important questions, and we are glad to have the opportunity to conclude the volume with this discussion. Let me start by asking you a question about the entry for international institutions in your recently published “*Dictionary of the 21st Century*” (1). In your entry you set out a future agenda for such institutions, but the points raised deal mainly with organisations like the United Nations. IFIs are only dealt with implicitly. Was this intentional?

**Jacques Attali:** IFIs are more complex than organisations like the UN since their future is directly linked to the development of the world market. Depending on whether we are moving towards an integrated global market, or returning to a more fractured system, the future of IFIs will be markedly different.

If this emerging global market is going to be a pure and perfect one for the first time in the history of mankind, IFIs may well turn into private organisations and disappear. On the other hand, we may find that, especially in the light of the global effects of the Asian crisis, the market is not in equilibrium without state or public support. I believe this to be more the case. This calls for international financial resources to stabilise both markets and demand. Finally, we will need IFIs to establish and verify a growing number of standards, especially standards of transparency, taxation, and regulation. I envisage a whole new range of IFIs charged with controlling and enforcing financial standards. One such institution could be in charge of managing a global Tobin tax (2). We may even one day see institutions like the *Tennessee Valley Authority* (TVA) spring up on a regional or global scale (3).

**How does development enter all of this? Assuming that we are going to have an almost perfectly functioning global market, will certain countries not still be left behind and thus in need of continued support from the richer countries?**

There can be no global market without global market institutions. One interesting example is the World Trade Organisation. Its dispute settlement mechanisms will bit by bit lead to the elaboration of a global trading law. I believe that we need more standard-setting institutions like that. In addition, there is a continuing need for institutions in charge of financing development. Certain

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1) Jacques Attali (1998). *Dictionnaire du XXIe siècle*. Paris: Fayard.

2) The Tobin tax is a modest tax on foreign-exchange transactions. The small levy on each transaction penalises short-term flows relatively more than long-term ones, thereby affecting long-term investment much less than short-term speculation. However, to be effective, it has to be applied globally, since otherwise markets would move offshore to where the tax is not applied (The Editor).

3) The Tennessee Valley Authority is a federal corporation set up by President Franklin Roosevelt in 1933 to develop the Tennessee river basin (covering Tennessee and parts of Alabama, Virginia, Georgia, Kentucky, North Carolina, and Mississippi). It has built and operates 50 dams for flood control, 29 hydroelectric generators, eleven coal-burning power stations, and two nuclear power plants. It also manages a number of research programmes in agriculture, economics, environment, and industry. While the power system is self-supporting through the sale of electricity, other programmes are financed through the federal budget. It is run as an independent agency of the US executive department, with Board members being appointed by the President with ratification by the Senate (The Editor).

supranational organisations already have trouble funding their respective areas of concern. For example, we will need more and more development resources to finance those health problems that the World Health Organisation cannot do by itself. Equally, financing all the global educational problems is beyond the means of UNESCO. Even if an integrated global market exists 50 years from now, the continued needs of two to three billion people in poverty sets out the arena for IFIs quite clearly. The future emergence of micro-credits, that is, very small credits for individuals to buy tools, etc., will not happen all by itself in this global market-place. It will require institutions and public financing bodies that may very well be IFIs.

**We see strong regional concentrations in the global market today. In terms of institutional development, how do you see the division between regional and inter-continental organisations?**

Continental markets are a prerequisite before attaining a global market, and we will have the former first. I firmly believe in continental integration as a starting-point for global integration. We are witnessing a strong growth in regional trade today, as a result of which there will be strong regional organisations for planning and financing investment on all continents one day (the TVA again comes to mind). For this reason I believe that the EIB and the EBRD should merge. There is no reason for the two to stay apart.

**Was not the EBRD born out of the conviction that a global organisation is not sufficiently targeted towards very specific regional problems?**

Indeed it was. It was important to create a regional organisation in which all the interested countries are shareholders. As the Central and Eastern Europe countries were not going to participate directly in the financial decisions of the EIB until European Union (EU) membership, regional financial integration under the auspices of the EBRD was going to be the first step towards political integration. Incidentally, this concept would have worked better if the EBRD had been restricted to European members only. Non-European shareholders in a fundamentally European institution can lead to a lack of clear focus.

**What will IFIs do in a capital market that is much more efficient than it is today? We can already identify problems of differentiation with the private sector. Where is the intervention of a public bank justified? Can you recommend guidelines to follow?**

Yes, there will be a growing pressure for the abolition or privatisation of institutions like the EIB or the EBRD. Given the fact that they lend to the private sector, it would be true to say that they are in competition with private banks. However, there is no reason why IFIs must be in competition with the private sector. One possible resolution of this problem is continued specialisation. IFIs can find niches, and the list of possible areas is long. One avenue could be standard setting, which cannot be done by the private sector. Another possibility outside the reach of the private sector is the organisation of dispute settlement mechanisms. Then again, there are sectors that will always rest in the public domain. As such, financing the environment, health, education, law, social security and credit to the poorest is not up to the private financial system. While it is absolutely necessary to learn about competition in schools, it would be disastrous to transform schools into competing enterprises.

In essence, everything that is worth the participation of IFIs is a first step towards the creation of a continental government.

**One part of the IFIs' vocation is to follow objectives that cannot be measured in terms of profitability. Risk-taking is strenuously avoided by organisation like the EIB and the World Bank. The latter, for example, passes its risks to the government of the country that receives funding. In very few cases does the EIB take risks. Is it not true to say that in today's financial market, which has gained quite considerably in efficiency, the market for risk remains the most imperfect? This puts a special emphasis not on the allocation of funds, which are aplenty, but on the choice of projects. Where do you see the advantages of inherently risk-averse institutions like the EIB? Wouldn't the EBRD's way, which does involve risk-taking, be more the way of the future and lead to a better allocation of resources?**

I firmly believe that risk-taking is an essential element of acquiring legitimacy. The basis of sovereignty involves the sovereign taking risks. This gives him real power. An institution which takes risks increases its sovereignty and so plays a much more important role. Rather than a supranational institution, the EIB is a purely multilateral one. It has so far refused to take any risks, in other words, to take sovereignty in its decision-making. It seems to me that this prudence, which was necessary to attain its authority, acts today as a real brake on its development. The Europe of today may as a result suffer from the bias of this institution against using its almost unlimited risk-management reserves.

**This leads us to the question of governance. As with other IFIs, the EIB's decisions are taken by our Board of Directors, which represents our shareholders, i.e. the EU member states. In general, the Board consists of representatives of ministries with objectives and agendas that are not necessarily aligned. Do you approve of this controlling structure, or do you think that we ought to have a broader democratic oversight; say, more responsibility to the European Parliament?**

Over time, we have to convert from multilateralism to supranationalism. While the former has always been compatible with the Treaty of Rome, which was above all a multilateral treaty of integration, Europe has moved on since 1957 and has become increasingly supranational. This also means that the institutions of the EU cannot stay multilateral, but must become supranational. It involves moving away from the authority of each member state and towards that of the EU. For that reason, the EIB still represents a conception of Europe as simply a common market without any political integration. The creation of the single currency, on the other hand, shows that political integration is already happening today. In that respect, the EIB should really assume its independence in a supranational spirit, and open up its accounts to the European Parliament.

In terms of general transparency, I believe that IFIs can make particular use of the internet. Being able to log onto the web-sites of IFIs will greatly enhance their accessibility and proximity to the general public. In future, everyone will be able to see where lending goes. New technologies should also much reduce operating costs. In fact, I sincerely hope that IFIs will steal a march on private-sector institutions when it comes to the usage of the new technological possibilities and capabilities.

**Which would in fact be an additional contribution to the creation of a federal structure?**

Much more than that, it would in fact be the best proof that the EU is serious about tackling employment. If the EIB turns itself into a supranational institution, it could use its enormous financial reserves for risk-taking in order to support investments that create growth and employment.

**In one of the contributions to this volume, the Chief Economist of the Royal Dutch/Shell Group writes a provocative essay from the point of view of the World Bank's centenary in 2044. On this occasion, the World Bank is being turned into a foundation with a co-ordinating staff of 500, which is in stark contrast to the more than 10,000 staff it has today. This is perhaps a logical extension of the argument of the Chief Economist of the World Bank, who maintains that the main goal of IFIs is to provide international public goods. However, many of these goods, such as knowledge on development, do not have to be bundled together with lending. Is the John Maynard Keynes Foundation something that you find plausible?**

It is very plausible to imagine that the World Bank loses some of its operational competencies. While these will be transferred to private organisations, the Bank remains a centre for initiative and support. In the EU, this is already happening with the European Commission, which is slowly transferring its logistical activities to private organisations or non-governmental organisations. I can foresee this happening with the World Bank, too. However, activities on a global scale will continue to be necessary. In that respect, one of the organisations that will become extremely powerful in 50 years' time is the Bank for International Settlements (BIS). It will expand upon its present-day standard-setting functions, and I cannot see how the BIS, the IMF, and the World Bank can all remain independent of one another indefinitely. I foresee a reconciliation in which one primary function will be to finance the work of non-governmental organisations in terms of micro-credits for the assistance of the poorest, or the financing of other sectors that will remain in the public domain, and also special innovative projects. But a new function of international organisations will also appear, which is the issuance of standards. This will entail a new power for international organisations, since when you set standards, you also have to verify them. Examples of this exist even today. The World Bank issues standards for "group practice" with respect to micro-credits, standards for tenders, standards for customs and duties, as well as standards for the fight against corruption. In the future, the World Bank will be a standard-setter with an apparatus geared towards their verification; say, for the evaluation and co-ordination of financial standards.

**Thank you very much for wrapping up this volume of the EIB Papers. You have emphasised that the market will continue to need international public institutions for it to operate correctly. Then, you have stressed the need for IFIs in the areas of standard-setting and their co-ordination. Interestingly, you have outlined a particular future role for the EIB. It would be a supranational body, and answerable to the European Parliament. It would be directly involved in planning regional activities in the same way as the Tennessee Valley Authority, and it would operate on a continental scale through a merger with the EBRD. Thank you once more for giving us food for thought with this proposal.**

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