IMF helping in Iraq's recovery

The IMF is assisting in the reconstruction and recovery of Iraq. The initial focus of the IMF's work in Iraq has been technical assistance and advice in the IMF's areas of responsibility, including fiscal and monetary policies. This work is being carried out in close cooperation with other organizations and donors. The IMF staff has drawn on its experience in assisting other postconflict countries, including Afghanistan, Bosnia, and East Timor.

Early technical assistance activities are focused on public expenditure management, the establishment of essential monetary and payments systems operations, and assessment of the adequacy of financial sector institutions and laws. Further assistance with monetary policy and foreign exchange market operations, tax policy, including the oil sector fiscal regime, as well as statistical capacity building, will also be needed.

Is capitalism in danger?

In September 2003, Raghuram Rajan—who recently published a provocative book, *Saving Capitalism from the Capitalists: Unleashing the Power of Financial Markets to Create Wealth and Spread Opportunity*—takes over as the IMF's Economic Counsellor and Director of its Research Department. The book, which was co-authored with Luigi Zingales, argues that incumbent capitalists are stifling free markets because they stand to lose the most from greater competition. Take U.S. tariffs on imported steel, for example, which the authors dismiss as a handout to politically powerful owners and top managers of distressed U.S. steel firms.

What should be done? The authors propose four reforms. First, government policies—particularly tax policies—should reward efficient owners and penalize inefficient ones. Second, borders should be opened up because subjecting domestic capitalists to foreign competition is often the best way to remove "overweening protective regulation" that retards the fortunes of everyone but the domestic capitalists and their political allies. Third, social safety nets need to be put in place for workers displaced by competition. And, fourth, the general public needs to be more aware of both the power of free markets and what can go wrong with markets if the power of incumbents is not kept in check.

30 YEARS AGO IN F&D

Red herring

"The main issue regarding debt relief in recent years has been whether it should be viewed as long-term foreign assistance or rather as help toward resolving a short-term liquidity problem."

From an article by Thomas M. Klein in the September 1973 issue of Finance & Development

AIDS orphans in Kenya.

Falling short on AIDS

The world is still not spending enough money to combat AIDS, the United Nations says. It estimates that about half of what is needed is being spent in middle- and low-income countries. "Even with recent increases in AIDS spending, the mismatch between need and funding continues to be one of the biggest obstacles in the struggle to control the epidemic," UNAIDS Executive Director Peter Piot says. "Although we are halfway there in closing the AIDS funding gap, there is still halfway to go." The United States and European nations recently announced plans to increase AIDS funding through bilateral and multilateral channels and the new Global Fund to fight AIDS, Tuberculosis, and Malaria. If realized, these commitments would translate into additional annual spending of $1.2 billion by 2005—still leaving a gap of almost $5 billion.

Middle East needs to boost trade

The countries of the Middle East and North Africa (MENA) could ward off a major unemployment crisis in the coming years by expanding trade and private investment and generating millions of new jobs, according to a World Bank report, *Engaging with the World: Trade, Investment and Development in MENA.*

The report warns that the status quo—public sector–driven and protected economies supported by oil, aid, and workers' remittances—can no longer generate sufficient growth or jobs. It estimates that, during 2000–10, the number of new entrants to the labor force in the MENA region will average 4 million a year—double the level of the past two decades. Unemployment rates, which average 15 percent today, are now among the highest in the world. "Today's entrants into the labor market are younger and better educated, which means that, in the right economic environment, they could provide the basis for rapid and sustained growth, as young workers do in the rest of the world," says Mustapha Nabli, Chief Economist for the Middle East and North Africa at the World Bank. "But if the environment is constrained, a potential demographic gift could turn into a demographic curse and give way to a social crisis." (See "Country Focus," page 55, for economic data for MENA.)