The IMF Is Not the Property of the Rich

by Augusto Lopez-Claros

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The recent announcement that the Fund's managing director, Mr Horst Kohler, is poised to become Germany's next president has been well received in German circles. An experienced international public servant seems an ideal choice for this extremely influential post. As he prepares his move to Berlin, one can easily imagine the coming endless negotiations aimed at answering that key question: which EU country will carry the prize this time? Will the new MD be French (again)? Or might Germany press for another of its own to complete Mr Kohler's hard-earned term? What about an Italian? Is it not about time they had a go at it?

Mr Kohler's forthcoming departure provides the international community a golden opportunity to make a final break with the convention adhered to ever since the IMF's creation, which holds that its managing director must be an EU citizen. (A similar rule applies to the World Bank, whose president has traditionally been an U.S. citizen). The organisation is too important, and its mistakes too costly in human terms, for the nationality of the candidate for MD to be the determining factor in assessing suitability for the job.

As efforts are once more put in motion to locate the most suitable candidate from a specific country, it is evident that the unseemly negotiating process—repeated every few years—is inherently flawed. It exemplifies that very inefficiency which IMF officials are quick to condemn in dealings with the Fund's member countries. (It is interesting to ponder whether the practice, if challenged in a court of international law, could be sustained under present-day judicial codes, embodying as it does the particular conceptions of a world recently emerged from the trauma of World War II, when the IMF was created.)

The sense of "ownership" which the US and the EU have had over the international financial institutions is based on the notion that because the large shareholders "contribute" more to the organisation, they are, in some manner, entitled, not only to have the largest voting shares at the IMF Board, but also to oversee its day-to-day operations. It is a little known fact, however, that the salaries of the Fund's MD and of its entire staff—as well as other administrative expenditures—are entirely financed by the interest paid by tax-payers in Brazil, Turkey, Russia, and other users of Fund resources. Whereas IMF lending operations have no budgetary implications for members such as the U.S and the EU—indeed they earn a return on their SDR reserve assets—a country such as Russia, by contrast, has, since August 1998, paid close to $4 billion in interest charges on previous Fund loans.

The above practice has, perhaps inevitably, contributed to the tendency for the markets, borrowers and other economic agents to view the Fund as subservient to its main shareholders, as a proxy of G7 foreign policy. Such a perception is deeply damaging to the organisation's ability to act effectively. It encourages countries to gauge their relationship with the IMF in terms of short-term political advantage, rather than of lasting economic gain. In Russia, for instance, in the mid-1990s, the government realised that "the money was coming in any event". The will for policy reforms died at about the same time. A similar calculation was very much in evidence in Argentina and Turkey in recent years, as the countries amassed a mountain of debt to the IMF, at a dizzying pace, breaking all records and confounding all previous historical parameters linking the amount of external funding to the scale of the policy adjustment, and destroying the long-respected Fund principle of equality of treatment across its

member countries—particularly in Turkey, given its relatively small size.

The present organisational structure also has implications for the Fund staff, who, under the present regime, cannot be held accountable for policy miscalculations. Inasmuch as the controlling influence rests with the large shareholders, who, may be answerable to various "strategic"—read political—interests of their own, the staff are deprived of full freedom to make intellectually independent assessments, and are constrained to represent themselves merely as executors, not a role calculated to enhance their standing with their counterparts in the Fund's member countries. And to the extent that they are viewed by the countries concerned as mere functionaries, their ability to act more generally as advocates for change will be impaired.

For this reason, another desirable reform would be to accord the MD a non-renewable fixed term of service, thereby freeing him/her from the conflict that may result between the interests of those who hold the appointment, and the countries which it is the MD's mission to serve. In this way this important public servant will never be under pressure to forgo principle, by reconciling these divergent stances.

Emerging from the 1944 Bretton Woods conference, at which both the IMF and the World Bank were created, John Maynard Keynes expressed the view: "As an experiment in international cooperation, the conference has been an outstanding success." In the meantime, the world has changed beyond recognition, and, with the emergence of one global economy, the case for an institution that will help further the cause of international cooperation, and be identified with the promotion of economic policies that support improved efficiency and equity has only become stronger. One important first step in that direction would be to choose the new MD from the entire membership. Let's find the world's best candidate for the job. Such an act of statesmanship on the part of the EU would signal that the IMF belongs to all of us, citizens of this planet, and that, first and foremost, its MD is chosen to serve the interests of the international community, not those of its largest shareholders.

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