

IS THE IMF WORTH FUNDING?

THE GLOBAL MONETARY FINANCIAL SYSTEM AND ITS GOVERNANCE

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What is the issue?

The future of the IMF!

Faced crises of legitimacy, relevance and financing for a decade

Struggled to remake and reform itself: How should those efforts be judged?

In particular, what should the new US administration do with the package of four items that require congressional approval?

Similar questions for the other 185 members of the IMF

NOTE: The IMF is, first, its member countries and only secondarily its management and by extension its staff

OUTLINE

- I. Assessment of progress on the IMF reform agenda
- II. The IMF and the Global Financial Crisis: Does this change things?
- III. Is the IMF worth funding?

ASSESSMENT OF PROGRESS ON THE IMF REFORM AGENDA

- IMF Governance
- Policies of Systemically Important Countries
- Fund and (External) Financial Crises
- Engagement with Low-Income Members
- Capital Accounts and Financial Sectors
- IMF Financial Resources

I. IMF GOVERNANCE

1. New quota formula is simpler, but points in the wrong direction: implies industrial countries' quotas should **increase by 2.2 percentage points**
2. Actual application of the formula was ad hoc and produced a shift of only 2.6 percentage points of voting share from the industrial countries – half due to the tripling of basic votes
3. Nothing on executive board representation
4. Nothing on the U.S. “veto”
5. Nothing on Management Selection

II. POLICIES OF SYSTEMICALLY IMPORTANT COUNTRIES

1. The list is now longer
2. The CGER looks at more countries' exchange rates
3. The 1977 decision on exchange rate surveillance was revised though maybe not improved
4. Members frustrated the “multilateral consultation” on global imbalances and management was silent
5. The Fund's “umpire status” has not been restored

III. THE FUND AND EXTERNAL FINANCIAL CRISES

1. Scale and scope of lending is controversial and remains so following approval of the new short-term lending facility on October 29, 2008
2. Fund's role in restructuring may return to the earlier model after a failed experiment with a "hands off" approach in Argentina
3. Much depends on how members employ the Fund over the next 12-18 months to manage the crisis

IV. ENGAGEMENT WITH LOW-INCOME MEMBERS

1. The Fund has pulled back from intrusive involvement with low-income members
2. Implementation of the recommendations of the Malan Report appears to have been conscientious
3. Fund (pass through) lending to low-income members is down following HIPC and MDR plus better policies and benign global conditions
4. The test lies ahead in the global recession

V. CAPITAL ACCOUNTS AND FINANCIAL SECTORS

1. Creation of the Monetary and Capital Markets Department
2. Issued some timely warnings and analyses about the global financial turbulence
3. Recent development suggest it may be appropriate to revisit the amendment of the Articles with respect to the Fund's role on the capital account
4. Much depends on developments over the next 12-18 months

VI. IMF FINANCIAL RESOURCES

1. The policy of starving the Fund an unfortuate legacy
2. It was a mistake not to increase quotas in the 13th review
3. It was a mistake not to put in place a mechanism to allow the Fund to borrow from the private market
4. The implementation of the recommendations of the Crockett Report should go forward
5. The Fund will not [be allowed to] run out of resources

THE IMF AND THE GLOBAL FINANCIAL CRISIS

IS THERE AGREEMENT ON DIAGNOSIS?

Diagnosis is the key to lessons; lessons should drive subsequent actions

KEY QUESTIONS

1. What was the role of macroeconomic policies?
2. What was the role of supervision and regulatory policies?
3. What was the role of the U.S. policies?
4. What was the role of policies of other countries?

IS THERE A CASE FOR A NEW BRETTON WOODS?

ANSWER: The case has not yet been made

1. The diagnosis is incomplete
2. Lesson-learning mechanisms are already operating
3. No country wants the IMF as a super-regulator
4. Standards will be strengthened, and the IMF should help to monitor adherence and compliance with them

SHOULD IMF REFORM BE REVISITED?

This is a different question!

Answer depends on the members of the Fund

If IMF reform is to be revisited, it should not only cover:

1. Resources and lending policies
2. The Fund's role in the international financial system

But also:

1. Governance issues
2. Exchange rate issues

IS THE IMF WORTH FUNDING?

THREE ANSWERS

1. **July 2008:** Yes, by both the United States and other IMF members
2. However, what happens on the exchange rate side is crucial to the politics of U.S. congressional approval, which is unlikely before 2010
3. **Today:** If fundamental reforms are back on the table, then the current package should be set aside