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IMF in need of a new paradigm

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THE current debate on the selection of a new managing director of the International Monetary Fund raises more fundamental questions than just those relating to the process in selecting a new chief.

The question of its charter, transparency in its administration, its voting and the allocation of votes, the need for democracy and corporate governance in the organisation itself are also being raised by some.

Others even call for the restructuring of the Fund, something that the IMF and the powerful Washington Consensus pressured many crisis-hit developing countries to do.

The old way of managing the world economy with the "rules of the Washington Consensus" are no longer relevant. They have proved to be too restrictive, prompting even the World Bank in the person of Joseph Stiglitz to adventure "beyond the Washington Consensus", according to UNCTAD secretary-general Rubens Ricupero.

Charles W. Calomiris a professor at Columbia Business School writing in the Asian Wall Street Journal says the IMF's "deeply flawed accounting rules and governance structure serve to obfuscate its activities and protect its management from accountability".

The Fund together with its sister organisation, the World Bank, were set up after the Second World War when the world was a different place and many countries were not even in existence.

Does not "democracy", which has been preached to developing countries and one-country one-vote, have a place in decision making at what are supposed to be "world" organisations?

The world comprises of hundreds of independent countries and not just a few powerful developed countries. Others, however poor or small, must have a say in the decision making process that affects and has a bearing on the lives of their citizens. They must be allowed their democratic right. Currently the voting is "weighted" in accordance with the contributions which gives the US control of 17.3 per cent of the votes making it the largest single shareholder, the European Union holds some 35 per cent of the votes and developing countries about 30 per cent.

The votes give the developed countries a greater say in decisions of the Fund and thus much of its policies are also the dictates of the major developed countries.

But that was more than half a century ago. The world has entered a new millennium. The emergence of a "new economy" which is being touted as providing greater benefits to humanity must also mean a change and a "new way of doing things at international organisations that were set up to cater to the world".

The UK Chancellor of the Exchequer Gordon Brown recently said: "We need to find a new 2000 paradigm. The new consensus cannot be a Washington Consensus, but as we have recognised in the poverty reduction strategies, countries must claim ownership and make it a part of their national consensus".

Thus the choice of a new managing director of the IMF has become even more important and critical. More so as its almost "clean" record of failure in resolving crisis has caused untold hardships and in numerous instances made the situation worse than it originally was.

Questions are being raised as to the role of the IMF and its policies.

Many of the issues are gathering greater momentum in the face of a search

of a new managing director to replace Michel Camdessus who resigned on Feb 14, after 13 years at its helm.

Since the IMF was founded in 1946, there has been an unwritten understanding that the leadership of the Bretton Woods Institutions - the World Bank and the IMF - would be carved out and divided among the Americans and the Europeans.

It was a gentlemen's agreement that the IMF would be run by a European, while its sister organisation, the World Bank, would be run by an American.

Of the seven IMF managing directors, in its 53 year history, three have been French, two have been Swedes, one Belgian and one Dutchman.

Camdessus succeeded Jacques de Larosiere, another Frenchman, making 21 years of French stewardship at the IMF.

There are now three candidates - a naturalised American and acting managing director of the Fund Stanley Fisher; a European, deputy German Finance Minister Ciao Koch Weser and a Japanese the outspoken and "clever" former Vice-Finance Minister for International Affairs Eisuke Sakakibara. The Americans are against the European candidate, German Caio Koch Weser, and they certainly are not in favour of the Japanese candidate, Sakakibara.

The straw poll or an informal poll did not resolve the issue. There is a stalemate with no candidate obtaining majority support of the 24-member IMF board.

The ball is now said to be in the European court and they have to come up with a new candidate.

There have also been suggestions that perhaps Fisher should be allowed to "complete" Camdessus remaining term.

IMF shareholders should read danger signs here. If this is allowed it may be argued in future that there is nothing to prevent an American heading both the Bretton Woods institutions.

President Bill Clinton on Feb 28) made it clear and in no uncertain terms that Koch Weser was unacceptable to the US. Sakakibara is also unacceptable to the Americans as his thinking is too similar to that of Prime Minister Datuk Seri Dr Mahathir Mohamad and therefore makes him "too independent in his thinking".

Sakakibara's approach to handling the crisis has been described by the American media as "wayward judgement". Perhaps he is "wayward" as he does not adhere to the American and traditional methods and tight fiscal and monetary policies of crisis resolution.

Sakakibara had also proposed the Asian Monetary Fund (AMF) at the height of the Asian crisis in 1997 which was immediately knocked down by Washington and senior officials of the IMF. The proposed AMF was viewed as a threat to the IMF and undermining its power and influence.

It is thus understandable as to why the US Treasury which continues to have a major say and influence in the IMF is not prepared to change the status quo. According to the Director of Harvard's Institute for International Development Jeffrey Sachs the "IMF doesn't really take on assignments without being given them by the major shareholders, principally the United States, which has used the IMF as an instrument of foreign and economic policy".

Any wonder then that there is strong opposition to any candidate who might be too independent in their thinking, "clever" such as Sakakibara who will be a "problem" for US Treasury Secretary Lawrence Summers "who really runs the Fund behind the scenes".

Calomiris, who is also a member of the International Financial Institution Advisory Commission, which was established by the US Congress last year to propose reforms to the global financial architecture, calls

for a reform of the IMF charter. He proposes an IMF that focuses on crisis management with rapid, effective liquidity assistance at a penalty rate rather than subsidised long term conditional loans would be more effective, less corrupt and self financing.

The stakes for developing countries are even higher but they do not have a say in determining their own future not even in policy decision in organisations that are supposed to cater to the world but are run and dictated to by the developed countries.

It is time developing countries consider their positions very carefully and take this opportunity in the selection of the new IMF chief to make their stand. They should not scumb to arm twisting now and give up their independent, democratic right to select the candidate of their choice and not someone who bangs his fists on the table and wants to be listened to but has no regard nor an understanding for the veivs and concerns of others especially those in developing countries.

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