IMF needs much more than a nip and tuck
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The Australian Financial Review
23 April 2007
P. 27

Reforming the International Monetary Fund has been on the agenda for years. With its biannual meeting in Washington now finished, what progress can be reported?

For some, governance (especially voting rights) is the key issue. Last year, some extra votes were handed out to four of the most seriously underrepresented countries, and more action has been promised. But handing out extra votes is the easy way to sidestep the issue - the real test is taking away the votes and voices around the table of those whom historical accident and tenacious grip have left overrepresented. Until progress is made in dramatically reducing the seven voices (out of 25) which Europe has in the key decision-making committees, this has to be counted as unreformed (and probably unreformable).

Voting is not, however, the main problem. Much more fundamental is to work out just what the IMF, with its 2500 highly paid staff, should actually do. Its original function - to guard against trade-sapping competitive devaluations - disappeared when the major countries floated their exchange rates more than three decades ago. Since then, "mission creep" has taken the IMF into tasks ranging from poverty alleviation to the setting of international policy standards.

There clearly is an important need for a multilateral organisation such as the IMF. Just as the World Trade Organisation oversees trade issues and the Bank for International Settlements helps formulate the micro-rules for international banking, the IMF could stake out some useful territory in international macro policy. Globalisation has increased this need, and countries have learned the hard way that free markets need an environment of rules and procedures (what Nobel prize-winner Douglass North called "institutions" and Tom Friedman called the "Golden Straitjacket"). The IMF could play a central role in devising and administering some of these rules.

There would also be a role in international macro policy co-ordination, increasingly important in a more globalised world. So far, the IMF has shown no capacity to play this role. The fund's International Monetary and Finance Committee, which could be a high-level meeting to carry out this function, has a stultifying overrehearsed format where many talk and few listen. To try to establish a substantive forum, the fund's Multilateral Consultation went to the other extreme - instead of trying to accommodate the views of 185 member countries, it included only five participants. Given the task of encouraging policy co-ordination in a world of large and persistent current account imbalances, the consultation seems to be a damp squib, with the participants promising to take a series of measures to which they were already committed. Meanwhile, the main macro discussion took place among the Group of Seven countries, which as usual took the opportunity to have their own separate private meeting before the IMF's meetings, with its own communique setting out their views before the IMF even started its discussions.

Even in the face of falling revenue from its lending operations, the IMF has shown little enthusiasm for either belt-tightening or function-trimming. The easier answer - selling off the family silver (or, in this case, gold) to pay the bills - seems likely to be approved.

What is needed, however, is a clear-eyed assessment of where the IMF's comparative advantage lies. The experience with the Multilateral Consultation confirms that the IMF is too unwieldy to provide a forum for serious macro international discussions. This will have to be done in a smaller forum. The Group of 20 presents a better chance: it brings together the finance ministers and central bank heads of large and medium-sized countries (including Australia). It excludes the majority of IMF members, who are too small to be relevant to issues of international policy co-

ordination. The G20 is the biggest grouping that has any real chance of having a sharp-edged policy discussion.

The fund could retain a role. The G20 has no staff or secretariat of its own, and the job of providing the analytical input into the G20 discussion could be done by the fund. The IMF has shown, over the past few years, a capacity for analytical renewal: briefing material for its recent meeting included some high-quality analysis of international imbalances, impact of the US business cycle on the rest of the world, and capital flows in the Asian region. If this material could be taken outside the stultifying mosh pit of the fund's current meetings, and put into a well-focused discussion at G20, there might be some hope of progress. If it can't be done there, it will remain by default with the unrepresentative G7 or an ad-hoc derivative of this group.

This still leaves important tasks with the IMF. Poverty alleviation requires good representation for Africa (in a way that analysis of global imbalances does not). So too, the development of common standards for international data require the universality that is embedded into the fund's current governance. Trimming, refining and re-assignment of functions could give the IMF a key role and allow other more nimble, tightly structured groupings to do the tasks that are beyond the fund's practical capacity.

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