
Governance

The IMF is an international institution established by an international agreement that is embedded in the legal systems of each member.¹ The institution is owned by and responsible to its member governments. Those governments, in turn, are responsible to their own citizens either in broad terms or more narrowly in the case of elected governments. Accountability, transparency, and legitimacy are at the core of the IMF existence vis-à-vis both its member governments and the world at large, regardless of how various governments or interest groups may agree or disagree on how those principles should be applied.

At the same time, the Fund is an institution of global cooperation and, I would argue, global governance, even though many observers reject that term. As such, the IMF is held responsible for its policies, actions, and inactions by international public opinion and the various groups that seek to influence or affect those opinions. This reality creates tension and controversy.

The emergence of a larger number of systemically significant countries during the past 60 years—especially the past 30 years—along with technological change that facilitates the instantaneous, global transmission of information—complete, incomplete, and distorted—has forced the IMF itself and its members to recognize the need for governance changes. Governance and balance in governance are important to the smooth functioning of the international financial system as a whole because if the IMF is respected, all countries have increased incentives to play by its common rules.

1. In the United States the governing law is the Bretton Woods Agreements Act first passed in 1945 and subsequently amended. Although in principle the international law incorporated in the IMF Articles of Agreement should take precedence over domestic law, in the few cases that have been decided in national courts, the IMF Articles have not always received that treatment.

IMF governance is a broad topic. A principal issue is the quotas of individual members. A second important issue involves the process of choosing the senior management of the institution. Third, IMF governance involves relationships among the governors of the IMF (who meet once a year but can be asked to vote by mail), the IMFC subset of governors (meeting twice a year), the Executive Board drawn from national capitals, the management, and the staff. A fourth important subtopic is the Executive Board itself, with respect to its powers, the qualifications of its members, the number of members, and the distribution of seats among the members of the IMF. The technical qualifications and geographic origins of the IMF staff might be regarded as management issues, but for some they are governance issues. Finally, under governance, one needs to consider how the institution as a whole relates to ad hoc groups, in particular groups of countries such as the G-7 industrial countries, the G-10 larger group of such countries, the G-11 group of developing countries, the G-20 combination of systemically important industrial and nonindustrial countries, as well as regional groups such as the European Union. In addition, self-appointed NGOs, academics, and other observers of the IMF's operations are quick to offer criticisms.

It is fair to argue, as did Williamson (2001, 109), that one should first decide what the Fund should do before addressing its governance. In principle, it should matter with respect to the governance of the Fund whether it is to be a smaller institution than it is today with limited lending and other responsibilities, a larger institution with an expanded mission and scope for lending, or remain the same. The view putting the horse before the cart is more pertinent to an institution that is just being established. The IMF has been around for more than 60 years, and the issue is how (whether) it should be reformed even though reforms are likely to be evolutionary.

Accepting that IMF reform may well be evolutionary, most observers agree that the IMF governance is a central element in any successful reform process that has any hope of restoring the Fund's global relevance.² The topic emerged with a vengeance during the East Asian financial crises when the affected countries felt that their problems were not addressed as generously and understandingly as they deserved, in part because the East Asian countries did not have the power and representation in the Fund that they merited on the basis of their economic importance.³

2. As noted above, Lawrence Summers in 1999 in a speech at the London School of Business commented on this topic in the context of a broader discussion of IMF reform as did the 1994 Bretton Woods Commission.

3. An alternative explanation for the level of support in the East Asian financial crises is that under the influence of European members that were critical of the scale of support that had been extended to Mexico, Fund management and staff were hesitant to propose large-scale lending. In fact, IMF commitments to Indonesia, Korea, and Thailand average 3.8 percent of

More recently, the Monterrey Consensus (UN 2002a) encouraged

[t]he International Monetary Fund and World Bank to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making, and thereby to strengthen the international dialogue and the work of those institutions as they address the development needs and concerns of these countries.

That encouragement has led to a number of discussions in the Development Committee (Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) on how to enhance the voice and participation of developing and transition economies in the Fund and the Bank.

The leaders who gathered at Monterrey were not alone in the view that governance should be on the agendas of the Bretton Woods institutions. In one form or another, the topic was mentioned in September 2004 by 23 of the 60 who commented on how the structure of the Fund and the World Bank should be changed (Emerging Markets 2004); this was, by far, the most common of any of the responses.

The issues involved have been highlighted in reports of the managing director to the IMFC and in the IMFC's communiqués.⁴ The Group of 24 (G-24) ministers have been more strident (G-24 2005):

Ministers note that the BWIs' [Bretton Woods institutions] governance structures have not evolved in line with the increased size and role of emerging market, developing, and transition countries in the world economy. Moreover, the role of small and low-income countries in the decision-making process is extremely limited. Ministers stress the need for concrete actions to reduce the democratic deficit and enhance the voice and participation of developing countries in decision-making at the IMF and World Bank, as called for in the Monterrey Consensus. They express disappointment that no progress has been made on this issue. The current under-representation of developing countries in the IMF and the World Bank Executive Boards undermines the legitimacy and effectiveness of these institutions.

The G-24 attaches sufficient attention to these issues that it has issued an entire volume devoted to them (Buirra 2005b).

Aside from the symbolism and power politics involved, IMF governance involves complex trade-offs between the legitimacy and opera-

GDP compared with 4.6 percent for Mexico, but IMF plus bilateral commitments averaged 9.0 percent of GDP compared with 9.6 percent for Mexico (Roubini and Setser 2004, 125). This is not necessarily the right metric because it makes no adjustment for need or circumstances, but it suggests that the Asian complaint and the European conspiracy view are not broadly supported by the data.

4. "The IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy" (IMFC 2005).

tional efficiency of the Fund in conducting its business (Cottarelli 2005). Choices have to be made if there is to be progress on overall IMF reform. The IMF will not be able to continue successfully without adjustments in its governance structures. Lane (2005) links action on various governance issues to the resolution of tensions within the Fund concerning such contentious issues as how best to deal with emerging-market crises, the proper scope of IMF conditionality, the phenomenon of prolonged use of IMF resources, and the IMF's relationship with low-income countries.

The balance of this chapter looks at four aspects of IMF governance: (1) shares of IMF quotas, (2) choosing IMF management and staff, (3) reforming the Executive Board, in particular, the distribution of seats (chairs) on the board, and (4) the IMF's relations with various international steering groups.

Quotas and Voting Power

IMF quotas are the principal issue in IMF governance because quotas are the building blocks for many aspects of the IMF and its operations. A country's quota directly translates into voting power because the number of votes a country has in the Fund is based primarily on the size of its quota.⁵ What matters is not the total number of votes, of course, but the relative size of quotas because formal voting is generally by weighted majority with most issues requiring only a simple weighted majority; a few issues require either 70 percent or 85 percent majorities.⁶ The United States, with the largest quota, has 17.08 percent of the votes, and therefore can block (veto) change on the last set of issues.⁷ In addition, a member's quota fixes how much that country may be called upon to lend to other members through the Fund. It also determines more loosely how much a member can borrow from the Fund.

The size of the Fund in terms of total quotas in the Fund must be reviewed at least every five years. Some of those reviews have been prolonged beyond five years.⁸ Roughly half—8 of 13—of the reviews have resulted in an increase in the size of the Fund.⁹ Currently the IMF is in its

5. A member has 250 basic votes regardless of the size of its quota and one vote per 100,000 SDR of its quota.

6. Amendment of the IMF Articles of Agreement requires a weighted majority of 85 percent of members and the positive votes of 60 percent of members.

7. The US quota in the IMF is 371,493 hundred thousand SDR. As of August 2005, its quota share was 17.40 percent.

8. One review was concluded inside the five-year window.

9. New members of the Fund are given quotas commensurate with the size of quotas of existing members (often a complex negotiation), which increases the overall size of the Fund while reducing the quotas and voting shares of existing members.

13th quota review cycle, which is scheduled to be completed by January 2008. Aside from determining the overall size of the Fund, a review that involves an increase in overall quotas can affect the relative size of quotas and therefore a country's voting power.

Negotiations over IMF quotas have traditionally been informed by formulas that involve

- GDP at current market prices (an indicator of economic size and of a country's capacity to contribute to the Fund),
- official international reserves (an indicator of a country's capacity to contribute to the Fund),
- current payments (an indicator of openness as well as of potential need to borrow from the Fund),
- current receipts (another indicator of openness as well as of potential need to borrow from the Fund), and
- the variability of current receipts (another indicator of potential need to borrow from the Fund).

These five variables are measured, often with difficulty, over periods of varying length and combined according to a variety of different weights.¹⁰

Starting with the Eighth Review of Quotas in 1983, five different formulas have been used to generate calculated quotas. Calculated quotas often differ substantially from actual quotas because of the tension between actual historical quotas and differences in the pace of countries' economic development.¹¹ An adjustment factor is applied to the results of each formula so that they yield the same overall total. A country's calculated quota is the larger of the original "Bretton Woods formula" and the average of the two smallest of the four remaining formulas, appropriately scaled. In most quota reviews that result in an increase in total quotas, the increase in a country's individual quota is composed of some combination of its current quota share, an adjustment to bring some or all countries closer to their calculated quota shares, and occasionally ad hoc adjustments for countries whose quotas are way out of line. Everything is scaled to the new overall size of the Fund.

In the 2004 estimates, a distribution of quota shares based on calculated quotas would boost the share of advanced countries 6.7 percentage points relative to actual quota shares and reduce the shares of developing

10. In many cases, data have to be estimated. In addition, in recent discussions and calculations the last variable is calculated as the variability of current receipts and net capital inflows.

11. The historical relationship dates back to the Bretton Woods conference in 1944, when a formula was used as a guideline for establishing initial IMF quotas, but the results of the formula were only indicative. A political agreement was required to set the quotas for the important countries and establish their relative quota shares along with the formula itself.

countries 3.9 percentage points and transition economies 2.8 percentage points (IMF 2004g).¹² However, within the group of developing countries, the calculated quota share for the subgroup of Asia (including Korea and Singapore) would be 4.6 percent points higher than its actual share of 10.3 percent.

Moreover, within each category of countries, a distribution of IMF quotas based on calculated quotas would bring about large adjustments in relative voting power. In the 2004 estimates, the US share would rise 2.4 percent, Germany's would rise 15.3 percent, but France's would decline 13.1 percent. Among developing countries, China's share would rise 55.5 percent, India's would decline 47.3 percent, and Venezuela's would decline 67.4 percent; but Mexico's would rise 57.4 percent and Korea's 177.4 percent, which would make it the 11th largest quota in the Fund. Among transition economies, Russia's share would decline 52.3 percent, but the Czech Republic's share would be boosted 18.4 percent. The sizes of these differences reflect a combination of inertia that anchors shares in historical relationships with each other and differential rates of economic and financial development.

Vijay Kelkar et al. (2005) dramatically point to some of the voting power anomalies associated, in their view, with the current quota structure.¹³ They note that the combined votes on the IMF Executive Board of Brazil, China, and India are 19 percent less than the combined votes of Belgium, Italy, and the Netherlands at the same time (2000–01) that their combined GDPs at market exchange rates are 23 percent higher, their GDPs at purchasing power parity (2000 PPP estimates) are four times higher, and their populations are 29 times higher. Note, however, that the percentage difference between the combined calculated quota shares of the two groups of countries, based on data through 2002 (IMF 2004g), would be unchanged from the percentage difference in their combined actual quotas.¹⁴

The quota formulas themselves are subject to the same conflicting forces of inertia and of differences in the pace of countries' economic and financial development.¹⁵ Consequently, many members of the IMF advocate changing the quota formulas to simplify the formula, preferably to

12. In these calculations, the current quota share of advanced countries (for these purposes, industrial countries plus Cyprus and Israel) is 61.6 percent, the share of developing countries is 30.9 percent, and the share of transition economies is 7.5 percent.

13. Vijay Kelkar has coauthored a number of papers on IMF governance; see references, including Kelkar, Yadev, and Chaudhry (2004).

14. The calculated quota shares of Italy and the Netherlands are larger than their current actual quotas, outweighing the implied decline in Belgium's quota; at the same time, the large increase in China's calculated quota is partially offset by large decreases in the calculated quotas of India and Brazil.

15. Dirk Messner et al. (2005) propose increasing the weight of developing countries' votes in the IMF and at the same time revising the IMF Articles of Agreement so that the voting

one standard with no more than four variables, and to update the variables. Not surprisingly, this is not an exact science.

In 2000, an outside committee chaired by Richard Cooper (IMF 2000) recommended a simplified formula based on two variables: GDP (the potential ability to contribute to the Fund) and the variability of current receipts and net long-term capital flows (an alternative measure of the potential need to borrow from the Fund), with the coefficient on the former twice that on the latter composite. This proposal did not attract a lot of support inside or outside of the IMF.

Others (such as Kelkar with his various coauthors) have suggested replacing GDP at market prices and current exchange rates with GDP on a PPP basis, which *ceteris paribus* would tend to boost the quota shares of developing countries. Bryant (2004) proposes including population in the formula along with GDP. Introducing this variable would also increase the voting power in the IMF of developing countries as a group but would benefit poorer developing countries relative to the voting power of richer developing countries.

Even technical adjustments in the way the quota formulas have been estimated can matter; Buira (2005a, 27) reports that excluding intra-area trade in the calculated quotas of the 12 euro area members of the IMF would reduce their combined calculated quota share by 11.4 percentage points.¹⁶ On the other hand, the latest estimated calculated quotas reported by the IMF (2004g) would boost the combined quota share of the euro area by 4.5 percentage points relative to those countries' combined share of actual quotas. Thus, if EU and euro area quotas are to be reduced, as many have called for, either the quota formula will have to be changed or the interpretation of the inputs will have to be substantially modified, for example, with respect to intra-EU trade.

A large group of small countries is particularly interested in adjusting the number of basic votes for each member of the IMF, now 250 votes per country. It is pointed out (Buira 2005a; Kelkar et al. 2005; Kelkar, Chaudhry, and Vanduzer-Snow 2005) that basic votes represented about 11 percent of total votes in 1945 and represent 2 percent today. The number of basic votes per member has been unchanged and the number of members of the IMF has increased substantially, but the increase in the overall size of quotas has swamped the latter effect. (An amendment of the IMF Articles of

shares would be recalibrated every 10 years. The problem, of course, is that the formula used to increase the weight of developing countries could also lead to a reduction of their weight at the time of recalibration.

16. Lorenzo Bini Smaghi (2004) has a similar result, a reduction in calculated quotas of 11.7 percentage points and a reduction in voting power of 9.1 percentage points for the euro area. For the 25 current members of the European Union (EU-25), Bini Smaghi estimates that the reduction in calculated quotas would be 15.1 percentage points, and the reduction in voting power 12.6 percentage points, from which the US voting power would receive a boost of 4.2 percentage points.

Agreement would be required to change the number of basic votes each country would receive.) Kelkar et al. (2005) calculate that if there were an increase in basic votes that restored their share of total votes to 11.3 percent, and if the remaining 89.7 percent of quota shares were distributed according to GDP on a PPP basis, the voting share of developing countries would rise by 11.5 percentage points, with the group shares of developing countries in Africa, Asia, and the Western Hemisphere all rising, and the voting share of advanced countries declining 10.8 percentage points. Moreover, the US voting share would increase 2 percentage points, more than preserving the US veto.¹⁷

On the other hand, adjusting the number of basic votes each country receives would not do much for most groups of countries. Ngairé Woods and Domenico Lombardi (2005) point out that the voting share of the largest 24-country African constituency would rise from 1.99 percent to only 2.81 percent. Merely adjusting basic votes is a feel-good solution to the problem of voting power in the IMF as well as a high-cost solution because it would require an amendment of the IMF Articles of Agreement. Woods and Lombardi propose a more radical reform involving expanding the double-majority approach, in which certain decisions require various weighted majority votes plus various majorities of members. This could increase the scope to block specific changes, but it could well make it more difficult to implement change except as part of a carefully assembled package of proposals. However, it would potentially increase the leverage of the sub-Saharan African countries whose two constituencies include 43 countries, 24 percent of the total membership of the Fund.

Because the United States has more than 15 percent of the votes, it can block (veto) certain major decisions of the IMF; however, very few affect the ongoing operations of the IMF. Nevertheless, many observers feel that the US veto gives the United States undue leverage over the day-to-day decisions in the IMF.¹⁸ However, the United States could only voluntarily lose its veto because it could always block any amendment of the IMF Articles of Agreement or quota increase that had the effect of reducing the US voting share below 15 percent.¹⁹ In the context of the second amend-

17. The US voting share would decline about 1.5 percentage points but remain above 15 percent if the contribution of basic votes to total votes were restored to the 1945 level. This decline would be more than offset by the switch to quota shares based only on PPP-based GDP.

18. The basis for the presumption is understandable, but I have witnessed too many cases where the IMF has not followed US wishes to worry a great deal about such problems. What is true is that the United States historically has cared consistently about the IMF as an institution and about its day-to-day operations.

19. In principle, it might be possible to admit by majority vote enough new members with large enough quotas to drive the US voting share below 15 percent, but that would take an increase in IMF quotas of more than 14 percent via such a process. There are not enough non-member countries in the world to generate such an increase where each new member's quota is constrained by the size of the quotas of comparable countries, based on the five quota formulas scaled to the current size of the IMF.

ment to the IMF Articles of Agreement in 1978, the majority for deciding some issues was raised from 80 to 85 percent. This facilitated a reduction in the US voting share from above 20 percent to above 15 percent while preserving the US veto. Most proposed adjustments in the quota formula, aside from those introducing a heavy weight on population or international reserves, would not adversely affect the US quota share. While a case can be made that it is in the US interest to reduce its quota share voluntarily so that it no longer can be accused of having undue influence over the Fund, such an action is far from likely except in the context of a very large package of IMF reforms that the United States strongly supports.

A potentially more promising route would involve the establishment of a single EU or euro area constituency that would also have more than 15 percent voting power, creating a “contestable” veto power with identical quotas for the United States and the European Union. If their voting shares were both about 18 percent of the overall total, it would free up about 13 percentage points to reallocate to other countries reflecting their relative economic development.²⁰ Alternatively, both the United States and the European Union could agree to reduce their voting power below 15 percent as part of a grand bargain on IMF reform whose outlines at this point are decidedly blurred. This would free up an even larger share of quotas and votes for reallocation.

Notwithstanding the political and technical complexities, the issue of the relative size of quotas and voting power is central to reforming IMF governance. Jack Boorman, in his remarks to an Institute of International Finance Seminar in London on November 17, 2004, argued that the Europeans must take the lead. I have argued (Boyer and Truman 2005; Truman 2005a) that the United States has some leverage, albeit in the nuclear category, on the European position. Every two years, the United States has an opportunity to block the continuation of the Executive Board at its current size of 24 seats, rather than the 20 called for in the IMF Articles, because the vote to continue to raise the number of seats to 24 requires an 85 percent (weighted) majority.

Europe holds the key to progress in this area, and the pressure is rising. Burhanuddin Abdullah (2005) expressed in unusually strong terms the frustration on this issue felt by East Asian countries:

Finally and most importantly, we stress the criticality of addressing serious shortcomings in the Fund’s governance structure, as well as a lack of sense of ownership of some members. In order to enhance the effectiveness and legitimacy of the Fund, all members of the institution must feel a sense of ownership. They must feel well represented and that they have a say in decisions taken by the Fund. As such, all members should have adequate voice and participation.

In this regard, our constituency strongly believes that countries’ quota shares have to be reviewed and updated so that they reflect countries’ relative positions in the world economy. A viable solution could be a rebalancing of quotas within

20. EU countries currently have 32 percent of IMF votes.

the existing total, whereby countries that are overweighted could voluntarily transfer quota shares to countries that have grown quickly due to successful economic performance and are now grossly underrepresented. Without advancement in such an important area, the Fund's credibility will continue to be undermined due to the monopolistic behavior of large countries with veto power. In particular, the Fund runs the serious risk of losing its relevance in Asia unless the Fund effectively engages Asian countries by addressing this issue of the lack of voice and effective participation in the decision-making process. The influence, credibility, and legitimacy of the Fund are contingent upon these changes. In this light, the upcoming 13th General Review of Quotas will provide an opportune time to achieve this objective, which should not be delayed any further. The ultimate goal is to see a Fund that performs important functions for the benefit of all member countries and cherishes the practice of consensus building in reaching board decisions.

The ASEAN+3 (China, Japan, and Korea are the +3) finance ministers in May 2005 pledged to work together on this issue. The trilateral finance ministers (China, Japan, and Korea alone) made a similar statement at the same time. The Japanese Finance Minister Sadakazu Tanigaki (2005) had already spoken eloquently about this topic in April: "The IMF needs to listen and understand the frustration and concerns Asian countries feel toward it and make serious efforts to address these concerns. Unless the IMF responds effectively to the above, it could irrevocably lose relevance in Asia and ultimately in the world." He cited two concerns: first, Asian countries' status in the IMF in terms of the distribution of quotas, board members, and staff, and second, whether the institution is making sufficient efforts to prevent, manage, and resolve capital account crises.²¹

The United States has taken a forward-leaning position on this issue. At the IMFC meeting in April 2005, US Treasury Secretary John Snow (2005) stated:

We believe the time is ripe to start considering how to address these inter-related issues [IMF representation should evolve along with the evolution of the world economy and the world economy is now ahead of the evolution of the IMF]. The IMF's liquidity is at an all-time high. But the fact that the IMF does not need an increase in its resources need not impede change. A rebalancing of quotas from "over-represented" countries to the "under-represented" within the existing total could yield substantial progress. This will not be an easy task, but it can be achieved with boldness and vision to help modernize the Fund.

These are clearly complex issues, and careful consideration and consultation are needed to address the full range of concerns. This is important to preserving the global character of the IMF, so that all countries feel they have a rightful stake in the institution.

US Acting Under Secretary Randal Quarles (2005) reiterated the US position in June 2005, including a statement that "progress should not, and

21. Tanigaki did not put forward in his written statement the proposal, which had been attributed in the press to the Japanese government in advance of the meeting of the IMFC, that ASEAN+3 quotas in the IMF should be increased from 13 percent to 20 percent.

indeed need not, be linked to an increase in the IMF's quota resources." Given the rancorous history of IMF quota negotiations, the US position is naive at best and cynical at worst. This is the case even if the US position is driven by strategic considerations and US government officials recognize that in the end an adjustment in quota shares will only occur in the context of an increase in the overall size of the Fund. The reason the US position looks as if it is just for show is that individual member countries must consent to any reduction in their quotas. It is highly unlikely that any country will voluntarily reduce its quota so that the amount can be transferred to another country. Moreover, the European countries collectively have more than enough votes to block any increase in total IMF quotas that would result in a reallocation of quota shares that does not satisfy them.

The common EU position on this issue at this point is not forward leaning. Jean-Claude Juncker (2005) stated the EU position at the April IMFC:

EU countries support this process [of strengthening the participation of developing countries] and welcome the steps that have been taken so far by the IMF and the World Bank to strengthen the voice of developing and transition countries as well as the renewed focus from IMF management on the importance of this issue. At the same time it is important to discuss further measures, such as initiatives to further build policy capacity in developing countries, further enhancement of delegation office capacity and overall general measures such as an increase in basic votes.

Note that Juncker did not mention reducing the quotas or quota shares of EU members of the IMF. Such an offer will have to wait at least until the hard bargaining begins.

Choice of Management and Staff

The processes used today to choose the managing director of the Fund and the president of the World Bank satisfy few observers, with the important exception of key senior officials and political leaders in the United States and in Europe. The Executive Boards of the two organizations in principle elect the heads of the organizations. In practice, with a few variations around the edges, the existing convention, by agreement between the United States and (a growing) Europe is that the Europeans propose the managing director of the IMF by an ad hoc internal process and the US president proposes the president of the World Bank. The Executive Boards subsequently deliberate and elect the individuals proposed. This convention dates back to the founding of the institutions. It has been widely criticized for decades, but it persists. Since 1999 two new managing directors of the IMF and one new president of the World Bank have been chosen on the basis of the convention.

Miles Kahler (2001) put forward the most comprehensive proposal for change in this area. His proposal calls for (1) abandoning the US-European

convention, (2) establishing a selection process based on developed criteria, (3) expanding the list of candidates to include internal candidates, (4) placing the selection process squarely, rather than indirectly, in the hands of ministers, (5) developing a long list of candidates and later a veto-proof short list of candidates, and (6) reinforcing the process via a two-term limit and a review process at the end of the first term.

Many others advocate change. In the wake of widespread dissatisfaction with the process that resulted in the choice of Horst Köhler as the IMF managing director in 2000, the executive directors of the Bank and the Fund formed working groups to reform the selection processes for the heads of the two organizations (Kahler 2001, 77–78). Those groups did not recommend discarding the US-European convention (IMFC 2001). Instead, they recommended other changes to the selection process that would involve a more transparent process of choosing the heads of the organizations. The two Executive Boards endorsed the report in April 2001 as guidance for the process, and IMFC noted the report in its communiqué. However, these efforts had no visible influence on the processes that subsequently led to Rodrigo de Rato's succeeding Horst Köhler in 2004 and Paul Wolfowitz's succeeding James Wolfensohn in 2005.

In an interview as he left the World Bank, Wolfensohn (*The New York Times*, May 25, 2005, C5) endorsed a selection process for the Bank in which the president would be selected from a range of candidates in a transparent way: "I would personally wish that one could make these appointments on merit." Horst Köhler (IMF 2004h), when he left the IMF, expressed his support for a more transparent selection process that is not limited to a particular country or region although he acknowledged that there would always be an element of politics in the process. David Peretz (2005, 27) advocates modifying the process for selecting the managing director of the IMF by taking it out of the hands of member governments and charging a group of "wise men [and women]" to come up with a range of possibilities and appointing the best person for the job regardless of nationality. He also notes that reform of the selection process for the head of the IMF depends on reforms in the selection process for choosing the head of the World Bank and the World Trade Organization, which did modify its procedure somewhat in 2005. The issues involved apply as well to choosing the heads of UN agencies (where the UNDP used an open model in 2005), the OECD, the BIS, and the regional development banks.²²

Questions about the selection of the managing director of the IMF extend to the selection of the deputy managing directors and the diversity of the staff. The first deputy managing director of the IMF, according to the

22. The president of the Inter-American Development Bank traditionally comes from Latin America, and the president of the African Development Bank comes from Africa. However, the president of the European Bank for Reconstruction and Development comes from Western Europe (with the number two position reserved for a US national), and the Japanese nominate the president of the Asian Development Bank.

US-European convention, comes from the United States. Until the mid-1990s, the managing director had only one deputy managing director (DMD). When Stanley Fischer was selected, the number of DMDs was expanded to include two others. To date, two of the DMDs have come from Japan, two have come from Latin America, one has come from India, and one from Africa.

Many members of the IMF complain about a lack of diversity within the senior staff and the staff as a whole. They argue that those positions tend to be occupied by people from what are now viewed as creditor countries, thus providing such countries with undue influence over IMF policies and decisions on programs of financial support. With respect to skills, most observers believe that IMF staff hiring and promotion are merit based; most of the technical skills involved are universal, not national or regional. The issue of influence by the governments of the staff's country of origin is more complex.

The concerns are three. The first concern is about the power and influence of IMF technocrats who are viewed as economists trained in a particular analytical tradition. Most people familiar with disputes among economists and the lack of a Washington Consensus find this concern overblown although they do not dispute the technocratic foundation of much of the IMF's work and the influence of technocrats in the organization.

The second concern is geographic diversity. A concern for diversity need not distort a merit-based appointment and promotion process. However, it can well have that effect. Today, the IMF imposes informal limits on hiring nationals from some countries. Despite its very competitive salaries favoring nationals of countries other than the United States, it often has difficulty attracting qualified applicants to Washington.

The third concern is about political influence. Only a fool would argue that politics never enters into decisions by IMF staff and, in particular, by management, but many observers (Bird 2003; Bird and Rowlands 2001; Cottarelli 2005; Van Houtven 2002) conclude that there is limited evidence of systematic political influence in IMF decisions. Some scholars (Barro and Lee 2002) have found some evidence of political influence. However, their findings are sensitive to specification of the time period and the definition of evidence of influence. As described in Woods and Lombardi (2005), the IMF faces a large number of different types of decisions with the result that at times there may be a strong consensus on those issues; at other times, shifting coalitions of countries push particular programs or views.

Chairs and Reform of the Executive Board

The Executive Board of the International Monetary Fund is charged with the supervision of the activities of the institution. The executive directors are appointed or elected by member governments. They are paid by the

Fund. As such, their roles are somewhat ambiguous. Are they to represent the views of the governments that chose them or the interests of the institution as a whole when those interests diverge? Does the role of the board need to be strengthened (Van Houtven 2004)? Should its scope and powers be broadened (Rajan 2005a)? Should its size be increased to reflect the increased membership of the Fund or should its size be reduced or seats reallocated to make it more efficient or representative?

Peter Kenen et al. (2004), David Peretz (2005), and Raghuram Rajan (2005a) either favor or are favorably inclined toward a nonresident Executive Board, with senior officials from capitals meeting regularly—but certainly not the current three days a week—to make important decisions. This reform would tend to strengthen the role of the staff and management of the Fund at the same time that it would receive more overt political direction on key issues.

José De Gregorio et al. (1999) advocate a board independent of governments in the model of independent central banks. Timothy Lane (2005) sensibly criticizes this view. He argues that independent central banks have reasonably well-defined objectives focused more or less precisely on price stability. Evaluation of the performance of the IMF involves determining whether the institution's advice was sound and whether it was appropriate for the Fund to lend to particular countries in particular circumstances. Those are questions that require judgment *ex ante* and later invite second-guessing without agreed quantitative tests that can be applied.

Vijay L. Kelkar et al. (2005) and Kelkar, Chaudhry, and Vanduzer-Snow (2005) advocate an intermediate solution in which each executive director would serve a fixed six-year term and would be responsible to his or her parliament or parliaments.²³ Some observers favor other steps to increase the transparency and accountability of the Executive Board. For example, Woods and Lombardi (2005) favor the prompt publication of executive directors' votes and the positions they take as well as evaluations of their performance against standards set by the countries that elected them.

The IMF Executive Board at present has 24 members. Some, for example Jack Boorman in remarks in London on November 17, 2004, think the board is too large; Peretz (2005) calls for a reduction to 15 seats. Woods and Lombardi (2005) favor a more even distribution of countries and seats. They advocate that each of the three executive directors elected by single countries (China, Russia, and Saudi Arabia) should take more countries

23. Kelkar et al. (2005) and Woods and Lombardi (2005) single out the United States for setting a good example with respect to the accountability of its executive director because the US executive director is nominated by the president and confirmed by the US Senate, and the person can be called to testify before the Congress. (Some other executive directors testify before parliaments; see, for example, Lynch [2005].) The US executive director also is obligated to serve at a reduced salary partly as a consequence of the person's exposed political position. Moreover, the US executive director serves at the pleasure of the president and conventionally is replaced soon after a change in US administration.

into their constituencies. They estimate that the resulting reallocation of countries and constituencies could reduce the size of each one to no more than 10 countries. As a subsequent step, if other countries choose to be represented by one of the five appointed executive directors, the number of countries in each constituency could be reduced further, to no more than eight.²⁴ The result, they speculate, might be that the elected executive directors would become more independent of their national governments.

If IMF constituencies became more equal in size and voting power, it would still not solve the issue of the redistribution of voting power. Boyer and Truman (2005) and Truman (2005a) have advocated addressing the issue of chairs (IMF representation) and shares (the distribution of votes) as part of a process focused primarily on the members of the IMF that are also members of the European Union. At present the 25 EU countries appoint or play a major role in the election of 10 of the 24 IMF executive directors, 42 percent of the Executive Board. Among the 10, they currently supply 6 executive directors and 8 alternate executive directors—29 percent of the total. In five cases they supply both. In brief, the European Union is overrepresented on an Executive Board that traditionally reaches decisions via consensus; the European voices are too many and as a consequence receive too much weight. EU members also directly control 32 percent of the votes in the IMF.²⁵ Indirectly through the inclusion of non-EU countries in their constituencies or the presence of EU countries in non-EU-majority constituencies, the European Union potentially can influence an additional 12.5 percent for a total of almost 45 percent.

Rationalizing the allocation of shares and chairs within the IMF in principle involves two separable issues, one having to do with shares and the other having to do with chairs. In practice, both issues will almost certainly have to be addressed at the same time even if progress toward the ultimate goals of these reforms involves different timetables. Shares will have to be reallocated toward those countries whose relative economic size has outstripped the relative size of their quotas, generally the large emerging-market economies (LEMs). Such a shift would tend to support the financial stability of the organization.

The reallocation of chairs is a more complicated process. Boyer and Truman (2005) and Truman (2005a) advocate a multistep process. First, countries that are not members of the European Union and do not aspire to EU membership would join other constituencies, and EU members such as Ireland, Poland, and Spain would join EU constituencies. This would probably reduce the number of EU or potential EU executive directors and alternate executive directors from a potential of 10 each to 6 or 7 each. Non-EU executive directors and alternate executive directors in reconstituted con-

24. The authors are vague about whether such a change would require an amendment of the IMF Articles of Agreement, but that almost certainly would be the case.

25. The 10 new EU members that joined in May 2004 have only 2.1 percent of the votes.

stituencies would occupy the freed-up seats. As a second step or series of steps, the EU chairs would be consolidated into one chair; this would allow for the establishment of new constituencies or for a smaller Executive Board. The complexity of working out this realignment to the reasonable satisfaction of most IMF members should not be underestimated. No country should end up not being represented, and large countries should resist limiting the size of their constituencies to the minimum number of votes necessary to claim a seat.

Miles Kahler (2001) also advocates a consolidation of EU chairs in the IMF. Peter B. Kenen et al. (2004) do so as well. However, Kenen et al. would stop the process, as the situation now stands, at two chairs, one for the euro area and one for non-euro area EU-member countries.

Many observers from a European perspective (Bini Smaghi 2004; Woods and Lombardi 2005; and Willy Kiekens in remarks, "What Kind of External Representation for the Euro?" delivered at an Austrian National Bank seminar on June 2, 2003) see the consolidation of EU representation into a single chair as a positive step in Europe's interests. Horst Köhler (IMF 2004h) expressed support for an ever-closer political union within Europe and saw consolidating EU chairs in the IMF as consistent with that vision. Since the Vienna European Council meeting in December 1998, EU members have sought to upgrade the coordination of their positions in international forums, the IMF in particular. From the bottom up, IMF executive directors from EU countries meet in Washington with representatives of the European Central Bank (ECB) and the European Commission as the EURIMF. Further up the line, a staff group (subcommittee on IMF matters, or SCIMF) involving national capitals as well as the ECB and the Commission works up common positions for subsequent review and approval by the Economic and Financial Committee (EFC) of deputies and final review and approval by the Council of EU Finance Ministers (Ecofin) (Bini Smaghi 2004; Woods and Lombardi 2005). However, partly because of the presence of non-EU members in some constituencies and the presence of other constituencies in which EU members are not dominant and partly because of the desire of some EU members to go their own ways on some IMF issues, this process of coordination has not produced uniform EU positions on all issues.

As noted earlier in connection with the issue of the distribution of IMF quotas in the IMF, the Europeans properly should take the lead in this area. To date, they are not so inclined, if one can judge by what Junker (2005) said to the IMFC. To break this logjam, the United States has its nuclear option.²⁶ However, an important question is whether the United

26. In principle, any group of countries with more than 15 percent of IMF voting power has similar leverage to force a reallocation of chairs within the IMF. However, the direct consequences of failure would be larger because, if the size of the Executive Board were reduced to 20 seats without a consolidation of European seats, the instigators might find themselves without any representation on the board.

States sees it in its interest to deal with a single European entity. In Truman (2005a) I argue in the affirmative and that the United States in general should push for closer European integration. However, not all US officials and observers agree. Each camp can interpret the constitutional issues that arose in the late spring of 2005 as favoring its initial position.

If the Europeans were to consolidate their representation in the IMF, such a step would have strong implications for the IMF as an institution, including other aspects of its governance (Mathieu, Ooms, and Rottier 2003). Note one aspect: according to the current Articles of Agreement, if the European Union were to assume a consolidated chair as a single country, which some argue would require an amendment of the IMF Articles of Agreement, and the EU quota were the largest in the IMF, the headquarters of the IMF would have to be moved to Europe. Such a move might cause considerable disruption, but that possibility would be one that would have to be addressed as part of an overall bargain.

The IMF and Steering Committees

A basic question with respect to IMF governance is from where does the institution receive its direction? Today, as a formal matter, the IMF management runs the Fund. The Executive Board supervises the management and staff. The IMFC is formally an advisory body that in effect provides some overall guidance.²⁷ The Board of Governors acts in the areas where the Articles of Agreement require it to act.

In practice, none of these groups acts as a true steering committee for the IMF. One might well argue that the IMFC should play this role. However, despite efforts in recent years to bolster its role, it has failed as a body that either generates consensus or provides broad innovative direction to the Fund. That role has been played by outside steering committees. Only a trained political scientist can explain this failure, and colleagues of that political scientist would probably disagree. This observer's explanation is that the IMFC's effectiveness is constrained by two factors: (1) the continuing formality of its meetings, complete with speeches that are prepared in advance and released to the public, and (2) the substantial control over the IMFC's agenda and discussion that is exercised by IMF management and staff.

27. The French finance minister, Thierry Breton (2005), proposed the revival of the proposal to institute the Council, as provided in the IMF Articles of Agreement, as a body representing the Board of Governors with formal decision-making power in the IMF, replacing the advisory IMFC. Such a step would tend further to weaken the IMF Executive Board and strengthen the role of the IMF management and staff. However, that proposal was reconsidered and set aside in the late 1990s, when the Interim Committee, intended as a precursor of the Council, was transformed into the IMFC.

Throughout its history, the IMF management and staff itself have not been a principal source of innovation or direction for the international economic and financial system. The G-10 negotiated the Smithsonian Agreement, and the IMF's involvement in that negotiation lost the managing director his job. The ad hoc Committee of Twenty (C-20) dealt as best it could with the IMF reform process following the Smithsonian Agreement. The IMF has not been able, or allowed, to play a major role in shaping cooperation on major international macroeconomic policy issues.²⁸ The reasons for this weakness are complex. The IMF has been ineffective, in part, because its most powerful members wanted it that way. The IMF also is an institution that is dominated by its staff, which means that it is cautious with respect to innovation. At the same time, the IMF has not been able, despite repeated efforts, to sponsor effective dialogue outside of a narrow interpretation of the scope of its responsibilities.

Over the past 30-plus years, the steering committee of the IMF was first the G-10 with a strong US lead, next the G-5 countries, and more recently the G-7 countries.²⁹ Of course, the G-7 finance ministers and central bank governors seek to steer the international financial system and the global economy, not just the International Monetary Fund, but in the process they have been the steering committee for the IMF as well.

C. Fred Bergsten, in a March 4, 2004, speech in Leipzig, Germany, to the deputies of the G-20 on the subject of the G-20 and the world economy, Boyer and Truman (2005), and Truman (2005a) have called upon the G-20 to replace the G-7 in its role as the steering committee for the international financial system and the IMF.³⁰ As noted earlier, Lawrence Summers in December 1999 delivered a speech at the London School of Business in which he called for the G-20 to play an operational role in the international financial system, but to date its operational role has been strictly circumscribed by tacit agreement within the G-7.

Mervyn King, in remarks at a conference on February 4, 2005, stressed the need to expand the group of countries that discusses exchange rate and other macroeconomic policy issues beyond the G-7. He might stop at a G-7 group plus a few other countries, such as China and India or the five

28. The IMF has played a major and sometimes innovative, if controversial, role in connection with some specific issues, for example, the debt crises of the 1980s and the transformation of the economies of Eastern Europe and the former Soviet Union in the 1990s.

29. The G-5 includes France, Germany, Japan, the United Kingdom, and the United States. The finance G-7 includes also Canada and Italy. (The G-8 includes Russia, but it is principally a political group.) The G-10 includes Belgium, the Netherlands, Sweden, and Switzerland as well as the G-7.

30. The industrial-country members of the G-20 comprise the G-7, Australia, and the country holding the EU presidency when that is not a European G-7 country; nonindustrial-country members are Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, and Turkey.

countries (Brazil, China, India, Mexico, and South Africa) that joined the G-8 at their leaders' summit in Gleneagles, Scotland, in July 2005. During 2005, Brazil, China, India, and South Africa participated in several meetings of the finance G-7. However, although they were invited as more than breakfast or luncheon guests, the finance ministers and central bank governors of those countries were not full participants in the meetings in the sense that they were not involved in the full agenda of issues, including drafting the final communiqué in which the G-7's conclusions, agreements, and directives are enunciated.

The G-20 is a more natural group to play a significant role as a global steering committee in light of the changing and broadening list of countries of systemic importance, a list that extends beyond Brazil, China, India, and South Africa for many issues such as energy, global adjustment, and governance more generally.³¹ Central bankers actively participate in G-20 meetings alongside finance ministers; this feature contributes to the group's permanence as well as to its technical expertise on international economic and financial issues. With a group as large as 20, subcaucuses on specific issues would be expected. If the G-20 is to have more influence, a permanent secretariat might be desirable along with the use of working groups and more frequent deputies' meetings to follow up on ministerial decisions.

As a steering committee for the IMF, the G-20 countries have approximately 63 percent of the current voting power in the IMF and almost 80 percent of the voting power when including all the votes in the constituencies of which they are members. If EU representation in the G-20 were collapsed into one membership, that should further improve the effectiveness of the group and either contract its size to a G-16 or permit a slight expansion to 18.³²

Paul Martin (2005) has called for an L-20—a G-20 at the leadership level of prime ministers and presidents—that builds on the finance group that already exists.³³ The G-20 group of countries is not without challenge as the steering committee for the global financial system. Peter B. Kenen et al. (2004) call for the creation of two new groups: (1) a G-4 involving the United States, the euro area, Japan, and China to coordinate exchange rate matters and (2) a Council for International Financial and Economic Cooperation (CIFEC) with 5 permanent and 15 term members. They argue that the CIFEC would have greater legitimacy, accountability, and representa-

31. Anyone can quibble about the G-20's membership on the margin, but it comes closer to meeting the test of including the systemically important countries than often is the case with political compromises.

32. David Peretz (2005) argues that the IMF needs an agenda-setting body of no more than 15 members that regularly meets at both the deputy and finance minister levels.

33. Martin's advocacy follows proposals by Colin Bradford and Johannes Linn (2004) and work by the Centre for Global Studies (2004).

tiveness than the existing finance G-20; their argument is not very persuasive on the first two points given that the G-20 already exists, and on the third point any ad hoc group will be perceived by some nonparticipants as being nonrepresentative. They also propose that the CIFEC have a mandate to cover economic issues other than the IMF, which is also now the case for the G-7 and G-20.

More of a threat to the IMF as an institution, as well as to the G-20 as the steering committee for the international financial and monetary systems that provides guidance for the IMF, would be the proposal by Kemal Derviş and Ceren Özer (2005) to create a new United Nations Economic and Social Security Council with six permanent and eight nonpermanent members who would exercise the votes of their constituencies. The votes would be an equally weighted combination of population, GDP, and contributions to the UN budget for global public goods. There would be no vetoes, but supermajorities would be required for some issues. The Council would (1) provide a strategic governance umbrella for international institutions, including the IMF; (2) appoint the heads of those institutions, including the IMF, using transparent search procedures; and (3) mobilize resources for those institutions.

A similar but less well-developed idea is contained in the *Report of the Secretary-General's High-Level Panel on Threats, Challenges, and Change* (UN 2004). In part, these rival plans reflect turf battles between foreign ministries and finance ministries; each ministry wants the institution in which it calls the shots to be dominant. In part, these plans reflect dissatisfaction with the orientation and governance of the Bretton Woods institutions.³⁴ It can also be argued that these proposals are intended to pull the Bretton Woods institutions into one common system for global governance.

The principal inference to be drawn from all this ferment with respect to a steering committee for the international financial system including the IMF is that in the immediate future that steering committee will not be drawn from the institutional structure of the IMF itself. If the choice is between the finance G-7 and G-20, it is difficult to imagine that the rational choice would not be the latter group appropriately reconfigured to include only single representation of the European Union. However, that may not prove to be the choice. Political leaders have a sometimes disruptive and counterproductive tendency to reach out to create new institutions to address a renewed perception of recurrent global problems.

At the same time, political leaders frequently do respond to broader political pressures—those manifested through NGOs at the national or in-

34. Dirk Messner et al. (2005) propose the creation of a Council for Global Development and Environment (CGDE) in the United Nations partly as a funding vehicle and also “with an enhanced mandate and sufficient legitimacy to counterbalance the independence of the Bretton Woods institutions from the UN System.” The Fund and the World Bank are associated with the United Nations by mutual agreement, but they are not formally part of the UN System of Organizations.

ternational level and those articulated by academics. This truth underlines the challenge of communication that the Fund faces in today's world of instantaneous global transmission of information, misinformation, and disinformation: getting information out promptly about its programs and priorities. The institution has made important strides in communication and transparency over the past decade, but one has the sense that it has fallen further and further behind in the race to convey the truth about its policies, procedures, and accomplishments.