

## Reforming the IMF for the 21st Century

Edwin M. Truman, editor • April 2006 • 592 pp. ISBN 0-88132-387-X • \$27.95

The International Monetary Fund (IMF) faces an identity crisis, according to many of the authors of this conference volume. Once the preeminent institution of multilateral international financial cooperation, the IMF has failed to exercise its intended role as steward of the international monetary system effectively. To be effective, the IMF should not focus primarily on its low-income members and the challenges of global poverty, nor should it focus exclusively on international financial crises affecting a small group of vulnerable emerging-market economies. Instead, it must be engaged with each of its members on the full range of their economic and financial policies.

This volume comprises papers and comments delivered at a September 2005 conference held at the Institute. Senior Fellow Edwin M. Truman provides an introduction and summary and an overview of the papers presented. The authors address the (1) Fund's role in making and enforcing the rules of the international monetary system (chapters 5 to 8), (2) governance structure of the IMF including the distribution of voting power, representation on the Executive Board, and the choice of its management. (chapters 9 to 13), (3) scope and extent of IMF lending and other activities, including engagement with its low-income members (chapters 14 to 21), and (4) IMF financial resources (chapters 22 to 24). Four international experts wrap up the discussions (chapters 25 to 28), and Truman concludes the volume with a [six-part IMF reform agenda](#).

IMF Managing Director Rodrigo de Rato ([chapter 3](#)) acknowledges the need for changes. But he argues that the IMF's principal power lies in the soft power of persuasion. He implicitly dismisses proposals that the Fund should use or develop other instruments to carry out its mission. US Undersecretary of the Treasury for International Affairs Timothy D. Adams ([chapter 4](#)) conveys a greater sense of potential institutional crisis, noting that "the IMF now faces fresh, tough questions about its relevance." The first group of papers concludes that the IMF is behind the curve on the central issue of the day: promoting exchange rate and other global macroeconomic adjustments. Most agree that it is not easy for the IMF to produce results in this area. However, this difficulty does not excuse the Fund from raising questions and more proactively using existing procedures, such as special consultations, to pursue positive outcomes. For example, John Williamson ([chapter 6](#)) proposes that the IMF should develop a system of reference exchange rates for the systemically important countries—emerging-market as well as industrial—to help guide its multilateral surveillance activities.

The second group of papers deals with IMF governance. Distribution of voting power and representation on the Executive Board have remained essentially unchanged for the last 30 years. Meanwhile, the world has changed. It is widely agreed that the European Union should consolidate its representation in the Fund and that its members' collective voting share should be reduced. Edwin M. Truman ([chapter 9](#)) proposes a

one- or two-step process of increasing the overall size of the Fund (total IMF quotas) in which the ultimate objective is to provide parity in the voting shares of the European Union and the United States. Lorenzo Bini Smaghi (chapter 10) concludes that, if EU consolidation were accompanied by unified representation—that is, a single EU seat—the European influence in the IMF would be maintained or even increased.

Miles Kahler (chapter 11) concludes that a few large shareholders dominate the institution, and to address this problem of legitimacy and influence, he proposes changes beyond realignment of chairs and shares. Martín Redrado (chapter 12) offers a Latin American view on IMF governance. C. Fred Bergsten (chapter 13) suggests that an enhanced role for the IMF will require it to develop a close relationship with a new steering committee for the overall global economy, preferably based on a revamped Group of 20 that he labels the “F-16” (the finance ministers of the G-20 excluding representatives of individual euro area countries).

The third group of papers deals with IMF lending facilities. William Cline (chapter 14) and Gregor Irwin and Chris Salmon (chapter 15) offer proposals on how the IMF can reinforce and update its role as a lender of last or final resort. Cline argues that the IMF should continue to make large-scale loans as necessary, but Irwin and Salmon urge caution about the benefits of large-scale IMF programs. Four proposals for new facilities in the Fund are advocated: Kemal Derviş and Nancy Birdsall (chapter 16) propose an ambitious stability and growth facility. Tito Cordella and Eduardo Levy Yeyati (chapter 17) present a more modest proposal in the class of insurance facilities. Kristin Forbes (chapter 18) suggests that the IMF establish an insurance-type facility as a supplement to its normal ex post lending facilities. The “shock-smoothing facility” she envisages would aid countries in hedging against external shocks while requiring minimal additional IMF resources. John Taylor (chapter 19) provides the background and rationale for the establishment in the IMF of a policy support instrument that was agreed in principle in April 2005 and adopted by the IMF Executive Board on October 5, 2005. Steven Radelet (chapter 20) examines the IMF’s lending relationship with its low-income members. Michael Mussa (chapter 21) looks at some additional proposals, including a facility to reschedule debt to the IMF, and offers critical comments on the other papers in this section.

The fourth set of papers examines IMF financial resources. Ariel Buira (chapter 22) makes the case for an increase. Desmond Lachman (chapter 23) is more skeptical but advocates establishing a mechanism for the IMF to borrow temporarily in the private market. Karin Lissakers (chapter 24) argues that special drawing rights can still play a role.

The wrap-up panelists express the greatest urgency to reform the IMF. Barry Eichengreen (chapter 25) describes the Fund as “a rudderless ship adrift on a sea of liquidity. On none of the key issues does the institution or its principal shareholders have a clear, or a clearly articulated, position.” Mohamed El-Erian (chapter 26) chooses different words but says the same thing: The IMF is losing relevance, there is no simple solution, and it needs a critical mass of reforms. Tommaso Padoa-Schioppa (chapter 27) argues that the Fund has drifted from its core mission of ensuring stability and has lost leverage because, for many countries, international liquidity is no longer scarce. Yu Yongding (chapter 28), while more reserved than the others, agrees that the Fund has become weak and ineffective.

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