

IS THE IMF STILL RELEVANT?

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IS THE IMF STILL RELEVANT?

Short Answer: **Yes**

Slightly Longer Answer:

The Fund is a unique institution of global economic and financial governance and a provider of global public goods in a world that needs such an institution at least as much as it did in 1944.

Moreover, the Fund has evolved and should be supported by its members in continuing to do so

Twin Challenges

The Fund is an essential organ of global governance facing twin challenges:

#1 A crisis of **relevance**

#2 A crisis of **legitimacy**

Time is running out to address these challenges.

- For two years, members largely have been spinning their wheels on the Medium-Term Strategy
- The status quo is not sustainable

The Crisis of Relevance

The Fund should:

1. Focus on economic growth and financial system stability
2. Further enhance its role in surveillance, acting more as a regulator than a “good friend” to members
3. Modernize its lending facilities
4. Revamp its financial and business models
5. Subject to the above, leave the business of economic development to other institutions

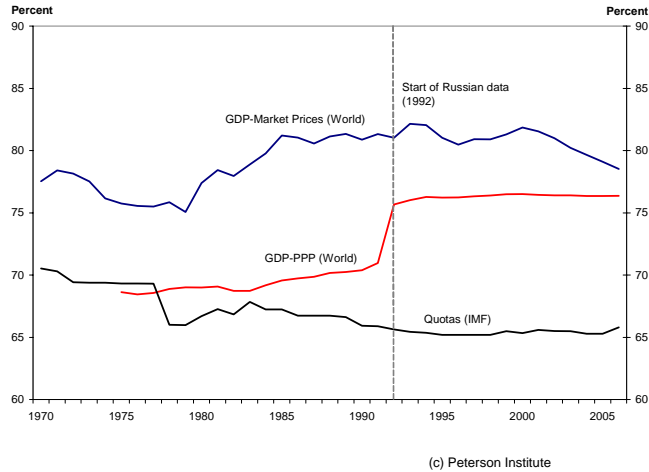
The Crisis of Legitimacy – Five Key Elements

- #1 **Management Selection** – more than appointment of the MD -- review his performance and the selection of DMDs
- #2 **Chairs** – too many (European) voices on the Executive Board-- Europeans removed from the agenda with de Rato's acquiescence
- #3 **Internal Governance** – Governors, IMFC, Board, Management, and Staff – roles ambiguous, blurring responsibilities
- #4 **External Governance** – transparency and accountability have improved somewhat, but are not yet up to international standards
- #5 **Shares** – redistribution of voting power is the **sine quo non**

Shares: Two Key Tests

- # 1 A new quota formula must point toward a **substantial redistribution** of voting power away from the industrial countries
- #2 Once adopted, a **significant, immediate realignment** of at least 10 percentage points is essential: GRADUALISM is a recipe for FAILURE

G-20 Shares of IMF Quotas and GDP

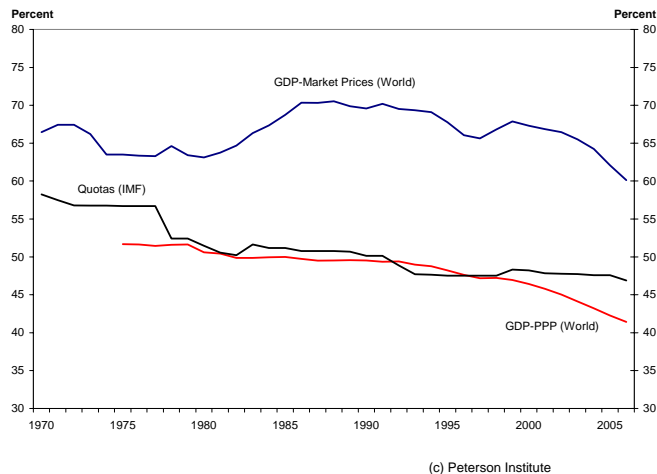


1. More than 65% of quotas and 75% of GDP
2. GDP shares exceed quota share =>
 - a. Other countries are already "favored"
 - b. Boosting basic votes further squeezes the "middle" group

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"G-8" Shares of IMF Quotas and GDP

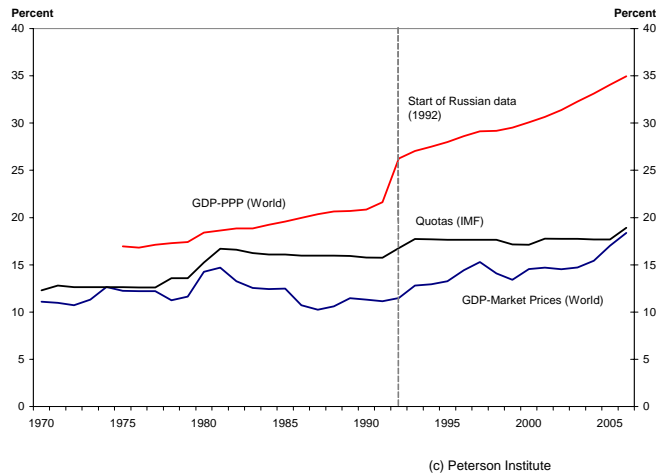


1. G-8 = G-7 + Australia
2. No significant adjustment in quota share since late-1970s despite declining GDP shares

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“G-11” Shares of IMF Quotas and GDP



1. G-11 = Other G-20 countries
2. No significant adjustment in quota share since early 1980s
3. GDP shares rising relative to quota share

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Variables for the New Formula

Most of the variables under consideration for the new quota formula do not contribute to the “desired” result. (Economic weight has not entirely passed from the traditional industrial countries.)

- The GDP share of the advanced countries (including all of the EU), even on a PPP basis, is more than 50%, but 20 % points less than market-price based GDP
- Reserves and population are problematic variables

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Way Forward

Possible New Formulas

- I. **Four Core variables** (expressed as global shares)
50% GDP(MER)+25% Openness+20% Variability+5% Reserves
- II. **Three Core Variables**
20% GDP(MER)+50% GDP(PPP)+30% Openness
With **GDP per capita** used inversely as a **share adjustment variable** using a factor of 10% (the sum of negative adjustments distributed according to the basic formula)

SHARES

	Results with New Formulas				
	Current Quotas	Three Core Variables			
		Four Core Variables Quotas	Basic Formula Quotas	With GDP / Capita Adjustment	
	Quotas	Quotas	Quotas	Quotas	Votes
Advanced Countries (27)	60.5	68.7	60.3	50.7	48.5
United States	17.1	22.2	20.3	17.0	16.0
Other Countries (158)	39.5	31.3	39.7	49.3	51.5
Africa	5.4	2.2	2.7	6.8	8.1
Asia	11.5	14.0	21.3	23.2	22.8
Middle East, etc.	7.6	4.2	3.8	4.1	4.4
Western Hemisphere	7.6	5.7	6.3	8.1	8.7
Transition Countries	7.4	5.1	5.6	7.0	7.5
European Union (27)	32.4	33.0	29.7	25.4	24.8

1. **Four core variables** imply calculated quotas for advanced countries **larger than** current actual or calculated quotas
2. **Three core variables** point in the **right direction**
3. **Replicates** current aggregate actual quota share of advanced countries
4. With the **share adjustment** and **tripling basic votes** meets test: 10% points of change of voting shares

IMPLEMENTATION

1. New formula is useless in restoring IMF legitimacy unless it leads to **“significant further realignment of members’ quotas”**
2. Requires a substantial increase in IMF quotas -- **at least 25 percent** including an equiproportional component to increase acceptance
3. Argument that IMF does not need new financing is a “red herring”
 - a. Demand for IMF lending is likely to resume, and individual borrowers need larger quotas than a decade ago
 - b. Alternatively, access limits can be adjusted downward as has been done in the past while redistributing the financing burden according to the new quota shares.

WHERE DO WE STAND?

1. Outsiders do not know for sure because the Fund’s lack of transparency and accountability on this and other issues.
2. Fortunately with 185 members and 2,700 FTE staff, the Fund leaks.
3. Current proposals:
 - a. The new quota formula points in the direction of perpetuating the status quo for advanced countries
 - b. Even with gimmicks and a tripling of basic votes, limiting the increase in the size of the Fund to around 10% implies only about a 2 percentage point shift in voting power away from the advanced countries.
4. The United States should walk away from these proposals.
5. If they are submitted to Governors in October, the new managing director should campaign against their adoption.

CONCLUSION

The Fund faces major challenges: crises of **legitimacy** and **relevance**

Unless the first crisis is addressed, the second crisis is irrelevant to the future of the Fund

Realignment of voting shares is crucial to resolving the crisis of legitimacy

Under current management, the **Fund is headed in the wrong direction.**