1. Introduction

Social scientists define governance as a mechanism for ensuring the effectiveness, efficiency, representativeness, and accountability of an agent. Accountability refers to the need to make that agent answerable for its actions. In the context of public policy, this means making appointed officials answerable to elected authorities and elected authorities answerable to their constituents. Representativeness means that governments, interest groups and other stakeholders have their preferences appropriately taken into account. This generally entails giving the principals a voice and designing decision making procedures that allow them to influence the actions taken by their agents. Efficiency means that there is no other decision that would make some parties better off without making others worse off. Effectiveness refers to the ability to reach decisions without delay and to quickly implement policies.

There can be tradeoffs among the objectives of governance. For example, taking decisions by unanimous consent will give everyone a voice but is unlikely to result in expeditious decision making. There will then be a tradeoff between effectiveness and representation in the design of a governance mechanism. That goals are multidimensional is thus

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1Prepared for the conference on Governing the Global Economy, Washington University, St. Louis, November 2003. For helpful comments I thank Gordon de Brouwer, Miles Kahler and a number of colleagues at the IMF who shall remain nameless.

2See Berglof et al. (2003), Box 3.1

3In other words, that the outcome is pareto optimal.
a first explanation for why there is dissatisfaction with the governance of globalization.

Seen from this perspective, the difficulties of governing the IMF epitomize the difficulties of governing globalization generally. The IMF is widely regarded as inadequately accountable -- as taking decisions in closed meetings and justifying its actions with reference to technical considerations to which citizens and even elected officials are not privy. It is criticized as inadequately representative of the countries that are the subjects of its lending programs and policy conditionality. Its consensual approach to decision making is said to prevent it from effectively reforming the international financial architecture. The disproportionate influence of certain governments and doctrines is said to lead to inefficient outcomes that burden developing countries and jeopardize the stability of the international financial system. The Fund is too close to the U.S. Treasury, it is argued, and too insulated from alternative schools of thought.

These criticisms are referred to above as “difficulties” because they are not all consistent with one another and because they therefore lead to very different and often incompatible proposals for reform. The “inadequately accountable school” sees the IMF as a rogue institution that has slipped from the direction of democratic political authority, while the “disproportionate influence school” sees it as overly subservient to the most powerful governments. The first view points to strengthening the voice of governments in the decision-making process, while the second points to diminishing it – at least in the case of certain governments.

In addition, there are political obstacles to solving these problems. The political realities include differences in the dependence of different countries on the IMF itself. The high-income

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4This distinction is emphasized by Martin (2002).
countries that enjoy disproportionate representation in the Fund are unlikely to have to resort to it for financial assistance.\textsuperscript{5} Met with demands to reduce their voting shares, they can threaten to withhold resources and cooperation from the institution, something that will hurt them less than the countries calling for the redistribution of representation.\textsuperscript{6}

Finally, difficulties arise from the fact that there may be tradeoffs between the objectives of governance, as anticipated above. Holding more frequent meetings of the International Monetary and Financial Committee of finance ministers or upgrading those meetings to the level of heads of state and government (as suggested by former IMF Managing Director Michel Camdessus) would enhance the political accountability of the Fund but might reduce the economic efficiency of its decisions, to the extent that certain governments used their expanded influence to enlist the IMF as a vehicle for achieving non-economic goals. Alternatively, making the executive board independent of governments in the manner of an independent monetary policy committee (as suggested by De Gregorio et al. 2000) might enhance the efficiency of decision making at the cost of political accountability. Shrinking the size of the

\textsuperscript{5}Hence, it has been some years since a high-income country sought financial assistance from the Fund. Some observers point to the chronic current account deficits and mounting foreign debts of the United States and suggest that even it may at some point have to ask the IMF for assistance if there is a loss of confidence in its debt servicing capacity. However, there is an important difference between the U.S. and the typical emerging market, namely, that the external debt of the United States is denominated in its own currency. Some of would say that this ability to issue debt in one’s own currency is the defining characteristic that distinguishes a (financially) developed country from its less developed counterparts (see Eichengreen and Hausmann, forthcoming). Saying that the developed countries will be hurt less is not to insist that they will not be hurt at all; they are also adversely affected by crises in the developing world that threaten the stability of the international financial system. But the assertion here is a comparative one.

\textsuperscript{6}And the fact that, in cases like that of the United States, increases in quotas and amendments to the IMF’s Articles of Agreement generally must be approved by the U.S. Congress lends credibility to that threat.
board (as suggested by Kafka 1996) would result in greater effectiveness but at the cost of representativeness.

My discussion of these issues is in three parts. In Section 2, I describe the origins of the IMF’s governance structure. That structure cannot be analyzed in a vacuum; in order to appreciate how we got to this point, it is necessary to recall the context in which it originated. In Section 3, I review the principal aspects of the governance debate: voting rights and quotas; internal checks and balances; mechanisms for political accountability; the role of transparency; the IMF’s relations with civil society; and openness to dissenting opinion and analysis. Section 4, in concluding, suggests how IMF governance should be reformed.

My conclusion is that the principle shortcomings of IMF governance have to do with problems of representativeness and accountability. For reasons described below, rapidly growing emerging markets (read “Asia”) and poor countries that are perennial subjects of IMF programs (read “Africa”) are unhappy with their representation in the Fund. The still inadequate transparency of the institution and the weakness of alternative mechanisms for calling it to task create the feeling that the IMF is poorly accountable to its shareholders as a group and that, to the extent that member countries can influence the institution through nonstandard channels, that influence resides with a few large countries, notably the United States. This diagnosis in turn points to an agenda for reform, which I lay out at the end of the paper.

2. Origins

The world in which the IMF was created was very different from today’s. International capital markets were controlled by governments and demoralized by the defaults of the 1930s.
Consequently, there was a difference in the speed with which developments in financial markets unfolded and hence in the pace of decision making. It is revealing that John Maynard Keynes and the UK government preferred an IMF governing board made up of high national officials (Treasury ministers or their deputies) who would travel to headquarters periodically to take key decisions, rather than a standing executive board that would meet in continuous session, as today.7

There was also a difference in the magnitude of the resources that had to be mobilized in the event of a crisis. So long as capital flows were controlled, crises centered on the current account of the balance of payments. Consequently, the magnitude of the financial assistance required by a country experiencing a balance of payments crisis was generally limited to some fraction, less than one, of its current account deficit (its purchases of goods and services abroad net of its earnings from sales of the same). With the reactivation of international financial markets and the liberalization of capital accounts, crisis countries can incur much larger balance of payments deficits. An effect of the recovery and growth of international financial markets has thus been to raise the stakes by raising requirements for emergency finance. By increasing the scale of IMF financial operations, it has highlighted the importance attached by the institution’s funders to adequate governance. And, to the extent that the growth of international capital flows has raised the importance of domestic institutions for macroeconomic and financial stability, this has led the IMF into new areas, notably having to do with the quality of governance in the

7Another indication is how the Articles of Agreement (the IMF’s charter) included the expectation that countries should give the Fund 72 hours notice before devaluing their currencies – something that proved impossible as international capital flows recovered and gained momentum.
member countries, which in turn raises the importance attached by the borrowers to governance of the Fund.

The post-World War II world was also a tidier political place from the perspective of IMF governance. The U.S. and UK were the only major financial powers left standing, and one was clearly left standing taller than the other. Germany and Japan were in political disrepute and economic chaos. The Soviet Union, while present at Bretton Woods, was unprepared to accept scrutiny of its economy and policies by a multilateral organization and did not join the Fund. In the Third World, the process of decolonization had only just begun.

Hence, the United States could insist on quota and voting formulas that linked countries’ votes in the institution to their financial contributions and that in turn calibrated their financial contributions according to their economic size and openness (as measured mainly by a country’s GNP, foreign trade, export fluctuations, and international reserves).8 While quotas are reviewed every five years and quota formulas are reconsidered periodically, history continues to matter in the determination of quotas, since their revisions is subject to discretion.9 Countries with large quotas naturally tend to resist selective increases that would reduce their voting shares. Not surprisingly, historical quota and voting shares display considerable inertia.

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8The circumstances of the immediate postwar period also mattered in other ways that are evident in the original quota formula agreed to at Bretton Woods, which sought to limit IMF resources to $10 billion, to ensure that the U.S. quota was twice as large as that of the UK, that the combined quotas of the UK, its dominion and its colonies should equal that of the United States, and that the countries with the four largest quotas should be the United States, the United Kingdom, the USSR, and China. See Altman (1956-7) and Mikesell (1994).

9This is true both of the construction of the formula and of the scope of its application when the next five year review rolls around. As the independent experts who comprised the IMF’s Quota Formula Review Group put it in their report (IMF 2000b), “quotas have been guided but not determined by formula.”
Reflecting the operation of these processes, there is the widespread perception that the advanced industrial countries as a group have voting shares in the Fund disproportionate to their size in the world economy. Of course, whether country size relative to global GDP is an appropriate metric for voting shares can be questioned, and I discuss this issue below. In addition, by how much, which and indeed whether the industrial countries are overrepresented relative to their shares of world GDP depends on how that GDP is measured. At market exchange rates, which is how GDP has traditionally entered into quota calculations, the major advanced economies, most notably the United States, are significantly underrepresented. Rather, it is the smaller advanced countries (meaning the small European countries) and developing and transition economies that are overrepresented when quotas are compared to GDP at market prices.

The picture is transformed when GDP is computed instead at purchasing power parities (as in the fourth column of Table 1).\(^\text{10}\) By this metric, the advanced countries (with the notable exception of the United States!) are overrepresented, while developing regions, with the notable exception of Africa and the Middle East, are underrepresented. This problem is most evident for the rapidly growing countries of Asia, where the difference between market exchange rates and purchasing power parities is particularly pronounced. Of course, whether market rates or purchasing power parities are the appropriate basis for comparison is not clear.

If the large advanced countries, including the United States, are not unambiguously overrepresented relative to their GDPs, then what is the problem? One interpretation is that their

\(^\text{10}\)Reflecting the fact that the prices of nontraded goods are lower and therefore that the purchasing power over actual goods and services is correspondingly higher in developing countries, compared to their developed-country counterparts.
voting shares in combination with the Fund’s statutes give them blocking power over significant changes in IMF policy. The 15 members of the European Union control 30 per cent of the voting power in the Fund, which gives Europe veto power, if its votes are cast en masse, over issues like increases in quotas and amendments to the Articles of Agreement which require a 85 per cent supermajority.¹¹ The U.S. voting share of 17 per cent similarly gives it veto power over such issues.¹²

Another dimension of the problem is that the developing countries and emerging markets are now the subject of 100 per cent of IMF programs have only 40 per cent of the votes. While it would create perverse incentives to reward countries that chronically resort to IMF resources with more votes, to give their interest in the operations of the Fund little weight in the voting formula creates problems of representation and legitimacy.

A not dissimilar situation prevails on the executive board, which makes many of the IMF’s key policy decisions. Given the concentration of power after World War II, the U.S. could insist that only the five members with the largest quotas were entitled to appoint their own executive directors (board members) in the Fund. The five members with the largest quotas at the time of the inaugural meeting of the board were the U.S., the UK, France, China, and India, a diverse group that reflected the peculiar circumstances of the time. In 1960 Germany replaced China (Taiwan) as one of the five countries with appointed board members, and in 1970 Japan

¹¹Other things equal, EU enlargement will raise this number still further.

¹²These numbers are not coincidental; the supermajority threshold was raised to 85 per cent by the second amendment to the Articles of Agreement, effectively maintaining the U.S. veto as the U.S. voting share declined. Many other financial decisions however require only a 70 per cent supermajority.
In contrast, the five appointed directors can be dismissed at any time.

When Spain holds the rotating chair of the constituency that it shares with a number of Latin American countries, the number of European executive directors rises to nine.

Given the existence of the implicit threat of a context in which those votes might be cast.

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15 Given the existence of the implicit threat of a context in which those votes might be cast.
supplement IMF country programs bilaterally.\textsuperscript{16}

From the start, the view has been that day-to-day policy decisions should be taken by consensus rather than by voting in the executive board. There have always been fears, given the division of membership into international borrowers and lenders and the inequality of voting shares, that voting would be corrosive of collaboration.\textsuperscript{17} The Fund’s Rules and Regulations instruct the chairman to “ascertain the sense of the meeting, in lieu of a formal vote.” Discussion continues until, one might say, this common sense develops. The need for a broad consensus allows individual countries to protect their views by voicing their dissent. Arguably, it enhances the influence of members with smaller quotas and less voting power, although if the minority is small the chairman may still move to his summing up and characterize the sense of the meeting on the basis of the views of a substantial majority, given that it is conceivable, in principle, that the board might proceed to a vote. The parts of the summing up that reflect the sense of the meeting become the board’s decision.

The Managing Director (MD) has final say on what proposals come to the board, although he must work in harness with staff and the rest of his management team and be responsive to directors. His authority and influence derive from his mastery of the issues, his political expertise, the loyalty of his team, and his ability to produce results. While he does not vote in the board except in the unlikely event of a tie (made more unlikely by the unlikelihood of a vote), he chairs its sessions and has considerable ability to structure its deliberations.

\textsuperscript{16} As can directors who are well briefed by their assistants or their governments.

\textsuperscript{17} As Keynes put it, “If the organization begins voting about everything, it will not be long before it breaks down.” Gold (1972), pp.196-197.
The unwritten rule has been that the United States and Europe split the directorship of the IMF and World Bank, reflecting the structure of power in the immediate post-World War II world. Traditionally, the president of the Bank is an American nominated by the U.S. government, while the managing director of the Fund is a European. The deputy managing director of the Fund (now the first deputy managing director) has been a nominee of the U.S. government since the post was created in 1949. With the expansion of management’s workload, the Fund moved in 1994 to a system with a first deputy managing director (nominated by the U.S.) and two additional deputy managing directors. The first deputy managing director can have considerable sway over IMF policy by virtue of his or her academic credentials or if he or she has knowledge of problem countries, and by chairing the board in the absence of the managing director.

The professional staff are mostly hired upon their completion of Ph.D. programs in economics at the leading institutions, mainly but not exclusively in the United States.\(^{18}\) Staff are responsible for surveillance and other day-to-day operations. They are the IMF’s institutional memory of precedents and procedures. They draft the documents that inform executive board deliberations.\(^{19}\) Directors’ policy proposals are channeled by the managing director to members of staff, who evaluate and elaborate them and report back to the board.

Staff are organized into functional and regional departments. The regional departments are repositories of expertise about member countries, but worries that they are subject to capture by the governments with whose policies they are concerned cause their staff to be rotated

\(^{18}\text{For a discussion of staff recruitment, see Evans and Finnamore (2001).}\)

\(^{19}\text{Often presenting them from seats at the board table.}\)
regularly, limiting their country-specific expertise and therefore their influence. In addition, the heads of regional departments tend to appear at and disappear from the MD’s conference table depending on the country or countries with which the Fund is occupied at the time; they are not continuous participants in the management dialogue through which broad policy parameters are set.

Among the influential functional departments are Research, which is the avenue through which academic work enters the Fund, helping to shape thought and practice; Policy Development and Review (PDR), which is concerned with the consistency and design of IMF programs and procedures and thus pays special attention to prospective questions; and Monetary and Financial Systems (formerly Monetary and Exchange Affairs), which has expertise in the monetary, exchange rate, and banking-sector issues that are the Fund’s bread and butter. With the growing importance of financial market issues, the Fund has created a Capital Markets Department that specializes in developing expertise and information about financial markets. Since the second half of the 1980s, the Research Department has been headed by prominent academics on leave from leading universities (in practice, leading U.S. universities), while MFS, PDR and CM have been headed by long-time members of staff who have graduated to management or by individuals of comparable stature and experience hired from outside. Management periodically commissions outside experts to conduct reviews of departments (as well as of selected functions and programs), much as university deans commission ad hoc reviews.

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20 Other functional departments can be influential when the questions under consideration fall into their special area of expertise. An example would be the Legal Department, which can be very influential when the feasibility of an IMF program or policy hinges on the interpretation of national or international law.
In practice, actual ability to borrow may differ from the drawing rights suggested by quotas. The historical convention is that a country may draw 100 per cent of its quota in a year and 300 per cent of quota over the life of a program. With the development of capital account crises, larger programs have been required, and exceptional access has increasingly been granted. I return to the implications of this below.

3. Dilemmas

In this section I review the main challenges for those seeking to strengthen IMF governance: disputes over voting rights and quotas, problems with the Fund’s internal checks and balances, political oversight, transparency, and the organization’s response to civil society and external criticism.

A. Voting Rights

In principle, important policy questions are decided by weighted voting in the Executive Board. Thus, the allocation of voting rights is a mechanism for ensuring the representativeness of IMF decision making. Each country has 250 basic votes plus one additional vote for each part of its quota equivalent to 100,000 Special Drawing Rights, on which basis both its contribution and ability to draw resources are calibrated.21 Quotas are calculated on the basis of a complicated set of (five) formulas that in practice place substantial weight on country size and current account volatility. As quotas have been increased in the course of 11 reviews, in order to better reflect the growth of countries and their balances of payments, but without also increasing basic votes, the share of basic votes has fallen from 11 per cent in 1945 (and 14 per cent in 1955, ...
by which time additional members had been admitted) to 2 per cent at present. Under current quotas, the United States has 371,743 votes in the Fund, while Brazil has 30,611 and the Marshall Islands have 275.

Basic votes acknowledge the universal character of the Fund, while additional votes reflect the reality that country size differs and that different countries have different stakes in the institution (Gold 1972). The way those stakes are calibrated flows from the original conception of the IMF as a credit union, from which countries would both contribute and draw convertible currencies as a function of their size and the volatility of their current accounts. This conception suggested that voting rights should be allocated roughly in accordance with the ability of countries to contribute to the Fund and their prospective need to draw resources from it.

A critique of the present approach to determining voting shares and a proposal for reform should flow from an explicit statement of the interests that an ideal system of voting shares should represent and the weights that should be placed on each. Should governance of the IMF be organized on a one-country, one-vote basis? After all, the members of the IMF are countries, and there is no reason why some countries should be treated more equally than others. Or should it acknowledge that one country, one vote, which would give countries with tiny populations the same weight as, say, the United States is not obviously consistent with true democratic principles – that the ultimate constituents of the Fund are the residents of the world, not its governments?

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22The intention at Bretton Woods was for basic votes to account for 11 per cent of the total (Boughton 2001, p.854).

23That the debate over voting shares is confused and contradictory reflects the failure of most participants to offer such a statement. And their reluctance to do so may reflect lack of consensus on this question in the policy community – not to mention lack of clarity in the minds of individual commentators.
Should the voting scheme reflect the reality that larger countries have more significant interests – that they both contribute and borrow more from the Fund?

The framers of the Articles of Agreement clearly wished to stake out a middle ground. The 250 basic votes that every country received acknowledged the principal of universality in the sense of equality among countries. Basing additional votes on country size and the variability of the current account acknowledged the validity of giving more votes to countries that contributed more and were likely to draw more resources from the Fund. One can argue that some reduction in the share of basic votes is justified by the growing importance of civil society and the IMF’s direct involvement with non-governmental organizations in member countries (see below). If citizens rather than governments are the relevant constituency, in other words, the Fund should move closer to one citizen, one vote (as opposed to one government, one vote). At the same time, questions can be raised about whether it has moved too far in this direction. This is the concern of smaller countries, many of which are recurrent users of IMF resources (Woods 2000).

Moreover, as the advanced countries have become financially independent of the Fund, the credit-union rationale for quotas and votes has been rendered increasingly anachronistic. So long as it was anticipated that the IMF would function like a credit union, there was no need to distinguish between countries that contributed to it and drew from it, since these were likely to

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24 The last industrial-country to borrow from the Fund was Denmark in 1987, and that was only a reserve tranche purchase (as opposed to a program). For a discussion of the last cases where developed countries borrowed from the Fund, see Boughton (2001), p.1016.
be one and the same.\textsuperscript{25} Now that the two groups of countries differ, it is necessary to decide on an assignment of weights to contribution versus borrowing. The developing countries who are now the principal clients of the Fund in the sense that only they draw resources and are the subjects of its programs argue that they have the most at stake in its operations. That these countries feel unable to influence IMF policies to a degree commensurate to their stake leads them to question whether the voting rights that flow from the traditional quota formula in fact ensure the representativeness of IMF decision making.

The large countries, on the other hand, insist that they put up the bucks and have the largest stake in the stability of the international monetary and financial system (whose maintenance is the Fund’s ultimate objective). Their position is that there is nothing wrong with the current system of representation.

Even if it is possible to agree on what weight should be attached to contributions versus drawings, there remains the question of how to operationalize concepts like ability to contribute and dependence on the IMF’s financial resources. Nor is a single measure of either concept likely to be valid throughout time. With the opening of international financial markets, the IMF can in principle fund its lending programs by borrowing on international capital markets instead of taking subscriptions mainly from its large members. This weakens the argument large countries are entitled to generous voting shares because the IMF depends on their financial contributions (their quotas) to fund its lending operations. Similarly, with the recovery and

\textsuperscript{25}Clearly, there was a presumption that the United States, which was in a singularly strong position after World War II, would not have to draw on the Fund anytime soon, which reintroduced some relevance to this distinction. This presumption weakened, however, as the U.S. balance of payments position weakened over the first post-WWII quarter century.
opening of international capital markets, questions can be raised about whether the current account of the balance of payments remains a reasonable measure of the likelihood that a country will have to turn to the IMF for financial support. Since the volatility of capital flows now poses an even greater threat to financial stability than current account imbalances, would not a formula based in addition on the volume of or exposure to capital flows make more sense?26

Shortcomings of the quota formula aside, there is the problem that the formula as written has not been applied. Application of the existing formula would suggest increases in voting shares for rapidly growing countries and countries whose current account transactions are rising rapidly and displaying particular volatility. But this would imply a reduction in the voting shares of other countries, which the latter are inclined to resist. Since quota increases require the assent of countries possessing at least 85 per cent of votes in the IMF, there is a tendency for them to be broad based rather than focusing them on underrepresented countries. Insofar as certain countries are favored by the inherited quotas, equaproporionate increases reinforce their position. At best, quinquennial quota reviews produce awkward compromises: in the 11th review of quotas completed in 1999, the result was an overall increase in quotas of 45 per cent distributed 75 per cent in proportion to existing quotas, 15 per cent in proportion to the quota formula, and the remaining 10 per cent to countries that were still underrepresented relative to the quota formula.27

In response to dissatisfaction with the outcome of the 11th review, the Fund’s Interim Committee of political overseers requested that the executive board review the quota formulas,

26See below for the efforts of one group of experts to build on this idea.

27See IMF (2000a).
and the board appointed a Quota Formula Review Group (QFRG) of independent experts. Its report (IMF 2000b) focused on the complexity and inadequate transparency of the existing formula as an explanation for the lack of convergence of actual and prescribed quotas. It recommended amending the formula so that its rationale was clear and to this end observing the principle of parsimony by focusing on a few key variables. Specifically it proposed a linear, one-equation, two-variable formula comprised of GDP and the variability of the sum of current receipts and net long-term capital flows with weights of two thirds and one third on the respective arguments (where both independent variables are expressed as shares of world totals). This simple formula, it argued, better captures the stake that countries have in the IMF than the more complex, opaque and anachronistic formulas inherited from the past. Among other things, this means that it is more likely to be applied.

The QFRG’s reference to transparency is a specific application of a broader attempt to utilize transparency as a mechanism for strengthening IMF governance. 28 By making the rationale for the quota formula clear, making its calculation intelligible, and basing it on publicly available data, the QFRG proposal is designed to make it more difficult for governments that prefer the status quo (or other alternatives) to fiddle with allocations. If the criteria are clear, resisting their application will look more like a naked power grab and a threat to the representativeness, legitimacy and good governance of the institution.

No doubt there is something to this. At the same time, the limits of this argument, as with arguments for transparency as a mechanism for IMF accountability generally, is that things are not that simple. For example, neither economic theory nor empirical work on the frequency

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28 More on which below.
and severity of financial crises offers reliable guidance on the weights that should be placed on
the two elements of the QFRG’s quota formula. There being no consensus among governments
about how much weight should be given to the two principal classes of stakeholders, developed
countries that are concerned about the stability of the international financial system but do not
borrow from the Fund and developing countries that are dependent on its resources in the event
of a crisis, there are those who would question how, or maybe even whether, economic size
(which favors the first set of countries) and balance of payments vulnerability (which favors the
second set) should figure in the formula. Similarly, there is no scientific consensus on exactly
how country size and balance-of-payments volatility should be measured. Should size be
calculated at market exchange rates or purchasing power parities? Should measures of the likely
volatility of the balance of payments include not only the volatility of current receipts and long-
term capital flows but also the volatility of short-term flows, the currency and maturity
composition of the external debt, etc.?29 All this leaves room for fiddling. This means that
efforts to use transparency and parsimony to precommit shareholders to a particular quota
formula are unlikely to be successful.

The actual reason that the recommendations of the QFRG were shelved was that they
implied an increase in the voting shares of the high-income countries. The QFRG provided an
extensive empirical analysis of the determinants of quotas and voting shares, but for whatever
reason it did not illustrate the implications of its simple formula for current and future shares.30

29The obvious problem with the latter is the danger of creating adverse incentives. I
return to this point below.

30So much for its endorsement of transparency, one might say.
The latter was done by IMF staff in its response to the QFRG (IMF 2000c) and in subsequent IMF analyses (IMF 2001, 2003e). Table 2 shows that the current quota shares of the advanced countries are significantly below those calculated by the traditional formula, while developing countries across the board are overrepresented (by the smallest margin in the case of Asia). The QFRG’s formula with weights of 2/3 on GDP and 1/3 on balance-of-payments variability implies a further increase for a major advanced countries, mainly at the expense of the smaller advanced countries, and slight reductions for the developing and transition economies as a group (including reductions for all groupings of developing countries except those of Latin America). Reversing the weights on country size and balance-of-payments variability, as in the final column, changes this result only slightly because the large countries, which account for a large share of global GDP, also account for a large share of the variability of global current account receipts and long-term capital flows (see Table 3).

In sum, reversing the QFRG’s weights causes the quotas of the advanced countries to fall only slightly (rather than rising slightly) compared to the traditional formula, has essentially no effect on the developing countries, and raises the quota shares of the transition economies significantly. It follows that strict application of the new formula would significantly reduce the quota shares of developing countries relative to current quota shares. There seems to be a consensus among member countries that the developing economies that are now the exclusive subject of IMF programs should have a louder voice in decision making in the institution – although by how much remains a subject of dispute. That the recommendations of the QFRG, even modified to place a heavier weight on the variability of current receipts and long-term capital flows, would have produced the opposite result explains why “Directors did not agree
fully with the outcome of the report.”

There is no single obvious response to this issue. Increasing the weight on balance of payments variability still further would make little difference, given that larger countries also account for a larger share of the variability of global current receipts and long-term capital flows. It would further reduce the voting shares of low-income African countries that are continuous clients of the Fund but are relatively closed to international capital flows (compare the third and fourth columns of Table 3). Adding other measures of economic size and balance-of-payments volatility would again make little difference, since the different prospective arguments of alternative quota formulas tend in practice to be highly correlated with one another.

Augmenting the QFRG’s measure of balance-of-payments variability to include measures of susceptibility to crises – not just the variability of current receipts and long-term capital flows, for example, but also other sources of payments volatility and financial vulnerability (the share of short-term debt in total external debt or the share of a country’s aggregate currency mismatch, or whether a country has moved to make capital account transactions fully convertible) – runs the risk of creating adverse incentives (encouraging premature capital account liberalization, encouraging short-term borrowing, discouraging currency hedging, or at least weakening the incentive to exercise prudence on the grounds that if things go wrong the country will be entitled to additional IMF support). In any case, there exists no consensus on which of these financial variables are useful indicators of balance-of-payments risk. Attempts to predict currency crises

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32Intuitively, most suggested arguments of quota formulas are to some extent proxies for country size (larger countries tending to have larger and more variable current and capital accounts in absolute terms).
using a short list of explanatory variables have not met with much success.\textsuperscript{33} Data on many of these variables do not exist for a substantial number of countries.\textsuperscript{34} In any case, the further the formula as extended in the direction of including additional country characteristics, the more the advantages of parsimony and transparency will be lost.

Other possibilities for increasing the representation of smaller, poorer countries include entering all variables (GDP, variability, openness if that is to be considered, and quotas themselves) in logs.\textsuperscript{35} They include reducing the weight on GDP (and openness, if that is to be considered) still further and raising that on balance of payment variability very considerably. They would include reducing the sum of the weights on the independent variables to less than one to take into account the fact that the arguments of the two or three item quota formula are correlated with one another. Table 4 suggests that it may be necessary to do all three of these things if the desire is to engineer a fall in the quota shares of the major advanced countries and to increase those of developing countries. But in combination these changes would represent a step away from simplicity and transparency. And they would not eliminate the tendency, shared by all of the proposals considered earlier, to reduce African countries’ voting shares.

\textsuperscript{33}It has also been suggested that per capita GDP might be added as a third argument of the quota formula, on the grounds that low-income countries are most susceptible to balance of payments crises. Empirically, however, the relationship between per capita GDP and crisis incidence is not terribly well defined, and per capita GDP is only one of a long list of candidate variables used to predict financial crises. Adding this variable also threatens to confuse developmental and stability-based rationales for international assistance and thus to further undermine the traditional division of labor between the IMF and World Bank.

\textsuperscript{34}IMF staff could operationalize even the relatively simple formula proposed by the QFRG for only a minority (74 of 180 plus) IMF member countries owing to limited information for many of them on net long-term capital flows.

\textsuperscript{35}This is equivalent to a multiplicative functional form, or geometric average.
A simple alternative would be to agree to a quota increase sufficient in size to return the share of basic votes in the total to their share in 1945, restoring the balance between one country, one vote and one citizen, one vote envisaged by the framers of the IMF’s charter. Table 5 illustrates the consequences: this would reduce the voting share of the advanced economies from 61 to 58 per cent and that of the United States from 17 to 16 per cent; it would increase the share of developing countries from 32 to 34 per cent and those of the African countries from 6 to 7 per cent.

The argument against this approach is that such strict constructionism has little justification. Just because the framers of the IMF’s original charter thought that 11 per cent was the right share of basic votes does not necessarily make it right today. The argument that Fund programs have become more expensive might suggest that the advanced countries that are principally responsible for funding them deserve a larger say. On the other hand, the fact that there are many more IMF member countries than in 1945 suggests that the share of basic votes should be higher, not lower, in order to preserve the same level of universalism. Recall how the share of basic votes increased in the Fund’s first decade as additional members were admitted. Since these two arguments work in opposite directions, it is tempting to say that they cancel out.

A final consideration that might seem like an aside in this context but is actually quite important (since a specific problem with the composition of the Executive Board is the over-representation of small European countries) is the advent of the euro. The fact that exchange rate changes between, say, Germany and France are now inconceivable renders the volatility of capital flows between them and their bilateral balance of payments of no more moment than the balance of payments between Kansas and Missouri. To the extent that quotas and, to an extent,
board representation are calibrated on the basis not just of country size but also the volatility and risks of the balance of payments, the intra-euro balance of payments is quite irrelevant.\textsuperscript{36} Eliminating intra-euro area payments would reduce the share of euro-area countries in the world total and increase that of other members, including the developing countries.

Moreover, once the EU adopts a version of the document crafted by its constitutional convention, it will become a juridical entity, although not exactly a unitary state. Its members have already begun to make noises about wanting to speak with one voice in international fora.\textsuperscript{37} There is a special logic for this in the case of the IMF. The IMF is specifically concerned with the monetary, financial and exchange rate policies of its members. The majority of EU members have a single currency and therefore a single monetary policy and single exchange rate. A goal of European economic integration is the construction of a single financial market, which will lead to a single set of financial policies. For all these reasons, EU member states joined together in a single market and a monetary union will share common problems, interests and outlooks.

Thus, there exist political and analytical arguments, some of which should appeal to EU members themselves, for recalibrating the quotas of European countries and consolidating EU representation in the IMF in a single chair.\textsuperscript{38} Doing so will then free up voting power and board

\textsuperscript{36}Indeed, one can imagine the day when there are no data on the intra-euro area balance of payments on the basis of which to calculate quotas, just as there are no data on intra-state balances in the U.S., since no one stops trucks at state borders.

\textsuperscript{37}For a number of reasons, including the wish to more effectively counter-balance the United States. The controversy of the war in Iraq both pointed up the urgency of this question and revealed the political fault lines within the European Union.

\textsuperscript{38}Here, in my view, is an instance where the QFRG went off course, reaching the opposite conclusion. In part, this may reflect the timing of its report, which preceded the constitutional convention and other developments suggesting that the EU might become a juridical entity.
seats for other members. To be sure, a single EU chair raises thorny legal and political questions. But official European institutions have already begun to consider such questions. If and when it reaches an affirmative answer to them, it would become another agent for change.

B. Internal Checks and Balances

The IMF’s executive board, management and staff are sometimes likened to three branches of government, the separation of powers between which provides checks and balances on decision making (Van Houtven 2002). Management initiates proposals but executive directors must agree; otherwise management’s recommendations are consigned to further study. One is reminded of how the U.S. Executive Branch submits a budget to the Congress, but its passage requires support from the Legislative Branch. The background analysis provided by staff to management and the board offers weaker or stronger support for alternative courses of action. Staff’s function can be likened to that of the Congressional Budget Office in the budgetary context, providing expert analysis and informing policy decisions on a non-partisan basis (in this case, in the absence of political influence).

This system of checks and balances only works as well as the separation of powers itself. Some observers worry that staff does not have the independence and insulation from internal pressures to call a spade a spade. If management has agreed to a program and taken a bet on a country, staff may be reluctant to warn of its impending collapse even if this is the conclusion pointed to by their analysis. The same “shoot-the-messenger syndrome” that prevents employees

from warning the CEO of a company of the unsustainability of a corporate strategy suggests to staff economists in the Fund that they will not be rewarded for warning of the unsustainability of a program. So long as assessments of progress are undertaken or approved by the same people with a stake the success of the Fund’s intervention, it is argued, those assessments are unlikely to be objective and candid. The Fund’s internal review process, which allows concerned departments to vet documents before they go to the board or are published, further complicates the internal dissemination of dissenting views to the extent that these challenge the past basis for programs and policies.\footnote{The Independent Evaluation Office (IMF-IEO 2003, p.80) notes the tendency “for the sharper, more candid elements of a diagnosis to be diluted in final Board papers.”}

These concerns have led Balls (2003) to suggest that the surveillance function should be made independent of the IMF’s country programs and management. Placing an institutional firewall between the Fund’s program and surveillance activities would ensure that those responsible for a country’s surveillance review are not the same individuals with a stake in the success of its program. A step in this direction would be to require the economist heading the country mission negotiating the program to be from a different area department than that responsible for surveillance.\footnote{The executive board has endorsed this in principle.}

However, the idea that a country mission should be headed by an economist from a different area department runs counter to a recommendation of other critics (and the Fund’s own Independent Evaluation Office) that mission chiefs and members need more extensive country-specific experience and expertise.\footnote{See IMF-IEO (2003).} Moreover, as with firewalls within financial institutions, one
can question the effectiveness of a scheme that depends for its success on two economists never sitting down together in the employee cafeteria. More independence for staff responsible for the surveillance function may be desirable, but there are tradeoffs and limitations on what can likely be achieved.  

Another worry is that external political pressure, emanating from shareholder governments and voiced by their Executive Directors, dilutes the frankness of staff surveillance and policy recommendations. IMF Occasional Papers, many of which evolve out of issue papers prepared for the board, and country-specific working papers which originate as background studies for Article IV consultations are vetted prior to publication by country representatives, whose objections may lead to their suppression. Thus, external political pressures may prevent internal dissent from seeing the light of day. IMF-IEO (2003) cites instances where candid assessments of staff were toned down or suppressed by the Executive Board. It recommends establishing a presumption that staff studies written in conjunction with Article IV consultations...  

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43 A more radical option reform would divide the IMF into several separate institutions, one of which did country programs and crisis lending, and another of which conducted regular surveillance (Edwards 1998). The drawback of this approach would be considerable costs in terms of efficiency (another objective of governance). In particular, creating two IMFs implies duplication of effort and inefficient use (inadequate sharing) of information.

44 These arguments can be overblown: seniority in the organization and subtlety in writing can partially circumvent the obstacles erected by departments and directors. The head of the Research Department, which is responsible also for the Fund’s macroeconomic forecasting function, will not be deterred from speaking out by considerations of reappointment or upward mobility, since he generally does not have to give up his academic appointment to come to the Fund, and even if he does he has the stature to resume it on demand. Moreover, his incentive to maintain that stature and his good reputation in academic circles gives him an incentive to voice his reservations about Fund policy when these conflict with the party line. This incentive must be balanced, of course, against the importance of loyalty to the management team and support for (and therefore the effectiveness of) its policies, but then balance is what this discussion is all about.
The U.S. government, and President Truman in particular, initially intended to nominate Harry Dexter White as founding managing director of the IMF, but Treasury Secretary Fred Vinson decided that the priority should be an American president of the World Bank, since that organization would be actively raising funds on U.S. capital markets, and that installing Americans as presidents of both organizations would create doubt about their multilateral character. These were the historical origins of the convention that an American heads the Bank while a European heads the Fund. That questions about White’s political loyalty had any role in this decision was subsequently denied by Vinson (Rees 1973).

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management are selected would enhance confidence in the separation of powers and thus in the Fund’s internal checks and balances. They would assure observers that the Fund was recommending efficient policies and not simply seeking to advance the political agendas of its principal shareholders.

Controversy over the selection of the two most recent managing directors has already led to moves in this direction. In 1986, in contrast to earlier instances, the Europeans nominated two candidates: Michel Camdessus (Governor of the Bank of France) and Onno Ruding (Minister of Finance of the Netherlands and Chairman of the Interim Committee). Northern European countries backed the financially conservative Ruding, while Southern Europe (including France) supported the more development-friendly Camdessus. Given this split and the decision of the United States and a number of other countries to abstain from the executive board’s straw polls, for once the votes of the developing countries really mattered. They understandably preferred Camdessus. After extended discussions, Ruding withdrew and Camdessus was selected by acclamation. Importantly, however, the fact that the Europeans were no longer ready to offer a united front opened the door a crack to other countries, including the developing nations, which became increasingly forceful in voicing their preferences. And that European governments had campaigned publicly for their preferred candidates for the first time gave publicity and a modest new element of democratic accountability to the process.

When in 1999 Camdessus announced his intention of retiring, European countries agreed that it was Germany’s turn to nominate the new managing director, given the allocation of directorships of other multilateral organizations and the fact that France had provided a series of

47A good source on these episodes is Kahler (2001).
IMF managing directors. However, the initial German candidate was seen as lacking experience in international financial matters. This was no small problem given the increased prominence of IMF operations resulting from the Mexican, Asian, Russian and Brazilian crises. The debate was unprecedentedly public, reflecting the intensity of feelings about IMF intervention in Asia, the increased transparency of the Fund’s operations (see below), and the public nature of the earlier Camdessus-Ruding race. Eventually, the U.S. government signaled that Germany’s nominee was unacceptable, and several European countries, notably France, stood conspicuously on the sidelines. The issue of inadequate expertise having been raised, the Pandora’s Box of the legitimacy of national prerogative was opened. The developing countries, building on their role in the selection of the retiring managing director, took the unprecedented step of nominating their own candidate: incumbent First Deputy Managing Director Stanley Fischer. The Japanese government nominated Eisuke Sakakibara, a prominent former vice minister of finance for international affairs. In the end, Germany substituted a candidate with stronger financial credentials, Horst Koehler, and other countries agreed not to upset the apple cart; in particular, the Clinton Administration concluded that to veto a second straight German candidate would unnecessarily strain transatlantic relations. But it had become clear that the status quo was no longer tenable.

In response, the Executive Board established a working group to develop procedural guidelines for selecting the managing director. Given historical linkages with the selection of

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48 That Fischer had grown up in Africa may have also made him attractive to developing countries, including the African executive director who nominated him despite the danger of incurring the wrath of certain industrial countries. Because Fischer was an American citizen, his candidacy also threatened the U.S.-European convention, which may have been why the U.S. government ultimately opposed his nomination.
the head of the World Bank, the Bank’s Executive Board established a parallel group. Their joint report recommended that directors should, for the first time, define the qualifications expected of candidates. They should establish an advisory panel of eminent persons from academia, international affairs, banking, and finance, which, with the support of a professional executive search firm, would review and assess potential candidates who enjoyed the support of their governments. On the basis of this review and assessment, directors would establish a short list, consult with their national capitals, and then revise that list. The final decision would presumably be reached on the basis of consensus but, if necessary, with a vote (with a simple majority carrying the day under the provisions of the IMF’s Articles of Agreement).

This new process goes some way toward addressing objections to its predecessor and strengthening the governance of the Fund. One can imagine that European candidates will still have a leg up, since if Europe’s 30 plus per cent votes are cast in a block, they would dominate the votes of, say, the United States. But notwithstanding the progress of European integration, recent experience suggests that Europe’s votes are unlikely to be cast en masse. In the future it is likely that successful candidates will have to command the support of a trans-regional coalition.

The new process also signals a shift away from nationality and toward technical expertise. By giving significant powers to an independent advisory committee, it provides protection from narrowly political considerations. As such it should address fears that the managing director is unduly responsive to the governments responsible for his nomination and provide reassurance that he is taking decisions on the basis of technical considerations of which he has mastery. Short of significant changes in voting shares in the Fund, this is as far as it
would seem possible to go in terms of strengthening this aspect of IMF governance.

C. Political Accountability

Bureaucratic accountability requires that management be answerable to the elected officials who represent the Fund’s ultimate constituency, the citizens of its member states. A number of the structures reviewed above are mechanisms for bureaucratic accountability: for example, the managing director must have the support of elected officials when seeking appointment or reappointment. Thus, when in 1971 the then Managing Director, Pierre-Paul Schweitzer, suggested that the dollar might have to be devalued, the U.S. government sent a negative signal about his reappointment. Management is also held accountable by the executive board, which can speak for the governments of the countries in its constituencies when it tables criticisms of past policy initiatives or expresses dissatisfaction with management actions by a low vote in support of items such as the Fund’s annual budget (Kafka 1996).

But relying too heavily on such mechanisms may create conflicts between bureaucratic accountability and the efficiency and effectiveness of policy, as already noted. If national political considerations are allowed to play too large a role in the selection of the managing director, his independence and hence the credibility of IMF policies can be called into question, as we have seen. Surveillance, conditionality and emergency lending may be compromised if the executive board, which purports to decide such matters on the basis of the efficacy of their economic effects, is at the same time the mechanism by which governments seek to ensure that

49Something which may have affected the actions of his successors. On this episode see Van Houtven (2001), p.42. This episode also serves as a reminder that making bureaucratic accountability too strong can be counterproductive. See below.
management’s decisions are consistent with their national interests.

This is why there has been a trend, described in previous subsections, toward depoliticizing the appointment of the managing director and the deliberations of the executive board while focusing on other mechanisms for bureaucratic accountability. The IMF’s Board of Governors, heads of state and government of all 184 member countries who meet to oversee its operations once a year, has been suggested as an alternative. The division of labor would be roughly analogous to that used to govern an independent national central bank. The IMF’s management, staff and board would have independence in choosing their tactics, much as the governor, staff and monetary policy committee of an independent central bank have autonomy when setting interest rates. But the discretion of IMF officials would be constrained by the broad policy guidelines and objectives set down by the Board of Governors, much as central bank officials are constrained by the inflation target and other broad policy guidelines provided by the government. In effect, the IMF would have autonomy with regard to its tactics but not its objectives. If it disregarded the objectives of the Board of Governors or if its tactics proved ineffectual, it would be held accountable by national officials through reappointment, through the press, or through political means.

But the Board of Governors is unwieldy. 184 governors are difficult to convene and would find it even more difficult to make expeditious decisions on a consensual basis. Even the United Nations, whose General Assembly is organized on the basis of one country, one vote, delegates pressing foreign policy questions to a Security Council with a handful of members. The IMF’s shareholders responded to similar imperatives in 1974, when the collapse of the Bretton Woods System of pegged but adjustable exchange rates, resulting in part from the
ongoing rise in international capital mobility, signaled the need for a governing body able to respond to economic and financial developments more rapidly; it established an Interim Committee (IC) of 24 members: each country or constituency with an executive director on the IMF’s board also appointed a member to the IC. The IC played a key role in negotiating the Second Amendment to the IMF’s Articles of Agreement, which reconceptualized members’ exchange rate obligations following the demise of the adjustable peg system and redefined the role of gold in the international monetary system. It again played a role in negotiating the Third Amendment to the Articles, which paved the way for the ninth increase in quotas.

In 1999 the IC’s permanent status was acknowledged by renaming it the International Monetary and Financial Committee (IMFC) and by creating a group of deputies to do preparatory work for its deliberations. The IMFC meets twice a year, at the time of the spring and fall Bank-Fund meetings. Its communiques articulate the broad policy guidelines and objectives designed to constrain the discretion of IMF management and hold them accountable to governments for their actions.

The composition of the IMFC is the same as the composition of the executive board; in other words, that composition is heavily shaped by history, and questions can consequently be raised about its representativeness and hence about its effectiveness for pushing for reform of the international financial system. The United States tacitly acknowledged this problem when it convened an ad hoc group of 22 “systematically significant countries” in the wake of the Asian

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50 The Interim Committee was to be succeeded by a formal Council of Governors pending an amendment to the Articles of Agreement, but with the Interim Committee functioning smoothly there turned out to be no appetite for a formal amendment along these lines. Hence the name. For a history of the IC see Boughton (2001), pp.1027-1031.
crisis, with better representation of key emerging markets, to consider reforms of the international financial architecture.\textsuperscript{51} But the ad hoc nature of this group, to whose composition excluded members of the G-10, among others, predictably objected, robbed it of legitimacy and prevented it from evolving into an effective mechanism for governance of the international financial system and the IMF.\textsuperscript{52}

The developing countries, for their part, responded by focusing on the meetings of the Group of 24 (G-24), a group of representatives of developing-country governments, which similarly meets at the times of the spring and fall Bank-Fund meetings and similarly issues communiques intended to constrain the discretion of IMF management.\textsuperscript{53} The African, Asian and Latin American regions each appoint eight members of the G-24, whose chairmanship rotates; the managing director and IMF staff participate in its meetings (the Fund provides the group’s secretariat). While the G-24’s communiqués are posted on the IMF website in the same manner as the IMFC’s, there is still the knowledge that the IMFC was created at the behest of the IMF itself to define the broad policies and objectives of the institution, while the G-24 is not

\textsuperscript{51}See Kenen (2001).

\textsuperscript{52}For a proposal to again elevate this body (since transformed into the G-20) into a mechanism for governing the IMF, see Henry (2003). The strongest for doing so is that the large advanced countries that currently dominate the IMFC would be loath to transform the latter into a more representative oversight body. But if they are reluctant to reconfigure the IMFC to enhance the representation of emerging markets and others, surely they would be equally reluctant to endow the G-20 with additional authority and to allow it to supersede the G-7 and the IMFC. Thus, I do not agree with the premise of Henry (2003) that the G-20 route is more pragmatic. To my mind, the question of whether it is more desirable to push for reform of the IMFC or to elevate the G-20 boils down to which entity is likely to have more legitimacy. This answer leads me to favor IMFC reform (see below).

\textsuperscript{53}In fact, the G-24 was established in 1971, prior to the Interim Committee, but its role has evolved in response to the changing profile and actions of the latter.
an organ of the IMF but rather an initiative of the developing countries.\textsuperscript{54} Giving the G-24 recognition analogous to that of the IMFC would go some way toward addressing reservations about the representativeness of current mechanisms, but the existence of two oversight bodies both empowered to articulate broad policy guidelines and objectives might send conflicting signals to management and weaken its accountability.

A better solution would be to restructure the IMFC to enhance the representation of developing countries by in turn restructuring the executive board, following the recommendations of Subsection A above. A more representative IMFC could speak more authoritatively for the shareholders of the institution as a whole. There would no longer be competing groups sending conflicting signals to management, which would thus be more effectively held accountable. Stronger political accountability would enhance the feasibility of the sort of reforms proposed by Balls to enhance the independence of the Fund’s surveillance function.

A still more ambitious step would be to strengthen in the independence of the executive board.\textsuperscript{55} Directors’ terms in office would have to be lengthened from their present two years, and they would also have to be barred from moving laterally into government positions subsequently. They would be selected on the basis of their economic and financial expertise,

\textsuperscript{54}Thus, while the Fund posts the communiques of both the IMFC and the G-24 on its website, it also posts the statements of individual IMFC members but not those of individual G-24 members.

\textsuperscript{55}Here I should declare an interest: three years ago, in a report coauthored with collaborators from Europe, Latin America, and Asia, I proposed taking the independent central bank analogy seriously and making the executive board independent of government. (See De Gregorio et al. 2000.)
and they would take decisions independently of their governments, which would agree not to interfere. Thus, when the director appointed by the U.S. government advocated a certain set of policies, he would not be seen as using IMF financial resources to advance the foreign policy objectives of the United States. When he endorsed rapid capital account liberalization, he would not be seen as catering to the interests of U.S. banks. The efficiency of IMF policies would be enhanced insofar as distributional disputes among governments and their directors did not result in pareto sub-optimal policies.\footnote{Martin (2002) notes that such distributional conflicts can in general lead to suboptimal policies and that they provide one reason why governments may rationally wish to delegate authority to the independent management, staff or board of an international organization.}

In the three years since it was first mooted, this proposal has not exactly provoked a revolution in the structure of the IMF equivalent to the revolution in central bank independence.\footnote{Although I like to think that this report had some influence in shaping proposals like that of Balls. It is tempting to observe that it took more than three years for arguments in favor of central bank independence to be accepted and acted upon.} There is been less enthusiasm for independence in the context of the IMF than a national central bank because problems of accountability are more difficult in an international setting. Central bank governors are held accountable, in part, by testifying to congress or parliament. Because of the impossibility of the managing director testifying before 184 national assemblies, he is reluctant to appear before any of them.

In addition, the IMF has a much more complex mandate than a central bank. When a central bank fails to control inflation, it can be tried in the court of public opinion. The IMF’s mandate is broader and fuzzier. There is no single indicator like the inflation rate, not even the equivalent of the Taylor rule (the weighted average of inflation and the output gap that is the
The debate over IMF conditionality – whether it has become too diffuse and should return to basics – is indicative of the lack of clarity about this mandate. The Fund may have to delve into any number of different aspects of national economies and the international system in order to ensure that the energies of international financial markets are channeled in productive directions. This would make it correspondingly harder to hold an independent board accountable for its decisions, and potentially give too much power to unelected officials.

Finally, there is the fact that there exist other mechanisms for accountability, including greater transparency, which central banks have increasingly invoked as a mechanism for reconciling independence with accountability to their ultimate constituencies. The role of transparency as a mechanism for IMF accountability is thus an illuminating focal point for the debate over the institution’s governance, and in particular for the question of how far to push the analogy with the governance of independent central banks.

**D. Transparency**

The IMF was long notorious for its secrecy. While some continue to characterize it as insufficiently open, there is no question that the institution has become more transparent in the course of the last decade. From a starting point where it released almost none of its documents in a time frame relevant for practical policy discussions, it now posts large amounts of information on the web. Between January 2001, when the executive board took further steps to enhance transparency, and March 2003, the Fund released Public Information Notices, providing

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58The debate over IMF conditionality – whether it has become too diffuse and should return to basics – is indicative of the lack of clarity about this mandate.
information on the board’s assessment of country conditions, in 84 per cent of Article IV consultations (the remainder not being published due to the reservations of the country under review).\(^{59}\) Between June 1999, when the board first authorized the release of Article IV staff reports, and March 2003, those reports were released in more than half of all cases. \(^{57}\) Stand-alone reports on IMF-supported programs were published between January 2001 and March 2003. Letters of Intent drawn up in conjunction with IMF programs (countries’ requests for and/or Fund reviews of the use of IMF resources) were released in 93 per cent of cases, reflecting the Fund’s leverage at this key point of negotiations. That release is much higher in these cases is indicative of the fact that the Fund now favors transparency as an element of its governance and that it is member countries that generally resist.\(^{60}\) While public information notices about board decisions can be sanitized and other documents can still be withheld from public circulation, it is clear that the Fund provides significantly greater information about its decision making processes than was the case as recently as five years ago.

In part, transparency is seen as a way of achieving one of the four desiderata of governance: efficient decision making that maximizes the benefits accruing to the stakeholders as a whole. Efficient decision making in the context of crisis management requires the ability to make credible commitments. The Fund must be perceived as ready to extend assistance to

\(^{59}\) Statistics in this paragraph are from IMF (2003a).

\(^{60}\) A country with an unresolved crisis in its national banking system thus may feel too embarrassed by a paper on the importance of resolving crises in national banking systems to agree to publication. In September 2002, the board did however endorse the principle of “presumed publication” of policy papers. Interestingly, only 35 of 45 papers on policy issues discussed by the Executive Board in 2002 were published subsequently, reflecting the delicate nature of some of these issues. Again, the resistance appears to come mainly from member countries, whose directors can object to publication.
countries experiencing a temporary problem of liquidity but not a crisis of debt sustainability if it is to ward off avoidable (self-fulfilling) balance of payments crises. Equally, it must be perceived as willing to stand back and see a country adjust (that is, to see the government alter the external value of the currency and restructure its debt) if its external position is unsustainable. If the debt is truly unsustainable, multilateral assistance will not change that fact; it will only put off the day of reckoning. In addition, IMF lending can become a source of moral hazard that weakens market discipline and government policies and that does more to undermine than strengthen the stability of the international system.

The difficulty with such commitments is that the IMF may have a problem of time inconsistency. Even if it is efficient ex ante for Fund officials to aver their readiness to stand back and see a country meet its fate if the latter has a problem of debt sustainability, there may be an irresistible temptation ex post to back down and lend so as to minimize the costs of a disruptive default for the crisis country and the international system. If this tendency becomes general knowledge, moral hazard may reemerge, with a vengeance.

Time inconsistency is similarly a problem for national central banks, which have been known to engineer inflation in order to boost demand. While rigid policy rules (a fixed money stock growth rule, for example) provide a solution to this problem in principle, they have been found to be unacceptably inefficient in practice. Central banks have therefore been gravitating toward regimes of “constrained discretion,” in which transparency is used to raise the costs of time-inconsistent actions. They commit to a specific course of action by releasing their forecasts of the relevant economic variables and explaining how, given those forecasts, their policies map into their targets. In effect, board members publicly stake their reputations on particular policies.
Arbitrarily disregarding those commitments thus becomes a source of personal and institutional embarrassment. Only if there is an unexpected deviation between forecasts and realizations due to unanticipated events will the central bank be free to alter its policy without damaging its reputation.\(^{61}\)

Transparency has similarly come to be seen by some as a solution to the IMF’s time consistency problem.\(^{62}\) By pre-specifying the criteria that will govern ordinary and exceptional access to Fund resources (IMF 2003b), management and the executive board commit to a particular course of action. Another example of this approach is the Fund’s recent papers on debt sustainability, which seek to formally define and state one of the most important criteria governing the decision of whether or not to lend. If the criteria governing IMF lending decisions are preannounced and the Fund is obliged to provide information on the particular circumstances of the crisis country, it will suffer reputational damage if it violates those criteria. The problem of moral hazard will thereby be reined in. Similarly, the Bank of England and Bank of Canada, two central banks that rely heavily on transparency in their own operations, have argued for clear presumptive limits on the size of IMF packages (Bank of Canada-Bank of England 2001). By specifying the limited circumstances under which countries are entitled to exceptional access, the Fund’s discretion would be constrained and the moral hazard problem attenuated.

There are three objections to this relying on transparency as a way of enhancing the efficiency of decision making and the accountability of decision makers to their constituents.

\(^{61}\) A critical analysis of the case for transparency in central banking is Friedman (2002).

\(^{62}\) Not surprisingly, the leading exponents of the move to greater transparency, such as Stanley Fischer and the then Deputy Governor of the Bank of England, Mervyn King, come from backgrounds of either theoretical or practical expertise in monetary policy.
First, it is argued that the IMF’s function as discreet advisor to governments may be jeopardized by a presumption of blanket disclosure. The Fund cannot expect to be provided with the sensitive information needed to function as a trusted confidant if it is committed to releasing confidential information. Although this objection was frequently offered in the mid-1990s as an argument against virtually any and all forms of transparency, it now carries less weight than it perhaps once did. IMF advice is not based primarily on confidential information in today’s era when central banks release information about changes in their international reserves daily and governments provide timely information to the public through the IMF’s Data Dissemination Standard and Special Data Dissemination System. Increasingly, Fund surveillance is based on staff’s detailed and objective analysis of largely public information. Light editing of the material that goes into Public Information Notices and surveillance-related documents is generally sufficient to minimize conflicts with the IMF’s advisory function.

Second, there are conditions under which additional transparency may be destabilizing rather than stabilizing. By revealing information about the weakness of country policies and institutions, the IMF may only precipitate the crises that it is in the business of heading off. Of course, if when policies and institutions are so weak that an eventual crisis is unavoidable, the Fund may only be doing a service for the country and the international system by bringing it forward in time. More information which ensures that the crisis occurs sooner rather than later may prevent the government from borrowing further from misinformed investors in a failed attempt to put off the inevitable, in the meantime raising its burden of unsustainable debt.

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63 Brazil releases data on its gross foreign exchange reserves daily and on its trade statistics weekly. Mexico and Russia similarly release data on the international reserves on a daily basis.
running down its international reserves, allowing deposits to hemorrhage out of the banking system, and depleting its political capital – and making the inevitable crisis that much more severe when it finally comes.\footnote{One is reminded of the Fund’s failure to more forcefully warn of impending problems in Argentina and to provide another crisis loan in August 2001 (Mussa 2002).}

To be sure, not all crises are inevitable; in the grey area where fundamentals are neither impeccable nor despicable, there may be multiple equilibria and self-fulfilling expectations. Morris and Shin (2001) have observed that if the starting point is one in which the markets have little information about which countries the IMF will help and which will ones be left to fend for themselves, then a little addition information about the Fund’s intentions may lead to an unnecessary loss of confidence in countries whose circumstances are not so bad but which the markets may now suspect of possibly falling into the second camp. But neither is this objection to greater transparency particularly convincing in practice. Morris and Shin’s perverse case is likely to obtain only if the initial information environment is very poor and the increase in transparency is limited.\footnote{Intuitively, Morris and Shin’s result is an application of the theory of the second best – that when the initial equilibrium is highly distorted, removing or moderating existing distortions may not be efficiency and welfare enhancing.} It is hard to imagine that this is the situation relevant to IMF lending: investors devote very significant resources to reading the Fund’s tea leaves. The starting point is hardly one of ignorance.

Another, potentially more serious objection is that the crises with which the IMF deals are so complex and multi-faceted that it is always possible to point to some aspect as justifying the action taken. Thus, greater transparency by itself will not suffice to solve the time-
inconsistency problem. The Fund’s objectives are more complicated than the weighted average of inflation and the output gap that figures in models of optimal monetary policy. This complicates evaluations of the consistency of its commitments and actions, rendering transparency a less effective restraint on discretion for the IMF than national central banks. This objection has led some of us (viz. Eichengreen 2002) to argue that a durable solution to the Fund’s time consistency problem requires not just greater transparency but also changes in the underlying institutions to make debt restructuring less painful and disruptive for both crisis countries and the international system, and thus to make it time consistent for the IMF to stand aside. This is what the debate about the need for new contractual provisions in debt contracts (collective action clauses) and the Fund’s Sovereign Debt Restructuring Mechanism (SDRM) is all about.

While time consistency is one aspect of efficiency, it is only one. Transparency has also been invoked in service of other dimensions and as a way of ensuring not only the efficiency but also the representativeness of IMF decisions. Authors argue by way of analogy with a corporation and its stakeholders: transparency about corporate financial affairs limits principal-agent slack; it provides early warnings of management actions contrary to the interests of minority shareholders, and when such actions are detected it provides shareholders with the ammunition needed to dispatch the managers in question. Forcing the IMF to justify more decisions in the light of day is similarly a way of minimizing principal-agent slack between the Fund and minority governments and between the Fund and nongovernmental stakeholders. If the IMF cannot offer an apolitical rationale for its actions, then its reputation for objectivity and

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66I return to the Fund’s relations with nongovernmental stakeholders below.
political independence will suffer. The greater the public information, the easier it will be to try the Fund in the court of public opinion and to lobby the governments that are its principal shareholders for changes in its procedures and personnel.\(^{67}\)

Here too the limit of transparency is the technical, multi-faceted nature of IMF programs. While the complexity of financial crises has not prevented non-specialists from hazarding opinions, informed opinion presupposes specialized expertise, which limits the domain of informed debate and hence the effectiveness of transparency as a mechanism for accountability. The executive board’s response to this problem was the establishment of an Independent Evaluation Office (IEO). The IEO, established in 2001, has a mandate to review controversial aspects of IMF operations at arm’s length from the board and management. Its head is hired from outside the institution for a period of four years.\(^{68}\) The IEO relies mainly on reports by outside experts from a variety of countries and viewpoints to process the information released by the Fund (as well as other proprietary information), with the goal of allowing stakeholders to make informed decisions.

\(^{67}\)Not surprisingly, NGOs, which have less ability than governments to influence IMF decision making internally – particularly NGOs that see themselves as defending the minority governments and citizens of developing countries – tend to be the most fervent proponents of greater transparency. The Fund itself also sees transparency as an increasingly important element of its own governance structure. The more public released documentation and analysis to which it can point that has not elicited criticism from its principal shareholders or independent experts, the more strongly it can argue that its actions are consistent with the interests of those shareholders and the more easily it can counter criticism from NGOs. In the same way that the movement toward central bank independence has been accompanied by greater central bank transparency as a mechanism for rendering central banks accountable to their public constituencies, greater IMF transparency is a mechanism for rendering the increasingly contentious decisions of an IMF independent of national parliaments and congresses accountable for its actions.

\(^{68}\)The head of the IEO may not then be appointed to a regular position in the IMF.
Inevitably, questions can be raised about the office’s practical and intellectual independence from the Fund. A minority of IEO staff are transfers from other IMF departments. Virtually all of them – like many consultants – have educational backgrounds similar to those of permanent IMF staff. It thus would be surprising were the office not to share the Fund’s broader culture. Prior to circulation to the Board, the IEO’s reports will commented on by the departments whose activities are under review and, when country cases are being reviewed, by the country’s executive director. Although there is a presumption that reports will be published, the ultimate decision is at the discretion of the board. These limits to the effectiveness of the IEO as a mechanism for accountability reflect the politically and financially delicate nature of the factors shaping IMF decisions. A totally independent evaluation office funded and run by an NGO would have more credibility, but its reports might have unanticipated repercussions, both politically and financially. This tradeoff is one example of the broader dilemmas of IMF governance.

Once again, the analogy with central banking is revealing. Central banks do not need independent evaluation offices. Transparency – clearly stated goals and clearly articulated rationales for the policies chosen in order to achieve them, which are achieved with devices like press conferences, policy statements and inflation reports – appear to suffice for the financial markets and broader public to evaluate the social acceptability of their objectives and the appropriateness, from this point of view, of their policy choices. They suffice for holding independent central bankers accountable for their actions and thus for ensuring the adequacy of this aspect of governance. In contrast, precisely because the objectives of IMF policy have more dimensions, transparency as a mechanism for accountability is more limited. There is no single
indicator like the rate of inflation, nor even a single index of different variables like inflation and the output gap (the arguments of the Taylor rule) against which the performance of the IMF executive board can be judged. The consequent limits of transparency as a mechanism for holding the IMF accountable for its decisions is a fundamental reason why the argument for an independent board holds less sway here than in the context of national central banking.

E. Relations with Civil Society

One way of thinking about the IMF’s relations with civil society is by analogy with a corporation’s relations with stakeholders other than its shareholders. There is a widespread view that a social institution like a corporation has obligations not just to its shareholders but also to other stakeholders such as its employees and suppliers. While simple textbook models suggest that what is welfare maximizing for shareholders is welfare maximizing for these other stakeholders, as soon as transactions costs, information asymmetries, or even minor externalities are added this no longer need be the case. There may then be equity and efficiency arguments for representation of other stakeholders on decision-making boards (as in Germany’s system of codetermination), or for the courts to take their interests into account when reorganizing the debts of a distressed enterprise (a case that is relevant to many IMF operations in developing countries) as a way of balancing the interests of shareholders and other stakeholders. It has been argued that such mechanisms play an important social role by helping to establish the legitimacy of social institutions, communicating information about the interests and capacities of
stakeholders, and coordinating their actions of different stakeholder groups. It is similarly be argued (see e.g. Scholte 1998) that, in the non-textbook world in which we live, there is a need for the IMF to systematically consult with stakeholders other than the governments that are its shareholders.

The argument for such consultations is strongest where transactions costs, information asymmetries and the associated externalities make governments least effective as representatives of these other stakeholders, and where the scope of IMF intervention is broadest, challenging the ability of any concentrated board to speak for all the affected stakeholders. It follows that the IMF and World Bank deal most extensively with civil society in developing countries where democratic institutions are least well developed (Birdsall 2001) and where the multilaterals concentrate most on issues of institutional reform and good governance (Woods and Narlikar 2001). In the advanced industrial countries, NGOs address their complaints about the IMF mainly to their governmental representatives, who lobby for or legislate changes. In developing countries, in contrast, such groups often address the IMF directly, since their governments function poorly as a conduit for their views. The Fund and the Bank have made direct discussions with civil society part of the process of drafting Poverty Reduction Strategy Papers, in which debt forgiveness is made contingent on measures at the national level to reduce poverty. The Fund has increasingly made direct consultations with trade unions, church groups and other representatives of civil society part of the process of articulating its country programs. It publishes a quarterly newsletter for civil society. It targets seminars and speeches by management at audiences of nongovernmental organizations. It has established a Capital

\[\text{\textsuperscript{69}}\text{For this argument in the context of the European corporation, see Eichengreen (1996).} \]

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Markets Consultative Group to facilitate interaction with stakeholders in financial markets. All this raises questions of which NGOs have valid claims on the attention of the IMF, something that was not anticipated by its founders. The Fund has therefore commissioned an academic expert to draft a guidance note for staff for its dealings with civil society (IMF 2003c).

It is hard to assess how deeply receptive the IMF has been to the critiques of these organizations. There is some skepticism in the Fund about the quality of the analysis of macroeconomic and financial issues provided even by the best transnational NGOs, to put the point politely.70 Without meaning to exaggerate, the technical nature of many of the issues with which the Fund deals means that effective critiques and recommendations must be formulated by analysts with the significant academic training and practical experience. While there are NGOs with staff well versed in the economics of debt relief, sovereign debt restructuring, capital controls and other IMF-relevant issues, Ph.D.s in economics with training relevant to developments in financial markets are costly to hire (since they have remunerative employment alternatives). It follows that a number of the NGOs’ most effective critiques and proposals for IMF reform build on the work of academics. Jubilee Plus, in advancing the case for a sovereign bankruptcy mechanism, has made extensive use of the work of Kunibert Raffer (1990, 2002). It and other NGOs have made extensive reference to the work of Jeffrey Sachs (against the need for fiscal austerity in financial crises), Joseph Stiglitz (against the need for interest rate hikes), and Jagdish Bhagwati (against capital account liberalization).

How receptive has the IMF been to such critiques when they come in this academic guise? The harsh language of some academic critics, to the effect that the IMF is ignorant of the

70 See Dawson and Bhatt (2001) for additional polite discussion of this point.
arguments and temperamentally incapable of recognizing the error in its ways, has not facilitated constructive dialogue. But, in all of the examples cited in the preceding paragraph, there has been a pattern to the IMF’s response. In each case, after first strongly resisting criticism, the Fund has moved some way toward the critics’ view. Following the Asian crisis, the IMF acknowledged that making capital account liberalization an obligation of members would be counterproductive. As Ken Rogoff (2002, p.55) put it during his stint as Economic Counselor and head of the Research Department at the Fund (which post-dated that crisis), “These days, everyone agrees that a more eclectic approach to capital account liberalization is required.” Fund economists have conceded that there may be circumstances when capital controls might be usefully deployed in a crisis as an alternatively to destabilizing increases in interest rates. They have acknowledged that requiring fiscal austerity of countries that were already running balanced budgets may have been excessive (IMF 1999). They have moved part way toward those who had argued the need for an international bankruptcy court, abandoning what had previously been fervent opposition by proposing a Sovereign Debt Restructuring Mechanism

__71__Others have reached the same conclusion. Thus, Professor Allan Meltzer, who chaired an International Financial Institutions Advisory Comittee (2000) of independent experts who recommended greater transparency, more focused conditionality, and more debt reduction for the poorest countries, similarly suggests that the Fund has gone part way toward embracing its dissenting views (see Clift 2003, p.8).

__72__The Fund’s recent paper on the subject (Prasad et al 2003) elaborates this more eclectic approach, suggesting that there may exist development thresholds that countries must reach before capital account liberalization is helpful rather than hurtful for growth.

__73__This last document was not one of the highlights of the Fund’s retrospective analyses, in that it concluded that the fiscal austerity required of Asian countries was excessive because the IMF had underestimated the severity of the post-crisis decline in economic activity (and hence the need for demand stabilization), without acknowledging that the case for any fiscal contraction was weak under the circumstances and that the policy may have in fact contributed to the demand shortfall.
Thus, all these examples are of a pattern. One can argue that the IMF should be more responsive to nongovernmental stakeholders, but the evidence does not suggest that it is impervious to their objections or that these have no impact on its policies.

4. Conclusions

One definition of governance is a set of arrangements to aggregate the preferences of stakeholders in an institution or process. When expressed this way, it is clear why the governance of globalization is problematic. There is no consensus about the nature of globalization, nor even a consensus definition of what it entails. There are divergent views of the identities of the stakeholders and their stakes. Globalization is global as a matter of definition, but it is taking place in a world of sovereign states, none of which has jurisdiction and political enforcement powers over the others.

Problems of IMF governance epitomize these dilemmas. While it is broadly agreed that the IMF’s role is to help manage financial aspects of globalization, there is no agreement on precisely what this process and its management entail. The identity of stakeholders is ambiguous; formally, the shareholders are governments, but the ultimate stakeholders include trade unions, employers, and other groups in member countries. It is not clear how the Fund should combine its formal relations with governments, the structure of which is laid down in many cases by its Articles of Agreement, with ad hoc relations with civil society.

Effective governance must aggregate the preferences of stakeholders to several simultaneous ends. It seeks to minimize principal-agent slack between IMF management and
stakeholders in the institution. It seeks to ensure the representativeness of decision making, that stakeholders’ voices are proportional to their stakes and that they feel a sense of ownership over the results. It seeks to aggregate preferences in a way that allows decisions on pressing policy matters to be reached effectively, without undue delay. It seeks to produce efficient policies that maximize political and economic surplus. Inevitably, pursuing multiple objectives with a single mechanism requires compromises and results in dissatisfaction with outcomes.74

Recommendations for the reform of IMF governance should start with a statement of which of these objectives is most poorly achieved. My own view is that the key problems are those of representation and accountability. More generally, there is the feeling that the organization is inadequately accountable to its shareholders. But strengthening representativeness and accountability begs the question of representative and accountable to whom. Coherent proposals for reform must be predicated on an explicit answer to this question. On the question of representativeness, my own view is that the problem centers on Asia and Africa. Fast growing countries like those of Asia, whose stake in the operation of the international financial system is also growing rapidly, and smaller underdeveloped countries like those of Africa, which tend to be the subject of IMF programs, both have reason to feel that they are inadequately represented in the Fund, and as a consequence they exhibit inadequate ownership of its programs.

On the question of accountability, is the problem that the IMF is inadequately

74We see this in the almost continuous criticism directed toward other governance arrangements, for example, toward arrangements for corporate governance in the United States and toward the U.S. Supreme Court. There is no reason why IMF governance should be different.
accountable to governments and its other constituencies in general or that it is excessively accountable to the advanced industrial countries? My own assessment is that both problems are involved. The opacity of IMF decision making and the multidimensional nature of the institution’s objective function make it hard to hold those responsible for the policies of the institution accountable for their actions. In addition, however, that accountability is limited in this way renders the fact that the advanced countries still have some capacity to influence the institution – through, inter alia, personal, political and intellectual connections – is a particular bone of contention.

If problems of representativeness and accountability are solved, then at least partial solutions to a number of other difficulties with IMF governance will follow. Hence, my recommendations for the reform of IMF governance would be addressed heavily, but not exclusively, at these aspects of governance. They run as follows:

• Address problems of representativeness by increasing the share of basic votes and using GDP at purchasing power parity in quota calculations. The first step will go some way toward restoring the principle of universality, enhancing the representation of poor countries, like those of Africa, that are frequently the subject of IMF programs. The second step would enhance the representation of rapidly growing countries like those of Asia.

• Enhance the transparency of the quota review process by adopting a simple formula like that recommended by the Quota Formula Review Group but using purchasing power

75While at the same time recognizing that the principle of one country, one vote would be undemocratic.
parities and considering a multiplicative form, a heavier weight on balance-of-payments variability, and coefficients summing to less than one.

- Appoint a single executive director for the European Union. When a version of the document drafted by its constitutional convention is adopted, the EU will be a juridical entity. The majority of its members have a single currency and no more possibility of balance of payments problems among them than there is scope for balance of payments problems between U.S. states. Rationalizing Europe’s board representation in this way will free up chairs for underrepresented countries.

- Rely more heavily on the International Monetary and Financial Committee for defining the objectives and strategies of the institution (including meetings of IMFC heads of state, which can substitute for G7/8 summits). This will be possible insofar as the composition of the IMFC becomes more representative as quotas and constituencies are adjusted.

- Strengthen the frankness of staff surveillance by creating a presumption that staff studies written for Article IV consultations will be published. Revise staff performance assessments to give greater weight to ability to make independent, candid judgements (as also recommended by IMF-IEO 2003). Create a presumption that reports of the Independent Evaluation Office will be published. By further enhancing transparency, these steps will strengthen the accountability of the institution. They will enhance the efficiency of IMF governance by limiting doubts that political pressures, both internal to
And accountability of the Fund to governments will not suffer to the extent that the oversight of the IMFC is strengthened.

They will reassure those who worry that, in the absence of adequate transparency and accountability, a handful of advanced economies have disproportionate influence in the Fund as a result of their personal, political, and intellectual connections.

- Base selection of the managing director and deputy managing directors on considerations of technical qualification rather than nationality.

Will the governments representing IMF member states agree to these changes? The executive board of governmental representatives has already moved some way, as noted above, toward adopting criteria for the selection of future managing directors that emphasize expertise rather than nationality. The establishment of an independent committee to vet nominees acceptable to governments will help to precommit the board to candidates with the strongest technical qualifications and raise the cost to governments of having their directors lobby for candidates with inferior credentials. But governments have considerable capacity for enduring such embarrassment if it is the price of assuring the victory of their preferred candidate. There is no adequate substitute for true willingness on the part of governments to choose a managing director on the basis of technical qualifications. Governments must recognize that it is in their long-term self-interest not to advance candidates on the basis of nationality and narrow political considerations.

The same point applies to the other recommendations. Some governments will resist establishment of a presumption that country-specific staff studies written in conjunction with the

76 And accountability of the Fund to governments will not suffer to the extent that the oversight of the IMFC is strengthened.
Fund’s surveillance exercises should be published, given the capacity of such studies to embarrass sitting governments. They need to recognize that doing so is in their long-term interest even if it can be a source of short-term pain. Revealingly, there have already been steps in this direction, with the release of growing amounts of country-specification IMF documentation. This evolution should continue.

Similarly, European countries will inclined to resist giving up their multiple seats on the executive board for a single chair. But it is not clear that their influence will be diminished if, as a result, they are better able to speak with one voice in the institution. Nor is it obvious that they will be less happy with the outcome if IMF governance is strengthened by a reconfiguration that enhances the institution’s representativeness and accountability. European countries will not give up their additional board seats easily. They will do so only if they recognize that doing so is in their self interest.

Finally, establishing an independent Quota Formula Review Committee to propose a simple and transparent formula, disregard of which serves only to embarrass the principal shareholders in the institution, increases the likelihood that future allocations will reduce the discrepancy between actual and prescribed quotas and ameliorate problems of representativeness, other things equal. But, as already noted, governments have considerable capacity for embarrassment; it is indicative of this fact that they have not been embarrassed into accepting the QFRC’s proposal. While devices like an independent review committee can help, they are imperfect substitutes for a credible commitment on the part of governments to undertake the necessary quota revisions. Until the principal shareholders realize that, without a solution to the representativeness problem, other changes in the interest of the principal shareholders
themselves will not follow, meaningful reforms of IMF governance will not be possible.
References


Rees, David (1973), Harry Dexter White: A Study in Paradox, New York: Coward, McCann and
Geohegan.


Table 1
Distribution of Variables in World Totals: GDP
(in percent and SDR million)

<table>
<thead>
<tr>
<th>Distribution of variables (in percent)</th>
<th>Actual quotas (1)</th>
<th>GDP</th>
<th>PPP-GDP (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced economies</td>
<td>61.6</td>
<td>77.3</td>
<td>77.5</td>
</tr>
<tr>
<td>Major advanced economies</td>
<td>46.0</td>
<td>66.4</td>
<td>66.4</td>
</tr>
<tr>
<td>Of which: United States</td>
<td>17.4</td>
<td>29.5</td>
<td>28.1</td>
</tr>
<tr>
<td>Other advanced economies</td>
<td>15.6</td>
<td>10.9</td>
<td>11.1</td>
</tr>
<tr>
<td>Developing countries</td>
<td>30.9</td>
<td>20.0</td>
<td>19.7</td>
</tr>
<tr>
<td>Africa</td>
<td>5.5</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Asia (5)</td>
<td>10.3</td>
<td>8.9</td>
<td>8.9</td>
</tr>
<tr>
<td>Middle East, Malta and Turkey</td>
<td>7.6</td>
<td>3.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Western hemisphere</td>
<td>7.5</td>
<td>6.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Transition economies</td>
<td>7.5</td>
<td>2.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(1) Except for the nine countries that have not yet consented to their quota increases, for which 11th Review proposed quotas are used.
(2) Except for the 11 members without PPP-GDP data in the WEO database, for which GDP at market prices is used.
(3) Sum of current receipts and payments, not adjusted for official transfers, reexports and international banking interest.
(4) Sum of receipts and payments, not adjusted for international banking interest.
(5) Including Korea and Singapore.

Table 2. Illustrative Calculations for 74 Fund Members by Major Country Group, Data through 1999
(in percent)

<table>
<thead>
<tr>
<th>Country Group</th>
<th>Calculated quota shares, latest data</th>
<th>QFRG formula</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current quota shares</td>
<td>Traditional formula</td>
</tr>
<tr>
<td>Advanced economies</td>
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<td>72.0</td>
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<tr>
<td>Major industrial countries</td>
<td>46.0</td>
<td>52.4</td>
</tr>
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<td>Other advanced economies</td>
<td>14.4</td>
<td>19.6</td>
</tr>
<tr>
<td>Developing countries</td>
<td>17.1</td>
<td>12.3</td>
</tr>
<tr>
<td>Africa</td>
<td>1.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Asia</td>
<td>5.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Middle East and Europe</td>
<td>5.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Western hemisphere</td>
<td>5.1</td>
<td>3.9</td>
</tr>
<tr>
<td>Transition economies</td>
<td>5.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Total (74 members)</td>
<td>83.0</td>
<td>88.0</td>
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</table>

Memorandum items:

<table>
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<tr>
<th>Category</th>
<th>Quota Shares</th>
</tr>
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<tbody>
<tr>
<td>Other (109 members)</td>
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</tr>
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</tr>
<tr>
<td>Major industrial countries</td>
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</tr>
<tr>
<td>Other advanced economies</td>
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</tr>
<tr>
<td>Developing countries</td>
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</tr>
<tr>
<td>Transition economies</td>
<td>2.1</td>
</tr>
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### Table 3
Distribution of Variables in World Totals: Variability and Reserves
(in percent and SDR million)

<table>
<thead>
<tr>
<th></th>
<th>Variability (2)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual quotas (1)</td>
<td>Current receipts and net capital inflows</td>
<td>Current receipts</td>
<td>Net capital inflows</td>
<td>Reserves (3)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.</td>
<td>2.</td>
<td>3.</td>
<td>4.</td>
<td>5.</td>
<td>6.</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>61.6</td>
<td>60.0</td>
<td>58.4</td>
<td>57.7</td>
<td>58.6</td>
<td>49.2</td>
</tr>
<tr>
<td>Major advanced economies</td>
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<td>39.9</td>
<td>39.2</td>
<td>36.7</td>
<td>40.9</td>
<td>32.8</td>
</tr>
<tr>
<td>Of which: United States</td>
<td>17.4</td>
<td>15.4</td>
<td>11.1</td>
<td>9.8</td>
<td>17.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Other advanced economies</td>
<td>15.6</td>
<td>20.1</td>
<td>19.2</td>
<td>21.0</td>
<td>17.7</td>
<td>16.4</td>
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<td>Developing countries</td>
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<td>32.4</td>
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<td>Asia (4)</td>
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<td>13.3</td>
<td>13.5</td>
<td>11.9</td>
<td>27.4</td>
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<tr>
<td>Middle East, Malta and Turkey</td>
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<td>8.6</td>
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<td>5.9</td>
</tr>
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<td>9.2</td>
<td>11.3</td>
<td>8.2</td>
<td>5.2</td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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</tbody>
</table>

(1) Except for the nine countries that have not yet consented to their quota increases, for which 11th Review proposed quotas are used.
(2) Standard deviation from centered 3-year trend, 1987-99 (5-year trend where indicated).
(3) Avereage end-month international reserves in 1999.
(4) Including Korea and Singapore.

### Table 4
Calculated Quota Shares (1)

<table>
<thead>
<tr>
<th></th>
<th>Linear formula</th>
<th>Multiplicative formula</th>
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<tbody>
<tr>
<td></td>
<td>Actual quota shares (2)</td>
<td>Existing formula (3)</td>
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<td>Excluding reserves</td>
<td>Sums of weights = 1</td>
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<td>0.10</td>
</tr>
<tr>
<td>Openness</td>
<td>0.10</td>
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<tr>
<td>Variability</td>
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<tr>
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<td>Calculated quota shares (in percent)</td>
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<tr>
<td>Of which: United States</td>
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<td>Middle East, Malta and Turkey</td>
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<td>Smallest 75 members</td>
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<td>Financial transactions plan</td>
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</table>

(1) The illustrative target is a calculated quota share of advanced economies of 58.6 percent, 3 percentage points below the actual quota share.
(2) Based on actual quotas except for the nine countries that have not yet consented to their quota increases, for which the 11th Review proposed quotas are used.
(3) Computed as traditionally specified, except that current receipts and payments have not been adjusted for official transfers, reexports and international banking interest.
(4) Targeted share not achieved.
(5) Including Korea and Singapore.

Table 5
Illustrative Voting Shares: General Quota Increase and Increased Basic Votes
(in percent)

<table>
<thead>
<tr>
<th></th>
<th>Current voting shares (1)</th>
<th>Actual quota shares (1)</th>
<th>Calculated quota shares</th>
<th>New quota shares (2)</th>
<th>500 basic votes</th>
<th>2232 basic votes (3)</th>
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(1) Votes of all members are included in the calculation, the total of which is different from the actual total votes of the Fund.

(2) General quota increase of 50 percent distributed on basis of calculated quota shares, resulting in new quota share distribution that reflects the calculated quota share distribution with a weight of one third.

(3) This would restore the share of basic votes in the total voting power to the level in 1945, i.e., 11.3 percent.

(4) Including Korea and Singapore.