How the fund can regain and sustain global legitimacy
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>Published: April 20 2006 03:00 | Last updated: April 20 2006 03:00

With the world's financial markets mercifully quiescent for now, the International Monetary Fund is usefully examining its future rather than fighting financial fires. The debate has been unusually rich. Mervyn King, governor of the Bank of England, recently warned that without reform the IMF "could slip into obscurity". Rodrigo Rato, the fund's managing director, has issued one thoughtful document after another, calling for a rethink of voting rights, global surveillance and the IMF's relationship with the poorest countries. These issues will come together at the fund's spring meetings later this week.

There is general consensus on several issues, even if little agreement on specifics. The allocation of voting power within the IMF must be reformed to preserve the legitimacy of the institution. The voting power of Asian countries needs to be raised, mainly at the expense of Europe. More generally, developing countries need more say. More attention should be paid to surveillance of global financial markets and much less to micromanaging the poorest countries. The fund's ability to manage global financial crises must be enhanced.

These are reasonable conclusions but do not take us far enough. Since the fund's inception, it has been a protean institution, reinventing itself as global economic, monetary and financial challenges have evolved. In the next quarter-century, five novel issues are likely to dominate the fund's agenda. First, the rise of Asia will increasingly render a US-centric model of global financial governance obsolete. The US will no longer be conductor of the global monetary orchestra. The burdens of easing regional shocks will depend increasingly on regional powers such as China and India, with their vast foreign reserves. The IMF can and should provide an indispensable service to those rising powers by encouraging them to play responsible multilateral roles, even as lenders of last resort in regional or global crises.

Second, Asia's rise will provoke protectionist pressures in the US and Europe, and sour politics will risk upsetting macroeconomic stability. US politicians vote for huge tax cuts and military spending increases and then blame the inevitable current account deficits on China. The IMF must stand as an objective bulwark of reason, battling the temptation to force China to manipulate its own currency out of misguided US pressure. The IMF can help ensure that China's monetary policy is for China's sake and multilateral stability, not short-sighted pressures.

Third, financial crises will become more global and more intricate, and we still lack agreed institutions and procedures for managing complex creditor-debtor work-outs. The IMF should remain the institutional home for such work-outs but must improve on its past poor performance. Africa's debt cancellation, for example, has come 20 years after the onset of crisis. The time frame for work-out plans must be shortened dramatically and better ways found to ensure debtor liquidity as these plans proceed.
A global agreement on an unbiased IMF arbiter role in such crises is long overdue.

Fourth, the world will move to fewer currencies, with more countries signing up to the dollar, the euro or new regional currencies. The fund has played surprisingly little role in supporting the adoption of shared currencies but member states will need outside help - political, economic, and technical - as they drop national currencies for international ones.

Fifth, ecological shocks will play a growing macroeconomic role. Countries will be increasingly battered by natural disasters and new diseases. Global financial markets do a surprisingly miserable job of spreading such risks. Countries hit by disasters suffer cascades of financial failures that should be better cushioned by global risk diversification.

The IMF should help improve global risk-sharing through innovative financial instruments - such as drought or hurricane insurance - aimed at both governments and the private sector.

With its capable technical staff, the IMF has contributed to historic triumphs of globalisation: currency convertibility as the monetary bulwark of global trade and the gradual transition after 1973 to the non-inflationary management of national fiat currencies. Its failures, however, have also been enormous, including the catastrophic mismanagement of economic crises in the poorest countries and the Asian financial crisis of the late 1990s.

The failures have come mainly when the US abused its power within the IMF, by pressing a multilateral institution to serve narrow US short-term interests. The fund acted far too long as a creditor collection agency and defender of other US interests. The IMF can address the changing global landscape only if it has global legitimacy. It should recognise the needs of the poorest members to meet the Millenium Development Goals to slash poverty and give more voice and vote to the developing world, especially to Asia.

The writer is director of the Earth Institute at Columbia University and author of the End of Poverty (Penguin)

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