How to Really Reform the IMF
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We can tell that the spring meetings of the IMF are approaching because the debate over IMF reform is heating up. Most people anticipate little progress, since Managing Director Rodrigo de Rato's "Medium Term Strategy" for refocusing the Fund fails to move beyond platitudes.

Now, however, the debate has been catalyzed by a speech by Mervyn King, Governor of the Bank of England. King agrees that the IMF needs a clearer focus. He argues specifically that it should concentrate on surveillance of international financial markets and on issuing blunt assessments of national policies.

But the most provocative part of his speech is where King proposes that the IMF should change the way it goes about its business. Currently, management presents proposals to an Executive Board of 24 country representatives. The Board passes judgment on everything from staff pay to multi-billion-dollar loans. It meets three days a week to slog through a lengthy agenda. Executive Directors are chronically overburdened and consequently have no choice but to take instructions from their national governments. The result is that IMF decision making is politicized and that the Fund is unable to set priorities, take hard political decisions, and react quickly to events.

King proposes returning to the original conception of his countryman John Maynard Keynes, who thought that the IMF should be managed by a powerful CEO whose decisions were scrutinized by national officials who assembled in Washington, say, four times a year. The Managing Director, given security of employment, would then be in a position to take decisive action without being micro-managed by his board. Under his decisive leadership, the institution could focus on priorities and respond quickly to events. Staff would be able to issue blunt assessments of country policies without fear that its reports would be quashed by the Executive Directors of the countries that were its subjects.

With the passage of 70 years and the development of email and efficient air travel, this case is even more compelling than in 1944. The only problem is that independence for IMF management must be coupled with accountability. King foresees that national officials will be able to give management guidance and force it to correct missteps in their quarterly meetings in Washington, D.C. He proposes that management should be further scrutinized in regular reports by the Fund's own Independent Evaluation Office.

But replacing continuous oversight by a resident board with quarterly oversight by a nonresident board, by itself, would significantly weaken accountability. And the reports of the Independent Evaluation Office are notoriously slow and inconclusive.

This raises the danger of independence without accountability. It creates the specter that a misguided management could push the institution in the wrong direction for an extended period.

King's reforms might also have the unintended consequence of increasing the influence of the United States. While the representatives of other IMF members would only assemble in Washington four times a year, the U.S. Treasury would be there continuously. It would still be only be a limo ride away. Moreover, while the Managing Director, traditionally nominated by European governments, is the IMF's chief political officer, the First Deputy Managing Director, a Ph.D. economist nominated by the U.S. government, is in practice responsible for the Fund's day-to-day operations. This is why Keynes, back in 1944, opposed situating the IMF in Washington, D.C. But, for better or worse, it is unrealistic to propose now packing up the Fund and moving it to another country.

An alternative would be to vest decision making power not with the managing director but rather with an independent policy committee, whose members would check one another's judgment and represent diverse constituencies. We know from the experience of national central banks that giving decision making power to one individual – the New Zealand model – is dicey, since everything then hinges on the good judgment of that one person. Equally, very large policy boards like the ECB's are ponderously slow and indecisive. It is increasingly recognized that best practice is a Monetary Policy Committee of, say, six members.

This suggests that decision making in the Fund should not be delegated to a powerful managing director or, in practice, his powerful first deputy. Rather, decisions should be made by a committee of equals: the managing director, who would act as chairman of the board, and five deputies from Europe, North America, Latin America, Africa and Asia. The six directors could be appointed for staggered terms of six years to ensure their independence from the governments of their home countries. They would vote on key decisions. And the minutes of their deliberations would be released with a lag. This would require them to articulate the rationale for their decisions, providing a way for the public as well as governments to hold them accountable for their actions.

All this would require fundamental changes in how IMF management is selected. It would require the managing director to be picked on the basis of his technical credentials, not his nationality and political connections. It would require the other members of the team to be picked in the same way, with due regard to an appropriate balance of regional representation. Europe would have to give up its prerogative of choosing the managing director. The U.S. would have to give up its prerogative of choosing his first deputy.

Some will dismiss this as pie in the sky. Indeed, this was the reaction when, seven years ago, I published together with coauthors from Chile, France and Japan a report entitled "An Independent and Accountable IMF," proposing that the Fund be run by an independent policy board. Now we discover that an influential central banker, Mervyn King, subscribes to these ideas. One hopes that it will not be too long before others do likewise.

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