

# Governance at The International Monetary Fund

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*Governance, Transparency and Accountability in  
Financial Institutions and Regulatory Bodies*

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# Why reform the IMF?

- Effect on economic development
- Back to the mandate?
- Lending for political reasons
- Recidivism
- Representation
  - does not reflect anything close to reality

# Three suggestions:

- 1. Executive Board Accountability**
- 2. Transparency in choosing Great Powers**
- 3. Regional Representation**

# Quick background on the IMF:

- All countries are members (almost)
- Board of Governors elects the Executive Board of Directors
  - 5 appointed, 19 elected
- Votes are determined by contributions (“quota”)
- Quota set by an 85% majority rule
- Most other decisions by simple majority rule.
- But the Executive Board typically operates by “consensus”

- Top 5 members:
  - United States (16.8%)
  - Japan (6.0%)
  - Germany (5.9%)
  - France (4.9%)
  - UK (4.9%)
- Other important members:
  - China (3.7%)
  - Saudi Arabia (3.2%)
  - Russia (2.7%)
  - Italy? (3.2%)
  - Belgium? (2.1%)
  - Brazil? (1.4%)
  - India? (1.9%)
  - South Africa? (0.9%)

IMF web page...

<http://www.imf.org/external/np/sec/memdir/eds.htm>



# Three suggestions:

- 1. Executive Board Accountability**
- 2. Transparency in choosing Great Powers**
- 3. Regional Representation**



# 1. Open Ballot Accountability

- Everything behind closed doors
- “Consensus” (official votes not even taken!)
- Increases the power of the appointed directors?
- No accountability

# Suggestion

- Allow for behind closed doors negotiations
- Decisions should be by open ballot
  - With delay for sensitive matters (e.g. currency valuation)

## 2. Transparency in choosing the Great Powers

- Contrast with the UN Security Council
  - Chose its Great Powers at the end of WWII
  - (China, France, Russia/USSR, United Kingdom, United States)
  - Fixed for all time
- The IMF
  - Allocates votes according to economic importance
  - Great variation over its history...

# The Top 5 Directors

- 1946-1960: US, UK, *China*, France and *India*
- 1961-1970: US, UK, France, Germany, and *India*
- 1971 onwards: US, Japan, Germany, France, and UK
- Otherwise the same top 5 for over 30 years

# Problems

1. The process is not transparent
2. They use nominal GDP
  - PPP? (Buirra 2005)
3. The US has veto power

# Suggestions for the IMF

- Remove US veto power
- Assign vote shares transparently
  - Run by an independent body
- Combine nominal and PPP measures of GDP

# 3. Regional & Representation Accountability

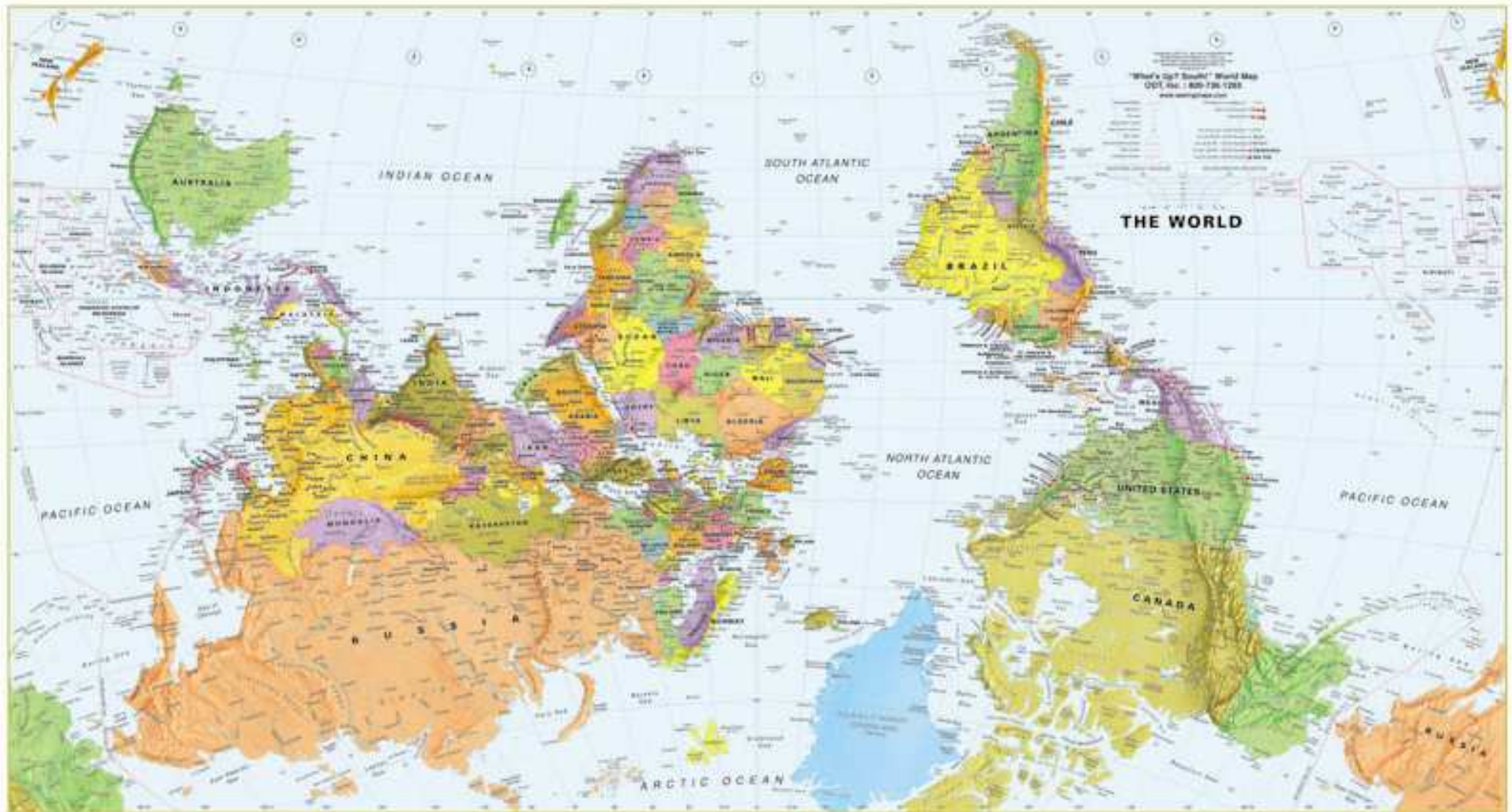
- Elected directors:
  - Reelection
  - Unstructured
  - The Swiss Problem
- Suggestions
  - Regional representation
  - Elected by the regional constituents
  - Allow reelection

# Conclusion

- **Like other institutions (UN Security Council):**
  - Great power agreement PLUS support from rest of the world
- **Power at the IMF must reflect economic realities**
  - Votes should be assigned according to a transparent process
- **The “rest of the world” should have adequate representation**
  - True regional representatives with reelection possible
- **Hold the Executive Board Accountable**
  - (Delayed) open ballots



# Thank you.



**WHO SAYS "NORTH" IS "UP"?**  
The answer, you'd think, is obvious. But it isn't. It's a matter of convention. The "North" of a map is the direction in which the Earth's axis of rotation points. This is the direction in which the Earth's magnetic field lines converge. This is the direction in which the Earth's gravity pulls. This is the direction in which the Earth's wind blows. This is the direction in which the Earth's water flows. This is the direction in which the Earth's people walk. This is the direction in which the Earth's... well, you get the idea.

**THE WORLD AS WE SEE IT**  
The world as we see it is a flat, two-dimensional surface. This is the way we experience the world. This is the way we map the world. This is the way we think of the world. This is the way we live in the world. This is the way we die in the world. This is the way we... well, you get the idea.

**THE WORLD AS IT REALLY IS**  
The world as it really is is a three-dimensional sphere. This is the way it exists in space. This is the way it moves through space. This is the way it interacts with space. This is the way it... well, you get the idea.

**THE WORLD AS IT SHOULD BE**  
The world as it should be is a flat, two-dimensional surface. This is the way we would like it to be. This is the way we would like to live in it. This is the way we would like to die in it. This is the way we would like to... well, you get the idea.

**THE WORLD AS IT COULD BE**  
The world as it could be is a flat, two-dimensional surface. This is the way we would like it to be. This is the way we would like to live in it. This is the way we would like to die in it. This is the way we would like to... well, you get the idea.

**THE WORLD AS IT WILL BE**  
The world as it will be is a flat, two-dimensional surface. This is the way we would like it to be. This is the way we would like to live in it. This is the way we would like to die in it. This is the way we would like to... well, you get the idea.

**THE WORLD AS IT ISN'T**  
The world as it isn't is a flat, two-dimensional surface. This is the way we would like it to be. This is the way we would like to live in it. This is the way we would like to die in it. This is the way we would like to... well, you get the idea.