

Suman Bery: The fund of the future

Should India care about the future of the International Monetary Fund?

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In January this year, the Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) publicly released a report on “IMF Performance in the Run-Up to the Financial and Economic Crisis”. The IEO is a relatively small unit, which operates independently of IMF Management and at arm’s length from the IMF’s Executive Board. It is a relatively recent creation, established ten years ago in response to the growing criticism of the role of the IMF in the developing world by large sections of civil society. Many of the rules of operation of the IEO were established under its first Director, Montek Singh Ahluwalia. Over its first decade of existence, the IEO has reviewed a number of controversial issues in Fund-country relations and policy advice, following an agenda largely defined by the IEO itself, in consultation with a broad array of external stakeholders.

The focus of the above-mentioned report is explicitly not on the Fund’s performance during the crisis. Instead, the report examines whether the Fund’s analyses in the period 2004-2007 showed any awareness of the pressures and risks accumulating in the financial systems of the advanced countries. It concludes that the Fund largely failed in this task. This failure was no minor matter: it occurred in an area the IEO considers central to the mandate of the organisation, namely its “surveillance” function. Such surveillance is both multilateral (through the Fund’s global review documents, such as the World Economic Outlook and the Global Financial Stability Report) and bilateral (through its so-called Article IV country consultations). The purpose of such surveillance is to highlight risks to the global financial and monetary system, so as to create pressure for pre-emptive action.

In trying to account for this institutional and intellectual failure, the IEO cites several cultural and institutional factors. These include a high degree of groupthink; intellectual capture by influential academics and powerful institutions (particularly the US Federal Reserve and the Bank of England); and a general mindset that a major financial crisis in large advanced economies was unlikely. The report also criticises an institutional culture that discourages contrarian views, and urges the executive board and management of the institution to work systematically to alter the culture of the organisation. In the view of the authors, the present relatively unquestioning hierarchy needs to be transformed into a culture is both considerably more tolerant of dissent, as well as better placed in integrating information and insights currently scattered across the organisation.

Of course, the judgement of the IEO is just that: a judgement arrived at by a small, independent staff on the basis of a specific, transparent methodology. Also implicit in this

judgment is the belief that things could have been otherwise, that it was indeed possible to discern the build up of systemic risks with the information then available, as was done by a few lonely voices in the midst of the boom. One must also accept that the incentives of any evaluation organisation will lead it to stress weakness, rather than to celebrate success. Perhaps facilitated by the fact that these lapses occurred when a different senior management team was in place, the current management has accepted the main points of the critique as a basis for the current reform of the Fund.

To what degree does this critique of the Fund's performance matter to India? We have so far defined our agenda in the IMF primarily in terms of increasing our quota share, in order to obtain enhanced voting rights and representation at the executive board. It is less clear what our agenda should be once we achieve this desired enhancement. As noted earlier there has been a vigorous debate for many years in the industrial countries about the role, mandate and effectiveness of the Fund, but this is not a debate that has had much resonance in either official or intellectual circles in India. In candour, I must say that I myself have in the past argued that India should take greater interest in the reform of the multilateral development banks, particularly the World Bank and the Asian Development Bank, than in the reform of the Fund. I have taken this view largely on the assumption that India is very unlikely ever to seek a Fund programme, and so far has not been very exercised on issues of international monetary reform.

What this latest IEO report (and discussions around it at a recent workshop in Berlin) have brought home to me is an innate tension between the Fund's crisis prevention and crisis response roles. The fact of the matter is that from the 1980s onward, the IMF was increasingly bypassed by the major powers as a forum for macroeconomic co-ordination. To the extent this occurred at all, it took place within the framework of the G-7, not at the Fund.

Despite the views of the IEO that global surveillance is a central mandate of the organisation, in reality the Fund became increasingly specialised in crisis management in the developing world. This is a role, which requires speed of response, the aura of certainty, and the political backing of the major industrial economies. By contrast, the lack of academic and policy consensus at the present time, means that an effective and enhanced role for the Fund in global surveillance would require much greater open-mindedness and diversity, exactly as called for by the IEO report.

The jury is still very much out on whether the major players in the global economy are in fact willing to accept the role of the IMF as honest broker, despite the real economic hardship that their acts of omission and commission have inflicted on others. We have other examples of international institutions, notably the WTO, which have been able to be neutral between major and minor actors in the global trading system, largely because they are not burdened with a financing role.

Accordingly, the issue facing the Indian authorities is whether they believe it is in India's interest for the Fund to play a more prominent role in global surveillance. If the answer is yes, then we probably need to pay more attention than we have so far on what this implies for the internal organisation and structure of the IMF.

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