
New Rules for Global Finance

BRINGING BALANCE TO THE IMF REFORM DEBATE (1-13-08)

I. Proposal summary:

"Balancing the IMF Reform Debate" is a project designed with partner organizations to organize regional workshops, a culminating global conference, and high-level roundtable meetings in Washington. All of these events are designed to provide opportunities for leading voices from developing-country governments, academics, and civil society organizations to propose their own agenda for the IMF -- both in reformed policies and in how it should be governed. With collaborative funding of the Centre for International Governance Innovation (CIGI) of Toronto, regional meetings are being planned. The Asia meeting took place in September 2007 in Beijing (led by Oxford University's Global Economic Governance Programme—GEG, and Peking University). The next regional event will be in Jordan for the Middle East and North Africa in March 2008 (led by CIGI and the UN University in Amman), followed by a meeting in Washington, DC for Latin America and Caribbean in April 2008 (led by New Rules, Initiative for Policy Dialogue at Columbia University, with Brookings Institution). The dates for the African and Central Asian events are not yet confirmed. The recommendations fed back from these workshops will be pulled together and reviewed in the spring and presented in the summer at a CIGI/New Rules conference in Waterloo, Ontario, Canada, site of CIGI headquarters. This culminating conference will consider both the feedback from the regional events as well as issues that transcend national and regional issues, namely those important to the overall global financial system. The outcome of the Waterloo conference will be presented at high-level roundtables in Washington aimed at U.S. policymakers, at the Executive Board of the IMF, and in October 2008 at the Governors of the IMF and World Bank during their annual meetings.

New Rules initiated and designed "Bringing Balance." The **content** of meetings and conferences will come from the people and countries the IMF impacts. Foundation funding will support New Rules' work of bringing leading voices together: 1) to design the content of IMF reform for their countries and regions, 2) to plan a global conference where regional recommendations and global, systemic recommendations are shared and shaped, and 3) to execute the global conference itself, with its follow-on implementation strategy. The majority of the funds will go for travel and accommodations for leading voices from Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa; for translation and interpretation (French, Spanish, Russian), for rapporteurs and editing, and for New Rules time and travel. (Participants from East and South Asia and from the Middle East and North Africa will be supported by the partner organizations, CIGI and Oxford's GEG.)

Bringing Balance to the IMF Reform Debate promotes greater participation, transparency and accountability of a global institution noted for its secrecy. It brings Southern voices to the table to influence the agenda for the Fund's policies and governance. A reformed Fund will be more democratic in form and more effective in improving the lives of the poorest people and countries.

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II. Background and Context

There is wide consensus that the International Monetary Fund (IMF) requires reform. Its governance reflects the political powers of 1944; its largest “customers,” the emerging market economies (EMEs), have taken out expensive self-insurance rather than submit to its policy requirements, leaving only the low income countries (LICs) subject to its oversight and policy requirements. Indeed the new Managing Director (MD), Dominique Strauss-Kahn, begins his Interim Work Program by assuring the Executive Board that “I have aimed to impart a renewed sense of urgency to the reform of the Fund.” (14 December 2007)

Despite this broad consensus, the debate on IMF reform has been shaped largely by conversations within and among OECD countries and orthodox or mainstream economists. Largely absent have been the views, interests and priorities of developing countries, the IMF’s “customers.” This project, “Bringing Balance to the IMF Reform Debate,” aids in remedying this imbalance by sponsoring and/or encouraging a series of regional conferences where developing countries articulate their needs and priorities for services from the IMF. The concluding global conference, set for June 2008 in Waterloo, Canada, will consider the policy and governance recommendations that emerge from the regional events. It will also provide an opportunity to consider future global systemic needs that a reformed IMF should be prepared to address.

Before detailing the specific strategy and processes of this project, it is important to address two prior questions: 1) Is the Fund needed? 2) Is the Fund reformable?

Is the Fund needed? Yes. The Fund was designed at the close of World War II to prevent short term trade imbalances from descending into global trade imbalances, the problem of the Great Depression as understood in 1944. Since then the Fund has also been called upon to serve other functions, not all of which it has done well. However, the core public good that requires an international monetary fund is *global financial stability that supports equitable and sustainable growth*. Financial crises harm the poorest people and countries the most. The poorest countries face a regular cycle of financial crises, often linked to commodity prices, crises that wipe out years of growth within months and require many years to rebuild up to the level when the crisis struck. There is no other global institution designed to address global financial crises, and the world needs one.

Is the Fund reformable? Yes, but it will require a lot of work, involving outsider and insider pressure, governance reform, clarification of functions, and commitment by all member countries to use it to promote the common good of global financial stability that supports equitable and sustainable growth, rather than to protect narrow, short-term national interests.

The reformed Fund will need to better incorporate the needs and views of all its shareholders, not just the wealthy, and not even the current G7 wealthy countries + five or six of the EMEs. It also will need to provide context-specific policy advice that is mindful of the likely impacts of macro-economic policies on the incomes and livelihoods of the most vulnerable in the short- and medium-term.

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The way forward is to facilitate and coordinate the needs and priorities of all the Fund's shareholders. The EMEs and LICs require increased voice (quota formula, seats at the Board, representation within the staff), and policies appropriate to each country and/or each region's unique context. The G7 or wealthy countries need to recognize that their long-term economic and political well-being is linked with the well-being of other countries, and that all benefit when all feel a sense of ownership in global institutions, and all agree to abide by common agreements, with none able to "sit it out" when it does not suit them. The current major shareholders need to recognize their own long-term best interests will be best served by inviting other countries to genuinely share in the decision making of the IMF, encouraging and facilitating context-specific policies, and abiding by global rules that ensure financial stability between and among major currencies and economic powers.

Alternatives to the IMF: There is no easy or simple solution. The most obvious alternative is that the only global institution that exists to address global financial issues will be further marginalized while real financial decisions are made, without pretense of openness or inclusion, in the Bank for International Settlements, the Financial Stability Forum, the G-20 finance ministers' meeting of the "systemically significant" countries. Regrettably this scenario is already close to reality. Only concerted action will be able to reverse the decline of the Fund.

Some developing countries and some civil society organizations delight in the decline of the IMF, judging that it has done more harm than good, and that regional monetary funds can provide the same services without the despised arrogance of an institution that purports to know everything from economic theory but little about the specifics of real national economies, is powerless to influence the great powers, or to predict much less to weaken global financial crises. Regional monetary funds, with the Chiang Mai Initiative as the premier example, can be useful. However their principal defect is they are not global: the poorest regions, notably Africa and Central Asia, do not have the resources to self-insure or to set up regional monetary funds to assist regional members; nor can regional entities monitor global events nor facilitate global dialogue leading to global action to prevent or reduce the impact of global financial crises.

In sum, the IMF is needed and is in a weakened state. Its vulnerability is likely to make it more susceptible to genuine reform, but of course there are no guarantees.

III. The Design and Strategy of **Bringing Balance to the IMF Reform Debate:**

Bringing Balance to the IMF Reform Debate gives voice to those affected by IMF policies. Its purpose is to up-end the normal workings of the IMF. Instead of the wealthy countries setting the rules for the developing world to follow, in this process those impacted by the IMF will propose context-specific policies and governance structure. The project process and content will be characterized by academic rigor and excellence, but its outcomes will be designed to change reality, not just to analyze it.

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This project provides arenas where the Fund's "customers", the developing countries, can speak of their countries' and their regions' needs and priorities. The partner organizations of this project—New Rules for Global Finance Coalition, the Centre for International Governance Innovation (CIGI), Oxford University Global Economic Governance program—are facilitators and rapporteurs of these conversations.

Regional events and their corresponding partners include:

- Beijing, China, for Asian Emerging Market Economies, organized by Center for Economic Governance Programme, Oxford University, and Peking University (September 2007);
- Amman, Jordan, for North Africa and the Middle East, organized by Centre for International Governance Innovation at the UN University (March 2008);
- Washington, DC, for Latin America and the Caribbean, organized by New Rules for Global Finance Coalition and Initiative for Policy Dialogue at Columbia University, in collaboration with Global Economy and Development Program, Brookings Institution (April 2008);
- Bishkek, Kyrgyzstan, for Central Asia and Mongolia, organized by New Rules, Center for Social and Economic Research (CASE), Bishkek, Kyrgyz Republic
- Maputo, Mozambique for Sub-Saharan Africa, organized by New Rules, African Economic Research Consortium, and Debt Relief International (Spring 2008).

The culminating event in June 2008 at CIGI headquarters in Waterloo, Ontario, Canada, will be a global conference, bringing together all the regional voices with their recommendations, along with a few additional experts in global finance, who together will consider ways to prevent, or at least predict and ameliorate the impact of, global financial crises. This conference will itself be designed by representatives from each of the regional meetings coming together as a working group to set the agenda and the process for the culminating event.

New Rules and CIGI will co-edit policy-relevant papers for use in advocacy work, including to share US presidential campaign advisors, journalists, the IMF's Board of Governors and Executive Board, and within the Financing for Development follow-on process ending in Doha late 2008. CIGI and Oxford's GEG will use the materials from this project to produce an edited academic book.

Additional work by New Rules will take the conclusions of this process to: 1) the Washington policy arena for a seminar for presidential campaign advisors, congressional staff, financial journalists, 2) an informal seminar for the IMF Board of Directors, 3) to the IMF Board of Governors and the International Monetary and Finance Committee (IMFC) prior to the 2008 Annual Meetings of the IMF and World Bank, and 4) into the broader arena of the International Conference on Financing for Development scheduled for November 29-December 2, 2008 in Doha, Qatar.

Again, the project process and content will be characterized by academic rigor and excellence, but its outcomes will be designed to change reality, not just to analyze it.