

Who owns the IMF?

The International Monetary Fund could be a vital institution in the global economy – but only if reformed to reflect new realities



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To fix a global financial crisis, global cooperation is vital. Earlier this week, European countries failed to coordinate their efforts to support their respective banking systems. The result was beggar-thy-neighbour moves, which increased the chaos. Until today's coordinated rate cut by central banks across the world, the prospects of coordination looked dim.

One obvious question to ask is: where is International Monetary Fund? Created by governments to avoid beggar-thy-neighbour policies, to facilitate cooperation among governments, and to contribute to global financial stability, the IMF is curiously marginal. It is standing on the sidelines of the crisis, offering opinions. It is not at the heart of cooperation to resolve this crisis. Central bank governors and finance ministers from across the world have not headed straight for the headquarters of the IMF to find a collective solution. Why not?

The crisis exposes the extent to which the IMF mirrors a bygone era in which the United States was the world's largest creditor and led the G7 countries in giving strategic direction, headquarters and direction to the IMF. Left out of that directorate are emerging economies such as China, Russia, the Gulf States, India and Brazil, which, among other things, now sit on huge reserves (mostly dollar-denominated). These reserves give them a nuclear-like (mutually assured destruction) capability to create havoc in the global monetary system – but also the resources to help recapitalise broken financial sectors in the G7.

Most emerging economies have no more than a cursory interest in the IMF. Politely, they will send representatives to the organisation's meetings. But they do not see the organisation as theirs, nor even partially theirs. They do not trust it as a political forum within which to negotiate, nor as an institution that will establish and apply rules with an even hand.

Reinvigorating the IMF requires a transformation of the rules of headship, decision-making, staffing, the structure and workings of the board and the location and authority of the institution. If the IMF is to offer a forum for cooperation, it will need a dramatic overhaul, going well beyond what is to be discussed in Washington DC at the IMF annual meeting this week. This cannot be achieved without creating an institution that powerful reserve-holding countries come to see as "theirs".