**Changes needed at troubled IMF**

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**Third World Network and South Center**

Last week's arrest of Dominique Strauss-Kahn on charges of sexual assault was followed by his resignation as Managing Director of the International Monetary Fund. This quickly sparked a race for his successor in the most important position in finance among international organizations.

European leaders were quick off the mark, arguing that the post should again be taken by a European, as according to the old but discredited tradition.

It has been increasingly recognized that the convention that the IMF chief must be a European while the World Bank President should be an American can no longer be justified.

The two leaders should be selected from persons from any country according to merit, and not on the basis of their being European or American, which is a colonial or neo-colonial principle.

Candidates from developing countries should have an equal chance, especially since these countries have increased their share of global GNP, and many of them (especially China and other Asian nations) have large foreign reserves.

Well-known figures from India, South Africa, Singapore and Turkey have been mentioned in the international media as credible successors to Strauss-Kahn.

But the European Commission President and the political leaders of Germany, France, Italy and other European countries are insisting on another European, giving various reasons such as that Europeans are the biggest creditors, are having a serious crisis, and have candidates of merit.

Ironically, the apparent "front runner" is another French citizen, the finance minister Christine Lagarde. Why should a French national succeed another French national who had to resign in disgrace, and when the top IMF job has previously been held disproportionately by French nationals (who have had the job for 35 of the 64 years of the IMF).

European leaders are arguing that the IMF chief needs to be European because much of the present IMF loans in value are going to European countries Greece, Ireland and Portugal, and Europe is in a serious financial crisis.

They argue that a European IMF chief would be best for dealing with the European crisis, as he or she would understand the region better.

This is a strange argument fraught with double standards. When East Asian countries suffered a debt crisis in 1997-9, and the IMF's main clients became Thailand, Indonesia and South Korea, no one argued that the IMF should have been led by an Asian who could more deeply understand the region's problems.

Similarly, there was no hope that an African or South American could occupy the upper posts of the IMF, even though many countries in those regions were in financial crisis and were the main borrowers in the 1980s and 1990s.

Veteran journalist and Editor Emeritus of the South-North Development Monitor (SUNS) Chakravarthi Raghavan argues that the spreading economic crisis in Europe is indeed a valid reason for a non-European to head the IMF.

In the 1980s, when democratizing international institutions was on the agenda, the United States and Europe argued that since the developing countries are borrowers, they cannot be allowed to control the IMF or World Bank, said Raghavan, in comments to the IPS press agency.

"This logic applies here. No European should be allowed to head the IMF," he said, adding that the IMF's rescue packages for Europe have become efforts to protect the interests of French and German banks who are major creditors and bond holders of Greece, Portugal and Spain.

It is a clear case of double standards in the outrageous demand by Europe that it must continue to monopolise the IMF's top post, when Western countries have been championing the principles of democracy and meritocracy to developing countries.

Despite this, it is likely that Europe will succeed because of the undemocratic decision-making system in the IMF, as in the World Bank. European countries hold just over 30% of the votes, the US 16.7%, Japan 6% and Canada 3%.

If developed countries unite under a single candidate, they will most likely get their way.

Still, it will not be a guaranteed or even an easy win for Europe. One reason is that public opinion (including that of Western civil society groups) finds European monopoly indefensible and outrageous in the modern world. A group of NGOs has called for a fair, transparent and merit-based process for selecting the next IMF head.

Many developing countries have recently called for an open and democratic selection process for the heads of the IMF and World Bank. Developing and emerging countries have control collectively of 44.7% of the votes. The IMF chief must get 85% of the votes.

Ministers of the G24 (a group of developing countries that operate in the IMF and World Bank), meeting in April, repeated their call "for an open, transparent, merit-based process for the selection of the President of the World Bank and the Managing Director of the IMF, without regard to nationality."

They also called for "concrete actions and proposals to be put forward to guarantee this change."

While the developed countries have a majority of the voting rights, the developing countries can theoretically block the candidate put up by Europe or other developed countries.

The reality is that the developed countries tend to unite behind a candidate from among them, while developing countries have not, till now, been able to come up with a single candidate of their own which they then support together.

Though the selection of a new chief is the present preoccupation, more important is the reform required for the IMF's policies and operations.

A South Centre paper, authored by Chief Economist Yilmaz Akyuz, points to its failure in preventing financial crises, which is its main task.

In its emergency lending activity, the IMF has also performed badly. It has advocated pro-cyclical policies to countries taking its loans, often deepening the countries' crises.

It has also failed to distinguish between countries facing liquidity and solvency problems, and lent to countries to repay their loans, with unfair terms of burden-sharing between the debtor country and its creditors.

The changeover of the leadership of the IMF is a good opportunity to discuss the weaknesses of the IMF and to reform its policies.