One More Small Step....
The Treasury Select Committee Report, "Globalisation: the Role of the IMF"

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In contrast to the DFID White Paper (see our comments at http://www.jubileeresearch.org/news/JRTSCWPArt1a.pdf), the Treasury Select Committee's report is reasonably outspoken in its criticisms of the IMF. While not going nearly as far as we would like, it makes some useful proposals – including support for an international insolvency process independent of the IMF (a long-standing demand of Jubilee Research[1]), as well as increased democracy, transparency and accountability in the Fund itself; and for economic conditionality to be more appropriate and not "driven by a single economic philosophy".

The overall finding of the report is that "At present, the IMF is not optimally organised to meet the challenges it faces". These challenges include, in particular, "potential problems arising from the disorderly unwinding of global economic imbalances" – that is, the possible collapse of the US dollar. "The United States has maintained a strong dollar, despite a 7% current account deficit…. The risk is that this may unwind extremely quickly" with (the Report states, with masterly English under-statement) "knock-on effects for the global economy" which could pose "a real risk to the UK economy". The Report cites evidence from prominent academics that the risk is "huge" and represents the "biggest risk" to the UK economy, and quotes Professor Richard Portes' statement to the Committee that he was "very worried" that the Fund "does not now have the status, or stature if you like" to deal with the problem.

There is also implicit criticism in the Fund's track record of dealing with debt and financial crises. While not taking a view on the issue itself, the Committee reports the evidence it received from witnesses that "the IMF has not dealt particularly well with low-income countries and emerging market economies". It notes in particular David Woodward's assessment, endorsed by the Bank of England Governor, Mervyn King, that the current large-scale build-up of Asian countries' foreign exchange reserves – the counterpart of the massive US deficits – is at least partly a reflection of the failure of IMF policies in dealing with the region's financial crisis in the 1990s. It also expresses concern that the IMF's Contingent Credit Line facility "was never drawn upon, and lapsed in November 2003", although it does not make the link with the inappropriate policy advice and conditions attached to previous Fund lending.

As a result, it calls for a substantial scaling down of the Fund's role, under the guise of increasing its "focus", noting that "the IMF has, in recent times, taken on too many roles". It recommends that "the UK Government support a greater focusing of the IMF's work, which may entail identifying another organisation or body better suited to carry out certain activities, including work on terrorist financing and money laundering"; that the Fund should focus on crisis prevention rather than crisis resolution; and that it "should… not extend its activities into areas of social policy and development it does not appear to be equipped to deal with", but should instead rely on "the expertise of the World Bank in social and poverty issues".

Of particular interest to Jubilee Research supporters, given our close association with the issue, is the Committee's re-statement of its 2000 recommendation that the Fund "pull back from debt relief programmes in developing countries", echoing the concern expressed in the Bretton Woods Project's submission that "there is a danger in placing "the IMF in a hypocritical position as both creditor and arbiter of debt work-outs", finding that "The Fund, as a potential creditor in these situations, seems inappropriate as the organisation to oversee [debt] restructuring [although] this

[1] See "Chapter 9/11? Resolving international debt crises – the Jubilee Framework for international insolvency" http://www.jubileeresearch.org/analysis/reports/jubilee_framework.pdf.

does not preclude the IMF from taking an active part in the discussions over the design of the framework", and recommending that "the UK Government consider what role the IMF should play in any future debt restructuring mechanism".

Citing the evidence it received from Mervyn King that a "Chapter 11" approach might be better than the current arrangements, and from Gordon Brown that "the UK government was supportive of the potential reforms, including those akin to Chapter 11 procedures in the US", the Committee continues: "Though previously not followed up by the Fund, a statutory system may be appropriate, and may be similar to a Chapter 11-style system where the day-to-day business continues while a restructuring of ownership occurs under a bankruptcy court." This effectively endorses the approach to debt work-outs recommended in our 2002 paper, "Chapter 9/11? Resolving international debt crises – the Jubilee Framework for international insolvency" (http://www.jubileeresearch.org/analysis/reports/jubilee_framework.pdf).

The Committee is also critical of the Fund's governance structure, particularly the weighted voting system and the non-transparent and undemocratic process for appointing the Managing Director, a subject to which it returns repeatedly: "the current voting arrangements do not sit well with an international organisation that sees itself providing impartial worldwide economic advice in the future"; "Along with clear objectives must come a more inclusive governance structure, so that all countries feel that the IMF is a representative institution"; "The Committee regards it as important that the governance of the Fund is made more accountable and transparent if it is to be able to meet the challenges of the changes in the world's economy"; "there should be movement to allow a fairer representation of the newly emerging economies, as well as the main recipients of the Fund's expertise and resources".

The Committee therefore calls on the UK Government "to ensure that all countries are better represented in the governance structure of the IMF", and recommends "reforms to strengthen [the IMF's] governance in order to ensure that the Fund is more representative of its stakeholders and accountable to them, including a more open selection process for the next Managing Director and greater representation for low-income countries and emerging market economies". It also calls specifically for a reform encompassing both groups of countries rather than the current two-stage proposal.

The TSC finds that "there is a good case for reforming the quotas to improve the Fund's governance by increasing the accountability to its members and the wider international community", but also calls on the UK government to "look at whether any more innovative solutions, beyond reform of the quota system, are possible to try ensure the competing needs [of financing and borrowing countries] are met", and recommends that it should "prepare, publish, consult on (including with its European partners) and then support at the Singapore meeting [the IMF's 2006 annual Meeting] a transparent process for selecting the next IMF managing director".

Apart from democratic considerations, the Committee sees the skewed voting power in the Fund as undermining its ability to perform its functions effectively, noting evidence from David Woodward and Mervyn King on the importance of "maintaining the independence of the analysis in the face of pressure from the individual member countries". It emphasises that "the IMF needs to ensure that it appears independent in its analysis, both independent from the views of individual member states, and free from any potential bias based on its own lending programmes", and that "The IMF must be seen to provide independent surveillance analysis… No single member country, or group of member countries, should hold sway over the surveillance analysis of the IMF". "If member countries feel that surveillance is in any way biased", the Committee argues, "they will be less inclined to base policy upon it".

The Committee therefore recommends that the UK Government "encourage the Fund's development in a manner which reinforces its neutrality and authoritativeness" in surveillance, and that it "seek to ensure that a framework develops in which the IMF, while ensuring adherence to the principles of accountability, provides an independent voice, able to offer unbiased advice on the world economy" – a clear indication that the Committee does not consider that such a framework exists at present. It also calls for the government to investigate the feasibility of an endowment to fund surveillance activities, to ensure that the process is financially independent.

Of particular concern in relation to the Fund's independence (or otherwise) in its surveillance role is the US veto on major policy decisions, which the Committee links directly with the Fund's ability to deal with the potential crisis arising from US imbalances. The Report quotes directly from David Woodward's evidence on this issue: "The biggest potential financial crisis is a collapse of the dollar. The IMF is not in a position to do anything about that because the US has a vested interest and has a veto. That raises fundamental issues."

However, the Committee tempers its recommendations on the US veto in the light of the "the political difficulties in achieving reform of the voting structure, bearing in mind the need to maintain a close US involvement with the IMF" – that is the ability of the US to veto any attempt to remove its veto. This is no doubt a reflection of Professor Richard Portes' comment in his evidence that "The US is not going to give up its blocking veto and that is clear. That is just not on the table. We cannot expect that" – and of the disappointingly dismissive attitude of Gordon Brown and government officials towards the basic tenets of democracy. While not justifying the veto, the report therefore limits itself to damage limitation, calling only for efforts to "seek a reduction in the scope of the veto so that surveillance matters are no longer included".

The Committee also calls for increased transparency in the IMF, particularly around the operations of the Executive Board, noting that "transparency is a necessary part of any public institution's maintenance of accountability to its stakeholders". It recommends that the UK Government "work with other member countries to persuade the Fund to release more material, including Executive Board minutes" (also calling for the IMF to "publish the Board's minutes as soon as is advisable"), and that it "disclose further information on the Executive Director's dealings with the Executive Board, and its views of recently published IEO reports"

(On the International Monetary and Financial Committee (IMFC), chaired by Gordon Brown, the UK Chancellor of the Exchequer, the report calls for the UK Government to "do all it can to ensure... it provides significant oversight of the work of the Fund". However, while the Board consists of officials and the Committee of politicians, the latter reports to the Board, and is therefore not in a formal position to oversee the Board's work.)

Another matter of concern to the Committee is IMF conditionality. Apart from issues around the appropriateness of the Fund's policy prescriptions, the Report notes concerns expressed by witnesses about the ideological bias in conditionality, and its the implications for sovereignty, democracy and national "ownership" of policies.

While accepting the continuation of "some form of conditionality on its lending", the Committee emphasises that "this must be both appropriate to the circumstances of the borrowing member state, and allow for a suitable input through local democratic processes". It recommends that the UK Government "lend its support to reforms to the Fund that ensure that democracy is protected, conditionality is appropriately designed for each individual country and solutions are not driven by a single economic philosophy". It also recommends that the proposed Exogenous Shocks Facility "be designed so as to ensure that all member states that require it are not dissuaded by onerous conditionality" and calls on the UK Government to "consider whether the conditions attached to the [Policy Support Instrument] are consistent with its own policy paper on conditionality".

While we would, of course, like it to have gone further, we welcome the TSC report as a further contribution towards increasing pressure for essential reforms to the international financial system, including democratisation of the IMF and the establishment of a fair and transparent arbitration process for future debt crises.