

Why the IMF must look beyond Europe

It is doubtful that the International Monetary Fund has ever attracted as much publicity as it has in the past two weeks.

The arrest and bail of its managing director, Dominique Strauss-Kahn, has dominated news and television around the globe. We have seen pictures of the \$US3000-a-night hotel suite. We have been treated to graphic details of the alleged offence and now we have a stream of women coming forward with stories of past indiscretions to eclipse those of Tiger Woods.

People might be thinking that the job of managing director of the IMF involves an expensive lifestyle and a lot of spare time. I have known the last four managing directors (including Strauss-Kahn) and seen the phenomenal workload involved. Being accountable to 187 nations who are members means constant travel. The managing director usually attends meetings of the G20, European summits, the Asia-Pacific Economic Co-operation forum, and a whole host of other regional meetings. In between they meet with an executive board in Washington and run an institution with 2400 employees. How such a job leaves time for any non-work-related activity is a mystery to me.

Everyone is entitled to the presumption of innocence, but it is obvious that the conduct of Strauss-Kahn, including an admitted affair with an employee, has diminished the public standing of the institution. The next time the IMF calls for restraint or transparency there will be a lot of people wondering what qualification it has on either count.

So far little has been heard from governments around the world. There has been a lot of positioning about who should succeed him but no one has made the obvious point that the

appointee will have a huge job to rehabilitate the public trust and standing of the institution. Unless it carries public respect, no one is going to bother listening to its policy prescriptions. And it has to shape those prescriptions with input from people who have real-world experience in economic management and have been successful at it.

One of the things you learn when you spend time at the IMF (I was a part-time governor for nearly 12 years) is that it is largely isolated from public accountability. While notionally it is accountable to governments and ministers, in practice they are a long way away and distracted by domestic issues, leaving the organisation largely to itself.

The IMF is governed by a voting system that has changed little since it was set up after World War II. As a result Europe is massively over-represented and the rising Asian economies under-represented. The Dutch vote is double Indonesia's. Belgium has a bigger vote than South



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Korea. The largest voting bloc is Europe, with about one-third of the votes. If the US votes with Europe then collectively they have a majority which has been traditionally used to nominate a European as managing director of the IMF, and an American as president of the World Bank.

Europe is now moving to nominate a successor to Strauss-Kahn. It should be careful. As we all now know, it did not make a good decision the last time it exercised this privilege.

Claims that a European should run it because it is providing large financial assistance to Europe in support of countries such as Greece and Ireland are nonsense. No one in Europe argued that an Asian should run the IMF when Asia received IMF loans and financial support during its

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financial crisis in the late 1990s. In fact no one in Asia even argued that.

But, sotto voce, Asians did notice the terms they were given were more onerous than the terms given to Latin America during its earlier crisis. They do notice how the assistance to Europe is more lenient again.

The managing director of the IMF stood over the ageing Suharto as he signed terms for IMF assistance to Indonesia in front of television cameras. The program was designed to bring about a change of government, and it did. A European leader would never be humiliated like that.

Because of the mistakes the IMF made during the Asian crisis, the G20 was formed to give all regions and emerging economic powers a voice in global economic affairs. The chairmanship of the G20 rotates between members and is open to all continents.

The G20 represents the global economy, which has changed massively since the arrangements to govern the IMF were put in place. The IMF has changed little.

Until you see a managing director chosen outside Europe you will know the IMF still has a long way to go to reflect the world of the 21st century.

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