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Diagnosis: Selection at the International Monetary Fund and World Bank

To the public eye, recent turmoil in selection of the IMF managing director and successive WTO directors-general share common features: overt conflict between national governments, a difficult and sometimes humiliating process for the candidates, and repeated failure to select a new organizational head within agreed deadlines. The signs of organizational malfunction are clear. These significant but superficial characteristics disguise differences between the IFIs on the one hand, and the WTO on the other.

The IFIs confront leadership recruitment within a severe constraint imposed by the nationality principle: the longstanding convention by which the United States and Europe divide the World Bank presidency and the IMF managing directorship. Conflicting interpretations of the convention—the label that I will apply to this informal understanding—contributed to transatlantic conflict over the proposed appointment of Caio Koch-Weser as managing director of the IMF. The Europeans, particularly the German government, chose to interpret the convention as symmetric: the United States suffers no scrutiny of its nominee for the World Bank presidency; Europe should claim the same treatment for its nominee at the IMF.

The United States and a growing number of IMF member governments were not willing to accept this interpretation. Japan and the developing countries signaled that the entire convention might be called into question. An examination of the historical record demonstrates that interpretation of the convention has shifted over time. In the past, intra-European conflict often provided a means for the United States and the rest of the world to influence the managing director's selection. Although nominations by the United States at the World Bank have not been challenged as directly as the Koch-Weser nomination, the United States has taken modest steps to open the process. Members of the two organizations have made clear that a challenge to one part of the convention will call into question the entire arrangement.

For the IFIs, then, the constraint imposed on the selection process by the US-European convention affects both the ability of the organizations to obtain the best leadership and the level of conflict surrounding the selection process. Controversy over the convention also has imposed costs in the process of selection: lack of transparency (selection decisions are effectively taken outside the organizations and their formal procedures) and delays in appointment. The spillover of conflict into other relations among members—as occurred between the United States and Germany during 1999-2000—is closely related to these features of the selection process. A transparent and rule-driven process and one that occurs in a timely fashion is less likely to damage bilateral or multilateral relations outside the IFIs.

Although WTO director-general appointments produced the same appearance of heightened conflict, deadlock, and repeated delays, stalemate in Geneva was symptomatic of different institutional shortcomings. The WTO selection process is open and competitive when compared to the IFIs. In the last selection, any region or country other than Europe was free to nominate candidates; two candidates came from the industrialized world and two from the developing countries. The WTO membership treated all candidates equally (for example, in invitations to appear before the General Council). The process may in fact have been too open and combative, allowing too much campaigning among the national governments and their delegations in Geneva. The WTO process failed, not because of too little openness or transparency, but because of its inability to reach a required consensus on a new director-general. These failures and the resulting bitterness damaged the organization and its substantive agenda. They reflected larger shortcomings in governance at the WTO and presaged growing obstacles to consensus building within a global organization with a rapidly growing membership.

The history of leadership selection in these organizations makes clear that conflict existed in the past. The club model of conducting business, which is now under challenge, managed conflict out of public view. That model is under challenge or is breaking down. Each of these organizations is groping toward an alternative that satisfies demands for transparency and competition without sacrificing a final consensus among member governments supporting the individual who is selected.

The IMF: Managing Directors by Convention

International institutions encompass formal organizations, such as the IMF or World Bank, the broader regime or sets of principles and rules in which they are embedded, and informal conventions that may govern both the organizations and their member-states. In few areas have informal conventions played a more prominent role than in selection of the IMF managing director and the World Bank president. The longstanding convention that awards the IMF managing directorship to a European does not appear as part of the formal rules governing the organization, nor can a definitive version of the convention be found in printed form. There is no authoritative interpreter of the convention, which has led to several competing versions over time.

Despite its informality, the convention is firmly grounded in the decision-making rules of the organization, although not the sparse formal rules governing selection of the managing director. The only guidance for selection of the managing director in the Articles of Agreement of the IMF is given in Article XII, Section 4: "The Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director. . . . The Managing Director shall cease to hold office when the Executive Board so decides."[1] More important to the European-US convention is the system of weighted voting at the IMF, which, like other dimensions of membership, is closely related to the quota share of a member government.[2] Quotas at the IMF are based in turn on a number of measures of a member's weight in the world economy, such as GDP, current account transactions, and official reserves. Overall, voting shares at the IMF—with the minor exception of 250 votes awarded to every member—are tied to measures, more or less correlated, of international economic importance. Over time, those voting shares are reallocated during quota reviews. However, the formulas used for reallocation in quota reviews are heavily weighted toward the status quo: an economy increasing rapidly in international economic importance will gain voting share at the IMF only with a distinct lag.[3]

Weighted voting would appear to give a duumvirate of Europe and the United States a near-majority of votes and the industrialized countries

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1. This power of the executive directors is not delegated from the board of governors (Gold 1972, 14).

2. Each member receives 250 votes plus one additional vote for each part of its quota equivalent to 100,000 SDRs (Articles of Agreement, XX, 5a).

3. For example, in the last (eleventh) review of quotas, completed in January 1999, the overall increase in quotas of 45 percent was allocated as follows: 75 percent distributed in proportion to existing quotas; 15 percent in proportion to members' shares in calculated quotas (shares derived from applying the quota formulas for economic weight); and the remaining 10 percent to members whose shares in calculated quotas exceeded their shares in actual quotas (giving a small boost to countries growing in international economic importance). International Monetary Fund, "IMF Quotas and Quota Reviews: A Factsheet" (Washington, DC: IMF, 31 July 2000).

a near-permanent majority within the IMF.[4] That voting dominance explains much of the stability of the convention regarding leadership at the IMF and the World Bank. Weighted voting does not mean that the United States and the European Union typically steamroller decisions on the basis of narrow majority votes in the executive board, however. Their voting weight is heavily qualified by countervailing features of decision making at the IMF: special majorities, constituencies, professionalism, and a strong norm of consensus. Each of these provides incentives for much broader coalitions of consent within the organization.

The executive board of the IMF can select a managing director by simple majority vote. Other decisions, however, require special majorities (a requirement of more than 50 percent). Certain special majorities have given an effective veto to both the United States and the European Union. (At least one was designed with that intention.[5]) However, special majorities also award power to *any* coherent bloc of members, including developing countries. This sets up the possibility for logrolling over time.[6] Given the need for developing country votes to attain special majorities, the industrialized countries must wield their voting power with some care.

Organization of the IMF and the World Bank into constituencies, unique among international organizations, also cuts across regional and national income divides within the membership. Appointed executive directors (EDs) are currently limited to five; all other EDs must be elected, which provides substantial incentives to form constituencies, groups of countries that organize themselves through negotiations outside the IMF.[7] Some constituencies, such as the Nordic group, have been very stable over time and have well-established rules of rotation for the executive director and her alternate. In other constituencies, one country has claimed the executive directorship for some time (the country with the largest quota share and number of votes); other countries may share the alternate position and other positions in the ED's office at the Fund. In some cases, constituencies span continents: Spain, for example, belongs to a constituency otherwise composed of Latin American countries. Canada and Ireland lead a constituency of Caribbean states. Australia and South Korea are the largest members of a constituency that includes Mongolia, New Zealand, and several Pacific island states. Although traditions of

4. As of April 2001, the United States and the 15 members of the European Union accounted for 47.37 percent of votes at the IMF. The United States, the European Union, Japan, and Canada (G-7 plus the other members of the European Union) constituted 56.48 percent.

5. Gold (1977, 37-38).

6. Lister (1984, 98).

7. The only regional group mentioned in the original Articles of Agreement is the American Republics, which had a separate election of executive directors (Gold 1972, 64).

consultation vary across constituencies, the members with the largest quota must be attentive to the views of other members and their relations with the IMF. National governments will vote their interests in the IMF, but constituency organization provides a building block for consensus and smoothes some of the rougher edges of conflict between industrialized and developing countries.

Professionalism also encourages consensus building at the IMF. Executive directors belong to the fraternity of finance ministries and central banks. They and their technical staff often are trained as economists, training that they have in common with the staff of the IMF. Their professional network produces a shared set of assumptions and common means of analysis. This professional outlook was damaging to the candidacy of Caio Koch-Weser for managing director in 1999-2000. In the eyes of many executive directors and their home finance ministries and central banks, Koch-Weser's years of experience at the World Bank did not qualify him for the top international monetary and financial position. At the same time, their professional orientation ultimately tilted toward a consensus in favor of Horst Köhler, rather than producing a long-lasting stalemate of the kind that occurred at the WTO. The small size of the executive board (allowed by the constituency system and mandated by a cap on the number of executive directors) also facilitates a high degree of face-to-face consultation that facilitates consensus.

The most significant impediment to the exercise of sheer voting power at the IMF, however, is an organizational aversion to voting. Consensus reigns informally at the IMF and the World Bank, just as it rules formally at the WTO. According to the Articles of Agreement, most questions at the IMF, including selection of the managing director, are determined by a simple majority of (weighted) votes. At the same time, Rule C-10 of the Executive Board directs that "the Chairman [Managing Director] shall ordinarily ascertain the sense of the meeting in lieu of a formal vote." Since individual executive directors are entitled to call for a vote (in the following sentence of Rule C-10), the rarity of formal votes suggests broad acceptance of a search for broad consensus rather than narrow votes. Although John Maynard Keynes and Harry Dexter White quarreled over the use of special majorities at the IMF and the World Bank, Keynes understood that voting should not be important in the new institutions: "If the organization begins voting about everything, it will not be long before it breaks down."[8] As Gold describes, from the first decades of the Fund, votes were rare.[9] Voting power still matters since "sense of the meeting" is defined as the share of votes required to carry the question.[10]

8. Cited in Gianaris (1991, 920).

9. Gold (1972, 196-97).

10. Ibid, 198.

The effort to achieve consensus, however, protects the interests of those who risk becoming permanent minorities at each institution: developing countries at the IFIs, where the industrialized countries maintain a clear majority in voting power; at the WTO, industrialized countries, who could be outvoted by a majority of developing countries that represent a small fraction of world trade.

Unlike the WTO, the IMF and the World Bank are not governed by formal consensus decision making. In practice, however, a simple arithmetic calculation of votes required is seldom accepted as an adequate level of support. This goal of a broad if not all-inclusive consensus shaped the selection of managing directors throughout the history of the Fund. Managing directors were not imposed by the industrialized countries or by the United States and Europe jointly over the opposition of other members. The convention of broad support rather than narrow votes awards considerable leverage to the developing countries at the IMF and may eventually end the US-European convention on selection.

A Variable Convention: Selecting Managing Directors Before Köhler

Tracing the informal convention that has always awarded the position of managing director to a European is difficult since it is unwritten. Careful investigation makes clear, however, that this convention has evolved over time. The narrowest interpretation—the other members of the IMF should automatically accept any European candidate—has never governed selection of the managing director. Early interpretations were much less precise and awarded considerable weight to the opinions of the United States and the developing countries. In more recent selections, intra-European competition gave the deciding voice to non-European members of the Fund. The only constant was the outcome: every managing director was a European national.

The roots of the convention lie in a 1946 decision taken by the Truman administration. Keynes had assumed that Harry Dexter White, his American collaborator in designing the Bretton Woods organizations, would become the first managing director of the IMF.[11] President Truman later confirmed that he had intended to appoint White.[12] White, who became the first US executive director at the IMF, was not nominated for the managing directorship, however. The US government (and specifically Treasury Secretary Fred Vinson) decided that an American should head the World Bank, because of the Bank's dependence on American private

11. Harrod (1951, 629).

12. Rees (1972, 367).

financial markets.[13] Vinson also decided that an American could not, therefore, head the other major global financial institution.[14] Security concerns about White's alleged communist connections may have figured in the decision, although Vinson denied that this was the case.[15] Rather than White, Camille Gutt, a Belgian candidate backed by Keynes, was appointed managing director in May 1946. (A complete list of IMF managing directors is provided in appendix A1.)

US support for the appointment of a European as managing director did not prevent the exercise of American influence at the IMF. Creation of the post of deputy managing director in 1949 and a new convention that the position would be filled by a US Treasury nominee ensured a close watch on IMF operations. The United States also played a central role in selecting the early managing directors. Even if a managing director were a European, he would be a European to the liking of the United States. Over time, the US government came to view both Gutt and his successor, Ivar Rooth, as ineffectual, a view shared by other members of the executive board. Both lasted only one term.[16] The United States was also instrumental in the selection of Per Jacobsson, third managing director, and the Kennedy administration backed Pierre-Paul Schweitzer in 1963 in a field of several European candidates.[17]

The "unwritten rule" (in the words of one IMF veteran) that a European should be managing director was occasionally questioned. As Frank

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13. Ansel F. Luxford, a participant in the establishment of the IMF and the World Bank, argued that Wall Street waged a campaign of "indoctrination" to convince the Truman administration that only an American head of the World Bank would guarantee acceptance of the World Bank's bonds. Their lobbying would not help White's cause, since White was deeply disliked by private financiers: "White was hated in the banking community as perhaps no other man in the United States has been hated" (Luxford 1961, 21).

14. Luxford claims that Keynes urged White's candidacy on Vinson and was willing to concede the presidency of the World Bank as well (Luxford 1961, 23).

15. The standard explanation is given in Horsefield (1969, 135) and Harrod (1951, 629). See also James (1996, 72) and Mikesell (1994, 53-54). An investigation of White for his alleged espionage on behalf of the Soviet Union had begun in late 1945. Truman and others in the administration were aware of this investigation, but allowed White's nomination as executive director to proceed (Rees 1972, 389). Boughton (2000) dismisses security considerations as a motivation for the decision that White would not be the first managing director. Existing documentary evidence does not permit such a conclusion, however. Boughton's careful analysis of the evidence for White's communist ties parallels that of Mikesell (1994), who sees the source of White's difficulties in "his propensity to carry on direct relations with the Soviet government outside regular diplomatic channels." Using more recent evidence, however, Boughton does confirm that some of White's close associates were probably spies. On Vinson's denial, see Luxford (1961).

16. Interview GG, 9 July 1985.

17. Interview O, 2 November 2000.

Southard, former deputy managing director, observed, an American president of the World Bank "made it inevitable that the Managing Director of the Fund would be a non-American. It was less inevitable that he should be a European. . . ."[18] A challenge arose at the time of Ivar Rooth's appointment in 1951, demonstrating that Southard's interpretation was held by others. An executive director who supported Rooth's appointment stated that "he would not wish it thought that the appointment of a Managing Director for the second time from one part of the world indicated that the Executive Board had lost sight of the desirability of adequate geographical representation over a period of years in the post of Managing Director. . . ." A majority of executive directors at that meeting "urged that such representation must be an important criterion in future appointments of managing Directors, and no dissent was expressed."[19]

That challenge to the hardening convention was the last recorded in the minutes of the IMF executive board. In an "informal hit-and-miss procedure," quiet, behind-the-scenes discussion took place until a single individual appeared to have sufficient support.[20] The executive board of the Fund did not discuss or compare candidates in formal sessions. Although non-European candidates for managing director were not proposed, significant US involvement in managing director selection (and resignation) persisted. US Treasury Secretary John Connally vetoed a third term for managing director Schweitzer, an exercise of American influence that foreshadowed criticism of US unilateralism during the candidacy of Caio Koch-Weser.

In selecting Schweitzer's replacement, a new force within the IMF emerged: the developing countries. The ranks of developing country members swelled during the 1960s, and their stance on international economic policy grew more assertive, even within the IMF. The industrialized countries had fixed on Emile van Lennep, secretary general of the Organization for Economic Cooperation and Development (OECD), an institution whose membership was limited to industrialized countries. Although the United States and Europe were united in their selection of Van Lennep, a group of developing countries, led by the Indonesian and Iranian executive directors, decided to oppose the nomination. Presumably, their opposition derived from van Lennep's identification with the OECD, a rich countries' club. Rather than confronting the convention directly, however, the Indonesian ED, using his network in the Netherlands, worked to produce another, more acceptable Dutch candidate. He discovered that distinguished alternative in Johannes Witteveen, former finance minister

18. Southard (1979, 7).

19. Executive Board Meeting 664, 10 April 1951, IMF Archives.

20. Southard (1979, 7-8).

and deputy prime minister, who was appointed managing director in September 1973.[21]

With the selection of Witteveen, the convention appeared to have evolved once again. What began as a requirement that the managing director must be a non-American had become in the 1950s a stipulation that the managing director must be a European acceptable to the United States. Now it appeared that the European candidate also must satisfy a substantial share of the developing countries as well, particularly if Europe and the United States were not united their choice. (The van Lennep case suggested that developing country approval could be required *even if* the industrialized powers agreed.)

The candidacies of Jacques de Larosière and Michel Camdessus demonstrated this new interpretation of the convention as well as the continuing importance of the United States. Anthony M. Solomon, US Treasury Under Secretary for Monetary Affairs, was first to approach Jacques de Larosière regarding his interest in the managing directorship of the IMF.[22] There was no effort to produce a single European candidate, and several other names were floated. The only serious candidate apart from de Larosière was Willem Duisenberg, former socialist finance minister of the Netherlands. Duisenberg was reported as the favored candidate of some developing countries, who viewed de Larosière as too conservative. In this case, however, their opposition was not as monolithic as it had been toward van Lennep. Duisenberg ultimately withdrew from the contest in the face of unified support for the French candidate by the five largest members of the IMF.[23]

The pattern established in the Witteveen and de Larosière selections continued with the selection of Camdessus in 1987. Competition *within* Europe was even more intense and public. The developing countries were crucial in the choice of Camdessus. The United States neither actively promoted a European candidate nor intervened in the campaign between the two leading European candidates. Japan also remained outside the fray. In many respects, this episode, so unlike the 1999-2000 selection, resulted in a more open and competitive process in which all members of the Fund participated. At the same time, the down-to-the-wire competition produced predictions that the IMF selection process could not continue in its present form.

The competition opened formally on 30 September 1986, when Jacques de Larosière notified the IMF executive board of his intention to resign at the end of 1986. Although a number of European names were quickly

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21. Interview GG, 9 July 1985; Interview O, 2 November 2000.

22. Interview, Jacques de Larosière, March 2001.

23. Frank Vogl, “Washington Guessing Game on the Top Posts,” *The Times* (London), 16 January 1978.

floated for the managing directorship, two candidates, each with strong backing from his government, quickly became the front-runners: Onno Ruding, finance minister of the Netherlands, and Michel Camdessus, governor of the Banque de France. In contrast to earlier contests, the United States played no role in promoting a particular candidate and remained officially neutral until the end of the contest. In part the United States did not wish to antagonize two important allies. The Reagan administration also had reason to dislike the ideological leanings of both candidates. The socialist president of France, François Mitterrand, backed Camdessus. Although Ruding was an economic conservative, his outspoken fiscal orthodoxy and his criticisms of Reaganomics and the G-7 had not endeared him to the American administration. The French government campaigned actively for Camdessus. Ruding waged a personal campaign that was more visible than those of previous candidates, a strategy that may have undermined his support in some finance ministries.[24]

Repeated efforts to agree on a consensus European candidate failed. A "North-South" split emerged: Ruding was backed by Germany, Britain, Belgium, Denmark, and the Netherlands; the Mediterranean members (Spain, Portugal, and Greece) supported the French candidate.[25] Deadlock in Europe produced the first signs that the convention might be fraying. At the annual meetings of the IMF and World Bank, US officials mentioned the name of Toyoo Gyohten, Japanese vice minister of finance, as a possible candidate.[26] Efforts to forge consensus through the IMF executive board were thwarted when support for the two European candidates proved to be evenly divided.[27]

By early December, with no compromise in sight, both candidates were formally nominated at the IMF. Rather than formal votes, the IMF executive board uses straw polls to determine relative support for the candidates and to build an eventual consensus.[28] The decision between Ruding and Camdessus was striking for several reasons. Ruding appeared to enjoy the support of a narrow majority of EU states, including two of the largest EU economies, Britain and Germany. Camdessus, however, benefited from support in the developing world. His record as head

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24. Robert A. Bennett, "Dutch Finance Minister H. Onno Ruding Campaigning for the IMF's Top Post," *New York Times*, 28 September 1986, 6.

25. Paul Lewis, "European Ministers Fail to Choose IMF Head," *New York Times*, 14 October 1986, 27.

26. Bailey Morris, "US Backing Grows for Japanese IMF Chief," *The Times* (London), 29 October 1986.

27. Hobart Rowen, "IMF Expected to Approve Loan to China," *Washington Post*, 11 November 1986, E3.

28. Straw polls are organized by the dean of the executive board with the assistance of the secretary to the board. Their results are never made public; even the records of the straw polls are destroyed.

of the Paris Club had gained him substantial Latin American support; Ruding's fiscal orthodoxy produced unease in many debtor countries who relied or might rely on Fund resources.[29] The straw vote on 17 December demonstrated that the developing countries held the balance of power, given the divisions within Europe and the decision by several influential members—the United States, Japan, Saudi Arabia, Canada, and the Nordic countries—to abstain.[30] According to press reports, Camdessus won a narrow victory of 36 percent of the votes cast against Ruding's 29 percent. In light of this result, Ruding withdrew his candidacy, and on 18 December, Camdessus was confirmed by acclamation as the new managing director. Consensus had been reached after an intensely competitive selection process.

Ironically, many interpreted the inability of Europe to present a single candidate as a failure, for both Europe and for the IMF. The hard-fought campaigns by France and the Netherlands brought predictions of lasting bitterness. Even the convention itself was called into question, with claims that the next selection would have a "wide open" field.[31] In fact, although the Dutch and French governments backed their candidates in an unprecedented public fashion up to the final straw vote, competitive selection did little damage to the IMF. The selection of Camdessus resembled that of his predecessors on two key dimensions—all candidates were European, but the choice between them awarded the largest role to non-European countries. Several of the largest Fund members, particularly the United States and Japan, signaled their satisfaction with either candidate by abstaining until the end of the process. As a result, the developing countries enjoyed their largest share of influence over selection of the managing director since the Witteveen candidacy in 1973. The pattern had remained stable over the decades: Europe proposes; the world disposes.

Several signs of deeper change had appeared, however. Public campaigning meant that national status was staked on a candidate's success, a development that would be even more apparent in Germany's backing of Caio Koch-Weser in 1999-2000. Non-European candidates had been floated, suggesting that Europe's automatic claim to the managing directorship was at risk. Ironically, the legitimacy of that claim would only be challenged when Germany strained to produce a single European

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29. Hobart Rowen, "Frenchman Expected to Head IMF; Straw Vote of Board Said Likely to Give Camdessus Top Post," *Washington Post,* 16 December 1986, D1; George Graham, "Latin America Propels Camdessus to Top of IMF,"*Financial Times* (London), 19 December 1986, 3.

30. Hobart Rowen, "Camdessus Wins IMF Straw Vote," *Washington Post,* 18 December 1986, E1; Stewart Fleming, "Next IMF Chief May Be French Banker," *Financial Times* (London), 18 December 1986, 1.

31. Hobart Rowen, "IMF, World Bank Tradition Dated," *Washington Post,* 4 January 1987, H1.

candidate and then presented that candidate to the rest of the world as a fait accompli. When the convention was interpreted in its narrowest form, the coalition to overturn it immediately broadened.

The Koch-Weser Candidacy and the Convention

Despite gloomy predictions of lasting divisions as a result of the 1986 leadership selection, Camdessus was the only managing director reappointed to a third term. In 1999, during that term, he announced his decision to step down, initiating the most public and tumultuous selection in IMF history. It occurred against a backdrop of deep IMF involvement in financial crises during the 1990s: first the Mexican peso crisis and then the Asian financial crisis of 1997-98. Outside critics attacked the IMF for sharp recessions in several Asian economies, for increasing moral hazard on the part of private borrowers, and for failing to alleviate poverty. The controversies were not new, but the public profile of the IMF was higher at the end of the 1990s than it had been at the beginning. For the Clinton administration, co-author of the financial rescue packages of the 1990s, the IMF had become a critical part of the international financial architecture. Its recipes often were regarded with some skepticism in Europe and Japan. The selection of the next managing director was embedded in these larger disputes. The leadership required seemed both more important and more difficult to define for the key players.

At first, however, these larger questions were subordinated to customary national efforts to bid for the open position. At the IMF, the executive board—designated formally as the site for selection—was marginalized until a consensus was reached, first within Europe and then among the G-7. The developing country executive directors (Group of 11) argued for involvement in the selection process from an early stage and attempted to prevent preemption by the industrialized countries. The G-11 EDs proposed three principles to the executive board to guide the selection process: EDs "should be informed [of candidates] in a timely manner," all EDs should be consulted in the selection process, and "the goal is to attract the best candidates regardless of nationality." The entire board took note of these principles.[32] The US and European governments then proceeded to act according to their own, very different principles. Although the executive board held informal discussions about the selection of a new managing director in November and December 1999, the center of the selection process had moved to the national capitals.

32. Interview D, 30 October 2000. These principles are reproduced in the Draft Joint Report of the Bank Working Group to Review the Process for Selection of the President and Fund Working Group to Review the Process for Selection of the Managing Director, April 2001 (see appendix B and chapter 4 of this book).

The selection intersected with the arrival of a new social democratic government in Germany. Its chancellor, Gerhard Schröder, aimed for a larger German role in international politics. Germany, like Japan, saw itself as underrepresented in the top multilateral and European positions. Schröder hoped to change that state of affairs. Appointing a German managing director at the IMF seemed an ideal place to start. The assumption that it was "Germany's turn" within Europe was difficult to challenge. Since 1963, with the exception of five years, a French national had held the position of managing director. The French government was not deterred from floating names throughout the selection process, but the strongest French candidates—finance minister Dominique Strauss-Kahn and central bank governor Jean-Claude Trichet—were not available. The first resigned in early November 1999, beleaguered by scandal. The second had accepted the second part of a term-sharing arrangement as head of the European Central Bank. Britain and Italy were more likely to present strong candidates. Britain, a major financial power, was impeded by its failure to join the European Monetary Union and by a history of reticence in promoting its nationals for top positions at the IFIs. Despite a succession of talented and prominent central bank governors and finance ministers, an Italian had never headed a major international financial institution.

Intra-European bargaining over top positions impeded claims by either the United Kingdom or Italy, however. The German government had supported Romano Prodi's successful bid to become president of the European Commission, and George Robertson, the United Kingdom's defense secretary, had recently become secretary-general of the North Atlantic Treaty Organization (NATO). An initial German strategy quickly became clear: laying claim to the position (Germany's turn) and then seeking an internal European consensus that would rule out other national candidates. With a firm European consensus behind its candidate, Germany could then assume that the long-standing convention of European managing directors would guarantee success.

The most important weakness in this strategy was the absence of a German candidate that could command immediate support throughout Europe. In the previous selection, even a finance minister and a central bank governor could not produce such consensus. The social democratic government in Germany, returned to power after a long hiatus, did not have an exceptional shortlist to offer. The German government determined that its strongest candidate was Caio Koch-Weser, deputy minister of finance. German Chancellor Schröder announced his nomination on 13 November, only days after Camdessus informed the executive board of his intention to resign. Although Koch-Weser occupied a top finance ministry position in a key economy, he was new to the finance-central bank network that dominated the IMF. Until a few months before his nomination, Koch-Weser had spent 26 years at the World Bank, ending as managing director. One IMF executive director recalled receiving inquiries from his finance ministry to the effect, who is Koch-Weser? Ironically, although he was not well known in the upper reaches of the G-7, Koch-Weser was a familiar figure to some in Washington, DC, and that familiarity also proved a liability. A career at the World Bank was not likely to win high marks from the IMF executive board, or, as it turned out, from the US Treasury.

Within weeks, the fragility of Koch-Weser's support within and outside Europe became clear. The German government failed to secure a clear-cut statement of unanimous European support in the last weeks of 1999. Although EU finance ministries did not immediately back Koch-Weser, foreign ministries and heads of government were unwilling to oppose Germany and its chancellor. At the same time, the governments of Britain and France were clearly signaling their discontent to the US government. French support for Koch-Weser was made contingent at this point on the level of support that Koch-Weser could marshal outside Europe: a reasonable stipulation, given the previous failure of the Ruding candidacy. The EU Helsinki Summit (10 December 1999) confirmed that no European capital was willing to veto Koch-Weser openly. Nevertheless, efforts by Germany and its allies to cast the summit as an endorsement were politely dismissed. British officials noted that "It is not correct there is an endorsed EU candidate."[33] The Belgian finance minister Didier Reynders delivered an accurate appraisal, given the persistent floating of new names in Europe: Koch-Weser had all the necessary qualifications, but the member states wanted a few more weeks to see if other contenders appeared.[34]

The news for the German candidate outside Europe was not good. At first, the United States was in "a listening mode."[35] The signals from Europe were on balance negative. Apart from German lobbying, US policymakers saw no attempt by other European governments to make the case for Koch-Weser. On the contrary, the United States received many communications from Europe with the opposite message.[36] Although public statements were tentative, the US Treasury had already indicated both its wishes for a stronger European candidate and its intention to play a more active role than it had in 1986.[37] A few days after the formal nomination of Koch-Weser, US reaction was described in the press as

33. Stephen Castle, "Helsinki Summit: And Another Thing. . .We Don't Like the Idea of This Man for the IMF," *The Independent* (London), 11 December 1999, 15.

34. "Not So Fast," *Financial Times* (London), 14 December 1999, USA edition 1, 19.

35. Interview K, 29 November 2000.

36. Written communication to author, 13 June 2001.

37. Interview H, 28 November 2000; Ben Macintyre, "U.S. Threatens Intervention in Race to Lead the IMF," *The Times* (London), 11 November 1999 (Lexis-Nexis).

"lukewarm."[38] In December, statements by Treasury Secretary Lawrence Summers made clear the conditions of US support and disabused the German government of any notion that Koch-Weser had US support. A few days after the Helsinki summit, Summers claimed that "we have not heard anything formal from Europe." He listed his criteria for a successful managing director: leadership ability, "experience in the financial area that represents the IMF's core mission," a commitment to modernizing the IMF, and an ability to command global support including support from emerging markets.[39] Within the US government, the signals sent in late 1999 were believed to be as clear as possible in the absence of a public veto: Koch-Weser was not the leader required for a reformed IMF.[40] On the other hand, at no time did US policymakers challenge the core of the convention: that a European should head the IMF.

Koch-Weser's candidacy had not been greeted with enthusiasm in Europe and the United States. The response from other important players—whose support was critical for US and possibly French backing—was even more discouraging. Offering a challenge to the convention itself, Japan made clear that it might nominate its own candidate for the first time: Eisuke Sakakibara, former vice minister of finance for international affairs. The Japanese government's change in attitude was based in part on its reactions to management of the Asian financial crisis. In 1997, Japan had proposed a regional financial institution—the Asian Monetary Fund—that failed to win US, European, or IMF support. At the same time, Japan, like Germany, saw itself as underrepresented in the top international economic positions. On some measures, its contribution to the IFIs was larger than that of the United States, yet only the Asian Development Bank presidency was by convention awarded to a Japanese national. Like Chancellor Schröder, Prime Minister Keizo Obuchi also wanted a greater national presence in multilateral organizations. The recent election of Koichiro Matsuura as head of UNESCO had been a signal of Japanese interest in expanding its visibility at the top of these organizations. In the IMF selection, the Obuchi government also responded in part to public dissatisfaction with the Japanese government's role in the Asian crisis.[41] In a less public way than Germany's campaigning for Koch-Weser, the

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38. Robert Peston, "Chancellor Mulls Possibility of Top IMF Job," *Financial Times*, 19 November 1999, London edition 3, 1.

39. Reuters News Service, "Nominees To Head IMF Lacking," *Toronto Star*, 14 December 1999, edition 1 (Lexis-Nexis); Mark Atkinson, "IMF Chief Irked by Delay in Naming Successor," *The Guardian* (London), 16 December 1999, 24.

40. Interview F, 29 November 2000; Interview H, 28 November 2000.

41. Gillian Tett, "Japan May Put Forward Sakakibara to Head Fund," *Financial Times* (London), 16 November 1999, London edition 1, 15; Gillian Tett, "What the IMF Should Learn from Mr. Yen," *Financial Times* (London), 6 December 1999, USA edition 1, 13; Interview AA, 30 November 2000; Interview R, 3 November 2000.

IMF selection process became one avenue for a more assertive Japanese stance in international financial affairs. The nomination of "Mr. Yen" contributed to this symbolism.

Although their executive directors at the Fund felt excluded from the selection process, the developing countries would once again play a pivotal role. Soon after Schröder proposed Koch-Weser's name, several emerging market countries were reported as lobbying against his candidacy. Latin American governments were among the most active campaigners, as they had been in the Ruding-Camdessus contest. Although Koch-Weser had strong family, educational, and professional ties to Brazil, this did not allay concerns in some of the emerging markets. Expertise in international financial issues was central to their unease. One senior monetary official argued that Koch-Weser was "not well versed in the issues that the Fund deals with—which clearly are very different from the issues the World Bank deals with."[42] The preferred candidate of these governments appeared to be Andrew Crockett, head of the Bank for International Settlements (BIS). When the British government declined to back Crockett, however, the developing countries did not propose another European who was more acceptable than Koch-Weser. In other words, they did not work within the convention to undermine the leading candidate, as developing country governments had done in 1973 against van Lennep. Instead, by the end of the process, some of the developing countries would attempt to overturn the convention itself.

At the beginning of 2000, the prospects for Koch-Weser were uncertain at best. The United States was signaling to discontented European governments that they should field other candidates. European reluctance to endorse Koch-Weser and direct signals of dissatisfaction strongly suggested to the United States that a European consensus was unlikely. One US policymaker contended that Koch-Weser might well be the managing director of the IMF if Europe had offered early, strong, and unified support to his candidacy. If the developing countries also had lent their support, a US veto would have been impossible.[43] Each dissatisfied party, however, was unprepared at this point to veto openly the candidate of the German chancellor. The most important and persistent obstacle for opponents of Koch-Weser was the absence of another credible candidate. Although the German government had made clear that Koch-Weser was their preferred candidate, a graceful retreat through the proposal of another German or European candidate would have been possible at this point. Instead, the German government and chancellor Schröder recommitted themselves to Koch-Weser and to a new turn in strategy.

42. Henry Tricks, "Campaign Against German for Top IMF Job, Koch-Weser Experience Questioned," *Financial Times* (London), 17 November 1999, London edition 3, 18.

43. Interview FF, 15 June 2001.

Since the network of finance ministries and central banks were reluctant to endorse Koch-Weser, the German government and chancellor Schröder moved their campaign to the political level with renewed energy. This shift created new confusion in transatlantic communication. It also may have reinforced the resistance of the finance ministries that were circumvented, particularly the US Treasury. Perhaps the most important difference from past selections was the German chancellor's willingness to stake his personal reputation on the Koch-Weser candidacy. Although the Dutch and French governments had waged overt campaigns for their candidates in 1986, Schröder's involvement created a new level of risk. The German government counted on this high-level commitment to demolish the last doubts about Koch-Weser. If the campaign failed, however, the damage to the German government and its credibility would be all the more severe.

The chancellor phoned President Clinton to tell him that the Koch-Weser candidacy was "vital to US-German relations," and that he would veto two other possible candidates: Laurent Fabius, whose name had emerged from the French government, and Andrew Crockett, the leading British candidate. German government sources claimed that President Clinton had assured the chancellor that he would not veto any choice that had the unanimous support of Europe.[44] This was a substantially less demanding hurdle than the list of qualities set by Treasury Secretary Summers. (Summers in January gave even clearer indications that Koch-Weser was unacceptable to the Treasury.)[45] Although the US Treasury moved quickly to clarify Clinton's meaning (with White House approval), the German government apparently interpreted the conversation as lending high-level support to their reading of the convention: If they achieved a European consensus, then the United States would fall into line.

The phone call to Clinton was only part of the German strategy in January and February 2000. The chancellery invited 40 ambassadors to a briefing in Berlin by Michael Steiner, the chancellor's foreign policy adviser, to reinforce the importance of the Koch-Weser candidacy.[46] Schröder wrote personally to each of the IMF's 24 executive directors.[47] He also wrote to 40 heads of government as part of the campaign.[48]

44. Joseph Kahn, "Germans Push Their Man to Lead IMF," *New York Times*, 22 January 2000, late edition-final, 1; Lionel Barber, "Berlin Strives to Win Top IMF Job," *Financial Times* (London), 31 January 2000, London edition 1, 10.

45. Ed Crooks, "Frontrunner for IMF Job Faces Powerful Opposition," *Financial Times* (London), 17 January 2000, London edition 1, 11.

46. Haig Simonian, "Berlin to Push Koch-Weser as IMF Head," *Financial Times* (London), 15 January 2000, London edition 1, 5.

47. "Going for the Fund Job," *Financial Times* (London), 27 January 2000, USA edition 1, 19.

48. Allan Hall, "Euro Storm Brews Over IMF Control," *Scotland on Sunday*, 30 January 2000, 22.

Koch-Weser lobbied official Washington, including members of Congress and the foreign policy establishment, in an effort to undermine increasingly adamant opposition by Summers and the US Treasury. He also gained the support of Chinese Prime Minister Zhu Rongji through his World Bank links to China.[49]

By early February, European consensus in favor of Koch-Weser still appeared beyond the reach of the German government. On 11 February, a frustrated Hans Eichel, German finance minister, called on other European countries to "put their cards on the table," and he asked France, clearly the principal European holdout, to clarify its position. The IMF executive board had missed the deadline imposed by the departure of Managing Director Camdessus (14 February), and first Deputy Managing Director Stanley Fischer became acting managing director. IMF executive directors from developing countries were increasingly frustrated by a process from which their governments seemed excluded. Their unhappiness reflected a broader shift in mood at the IFIs, a growing expectation that the emerging market economies would be more closely involved in the governance of these institutions.[50] The developing countries were also concerned by the prospect of a lengthy period in which the organization's leadership might be impaired.

The first signs that Germany's strategy might work came in mid-February. European foreign ministers, meeting in Brussels, reached an informal consensus that Koch-Weser should become the next managing director of the IMF. An informal poll of the ministers by the EU presidency (then in the hands of Portugal) produced no objections to the nomination of Koch-Weser as the EU candidate, according to German government officials. The British foreign minister, Robin Cook, made clear that a final decision would be left to the economics and finance ministers (ECOFIN), who would meet two weeks later in Brussels.[51] The French government persisted in expressing its doubts about support for Koch-Weser among IMF members outside Europe. A senior French official declared, "For one and a half months we have been telling the Germans they must demonstrate Koch-Weser has the right kind of support and we have yet to see it. . . . [T]he real problem is how much support that particular [European] candidate can muster among other IMF members."[52] The United States held

49. Barber, "Berlin Strives. . .," *Financial Times*, 31 January 2000.

50. Interview N, 1 November 2000.

51. Joseph Kahn, "Europeans Move Toward Backing German to Lead the IMF," *New York Times*, 15 February 2000, late edition-final, C4; Ralph Atkins, Alan Beattie, and Peter Norman, "Germany Says EU Backs Its Candidate for IMF," *Financial Times* (London), 15 February 2000, London edition 3, 14.

52. Alan Beattie, Neil Buckley, and Robert Graham, "IMF Candidate May Face Vote," *Financial Times* (London), 16 February 2000, 12.

to the same requirement for its support of a European candidate: broad support in the developing countries.[53]

Although the developing countries had been shut out of the selection process, the positions taken by France and the United States appeared to award them the same influence that they had held in the selection of Witteveen and Camdessus. The G-11 (developing country) executive directors in the IMF now moved to challenge openly the convention that awarded the IMF managing directorship to a European. The G-11 EDs met and decided to present the candidate that they thought was best for the job: Acting Managing Director Stanley Fischer. The most difficult question was deciding which executive director would nominate him. Given the German government's pressure on many of their governments to support Koch-Weser, this role was not without risks. The dean of the executive board, Abbas Mirakhor of Iran, approached Pedro de Morais, executive director for a constituency of 20 African countries. De Morais agreed to make the nomination, after consulting with the largest countries in his constituency and receiving the permission of Fischer.[54] At the same meeting of the executive board on 22 February, Japan nominated Eisuke Sakakibara. Two non-European candidates had been nominated for the managing directorship for the first time.

Of the two, the nomination of Fischer was by far the most far-reaching challenge to past practice. In three ways, Fischer's nomination threatened to overturn existing conventions. As an American citizen, his candidacy challenged the narrowest interpretation of the long-standing division of IMF and World Bank leadership positions. Fischer's citizenship aroused the greatest concern in Europe and attracted the most attention. His nomination was even more subversive of the nationality principle, however. For the first time in the history of the IMF or the World Bank, an individual was nominated for the top position by a government other than his own. The developing countries that supported him made clear that they thought he was the best candidate for the job—a revolutionary idea. Countries that were hardly typical friends of the United States, such as Iraq and Syria, supported his candidacy.

Fischer's nomination was a break with the past in a third way that was less noticed: he held the second highest position at the IMF. In other words, Fischer was also the first candidate for succession from *within* these organizations. Managing Director Camdessus had encouraged his nomination; he also lobbied the French government to back Fischer, to no avail.[55] Camdessus had urged review of the "too-protective process

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53. Kahn, "Europeans Move. . .," *New York Times*, 15 February 2000.

54. Interview C, 1 December 2000. The full text of the de Morais statement nominating Fischer is available at International Monetary Fund (2000).

55. Interview L, 2 November 2000.

of selection" in his farewell press conference. Fischer's nomination now provided a direct means to question that process. Without exception, the leaders of the major multilaterals have been chosen from outside the institutions, in striking contrast to many other organizations, a convention as strong as any of the others. If Fischer were selected as managing director, he would break with that tradition as well.

The candidacies of Fischer and Sakakibara could not succeed in the face of opposition from Europe and the United States. Their nominations hastened the European governments toward consensus. Before the crucial meeting of European finance ministers on 28 February, the US government recognized that its strategy of blocking Koch-Weser's nomination by the European Union through European finance ministries might now fail. The prestige of the German government and chancellor was now at issue, and the leading alternative candidate was an American. In the face of this prospect, President Clinton telephoned Chancellor Schröder on 26 February to tell him that the United States would not support Koch-Weser's candidacy. Clinton's difficult conversation with Schröder was followed by a barrage of cabinet-level calls from Washington to make clear American opposition to the Koch-Weser candidacy.

The American move, so long resisted, mobilized the European finance ministers. Michael Steiner, Chancellor Schröder's foreign policy adviser, framed the issue as European influence in the face of American bullying. At the 28 February ECOFIN meeting in Brussels, Koch-Weser finally received the EU endorsement that he had sought for so long. The French minister of finance, Christian Sautter, explained: "What accelerated the EU decision was [partly] the presence of a candidate with American nationality, which provoked a very strong European reaction."[56] With this demonstration of European resolve to support Koch-Weser, the US president's spokesman, Joe Lockhart, went public with the American veto of the Koch-Weser candidacy, using words virtually identical to those employed by Summers for months: "We don't believe that he meets the criteria for a strong candidate of maximum stature who would be able to command broad support from around the world." Treasury Secretary Summers underlined the administration's opposition and the reasons for it before Congress on 29 February. In all of these statements, however, the United States also made clear that it invited other European candidates of greater stature. The Clinton administration had decided against overturning the convention completely. In vetoing Koch-Weser, the United States also pointedly vetoed the candidacy of Fischer as well.

The US decision to uphold the convention at its moment of greatest weakness has several explanations. The simplest is adamant European refusal to support an American candidate for managing director. One

56. John Burgess, "U.S. Rejects Europe's IMF Pick; Move Challenges Tradition of Europe Getting Top Spot," *Washington Post*, 29 February 2000, E1.

US participant thought that the Clinton administration might have supported Fischer as interim managing director for a short term if no suitable European candidate could be found. Europe was unlikely to accept even that arrangement, however.[57] Europe and the United States in effect enjoyed a reciprocal veto on candidates for this position. Managers of foreign policy in the Clinton administration also were concerned about the effects that support for Fischer would have on longer-term relations with Germany and Europe. The question of opening the World Bank presidency to non-Americans—an almost certain outcome—was of much less concern. At least some American policymakers, however, believed strongly that an American should *not* head the IMF. US national interest was better served by a qualified European who could stand up to the United States from time to time.[58]

Koch-Weser was nominated on behalf of the EU member-states at the IMF executive board meeting on 29 February. The first straw vote to determine the relative standing of the three candidates was held two days later. The rules governing straw polls in the IMF executive board amplify European weight, since European governments head many mixed constituencies, and constituencies are not allowed to split votes.[59] Nevertheless, despite intensive lobbying of developing country representatives in the days before the poll, Koch-Weser's share of the vote was 43 percent. As expected by the United States and France, he attracted little support outside Europe. Undermined by the US decision to abstain, some developing countries drifted away from Fischer and also abstained. Fischer received 12 percent. Japan's nominee Sakakibara received 9 percent. Fully 36 percent of the voting power abstained.[60] The results of the straw poll demonstrated what every managing director selection had demonstrated since 1946: success required support (or at least acquiescence) from both the United States and a substantial share of developing countries.

This setback might have produced a new and wider search for a European candidate, clearly the preferred outcome by many in the US government. Talented alternatives had been suggested: Giuliano Amato, former Italian prime minister; Mario Draghi, senior official in the Italian treasury; Kenneth Clarke, former UK chancellor of the exchequer; and Andrew Crockett, general manager of the BIS. These candidates, as well

57. Interview H, 28 November 2000; Interview F, 29 November 2000; Interview D, 31 October 2000.

58. This argument is discussed in greater detail in chapter 5.

59. Details of the straw poll procedures are provided in IMF press release no. 00/13, 1 March 2000.

60. Although the IMF does not release shares of straw polls for individual candidates, close approximations were quickly leaked to the press. See John Burgess, "German Falls Short in IMF Vote; Nominee Opposed by U.S. Gains 43% Support in Board Tally," *Washington Post*, 3 March 2000, final edition, E9; IMF press release No. 00/15, 2 March 2000.

as Fischer, were undermined by President Clinton's statement on 2 March, after the executive board straw poll. Clearly aiming to calm German anger, Clinton confirmed American support for the convention and then went further: "It would suit me if the person were from Germany. I'd like to see Germany play a bigger role in all these international institutions." He also made absolute American unwillingness to back Fischer: "I will not support an American candidate, even though I have enormous respect for Mr. Fischer."[61]

The Clinton administration had not counted on the energy and commitment of the German chancellor. The president's encouragement produced an immediate search for another German candidate under daunting circumstances. The German government correctly calculated that the United States could not turn down a second German candidate who was at all credible. Without consultation among European capitals, Chancellor Schröder recruited Horst Köhler, president of the European Bank for Reconstruction and Development. Köhler's professional background was centered in the German finance ministry, where he had worked on negotiations for European monetary union and dealt with the currency crises of the early 1990s. In less than a week after the IMF straw poll (7 March), Schröder had withdrawn Koch-Weser's name, at his request, and had proposed his new alternative.

The tactics employed were similar to those that had produced such unfortunate results in the case of Koch-Weser: preemption without consultation in an effort to force a European consensus on the German candidate. This candidate would then be presented to the United States, daring a second veto.[62] The immediate reaction of major European capitals and the United States was similar to their response to Koch-Weser: France reiterated the need for broad support outside Europe; the Italian foreign minister, Lamberto Dini, argued that the job could not be filled by a "technician or a high functionary"; and the United States remained neutral until a European consensus had emerged.[63]

Once again, it appeared that skeptics and opponents on either side of the Atlantic were waiting for their counterparts to confront the German government. In this instance, however, Europe closed ranks behind Köhler more quickly, and alternative European candidates did not emerge. European finance ministers unanimously endorsed Köhler on 13 March. On investigation, the US government found Köhler a more credible candidate. To the degree that US Treasury skepticism lingered, it was not

61. Interview F, 29 November 2000; "Burgess, "German Falls Short in IMF Vote. . . ," *Washington Post*, 3 March 2000.

62. Interview D, 31 October 2000.

63. Financial Times Service, "Germans Struggle in Battle for IMF Post," *Irish Times*, 8 March 2000, city edition, 19; Reuters, "U.S. Non-Committal on IMF Nominee," *Toronto Star*, 9 March 2000, edition 1 (Lexis-Nexis).

supported this time by the foreign policy principals. A second veto of the chancellor's choice was not possible. In the second round, German strategy worked. After the European endorsement, President Clinton lent his support to Köhler's candidacy in a phone call to the chancellor. The two leaders agreed on an important corollary: "The President and Chancellor Schröder also agreed that Köhler should retain the talented management team at the IMF."[64] As compensation for his own government's failure to support his candidacy, Fischer received a guarantee of job security from the highest levels. With the withdrawal of the Sakakibara and Fischer nominations, no opposition to the Köhler nomination remained. The IMF executive board selected Köhler as next managing director on 23 March 2000.

The failed candidacy of Koch-Weser and the selection of Köhler was unusual in the history of the IMF for its public conflict between Europe and the United States and for the first direct challenges to the convention, in the form of the Fischer and Sakakibara nominations. The publicity that attended this selection followed from the higher profile of the IMF during the 1990s, particularly during the Mexican and Asian financial crises. The conflict also derived from the perceived importance of the institution. Although governments had campaigned vigorously for their candidates in the past, no head of government had staked his reputation on a specific candidate before Chancellor Schröder. His persistent, personal involvement raised the stakes of the contest and created the potential for spillover into other policy arenas. The German government's intense desire for the post and the strategy that it chose—forcing a European consensus that could not be rejected by the United States or the rest of the world—ran directly into the history of IMF selections and two constituencies that had always played a central role in those selections: the United States and the developing countries. Germany's interpretation of the convention—any candidate backed by a united Europe should simply be selected—collided with US concerns for a reformed IMF and its importance to the global financial system, and with demands for energetic and competent leadership on the part of the IMF's principal clients, the developing economies. One interpretation of a conventional prerogative clashed with growing demands for a more open, timely, and orderly process that aimed to produce the best qualified managing director from a wide field of candidates. Many press accounts suggested that the episode meant "Europe's future claim to choose the head of the Fund now seems also to have lost all moral authority."[65] If the failed Koch-Weser

64. Damian Whitworth, "Clinton Belatedly Backs Europe's Choice of Man to Run the IMF," *The Times* (London), 14 March 2000 (Lexis-Nexis).

65. James Blitz, Ed Crooks, Peter Norman, and Haig Simonian, "The Camdessus Succession," *Financial Times* (London), 17 March 2000, 14.

candidacy and the Köhler selection have undermined the convention, it is far from clear what will replace it.

Selecting World Bank Presidents: The American Side of the Convention

In promoting the candidacy of Koch-Weser as the only European candidate for IMF managing director, the German government may have intended to establish a completely symmetric convention for leadership selection at the IMF and the World Bank. Selection of World Bank presidents by the US government and the ratification of those choices by the World Bank executive board has been virtually automatic since 1946. Since the United States was a unitary government, no competitors emerged; bureaucratic conflict over the government's candidate was usually shielded from the view of other governments. If the convention of a European managing director at the IMF is challenged, however, the United States will not be able to sustain its claim to the World Bank presidency. The United States' hold on this position is made even shakier by disappearance of its original source: World Bank dependence on American financial markets.

The Bretton Woods conference paid much less attention to the World Bank than to the IMF.[66] Many of the Bank's institutional outlines were borrowed from its Bretton Woods counterpart. Formal decision-making rules at the World Bank closely resemble those at the IMF: weighted voting with special majorities for decisions of particular importance. Shares of World Bank stock were distributed according to estimates of relative economic weight, initially awarding the United States 35 percent of the shares.[67] The selection of the president by the executive board (a combination of appointed and elected executive directors) takes place by simple majority, although formal voting is as rare at the World Bank as it is in the IMF.

Despite the similarity in organizational rules, the preponderance of the United States in the World Bank is arguably greater than it is at the Fund. That added influence was guaranteed during the early years of the Bank by the central financial position of the United States in the

66. Burke Knapp commented on "how little attention was paid to the Bank in the pre-Bretton Woods planning or in the Bretton Woods Conference itself. I suppose if one measured the time spent during those fourteen days of work at the Bretton Woods Conference, the Bank didn't take more than a day and a half" (Kapur, Lewis, and Webb 1997, 59).

67. As of 30 June 2000, the US share of votes at the International Bank for Reconstruction and Development (World Bank) was 16.50 percent, and its share at the International Development Association (IDA), the Bank's soft-loan window, was 14.86 percent.

world economy. In a world devastated by war and desperate for reconstruction and development capital, New York and Washington were the only immediate sources of finance. The World Bank, unlike the IMF, is dependent on bond issuance in the private financial markets for its lending activities. Although the paid-in capital provided by its members is critical to the credit rating of the Bank's debt instruments, private financial markets ultimately award its credit rating. When drafting the Articles of Agreement for the Bank, "delegates generally understood that discretion was to be exercised by an Executive Board and staff dominated by the United States, the only country with the capacity to guarantee or fund the institution's loans."[68] Although that preponderance had disappeared by 1970, the United States continued to appoint each World Bank president for more than five decades.

As described earlier, the origins of the European-US convention also lay in the financial dominance of the United States after World War II. US Treasury Secretary Fred M. Vinson decided that "the Bank would have to be headed by a US citizen in order to win the confidence of the banking community, and that it would be impracticable to appoint US citizens to head both the Bank and the Fund."[69] This perceived need to satisfy the Bank's Wall Street constituency established not only the nationality of Bank presidents but also their career qualifications. With the exceptions of Robert McNamara and Barber Conable, the US government has chosen Bank presidents from the private financial sector or careers associated with it.[70] The choice of an American, and usually an American banker, as World Bank president was not openly contested in the early decades of the Bank's history. Nevertheless, the prerogatives of the US government and those of the organization's executive directors in the president's selection were disputed. After the brief initial presidency of Eugene Meyer in 1946, the Truman administration was not able to fill the position immediately. The Bank's executive directors took the lead in approaching candidates, including, apparently, a Canadian. The uncertain prospects of the new international financial institution made its top position unattractive. John J. McCloy, recruited by the US government, also was noncommittal for some time, producing considerable anxiety among executive directors. When the United States suggested appointing the US executive director, Emilio Collado, as temporary chairman with the powers of the president, however, the Bank general counsel refused, arguing that the president should be independent of the government of any particular country.[71] The British executive director, Sir

68. Kapur, Lewis, and Webb (1997, 61).

69. Horsefield (1969, 135), cited in Kraske et al. (1996, 5).

70. A complete list of World Bank presidents is provided in appendix A2.

71. Kraske et al. (1996, 47).

James Grigg, was concerned that the US administration, in its eagerness to recruit McCloy, might reach an understanding that impaired the role of the executive board. US Treasury Secretary John Snyder assured him that "there could be no misunderstanding between the United States Government and McCloy which diminished the rights etc. of directors under the articles."[72] McCloy's plans for his management team did present such a conflict, however. He wanted Eugene Black to serve in a dual role as US executive director and as staff director of marketing. Although the executive board expressed its unease, it agreed in the end "if the United States government decides to accept such [an] arrangement." Grigg voiced his unhappiness: "We were in fact presented with an ultimatum. . . . What happens now I don't know but I must say dirt is a disagreeable diet."[73]

McCloy established a resilient pattern of executive influence in the governance of the Bank: the president was delegated a substantial degree of authority by the executive directors. The executive board did not attempt to intervene in the selection of a president until the resignation of the Bank's fourth president, George Woods, in 1968. The executive directors told the US executive director, Livingston Merchant, that they wanted several names from which to choose. He promised them that they would have some degree of choice among US candidates. Despite this assurance, however, the United States nominated Robert S. McNamara, former secretary of defense, in precisely the same unilateral fashion as previous Bank presidents. "President Johnson, when reminded of his earlier promise, is reported to have told Secretary of the Treasury Fowler that he would agree to provide a list of candidates, as long as there was only one name on it, that of Robert McNamara."[74]

Successive US administrations often found it difficult to recruit their favored candidates to the presidency of the Bank. Robert Lovett declined Truman's offer of the presidency when McCloy resigned in 1949; Eugene R. Black, the third president, had resisted initially, since he wanted to return to the Chase Manhattan Bank. When A. W. Clausen unexpectedly announced his intention to resign the presidency in 1986 after only one term, discontent with unilateral nomination by the United States was exacerbated by American difficulty in presenting a highly qualified candidate. Well-known candidates such as Federal Reserve Chairman Paul Volcker and Labor Secretary William Brock turned down the position.[75] When the name of former secretary of the Navy, J. William Middendorf, was floated, European governments objected strenuously to his very

72. Ibid, 48.

73. Ibid, 49.

74. Ibid, 167.

75. Ibid, 247.

conservative views, which included support for a return to the gold standard. His active campaign for the position, despite lukewarm support from the US Treasury and the State Department, created fears that he might be appointed in the absence of a more acceptable candidate.

After Brock declined the post, Secretary of State George Shultz and Secretary of the Treasury James Baker agreed on former Republican congressman Barber Conable, then teaching political science at the University of Rochester. Conable's nomination broke with the long tradition of nominating financial experts to the presidency. (Even McNamara had brought a reputation as a financial wizard at the Ford Motor Company.) Conable also lacked any background in development economics or policy. Initially, he declined the appointment. Two weeks later, Baker called him and said, "Barber, I am sorry to tell you, you're the only guy we can agree on." When Conable attempted to decline once again, Baker raised the prospect that the position would be handed to the Europeans.[76] Finally, Conable agreed, and the European executive directors accepted the nomination, even though Barber was virtually unknown in international development and financial circles.

With the appointment of Lewis Preston, head of J. P. Morgan, as World Bank president in 1991, the United States reverted to the earlier pattern of recruiting senior bankers to the Bank's top position. At the time of his retirement, Conable had warned the Bush administration that a candidate of stature would be required in order to avoid a challenge by Europe and Japan to the American claim to the presidency. Preston seemed to satisfy that requirement, and his appointment was not controversial. When illness caused his early retirement, announced in February 1995, the Clinton administration faced a difficult political situation that made the next selection a sensitive one. The Mexican peso crisis had created resistance to the IFIs and their global economic role in the Republican-controlled Congress. The administration was negotiating with Congress over payment of the last round of financing for the International Development Agency (IDA), a World Bank lending window for the poorest developing countries. It also hoped to win support from Congress for an 11th agreement on IDA financing.[77] At the same time, a European or Japanese challenge could be expected if the United States experienced its usual difficulties in producing a credible candidate. For both domestic and international reasons, therefore, the Clinton administration needed a nominee whose credentials were strong and a search process that was more transparent and credible than those in the past.

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76. Ibid, 248; Hobart Rowen, "Conable to Head World Bank; Reagan's Decision Ends Long Struggle Inside Administration," *Washington Post*, 14 March 1986, A1.

77. Paul Lewis, "A Tight Race to Head the World Bank," *New York Times*, 13 February 1995, D1.

A modest concession was made to the rest of the World Bank membership when the United States established an internal search committee, chaired by the secretary of the Treasury. The committee included representatives of the Treasury Department, State Department, and the White House.[78] The executive board of the Bank had established a number of qualifications for the presidency that were used to screen candidates. The committee also employed a professional executive search consultant and claimed to consider non-American candidates. The dean of the Bank executive board had some access to the progress of the search through informal consultations with the US executive director.[79] Despite this appearance of an opening in the process, which was more orderly and systematic than many in the past, the search closely resembled earlier episodes in one crucial aspect: the US government made the final selection among the candidates.

The search committee in this selection had no dearth of qualified candidates. Apart from James Wolfensohn, who actively campaigned for the job, Lawrence Summers, under secretary of the Treasury for international affairs; E. Gerald Corrigan, former president of the New York Federal Reserve Bank; and Kenneth D. Brody, president of the Export-Import Bank, were mentioned as candidates.[80] The preferences of the US Treasury secretary, Robert Rubin, were reported to match many members of the Bank's executive board: a candidate young enough to remain as president for 10 years and one whose management experience in the private sector would sustain the restructuring begun by Preston.[81] At the same time, the Bank had become a key player in promoting economic and social development, and its president was expected to be a forceful advocate for those goals. Once regarded as primarily a lending agency grounded in technical criteria, the Bank had also become politically controversial in the eyes of many NGOs. These new roles and the political conflict that now surrounded the Bank pointed to a different type of president: younger, more articulate, and more identified with the development community.

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78. Jurek Martin and George Graham, "Renaissance Man Gets the Nod," *Financial Times* (London), 13 March 1995, 16.

79. This description of the 1995 search is based on the Draft Joint Report of the Bank and Fund Working Groups to Review the Process for selection of the President and the Managing Director, paragraph 3. The Draft Joint Report is reproduced in appendix B.

80. John M. Berry, "3 Top List to Head World Bank; Candidates Have Wall St. Experience," *Washington Post*, 15 February 1995, F1; "Banking on Wolfensohn?," *Washington Post*, 14 February 1995, B3.

81. John M. Berry, "3 Top List to Head World Bank; Candidates Have Wall St. Experience," *Washington Post*, 15 February 1995, F1; Notebook: "The Corsets That Crush Strategy," *The Guardian* (London), 16 February 1995, 14.

Despite its elaborate search procedure, the Clinton administration did not find the selection an easy one. President Clinton formally announced the nomination of Wolfensohn on 11 March 1995. His choice was not the unanimous one of his senior advisers.[82] Nevertheless, the United States had managed once again to stave off serious objections from other members of the World Bank. The introduction of a modest degree of transparency into what remained an entirely US search process had helped. Throughout, the US government carefully ensured that the prerogative of appointing the World Bank president did not slip away because of delay or oversight. To guard against a non-American interregnum, Preston was not expected to announce his resignation formally until the US Treasury came up with its candidate, and he planned to leave the Bank officially only when the new candidate was available for the job.[83] In early March, the Bank announced that its three managing directors would rotate as acting presidents until a successor was found. The complex rotation plan was also designed to avoid any precedent for a non-US president of the Bank.

The executive board of the World Bank approved Wolfensohn unanimously as the new president on 16 March 1995. Although his reappointment in September 1999 created more discontent among executive directors, it is not clear whether their governments shared this unhappiness. According to US policymakers, the Clinton administration consulted with other member governments before proposing Wolfensohn for reappointment. No open opposition was expressed.[84] Other observers of the Bank found the United States more disdainful of executive board prerogatives. The US decision was conveyed to the board just before the annual meetings of the IMF and World Bank, when many senior officials were on their way to Washington, DC. The unseemly haste was the subject of board discussion. The United States apparently gave the board little lead time and no opportunity to discuss the Wolfensohn record before reappointment. The board chose to postpone its decision on reappointment for two to three days, but this was no more than a symbolic step.[85]

The selection of successive World Bank presidents had never produced overt conflict between the United States and other members. Despite occasional pressure to allow other national governments and the Bank's executive directors a role in the selection of the president, the United States has only allowed the dean of the executive board limited access to an entirely internal search process. At the same time the claim of the

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82. Interview Q, 1 November 2000.

83. George Graham, "World Bank to Rotate Role of Stopgap President," *Financial Times* (London), 3 March 1995, 6.

84. Interview H, 28 November 2000.

85. Interview H, 28 November 2000; Interview Q, 1 November 2000.

United States to select the World Bank president in this single-handed manner has weakened. The Clinton administration's unwillingness to concede discontent over the American monopoly suggests an American version of the "cloth ears" that the German government displayed during the Koch-Weser selection battle.

The original justification for an American president and for the Euro-American convention that followed has disappeared entirely. The World Bank is no longer dependent on American capital markets. The Bank remains one of the largest issuers of international bonds, but its diversified borrowings are now denominated in many currencies (13 as of 2000). Only 51 percent of its borrowings in 2000 were denominated in dollars. Of its top 10 underwriters in fiscal year 2000, only four were based in the United States.[86] An American passport and a background in international finance are no longer necessary to maintain the Bank's credibility with international capital markets. Citizenship may be more important for another constituency, the US Congress. For skeptical or hostile legislators, however, it seems unlikely that an American World Bank president would necessarily be a more successful advocate, particularly if the individual carries domestic political liabilities.

International acquiescence in American selection of World Bank presidents is probably owed to the Bank's functions and organization, consensus on a president's qualifications, and the consequences of breaking the US monopoly. Until it became a source of political controversy in debates over globalization, the Bank's functions were regarded as largely technical, if not apolitical. As a lending organization, the executive directors delegated substantial authority to the president. Wide divisions over the Bank's activities seldom appeared among the industrialized countries. Because of its dependence on international capital markets, a senior (often retired) private banker was typically the preferred candidate for the World Bank presidency. When the United States could present such a candidate, other members of the Bank seldom dissented. When the American choice appeared destined for someone more controversial (McNamara) or less distinguished (Middendorf), the rest of the world argued for a larger role in the selection or at least for a slate of candidates.

The greatest deterrent to opposition by other members, however, has been the likely consequences of ending the American monopoly. The United States lays claim to only one major multilateral leadership position, the presidency of the World Bank, as well as a deputy's position in many other organizations. The United States has made clear that if its ability to select the World Bank president is challenged, then other positions will be open to its nominees as well, particularly the heads of regional development banks. Ending the convention would have substantial secondary effects on leadership selection at other organizations, where vested

86. World Bank Group (2001a, 2001b, 2001c).

claims would be challenged. Given the influence that the United States already exercises within these organizations, that threat has deterred substantial or concerted opposition to American selection of the World Bank president, even when a selection lacked transparency and the candidate produced was uninspiring.

Like the original need for American capital, however, each of these deterrents to challenge is fading. The Bank is no longer a quiet financier lending for infrastructure. It has become a key voice for economic and social development, one that is in the thick of contemporary controversy. Agreement on the qualifications required of its president has declined as its visibility has grown. In many ways, as described in chapter 4, the qualities desired of a World Bank president are among the most difficult to summarize. Finally, as pressure mounts on the European holdover, the IMF managing directorship, the US threat to open other top positions to competition becomes less ominous. For many who prefer a more open and merit-based selection process, that threat may even become a promise.