



## Discord at the International Monetary Fund

*Edwin M. Truman explains why the Obama administration decided this summer to provoke a fight over IMF governance and how it might be resolved.*

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Steve Weisman: The International Monetary Fund has played a central role in the global economic crisis. But now the Fund is caught in the middle of a furor over the future of its governance. This is Steve Weisman at the Peterson Institute for International Economics with our leading expert on the IMF and on its governance, Ted Truman, senior fellow here at the Institute. Thanks for joining me.

Edwin M. Truman: My pleasure.

Steve Weisman: What is the nature of this controversy afflicting the IMF?

Edwin M. Truman: The G-20 had committed, in Pittsburgh, to address the issue of IMF governance in many dimensions. One had to do with redistributing voting power within the Fund from the advanced countries to the developing and emerging-market countries. Another had to do with representation on the executive board, where the United States and some other countries had been pressing the Europeans to reduce their representation. They [the Europeans] now have, depending on how you count them, 7 to 10 shares on the 24-person executive board, which is disproportionate to even their voting power—disproportionate, many people think, to their economic role in the world today.

Steve Weisman: This has been discussed for years.

Edwin M. Truman: The United States has pressed this matter in varying degrees—and others have—going back to at least a decade. In 2008, the issue was again put on the table. But the Europeans were unwilling to have any discussion about it.

Steve Weisman: It's come to a head because of the expanding role of the IMF, and also the importance of the so-called emerging economies in the recovery and the G-20 summit in November in Seoul. But as I understand it, this is an issue that kind of was forced by the United States.

Edwin M. Truman: Yes. The executive board of the Fund, according to its charter, or its articles, is supposed to have 20 seats. It gradually grew from 20 seats to 24 seats over the last 30 years, and the United States had said: "The representation is too heavy with the Europeans." The way the 24 seats was sustained was that every two years, before there was an election of the executive directors, there would be a vote to maintain the expanded board at 24 seats. And that vote required an 85 percent majority. The United States has slightly more than 16 percentage points of voting power. When the vote came up earlier this summer, the United States declined the vote for the resolution. And therefore the principal board would shrink to 20 seats.

Steve Weisman: So that was almost like a deliberately provocative act.

Edwin M. Truman: It was a deliberately provocative act. It was one that everybody knew about as a possibility. It had been discussed at the Treasury when I was there in the late 1990s. I have discussed it in print. It was raised by the [IMF] managing director himself here at the Peterson Institute for International Economics.

Steve Weisman: Dominique Strauss-Kahn.

Edwin M. Truman: Dominique Strauss-Kahn, when he was here in the end of June. So everybody knew that the United States could do this, or any other group of countries who had the same voting power. But the action itself took the people by surprise.

Steve Weisman: Is this in chaos now?

Edwin M. Truman: No, I suspect that there'll be a lot of pressure to resolve the issue one way or the other. There really are sort of two aspects of it at least. One is how big the board should be. Should it be 24 seats, or 22, or 25, or 20, or something like that? It will be, I think, necessary to have a consensus on that, which might be entrained in the articles so you don't have to go through this process again.

The second question is how large should be the European representation immediately, meaning starting in November but also over time. Should the 7 to 10 chairs that they have now be shrunk, for example, down over time to, say, three chairs, which might be sort of a euro area chair? Or the European Union but not euro area chair, with the rest of Europe, the countries like Switzerland and Norway, which are not part of the euro area, or larger?

The question really is how those two basic questions have to be resolved. The Europeans have to get together and respond, which I'm sure they will. And there will be essentially a negotiation between the Europeans, the United States, and the other members of the Fund and then the leadership of the Fund itself, Mr. Strauss-Kahn. And I suspect it will work things out with a certain amount of blustering, no doubt, as we go along.

Steve Weisman: Where do the Chinese, the Indians, the Koreans, the other powerful, rising economies stand?

Edwin M. Truman: There are two parts of my answer. Many of those countries—Russia, China, Saudi Arabia—have their own seats. They elect an executive director but they don't represent any other country. So in some sense they have their own single voice in the Fund. The other big country, India, does not. On the other hand, they also think that there are too many European voices at the table. This is an organization that operates, at least in principle, by consensus; they rarely take votes. And if you have a discussion of an issue and you put it through these terms, you have eight or nine people from the European Union who are sitting around the table and they have a long speech, which says the same thing. It is a bit of a waste of time for the other members of the Fund to sit there and listen to that. Three times you might say is enough.

So there was a certain frustration over the Europeans. And in some sense if they're going to act as a group—which there's no reason why they shouldn't, and in fact many people in Europe favor this, not in national capitals but sort of the European Europeans—then

they ought to be held to one single, large voice. If they were to act as a group or two or three groups they probably would have louder voices than today, but that might improve the efficiency of the organization as a whole.

Steve Weisman: Governance issues run across all the international institutions including the UN Security Council, so this might have implications for other places. What about the European unity on this? Shouldn't the Europeans themselves get together and figure out how to parcel out the European chairs?

Edwin M. Truman: Yes, and I'm sure they are. The counterargument, however, is ultimately their association in the Fund, unlike their union in Europe, is voluntary. So the leaders of the four relevant chairs, which are Belgium, the Netherlands, Italy, and Scandinavia at this time—if you're going to shrink those four chairs by two then they have to decide who gives up the seat.

Steve Weisman: Could they rotate?

Edwin M. Truman: They could rotate. They do rotate now among the various Scandinavian countries. Italy and Belgium and the Netherlands have led their constituency since the beginning of the International Monetary Fund, I'm pretty confident. They do now have all their executive directors from other countries, but they run the constituency.

So the problem is that this requires some degree of political climb-down and recognition that the world is different in 2010 than it was in 1945, or 1970 for that matter. One can argue that: (a) you need to recognize that; and (b) as far as Europe itself is concerned it actually is not negative for Europe itself even if it's perceived to be negative for the self-respect of some of the individual countries.

Steve Weisman: There's always been a tradition at the IMF that the managing director is a European. Does that go out the window here or does that maybe get retained as part of the compromise?

Edwin M. Truman: There are two sides, again, to that issue. One is that an agreement might be made by the United States and Europe to perpetuate that convention one more round because the other part of the convention does have an American [heading] the World Bank. Though the dominant view within Europe has been that the heads of all international organizations should be chosen on merit, based without regard to nationality, and that has been the sort of official European position for some time now. And it's conceivable that that is part of this deal going forward; that the United States would agree that the convention as it applies to the World Bank as well as the Fund and other international organizations should be abandoned. This has been an issue, again, for many years dating back to at least a decade if not before that, and the United States has resisted this process in the past.

Steve Weisman: Do you anticipate that this will be resolved sometime before October or November?

Edwin M. Truman: Yes, it's a bit tricky. Because if you actually held an election and the Europeans who now hold these four seats—because the other three European seats are appointed executive directors by Germany, France, and the United Kingdom—if the Europeans who hold those seats say, "We stand this election in the context of a 20-person executive board." In

principle you would squeeze out the four smallest constituencies because they had more votes. The constituencies in Africa, Argentina, Brazil, and India.

So there is some anxiety that if they would treat it as a game of bluff and counterbluff or action and counteraction, there would be really adverse consequences for the institution as a whole. That's why I think both the European leaders and the United States leaders no doubt will seek some accommodation, and the shape of that accommodation presumably will be some broad agreement about how big a board over the medium term and how many chairs would be reserved implicitly for the Europeans. And you could have some substantial down payment on that now, or maybe you could just have an agreement to this in the future.

I would think that having played this card the United States would probably want some more substantive down payment with a promise to look at the matter seriously in the future. But that's for the Treasury and the White House to decide.

Steve Weisman: As they do so, please come back. Thank you.

Edwin M. Truman: You're welcome.

