

## **Back to the Future: The Reform of the Bretton Woods Institutions and the Harry White Method**

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The term “good governance” has almost become a cliché. A Google search yields nearly 5.5 million entries. The IMF and the World Bank, while making good governance one of the key pillars in their operational strategy, and rightly so, have lagged behind in fully adopting those same principles when governing themselves. In an increasingly globalized world, where multilateral authority is measured by the yardsticks of legitimacy and accountability, these institutions can no longer put off a long-awaited reform.

Not that the remedies are unknown, but the process recently followed has been flawed in many respects and stands in stark contrast with the method inaugurated by the Father of the 1944 Bretton Woods Conference, Harry Dexter White, at the time a senior official of the U.S. Treasury. Most of the preliminary discussions for the Bretton Woods Conference held between the U.S. Treasury and its counterparts, including Lord Keynes for the British Treasury, took place in the preceding three years and focused on the key aspects posed by the establishment of a multilateral regime of unprecedented scope. In line with the uniqueness of the challenge, the founders brain-stormed on key questions, such as what the IMF and the World Bank should do, how they should do it, and to whom their respective decision makers should be held accountable.

Sadly, this approach was lost along the way, as witnessed by the seemingly endless discussions that member countries have held over the years on the reform of the IMF and the World Bank. The most recent was completed this past April, its rather unremarkable outcome the transfer of 2.7 percent of the IMF’s voting power to developing and emerging-market countries.

Why was the Bretton Woods approach forgotten by the members of the Bretton Woods Institutions? The first executive board meetings counted twelve executive directors, most of whom had held key roles in their respective country delegations at the Bretton Woods Conference and enjoyed a high standing in their national administrations. For instance, the first U.S. executive director at the Fund was the same Harry Dexter White. The first IMF and World Bank Executive Director for France, Pierre Mendès-France, was a former Minister, like Camille Gutt of Belgium, who would become the first Managing Director of the IMF.

## CGD Bretton Woods Non-Commission

Today the IMF and the World Bank are much larger institutions, with a worldwide membership of 185 countries, a much larger staff and 24 executive directors each. Many of these directors answer to large bureaucracies at home, which spend their time reading Board papers, writing related memos for their upper-ranking echelons, and convening meetings with peer officials of foreign administrations. The Finance Ministers rely faithfully on the work of their own civil servants, and civil servants happily advise their own ministers on how best to exert their leadership. This arrangement has made, however, for an increasing bureaucratization of international decision making about the IMF and the World Bank.

Thus, reports on quota issues prepared by the IMF got stuck in the executive board, where most board members now have little delegated authority from their own capitals, and are themselves mid-ranking officials in their national administrations, with little appetite for risk-taking or brave decisions. Their bureaucracies at home, in turn, have little interest in pursuing a “grand vision” or in striking a “grand bargain,” beyond, of course, the strict requirements of their respective administrative obligations. Not surprisingly, this system regularly short-circuits when there are political decisions to be made that go beyond the technicalities of the matter at hand. In fact, such a system does not adequately differentiate between operational decisions in the purview of national civil servants and political decisions, which should squarely fall on the shoulders of elected politicians.

This spurious decision-making mechanism is exactly what has driven the recent debate on IMF reform and what appears to be driving the current process led by the G-20. The G-20 countries decided to engage at their highest levels in the reform of the Bretton Woods Institutions when, last November, their leaders convened in Washington. However, following that same meeting, we have witnessed the establishment of a number of committees and working groups comprised almost invariably of the same officials that were behind the previous, and not very productive, discussions on IMF reform. There is, thus, a clear concern that the G-20 process may not deliver on its expectations, not unless finance ministers and government leaders are willing to roll up their sleeves and genuinely take on the politics involved. Whether or not that will be the case, we will have to wait until the next G-20 Leaders Summit in April to know for sure.