

March 2, 2006 Thursday

Financial Times LETTERS TO THE EDITOR; Pg. 12

HEADLINE: Change of ownership is a must at the IMF

From Ms **Nancy Birdsall.**

Sir, Your editorial "Virtue and necessity" (February 21) with its depressing recourse to "achievable goals" that are "feasible" for the International Monetary Fund, is the outcome in part of the US (abetted by a hapless Europe) resisting for more than a decade an even-handed and sensible change in the rules of IMF governance that changes in the global financial system required.

The US has held out against any increase in the IMF's resources - although the Asian and other emerging-market economies in the 1990s would have welcomed the opportunity to increase their quotas and IMF resources, and thus increase the IMF's ability to respond to financial crises. China, Brazil and other emerging markets are self-insuring against shocks with costly reserves to undergird their floating exchange rates, and Asia as a region may self-insure, with Korea, Malaysia and Thailand preferring never again to be subjected to policy demands imposed by "Washington's" financial institutions.

But a more representative IMF with more resources still makes sense, for many developing countries and for global stability. Maintaining high reserves is not an ideal growth policy for the developing countries, and many high-debt, emerging-market economies, to protect their floating exchange rates, have to resort to high domestic interest rates that reduce job creation and growth prospects.

Outside and even within Asia, few developing countries have the deep domestic financial sectors or the institutional and governance capacity to insulate themselves and their vulnerable poor and near-poor from the effects of a sudden collapse in commodity prices or rise in global spreads - if, as Martin Wolf wrote ("The world needs a tough and independent IMF", February 21), today's minimal demands on IMF resources "change again". And for all its failings, the IMF played a critical role in benign bullying when global financial stability was at risk less than a decade ago.

Moreover, could an IMF without resources, even with a managing director liberated from a resident board, as Mervyn King proposed, be independent? Isn't it the control of sufficient resources that would provide a modicum of independence to the IMF? Anyway, what would an illegitimate and resource-less IMF's "neutral" views add to the truly independent views of academics and an intelligent press? I think you got it backwards.

The fundamental challenge at the IMF is not, as you suggested, to outline limited functions that are currently politically acceptable to the powers that be. It is to persuade the faltering hegemon and its long-standing partners, in their own interests and in the interests of global stability and prosperity, to move beyond their short-sighted resistance to a change in the ownership structure. With changed ownership, let a new IMF, more representative and legitimate, shape over time and circumstances universally shared policies, practices and functions.

Nancy Birdsall,

President,

Center for Global Development,

Washington DC, 20036, US