

# Directing the IMF: Enforcing the Rules Matters More than Nationality

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The resignation of Dominique Strauss-Kahn has unleashed a controversy regarding his successor. European IMF members are emphasizing their traditional privilege in choosing the managing director and only see a candidate from emerging economies occupying to this position in the medium-term, while China, Brazil and India demand a greater say now. However, this debate largely misses the point, since the key question is not about nationality, but rather about the qualifications to competently enforce the Fund's rules for its loans.

Europeans are right in pointing out that the anachronistic nature of their privilege corresponds to the anachronism of the United State's privilege in choosing the World Bank's boss. Both privileges are not in accord with the rising weight of emerging powers in the world economy and with the widely shared understanding that the leaders of these two institutions should be chosen in a transparent and merit-based selection process. Hence, the U.S. and European member states should rapidly agree on giving up their traditional privileges, if they want to avoid damaging the two institutions' reputation and global acceptance.

Giving up their privileges should not be difficult for the U.S. and Europe, since the nationality of the person at the top does not matter as much as the substance of institution's rules. Guarding and enforcing these rules for the IMF's loans is the key task for its head. The IMF's rules, strategies and programs are not decided upon by its boss but rather by its shareholders, that is, by the member states and their representatives in the executive board. The boss is the rules' watchdog, not their master. Thus, rules matter more than the nationality of the person at the helm.

Consequently, the current debate should focus on the question of whether the existing rules are actually sufficient in order to manage and prevent problems. Apparently they are not. The IMF was not strengthened after the outbreak of the crisis in 2008 with regard to financial market supervision, nor was its role enhanced in enforcing limits to public debt. The G20 members agreed to increase the fund's resources in order to cushion the crisis and to shift quotas and votes to emerging economies, but they failed to establish stricter rules of the game for both private banks and national governments. The lesson of the global crisis is that better rules are needed.

In addition to the lack of enhanced supervisory and control functions, the IMF has also not always been able to enforce existing rules. The Greek government's unwillingness to play by the rules of the EU/IMF rescue package of 2010 is an example of these shortcomings. Another one is the traditional negligence in warning of economically dangerous policies pursued by industrialized countries such as the unsustainable U.S. debt. This negligence has contrasted starkly with the IMF's rigorous policy towards emerging

economies during the Asian financial crisis in 1997-98. In the latter, the Fund's policy was blamed for deepening the crisis. This led to emerging economies' building up huge currency reserves as an instrument to shield themselves against financial market turmoil without having to ask the IMF for help. Bringing these countries back to accept the IMF's conditionality and to reduce their currency reserves would stabilize the global economy. It would also strengthen a rules-based and reliable global order. Finally, it would contribute to breaking the vicious circle between public debt and trade deficits in some countries (such as the United States) fuelled by huge public savings and trade surpluses in other countries (such as China).

Thus, enforcing the IMF's rules and further developing them must be at the core of the debate and can help in selecting the Fund's managing director. Key must be the candidate's competence in international monetary and financial affairs and, in addition, his or her autonomy vis-à-vis national political as well as private interests. For the sake of the global public good of financial stability and the Fund's acceptance, nations have to be treated equally and specific private actors such as banks must not be privileged.

Hence, politicians who see the IMF's top job as a springboard for their national political careers are not the best choice, since their entanglement with national politics and special interest groups might jeopardize their autonomy in enforcing the Fund's rules. For example, French and German politicians might have a hard time in enforcing the rules on Greece and in restructuring its debt given the high exposure of those countries' private banks there. Thus, former finance ministers with national political aspirations from countries whose banks are very exposed in a recipient country of IMF loans should not be considered. An independent and globally respected central banker or economist would be a better choice.

Therefore, the head of the IMF (and of the World Bank) should be selected for merit, and merit has to include financial market competence as well as autonomy from national political and private interests. In following these criteria, the United States and European member states would be well advised to support a qualified candidate from the emerging economies. While enforcing the rules matters more than nationality, coming from emerging economic regions matters symbolically, and symbols matter for the acceptance of the rules.

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