

THE OPPENHEIMER REPORT

IMF should practice what it preaches

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Here's an idea that could bolster world economic harmony and help solve future financial crises: Dump French President Nicolas Sarkozy's candidate for new head of the International Monetary Fund and appoint a candidate from Asia, Latin America or Africa.

As you may know, the current head of the IMF, former Spanish Economy Minister Rodrigo de Rato, has unexpectedly announced his resignation, and the IMF -- the Washington, D.C.-based institution that acts as a lender of last resort for debt-ridden countries and an ultimate surveyor of the world economy -- is scheduled to pick its new head in September.

Until now, all of the nine IMF managing directors have been European, as part of a six-decades-old unwritten deal whereby the IMF is led by a European official, and its sister institution, the World Bank, by an American.

In keeping with this tradition, Sarkozy recently proposed former French Finance Minister Dominique Strauss-Kahn to become the new IMF managing director. Sarkozy's candidate received overwhelming backing within the 27-country European Union, with only three countries -- Britain, the Netherlands and Austria -- expressing reservations.

There is nothing wrong with Strauss-Kahn, a Socialist who lost his party's nomination for the presidency in France's elections earlier this year. He is a well-respected economist, lawyer and politician.

AN OPEN PROCESS

But there are several reasons why the practice of automatically awarding the leadership of the world's top financial institutions to a European and an American should be scrapped altogether in favor of an open process to appoint whoever is best qualified for the job.

- First, it's a contradiction in terms that the IMF, which supposedly stands for free markets and against monopolies and quotas that hurt competitiveness, should automatically exclude the vast majority of its member countries from the possibility of leading it.
- Second, French officials already lead key international economic institutions, including the World Trade Organization, perhaps the most important of them all; the European Central Bank; and the European Bank of Reconstruction and Development. And French officials have led the IMF for 31 of the institution's 61 years.
- Third, putting a wellrespected official from Asia or Latin America at the helm of the IMF would give the institution -- the favorite scapegoat of populists and anti-globalization advocates -- better management skills to address financial crises.

"A respected policymaker from an emerging economy who has managed complex financial crises is better equipped intellectually to deal with these situations than a European," said Ricardo Lago, a former chief economist of the European Bank of Reconstruction and Development, who now teaches at Florida International University. "It's not the same to have managed the French economy than to have managed Argentina's."

HARD TO ARGUE

Skeptics say that, after the recent Bush administration nomination of former U.S. Trade Representative Robert Zoellick as head of the World Bank, it will be hard to deny the Europeans the top IMF job.

The IMF said in a recent statement that it will accept nominations from member countries until Aug. 31.

While IMF insiders doubt that the European monopoly will be broken, a group of 24 developing countries including Brazil and India are lobbying behind the scenes to change the selection rules.

My opinion: There would be dozens of qualified candidates for the top IMF job from emerging countries, who would not make anybody nervous in the U.S., German or British treasuries.

Among others: former Mexican President Ernesto Zedillo; former Brazilian Central Bank President Pedro Malan; former Argentine Central Bank Gov. Mario Blejer; India's planning minister, Montek Singh Ahluwalia; or the former chairman of Poland's National Bank, Leszek Balcerowicz.

Any of them would be a more credible broker of future financial crises, a more even-handed monitor of the world economy, than Sarkozy's candidate. And on top of it, the IMF would not only be preaching economic openness, but would start practicing it.