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Brookings/CIGI Seminar Series
"A Vision for the Future IMF and the Nature of Power within It"
Friday, January 18, 2008

Presenter: Colin Bradford, Nonresident Senior Fellow, Brookings and Nonresident Senior Fellow, CIGI

Moderator: Johannes Linn, Senior Fellow & Executive Director, Wolfensohn Center for Development at Brookings

Colin Bradford, Nonresident Senior Fellow at Brookings and CIGI, preceded the seminar by explaining that his paper, "A Vision for the Future IMF and the Nature of Power within It," explores the concept of soft power reform within the IMF. He argued that the Fund's member countries can actively enhance their role within the institution by means of soft power reform while also reestablishing the role of the IMF as the leading global financial institution.

Participant Discussion:
There was general agreement among the participants that soft power reform within the IMF is important but ineffective without hard power reform. Whether soft power is substantive enough and how to cultivate it was questioned, but exploring these issues are on the mark.

One discussant suggested the Fund should allocate a larger voice to developing countries to enhance their presence and to safeguard their vulnerability. Broadening the Fund's narrow approach will lead way to increased credibility. One worried that although a push in this direction will provide greater attention to the developing countries, the Fund could still fail at actual results. Another source of soft power reform, a participant suggested, would be the surveillance of the industrial countries and to punish bad behavior. The industrial countries favor their own interests, hold the majority of the voting power yet do not suffer the consequences from their actions.

The relationship between soft and hard power is complicated, and the key tasks of the IMF were questioned. Although "pluralism is a foundation of a global society," it is important to take note of the approach of the individual – are they open or narrow in their views? The notion of hegemony was raised, and the participant remarked that the individuals representing their countries needs to take into account the global role and responsibility of the Fund.

A participant believed that the Fund did not intend to dismantle capital controls but since a number of countries had unsound macroeconomic policies, a country could blame external counterparts for what does not work. It was noted that a legitimate question is whether the Fund is ideologically or empirically based. Bradford expressed his concern that there is a negative political perception and the IMF is losing its grip. Evidence on exchange rate regimes and capital controls are stock enough since more countries have capital controls and intermediate exchange rate regimes even though the IMF recommends against them.

A participant expressed concern over the focal point of the IMF and the lack of consideration of its client member countries. With the fund losing its role and the increase in the growth of private capital markets, countries are therefore not receiving the necessary finances from the Fund so they turn to other lenders. Some transatlantic countries sought to reduce the rate of the IMF, which led to the formation of the Financial Stability Forum (FSF) within the Bank of International Settlements (BIS) in Switzerland. The participant questioned whether Europe was deliberately attempting to break up the IMF and wondered what the other industrial countries' views are of the Fund. Have transatlantic countries deliberately sought to reduce the power of the IMF?

These issues raised the question of what is good macroeconomic policy. The IMF's goal is "stability" but how much is necessary? With high economic growth one country would have huge instability and empirical analysis questions this. Because the Fund offers a global public good and has considerable global financial stability, one participant mentioned that uniform policy advice from the Fund is acceptable. Having a core "school of thought" should not be seen as negative. Countries should not blindly follow the Fund's recommendations as some countries have received gains from deviating from IMF recommendations. Because the IMF imposes its views as a lender, the participant questions whether the Fund should have a set of policies in place to bring in other lenders with different objectives.

Bradford remarked that the "school of thought" of the IMF is weakening the institution. Eclectic economic perspectives from member countries are essential and this argument correlates with the need to transform the G7 into a larger G20-type body. To have a global IFI in which the industrial countries can continue to hold power and have impact, then the developing countries need to find a place to belong within the organization to voice their needs and concerns. Soft power matters as much as lending power.

Regarding an official review of the Fund, a discussant considered whether it should be performed externally rather internally within the IMF. Because the world views the Fund as "transatlantic," Bradford remarked, the IMF should initiate its own internal review to raise their own concerns of soft power reform and to illicit incorporation of different perspectives within the institution. A participant questioned whether the US is interested in this internal review and whether soft power and a change in the administration can facilitate reform. Another discussant remarked that institutions tend to ossify rather than change and asserted that the review and change in the IMF needs to be more equitable.

Concluding remarks acknowledged that most participants were in agreement of the Fund's declining role as a global institution and that reform is critical. Many expressed concern that the IMF may lose authority and financing ability without modification, and without proper reform, all International Financial Institutions run the risk of weakening credibility.

Note: This summary was prepared by Eileen Gallagher at The Brookings Institution as a record of the substantive issues discussed at the seminar. No attribution of official views to specific countries or individual officials offered in the seminar is expressed or implied.