

Club de Madrid
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I want to thank President Cardoso and the members of the Club of Madrid for receiving me as a new member.

Be sure that I am honored to be with you and have the opportunity to speak in this round table.

The financial crisis in Asia and Russia, the fragility of big emerging economies, the dramas in the poor countries, the criticisms about globalization have provoked a public debate on the IMF.

In my speech, I shall deal successively with the three points, which are proposed for our discussion.

I — First, the role of G7 and other industrial democracies in the setting of the general IMF strategy and in the design of its policies.

It is not illogical that the large shareholders, which at the end of the road finance the programs, carry preponderant weight in the IMF. In fact, the G7, even if it often appears united on the surface, does not have uniform positions on the major questions. It is an open secret that France, for instance, extols less deregulation or systematic privatization and is more sensitive to the political constraints of the IMF's actions.

The United States does not run the IMF. They have a lot of influence, perhaps too much. But they do not decide alone. Their influence is due to their power, to their quota, to the location of the IMF in Washington, but especially to the extreme homogeneity of the personnel of the Fund which, whatever nationality it may be (including from developing countries), too often did their graduate studies in the United States. Even before any institutional changes, diversification in recruitment is a necessity.

One must not underestimate the weight of developing countries in the institution and the role of their executive directors at the Board. Brazil, India, and China have for a long time been major players in the IMF.

Nevertheless, if one must imagine institutional changes, I suggest reflecting on the following questions:

- a) Not to attain the organizational system of the United Nations or of the World Trade Organization, by applying the rule "one State, one voice," with the risk of paralysis we saw in Cancun;
- b) To think about the system of constituencies, in order to offer a better forum for the voice of certain developing countries;
- c) If the problem is that of political control over the Executive Board of the Fund, I remind the France's 1998 proposal of the creation of a College of ministers, which could make strategic decisions;
- d) Finally, if the question is that of the relations of the IMF with other international institutions, may I recall also the proposal of creating an Economic and Social Security Council, which serve to arbitrate the conflicts among the various international institutions (United Nations, Bretton Woods institutions, WTO, ILO,

WHO) and eventually replace the G7/G8 summit. This Council could meet at the level of Heads of State and Government and could have permanent representatives.

II - The core elements of the IMF mandate and governance structure as they relate to the question of democratic governance.

The interpretation of the mandate of the IMF needs to be more flexible. The IMF fortunately has finally understood that a too rapid liberalization of capital movements, the too brutal opening of markets, the systematic privatization of public services, the fiscal consolidation at the price of growth or financing of social expenditures are not miraculous solutions. The “Washington consensus” is no longer a consensus. All the more developed countries themselves do not always follow the rules which they have a tendency to want to impose indiscriminately to others.

I think it is necessary for the IMF to better take into account specific characteristics and political constraints of countries where it intervenes. This would probably involve:

- a) More decentralization of personnel in the borrowing countries;
- b) The introduction of specialists on political and social questions in its teams, which are too uniformly composed of economists of the same type;
- c) More relations with entities other than finance ministries or central banks: social ministries, parliaments, political opposition, syndicates, civil societies.

Regarding the structure of governance of the institution itself, the actions to be implemented must be inspired by the concern with more transparency and accountability:

- a) I bring back to memory the question of the creation of the College of ministers;
- b) I would favor more transparency in the debates of the Fund’s Board, by publishing the conclusions, bringing out the positions of various countries, by posting more quickly to the public the verbatim of the meetings;
- c) The responsibility of the Board’s Executive Directors can be increased, for example by intensifying their relations with their national parliaments in the framework of regular audits;
- d) One must imperatively increase the basic voting rights of the member states in order to establish a better equilibrium in the balance of powers;
- e) Perhaps it is useful to increase the number of Executive Directors, in particular to help the African countries.

III - Feasible steps for reform that will help enhance the IMF’s role toward support for democracy and good governance.

It is obvious that the action of the IMF must not impede the proper functioning of democratic institutions in countries, which it finances or advises. It is why it must take into account the political reality of these countries, in order to determine not only what is

economically and financially desirable but also what is politically and socially acceptable.

Considering, in addition, that the role of the IMF must systematically aim at reinforcing democracy and governance leads nevertheless to wondering about the risk of excessive intervention on the part of the IMF in the internal affairs of a country. In any case, it seems to me important to keep the following principles in mind:

- a) An intervention as close as possible to the reality of the terrain, which means a more diverse and decentralized personnel;
- b) A reduction of conditionality and moving toward a conditionality based on objectives rather than means, in offering to the government possibilities of choices for their economic policy;
- c) The growth of the IMF's resources through an increase in its quotas and through an allocation of Special Drawing Rights (which would be allocated with a reduced conditionality or without conditionality);
- d) A greater transparency of the discussions and activities of the institution;
- e) A permanent follow up of the efficiency of the IMF's action by the Independent Evaluation Office, national parliaments, even by the Economic and Social Security Council, which is to be created;
- f) A better representation of the poorest countries in the governing bodies of the IMF;
- g) An acceptance by the IMF and the main shareholders of the necessity of the creation of a true international financial architecture.

My conclusions: If the IMF must be suited to the new economic and international realities, the paradox is that it will do it in rediscovering the spirit which led to its creation.

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