Global Economic Governance and IMF Governance Reform: A Proposal

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The International Monetary Fund (IMF) was created at the 1944 Bretton Woods Conference to oversee an international monetary system consisting of stable exchange rates and a fixed link between the US dollar and gold. Its governance arrangements were designed to support this function and the states that were expected to participate in the system.

It lost this responsibility in 1971 when President Nixon broke the link between the US dollar and gold and initiated the process that led to today's market based global monetary system. This action forced the IMF to develop a new role helping its member states deal with the challenges of market driven exchange rates and free capital flows. In addition, it had to accommodate the needs of its enlarged membership, which, by 1971, had increased from the original 39 states to 117 member states. Many of the newer member states had only recently gained their independence and had different concerns and needs from the original IMF members.

The IMF responded forcefully to the first challenge by amending its Articles of Agreement and changing the scope of its interactions with its member states to better help them manage the challenges of a market based international monetary system. In addition to focusing on monetary policy and balance of payments in its engagements with its member states, the IMF began to raise any economic issue that it though could affect the member's exchange rate or balance of payments. Consequently, the IMF has become more of a macro-economic development financing institution than a specialized monetary institution. Given its financial resources and relations with both sovereign debtors and their creditors, it also began to play an important role in sovereign debt renegotiations.

Its response to its growing membership and their diverse needs, the IMF also increased the size of its Board of Executive Directors, and the number and national diversity of its staff.

Today, the IMF is again facing the need to change. First, it must help its member states address the macro-economic impacts of such complex issues as climate change, public health challenges such as the COVID19 pandemic, inequality and discrimination. Second, it must adapt its policies and operations to accommodate the increasing diversity of sources from which its developing country member states are raising financing and the increasing complexity of the instruments used to raise these funds and the challenges and risks that this creates for African countries. Third, it must respond to the challenge that central banks and financial markets are posing to its role as the lead actor in global financial governance.

This paper argues that responding to these three challenges requires the IMF to reform its own governance arrangements. In order to make this case, the paper is divided into three parts. The first part describes the evolution in the IMF role in global economic governance. The second part discusses why the current governance arrangements are no longer fit for purpose. The final part will recommend some governance reforms that the IMF should undertake to remedy this situation. Given space limitations, the paper focuses on those reforms that the IMF can implement in the short term on its own and that do not require specific actions by its member states.

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