

BY ROBERT J. BARRO

## IF WE CAN'T ABOLISH THE IMF, LET'S AT LEAST MAKE BIG CHANGES



**CUT BACK:**  
The fund should give up bailouts and return to its original mission, acting as a short-term lender to solvent economies

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**P**ersonnel changes at the International Monetary Fund and proposals for changing the fund have been in the news lately. After a lengthy public debate, the leading countries settled on another German, Horst Köhler, to replace Michel Camdessus as the IMF's managing director. Unfortunately, the circus-like process began to resemble an affirmative-action procedure when it became clear that a particular nationality-German-was a prerequisite for the job.

Calls for changes at the IMF came in the report from Congress' International Financial Institution Advisory Commission, led by Allan H. Meltzer. (I was a witness before the commission on issues related to inequality.) The Meltzer Commission's report surprised me by not advocating abolition of the IMF. The report said: "The commission did not join the council of despair calling for the elimination of one or more of these institutions."

The commission came close to recommending abolition, however, by proposing a new IMF that would be limited to short-term-liquidity assistance to solvent economies, collection and publication of data, and provision of economic advice. The short-term-loan facility would represent a reasonable return to the IMF's role under the Bretton Woods regime that prevailed until the early 1970s. However, that role expanded greatly in the 1990s, and it is unclear how such further expansion would be avoided under the new setup. So long as the IMF retains access to lots of money, it will be difficult to say no to large, insolvent countries, such as Mexico in 1995 and Russia in 1998. Past mistakes will probably be repeated, and the elimination of the IMF would have been a better choice.

**AID IN A NEW DISGUISE.** I agree that the IMF's role in the collection and distribution of data has been useful. An advisory role might also be satisfactory (and some of my friends and former students perform these tasks admirably). This function could be served just as well, however, by nongovernmental institutions. In any event, the demand for the IMF's economic advice is likely to be low if it is no longer tied to qualifying for some of its loans.

Also surprising was the commission's call for the IMF to join the Jubilee 2000 campaign for writing off the liabilities of heavily indebted poor countries. This provision was

probably part of a compromise that was needed to secure the 8-3 vote in favor of the commission's overall report. Such debt forgiveness amounts to a form of foreign aid in which the recipient gets the money only by following bad policies that over time fail to achieve sustained economic growth. Foreign aid has a poor record at promoting prosperity, and aid in the form of debt forgiveness is sure to have worse effects.

Admittedly, debt forgiveness has the virtue of forcing the IMF to own up to the low market value of much of its loan portfolio. Hence, the Jubilee concept might not be bad if some mechanism prevented a repeat of the process through new loans that would eventually again be forgiven. The commission proposes that the IMF no longer make such loans, but I would not bet on the implementation of this idea.

**IRRESISTIBLE.** Whatever changes are made to the IMF, the managing director will continue to be one of the world's most important financial officials. Köhler's principal credentials, aside from being German, include his role in the economic unification of East and West Germany. Given the terrible miscalculations in that process-with the overgenerous conversion of the East German mark and the precipitate rush to wage parity-it is hard to regard this experience as a plus. Given my own supposedly difficult personality, however, I found irresistible the adjectives that people have applied to him: irascible, autocratic, unwilling to suffer fools gladly, bad-tempered, strong-willed. At least these were accompanied by more positive ones, such as smart, forceful, hard-working.

The irony is that the IMF had available the ideal candidate in its deputy managing director, Stanley Fischer. Fischer not only is an outstanding economist but also has a pleasant and effective management style, combined with experience at the fund. He also seemed ideal on political grounds because he was born in Africa, previously held a British passport (related to his residencies in the former British colonies of Northern and Southern Rhodesia), and now holds a U.S. passport. Apparently, Fischer's British passport was not enough to make him European, much less German. Anyway, since my opinion of the IMF's social value is unfavorable, I probably ought not to back the most capable candidate as managing director.