May 2011

Selecting a Managing Director

The resignation of Dominique Strauss-Kahn as Managing Director (MD) of the International Monetary Fund (IMF) in May came as an unpleasant surprise, but very likely he would have otherwise resigned in summer to run for the presidency of France against President Sarkozy in the 2012 election. In either case, it leaves the MD position open, and the need to find a successor in this internationally important position.

For over sixty years it has been conventional to appoint a west European for this position. The selection was often subject to the unfathomable vicissitudes of intra-European politics. This convention arose from the perceived need, in the late 1940s, that the President of the World Bank should be an American, since that institution would need to raise funds in New York, the only capital market open to international bond issues at that time. European accepted that rationale, but argued that in exchange the Managing Director of the IMF, the World Bank's sister institution in Washington, should be a European.

That was over sixty years ago. However persuasive the rationale then, it has long since ceased being valid. The World Bank can sell its bonds these days in a variety of places and a variety of currencies. And people qualified for these two top jobs can now be found around the world; indeed many of them have served in the IMF or the World Bank at some point in their careers.

There is a widespread view that the next Managing Director of the IMF should not be a European (or, implicitly, an American). That view is incorrect. The correct view is that the next Managing Director should not necessarily be a European, and that he (or she) should not be chosen by the Europeans alone, to be ratified by the rest of the world. The Group of 20 pledged at its Toronto meeting [ck] that the persons to head both of these important institutions should henceforth be chosen in an open manner based on merit. In the current circumstances, the IMF should establish an impartial panel to identify qualified persons and to ascertain their willingness to serve if selected. The IMF's Executive Board, consisting of 24 persons representing all the members of the IMF, should then discuss the potential candidates, perhaps interview them, and then select among them on the basis of their relevant knowledge, experience, respect, and stamina. Geographic origin should not be among the relevant criteria.

It has been said that since nearly 80 percent of IMF lending now goes to European countries (including not only Greece and Ireland, but also Iceland, Hungary, and Ukraine), it would be appropriate that the next MD again be a European. This thought has some merit, but not much. A European was Managing Director during the Latin American debt crises of the 1980s and again during the Asian financial crises of the 1990s. There is no reason why an appropriate non-European could not preside over support to European countries. Key decisions are in any case made by the Executive Board, representing all members, not by the Managing Director alone. Moreover, during the next five years there are likely to be a number of non-European countries that turn to the IMF for financial support and technical advice.

The 27 members of the European Union still hold altogether 32 percent of the vote in the IMF, nearly one-third, being still over-represented even after the re-allocation of quotas and voting rights that took place last year. (The United States holds just under 17 percent.) But it is individual states that are members of the IMF, not the European Union as a whole. There is no compelling reason that all Europeans should vote for the same candidate, European or otherwise. It is true that 17 of these members belong to the European Monetary System with its common currency and common monetary policy, but even they have divergent interests when it comes to dealing with the IMF, as Greece discovered during 2010. And the other ten still have their own national currencies and national macro-economic policies, which are the principal concerns of the IMF with its members. Thus it would be undesirable both from a national European perspective and from a global perspective if the Europeans felt obliged to vote for the same (European) candidate, despite reservations in national capitals.

There are many plausible candidates for the position of Managing Director. Montek Singh Ahluwalia of India, Mark Carney of Canada, Agustin Carstens of Mexico, Stanley Fischer of Israel (who can also claim origins in what is now Zambia, where he was born, and in America), Trevor Manuel of South Africa, and Tharman Shanmugaratnam of Singapore have all been mentioned, as well as Christine Lagarde of France, the emerging European candidate. I would add to the list Jean-Claude Trichet, soon to retire as chairman of the European Central Bank – another Frenchman. (The French train excellent financial officials.) It is said that, being over 65, he is too old to qualify. But age should not be a criterion either, so long as the person has the right qualifications, including enough energy to sustain the long hours and the extensive travel involved. The IMF could do a lot worse than promoting its acting Managing Director, John Lipsky, a talented American. No doubt the list could be lengthened further. Let the IMF Executive Board get on with doing its job properly, in an open process, without geographic restrictions, based on merit.