

FOREWORD

This global financial crisis has already set in motion serious reforms of the international monetary and financial system, and in particular of the International Monetary Fund (IMF). Proposals for reform have come in fast and furious. They share two features: some of them are ad hoc responses to evolving circumstances, and many originate in the rich countries. There is a real need for serious scholarship, and scholarship from around the world, including developing countries such as India, and from prestigious educational institutions in developing countries such as the National Law School of India. The imbalance around the world in the generation of ideas and scholarship has serious consequences—for agenda-setting, for policy choices, and ultimately for power itself.

Indeed, this imbalance in ideas and power is at the heart of the problem of the IMF itself. Let me elaborate.

Many countries don't see the International Monetary Fund as very "international." Emerging market countries in Latin America, and in particular Asia, see it as an Atlantic-centered, especially Europe-dominated, institution; that is, they see it as a Euro-Atlantic Monetary Fund. They are loath to borrow from it and view it as being prone to double standards in its dealings with member countries. "Never again," they said after the experience of the Asian financial crisis of the late 1990s, and they have not budged from that view.

Are the critics' views justified? Consider the recent Latvia program. Latvia had a current account deficit of 24 percent of GDP and yet was not required to depreciate its currency. Such "immaculate adjustment" may have been appropriate given the large amounts of unhedged foreign currency debt in Latvia, but other non-European emerging markets—with deeply etched memories from the Asian financial crisis—have been asking themselves: If we had come to the Fund under similar circumstances, would we have received similar treatment?

Justified or not, the perception of a double standard has already had consequences. In the current crisis, several emerging market countries (Brazil,

Mexico, Korea, and Singapore) did need emergency liquidity, but they chose to go to the US Federal Reserve rather than the Fund. Contrast that with the countries in emerging Europe, which have shown no such reluctance to borrow from the Fund. Possible conclusion: Only emerging Europe borrows from the Fund because it is a European institution. Most others don't.

All this is a pity because the crisis has created a real opportunity for restoring the Fund's role. In origin, impact, and aftermath, this crisis has been global, emphatically underlining the need for strengthened cooperation.

The crisis has created an opportunity in a subtler way. The Fund was always plagued by an asymmetry between creditors, who had greater say and power, and debtors who did not. And the identities (and biases) of creditors and debtors remained fixed, creating entrenched and often irreconcilable positions.

This global crisis has shaken up those identities. Some debtors of the past are now sitting on large piles of foreign reserves. More importantly, creditors have turned debtors. If today Iceland, Hungary, Latvia, and Singapore have had a need for emergency liquidity, and if even Ireland and Greece are perilously close to such a need, most countries can conclude that almost anyone can be a financial supplicant in the future.

If that is so, they are less likely to devise rules that reflect the power of creditors and more likely to devise rules that are fair to debtors. The philosopher John Rawls showed famously that a society in which individuals are behind a "veil of ignorance" about their true identities is more likely to establish just rules. This crisis has usefully created such a veil of ignorance.

Converting crisis into opportunity requires taking some essential steps. Above all, the industrial countries, especially Europe, must agree to comprehensively rewrite the governance structure of the IMF. Consider just one anomaly: If the recent troubles in Belgium had led to the creation of Wallonia and Flanders, each of these regions, roughly the size of a suburb or slum in Mumbai or Sao Paulo, would have had quota shares not very different from that of India and Brazil.

The voluntary ceding of power is, of course, rare in history. But developing countries have an opportunity to rectify the imbalance in governance because

Europe needs the IMF's resources to bail out the flailing economies on their eastern frontiers. How should they play their cards? They should reject the current proposal to increase resources unless it is accompanied by an overhaul of (not tinkering with) IMF governance. Overhaul would include scrapping the European stranglehold on the job of managing director, selecting the next head of the fund based on merit, and changing quota shares and "chairs" to reflect current economic size and influence. The veto power the United States and European Union currently enjoy must also go.

If the strategy of developing countries is ineffective in making Europe shed this last vestige of empire that dominance in the IMF represents, then they must vote with their feet. The sad truth is probably that only the credible threat of an alternative such as an Asian Monetary Fund will force the current Euro-Atlantic Monetary Fund to become a truly International Monetary Fund.

Is this analysis of the problems of the IMF correct, and are the proposed remedies appropriate? These are among the many issues that will need to be answered. The contributions to this are an important step in this direction.

In conclusion, let me say that this issue is particularly useful and important because it seeks to fill a serious gap in scholarship on important issues of international institutional reform. It marks an attempt to rectify an imbalance that I mentioned above. The editors of this journal should be commended for their foresight in identifying an issue of importance and providing a forum for research and analysis to be published and distributed. I hope this issue will be part of an ongoing and vibrant process of scholarly discussion and debate on important issues which this journal and NLS will shape and guide. The impact of this debate may be slow in coming, and often not very visible. But of one thing I am sure: there will be impact and one of enormous consequence in the long run.

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