REFORMING THE IMF AND G20 ULTIMATUM

The package of reforms approved by the Board of Governance of the IMF in December 2010, need to be implemented urgently as, an ever increasing number of economic crises have been emerging world over. The major road block being experienced in execution of these long awaited reforms is the American indecision and apprehension of an imminent veto if these reforms are put to veto, by virtue of its quota exceeding over 15 percent. Therefore, the recent ultimatum of finance ministers of the G20 given to the US to either approve the reforms by the end of 2014 or face the risk of being left out of the new changes in the IMF is well in time. Yet, inspite of the ultimatum, it would be difficult to ignore the US veto as, the U.S. has its quota above the threshold of 15 percent votes, and the constitution of the IMF permits a veto with 15 percent or more votes. But, these reforms cannot be put on hold for long. Moreover, when the IMFs role of a financial fire fighter is once again proved, when it approved the loan of $ 17 billion for the Ukraine on April 30, 2014. This bailout loan has proved beyond any doubt that the IMF is the most appropriate agency for baling out the crisis ridden countries. Prior to this bailout loan approval of $ 17 billion by the IMF for the cash-strapped Ukraine on April 30th, the US and European Union individually could not extend loans beyond the $ 1 billion and $ 2.2 billion respectively. Hence, the world cannot be made to wait for an unlimited period to seek consent of the US to implement these reforms which include inter alia, doubling of its quota or equity capital and the realignment of its voting patterns.

Therefore, inspite of all the controversies and allegations of a partisan approach in its loan conditionalities, the IMF has still been acting as the world's financial fire fighter in times of crises, excepting the global melt-down of 2008 and Euro zone crisis of 2010, when its resources proved to be too petty, pygmy to bail out the global economic giants. It is also true that, it had displayed a partisan attitude, as part of the Washington consensus for furthering the OECD interests at the time of bailing out of the most of the early intensive adjustment lending (EIAL) countries of Asia, Africa and Latin America in 1980s. In balling out India out of the BOP crisis in early 1990s was also against the package of terms, much to the prejudice of the economic interests of the country then. But, the proposed reforms in the quota and voting pattern of the IMF would help it to partly overcome both these limitations i.e. of the resource constraints well as of its Pro-EuroAmerican stance after doubling of it quota (equity capital) and realignment of voting rights of the members. As per the 14th quota review, over 6% of quotas were to be redistributed from developed to the developing countries. In that case, China's quota could become the third largest among the IMF member states, and Brazil, India, China and Russia could be among the fund's 10 largest stockholders. The proposed reforms would also double the IMF's quota – in effect its equity capital – to $720bn; and move two of the 24 IMF directorships from European to developing countries. As of January 15, 2013 almost 130 members having 70.2 per cent of the total voting power has already accepted these reforms. But, more than the 85 percent of the IMF's total voting strength is required for these amendments to enter into force. In addition, to this 145 members with 77.1 per cent of total quota, have also consented to the quota increases under the aforesaid 14th General Review of Quotas (GRQ).

The year 2014 has special significance for the IMF as it also marks the completion of 70 years since the Bretton-Woods Conference held in 1944 when the main parameters of the post-war world - currency and financial systems were defined and the decision to create the International Monetary Fund was made. At that time, it was decided to have fixed exchange rates for the currencies of participant countries, along with the pegging of all currencies to gold (gold parity). Free convertibility of dollars to gold by the US Treasury was also assured to the monetary authorities of other countries. All of these are no more now.

The Fund's main function was then defined as extending credit to member countries at the time of a deficit balance of payments where it could endanger the deviation of exchange rate of that currency from the established fixed rate and from gold parity. India was among the 5 top stockholders of the IMF as well as World Bank, with one permanent director till 60s in each of them.

The IMF is now an international organization of 188 member countries, which constitute the major part of the global economy with its explicit objectives to foster global monetary cooperation, secure financial stability, facilitate international trade & payments, promote high employment with sustainable economic growth, and reduce poverty around the world. Of late, its resources are proving too inadequate to take care of the emerging crises worldwide, especially those erupted recently in the developed countries. Therefore, the proposed rise in its quota i.e. financial resources and voting strength of emerging market economies is in tune with the need of the hour.

The IMF had overcome a more serious crisis to its existence in the 1970s, when the Bretton-Woods system collapsed, especially because on August 15, 1971, the U.S. President R. Nixon announced that the U.S. Treasury was terminating the convertibility of dollars to gold. The final dismantling of that erstwhile system was effected at the Jamaica Conference in 1976, when amendments were made to the IMF Charter. Thereafter, floating exchange rates were enacted and the pegging of the dollar and other currencies to gold was terminated. Now also the G20 has given an ultimatum to the US to pass the reforms, awaiting its consent for the reform of the International Monetary Fund or risk being left out of the new changes. The finance ministers of G-20 had met in Washington for the spring meetings of the IMF and World Bank and expressed their "deep disappoint" at the failure to implement changes agreed in 2010, for want of the requisite US consent and gave the US the final time love until the end of the year 2014 to do so or face ignored. However, despite this ultimatum, it is not clear what next step the G20 can take, since the US has a blocking minority of votes at the fund – which is the reason, its inaction has delayed the reforms hitherto for last more than 3 years. Indeed the United States has had controlling stake in the IMF ever science its inception with 15 percent votes. Moreover, the U.S. never had problem in mobilizing support of the UK and France as well to push through its agenda. But in every case this stalemate has to be resolved.

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