



Michel Camdessus at the IMF A Retrospective

It may be some years until a definitive assessment of Michel Camdessus's unprecedented 13 years as Managing Director can be made. In this article, the IMF's Historian provides a preliminary evaluation.

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THE STORY of Michel Camdessus's long tenure as the seventh Managing Director of the IMF and Chairman of its Executive Board is nothing less than the history of the institution over those 13 years. On few issues could he be accused of being a passive observer or of being led by events rather than leading the IMF's response to them. Indeed, it is difficult to tell the story without turning it into a history of the global economy from 1987 to the end of the century.

To be a great leader, one must first be presented with great challenges. For that, Camdessus was blessed with the curse of living in "interesting times." When he arrived at the IMF in January 1987, after a hotly contested election in the Executive Board, he immediately faced four major issues where he believed he had to strengthen the IMF's role: the uncertain state of international monetary cooperation among the large industrial countries, the stalled strategy for resolving the international debt crisis, the seemingly intractable state of arrears to the IMF by several countries, and the deepening poverty in sub-Saharan Africa and other regions. Those first few years—the end of the 1980s—seemed tumultuous enough, but the collapse of international communism and rapid globalization of finance in the 1990s presented even greater challenges.

Overseeing the system

The central and unique role of the IMF is surveillance: that is, to oversee the international financial system and the exchange rate policies of its member countries (which now include virtually all the countries of the world). Camdessus acted to strengthen that role by transforming surveillance into a much more open and transparent process and by developing new internal procedures to give the IMF a clearer and more up-to-date picture of world economic developments. In addition, he helped develop a closer working relationship between the IMF and European countries and institutions during a period of rapid regional change. As the European Community developed into the European Union, created a common currency in the euro, and established the European Central Bank, the IMF welcomed and supported that process. More generally, Camdessus extended and broadened the IMF's capacity to provide technical assistance and policy advice to governments and central banks around the world. Surveillance became a broader cooperative exercise between the IMF and its members, covering not just macroeconomic policies but also structural issues ranging from data quality to the soundness of the banking system.

In the wake of the Asian and Russian crises in 1997 and 1998, respectively, the need for greater stability of international capital flows further deepened the IMF's role in overseeing the system. Under the rubric of redesigning the "architecture" of the international financial system, Camdessus directed the debate toward incremental change.

By the end of 1999, some initiatives were already in place: notably, the Supplemental Reserve Facility, designed to enable the IMF to respond more forcefully to financial crises; the option for countries to apply for Contingent Credit Lines from the IMF, to reassure creditors of the soundness of their economic policies and the strength of their resources; and standards for the timely dissemination of economic data by member countries. Other initiatives to stabilize relations between emerging market countries and international creditors, limit sudden capital outflows and the effects of financial contagion, strengthen countries' financial systems, and promote good governance and transparency in policymaking were under development or being discussed. The continuing central role of the Interim Committee of the Board of Governors was stressed by

reconstituting it as the International Monetary and Financial Committee. But Camdessus's persistent efforts to win agreement on new SDR allocations—to strengthen the reserves of countries without ready access to capital markets and to make the SDR "the principal reserve asset in the international financial system," as mandated by the IMF's Articles of Agreement—were still short of securing the necessary consensus.

Managing the debt strategy

The strategy devised by Camdessus's predecessor, Jacques de Larosière, for dealing with the Latin American debt crisis in 1982 was aimed at averting defaults on bank loans by the most heavily indebted countries, preventing a collapse in the international banking system, and inducing the indebted countries to strengthen their economic policies. The centerpiece of that case-by-case strategy was "concerted lending," which kept the banks from trying to pull their money out by linking IMF financing to increased exposure by the banks. By 1987, when Camdessus took over, the banks were rebelling, many of the indebted countries were still economically depressed, and restoration of reasonable growth was not in sight. The strategy that had worked so well at the beginning—and had prevented a systemic collapse—was no longer viable.

Camdessus was open to debt reduction as a way to reduce the crippling "overhang" of debt in the most heavily indebted countries, but he wanted to make sure that it was coupled with the right policies and conditions. Moreover, he felt that the IMF should advance cautiously and not get ahead of political opinion in creditor countries. He moved experimentally his first two years, helping Bolivia buy back its debt at a discount, allowing the IMF to lend to Costa Rica before the country had reached agreement with private creditors to settle arrears, and, more generally, expanding the menu of settlement options beyond concerted lending. That quiet evolution helped pave the way for the Brady Plan of 1989—named after Nicholas Brady, the U.S. Treasury Secretary at the time—which, in turn, provided the opportunity to leap forward. In quick succession, the IMF approved and helped finance debt-reduction programs for Costa Rica, the Philippines, Mexico, and Venezuela. Other Brady deals followed, and the debt crisis of the 1980s faded away.

	1987	1988	1989	1990	1991
IMF	<ul style="list-style-type: none"> • Camdessus becomes Managing Director • Creation of ESAF 	<ul style="list-style-type: none"> • Collaborative approach for arrears 	<ul style="list-style-type: none"> • Implementation of Brady Plan 	<ul style="list-style-type: none"> • Study of Soviet economy 	<ul style="list-style-type: none"> • Technical assistance to former Soviet Union
WORLD EVENTS	<ul style="list-style-type: none"> • G-7 meeting at Louvre • Global stock market crash 	<ul style="list-style-type: none"> • Toronto terms for debt relief 	<ul style="list-style-type: none"> • Fall of Berlin Wall 	<ul style="list-style-type: none"> • Middle East crisis 	<ul style="list-style-type: none"> • Dissolution of Yugoslavia • Dissolution of Soviet Union

Reducing arrears, strengthening policies

Like the debt strategy, the policy for dealing with countries in arrears to the IMF was in need of a new direction in 1987. Until the early 1980s, countries had almost always repaid the IMF on time. Rapid expansion of credits to low-income countries with deep-seated structural problems and an increasingly harsh external environment then led to debt-servicing problems. Eventually, more than a dozen countries experienced prolonged arrears in repaying their financial obligations to the IMF. Camdessus's dilemma was to find a way to help countries adjust economic policies and develop plans to settle their arrears, without weakening the incentives for all borrowers to meet their obligations and respect the IMF's status as a preferred creditor. Some countries in arrears could have paid but were unwilling to make policy changes and short-term sacrifices, while others were unable to pay because of devastating external conditions. Camdessus urged the IMF to be more flexible with countries that were prepared to build a track record of good policies and cooperate in restoring normal relations with creditors.

Beginning in 1988, this new "collaborative" approach enabled several countries to repay part or even all of their overdue obligations to the IMF. Some creditor countries insisted on adding a stick to the carrot, in the form of the Third Amendment to the IMF's Articles of Agreement, which enabled the IMF to suspend the voting rights of member countries that were in violation of the Articles. Camdessus displayed little enthusiasm for that proposal, but the ratification process was linked to one of his most important projects: a 50 percent increase in IMF quotas, which took effect in 1992 along with the amendment. Over the 1990s, the backlog of arrears cases was gradually whittled down, while the IMF worked with donors to put most of the affected countries on a more solid financial footing.

Payments arrears to the IMF had arisen as part of a more general problem in the design and implementation of policy adjustment programs. To strengthen economic policies, promote high-quality growth, and help prevent a recurrence of arrears, Camdessus pushed to supplement the IMF's traditional lending conditions with policy recommendations and conditions on a wide range of structural issues. Excessive military spending, inadequate accountability for the use of funds, and insufficient attention to the needs of the poor: all

became legitimate concerns of the IMF and the international community in negotiating financial arrangements. Helping governments design these and other reforms in consonance with the country's own needs was never easy, and many critics questioned whether the IMF's mandate extended that far. But Camdessus saw the importance of domestic "ownership" of reform, and few critics ever accused him of shying away from the effort.

Reducing world poverty

From the beginning, Camdessus was convinced that pervasive poverty threatened global financial stability and was therefore a paramount issue for the IMF. The IMF is not an aid agency, nor is it the lead organization for reducing poverty in the world, but it was to play a greater supporting role than ever before.

Concern for the effects of financial instability on the poor was not new to the IMF in 1987, but it was not yet in full focus. The IMF's fifth Managing Director, Johannes Witteveen, had nudged the institution toward longer-term lending to developing countries and introduced the Trust Fund as a vehicle for concessional lending to the poorest countries. His successor, Jacques de Larosière, strengthened the IMF's liaison on poverty issues with the World Bank and the United Nations and introduced the Structural Adjustment Facility (SAF) as a way to recycle Trust Fund repayments back to needy countries and strengthen economic policies in those countries. What was needed in 1987 was a commitment by the IMF to help countries design policy programs in ways that would protect the poor from bearing the brunt of adjustment and to attract new money to supplement the no-longer-adequate resources of the SAF.

Before the end of Camdessus's first year, the Executive Board tripled the IMF's resources for low-interest loans and created the Enhanced Structural Adjustment Facility (ESAF). Transforming the ESAF into a leading and permanent source of concessional finance, as a way to promote effective policy implementation and catalyze bilateral aid flows, became a major vocation throughout his three terms at the IMF. Undeterred by critics who argued that other institutions were more appropriate for this task than the IMF, he persuaded more than 40 countries—developing countries as well as the usual industrial-country donors—to provide grants and loans

	1992	1993	1994	1995	1996
IMF	<ul style="list-style-type: none"> Expansion of Executive Board to 24 seats Stand-By Arrangement with Russia 50 percent increase in IMF quotas Third Amendment to the Articles of Agreement 	<ul style="list-style-type: none"> Creation of Systemic Transformation Facility 	<ul style="list-style-type: none"> Appointment of three Deputy Managing Directors Madrid Declaration 	<ul style="list-style-type: none"> Stand-By Arrangement with Mexico 	<ul style="list-style-type: none"> Approval of HIPC Initiative and permanent financing for the ESAF
WORLD EVENTS	<ul style="list-style-type: none"> Creation of Commonwealth of Independent States 		<ul style="list-style-type: none"> Tequila crisis in Mexico 		

to the ESAF Trust. He persuaded the IMF's Executive Board to increase access limits so that the ESAF could make a bigger contribution to financing adjustment programs in poor countries. His insistence on making the ESAF and its policy conditionality an integral part of the debt-relief process, and his tenacity in securing funding for reducing the debts of low-income countries, made it possible for donor countries to agree in 1996 to convert the ESAF into a permanent facility and to establish the Initiative for Heavily Indebted Poor Countries (HIPC). Finally, in his last year as Managing Director, he developed a political consensus in favor of creating the Poverty Reduction and Growth Facility as the successor to the ESAF and for raising new HIPC financing from the profits from revaluing a portion of the IMF's stock of gold.

Crossing the wall

The fall of the Berlin Wall and the democratization of Eastern and Central Europe brought the IMF into a closer working relationship with existing members, such as Hungary, Poland, and Romania, and enabled all of the other countries in the region to join the IMF in the early 1990s. Within weeks after a democratic government was elected in Poland in 1989, Camdessus met with the new authorities in Warsaw, assembled a group of official creditors, and personally managed the IMF's first Stand-By Arrangement with the country. That was followed in quick succession by financing arrangements for Hungary, Czechoslovakia, Bulgaria, and Romania. The 1991 breakup of Yugoslavia, which had been a prolonged and troubled user of IMF resources throughout the 1980s, and membership for a newly market-oriented Mongolia further increased the immersion of both Camdessus and the IMF in the economics of transition.

Soon after the Soviet Union disintegrated at the end of 1991, all 15 successor states joined the IMF. Suddenly, the division of the world into separate political and economic systems was no longer meaningful. Just as suddenly, the IMF was transformed as its membership became virtually universal. Most of its new members needed immediate technical and financial assistance, and Camdessus moved quickly to put the IMF in the lead position to provide it. At the request of the major industrial countries, the IMF convened a multi-institutional group that included staff from the World Bank, the Organization for Economic Cooperation and Develop-

ment, and the European Bank for Reconstruction and Development. In just six months, that group produced a blueprint for technical assistance aimed at integrating the newly independent countries into the world economy. The IMF also established the Systemic Transformation Facility (STF) as a temporary, quick-disbursing lending window for countries in transition to a market economy. It reinforced STF lending with stand-by and other financing for Russia, the Baltic countries, and most of the other countries of the former Soviet Union. By mid-1999, Russia alone had outstanding obligations totaling some SDR 12.4 billion (\$17 billion) and accounting for 22 percent of all obligations to the IMF.

At the beginning, the IMF's staff of macroeconomists was still not fully expert on the massive structural problems of these countries, but Camdessus was able to bring the IMF up to speed by adding new staff and reallocating existing resources. He also fought a lengthy political battle to persuade industrial and developing countries to authorize a unique round of SDR allocations targeted primarily at the new members, who had never received any allocations. A compromise proposal, requiring yet another amendment to the Articles of Agreement, was finally approved by the Board of Governors in 1997, but it had still not been formally ratified by member countries at the end of 1999.

Waking up to the new century

When the value of the Mexican peso collapsed in December 1994, Camdessus called it the "first financial crisis of the twenty-first century," because it reflected a new level of globalization and rapid reactions in international financial markets. The IMF played a central role in resolving that crisis by quickly negotiating an unusually large financial arrangement and by helping to arrange additional financing from other official creditors. Unfortunately, another series of crises hit Asia in 1997, and Russia and Brazil in 1998. Even before the new century had officially begun, instability in financial markets had become frighteningly dangerous. Camdessus responded by promising and delivering large financial commitments and then by working closely with the affected countries and with the international financial community to turn policies around and to begin to stabilize capital flows.

These financial crises subjected the IMF to the most intensive public scrutiny in its history. The IMF as an institution

1997	1998	1999	2000
<ul style="list-style-type: none"> Approval of New Arrangements to Borrow Board of Governors approves Fourth Amendment Creation of Supplemental Reserve Facility 	<ul style="list-style-type: none"> General Arrangements to Borrow activated for Russia New Arrangements to Borrow activated for Brazil 	<ul style="list-style-type: none"> 45 percent increase in quotas Establishment of Contingent Credit Lines Revaluation of gold holdings to help finance ESAF-HIPC Trust 	<ul style="list-style-type: none"> Camdessus steps down as Managing Director
<ul style="list-style-type: none"> Asian financial crisis 	<ul style="list-style-type: none"> Russian and Brazilian financial crises 	<ul style="list-style-type: none"> Inauguration of the euro 	

and Camdessus as its head and symbol were intensely criticized (along with many analysts) for failing to foresee the crises, and some critics accused the IMF of contributing to the problem by lulling creditors into lending to countries with doubtful economic prospects and then frightening them away. The force of that attack, however, was soon blunted as the IMF's lending and its overall crisis management was seen to contribute to dramatic recoveries in some of the hardest-hit economies.



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appropriately to persistent demands on the IMF's limited resources so as to maintain the IMF's relevance in a changing world while preserving its essential monetary character? Those questions are not easily answered without the perspective that will become available only to tomorrow's historians.

When Camdessus announced his intention to step down, a reporter asked him to name the most important qualities that his successor should have. "A solid sense of humor!" he shot back without hesitation. It would be tempting

Conclusion

In responding to all of these challenges, Camdessus brought a strong sense of humanism to his work that ultimately changed the face of the IMF, and he never wavered from a conviction that the IMF's basic role was to help improve people's lives. Despite this conviction and his many successes, a final judgment on his legacy will rest on the answers to two large questions. Was he, as some critics have charged, too eager to lend to Russia in response to political pressure, or did he carve out a carefully measured response to the greatest political and economic challenge of the late twentieth century? Was he guilty of "mission creep," of leading the IMF into an expanding circle of questionable new activities, or did he respond

to read this response as just a tactical deflection of an awkward question, except that it so clearly came from the heart. No previous Managing Director had lived so long or so openly in the public eye, nor been subjected to so much scrutiny, so much political pressure, and so much criticism along with the admiration. None of his predecessors had faced such a diverse series of global economic and financial crises, nor had they moved so aggressively to take the IMF into new territory. None had been so frequently written off by the press as unlikely to continue, and yet none had survived so long in the job. Without a strong sense of humor, it seems likely that no one could muster the stamina that leadership of the IMF now demands. **F&D**

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