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Managing the Fund in a Changing World

Previous chapters have examined issues related to the role of the IMF in the world economy. How did the Fund's role evolve in dealing with matters as diverse as the erratic value of the U.S. dollar, the debt crisis in Latin America, and the worsening spiral of poverty in Africa? How did it obtain and manage its resources and deal with a growing membership? This final chapter turns inward for a closer look at the institution itself. As the Fund took on a widening circle of responsibilities, its relations with other multilateral organizations inevitably became more complex. To a much greater extent than before, the Fund saw a need to explain itself and its functions regularly and actively. More subtly, its organizational structure, management, and staff evolved and modernized to cope with a rapidly changing world economy.

Collaboration

In an ideal world, each international organization would serve a unique purpose and would perfectly coordinate its work with others as appropriate. In practice, purposes and activities overlap in ways that change in response to events and require ad hoc rather than resolute coordination. The IMF's relations with other organizations did not change fundamentally during the 1980s, but they did evolve, mainly in response to the debt crisis and the need for structural reforms in many borrowing countries.[1]

World Bank

The most important linkage for the Fund is its relationship with the World Bank. The two have always been known as the "Bretton Woods twins"[2] and more

[1]This section gives a selective review of the Fund's relations with other institutions, focusing on the main players. Fund staff and management also had recurring interactions with many other organizations, including notably the regional development banks.

[2]The term originated in a speech by John Maynard Keynes to the inaugural meeting of the Boards of Governors, at Savannah, Georgia, in March 1946: "The gestation has been long; the lusty twins are seriously overdue . . . (and I shall always hold to the view that the christening has been badly done and that the names of the twins should have been reversed)." Quoted in Harrod (1951), p. 631.

mundanely as "sister organizations." The sibling analogy is apt, but it only hints at the nature of the relationship. As the twins have matured, they have continued to live next door (facing each other across 19th Street in Washington, D.C.) and have successfully pursued closely related careers. One is a tidy disciplinarian (both toward itself and others), physically small, nearly devoid of humor, and more interested in gaining respect than in being loved. The other, of course, is a culture apart.[3] They nonetheless manage to accommodate each other's needs most of the time, and their occasional spats are noteworthy enough to make news. During the 1980s, the increasing complexity of the tasks undertaken by both the Fund and the Bank broadened the overlap in their functions and heightened the need for careful coordination in dealing with member countries.

The Fund and the Bank have tried over the years to reduce organizational duplication by forming partnerships on certain administrative operations. Some have succeeded, including their joint library and medical service and joint secretariat for conducting the Annual Meetings of the two Boards of Governors, all of which have been functioning since the 1940s.[4] From 1972 to 1999, the two institutions adopted parallel policies on staff compensation and benefits. Although the two Executive Boards operate independently, a few Executive Directors have always served on both.[5] Other attempts at partnership have eventually failed because the specific needs of the staffs have not meshed, including a joint computer services operation that was started in 1968 and abandoned in 1986 when the operational role of computers (especially desktops) became much more pervasive. Still other ideas have been abandoned after preliminary discussions. For example, consideration was given in the 1980s to producing a single set of Bank-Fund macroeconomic forecasts, and proposals were made to merge the training operations (the IMF Institute and the Bank's Economic Development Institute). In these and other cases, the staff convinced both managements that competition and a continued focus by each organization on its own sphere of expertise would produce better products.

More ambitious proposals to merge the two institutions were never seriously pursued.[6] That reluctance derived only partly from respect for the distinct natures

[3]For a good overview on the cultural differences, see Polak (1997). Also see Kapur, Lewis, and Webb (1997), which likens the Fund to the Catholic church and the Bank to "a contentious collection of Protestant sects" (p. 622). Some Fund staff who read drafts of this chapter protested that it underplays the often close and effective collaboration between Fund and Bank staff working on individual countries; others felt that any suggestion of effective collaboration was "Panglossian."

[4]The library and health room were established in 1947. In 1981, the health service was upgraded to a Medical Department, situated within the World Bank but supported by both institutions. From 1946 to 1962, the two Secretaries put together an ad hoc joint staff operation each year to prepare for and service the Annual Meetings. A full-time joint conferences office was established in 1963.

[5]France and the United Kingdom each appointed a single Executive Director throughout the 1980s, and Jacques de Groote (Belgium) was elected to serve on both Boards (1973–94).

[6]See Bergsten (1994), especially the discussion of the value of "functional specificity" on p. 347; the paper by Moisés Naím in Boughton and Lateef (1995), pp. 85–90; and Polak (1994a), p. 155. Krueger (1998) provides a good overview of the distinct and overlapping functions of the two institutions.

of the Bank and the Fund. The Bank was far larger than the Fund (3,400 professional staff members in 1989, compared with 1,100 at the Fund) and had a much broader range of activities and responsibilities. In practice, a merger would therefore have folded the Fund into the Bank, a prospect not viewed positively by most governments, and would most likely have added to rather than alleviated the Bank's already considerable bureaucratic burdens.

When the Fund and the Bank were conceived, in the course of discussions between officials of the United States and Great Britain during the Second World War, their purposes were clearly delineated: financial stabilization for the one and postwar reconstruction and economic development for the other. Their separate specific functions were less clearly defined, and once they began operations in the late 1940s, they found that they would at least occasionally have to coordinate their efforts to help the same countries cope with different manifestations of the same problems. Once they became established as major and permanent participants in the international financial system, formal agreements on responsibilities and procedures for coordination became essential.

The first and most basic agreement was made in 1966, and all subsequent agreements built upon it. At the beginning of that year, the Managing Director and the President of the World Bank issued identical statements to their staffs and Executive Boards outlining procedures for collaboration. Those statements led to several months of discussions in the two Executive Boards and between the two managements and staffs on refinements to the agreements. Finally, a joint document was issued in December, which formally introduced the idea of "primary responsibilities" for each institution in situations where functions overlapped:

> As between the two institutions, the Bank is recognized as having primary responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities. . . . [T]he Fund is recognized as having primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advance. . . . [T]he range of matters which are of interest to both institutions . . . includes . . . the structure and functioning of financial institutions, the adequacy of capital markets, the actual and potential capacity of a member country to generate domestic savings, the financial implications of economic development programs both for the internal financial position of a country and for its external situation, foreign debt problems, and so on.[7]

[7]"Fund-Bank Collaboration," memorandum to Members of the Executive Board from the Secretary and to Department Heads from the Managing Director (December 13, 1966); in IMF/CF (B 600 "Bank/Fund Collaboration on Missions and Meetings, 1966"). The initial documents by the heads of the two institutions are in the same file.

These principles were reaffirmed in 1970 and on several occasions in the 1980s, and the procedures for collaboration and avoidance of inconsistent advice were gradually made more specific.[8]

Despite this broad institutional agreement, the staffs of the Fund and the Bank had very different conceptions of their respective roles throughout the 1970s. These differences involved not just where to draw the line, but in what direction it should be drawn. For the Bank, the crucial dimension was stabilization versus development, short- versus long-run. The Fund resisted being squeezed into that pigeon hole and argued that its conditionality had to aim at promoting longer-term balance and providing a proper basis for economic development. For the Fund, the proper demarcation was between macro- and microeconomics, between aggregate performance and the structure of the economy. The Bank resisted being squeezed out of discussions related to the longer-term dimensions of borrowers' macroeconomic policies.[9]

The main line of battle centered on the evaluation of a country's balance of payments prospects over the medium term (i.e., beyond a one- to two-year horizon). Suppose that a country's macroeconomic and exchange rate policies are fundamentally inconsistent with the achievement of equilibrium in the balance of payments over a period of several years. Its problem is not so much a temporary, but more nearly a permanent, external disequilibrium. The Fund and the Bank both

[8]See "Fund/Bank Collaboration," EBD/70/38 (February 19, 1970); "Progress Report on Fund Collaboration with the Bank in Assisting Member Countries," SM/81/62 (March 19, 1981) and minutes of EBM/81/62 (April 20, 1981); and "Fund-Bank Collaboration—A Further Progress Report," SM/84/210 (August 27, 1984) and minutes of EBM/84/171 (November 28, 1984). The 1966 agreement is attached to the 1970 document as an appendix. For the legal history of Fund-Bank relations, see Gold (1982). As a matter of principle, the Fund and the Bank affirmed on several occasions that they should not impose cross-conditionality, defined as a requirement that a borrower meet the conditions of one institution in order to qualify for a loan or credit from the other. In practice, the overlapping activities and common purposes of the two institutions occasionally made compromises necessary. See Chapter 14, on the complexities of avoiding cross-conditionality in cases where the Fund and the Bank were both making structural adjustment loans; Chapter 15, on the implications of asking the Bank to certify the quality of a country's investment plans as a condition for approving extended arrangements; and Chapter 16, on the difficulties of developing a coordinated strategy vis-à-vis countries in arrears without resorting to cross-conditionality.

[9]For example, in December 1973, the Bank's Chief Economist, Hollis B. Chenery, submitted a draft memorandum for comments by the Fund staff, which referred to the "Fund's primary interest in questions of short-term balances" and asserted that "it is the difference between short and medium-term approaches, between support for stabilization and development, which provides the rationale for distinct, though overlapping, programs of economic work." In response, Ernest Sturc (Director of the Fund's Exchange and Trade Relations Department, or ETR) objected to this description and noted that "the Fund staff is necessarily concerned with the macro-economic targets and financial aspects of a country's medium-term strategy." The disputed language was deleted from the final memorandum. See memorandum from Sturc to Mahbub ul Haq, Director of the Policy Planning and Program Review Department of the World Bank (December 18, 1973) and attachment; and memorandum from Sturc to the Managing Director (February 28, 1974) and attachment; in IMF/CF (B 600 "Bank/Fund Collaboration on Missions and Meetings, 1972–1979").

felt that resolution of that type of problem was their primary responsibility: the Fund, because the cause was inappropriate macroeconomic policies; the Bank, because it was a longer-term problem of structural imbalance.

When the Bank began making "Structural Adjustment Loans" (SALs) for medium-term balance of payments financing in 1980, it had to reconcile that activity with the Fund's "primary responsibility" for the balance of payments. The Managing Director, Jacques de Larosière, was careful to insist that the Fund would continue to take the lead in advising countries on medium-term balance of payments issues. In an opening statement at a meeting of the Fund's Executive Board on this matter, he noted the importance both of "close collaboration . . . to ensure coordinated action" and of retaining "the distinct character and functions of each institution. For example," he continued, "it is my understanding that if the World Bank were to consider that a country's program of structural adjustment should include a medium-term target for the current account of the balance of payments, the Bank would look to the Fund to develop such a target in close consultation with the national authorities."[10] The Bank did not challenge that understanding, and the management of both institutions issued instructions to the staff on specific procedures for collaborating in countries where both were concerned with medium-term policies. As illustrated most dramatically by the Argentine debacle of 1988 (see Chapter 11 and below), the willingness of staff in the field to defer to their siblings in assessing countries' balance of payments or development requirements was not uniformly high. Nonetheless, most disputes were resolved before they disrupted the provision of assistance to countries.[11]

In addition to problems in defining the boundaries of each institution's territory, important differences in view occasionally arose regarding policy recommendations. As an internal Bank review paper noted in 1986, a common cause of those differences was that the Fund and the Bank focused on different constraints on policymaking.[12] Since the Bank was concerned primarily with determining the requirements for achieving a target growth rate in a country, its staff typically set out to derive the necessary levels of imports, expenditure, and external financial assistance to get the desired result. Since the Fund was concerned primarily with determining the requirements for achieving financial viability and stability for a given level of domestic saving and external assistance, its staff typically set out to derive the corresponding restrictions on imports and other expenditures and treated the growth of output as endogenous. When the resources available to a country were insufficient to produce adequate economic growth, the two ap-

[10]Minutes of EBM/80/83 (May 28, 1980), p. 24.

[11]See "Progress Report on Fund Collaboration with the Bank in Assisting Member Countries," SM/81/62 (March 19, 1981), p. 10; "Fund-Bank Collaboration—A Further Progress Report" SM/84/210 (August 27, 1984), pp. 5–8; "World Bank Staff Paper Entitled 'Progress Report on Bank-Fund Collaboration'," EBD/86/163 (June 4, 1986), pp. 4–5; and "Progress Report on Bank-Fund Collaboration," EBS/90/131 (July 12, 1990), pp. 2–3.

[12]Attachment to "World Bank Staff Paper Entitled 'Progress Report on Bank-Fund Collaboration'," EBD/86/163 (June 4, 1986), p. 4.

proaches were bound to generate substantially different outcomes in which the Bank view was relatively optimistic and expansionist. In such cases, each team was likely to view the other's work as irrelevant for the problem it was trying to solve.[13]

To minimize inconsistencies in policy advice, the institutions sought to work more closely together in the 1980s. Proposals to send joint staff missions to countries were usually regarded as unworkable, but more modest tactics—including a Fund staff member on Bank missions, and conversely, and scheduling concurrent missions to countries—were applied with increasing frequency.[14] Staff attendance at relevant meetings of the sister institution's Executive Board also became a more regular practice. Beginning in 1985, the Managing Director and the Bank President began meeting over lunch on a regular monthly schedule, together with a few senior staff, in part to head off possible conflicts in dealing with member countries or on policy issues. In addition, on several occasions the Fund and the Bank held joint seminars and symposia on topics of common interest.[15]

Two other events of the 1980s induced more specific Fund-Bank collaboration: the institutions' foray into structural adjustment lending and the international debt crisis.

The creation of the Structural Adjustment Facility (SAF) in 1986 was an obvious intrusion by the Fund onto the Bank's traditional turf, in that it required borrowers to negotiate medium-term structural reform programs with the Fund. Few objected to the move, on either side of 19th Street, because it was clearly a productive use of the money that the Fund had on hand from the reflows of the old Trust Fund, and it would supplement the resources of the Bank's International Development Association (IDA) for the benefit of low-income countries (Chapter 14). Moreover, the SAF was similar in key respects to the Extended Fund Facility (EFF), through which the Fund had already been making long-term loans for structural adjustment for a decade. The SAF did, however, call for more formal coordination than in the past.

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[13]Discrepancies also arose naturally in specific cases because of technical or philosophical differences between economic models used in the two institutions, but those differences generally were neither large nor systematic. Informal staff discussions on models and results usually sufficed to narrow the gaps.

[14]In the first five years covered by this History (1979–83), Fund staff participated in 56 World Bank missions; in the last five years (1985–89), 82 missions (up 46 percent). Bank staff participated in 39 Fund missions in the first five years and 102 in the last five (up 162 percent). There were 21 joint missions in the first five years, and 11 in the last five (down 48 percent). These data are compiled from tables in "Fund-Bank Collaboration—A Further Progress Report," SM/84/210 (August 27, 1984); "Fund-Bank Collaboration—Developments in 1985," SM/86/40 (February 25, 1986); and "Progress Report on Bank-Fund Collaboration," EBS/90/131 (July 12, 1990). These figures exclude cases where Policy Framework Papers were involved (see below), since those cases required joint discussions with the authorities.

[15]For examples, see Chapter 13, p. 611, on the 1987 conference on growth-oriented adjustment programs; and Chapter 14, p. 699, on a series of seminars in which Fund and Bank staff exchanged views on ways to limit the adverse effects of adjustment programs on low-income groups.

The principal innovation, as discussed in Chapter 14, was the "Policy Framework Paper" (PFP): a document to be negotiated by the borrowing country with the staffs of both the Fund and the Bank and approved by the Executive Directors of both institutions. The Bank's Executive Board (sitting as a Committee of the Whole) would discuss each PFP first and would naturally focus primarily on the developmental and structural aspects of the paper. The Fund's Board would have the Bank's assessment at hand along with the PFP for its own discussion. It would normally defer to the Bank's judgment on those issues, but it would retain its independence to act as it saw fit. Although most PFPs in the 1980s turned out to be too broadly drafted to have much operational significance, the process did serve to enable the Fund to get the SAF and its "enhanced" sequel (the ESAF) running without provoking internecine warfare or dragging the Fund staff too deeply into unfamiliar waters.

A few countries, notably the United States, argued for more institutional coordination in dealing with PFPs. During the June 1987 SAF review by the Executive Board, the U.S. Director, Charles H. Dallara, argued that the Bank should link its lending decisions explicitly to the PFP and that the Fund and the Bank should "move in tandem" in approving PFPs.[16] At the Annual Meetings in Washington in October 1987, the U.S. Treasury Secretary, James A. Baker III, made a direct appeal for strengthening coordination along these lines. "I . . . call on the Bank and the Fund to undertake joint missions, and to form a joint committee of the two Executive Boards, to review [PFPs]. IDA loans should also be integrated into policy frameworks as closely as loans from the SAF" (IMF, *Summary Proceedings*, 1987, p. 111). Each of those proposals was considered by the Executive Boards, but all were ultimately rejected as impractical, as was a suggestion that joint documents similar to PFPs could be developed for some middle-income as well as low-income countries.

Collaboration in assisting middle-income developing countries did intensify in the second half of the decade. For two years after the debt crisis hit in 1982, the Fund concentrated on negotiating adjustment programs that would justify persuading commercial bank creditors to continue to lend to the affected countries. By 1985, however, the Fund's ability to provide additional credits to several of the most heavily indebted countries was extremely limited. Multiyear rescheduling agreements by other creditors, combined with enhanced surveillance by the Fund, gave some additional life to the strategy, but more systematic relief required both new money and a more structural approach to economic reform. That realization led to the Baker Plan, which called for a coordinated three-pronged effort involving the Fund, the World Bank, and commercial banks (see Chapters 8–10).

Even before the Baker Plan, commercial bank creditors were beginning to insist on World Bank financing as a condition for their continued participation in reschedulings and concerted lending. During 1985 alone, banks required at least six heavily indebted countries—Chile, Colombia, Costa Rica, Côte d'Ivoire,

[16]Minutes of EBM/87/91 (June 18, 1987), pp. 8–11.

Panama, and Uruguay—to conclude negotiations with the World Bank as a precondition for reschedulings or new lending (Watson and others, 1986, p. 58). When the Baker Plan was announced that October, the Fund and the Bank built on this ongoing relationship and developed—or at least sketched out—a coordinated strategy for implementing it. Essentially, that strategy involved a commitment by the Bank to make a more concerted effort to direct resources toward the most heavily indebted middle-income countries (the "Baker 15") and a commitment by the Fund to collaborate more closely and systematically with the Bank in helping those countries develop medium-term, growth-oriented adjustment programs (see Chapter 10).

After the Baker Plan failed and was replaced by the Brady Plan in 1989, the two institutions again responded by developing new procedures for collaboration. The central element on that occasion was to ensure that the Fund and the Bank reached coordinated decisions on whether a country qualified for a debt reduction program and that each provided commensurate support for approved programs. A priori, it was not easy to agree on how that coordination would be achieved. The Bank issued a rather vague statement of support for a "concerted effort" in which "the resources from the two institutions would be in aggregate of broadly comparable size and be provided under mutually consistent modalities. However, there was general agreement [among the Bank's Executive Directors] that each institution's contribution would be determined by its own judgments arrived at through established decision-making processes." The Fund's conclusion was similarly equivocal, but the two managements clearly signaled their intention to work together as well as possible.[17]

These various procedures that were initiated in response to the debt crisis did not induce the two institutions to begin working hand in hand on a commonly agreed strategy. Rather, they helped the staffs to keep from tripping over each other's feet when they were both responding to the same fire alarms. When collaboration was effective, as it was in most cases, the Fund continued to defer to the Bank's views on development strategies, the Bank continued to defer to the Fund on macroeconomic policies, and the two kept each other fully informed. The most spectacular exception, as recounted in Chapter 11, occurred in 1988, when the Bank announced at the start of the Annual Meetings in Berlin that it had agreed to lend to Argentina, at a time when Argentina was still negotiating program terms with the Fund. This coup raised the specter of a damaging kind of competition that the Managing Director, Michel Camdessus, had likened to "two shops," where a country could borrow from whichever institution offered easier conditionality.[18]

The substance of the disagreement over policy conditions for lending to Argentina was a prototypical example of the fundamentally different institutional ap-

[17]"World Bank Discussion on Operational Guidelines and Procedures for Use of IBRD Resources to Support Debt and Debt Service Reduction," EBD/89/163 (June 2, 1989), p. 2, and minutes of EBM/89/61 (May 23, 1989), p. 29.

[18]Minutes of EBM/88/70 (May 4, 1988), p. 21.

proaches described above, but in this case it was exacerbated by uncharacteristic rashness by Bank staff and coordination failure at the level of management.[19] Even before the dust settled, the Chairman of the Interim Committee, H. Onno Ruding, insisted to Camdessus and to the Bank President, Barber Conable, that they agree on a strategy to avoid a recurrence and submit it to the Committee at its next meeting.

Several months of often acrimonious negotiations ensued, led by management and the most senior staff. Reflecting a long-simmering and still-active resentment at the Bank, Stanley Fischer (Chief Economist at the Bank) seized the opportunity to object to the Fund's assertion of primacy on medium-term macroeconomic policies. The Fund responded by digging in its heels.[20] Finally, an apparent breakthrough was achieved, when Camdessus and Conable agreed on some of the main issues after a long tête-à-tête on a flight back from Tokyo in February 1989, where they had been attending the funeral of Emperor Hirohito.[21] On the basis of that apparent agreement, the Fund staff put the finishing touches on a new statement of principles and procedures for collaboration, which was circulated to the Fund's Executive Directors on March 9.[22]

No sooner was this document circulated than Conable renounced it. The problem was that in trying to forge a compromise, the staff negotiators had introduced a logical contradiction. After listing several specific "primary responsibilities" for each institution, the paper stated: "Primary responsibility . . . does not mean that one organization has a veto power over the other." That seemed to be a pretty open door until one got to the next page: "In the event differences of view persisted even after a thorough common examination of them, the institution which does not have the primary responsibility would need to yield to the judgment of the other institution." After the document was issued, Conable informed Camdessus that he could not accept this latter wording, but Camdessus refused to delete it.

Following three more weeks of intense negotiations, Camdessus and Conable issued a revised statement for consideration by the two sets of Executive Directors (reproduced in the Appendix to this chapter). In this final "Concordat," as it came to be known, the "veto" language was deleted and the "yield" language was soft-

[19]The Bank's plan to lend to Argentina was on the agenda for the monthly luncheon between Camdessus and Conable in September, but the staff briefing note did not raise any alarm. Memorandum from L.A. Whittome to the Managing Director (September 2, 1988); in IMF/RD Deputy Managing Director file "Fund/Bank Luncheon, Vol. I" (Accession 91/455, Box 2, Section 489).

[20]See memorandum of February 1, 1989, from L. Alan Whittome and Peter M. Keller to the Managing Director; in IMF/CF (B 600 "Bank/Fund Collaboration on Missions and Meetings, 1989–1994").

[21]Report by the Managing Director at EBM/89/25 (March 1, 1989), p. 3.

[22]"Bank-Fund Collaboration in Assisting Member Countries," circulated in the Fund as SM/89/54 (March 9, 1989) and in the Bank as an attachment to R89–35 (March 10). The Bank document also included a memorandum to Executive Directors from Conable, which noted that although the paper had been issued in the Fund as a joint memorandum from the Managing Director and himself, he had not accepted its key passages.

ened: ". . . the institution which does not have the primary responsibility would, except in exceptional circumstances, yield to the judgment of the other institution." The document then added that exceptions were "expected to be extremely rare." In other words, each one did have a veto, but it could be overridden if the other felt strongly enough and did not abuse its discretion.

To placate those in the Bank who wanted to retain a role in assessing macroeconomic policies, the revised Concordat introduced another ambiguous concept, limiting the Fund's primary responsibility in this sphere to the "*aggregate aspects* of macroeconomic policy and their related instruments—including public sector spending and revenues, aggregate wage and price policies, money and credit, interest rates and the exchange rate" (emphasis added). Correspondingly, the Bank's primary responsibilities included "development strategies; sector project investments, structural adjustment programs; policies which deal with the efficient allocation of resources in both public and private sectors; priorities in government expenditures; reforms of administrative systems, production, trade and financial sectors; the restructuring of state enterprises and sector policies."

If the Concordat had any real meaning as an advance beyond the 1966 guidelines quoted above, it was in the peculiar phrase, "aggregative aspects of macroeconomic policy." That appears to be a subset of macroeconomic policy, but what does it exclude? Prima facie, it could have been interpreted to give the Bank the lead in determining how a Fund-imposed ceiling on credit growth should be allocated between credit to public and private sectors (traditionally a standard part of Fund conditionality). No one could say definitively what it meant, and all efforts to make it more precise failed.[23] It provided the Bank with an excuse for asserting independence with respect to advice or lending conditions on whatever it might characterize as nonaggregative, and it provided the Fund with a reaffirmation of its macro primacy, but in fact it was little more than an implicit acknowledgment that the institutions would continue to disagree.

When the Fund's Executive Board met in May to discuss the Concordat, a few Directors expressed unease about the delineation of responsibilities, but the Board as a whole "welcomed" the agreement.[24] The Bank's Directors, however, expressed greater reservations, and the Bank did not regard the document as institutionally binding (Polak, 1997, p. 515). The Concordat thus took on a semiofficial status, as a management directive to staff but not as a declared institutional policy. Its existence was not mentioned in the Fund's *Annual Report*, and it was not made publicly available until nearly a decade later.[25] It did, however, gradually become an accepted basis for promoting greater collaboration both at headquarters and in the field. The Bank did not attempt to use the "aggregative aspects" phrasing to

[23]See Polak (1997), p. 514, for what he suggests was a hilarious effort by Jacob A. Frenkel (Economic Counsellor and Director of Research at the Fund) to make sense of the phrase for the Executive Board.

[24]Minutes of EBM/89/50–51 (May 3, 1989).

[25]The operational guidelines in the Concordat were summarized in the World Bank's *Annual Report 1989*, pp. 96–97.

expand its mandate, and the traditional spheres of influence were essentially restored.

GATT

The General Agreement on Tariffs and Trade (GATT) was another organization with which the Fund had a special relationship, albeit much more distant than that with the Bank. The Geneva-based GATT was founded in 1948, as a compromise solution after the major countries failed to agree on the proposed third leg of the Bretton Woods strategy, the International Trade Organization.[26] It successfully conducted several "rounds" of negotiations to lower trade barriers, including notably the Kennedy Round (1964–67), the Tokyo Round (1973–79), and the Uruguay Round (1986–93). The GATT ceased to exist as a separate entity in 1995, following the establishment of the World Trade Organization as a successor institution.

Relations with the GATT were a byproduct of the Fund's interest in trade policy as an adjunct of exchange rate policy. As a general proposition, trade and exchange restrictions are substitutable means of protecting the balance of payments, so that one cannot be evaluated in isolation of the other. The GATT had jurisdiction over trade restrictions, and the Fund over exchange restrictions, and the two sought to work together to reduce both types of barriers. The Fund also tried to supplement the GATT's multilateral approach by pushing countries to reduce trade barriers on their own, especially when a country was a member of the Fund but not of the GATT.[27]

As noted in Chapter 2, concerns about protectionism were heightened in the first half of the 1980s, as countries tried to shelter their economies from the ef-

[26]Largely because of British reluctance to abandon its system of trade preferences with Commonwealth countries, the Bretton Woods conference was unable to deal directly with trade liberalization. As a fallback position, the conference adopted a resolution recommending that participating governments "reach agreement as soon as possible on ways and means [to] . . . reduce obstacles to international trade . . ." (Resolution VII; U.S. Department of State (1948), Vol. 1, p. 941). Consequently, a Preparatory Committee (including representatives from the Executive Board and staff of the Fund) met in London in October–November 1946 and prepared a draft Charter for an "International Trade Organization." Following subsequent more detailed negotiations and drafting, the goal of ratifying the charter was abandoned. The GATT was established in 1947 (effective at the beginning of 1948), with the intention that it would serve as a temporary bridge to the International Trade Organization. For the history of the negotiations, see Gardner (1956); for the Fund's role, see Horsefield (1969), Vol. 1, pp. 171–75.

[27]For an analysis of the logical relationships linking the Fund, the World Bank, and the WTO, see Vines (1997). Horsefield (1969), Vol. 2, Chapter 16, covers the origins and early history of Fund-GATT collaboration. Gold (1986) discusses the legal relationship between exchange and trade restrictions and the history of legal relations between the Fund and the GATT. Eichengreen and Kenen (1994, pp. 6–7) suggest that the GATT was more effective in achieving its goals (reduction of tariffs and other trade barriers) than either the Fund or the World Bank were at achieving theirs, largely because it was relatively free of bureaucratic constraints and thus more adaptable to changing circumstances. As of 1989, 96 countries were members of the GATT, compared with 152 in the Fund.

fects of badly misaligned exchange rates. When Arthur Dunkel became Director-General of the GATT in 1980, he stepped up his organization's crusade against protectionist policies and enlisted the Fund's support in the battle.[28] The Fund responded by paying increased attention to trade issues in various aspects of its work, but it felt the need to do so in a way that recognized its lack of jurisdiction over trade restrictions.[29] Broadly speaking, the Fund's analysis of trade measures complemented the more specific and jurisdictional work of the GATT, and the turf battles that occasionally marred relations with the World Bank were much less of a problem here. Some frictions arose occasionally when the Fund included trade liberalization in its conditions for stand-by or other credit arrangements, since that created at least the potential for a conflict in policy advice in the field of the GATT's jurisdiction. In particular, GATT officials became a little nervous in 1983 when the Managing Director initiated a drive for reduction of trade restrictions in the context of certain Fund-supported adjustment programs.[30] Such concerns, however, turned out to be only light clouds.

In 1980–81, the Fund staff undertook a detailed survey of restrictive trade practices as background for the spring 1981 World Economic Outlook exercise. (See *WEO*, June 1981, pp. 103–05; and Anjaria and others, 1981.) That study marked the beginning of a gradual rise in Fund activity in the trade sphere. In 1982, the Executive Board held its first separate meeting on trade issues. On that and subsequent occasions, the Board showed its reluctance to get too deeply involved by rejecting a proposal for GATT participation in Fund missions when trade issues were to be discussed in Article IV consultations.[31] The following year, however, the Fund began examining trade policies more systematically through general policy discussions and consultations with individual countries,[32] and the Interim Committee began including occasional expressions of concern on trade issues in its

[28]See letter of October 22, 1980, to the Managing Director from Fernando A. Vera (Director of the Geneva Office); memorandum for files (November 6, 1980) by Shailendra J. Anjaria (Chief of the Trade and Payments Division in ETR) on the initial meeting between Dunkel and de Larosière; and letter of November 28, 1980, from Dunkel to de Larosière; in IMF/CF (I 233 "GATT—Contracting Parties, 1977–1981").

[29]In 1974, the Committee of Twenty (the forerunner of the Interim Committee) requested member countries to adhere to a "declaration on trade measures." The declaration would have empowered the Fund to pass judgment on whether a balance of payments justification existed for the adoption of a proposed trade restriction or other measure, and it would have obligated adherents to avoid adopting trade measures without a positive finding by the Fund. Adoption of the declaration required approval by members holding 65 percent of the voting power, which it did not receive. See Gold (1986), pp. 173–79.

[30]See letter from Arthur Dunkel, Director-General of the GATT, to Jacques de Larosière (November 4, 1983); in IMF/CF (I 233 "GATT—Contracting Parties, 1983–1985"). Also see Chapter 9, p. 361, where the Managing Director's initiative on Mexico is discussed.

[31]Minutes of EBM/82/123 (September 20, 1982), pp. 14–15. Also see "Developments in International Trade Policy," SM/82/136 (July 12, 1982), pp. 17–18, and minutes of EBM/88/33 (March 7, 1988), p. 6.

[32]See statement by the Managing Director at EBM/82/162 (December 17, 1982), pp. 28–29.

communiqués.[33] The Fund also published each of its staff studies on trade issues.[34] In 1984, at the request of the GATT, the staff conducted a study of the effects of exchange rate volatility on international trade (IMF Research Department, 1984). And in 1985, the staff began a series of information notices on trade policies for Executive Directors, as a means of keeping track of major changes.

The launch of the Uruguay Round at Punta del Este in September 1986 brought a further expansion of interagency contacts and collaboration, although the Fund still maintained a distinctly subsidiary role on trade issues. C. David Finch (Director of ETR) delivered an address on behalf of the Managing Director at that opening ministerial meeting, and Camdessus participated personally in later ones, notably the midterm review in Montreal in December 1988. Fund staff participated throughout the Round as observers in the technical meetings and negotiations. Their role, however, was limited primarily to providing technical support and information.

On a more active and permanent basis, the staff participated in the GATT Committee on Balance of Payments Restrictions, which consulted with member countries on whether trade restrictions were justified on balance of payments grounds. (If so, the restrictions would be permitted under the GATT's Articles of Agreement.) In that role, which dated from the 1940s and was embodied in the GATT's own rules, the staff provided background macroeconomic information derived from the Fund's Article IV consultations and expressed the Fund's view on the justification for specific restrictions. In the 1980s, the Fund used this forum to argue against the use of trade restrictions for balance of payments purposes, on the grounds that much more positive and efficient methods were available for strengthening a country's external payments position. This position placed the Fund in league with industrial countries, which were trying to overcome the opposition of developing countries to proposals to amend the GATT's Articles on this matter.[35]

In addition to its support of the GATT's effort to liberalize trade policies multilaterally, the Fund gradually adopted a positive view toward regional free-trade agreements. Regional agreements were controversial because they created special preferences for selected countries and in some cases promoted regional import substitution rather than export growth. Potentially at least, the reduction in welfare from trade diversion could wipe out the gains from trade stimulus. Until the late

[33]From 1975 on, the Director-General of the GATT (or his Deputy) attended Interim Committee meetings as an observer. Fund staff normally attended the annual meetings of the GATT Contracting Parties when they met at ambassadorial level. ("Contracting Parties" was the legal terminology for the member countries of the GATT. In references to joint actions or meetings, the term was written in all capital letters.) In 1982, the Contracting Parties met exceptionally at ministerial level, and the Managing Director delivered an address at that meeting.

[34]In addition to the 1981 paper cited above, see Anjaria, Iqbal, and others (1982); Anjaria, Kirmani, and Petersen (1985); and Kelly and others (1988).

[35]"The Uruguay Round—Issues of Particular Relevance to the Fund," SM/88/36 (February 5, 1988), p. 15.

1980s, the Fund generally paid little attention to regional agreements.[36] Even such notable examples as the 1982 establishment of the Preferential Trade Area (PTA) for Eastern and Southern African States (the forerunner of the Common Market for Eastern and Southern Africa of 1993) had little immediate impact on trade patterns.[37] Eventually, however, the Fund came to view regional agreements as stepping stones toward multilateral liberalization. Subject to confirmation that a regional agreement did not raise barriers to trading with other countries, the Fund was prepared to express its cautious support. During the 1980s, that support was limited primarily to the U.S.-Canada Free Trade Agreement of 1988 (the forerunner of NAFTA, the North American Free Trade Agreement of 1994).[38]

United Nations

Under the terms of a 1947 agreement, the Fund is a "specialized agency" within the United Nations and functions as an "independent international organization" (Horsefield, 1969, Vol. 3, pp. 215–18.) Because the Fund is essentially a financial rather than a political organization and is governed by a weighted voting system, the major creditor countries have always regarded its independence from the UN as essential for its effective operation. Historically, relations between the two have been limited primarily to liaison functions for the purpose of sharing information and providing occasional assistance in areas of mutual concern.

In 1950, the Fund appointed a Special Representative to the United Nations, and the UN provided an office for the Fund at its headquarters in New York. That office served as a liaison with the Secretary General, his staff, and other UN bodies located in New York; and it monitored and reported on the activities of the General Assembly. In 1967, an additional office was established, in Geneva, to provide liaison with the GATT, UNCTAD,[39] the International Labor Organization (ILO), and other Geneva-based organizations. Beginning in 1987, in recognition

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[36]The prototypical agreement was the establishment of the European Economic Community (the "Common Market") at the beginning of 1958. The Fund's *Annual Report* for that year (p. 129) noted the founding of the EEC and remarked that the Fund would be following its evolution with interest, but it expressed no view on the merits.

[37]The Fund supported the establishment of the PTA by providing technical assistance on the design of regional clearing and payments arrangements. The staff study of the proposed system concluded "that existing economic structures and physical barriers to intraregional trade militate against any pronounced shift in trade flows in the near future" (Anjaria, Eken, and Laker, 1982, p. 11).

[38]The summing up of the February 1989 Executive Board meeting concluding the Article IV consultation with Canada included the following: "Directors generally supported the Canada-U.S. Free Trade Agreement and agreed with the assessment that it would bring net benefits to Canada. However, several Directors expressed concern about the potential for trade diversion resulting from the FTA." Minutes of EBM/89/20 (February 22, 1989), p. 50.

[39]The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as the principal UN agency for promoting international trade and economic growth in developing countries. In addition to its regular informal consultations and cooperation with the Fund on development issues, UNCTAD played a role in pushing the Fund to expand and liberalize the Compensatory Financing Facility (CFF) in the late 1970s; see Chapter 15.

of the more active role being played by the staff in Geneva on trade matters, the head of that office was also designated as the Fund's Special Trade Representative.

At the UN, the principal forum for coordinating work among the various specialized agencies is the Administrative Council on Coordination, which meets at least twice each year at the senior (agency head) level under the chairmanship of the Secretary General. Throughout the 1980s, the Managing Director participated actively in this Council's meetings and made an annual address to the UN's Economic and Social Council (ECOSOC). A wide variety of staff contacts and collaboration occurred on an ad hoc but regular and ongoing basis.

The 1947 basic agreement on Fund-UN relations provides that the Fund shall "give due consideration to the inclusion in the agenda [for meetings of the Board of Governors] of items proposed by" the UN. A few proposals were made during the period covered by this History, but none led to the addition of an agenda item at the Annual Meetings. A prominent example was the 1982 General Assembly resolution on the Fund's relations with South Africa, discussed in Chapter 13. In that instance and in several others, the General Assembly opposed or questioned the procedures and even the structure of the Fund.

A major part of the UN criticism of the Fund arose from the relatively limited role of developing countries in governing the Fund. In 1979, for example, the Algerian government gave voice to a long-simmering resentment in the south and developed a proposal for "global negotiations" on creating a "new international economic order."[40] That proposal, which aimed to restructure the IMF to give greater weight to the views of developing countries and place the institution under the authority of the UN General Assembly, was endorsed at a summit meeting of the heads of state of nonaligned countries in Havana in September 1979. A few months later, the UN General Assembly endorsed by consensus Resolution 34/138, calling for global negotiations on international economic issues, including money and finance, to take place "within the United Nations system" (i.e., including the Fund). A special session of the General Assembly met in 1980 to plan such negotiations, but it failed to reach agreement, and the idea was eventually dropped. The Fund took note of the discussions, but it was not asked to take specific actions, and it made no response.[41]

In the autumn 1979 session, the General Assembly also endorsed the "Program of Action on International Monetary Reform," adopted by the Group of Twenty-

[40]Voting power in the Fund is determined essentially by quotas, which in turn are determined essentially by economic size (see Chapter 17, pp. 860). In the United Nations, each country has one vote regardless of size. The dream of recreating the international economic order by giving greater voice to developing countries took form in 1974; see Mortimer (1984). It was also manifest in the Arusha Initiative of 1979, discussed in Chapter 13. The prime minister of India, Indira Gandhi, reportedly raised the issue at the North-South Summit in Cancun, Mexico, in 1981 (see Thatcher, 1993, pp. 169–70), and she raised it again at the UN General Assembly in 1983.

[41]Reports on the General Assembly deliberations on Global Negotiations were circulated in the Fund in "United Nations General Assembly—Thirty-Fourth Session," SM/80/11 (January 14, 1980), pp. 7–9, and "United Nations General Assembly—Thirty-Fifth Regular Session," SM/81/3 (January 6, 1981), pp. 1–6. Also see related documents in IMF/CF (I 110), on the 34th and 35th Sessions of the UN General Assembly.

Four (G-24) developing countries at the Annual Meetings in Belgrade. A concerted negotiating effort failed to produce a compromise text that could win consensus support, and all industrial countries opposed or abstained from approving the final text (Resolution 34/216). The Fund considered and acted on various elements of the G-24 program, but it did so at the request of the Development Committee, not the UN (see *Annual Report 1980*, pp. 158–65). The Fund did take what at the time was an unusual step by agreeing to send several pertinent internal documents to the UN Secretariat.[42] However tentatively, that marked a step toward openness regarding the Fund's internal deliberations on current policy issues.

On other occasions, the Fund and the UN at least broadly agreed on the requirements for action and worked together to promote their objectives. In May 1986, while the Fund was beginning to negotiate long-term concessional loans to low-income countries through its newly established SAF, the UN General Assembly held a Special Session on Africa. That session produced a commitment by the "international community" to try in general terms to provide "predictable and assured" resources to support development efforts in African countries. Fund staff participated in preliminary meetings leading up to the special session and provided some logistical support.[43]

In September 1987, the General Assembly passed Resolution 42/198, calling on the international community to provide additional resources to relieve the debt burdens of developing countries. The resolution welcomed several such efforts that were under way at the Fund, including the proposed establishment of the Enhanced Structural Adjustment Facility (ESAF; Chapter 14) and the addition of a contingency mechanism in the Compensatory Financing Facility (CFF; Chapter 15). Although the initiative came at a time when the Fund and some major industrial countries were still reluctant to endorse debt-relief proposals (see Chapter 11), the UN resolution did not endorse any specific debt-relief plan, and only the United States voted against it.

Paris Club

The Paris Club is an informal grouping of governments holding debt claims on other countries, which has met since 1956 when necessary to consider requests to reschedule those claims.[44] During the debt crisis of the 1980s, as described

[42]"Transmittal to the United Nations of Certain Fund Documents on the Group of Twenty-Four Program of Immediate Action," EBD/80/279 (October 21, 1980).

[43]See "United Nations General Assembly—Special Session on the Critical Economic Situation in Africa," SM/86/133 (June 13, 1986), p. 3.

[44]A rescheduling of debt claims normally means that creditors agree to defer debt service (interest and principal) for a specified portion of total claims and for a specified period, without reducing the discounted present value of the amounts due. Beginning in 1988, the Paris Club began granting reschedulings on concessional terms to qualifying low-income countries. For an exposition of Paris Club procedures and a history of its work, see Sevigny (1990). For more detailed reviews and complete listings of Paris Club and similar reschedulings through 1989, see the following Fund documents: Nowzad and Williams (1981), Chapter 5; Brau and Williams (1983), Chapter 4; Dillon and others (1985), Chapter 3; Dillon and Oliveros (1987); Keller (1988); and Kuhn and Guzman (1990).

throughout Part Two of this History, the Paris Club faced a nearly continuous demand for reschedulings from a large number of developing countries, and it met on a fairly regular monthly schedule to consider them. It had no formal or legal structure, nor its own secretariat, but it met under the auspices and with the technical support of the French treasury. Because the Paris Club lacked the staff resources to do its own evaluations of sovereign credit risks, it relied heavily on the Fund's assessments of borrowers' economic prospects. Traditionally, it required countries to have an upper-tranche stand-by or extended arrangement in effect before it would consider any request to reschedule outstanding debts. Fund staff participated regularly in Paris Club meetings and explained the status of any ongoing negotiations and of the Fund's assessments. The Fund required member countries to have a plan for eliminating any arrears in debt obligations to other creditors as a condition for borrowing, for which Paris Club agreements provided evidence (see the discussion of "financing assurances" in Chapter 11).

On a few occasions starting in the mid-1970s, Paris Club creditors allowed exceptions to its requirement that countries have an upper-tranche credit arrangement in place with the Fund.[45] Sierra Leone had only low-conditionality drawings outstanding at the time of its 1977 Paris Club rescheduling; Poland (1981) and Cuba (1983) obtained agreements while they were not members of the Fund; and Mozambique got an agreement in 1984 shortly after it joined the Fund. A more complicated situation arose regarding Zaïre (Democratic Republic of the Congo), which was granted a rescheduling in December 1979 while it was out of compliance and ineligible to draw on its Fund stand-by arrangement. That rescheduling was granted on the strength of a positive assessment by the Fund staff that the authorities were formulating additional adjustment measures that would soon bring the program back on track.[46] Zaïre did manage to strengthen its policies enough to complete the stand-by arrangement, but the improvement soon proved illusory (see Chapter 16).

Collaboration between the Fund and the Paris Club intensified in 1980 as a result of the growing debt-servicing difficulties in many developing countries. Responding to a request from the chairman of the Paris Club (Michel Camdessus), the Managing Director (de Larosière) asked the staff to take several steps to help the Paris Club in its work. These steps included providing more information on debt service in background papers for Article IV consultations (which were routinely used by official creditors as a basic source of information on countries re-

[45]As discussed in Chapter 13, the Fund's conditionality was increased when a country borrowed "in the upper tranches" (i.e., above its first credit tranche).

[46]Although the Paris Club required countries to have an upper-tranche arrangement, it did not necessarily require that the arrangement be operational. The prepared statement delivered by the staff at the meeting did not mention that Zaïre was out of compliance with the terms of the stand-by arrangement, but the staff did supply that information during the meeting in response to a question from the U.S. delegation. The Paris Club agreement required Zaïre to reactivate its program with the Fund. See memorandum of December 19, 1979, from Evangelos A. Calamitsis (Assistant Director in the African Department) to the Managing Director; in IMF/CF (S 1194 "Zaïre, Debt Renegotiations—Meetings, 1978–1985"). Also see "Yugoslavia—Staff Report for the 1982 Article IV Consultation and Review under Stand-by Arrangement," EBS/83/46 (March 9, 1983), p. 15.

questing reschedulings), offering more extensive assistance to member countries in preparing for meetings with official and private creditors, and upgrading staff participation in Paris Club meetings.[47]

Relations intensified again in 1983, following the outbreak of the international debt crisis. The number and size of rescheduling requests rose sharply (Figure 20.1), which stretched the already limited resources of the Club even further. To keep the process from bogging down and to improve the opportunity for all official creditors to participate in the process, the Club initiated procedures in mid-1984 requiring immediate notification to the Fund whenever a country requested a rescheduling agreement. For its part, the Fund devised procedures to ensure that Executive Directors were promptly notified and that the staff would stand ready to assist both debtors and creditors by providing both data and advice on request.[48]

By the middle of the decade, creditors found themselves facing a gap between the short periods covered by Fund conditionality and the often lengthy periods that debts had to be deferred if indebted countries were to have a realistic chance to repay. The Paris Club was nonetheless insistent on rescheduling only those payments that were coming due during the period covered by a stand-by or extended arrangement. In 1985–86, creditors agreed in principle to continue to reschedule debt obligations of Ecuador and Côte d'Ivoire after they completed their Fund-supported programs, on the basis of "enhanced surveillance" by the Fund. In the event, that procedure was not carried out, because both countries continued to borrow from the Fund.[49] For Yugoslavia in 1986, official creditors (acting outside the aegis of the Paris Club) agreed to implement a multiyear rescheduling agreement (MYRA), also on the basis of enhanced surveillance (see Chapter 10). For that purpose, the Fund provided edited versions of its confidential staff reports on the country to creditors. The monitoring arrangement, unfortunately, was not a success, and it was not repeated.

The Paris Club's luckless experimentation with relaxed procedures for countries under enhanced surveillance suggested that strict compliance with Fund conditionality was usually necessary for a successful rescheduling agreement. With that in mind, Paris Club creditors remained reluctant to accept any proposal that appeared to be a watered-down imitation. Nonetheless, the importance of rescheduling for financial stability in many developing countries forced them to continue to consider alternatives. Most important, creditors agreed to accept SAF and ESAF arrangements as the basis for rescheduling, despite the formal and procedural differences in the way conditionality was applied (see Chapter 14). Through 1989, 18 official rescheduling agreements were approved on that basis for low-income countries.[50]

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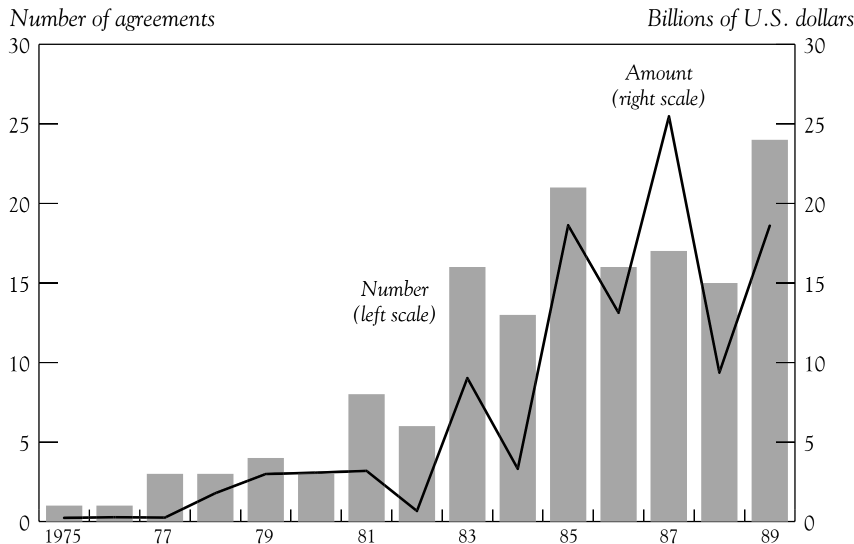
[47]Memorandum to heads of departments from the Managing Director (April 9, 1980); in IMF/RD file on "Paris Club Meetings—1980–83" (Carton RM 5513, Section 13, Shelf 4, Bin 3).

[48]Minutes of EBM/84/98–99 (June 22, 1984) and "Notification to the Fund of Requests for Renegotiation of External Debt Received by the Paris Club," SM/84/236 (October 24, 1984).

[49]See Chapter 9, p. 412, where Ecuador's similar situation vis-à-vis private creditors is discussed; and Dillon and Oliveros (1987), pp. 15–16.

[50]See Kuhn and Guzman, 1990, p. 21. Rescheduling on the basis of an ESAF arrangement was never a major issue, owing to the larger financial commitment and greater conditionality compared with the SAF.

Figure 20.1. Paris Club and Similar Reschedulings, 1975–89



A less satisfactory experience resulted when the Paris Club approved a rescheduling for Brazil in January 1987. As recounted in Chapter 10, Brazil was resisting submitting either to Fund conditionality or to enhanced surveillance, but it had agreed to a monitoring process that it called "enhanced contacts" with the Fund. On that rather weak premise and a personal assessment of progress from the Managing Director, the Paris Club decided to go ahead. Four weeks later, Brazil declared a moratorium on debt-service payments to commercial banks, and the Paris Club had no choice but to scrap a planned second tranche of the deal.

Bank for International Settlements

Uniquely among the organizations discussed in this section, the BIS was established long before the Fund. Relations between the two did not begin propitiously: the Bretton Woods conference adopted a resolution calling for the abolition of the BIS, principally because of the BIS's role in transferring official gold balances to Nazi Germany.[51] Nonetheless, official relations with the BIS were generally cordial, and until the 1980s involved only occasional interaction.[52]

[51]The BIS was founded in 1930 as the financial intermediary for handling Germany's reparations payments under the terms of the Versailles peace treaty that ended World War I. Based in Basel, Switzerland, it evolved into a bank for central banks and a forum for central bank governors, especially those of the Group of Ten (G-10). On the Bretton Woods resolution, see James (1995), pp. 49–50. On the early history of the BIS and its relationship to the Fund and the World Bank, see Auboin (1955).

[52]The BIS served as an agent for the Fund's operations in gold, and it was a prescribed holder of SDRs.

The beginning of the 1980s brought both new tensions and a closer working relationship. Since 1948, senior BIS officials had been invited to participate as official observers at the Annual Meetings of Governors of the Fund and the World Bank, and the Fund had been similarly represented at the BIS Annual Meetings in Basel. When the Board of Governors decided in 1980 to end the practice of inviting Observers as a way out of the controversy over inviting Palestinian Liberation Organization (PLO) officials (see below), the BIS argued that it should be exempted from the ban. The Fund's management was sympathetic but was unwilling to reopen Pandora's box. For years afterward, the unintended but ongoing slight continued to irritate many in Basel.[53] This awkward episode was potentially serious, as it came at a time when the Fund and the BIS were becoming bedfellows in managing the strategy for coping with the international debt crisis. The Fund continued to grant the BIS observer status at meetings of the Interim Committee, and, on the whole, the affair does not seem to have seriously soured working relationships.

Before 1982, the BIS occasionally invited the Managing Director to attend its governors' meetings in Basel, when there were specific issues to discuss.[54] A prominent example was the Fund's drive to borrow approximately $1.5 billion from industrial countries in 1981, which was initiated by a presentation to BIS governors by de Larosière in November 1980 (see Chapter 17). In January 1982, the BIS decided to regularize this arrangement by inviting the Managing Director to attend the governors' meetings whenever he found it appropriate. De Larosière accepted and decided to attend the July 1982 meeting, where he made a presentation on how Hungary's economy was responding to the financial support the BIS had recently provided, and on its near-term prospects (see Chapter 8). He also sketched out the Fund's view on the World Economic Outlook and—at the request of Gordon Richardson (governor of the Bank of England and vice-chairman of the BIS)—the role that the Fund might play in the event of a financial crisis. It was just a few weeks before the Mexican crisis would strike, and the systemic effects from the burgeoning external debt in Latin America as well as eastern Europe were beginning to materialize.

From that point on, the BIS frequently provided or arranged for short-term financing as a bridge to Fund support for adjustment programs of the most heavily indebted countries. In doing so, it alleviated the need for the Fund to compress even more severely the time available for negotiating stand-by and extended arrangements, and it helped forestall consideration of an emergency financing facility in the Fund (see Chapter 15). The BIS also lent again to the Fund in 1984, as the lion's share of a medium-term SDR 3 billion package from industrial countries (Chapter 17).

[53]See letter from Fritz Leutwiler (President of the BIS) to de Larosière (May 10, 1984) and related correspondence in IMF/CF (G 820 "Observers at Annual Meetings, 1946–1990").

[54]The Director of the Fund's Paris office regularly attended (in the margins) and filed reports on the monthly gatherings. Other Fund staff attended occasionally; see, for example, the references in Chapter 19 to the staff's use of this forum to hold clandestine meetings with Hungarian officials in the 1960s and 1970s.

European Community

Relations between the Fund and European economic organizations have occasionally been strained, dating back to the late 1940s. When the U.S.-funded European Recovery Program (ERP, more commonly known as the Marshall Plan) was launched in 1948, the Fund responded by deciding to conserve its own resources and limit assistance to ERP participants to "exceptional or unforeseen circumstances" (see Horsefield, 1969, Vol. 1, pp. 217–20; and Vol. 2, Chapter 15). Although that decision made some economic sense, it engendered a feeling in Europe that the region should be prepared to look out for itself financially and not rely on the Fund. Several European countries subsequently borrowed frequently from the Fund, and the United Kingdom became the largest user of Fund credit for more than a quarter century. Nonetheless, that sense of the need for independence never faded, and it helped feed the drive to develop a succession of European financial arrangements and institutions. In 1950, 18 countries—most of which either already were or soon would become members of the IMF—formed the European Payments Union (EPU) to restore multilateral payments and currency convertibility. The Union, which completed its task and was terminated in 1958, included a set of mechanisms for financing imbalances within the EPU membership rather than externally from the IMF.[55] The EPU was succeeded by the European Monetary Agreement (EMA, 1958); the credit facilities of the European Economic Community (EEC, 1958; shortened in 1968 to European Community, or EC); the European Monetary Cooperation Fund (generally known by its French acronym, FECOM; 1973); and the European Monetary System (EMS, 1979).[56]

The Fund, as discussed in Chapter 2, took a generally favorable and cooperative stance toward the EMS, though with some initial wariness about potential conflicts over turf. More generally, concerns surfaced at the Fund throughout the 1980s about the extent to which European economic and financial integration might turn inward; that is, about whether Europeans were building a "fortress" rather than bridges. Concerns also arose occasionally about the effect of the European basket currency, the ECU, on the SDR. Because the Fund's Articles of Agreement required its members to cooperate toward making the SDR "the principal reserve asset in the international monetary system," the development and promotion of an alternative multicurrency reserve asset raised legitimate questions. In examining these and related questions, however, the Fund took a decidedly cautious attitude. It had little power to influence European policy and therefore no good reason to raise objections to it. Moreover, as the decade progressed, the Fund adopted an increasingly positive perspective on European integration. The EMS, in the prevailing view at the end of the 1980s, had successfully created a "zone of

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[55]See Horsefield (1969), Vol. 1, pp. 327–30; and James (1995), pp. 95–99. For an inside overview of the EPU, see Kaplan and Schleiminger (1989); for a critique, see Eichengreen (1993).

[56]For a review and chronology of the development of European monetary and financial agreements, see Ungerer (1997). Bobay (1998) gives a broad overview of relations between the Fund and European economic institutions.

monetary stability" in Europe, and it was contributing to a general liberalization of trade and payments in the region.[57]

On an institutional level, relations between the Fund and the EC were initiated in the late 1950s and have included occasional meetings between Fund management and their European counterparts as well as a variety of regular staff contacts. The Fund's Paris office has provided liaison with EC offices in Brussels and elsewhere. Those contacts were particularly relevant for the EC's work with developing countries, beginning with the first Yaoundé Convention in 1963.[58] Broadly speaking, these relations proceeded smoothly and routinely in the 1980s, despite a reluctance by European authorities to have their regional policies discussed explicitly by the Executive Board. EMS developments were covered in detail in the World Economic Outlook, in the course of Article IV consultations with EC members, and in a series of special reports to the Board. In addition, the Fund staff consulted with the European Commission in conjunction with the Fund's periodic reviews of trade-policy developments and a study of the EC's Common Agricultural Policy (Rosenblatt and others, 1988).

After the two great stand-by arrangements of 1977, for Italy and the United Kingdom (see de Vries, 1985, Chapters 23–24), borrowing by western European countries from the Fund was extremely limited. One should not infer too much from that fact alone, because drawings by other industrial countries were also quite limited after 1977. Indeed, EC member countries did call on the Fund when sufficiently pressed: Denmark, Luxembourg, and the Netherlands made drawings on their reserve-tranche balances during the 1980s.[59] Of more direct relevance is the record of borrowing from the alternative credit facilities established by the EC, which suggests that the main reason for the lack of recourse to the Fund was simply that European countries had little need for balance of payments financing.

Unlike other industrial countries, participants in the exchange rate mechanism of the EMS faced a recurring need for very short-term financing to maintain intra-European exchange rates within agreed margins. Other EC member countries, although not formally committed, also generally sought to limit shifts in their exchange rates against their European partners. To that end, the EC provided its own

[57]Minutes of EBM/89/9–10 (February 1, 1989); see especially the Chairman's summing up at meeting 89/10, pp. 14–17.

[58]The Yaoundé Convention of July 1963 was an association agreement between the EEC and 17 African countries. It was replaced by a series of Lomé conventions, which covered a broader range of developing countries in Africa, the Caribbean, and the Pacific.

[59]From 1978 through 1987, those three EC countries made a total of 11 reserve-tranche drawings. Portugal made several drawings in 1982–84, but at the time it was classified as a developing country, and it did not become a member of the EC until 1986. As for other industrial countries, Spain (which also did not join the EC until 1986) made several drawings in 1975–78 and took out a precautionary stand-by arrangement in 1978, the United States made a reserve-tranche drawing in 1978, Australia made two drawings on the Buffer Stock Financing Facility in 1979 and 1982, New Zealand made three reserve-tranche drawings in 1979–84, and Iceland made drawings on its reserve tranche and the Compensatory Financing Facility in 1982. Denmark's drawing in March 1987 was (as of 2000) the last by a country that was then classified as industrial.

conditional credit facilities, with a wide range of available maturities, and an EMS facility for short-term intervention both within and at the agreed margins. During the 1980s, although short-term intervention was undertaken routinely, resort to medium-term conditional credits—substitutes for Fund resources—was rare. Only France in 1983 and Greece in 1985–86 drew on the EC credit facilities in that period (Ungerer and others, 1990, pp. 8–9).

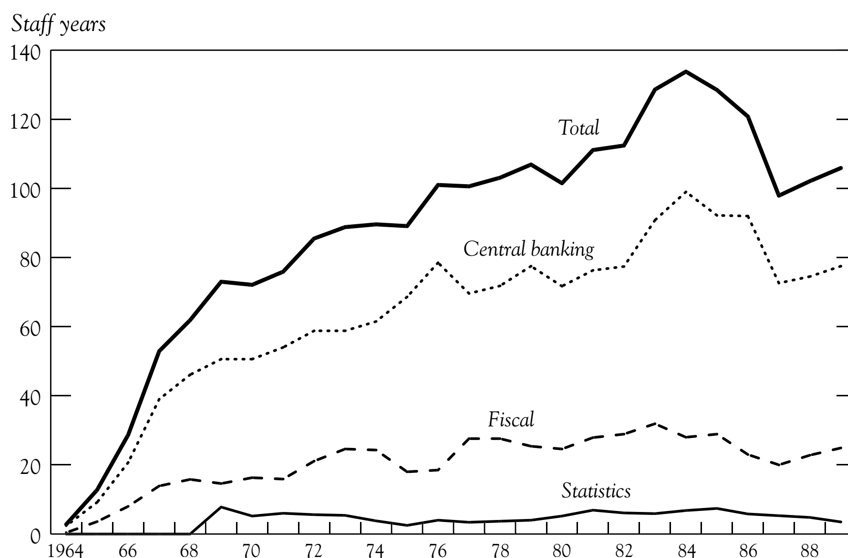
Member Countries: Technical Assistance

In the formative years, the Fund occasionally supplemented its standard consultation procedures by providing technical assistance to member countries on matters such as exchange rate management and the conduct of monetary and fiscal policies. When newly independent developing countries began to join the Fund in large numbers in the early 1960s, requests for such assistance grew to the point that the Fund decided to formalize the practice. In 1964, three new bureaucratic units were formed, primarily to provide specific types of technical assistance: the Fiscal Affairs Department, the Central Banking Service, and the IMF Institute. The first two groups provided staff missions to countries to consult on their areas of expertise, while the Institute provided courses for officials on financial analysis and other relevant economic topics. About the same time, the Bureau of Statistics expanded its program of statistical assistance to members.[60] From that point on, provision of technical assistance to members became an increasingly important and structured activity for the Fund.

By 1970, the Fund was providing some 70 staff-years of services in the field a year, and by 1980 the total exceeded 100 staff-years. This activity peaked in 1983–85, about 130 staff-years, and then fell back to about 100 by the end of the decade (Figure 20.2). In contrast to the gradual growth in earlier years, which responded to the need for newly independent countries to develop managerial and technical expertise, the expansion that began in 1983 was associated with the burst in the Fund's lending that followed the onset of the international debt crisis. This additional assistance was especially focused on external debt management and on improving countries' statistics on external debt. The subsequent cutback did not result from a drop in demand; requests for assistance were undiminished. Rather, it reflected a shift toward belt-tightening at the Fund and a decision that provision of longer-term consultants and advisors was not a cost-effective use of Fund resources. Consequently, provision of technical assistance shifted more toward short-term staff missions.

[60]The origins of the Fund's technical assistance in the late 1940s are discussed in Horsefield (1969), Vol. 1, pp. 185–87; its further development and coordination with the UN in 1949–51, on pp. 286–87; efforts to place limits and controls on it in the mid-1950s, on pp. 391–94 and 428; and the establishment of the three new units, on pp. 552–55. The expanded work of the Bureau of Statistics is discussed in de Vries (1976), Vol. 1, pp. 584–86. One should note that before the mid-1960s, a wider range of activities was classified as technical assistance, including assignment of resident representatives and release of staff members to undertake extended assignments paid for by member countries. Also see de Vries (1976), Chapter 28, and de Vries (1985), Chapter 47.

Figure 20.2. Technical Assistance by the IMF, 1964–89



Two dozen countries (or, in one case, a regional central bank) received an average of at least one full staff-year of technical assistance a year in the 1980s (Table 20.1).[61] The leading recipient, Zaïre, had been the object of an intensive campaign of assistance dating back to 1960, when the country gained its independence and became known as the Congo (Leopoldville). From the time the Congo—one of the largest and most strategically placed of the newly independent countries in Africa—joined the Fund in 1963, the Fund supported a UN program of special assistance for it. The Fund terminated the special status for the Congo in the late 1960s, but it continued to provide large amounts of technical assistance.[62]

Governance

The organization of the IMF was remarkably stable during the 1980s, especially considering the growth in the institution's role in the world economy. The only major change was that three subsidiary units in the structure were upgraded (Table 20.2). First, in 1980, in recognition of the expanding role of technical assistance to member countries, the Central Banking Service became the Central Banking Department. To head it up, P.N. Kaul, formerly Deputy Director of the Administration Department (see de Vries, 1985, p. 1028), was promoted to Director. Second, in 1980, in recognition of the growing importance of public relations for the Fund, the

[61]"Review of Fund Technical Assistance," EBAP/93/78 (December 1, 1993), pp. 34–35.

[62]See Horsefield (1969), Vol. 1, pp. 551–52; de Vries (1976), Vol. 1, p. 588; and the section on Zaïre in Chapter 16 of the present work.

Table 20.1. Top Recipients of Technical Assistance, 1980–89
(Total staff-years)

1. Zaïre	40.0
2. Yemen, Arab Republic	34.5
3. Botswana	29.7
4. Solomon Islands	27.4
5. Papua New Guinea	26.1
6. Vanuatu	25.7
7. Sudan	23.1
8. Uganda	23.1
9. Rwanda	22.7
10. The Bahamas	20.5
11. Oman	20.0
12. Eastern Caribbean	19.0
13. Guinea	18.8
14. Burundi	17.5
15. Fiji	16.4
16. Tanzania	16.1
17. Kuwait	15.6
18. Western Samoa	13.8
19. Bolivia	13.3
20. Costa Rica	13.3
21. Indonesia	13.3
22. Sierra Leone	10.9
23. Cayman Islands	10.2
24. Paraguay	10.1

External Relations Office (formerly the Information Office) was upgraded to the External Relations Department, and Azizali F. Mohammed (see de Vries, 1985, p. 1029) was named to be its first Director. Third, as office technology improved and became more central to the Fund's operations and research activities, several diffused operations were centralized in a Bureau of Computing Services in December 1982, with Warren N. Minami (formerly a local commercial bank official) as its Director.

The size of the staff grew slowly in the 1980s, primarily in the first half of the decade. From a little under 1,400 full-time staff in 1979, the Fund grew to 1,700 staff in 1989 (2 percent a year, or 22 percent overall). That growth reflected the expansion of membership and financial activity of the Fund, but it was not sufficient to keep pressures on staff time and energy from rising. By at least one key measure of activity—the number of stand-by and other financial arrangements in place—the staff grew at a much slower rate than the demands placed on it (Figure 20.3).

The Fund's physical plant—its Washington headquarters—was expanded in the early 1980s, and a few years later the Fund had to begin planning for further expansion in the 1990s. When the headquarters building was originally conceived in the late 1960s, it was designed to be built in stages as the institution grew, on the assumption that the Fund would be able to acquire all of the land in the block bordered by 19th, 20th, G, and H Streets, Northwest.[63] Phase I, which opened in 1973, occupied about two-thirds of the block. The remainder was then owned and occupied by several different parties, including notably The George Washington University and the Western Presbyterian Church. The Fund gradually acquired all

[63]For the first few months of the Fund's life in 1946, the staff and Executive Board met in rented rooms at the Washington Hotel on Pennsylvania Avenue. From June 1946 until 1958, the Fund sublet offices from the World Bank in a building at 1818 H Street. In 1958, the Fund moved next door to a new building that it had had constructed on the southeast corner of 19th and H Streets. For the first time, the Fund owned its office space. A few years later, the Fund constructed an addition to that building, extending south on 19th Street to G Street; staff began occupying that building in 1965. See Horsefield (1969), Vol. 1, pp. 137, 145–46, 394–95, 560–61, and 640. When the Fund moved to its new headquarters on the west side of 19th Street in 1973, the World Bank took over all of the east side. See de Vries (1976), Vol. 1, pp. 649–50. The two earliest headquarters, on H Street, were demolished in the 1990s to make room for a new headquarters building for the World Bank.

Table 20.2. Organization Chart, 1979–89

Board of Governors
(Interim Committee)

Executive Board

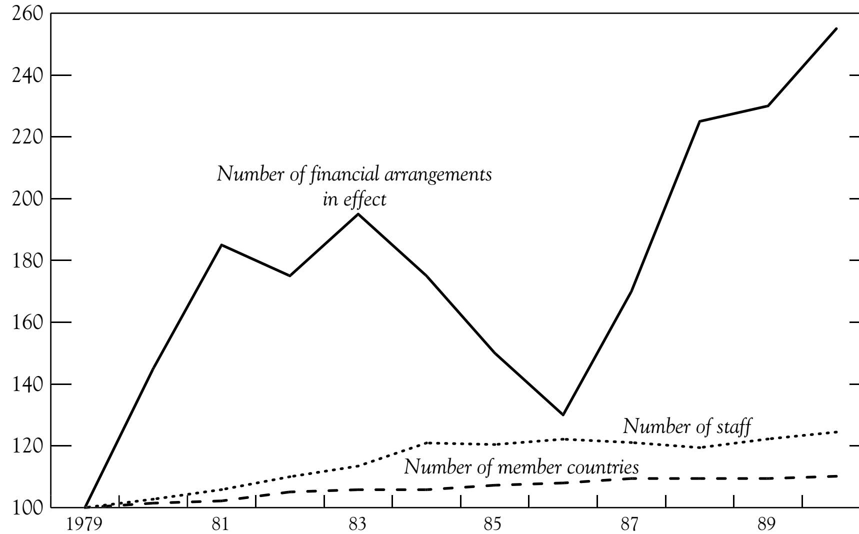
Managing Director
(and Chairman of Executive Board)
Jacques de Larosière, 1978–87
Michel Camdessus, 1987–2000

Deputy Managing Director
William B. Dale, 1974–84
Richard D. Erb, 1984–94

Area Departments	Functional Departments and Offices	Information and Liaison	Support Services
African *Justin B. Zulu, 1976–84* *Alassane D. Ouattara, 1984–88* *Mamoudou Touré, 1988–94*	Central Banking Service; Central Banking Department from 1980 *Roland Tenconi, 1978–79* *P.N. Kaul, 1980–84* *Justin B. Zulu, 1984–95*	Information Office; became External Relations Department in 1980 *Jay H. Reid, 1972–80* *Azizali F. Mohammed, 1980–90*	Administration Department *Kenneth N. Clark, 1976–79* *Roland Tenconi, 1980–85* *Graeme F. Rea, 1985–95*
Asian *Tun Thin, 1972–86* *P.R. Narvekar, 1986–91*	Fiscal Affairs Department *Richard Goode, 1965–81* *Vito Tanzi, 1981–2000*	Office in Europe (Paris) *Aldo Guetta, 1977–86* *Andrew J. Beith, 1986–94*	Secretary's Department *Leo Van Houtven, 1977–96*
European *L. Alan Whittome, 1964–87* *Massimo Russo, 1987–97*	IMF Institute *Gérard M. Teyssier, 1972–90*	Office in Geneva *Fernando A. Vera, 1977–82* *Carlos A. Sansón, 1983–87* *Eduardo Wiesner Duran, 1987–88* *Helen B. Junz, 1989–94*	Bureau of Computing Services (from 1982) *Warren N. Minami, 1982–*
Middle Eastern *A. Shakour Shaalan, 1977–92*	Legal Department *Joseph Gold, 1960–79* *George Nicoletopoulos, 1979–85* *François P. Gianviti, 1985–*	Office at the United Nations (New York) *Jan-Maarten Zegers, 1973–87* *Rattan Bhatia, 1987–95*	Bureau of Language Services *Bernardo T. Rutgers, 1977–81* *Andrew J. Beith, 1981–86* *Alan Wright, 1986–92*
Western Hemisphere *E. Walter Robichek, 1977–82* *Eduardo Wiesner Duran, 1982–87* *Sterie T. Beza, 1987–95*	Exchange and Trade Relations Department *Ernest Sturc, 1965–80* *C. David Finch, 1980–87* *L. Alan Whittome, 1987–90*		Office of Internal Audit *J. William Lowe, 1963–79* *Peter A. Whipple, 1979–85* *Robert Noë, 1985–90*
	Research Department *Jacques J. Polak, 1958–79* *William C. Hood, 1979–86* *Jacob A. Frenkel, 1987–91*		
	Bureau of Statistics *Werner Dannemann, 1978–89* *John B. McLenaghan, 1989–96*		
	Treasurer's Department *Walter O. Habermeier, 1969–87* *F. Gerhard Laske, 1987–92*		

Figure 20.3. Staff in Relation to Activity, 1979–90

(Index numbers; 1979 = 100)



of the property except the church and built a new wing on the existing building in the early 1980s. That wing, known as Phase II, occupied the northwest section of the block and was completed in 1982.

In 1988, the Executive Board approved expenditure of $30 million to acquire the church property, construct a new building for the church in a new location, and obtain legal permits for constructing Phase III of the Fund headquarters.[64] After several years and some unexpected delays, the building would finally be completed in 1999 with only minor changes from the original design of thirty years earlier.[65]

Board of Governors

All powers . . . not conferred directly . . . shall be vested in the Board of Governors.

Article XII, Section 2(a)

At the top of the IMF hierarchy sits the Board of Governors. Once a year since 1946, the governors have gathered for two purposes: to conduct the usually routine official business of the Fund and to hold an endless stream of ancillary meetings, bi-

[64]Minutes of EBM/88/169 (November 21, 1988).

[65]The delays resulted when residents of the neighborhood where the church was to be rebuilt objected to the relocation of the church's program for feeding homeless and indigent people. Significant design changes included additional setbacks from the principal facade to lessen the apparent bulk of the building, and construction of garden and park features on the broad sidewalk surrounding the building. For a detailed review of the land acquisition and construction of the building, see Thorson (1992–94).

lateral and multilateral, in the margins of the main conference.[66] Every third year, when the Annual Meetings convene away from Washington, a synergy usually develops that spurs the governors beyond routine and impels the Bretton Woods institutions in new directions.[67] At Belgrade in October 1979, governors pushed the Fund to take a more active role in lending to developing countries (Chapter 13). At Toronto in September 1982, a funereal gathering worried about the emerging debt crisis, urged the Fund to avoid panic, and set in motion the case-by-case debt strategy (Chapter 7). At Seoul in October 1985, the U.S. governor, James Baker, called for a new direction to the strategy that would make the World Bank more of an equal partner and would aim the process more effectively at generating economic growth (Chapter 10). At Berlin in October 1988, governors agreed to try a more collaborative strategy for dealing with arrears to the Fund (Chapter 16).

Operationally, the Board of Governors is called upon to vote on major issues such as approval of quota increases, SDR allocations, membership applications, and amendments to the Articles of Agreement or the By-Laws. Most such matters are handled by mail ballot rather than during the Annual Meetings. An exception to the routine conduct of the meetings arose in 1979–80 when developing countries tabled a controversial proposal to invite the PLO to participate as an official observer. The response to this request had important implications for the Fund's relationships with other international organizations.

Some 150 senior officials, representing 42 organizations such as the United Nations and various UN agencies, the BIS, the OECD, OPEC, regional development banks, etc., attended the 1979 Annual Meetings as observers.[68] In June 1979, Mr.

[66]The routine business of the Annual Meetings includes approval of the institutions' financial statements, budgets, and changes in the Rules and Regulations; and the biennial election of Executive Directors. Each member country appoints a governor for the Fund and for the Bank. Typically, the finance minister and either a deputy minister or the head of the central bank serve as Governors, but other combinations—including appointment of one governor for both institutions—also occur. The two Boards of Governors have always met jointly. The formal meetings, which are preceded by meetings of the Interim and Development Committees and of various groups of members, are taken up almost entirely by a series of statements delivered by governors.

[67]The inaugural meeting of the Boards of Governors, at which the basic decisions on the location and structure of the two institutions were taken, was held in Savannah, Georgia, in March 1946. The first Annual Meeting was held that autumn in Washington, and the second in London. After meeting in Paris in 1950 and Mexico City in 1952, the governors decided to meet outside of Washington every third year, beginning with Istanbul in 1955. Between then and the period covered here, meetings were held in New Delhi (1958), Vienna (1961), Tokyo (1964), Rio de Janeiro (1967), Copenhagen (1970), Nairobi (1973), and Manila (1976).

[68]For a complete list, see IMF, *Summary Proceedings*, 1979, pp. 365–67. Another 11 institutions were granted observer status but did not send representatives on that occasion. In addition to observers, a large number of individuals attend the meetings with designations such as "guest," "special guest," or "visitor." Only official delegations and observers have access to the plenary sessions. For a complete list and description of organizations invited in 1979, see IMF/CF (G 820 "observers at Annual Meetings, 1946–1990"), "Practice of the Bank and Fund Regarding Invitations to Send observers to Bank/Fund Annual Meetings" (undated). A detailed chronology of invitations to observers from 1946 through 1979, by Milton Chamberlain, "Informal Notes on Observers, November 1979," may be found in IMF/CF (G 820 "Observers at Annual Meetings, 1946–1990"), A longer and more detailed chronology is in IMF/CF "Observers at Annual Meetings 1946–1999 (Mr. Dennison)."

Walid Kamhawi, president of the Palestine National Fund of the PLO, wrote to the Fund and the Bank to express the desire of the PLO to attend as an observer. The request presented the institutions with a major political dilemma, because the PLO was regarded by many countries as a legitimate movement of national liberation and was recognized by the UN as the representative of the Palestinian people, but was regarded by some countries as a terrorist organization. On technical grounds, the request could have been viewed either positively or negatively. The Fund's policies on inviting observers were based generally on Article X of the Articles of Agreement, which requires the Fund to "cooperate . . . with any general international organization and with public international organizations having specialized responsibilities in related fields." Although the applicability of that provision to the PLO was not obvious, the PLO already enjoyed observer status at the United Nations and had the support of the UN General Assembly for similar status in all UN specialized agencies.[69]

After several weeks of quiet negotiations failed to produce a satisfactory response from the Fund, Mohamed Finaish, Executive Director from Libya, asked the Managing Director to put the question to the Executive Board. The Board discussed it in restricted session and approved a decision "not to recommend to the Chairman of the Board of Governors to invite the Palestine Liberation Organization to send an observer to the 1979 Annual Meetings." Seven Directors, all from developing countries and holding a total of 27 percent of the voting power, expressed support for Finaish's proposal to invite the PLO. Nine others, all from industrial countries and holding a total of 56 percent of the vote, expressed opposition. The remaining five abstained, either because they lacked instructions from their authorities or because their consituencies were split.[70] The Bank's Executive Directors reached a similar conclusion. If the PLO had had a lower political profile, that would very probably have settled the matter.

In September 1979, the Group of 77 developing countries (G-77) met in Belgrade just before the meetings were scheduled to begin there, under the chairmanship of Petar Kostić (Yugoslavia's minister of finance). Remarkably for such a large and diverse group, the G-77 reached unanimous agreement to propose to Robert D. Muldoon (prime minister and minister of finance and chairman of that year's Annual Meetings), that the PLO be invited. That level of support forced the governors to take their own concrete steps to deal with the request. Muldoon could

[69]"Background Material for Meeting of Informal Working Party of Governors," November 2, 1979; in IMF/CF (G 820 "Informal Notes on Observers, November 1979"), "Palestine Liberation Organization—Request for Observer Status."

[70]Once the motion to invite the PLO as an observer failed, Jacques de Groote (Belgium) proposed a compromise under which the Managing Director would invite the PLO as a special guest, a category conveying only slightly less access and cachet. An informal canvas of Executive Directors revealed that this motion would also fail, albeit by a much smaller margin, and the idea was not pursued further. See Decision No. 6261-(79/156), adopted September 14, 1979; "Restricted Session—Request for Observer Status," EBAP/79/371 (December 20, 1979); and memorandum from Leo Van Houtven (Secretary) to the Managing Director (September 18, 1979), in IMF/CF (G 820 "Informal Notes on Observers, November 1979").

have ruled on the matter on his own authority as chairman, but in view of the evident sensitivity he decided to put the issue to the Joint Procedures Committee.

The Joint Procedures Committee, an advisory group of 21 governors chaired by the Chairman of the Annual Meetings, was convened on an as-needed basis, to decide on issues such as credentials disputes for member countries' delegations. On this occasion, Muldoon called a meeting of the committee for Monday, October 1, on the evening before the Annual Meetings were to start. It quickly became apparent that they would not reach a consensus, as some industrial countries strongly resisted the will of the G-77. As Chairman, Muldoon had full discretion to decide the matter, and he signaled to the committee that he was likely to follow the earlier negative recommendation of the Executive Boards. After a dinner break, the committee agreed by consensus to sidestep its own impasse and ask the Chairman to appoint an informal working party to study the issue. The working party would be asked to report back to the Chairman of the *next* Annual Meetings within three months.[71] That action effectively postponed the issue and prevented the PLO from attending the meetings in Belgrade. It also raised the political stakes, in that a positive decision for 1980 would give a PLO delegation high visibility in Washington in the final weeks of a presidential election campaign.[72]

The working party comprised eight governors or their designated representatives: four each from developing and industrial countries. Although Muldoon hoped to resolve the issue in one meeting, the group had to meet three times: in November 1979 and in February and June 1980.[73] After the first two meetings, positions remained firmly fixed, with all governors from developing countries favoring the request and all others expressing reservations or opposing it. The third meeting failed to change any minds, and the final report concluded by simply reporting the four-four split.[74]

By the time the working party issued its report, the political balance had shifted diametrically. The chairman for the 1980 Meetings was Amir H. Jamal (the minister of finance of Tanzania), an active supporter of the PLO cause. Shortly after receiving the report, Jamal wrote to the Managing Director and the President of the World Bank to say that he wished to extend an invitation to the PLO. The institutions' managements, however, replied that the by-laws required consultation with the Executive Boards, and they insisted on a Board discussion before acting on Jamal's request.[75]

[71]"Report on the 1979 Annual Meeting," EBD/79/241 (October 12, 1979), Annex III.

[72]On the relevance of the U.S. presidential campaign, see memorandum from Joseph W. Lang (Deputy Secretary) to the Managing Director (May 5, 1980), with handwritten response from de Larosière; in IMF/CF (G 820 "Informal Notes on Observers, November 1979").

[73]The working party comprised the Governors for Belgium, France, Germany, Indonesia, New Zealand, Nigeria, Pakistan, and Yugoslavia. The first two meetings, which were held at the IMF office in Paris, were chaired by the deputy prime minister and minister of foreign affairs of New Zealand, B.E. Talboys. Muldoon chaired the final meeting in June, at the same venue.

[74]"Report of Informal Working Party of Governors," EBD/80/187 (July 7, 1980).

[75]"Observers to the 1980 Annual Meeting of the Board of Governors—Application of the PLO," EBS/80/163 (July 21, 1980).

The U.S. authorities—supported by the President of the World Bank, Robert S. McNamara—then took the lead in heading off Jamal's intentions, by introducing a resolution to be submitted to the full Board of Governors for a vote. The resolution noted that the by-laws were vague on the procedures for inviting outsiders to the Meetings, called on the Executive Boards to propose amendments to the by-laws, and in the meantime asked that observers be limited to those invited in 1979.[76] Both Boards took up the proposal toward the end of July, and both supported it by small majorities that reflected a clear split between industrial and developing countries. The resolution was then circulated to governors for a mail ballot without meeting.

Without further ado, the U.S. resolution presumably would have carried on a vote similar to that in the Executive Boards. Developing countries, however, used their political and economic leverage to great advantage to postpone and ultimately nullify the process. First, some major oil exporters in the Middle East informed the Managing Director privately that they would not be willing to lend to the Fund as long as the PLO was excluded from the Annual Meetings (see Chapter 17). Second, 16 governors from the Middle East and North Africa submitted formal requests to the Managing Director for the PLO invitation to be placed on the agenda when the governors convened in Washington at the end of September.[77] Those two actions together raised the specter of a public donnybrook that would have damaged the credibility of the Fund and the Bank and could have influenced the U.S. elections and weakened U.S. willingness to finance the institutions. Third, Jamal insisted that an invitation be issued forthwith, without waiting for Governors to vote. When the two heads of institution asked him to refrain, Jamal exploded in frustration. "It is now the whole office of Chairman of Governors which is being humiliated by Executive Directors," he cabled. "Also respect for law being eroded rapidly[;] kindly appreciate matters now beyond me" (IMF, *Summary Proceedings*, 1981, p. 343).[78]

Fourth, and most effectively, most governors who opposed the U.S. resolution declined to vote, in an effort to deny a quorum. That is where the real battle was fought. The resolution required a simple majority of votes cast, provided that a

[76] "Observers at the 1980 Annual Meeting," EBS/80/168 (July 28, 1980); also see related materials in IMF/CF (G 820 "Informal Notes on Observers, November 1979"). Section 5(b) of the By-Laws reads as follows: "The Chairman of the Board of Governors, in consultation with the Executive Board, may invite observers to attend any meeting of the Board of Governors." The objection was that the significance of the consultation, the extent of the privileges extended to such observers, and the meaning of "any meeting" were too vague to give appropriate guidance in controversial situations. McNamara introduced the resolution in the Bank. In the Fund, it was introduced by the U.S. Executive Director, Sam Y. Cross, and was neither supported nor opposed by management. See IMF, *Summary Proceedings*, 1981, pp. 339–42. On this and other citations below, IMF, *Summary Proceedings*, 1981 includes references to the original documents that were circulated within the Fund and the Bank.

[77] "1980 Annual Meeting—Observers," EBS/80/204 (September 19, 1980) and "1980 Annual Meetings—Addition of Item to Agenda," EBS/80/212 (September 24). These requests were to become effective if the resolution passed. In retaliation, the U.S. authorities requested that the matter be placed on the agenda if the resolution did *not* pass.

[78] The published text was edited slightly from the original cable.

simple majority of the governors, holding at least two-thirds of the total voting power, cast valid votes. In the final tally, a bare majority of 73 governors voted, out of 140. Of those, 43 voted in favor, 10 voted against, and the rest abstained.[79] Industrial countries and other supporters of the resolution invoked their own parliamentary maneuvers to ensure a quorum, first by extending the deadline and then by denying an effort by four opponents to withdraw their votes. If the more reasonable procedure of allowing withdrawals had been followed, the tally would have fallen two short of a quorum.[80]

Fifth, when the resolution passed in spite of all of these efforts, Jamal invoked his authority as Chairman. The resolution prevented him from inviting any observers other than those invited in 1979, but it left him with the authority to issue invitations within that limit. He responded immediately by announcing that he would not issue *any* observer invitations for the 1980 Meetings (IMF, *Summary Proceedings*, 1981, p. 306).

After more than a year of increasingly acrimonious dispute, this sad episode was not quite ready to fade away. The PLO issue was placed on the Meetings agenda, in the form of a new resolution focusing on the legal procedures for inviting observers. The Joint Procedures Committee held extensive meetings over four days before submitting the resolution to the full Board of Governors for a vote. That resolution (Resolution 35–12; IMF, *Summary Proceedings*, 1980, pp. 318–20), which was passed routinely the next day, created yet another committee of governors, with the specific task of reviewing the provisions in the by-laws regarding consultation and voting on observers. This ad hoc group became known as the Muldoon Committee, after its Chairman.

The Muldoon Committee held two three-day meetings, first in Manila and then in Wellington, New Zealand.[81] It issued a balanced report (IMF, *Summary Proceedings*, 1981, pp. 299–384) that did not change the outcome on this issue but did lay the groundwork for avoiding such procedural battles in the future. Governors should have the right to withdraw votes, as long as they did so before the close of voting, but the Executive Board had acted within its authority in drawing the opposite conclusion in this case. The Chairman had acted within his authority in deciding first to invite the PLO and later to issue no invitations to observers, but Executive Directors were also within their authority in submitting a resolution to the Board of Governors proposing to overrule the Chairman. This report was circulated, published, and discussed at length by the Executive Board and the 1981 Joint Procedures Committee, but no formal action was ever taken on it.

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[79]Valid replies totaled 72 percent of the voting power; 96 percent of votes cast were in favor.

[80]For the vote tally, see "1980 Annual Meeting—Observers—Results of Voting on Board of Governors Resolution," EBS/80/207 (September 22, 1980). For the tactical debates, see "By-Law 13(E): 'Replies Received'," EBS/80/201 (September 15) and minutes of EBM/80/144 (September 16) and EBM/80/146 (September 23).

[81]The country composition of the Muldoon Committee was the same as that of the earlier Joint Committee, except that Sweden was added as a member and the Chairman (Muldoon) was not given a vote except in case of a tie. That revision avoided the possibility of repeating the deadlock that had stymied the first group. For a personal memoir, see Muldoon (1981), pp. 156–57 and 166.

Throughout the 1980s, each Annual Meetings Chairman followed Jamal's precedent of not inviting any observers.[82] One might well think that observer status at the Annual Meetings would be of small importance, but it grated painfully on the sensibilities of senior officials at the BIS (as mentioned above), the OECD, the Gulf Cooperation Council, and other organizations. The institutions gradually and quietly expanded the privileges granted to officials who came to the meetings anyway, but they moved cautiously out of fear that PLO supporters would accuse them of circumventing the Chairman's order and would reopen the entire issue. Not until 1994, after the PLO signed a provisional agreement with Israel for limited self-rule in Palestine, was the issue finally laid to rest. Invitations were then issued to organizations on the 1979 list, to several new ones, and to the PLO.

Interim Committee

> . . . it is desirable, pending the establishment of the Council, to establish an Interim Committee of the Board of Governors on the International Monetary System with an advisory role, and with a composition similar to that of the Council. . . .
>
> Resolution of the Board of Governors, October 1974[83]

The Interim Committee was a committee of Fund governors established in 1974 as a temporary advisory group that would ultimately be replaced by a formal decision-making body. It replaced the identically structured Committee of Twenty (C-20), which met from 1972 to 1974 for the specific purpose of devising reforms to the international monetary system in the wake of the collapse in the Bretton Woods system of fixed but adjustable exchange rates. The permanent body, to be known as the Council, was not established, and the Interim Committee gradually took on a permanent status as the primary guide and overseer for the work of the Fund. It was reconstituted in 1999 as the International Monetary and Financial Committee (IMFC).

At first glance, establishing a ministerial-level Council would seem to be a natural and even inevitable step for the Fund. The Board of Governors is far too large a body to play an effective operational role on an ongoing basis, and the Executive Board is not constituted at a high enough political level to operate without oversight. The C-20 assumed that the Council would be created soon after the Second Amendment to the Articles became effective, and it established the Interim Committee as a bridge to that point. The Interim Committee was to have the same composition as the C-20: each country or group of countries represented on the Executive Board was to appoint a governor as a member of the Interim Committee. As mandated in the resolution quoted at the head of this section, the new committee would meet a few times each year and would "advise and report to the

[82]The only exceptions were for Switzerland, with which the Fund and the Bank had uniquely close financial relationships; the United Nations, with which both institutions had formal reciprocal agreements providing for attendance at each other's meetings; the International Fund for Agricultural Development, a UN agency with which the Bank had a similar formal agreement; and countries with active applications for membership.

[83]The full resolution is reprinted in de Vries (1985), Vol. 3, pp. 213–15.

Board of Governors" on issues related to the international monetary system and on possible amendments to the Articles of Agreement.

The Council, as provided for by the Second Amendment, would differ from the Interim Committee in that it would have the power to take formal decisions, using the same weighted-voting formulas that apply to the Board of Governors and the Executive Board.[84] As an advisory body, the Interim Committee operated instead by consensus and did not take formal votes. Developing and small countries therefore had more leverage in the Interim Committee than they have in the Fund generally and would have in the Council. Replacing the Interim Committee or the IMFC with the Council requires an 85 percent majority, and from the beginning the countries that benefited from the "interim" situation showed little enthusiasm for abandoning it.[85]

A leading advocate of creating the Council was the U.S. government, which formally proposed it at the Belgrade meetings in 1979 as a way to strengthen the legitimacy of Fund surveillance.[86] The Executive Board took up the proposal in February 1980, but the U.S. Executive Director, Sam Y. Cross, failed to generate much support for it. Although Cross anticipated controversy and argued that the Council should not compete with the Executive Board and should deal only with broad policy issues, Directors from a wide range of industrial and developing countries worried that a formal Council would detract from the authority of both the Executive Board and the Board of Governors. Several also expressed concern that the Council would lack the flexibility of the Interim Committee.[87] The proposal was thus shelved, and it was not raised again in the Board during this period of history.[88]

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[84]The application of voting power differs between the Board of Governors and the Executive Board, in that Executive Directors cast votes in a single bloc. All of the votes for a multicountry constituency are cast as a unit by the Executive Director. Members of the Council, in contrast, would be allowed to split their votes according to the preferences of the individual countries in their constituencies.

[85]The provisions for establishing the Council are found in Article XII, Section 1, and Schedule D, of the Articles as amended in 1978. For the official commentary on the purposes of the Council, see de Vries (1985), Vol. 3, pp. 360–62. When the Managing Director (Johannes Witteveen) proposed creating the Council in 1974, he received unanimous support from the C-20; see especially the minutes of Meeting No. 9 of the C-20 Deputies (January 14–15, 1974), in IMF/CF (C/XX/DEP/Meeting 74/1—Final; Master File). Only later, in light of experience with the Interim Committee, did doubts arise about the wisdom of replacing an advisory with a decision-making body.

[86]The U.S. governor, Treasury Secretary G. William Miller, called in his Annual Meetings speech in Belgrade for "bolder action" to strengthen Fund surveillance. As one step, he suggested that "we might now give serious consideration to the establishment of the Council, as successor to the Interim Committee, and give it a more specific and direct role in the surveillance process." IMF, *Summary Proceedings*, 1979, p. 116.

[87]Cross was supported by Paul Mentré de Loye (France), Lamberto Dini (Italy), Jacques de Groote (Belgium), and Mohammed Yeganeh (Alternate—Iran). See minutes of EBM/80/19–20 (February 6, 1980).

[88]C. Fred Bergsten raised the issue again during the commemorations of the Fund's fiftieth anniversary, as part of a wider proposal for strengthening the IMF to oversee a system of target zones for exchange rates. See his paper in Boughton and Lateef (1995), especially pp. 51–55. In 1998, the minister of finance of France, Dominique Strauss-Kahn, reopened the proposal for the Council, and Camdessus announced his support in a speech to the Royal Institute of International Affairs in London (*IMF Survey*, May 25, 1998, p. 163). The 1999 decision to establish the IMFC effectively killed that effort for the time being.

After an initial meeting in October 1974, the Interim Committee began meeting semiannually: each fall (around end-September) as a prelude to the Annual Meetings of the Board of Governors; and each spring along with the Development Committee, usually in April or May.[89] Within a few years, as a high-level advisory body with regularly scheduled meetings, the committee ran into difficulties avoiding being swallowed by its own routine. Meetings would begin with a morning round of formal statements by members, addressing an agenda that had been prepared by the Executive Board in consultation with the staff and the committee Chairman, with several hundred "associates" in attendance.[90] Even in the somewhat smaller "restricted" sessions in the afternoon, spontaneous give and take was difficult to achieve. Consequently, although the Interim Committee served the important function of guiding the Fund's responses to policy initiatives, only rarely was it able to do much more than ratify or discourage initiatives that had been carefully worked out in advance, most often in the Executive Board.

During much of the Interim Committee's first decade, it also suffered from a lack of leadership continuity. The practice was for the Committee to elect one of its members to be Chairman and to allow him to serve as long as he remained in office. For better or worse, finance ministers come and go in response to the vicissitudes of the political parties that they serve; whether a Chairman served for a short or long time was unaffected by how well he served the committee.[91] At the spring 1979 meeting, Denis Healey (United Kingdom) presided over the last of his four meetings as the third Chairman of the Committee.[92] He then resigned following the defeat of the Callaghan government by Margaret Thatcher's Conservatives. That led to the election of Filippo Maria Pandolfi (Italy) to be the fourth Chairman. He presided over two eventful meetings, both on the road: Belgrade in October 1979 and Hamburg the following April. Pandolfi was unable to attend the September 1980 meeting in Washington, and Hannes Androsch (Austria) presided in his absence. The committee then elected René Monory (France) to

[89]The only significant exception to this schedule came in 1983, when the Interim Committee met in February to consider the proposed increase in Fund quotas, and the Development Committee met at its regularly scheduled date in April; see Chapter 17. For a general history of the Interim Committee's first decade, see de Vries (1985), pp. 158–68. The communiqués of meetings through 1978 were reprinted in de Vries (1985), Vol. 3, pp. 217–42. For subsequent communiqués, see the Fund's *Annual Report* or the *IMF Survey*. The Development Committee was established at the same time as the Interim Committee, as a committee of governors to advise the Boards of Governors of the Fund and the World Bank on development issues. As a practical matter, the work of the Development Committee related primarily to the Bank rather than the Fund, and it was not given the same degree of operational significance as the Interim Committee. See de Vries (1985), pp. 972–75.

[90]The provision for associates enabled attendance by officials of member countries that were not represented in the membership of the committee, and of additional officials from the represented countries.

[91]Members of the Interim Committee are normally governors of the Fund and are either finance ministers or central bank governors in their home country. By tradition, the Chairman has always been selected from among the ministers on the committee.

[92]John Turner (Canada, 1974–75) had been first, followed by Willy de Clercq (Belgium, 1976–77).

succeed him, but his government was defeated in the Socialist sweep of 1981, and he never presided over a meeting.

Normally, the Interim Committee chose its chair quietly, through a canvass of members during the interval between meetings. Because a meeting was impending at the time of Monoroy's resignation, it was necessary to elect a chairman at that meeting, which was held in Libreville, Gabon. Geoffrey Howe (United Kingdom) allowed his name to be put forward with the expectation that he would be approved by acclamation. To his surprise and disappointment, an unprecedented contest loomed when the Algerian finance minister suddenly proposed Allan J. MacEachen (Canada) as an alternate candidate. To avoid embarrassment, Howe withdrew from contention (see Howe, 1994, pp. 217–18). MacEachen was elected as the sixth Chairman and presided over four meetings, the last being on his home ground, at the Annual Meetings in Toronto in September 1982.

Howe proved himself to be an able tortoise, as he was finally elected Chairman in December 1982. He worked closely with de Larosière to persuade the committee to agree to meet early, in February 1983, so as to approve the Eighth General Review of Quotas (Chapter 17). He presided over that meeting, held in Washington during a major blizzard, and then resigned following a cabinet shuffle in which he became foreign secretary of the United Kingdom.

In addition to his contribution to resolving the political debate on the quota review, Howe had a lasting impact on the committee's meeting practices. Until then, the committee made what Howe called an annual "perambulation" to meet somewhere away from Washington: either in the spring, if the Annual Meetings were being held in Washington that fall, or wherever the Meetings were being held in the fall.[93] Howe regarded that practice as excessively costly, and he decided to terminate it (Howe, 1994, p. 177). From then on, the committee held all of its spring meetings at Fund headquarters in Washington and met outside of Washington only in conjunction with the Annual Meetings.

The committee's second Chairman, Willy de Clercq (Belgium), returned to succeed Howe in 1983 and presided over the next three meetings. When he left office, the committee elected H. Onno Ruding (Netherlands) to take over. As a former Executive Director (1977–80), Ruding knew the Fund intimately. Serendipitously but just as importantly, he was a member of a government that would enjoy several years in office, allowing him to serve as Chairman for five years, through the final meeting of 1989.

Ruding introduced procedural changes to increase the flexibility and spontaneity of the meetings. He allowed each member of the committee just seven minutes to deliver a prepared statement, which freed the afternoon session for an informal and more spontaneous discussion. To further promote interaction among Governors, he sharply reduced the number of people invited in the after-

[93]The Committee met outside of Washington on its own on six occasions: in Paris (June 1975), Kingston, Jamaica (January 1976), Mexico City (April 1978), Hamburg (April 1980), Libreville (May 1981), and Helsinki (May 1982).

noon.[94] He made a practice of arriving in Washington several days before the meeting, getting thoroughly briefed, and meeting bilaterally with as many colleagues as possible. Consequently, the Committee began to assume a somewhat more active role in influencing Fund policies such as the establishment of the SAF (see the introduction to Chapter 14), the implementation of the Baker and Brady debt strategies, the intensified strategy for dealing with arrears, and the ninth quota review.

Executive Board

> The Executive Board shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all the powers delegated to it by the Board of Governors.
>
> Article XII, Section 3(a)

It would be easy to fall into the trap of underestimating the influence of the Executive Board during the 1980s. Critics often point to the rarity of rejections of lending proposals put to the Board by management, which is certainly a fact. Three examples of such rejections are described in earlier chapters.[95] Chapter 13 records a battle over a stand-by arrangement for Sierra Leone in 1979, which resulted in a reduction in the size of the initial drawing. Chapter 15 includes the stories of rebellions in 1981 over a proposed EFF arrangement for Grenada, which was approved two months later as a shorter-term stand-by arrangement; and a proposed rescheduling of a CFF repayment for Sudan, which was approved with a much shorter maturity. Otherwise, once requests for financing were approved by management, they faced a fairly smooth passage.

This fact, however, does not imply that the Board was a rubber stamp for management decisions. The Board's influence was exerted far more directly and forcefully on broad policy issues and general procedures than on specific lending decisions. Even on the latter, the Managing Director quite commonly declined to bring requests to the Board after canvassing all or some Executive Directors informally and determining that the proposed action was unlikely to pass. More formally, the Board's regular discussions of the work program, policy decisions, and the World Economic Outlook set the agenda for the institution, while its preliminary discussions of various issues guided the staff in honing policy proposals to a point that could win approval. Management and staff often sought to influence that process by manipulating the range of questions and choices put to the Board, and what

[94]The intimacy was only relative. In the morning, there were to be nearly 500 people in the room, including several associates (as many as 30 in some cases) for each of the 22 committee members, plus the 22 Executive Directors and nearly 30 staff and observers. In the afternoon, each member was restricted to 2–4 associates and the Executive Director, and there were to be no more than 7 staff and observers, so that total attendance (including the Chairman and the Managing Director) would be about 100 people.

[95]Also see Chapter 16, which relates the Board's temporary overruling of a management proposal to declare Zambia ineligible to use Fund resources in 1987.

typically followed was a series of parries and thrusts until a satisfactory compromise was reached.

Formal votes were seldom taken, either for financing requests or on policy decisions. Rather, the Secretary would infer from each intervention whether the speaker favored or opposed the proposal, and from that list determined whether the necessary support existed. On that basis, the Chairman would indicate whether "the sense of the meeting" was that the proposal was approved or failed.[96] When objections to a proposal were raised, the nature and extent of the objection would be recorded in the minutes and reflected in the Chairman's summing up of the meeting. The cumulative effect of such comments constituted an additional avenue by which the Board made its influence felt. Alexandre Kafka (1996, p. 327) neatly summed up this process as follows.

> When the Board is dissatisfied . . . it will generally limit itself to expressing doubts and warnings against a repetition of a management proposal similar to the criticized one. There is a sensible basis for this way of proceeding. . . . If the Board refused arrangements negotiated by the staff under authority of the management, it would deprive the staff of the authority . . . of negotiating agreements until they had been approved, at least in outline, by the Executive Board.

The nature of the Executive Board was one of the battlegrounds on which John Maynard Keynes sought to influence the structure of the Fund in the 1940s. Keynes wanted a high-level Board, which would meet infrequently enough that the office could be filled by senior officials whose main responsibilities would still be in their home governments. That structure, he believed, would have given management more leeway to run the Fund as a technocratic rather than a political institution. At Bretton Woods in 1944, he tried unsuccessfully to insert phrasing in the Articles of Agreement stating that Executive Directors "need not be Governors" (i.e., that they normally would be Governors or at least senior deputies) and that they "shall meet not less than once every three months."[97] At the inaugural meeting of the Board of Governors in 1946, he tried—again without success—to write the By-Laws in a way that would ward off full-time Executive Directors. Throughout, the U.S. preference for closer political control prevailed, and the Executive Board became a full-time body resident in Washington.[98]

[96]This phrasing was initiated in September 1946, when the Executive Board first adopted Rules and Regulations for the conduct of its meetings. Rule C-10 specified that the "Chairman will ordinarily ascertain the sense of the meeting in lieu of a formal vote" (Horsefield, 1969, Vol. 3, p. 290). The following May, the Board defined the sense of the meeting as "a position supported by Executive Directors having sufficient votes to carry the question were a vote to be taken." For an overview of Executive Board operating procedures, see de Vries (1985), pp. 983–1000.

[97]In a February 1946 letter to R.H. Brand (a member of the British delegation at Bretton Woods), Keynes suggested that "Deputy Governors of central banks" and similar "very responsible people in the heart of their own institutions" would be appropriate choices for Executive Directors under his conception. See Moggridge (1980), pp. 208–9.

[98]See Horsefield (1969), Vol. 1, pp. 130–35. The British proposal at Bretton Woods is in U.S. Department of State (1948), Vol. 1, pp. 45–46.

People

Notwithstanding Keynes's disappointment in the outcome, the Executive Board was sprinkled with prominent names. The first U.S. Director was Harry Dexter White, who had been Assistant Secretary of the U.S. Treasury in charge of international economic policy and who was responsible for much of the design of the Fund.[99] In the Executive Board's first half century, some two dozen Directors had been finance or economy minister in their home country before joining the Board. Notable examples included Camille Gutt (Belgium, 1946, and also the Fund's first Managing Director), Pierre Mendés-France (France, 1946, and also a future prime minister of France),[100] Pieter Lieftinck (Netherlands, 1955–76), Antoine W. Yaméogo (Upper Volta, 1964–76), Erik Brofoss (Norway, 1970–73), Nazih Deif (Egypt, 1970–76), Jahangir Amuzegar (Iran, 1973–80), Abderrahmane Alfidja (Niger, 1978–86), E.I.M. Mtei (Tanzania, 1982–86), and Alejandro Végh (Uruguay, 1990–92).[101] A similar number had served as central bank governors. Louis Rasminsky, a member of the Canadian delegation at Bretton Woods (where he chaired the Drafting Committee of the Fund's Articles of Agreement) and Canada's first Executive Director (1946–62), served simultaneously as governor of the Bank of Canada in the early 1960s; see Muirhead (1999).

In other cases, people who were making their way up through the government hierarchy spent a few years on the Executive Board and reached the pinnacle of their careers somewhat later.[102] Perhaps the two most prominent examples were both Italian: Guido Carli (1947–52), who went on to become governor of the Bank of Italy and later the treasury minister; and Lamberto Dini (1976–80), who later held various ministerial positions, including prime minister in 1995–96. Four U.S. Executive Directors were subsequently appointed Deputy Managing Director of the Fund: Andrew N. Overby in 1949, Frank A. Southard, Jr., in 1962, William B. Dale in 1974, and Richard D. Erb in 1984. Uniquely, Ahmed Zaki Saad (Egypt)—a dominant member of the Board from 1946 until his retirement in 1970—simultaneously held a variety of top-level government positions, including under secretary of state in the Egyptian ministry of finance in the late 1940s and governor of the National Bank of Egypt in the 1950s. Saad also served as governor in the Fund for Saudi Arabia from 1958 to 1977 and as Chairman of the Annual Meetings in both 1955 and 1962.

[99]At the time, the assistant secretaries were senior deputies reporting directly to the Secretary. The Secretary is the U.S. equivalent of a finance minister. For an overview of White's role, see Boughton (1998).

[100]Mendés-France, however, served on the Board for only two months and never attended a Board meeting.

[101]Dates in this list are for the period of service on the Executive Board, which in some cases includes a term as Alternate.

[102]In at least one such case, the minister later returned to the Board. After serving as Uganda's first Executive Director in the Fund (1964–66), Semyano Kiingi became governor of the Bank of Uganda (1971–73) and then finance minister (1973–77). He served again on the Executive Board from 1978 to 1982.

Most often, Executive Directors came to the Fund from mid-level government positions one or a few steps below the deputy level.[103] Their status and their role in the Fund was perhaps the economic equivalent of ambassadors in the foreign service. They were expected both to represent the views of their home countries (or of the group of countries that elected them) and to represent the views of the Fund to their constituent governments.

The membership of the Board—Directors and their Alternates—during the period covered by this History is listed in Table 20.3.[104] Evident from this table is a high rate of turnover. Throughout the 1980s, about one-half of the Executive Directors had no more than three years' experience on the Board (including service as Alternates in a few cases). "Institutional memory" thus resided in a few Directors with unusually long service at the Fund, notably Jacques J. Polak, Alexandre Kafka, Byanti Kharmawan, Jacques de Groote, and Mohamed Finaish.

Jacques Polak was without peer as an intellectual force and institutional pillar at the Fund. He became the Executive Director for the Netherlands constituency in January 1981, following a career with the IMF that had carried him from the Dutch delegation at the Bretton Woods conference in July 1944 to senior positions that included Director of Research (1958–79), Economic Counsellor (1966–79), and Advisor to the Managing Director (1979–80).[105] He made his most significant and lasting intellectual contribution in the early 1950s, by developing a model of the monetary approach to the balance of payments that became the foundation for the Fund's approach to conditionality (see Chapter 13). In his last staff role, he oversaw much of the effort to strengthen the SDR as a viable market asset and to try (unsuccessfully) to establish a substitution account for SDRs (Chapter 18). As Executive Director, in addition to continuing to work on broad institutional issues from the "other side of the table," he became closely involved in the development of adjustment programs in Yugoslavia, which was part of his constituency (again see Chapter 13). After retiring from the Board, he was named President of the Per Jacobsson Foundation, which honors the Fund's third Managing Director (1956–1963) by sponsoring annual lectures by prominent economists and policymakers. Ten years later, at the age of 82, having been honored both by his native Netherlands (with the Pierson Medal, awarded at the Netherlands Bank) and by the world economic community (with a festschrift in 1991), Jacques Polak finally

[103]Horsefield (1969), Vol. 1, lists the main government positions held by each Executive Director of 1946 and 1968 on pp. 137–38 and 615–16, respectively. De Vries (1976), Vol. 1, lists positions for the Directors of 1971 on pp. 627–30.

[104]For the earlier composition, see Horsefield (1969), Vol. 1, pp. 620–34; de Vries (1976), Vol. 1, pp. 655–62; and de Vries (1985), pp. 1045–55.

[105]The reader will find that Polak is cited often throughout this History in each of his major roles. Also see his summary professional memoirs in the Introduction to Polak (1994b); the profiles in de Vries (1985), p. 1020, and Frenkel and Goldstein (1991, pp. 3–4); and citations throughout the first three Histories.

Table 20.3. Executive Directors and Their Alternates, 1979–89

Part I. Appointed Directors

Country	Executive Director *(Alternate)*	Dates of Service
United States	Sam Y. Cross	5/3/74–1/10/81
	Thomas Leddy	11/5/75–4/30/79
	Donald Syvrud	5/1/79–10/4/81
	Richard D. Erb	7/18/81–5/31/84
	Charles H. Dallara	8/2/82–9/19/83
	Mary K. Bush	12/13/83–12/24/87
	Charles H. Dallara	10/5/84–5/26/89
	Charles S. Warner	7/15/88–7/14/90
	Thomas C. Dawson II	9/21/89–9/7/93
United Kingdom	William S. Ryrie	10/17/75–1/2/80
	Pendarell Kent	5/3/76–6/22/79
	Lionel D.D. Price	6/23/79–7/31/81
	John Anson	1/3/80–5/1/83
	Christopher Taylor	8/1/81–9/30/83
	Nigel Wicks	5/2/83–8/31/85
	T.A. Clark	10/1/83–11/10/85
	T.P. Lankester	9/1/85–1/24/88
	Michael Foot	11/11/85–10/30/87
	Charles Enoch	10/31/87–7/13/90
	Frank Cassell	1/25/88–7/22/90
Germany, Fed. Rep. of	Eckard Pieske	1/1/75–6/30/79
	Gerhard Laske	1/1/75–6/30/79
	Gerhard Laske	7/1/79–8/31/84
	Guenter Winkelmann	8/1/79–8/31/82
	Guenter Grosche	9/1/82–8/31/84
	Guenter Grosche	9/1/84–12/9/90
	Bernd Goos	9/1/84–12/9/90
France	Paul Mentré de Loye	9/5/78–11/30/81
	Denis Samuel-Lajeunesse	9/5/78–8/31/79
	Thierry Aulagnon	9/1/79–8/31/81
	Anne Le Lorier	9/1/81–8/31/83
	Bruno de Maulde	12/1/81–1/24/86
	Xavier Blandin	9/1/83–8/31/85
	Sylvain de Forges	9/1/85–8/31/87
	Hélène Ploix	2/24/86–10/1/89
	Dominique Marcel	9/1/87–9/20/89
	Jean-François Cirelli	9/21/89–9/25/91
	Jean-Pierre Landau	10/30/89–9/10/93
Japan	Masanao Matsunaga	11/1/76–11/9/79
	Rei Masunaga	7/20/76–6/11/79
	Akira Nagashima	6/12/79–12/24/81
	Teruo Hirao	11/10/79–7/27/84
	Tadaie Yamashita	12/25/81–12/12/84
	Hirotake Fujino	7/28/84–12/21/86
	Masahiro Sugita	12/13/84–12/11/87
	Koji Yamazaki	12/22/86–8/25/91
	Shinichi Yoshikuni	12/12/87–12/24/90
Saudi Arabia	Mahsoun B. Jalal	11/1/78–4/30/81
	Yusuf A. Nimatallah	1/15/79–4/30/81
	Yusuf A. Nimatallah	5/1/81–6/30/90
	Samir El-Khouri	10/10/81–6/2/82
	Jobarah E. Suraisry	6/3/82–10/31/86
	Ibrahim Al-Assaf	11/1/86–10/10/89
	Muhammad Al-Jasser	10/11/89–6/30/90

Table 20.3. *(continued)*

Constituency[a]	Executive Director *(Alternate)*[b]	Dates of Service[c]
Part II. Elected Directors		
Greece	Lamberto Dini (Italy)	7/6/76–10/31/80
Italy	*Costa P. Caranicas (Greece)*	11/1/78–4/30/84
Malta	Giovanni Lovato (Italy)	11/1/80–10/31/84
Poland (from 1988)	*Nikolaos Coumbis (Greece)*	11/1/84–4/30/86
Portugal	Salvatore Zecchini (Italy)	11/1/84–1/16/89
	Nikos Kyriazidis (Greece)	5/1/86–1/17/92
	Renato Filosa (Italy)	1/17/89–1/14/93
Costa Rica	Joaquín Muns (Spain)	11/1/78–10/31/80
El Salvador	*Ariel Buira (Mexico)*	11/1/78–10/31/80
Guatemala	Ariel Buira (Mexico)	11/1/80–10/31/82
Honduras	*Miguel A. Senior (Venezuela)*	11/1/80–10/31/82
Mexico	Miguel A. Senior (Venezuela)	11/1/82–10/31/84
Nicaragua	*José Luis Feito (Spain)*	11/1/82–10/31/84
Spain	Pedro Pérez (Spain)	11/1/84–10/31/86
Venezuela	*Guillermo Ortiz (Mexico)*	11/1/84–10/31/86
	Guillermo Ortiz (Mexico)	11/1/86–10/31/88
	Leonor Filardo (Venezuela)	11/1/86–10/31/88
	Leonor Filardo (Venezuela)	11/1/88–10/31/90
	Miguel A. Fernández Ordóñez (Spain)	11/1/88–10/15/90
Cyprus	H.O. Ruding (Netherlands)	1/1/77–12/31/80
Israel	*Tom de Vries (Netherlands)*	1/9/69–1/15/85
Netherlands	J.J. Polak (Netherlands)	1/1/81–10/31/86
Romania	*J. de Beaufort Wijnholds (Netherlands)*	1/16/85–7/15/87
Yugoslavia	G.A. Posthumus (Netherlands)	11/1/86–10/31/94
	G.P.J. Hogeweg (Netherlands)	7/24/87–7/28/91
Austria	Jacques de Groote (Belgium)	11/1/73–3/31/94
Belgium	*Heinrich G. Schneider (Austria)*	12/1/70–6/30/87
Hungary (from 1982)	*Johann Prader (Austria)*	7/1/87–
Luxembourg		
Turkey		
Bahrain	Mohamed Finaish (Libya)	11/1/78–10/31/92
Egypt (from 1986)	*Kadhim A. Al-Eyd (Iraq)*	5/24/77–3/31/81
Iraq	*Tariq Alhaimus (Iraq)*	5/17/81–6/21/87
Jordan	*Abdul Moneim Othman (Iraq)*	6/22/87–12/31/90
Kuwait		
Lebanon		
Libya		
Maldives		
Oman (from 1983)		
Pakistan		
Qatar		
Somalia		
Syrian Arab Republic		
United Arab Emirates		
Yemen Arab Republic		
Yemen, People's Democratic Rep. of		

Table 20.3. *(continued)*

Constituency[a]	Executive Director (*Alternate*)[b]	Dates of Service[c]
Antigua & Barbuda (from 1982)	Bernard J. Drabble (Canada)	11/1/74–5/7/81
The Bahamas	*Donal Lynch (Ireland)*	11/1/75–3/31/80
Barbados	*Michael Casey (Ireland)*	4/1/80–9/30/83
Belize (from 1982)	Robert K. Joyce (Canada)	5/8/81–10/15/85
Canada	*Luke Leonard (Ireland)*	10/1/83–10/17/86
Dominica	Marcel Massé (Canada)	10/16/85–9/27/89
Grenada	*Dara McCormack (Ireland)*	10/18/86–10/26/89
Ireland	C. Scott Clark (Canada)	9/29/89–11/1/92
Jamaica	*Gabriel C. Noonan (Ireland)*	10/27/89–10/31/92
St. Kitts & Nevis (St. Christopher & Nevis) (from 1984)		
St. Lucia (from 1980)		
St. Vincent (from 1980)		
Australia	Robert J. Whitelaw (Australia)	4/14/75–1/21/81
Kiribati (from 1986)	*R.J. Lang (New Zealand)*	11/1/78–10/31/80
Korea	*Placido L. Mapa, Jr. (Philippines)*	11/1/80–5/31/81
New Zealand	A.R.G. Prowse (Australia)	1/22/81–2/15/85
Papua New Guinea	*Benito Legarda (Philippines)*	6/1/81–10/31/82
Philippines	*Kerry G. Morrell (New Zealand)*	11/1/82–10/31/84
Seychelles	*Antonio V. Romuáldez (Philippines)*	11/1/84–10/31/86
Solomon Islands	Charles R. Rye (Australia)	2/16/85–4/28/89
Vanuatu (from 1982)	*Chang-Yuel Lim (Korea)*	11/1/86–5/31/89
Western Samoa	E.A. Evans (Australia)	4/29/89–4/28/93
	Seung-Woo Kwon (Korea)	6/1/89–10/31/90
Denmark	Matti Vanhala (Finland)	11/1/78–10/31/80
Finland	*Gísli Blöndal (Iceland)*	11/1/78–2/28/81
Iceland	Jon Sigurdsson (Iceland)	11/1/80–1/15/83
Norway	*Leiv Vidvei (Norway)*	3/1/81–3/6/83
Sweden	John Tvedt (Norway)	1/16/83–12/31/84
	Arne Linda (Sweden)	3/7/83–3/10/85
	Hans Lundstrom (Sweden)	1/1/85–6/30/87
	Henrik Fugmann (Denmark)	3/11/85–5/6/87
	Jorgen Ovi (Denmark)	5/7/87–6/30/87
	Jorgen Ovi	7/1/87–6/30/89
	Markus Fogelholm (Finland)	7/1/87–6/30/89
	Markus Fogelholm (Finland)	7/1/89–10/31/91
	Mágnus Pétursson	7/1/89–1/12/90
Bangladesh	S.D. Deshmukh (India)	6/3/77–10/31/80
Bhutan (from 1982)	*Warnasena Rasaputram (Sri Lanka)*	7/1/76–3/20/79
India	*Edmund Eramudugolla (Sri Lanka)*	5/1/79–4/30/80
Sri Lanka	*D. Lakshman Kannangara (Sri Lanka)*	7/1/80–11/30/81
	M. Narasimham (India)	11/1/80–9/30/82
	A.S. Jayawardena (Sri Lanka)	12/1/81–2/31/86
	Ram N. Malhotra (India)	11/1/82–2/3/85
	Arjun K. Sengupta (India)	2/4/85–10/31/88
	L. Eustace N. Fernando (Sri Lanka)	1/1/87–1/2/95
	Bimal Jalan (India)	11/1/88–1/2/90
Brazil	Alexandre Kafka (Brazil)	11/1/66–10/31/98
Colombia	*T. Ainsworth Harewood (Trinidad*	
Dominican Republic	*& Tobago)*	1/1/78–3/14/80
Ecuador (from 1980)	*José R. Gabriel-Peña (Dominican*	
Guyana	*Republic)*	3/15/80–11/27/82
Haiti	*César Robalino (Ecuador)*	11/28/82–2/28/85
Panama	*Hernando A. Arias (Panama)*	3/1/85–3/31/87
Peru (to 1980)	*Jerry Hospedales (Trinidad & Tobago)*	4/1/87–3/31/89
Suriname	*Luis M. Piantini (Dominican Republic)*	4/1/89–3/31/91
Trinidad & Tobago		

Table 20.3. *(continued)*

Constituency[a]	Executive Director *(Alternate)*[b]	Dates of Service[c]
Fiji	Byanti Kharmawan (Indonesia)	11/1/68–10/5/82
Indonesia	*Savenaca Siwatibau (Fiji)*	11/1/78–10/31/80
Lao People's Democratic	*Vijit Supinit (Thailand)*	12/1/80–11/30/82
Republic	A. Hasnan Habib (Indonesia)	11/4/82–6/30/83
Malaysia	*Jaafar Ahmad (Malaysia)*	12/1/82–10/31/86
Myanmar (Burma)	J.E. Ismael (Indonesia)	7/1/83–10/31/96
Nepal	*Janardana Reddy (Fiji)*	11/1/86–10/31/88
Singapore	*Ekamol Kiriwat (Thailand)*	11/1/88–10/31/89
Thailand	*Tanya Sirivedhin (Thailand)*	11/1/89–10/31/92
Tonga (from 1986)		
Vietnam		
Botswana	Festus G. Mogae (Botswana)	11/1/78–10/31/80
Burundi	*Semyano Kiingi (Uganda)*	11/1/78–10/31/80
Ethiopia	Semyano Kiingi (Uganda)	11/1/80–10/31/82
The Gambia	*Andrew K. Mullei (Kenya)*	11/1/80–4/30/81
Guinea (to 1986)	*N'faly Sangare (Guinea)*	1/5/81–10/31/82
Kenya	N'faly Sangare (Guinea)	11/1/82–10/31/84
Lesotho	*E.I.M. Mtei (Tanzania)*	11/1/82–10/31/84
Liberia	E.I.M. Mtei (Tanzania)	11/1/84–10/31/86
Malawi	*Ahmed Abdallah (Kenya)*	11/1/84–10/31/86
Mozambique (from 1984)	Ahmed Abdallah (Kenya)	11/1/86–10/31/88
Nigeria	*El Tayeb El Kogali (Sudan)*	11/1/86–10/31/88
Sierra Leone	El Tayeb El Kogali (Sudan)	11/1/88–10/31/90
Sudan	*L.B. Monyake (Lesotho)*	11/1/88–10/31/90
Swaziland		
Tanzania		
Uganda		
Zambia		
Zimbabwe (from 1980)		
China (from 1980)	ZHANG Zicun (China)	
	(CHANG Tse Chun)	11/1/80–11/30/85
	TAI Qianding (China)	11/1/80–11/30/82
	WANG Enshao (China)	12/1/82–8/16/85
	JIANG Hai (China)	9/1/85–8/31/88
	HUANG Fanzhang (China)	12/1/85–10/31/86
	DAI Qianding (China)	11/1/86–9/4/91
	ZHANG Zhiziang (China)	9/1/88–12/31/91
Argentina	Francisco Garcés (Chile)	11/1/78–10/31/80
Bolivia	*Julio C. Gutiérrez (Paraguay)*	11/1/78–10/31/80
Chile	Juan Carlos Iarezza (Argentina)	11/1/80–10/31/82
Ecuador (to 1980)	*Raúl T. Salazar (Peru)*	11/1/80–10/31/82
Paraguay	Alvaro Donoso (Chile)	11/1/82–10/31/84
Peru (from 1980)	*Mario Teijeiro (Argentina)*	11/1/82–10/31/84
Uruguay	Fernando L. Nebbia (Argentina)	11/1/84–10/31/86
	Brian Jensen (Peru)	11/1/84–3/25/86
	Jaysuño Abramovich (Peru)	3/26/86–10/31/86
	Alvaro Donoso (Chile)	11/1/86–10/31/88
	Julio Dreizzen (Argentina)	11/1/86–1/14/87
	Ernesto Feldman (Argentina)	1/15/87–10/31/88
	Ernesto Feldman (Argentina)	11/1/88–10/31/90
	Ricardo J. Lombardo (Uruguay)	11/1/88–9/29/90
Afghanistan	Jahangir Amuzegar (Iran)	8/8/73–10/31/80
Algeria	*Mohammed Yeganeh (Iran)*	12/19/78–10/31/80
Ghana	Morteza Abdollahi (Iran)	11/1/80–10/31/82
Iran, Islamic Republic of	*Omar Kabbaj (Morocco)*	11/1/80–1/16/94

Table 20.3. *(concluded)*

Constituency[a]	Executive Director *(Alternate)*[b]	Dates of Service[c]
Morocco	Ghassem Salehkhou (Iran)	11/1/82–10/31/88
Oman (to 1982)	M.R. Ghasimi (Iran)	11/1/88–10/31/90
Tunisia		
Benin	Samuel Nana-Sinkam (Cameroon)	11/1/76–10/31/82
Burkina Faso (Upper Volta)	*Abderrahmane Alfidja (Niger)*	1/3/78–10/31/82
Cameroon	Abderrahmane Alfidja (Niger)	11/1/82–10/31/86
Cape Verde (from 1980)	*wa Bilenga Tshishimbi (Zaïre)*	12/21/82–3/21/85
Central African Republic	*Lubin K. Doe (Togo)*	5/1/85–8/4/85
Chad	*Mawakani Samba (Zaïre)*	8/5/85–10/31/86
Comoros	Mawakani Samba (Zaïre)	11/1/86–10/31/90
Congo	*Corentino Virgilio Santos (Cape Verde)*	11/15/86–10/31/90
Côte d'Ivoire		
Djibouti (from 1980)		
Equatorial Guinea		
Gabon		
Guinea (from 1986)		
Guinea-Bissau		
Madagascar		
Mali		
Mauritania		
Mauritius		
Niger		
Rwanda		
São Tomé & Príncipe		
Senegal		
Togo		
Zaïre		

[a]"From" dates indicate the year in which the country first participated in the election of the Executive Director for the listed constituency. "To" dates indicate the year that the country moved to a different constituency. Names in parentheses were in effect during the first part of the period.

[b]Alternate Executive Directors are listed under the Director who initially appointed them. Where dates overlap, the Alternate Executive Director was reappointed by the next Director.

[c]Dates are given as month/day/year.

retired from his last official IMF post. He continued to work, however, and was far from fading away.[106]

By tradition, the longest-serving Executive Director is designated as the Dean of the Executive Board. The Dean serves as an informal spokesperson for the Board and chairs certain special meetings of Executive Directors, such as those for the selection of a new Managing Director. From 1973 to 1976, that honor was held by Pieter Lieftinck (Netherlands), who had served on the Board since 1955 and who had assumed the Dean's position following the retirement of André van

[106]Polak's research in the 1990s was only partly retrospective (e.g., Polak, 1995, 1997, 2000). Just as often, he was writing on issues such as how the Fund could be restructured financially (Polak, 1996) or whether the Fund's mandate should be extended to cover capital account liberalization (Polak, 1998). His main publications from 1939 to 1991 are collected in Polak (1994b). For an overview of his contributions and a complete bibliography to 1991, see the festschrift volume (Frenkel and Goldstein, 1991).

Campenhout (Belgium). When Lieftinck retired, the deanship passed to Alexandre Kafka (Brazil), who had served on the Board since 1966.

Alexandre Kafka had served on the Fund staff in the late 1940s and at the United Nations in the late 1950s, and had been named Professor of Economics at the University of Virginia in the early 1960s. Originally from Prague, Czechoslovakia; educated in Geneva and Oxford; and an emigré to Brazil at the outset of the 1940s, most of his early career was in a variety of government and other positions in Brazil. Those posts included Director of the Brazilian Institute of Economics at the Getúlio Vargas Foundation and Advisor to the Minister of Finance. He was appointed Alternate Executive Director in June 1966 and was elected that fall for what would turn out to be a record-breaking length of service as Executive Director. In October 1998, at the age of 81, Kafka retired after completing his sixteenth two-year term on the Board.[107] His service and contributions to the Fund, to the Brazilian economy, to his broader constituency in Latin America, to developing countries more generally, and to the professional literature on international economic policy issues were not just lengthy. The exceptional value of those contributions was recognized in the 1990s through special honors and awards from several countries.

Byanti Kharmawan (Indonesia) came to the Fund after a 37-year career in government and private business in Indonesia, the Netherlands, and England, and a two-year period as Executive Director at the Asian Development Bank. He was elected Executive Director in the Fund in 1968 and continued to serve until his sudden death in October 1982.

Two other Directors served throughout the period of this History. Jacques de Groote (Belgium) began his career at the National Bank of Belgium in 1957, worked at the Fund for three years in van Campenhout's office, and participated in many of the discussions on reform of the international monetary system in the early 1960s. After three years with the National Bank of Zaïre, he returned to Belgium and then was elected Executive Director in the Fund in 1973. He retired in 1994. Mohamed Finaish (Libya) was appointed Alternate Executive Director to Deif in 1973, just one year after receiving a Ph.D. in Economics from the University of Southern California. He returned to the Central Bank of Libya in 1977 and then was elected as Executive Director in 1978. Despite occasional challenges to the constituency that he served, he held onto his seat until he was finally defeated in the election of 1992.[108]

Structure

The size of the Executive Board gradually rose from its original 12 members to 20 by 1964 (de Vries, 1985, pp. 764–65). Directors for five seats were appointed by the

[107]The deanship then passed to Abbas Mirakhor (Iran), who was first elected in 1990.

[108]In 1978, Syria nominated its existing Director, Muhammad Al-Atrash, for reelection, but several members of the constituency broke away and supported Finaish. Syria, Jordan, and Lebanon voted for Al-Atrash. When that bid failed, they designated Finaish to cast their votes on the Board. Syria nominated Al-Atrash again in 1984, but he withdrew from contention before the balloting. In 1992, Finaish lost out to A. Shakour Shaalan (Egypt).

members with the largest quotas (the United States, the United Kingdom, Germany, Japan, and France),[109] leaving 15 seats to be filled by election by the remaining members. By 1978, the Fund having grown to a membership of 138 countries, the trick was to ensure that the many small countries with low voting power would have appropriate representation. That problem was particularly acute for the African members, which had been joining in large numbers during the 1960s and 1970s and which were able to elect just two Executive Directors to look after the interests of 37 countries. One group of 16 countries was predominantly English-speaking, and a second group of 21 countries was predominantly French-speaking.[110] Even with that large a flock, the Executive Director for the Francophone African countries (Samuel Nana-Sinkam, of Cameroon) had the second-smallest voting power on the Board in 1978. At the very bottom—and thus the most vulnerable constituency—was a group of six Latin American countries headed by Argentina.[111] The Executive Board set its own rules for the biennial election of Directors, and it was widely agreed that the rules had to be structured to ensure that each of the vulnerable groups could continue to elect an Executive Director.[112]

The 1978 election presented a complication, in that Saudi Arabia—which until 1978 had been part of a large constituency of countries in the Middle East and North Africa—had become a large enough creditor to the Fund that it was entitled to appoint its own Executive Director (Chapter 17). The Board of Governors responded by agreeing to increase the size of the Board temporarily to 21 so that the number of elected Directors would not fall.[113]

[109]On the original Board in 1946, the five countries entitled to appoint Executive Directors by virtue of having the largest quotas were the United States, the United Kingdom, China, France, and India. Germany replaced China in 1960, and Japan replaced India in 1970 (although India was permitted to appoint a Director in 1970 as a transitional measure).

[110]This division into Anglophone and Francophone constituencies dated from 1964, when the size of the Board was increased to 20 to accommodate the growing number of African members.

[111]The original Articles set aside two elected seats for "the American Republics not entitled to appoint directors." In 1956, following approval of membership for Argentina, the Board of Governors agreed to allow formation of a third constituency for Latin American countries. The special treatment of the region was dropped in 1978 as part of the Second Amendment, but these countries (plus Spain) continued to elect three Executive Directors.

[112]Rules for the election of Executive Directors are set out in Schedule E of the Articles of Agreement, but Article XII, Section 3(d), specifies that those provisions shall be "supplemented by such regulations as the Fund deems appropriate." The governing provision on this issue was from the Commentary on the Second Amendment to the Articles: "the Fund has been guided by the objectives of ensuring that the size of the Executive Board will contribute to the effective despatch of its business, that a desirable balance will be maintained in the composition of the Executive Board, that the size of constituencies will not place undue burdens on Executive Directors and hinder the efficient conduct of . . . business . . . , that members will be as free as possible . . . to form the constituencies of their choice, and that a relative equilibrium will be achieved in the voting power of the constituencies electing Executive Directors" (de Vries, 1985, Vol. 3, p. 358).

[113]Article XII, Section 3(c), provides for an increase in the number of appointed Directors by one or two, if the countries with the largest absolute creditor positions in the Fund are not otherwise entitled to appoint a Director. This provision enabled Canada to appoint a Director for the period 1958–60, Italy for 1968–70, and Saudi Arabia for 1978–92.

In 1980, following the large increase in China's quota described in Chapter 19, the election rules had to take into account that China—for several years not represented on the Board—now intended to elect its own Director and not to join or form a constituency with other members. That prospect raised the possibility that several other countries might attempt to form a new constituency by combining to garner the minimum number of required votes (4 percent of the eligible total, under the standard rules).[114] The two smaller Latin American constituencies protected themselves by reallocating countries between them, but that shifted the Francophone African countries onto the hot seat.[115] Without some preemptive action, all of sub-Saharan Africa might have to be represented by a single Executive Director.

In July, the Board's election committee (chaired by Canada's Executive Director, Bernard J. Drabble) recommended that the number of elected Directors be raised again, but only to 16 (implying that formation of a new constituency in addition to the China seat would squeeze out an existing group), and that the minimum number of votes for first-ballot election be raised to 4.2 percent of the total eligible votes.[116] That raised the bar high enough to discourage formation of a competing group while enabling the Francophone Africans to retain their seat.[117]

For the rest of the 1980s, the Executive Board comprised 22 Directors: 6 appointed and 16 elected, and half of the total from developing countries.[118] Not every member country was represented on the Board. Only a few members had large enough quotas to appoint or elect their own Directors, and the rest had to be welcomed into a multicountry constituency. Those constituencies were usually geographically oriented, but in essence they were voluntarily formed groups with common economic and political interests. At various times in this period, the doors were closed temporarily to five member countries. Four of those cases have

[114]Schedule E of the Articles specifies 4 percent as the minimum requirement for electing an Executive Director on the first ballot.

[115]Ecuador, with 1,300 votes, moved from the Argentinean constituency to that of Brazil, in a swap with Peru, which had 2,710 votes. That raised the Argentine group from the bottom (fifteenth) position to fourteenth and lowered the nine-country Brazilian group from the ninth position to eleventh.

[116]"Interim Report on 1980 Regular Election of Executive Directors," EBD/80/199 (July 30, 1980).

[117]The constituency had just over 4.5 percent of the eligible vote, but allowance had to be made for the possibility that some countries might fail to cast a valid ballot on the day of the election. As it happened, Rwanda declined to vote in 1980, but Nana-Sinkam was reelected by a comfortable margin. For the rest of the decade, the Board was able to revert to the 4 percent threshold. The number of elected Directors was set repeatedly at 16, through a series of biennial approvals by the Board of Governors. As discussed in Chapter 19 (footnote 70), the arrival of Poland in the Fund in 1986 could have threatened the Francophone African seat if Poland had obtained a slightly higher quota and had joined with Hungary and Romania to form a socialist constituency.

[118]Beginning with the 1992 election, in response to the large increase in membership that year and the end of Saudi Arabia's eligibility to appoint a Director, the number of elected Directors was raised to 19, and the total size of the Board was set at 24. The three additional elected Directors that year were from Russia, Saudi Arabia, and Switzerland.

been discussed in earlier chapters: Cambodia in the elections from 1976 through 1992 (Chapter 16), China from 1972 through 1978 (Chapter 19), Poland in 1986 (Chapter 19), and South Africa from 1974 through 1994 (Chapter 13).[119] In addition, Egypt was shunned by most other Arab countries and did not participate in elections from 1978 through 1986, as a result of its having signed the bilateral Camp David accords with Israel in 1978.

Management

> The Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director. The Managing Director shall be chairman of the Executive Board . . . [and] chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund.
>
> Article XII, Section 4

The chief executive officer of the Fund is the Managing Director, who is selected by the Executive Board but has effectively been chosen by agreement among the European member countries.[120] The one election during this period occurred in 1986, to name a successor to the sixth Managing Director, Jacques de Larosière, who was resigning after eight years for personal reasons. After some initial discussions, two candidates were strongly and openly supported by competing groups of countries: H. Onno Ruding (finance minister of the Netherlands and chairman of the Interim Committee) and Michel Camdessus (governor of the Banque de France). The British government proposed Jeremy Morse, the chairman of Lloyds Bank and the former Chairman of the Deputies of the C-20, as a compromise candidate, but that strategem failed when the French refused to withdraw Camdessus's name (see Lawson, 1992, pp. 550–52). When a consensus seemed impossible to secure, the U.S. authorities remained officially neutral but quietly let it be known that they were displeased with Ruding's opposition to their macroeconomic policies and to the G-7 policy coordination exercise. While industrial countries were divided, most developing countries lined up behind Camdessus, who thus gained

[119]To summarize, Cambodia (then known as Democratic Kampuchea) was isolated because of international rejection of the government forcibly installed by Vietnam. China was isolated while it was represented in the Fund by the Taiwan authorities and in the United Nations by the People's Republic. When Poland joined in 1986, it had difficulty finding a European constituency willing to take in a socialist state. South Africa was subject to widespread international sanctions because of the practice of apartheid.

[120]The U.S. authorities decided in 1946 that their top staffing priority was to name an American to be president of the World Bank. See Horsefield (1969), Vol. 1, p. 135; Harrod (1951), p. 629; and Moggridge (1980), p. 213. (Moggridge reprints a letter written by Keynes at Savannah in March 1946, reporting that he and the U.S. Treasury Secretary, Frederick M. Vinson, agreed that Harry Dexter White would have been "ideally suited" for the job except for this restriction.) The other major members, who at the time were predominantly European, were thus able to name one of their own as Managing Director. That division was maintained throughout the next fifty years. The five Managing Directors prior to 1978 were Camille Gutt (Belgium; 1946–51), Ivar Rooth (Sweden; 1951–56), Per Jacobsson (Sweden; 1956–63), Pierre-Paul Schweitzer (France; 1963–73), and H. Johannes Witteveen (Netherlands; 1973–78).

enough support that Ruding was persuaded to withdraw. In December the Executive Board confirmed Camdessus as the Fund's seventh Managing Director. (Both de Larosière and Camdessus are profiled in Chapter 1.)

The other top member of the management team was the Deputy Managing Director.[121] Two Deputies served during this period: William Dale (1974–84) and Richard Erb (1984–94). Dale, who was appointed to a second term in 1979 and served until 1984, was profiled in de Vries (1985), pp. 1009–10. During his second term, he spent a great deal of time on the debt crisis in Latin America and served frequently as liaison between the Fund and commercial bank creditors. In that role, his expertise on the economic situation in indebted countries enabled the Managing Director to concentrate more on the overall strategy.

Richard Erb received a Ph.D. in Economics from Stanford University and then began his career with a mix of public sector (staff of the Federal Reserve Board) and private business positions. In 1971, he left the Salomon Brothers investment banking firm to become Staff Assistant to U.S. President Richard Nixon and Assistant Director for International Monetary Affairs of the Council on International Economic Policy. From 1974 to 1981, he alternated between the U.S. Treasury Department and the private sector American Enterprise Institute, until he was tapped to replace Sam Cross as the U.S. Executive Director in the Fund. After being named Deputy Managing Director in 1984, he followed in Dale's footsteps by serving as a liaison between the Fund and the commercial banks that were major creditors of the most heavily indebted developing countries. His primary responsibility, however, like each of his four predecessors, was to oversee the administrative operation of the institution and, when the Managing Director was absent, to chair meetings of the Executive Board and serve as Acting Managing Director.

Staff

> In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.
>
> Article XII, Section 4(d)

People

Much as the IMF came of age during the 1980s as a player in the international monetary system, the profile of its staff also came of age. Through much of the

[121]The Articles of Agreement do not provide explicitly for the position of Deputy Managing Director. It was created as a staff position, appointed by the Managing Director, in 1949. The first Deputy, Andrew N. Overby (1949–52), had been the U.S. Executive Director in the Fund before being named to this post; that began a tradition that the Deputy would normally be from the United States. The second Deputy was H. Merle Cochran (1953–62), and the third was Frank A. Southard, Jr. (1962–74). In 1994, the management structure was expanded to include three Deputies, of which one was to be designated First Deputy Managing Director. The latter post was filled by a U.S. national, Stanley Fischer.

1970s, the Fund was led mainly by people who had joined the staff in its early days and who had developed their careers while the Fund was developing and growing institutionally. Those who moved up into the ranks of senior officers in the 1980s represented not just a new generation but a new vantage point. Having come to a more mature Fund, they were on the whole receptive to and in sync with the changes that were needed to adapt to the complexities of an integrated global economy.

The most noteworthy retirements by members of the Bretton Woods generation were those of Joseph Gold and Jacques J. Polak in 1979. Both had been instrumental in shaping the Fund: Gold from a legal perspective and Polak as an economist. Polak's career is reviewed above, in the context of his service as an Executive Director. Gold's distinguished career at the Fund, which began in 1946, was reviewed in de Vries (1985), pp. 1019–20. Like Polak, Gold continued to pursue an active writing career long after retirement, culminating in a major book on the history of judicial interpretation as it related to the Fund (Gold, 1996).

Six other heads of departments or offices who retired within a few years of Gold and Polak had also been at the Fund since the late 1940s (also see de Vries, 1985, pp. 1021–1026):

- Kenneth N. Clark, a U.S. national and Director of the Administration Department, retired at the end of 1979 after 32 years in that department.
- Ernest Sturc retired as Director of the Exchange and Trade Relations Department (ETR) in January 1980. Sturc had been at Bretton Woods as a member of the delegation of Czechoslovakia and joined the staff in 1946.
- Jay H. Reid, who had been in charge of the Fund's public relations and external information activities since joining the staff in 1948, also retired in 1980.
- E. Walter Robichek, Director of the Western Hemisphere Department and a staff member since 1947, retired in December 1982 to become Advisor to the Managing Director (1983–84).
- Fernando A. Vera, Director of the Geneva Office, also retired toward the end of 1982. Vera joined the staff in 1948, worked primarily on Latin America, and served as Deputy Director of the Western Hemisphere Department (1966–78) before moving to Geneva.
- George Nicoletopoulos joined the staff in 1949, spent 15 years (1964–79) as the Fund's second-highest legal officer under Joseph Gold,[122] and became Director of the Legal Department when Gold retired. Nicoletopoulos retired in 1985.

Three other notable retirements may be mentioned in this context. W. John R. Woodley, a Canadian who joined the staff in 1948 and rose to become Deputy Di-

[122]Gold became General Counsel (and head of the Legal Department) in 1960. From 1964 to 1977, Nicoletopoulos was Deputy General Counsel. He was then promoted to Associate General Counsel. The title of "Associate" head of a department is a seldom-used designation in the Fund with the same rank as the department head. The title "Counsellor" is awarded occasionally to a department head who is part of an inner circle of advisers to the Managing Director. Until 1979, only Polak (Economic Counsellor) and Gold held this title. Its use peaked in the late 1980s, when five department heads were designated as Counsellors.

rector of the Asian Department and a leading expert on the Japanese economy, retired in 1980. Richard B. Goode served in the Research Department in 1951–59 and then rejoined the staff in 1965 as Director of the newly created Fiscal Affairs Department. He retired from that position in July 1981. (Also see de Vries, 1985, p. 1021.) And the last of the "Class of the 1940s" to retire—and thus the unofficial dean of the staff—was Brian Rose. A native of the United Kingdom, Rose joined the staff in 1947, became Deputy Director of the European Department in 1975, and retired in 1988 with more than 40 years of service to the Fund.

These and other departures meant that the lineup of senior officers was almost entirely changed from 1978 to 1989. Of the 21 heads of departments or offices at the beginning of 1979, only three—A. Shakour Shaalan (Director of the Middle Eastern Department), Gérard M. Teyssier (Director of the IMF Institute), and Leo Van Houtven (Secretary) held the same positions at the end of 1989.[123]

The final retirements of the 1940s class opened the door for new leadership in seven departments: Research, ETR, European, Western Hemisphere, Legal, Fiscal Affairs, and Administration.

Polak was replaced as Director of Research and Economic Counsellor by William C. Hood. Hood had been Professor of Economics at the University of Toronto for many years and was best known in the economics profession as the coauthor of a leading work on econometrics (Koopmans and Hood, 1953). He switched from academics to government in 1964 and eventually became Deputy Minister of Finance in Canada. Hood retired in 1986 and was replaced by an even more well-known economist, Jacob A. Frenkel, the David Rockefeller Professor of International Economics at the University of Chicago. During his academic career, Frenkel made many seminal contributions to the theory and estimation of exchange rate relationships and the international dimensions of macroeconomic policy.[124] He continued to publish extensively while at the Fund. Frenkel left the Fund in 1991 to become Governor of the Bank of Israel.

Also in the Research Department, Charles F. Schwartz retired as Director of Adjustment Studies and Associate Director of the department in 1983. Schwartz had been on the staff since 1959 and had been instrumental in developing the World Economic Outlook at the Fund (see Chapter 5).

Sturc was replaced as head of ETR in 1980 by an Australian, C. David Finch, who had joined the staff in 1950 and thus had nearly as much experience at the Fund as his predecessor (de Vries, 1985, p. 1026). After being named Counsellor in 1985, Finch abruptly resigned in March 1987 in protest over what he judged to be political interference with the evaluation of proposed stand-by arrangements. Specifically, Finch objected to efforts by major creditor countries to push the Fund into approving financial arrangements for Egypt, Zaïre, and Argentina when the

[123]Van Houtven was awarded the additional title of Counsellor in 1987. Teyssier retired in 1990. Shaalan retired in 1992 to become an Executive Director (see footnote 108, p. 1040). Van Houtven retired in 1996 and succeeded Polak as president of the Per Jacobssen Foundation. All three men were profiled in de Vries (1985), p. 1024.

[124]For an overview, see Frenkel and Mussa (1985) and Frenkel and Razin (1987).

staff believed that the proposed economic programs were too weak to justify support.[125] Finch was highly and widely respected as a balanced arbiter on the design of Fund programs, and his resignation (which came less than two years before he would have reached mandatory retirement age) was a clear signal of an incipient threat to the professional integrity of the Fund.

Finch in turn was replaced by L. Alan Whittome, who had been Director of the European Department since joining the Fund staff in 1964, and Counsellor since 1980 (de Vries, 1985, p. 1023). Before moving to the Fund, Whittome had been Deputy Chief Cashier at the Bank of England. In 1991, shortly after retiring from the Fund, he was awarded a knighthood by Queen Elizabeth II.[126]

When Whittome moved to ETR, his old post went to Massimo Russo. Russo had first joined the staff in 1964 as an economist in the African Department. With a two-year hiatus to work at the OECD in Paris, he stayed in the African Department and rose to the position of Assistant Director in 1980. He spent another three years at the Fund as Deputy Director of Administration and then left again to become Director General of the Commission of the European Communities, in Brussels. He returned to the Fund in 1987 as Director of the European Department, a post that he held for the next ten years.

Robichek was replaced as Director of the Western Hemisphere Department by Eduardo Wiesner Duran. Wiesner had held several leading positions in Colombia, ranging from Professor of Economics at the University of the Andes in the 1960s to Minister of Finance in 1981–82. Wiesner directed the department from 1982 to 1987 before becoming the Fund's Special Trade Representative and Director of the Geneva Office. He retired in October 1988.[127] Meanwhile, Sterie T. Beza was named Associate Director of the Western Hemisphere Department in January 1983, shortly after Wiesner became Director. Beza, a U.S. national who had served in that department since 1961 (de Vries, 1985, p. 1028), succeeded Wiesner as Director in July 1987. He was promoted to Counsellor two years later and retired in 1995.

To head the Legal Department, Nicoletopoulos was replaced by François P. Gianviti, who had been Professor of Law at the University of Paris since 1974 and Dean of the School of Law since 1979. Gianviti had previously served in the Fund's Legal Department in 1970–74. A year after returning to the Fund as Direc-

[125]See *The Times* (London), March 20, 1987, p. 6; *The Financial Times*, March 21, 1987, p. 2; and Finch (1988, 1997). The two newspaper articles erred in attributing the alleged interference solely to the United States; Finch also cited pressure from French and German officials in his memoirs. Finch's remarks to the Executive Board were not included in the minutes of the meeting at which he announced his resignation.

[126]Sir Alan Whittome was the second Fund retiree, after Sir Joseph Gold in 1979, to be knighted by the Queen of England. In both cases, the Executive Board granted a waiver of Rule N-10, which prohibits Fund staff from accepting "any honor, decoration, favor, gift, or bonus from any government . . . for services rendered during the period of his appointment or service with the Fund."

[127]Wiesner was replaced in May 1989 as Special Trade Representative and Director of the Geneva office by Helen B. Junz, who had been Deputy Director of ETR.

tor of the Department, he was awarded the additional title of General Counsel (which had been vacant since Gold's retirement).

Vito Tanzi, a former Professor and Chairman of the Department of Economics at The American University in Washington, became Director of the Fiscal Affairs Department after Goode's retirement in 1981. Already a noted expert on tax policy, Tanzi joined the Fund in 1974 as Assistant Chief of the Tax Policy Division. After becoming Director of the Department, he continued to conduct and publish extensive research, not only on technical tax issues but increasingly on the growth of tax evasion and the "underground economy" throughout the world.[128] In 1990, Tanzi was elected President of the International Institute of Public Finance. He retired from the Fund in 2000.

Finally, Clark was replaced as head of the Administration Department in 1980 by Roland Tenconi, who had been head of the Central Banking Service (de Vries, 1985, pp. 1023–24). When Tenconi retired five years later, the post was filled by former Rhodes Scholar Graeme F. Rea, who had been Deputy General Counsel since 1979. Prior to that, Rea had worked at the Asian Development Bank for 12 years, the last four as General Counsel. Rea, a native of New Zealand, retired from the Fund in 1995.

In addition to those replacements for the Class of the 1940s, the African, Asian, and Treasurer's Departments also got new directors in the 1980s.[129]

Justin B. Zulu, a former Governor of the Bank of Zambia who had served as Alternate Executive Director for the Anglophone African constituency in 1974–76, headed the African Department from 1976 to 1984. During that time, the department became the Fund's most active in terms of both number of member countries and number of financial arrangements. Zulu then took over the Central Banking Department, which he directed until 1995.

Alassane D. Ouattara was named Director of the African Department in November 1984. Ouattara began his Fund career in 1968, as an economist in the African Department, upon receiving a Ph.D. in Economics from the University of Pennsylvania. He returned to his native Côte d'Ivoire in 1973, where he eventually became Vice-Governor of the Central Bank of West African States (known by its French acronym, the BCEAO). After four years as Director of the Fund's African Department (including a year and a half as Counsellor), he returned home again in 1988 to become Governor of the BCEAO and later (1990–93) the Prime Minister of Côte d'Ivoire. Still in his early fifties, Ouattara then was called back to the Fund one more time, to become Deputy Managing Director in 1994. In 1999, he resigned and returned once again to Côte d'Ivoire to run for president.

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[128]Tanzi's most well-known contribution to the professional literature was his exposition of the "Tanzi effect," by which a reduction in the inflation rate raises tax revenues; see Chapter 9, footnote 42. On the underground economy, see Tanzi (1983).

[129]The initial leadership of the two new departments of the 1980s—Central Banking and External Relations—has been chronicled above (pp. 1018–19). P.N. Kaul headed the Central Banking Department until his retirement in 1984, and Azizali F. Mohammed directed the External Relations Department until he retired in 1990.

The third head of the African Department in the 1980s was Mamoudou Touré, who took over from Ouattara as both Director and Counsellor in November 1988. This was Touré's second stint as head of the department, the first having been as Zulu's predecessor in 1967–76. He held a number of important positions in between, notably as minister of planning and later as minister of economy and finance in Senegal. Touré retired in 1994.

Tun Thin, a national of Burma (Myanmar), retired in 1986 after 14 years as Director of the Asian Department (de Vries, 1985, p. 1023). He was succeeded by Prabhakar R. Narvekar, who had served as his Deputy during that entire period. Narvekar, a native of India, joined the staff as a Research Assistant in the Asian Department in 1953, after earning a master's degree in economics at Columbia University. He rose to Division Chief in that department in 1963 and to Deputy Director in 1972. He served as Director from 1986 to 1991. At that time, the Managing Director named him to be his Special Advisor. When the management structure was expanded in 1994, Narvekar became one of the three Deputy Managing Directors, a post he held for nearly three years. In 1998, as part of the Fund's effort to handle a major financial and political crisis in Indonesia, he came out of retirement for several months to serve again as Special Advisor.

Walter O. Habermeier, the Fund's Treasurer since 1969 and a Counsellor since 1980, retired in 1987 after 21 years on the staff (de Vries, 1985, pp. 1022–23). He was replaced by F. Gerhard Laske, a former official of the Deutsche Bundesbank and Executive Director for Germany (1975–79 as Alternate and 1979–84 as Director). Laske served as Treasurer for five years and retired in 1992.

Issues

The 36 senior officers mentioned in the preceding section were broadly diversified in most respects. Although 10 (28 percent) were U.S. nationals, altogether they came originally from 24 different countries on all continents, and 12 (33 percent) came from developing countries. Those proportions were similar to those for the staff at large. In 1979, 29 percent of the staff were U.S. nationals, and 33 percent were from developing countries; 10 years later, the U.S. share had dropped to 26 percent, and the developing country share had risen to 41 percent. The striking exception to this diversity is that all but one of the profiled senior officers were men. The Fund's charter, as quoted at the head of this section, mandated geographic but not gender diversity.[130]

The heavily skewed gender distribution of the Fund staff did not evolve significantly during the 1980s. Throughout the decade, the composition of the staff was split almost evenly between men and women, but the female staff were heavily concentrated in the lower-paid support-staff positions. Ninety-five percent of man-

[130]It is important to note, however, that geographic diversity is specified as a secondary objective in Article XII and that it was not achieved through quotas. The Fund's Rules, as adopted in 1946, require nondiscrimination in the "employment classification, promotion, and assignment of personnel" on the basis of "sex, race or creed," subject to the goal of achieving geographic diversity (Rule N-2; originally Rule N-1).

agerial positions were filled by men, and all department heads were men. Women constituted 80 percent or more of the support staff and only about 20 percent of the economist-level staff below managerial level. That pattern, which had persisted from the beginning of the Fund in 1946, would finally be bent (though not yet broken) in the 1990s, through a concerted diversity-building program.[131]

The growth in employment of staff from developing countries in the 1980s was also concentrated in support-staff positions. From 1979 to 1989, the number of staff positions held by nationals of developing countries rose by 231. Of those, 87 (38 percent) were additional support staff, and 19 (8 percent) were managers. In contrast, of the 78 additional positions that were filled by nationals of industrial countries, 42 (54 percent) were managers. The number of support-staff positions held by people from industrial countries declined.

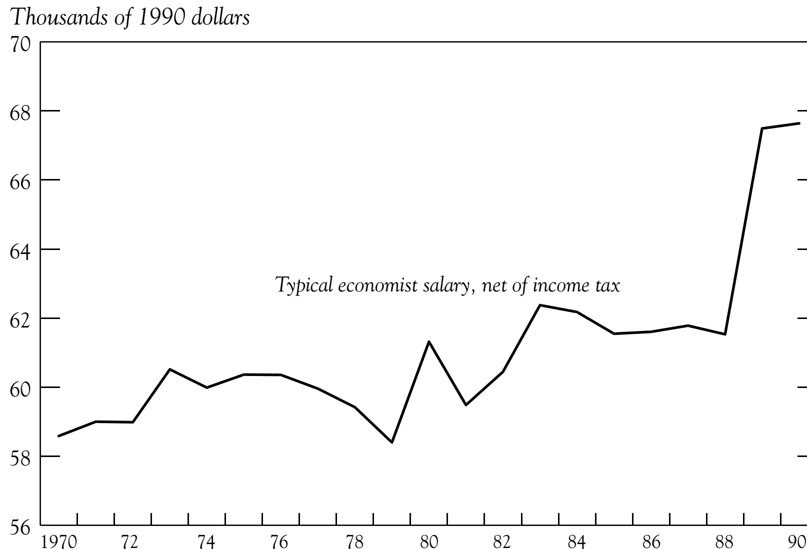
The staff of the Fund, as with other international organizations, generally have regarded their position as a privilege, and many outside observers have viewed them as a privileged elite. The reality is rather more complex. As international civil servants, most of the staff are totally dependent on the institution not only for their livelihood but also for their continued right to live in the United States. Many of them have come from countries where the political environment might have changed sharply since they left, making a resumption of their earlier occupations impossible. Many have made their careers at the institution, their spouses may be prohibited by U.S. law from seeking employment in the country, and their children may have grown up with no home other than Washington. Moreover, their employer is immune from prosecution, and labor disputes are not subject to negotiation or arbitration. That dependence and vulnerability have at times made the staff more sensitive to attacks on their position and more resistant to administrative change than might otherwise seem reasonable.

The dominant issue for the staff in both the 1970s and the 1980s was compensation: partly because it was falling in relation to comparable jobs overseas and partly because of what the staff saw as attempts by a few governments—especially the United States—to politicize the compensation system. The real value of staff salaries had been stagnant throughout the 1970s, as the regular adjustments to the pay scale barely kept pace with the accelerating rate of inflation (Figure 20.4).[132]

[131]For this purpose, managerial positions are defined as Division Chief, Advisor, or higher. "Economist level" refers roughly to the upper half of the professional grades between support staff and managers. (In terms of the classification of grades in use after 1986, support staff hold grades up to A8; professional staff hold grades of A9 and above; the economist level is defined here as A12 through A15; and managers hold grades of B1 through B5. Department heads normally are B5s.) In 1997, 10 percent of managers, including two department heads, were women. For a table showing the distribution in 1980, 1990, and 1997, see *Annual Report 1998*, p. 101.

[132]The data plotted in Figure 20.4 are derived from the midpoints of the most common grade range for Fund economists. That grade, which lies between the entry level (Young Professional or Economist Program) and that of Senior Economist, was called Range C until 1974, when it became Range H. In 1986, following a major revision of the grading of jobs throughout the Fund, it was reclassified as Grade A13. Nominal salaries are deflated by the U.S. Consumer Price Index based in 1990.

Figure 20.4. Real Fund Salaries, 1970–90
(Deflated by U.S. consumer prices)



The U.S. federal workforce—by far the dominant economic group in Washington—fared much worse, which created a conflict in perceptions. The staff naturally compared their own salaries with the cost of living and with the pay of other workers in similar jobs around the world. The U.S. authorities focused instead on the immediate comparison with jobs in the U.S. Treasury and the rest of the federal government. A clash was inevitable. In 1976, an attempt by the U.S. authorities to persuade other countries to award a lower pay increase than was called for by the standard cost-of-living adjustment led to a one-day strike by nearly the whole staff (de Vries, 1985, p. 1016). The pay increase was finally awarded over U.S. objections, but the bitterness of the experience persuaded the Fund to review and ultimately to change the compensation system.

The new system was set out in the January 1979 report of the Kafka Committee (the Joint Bank/Fund Committee on Staff Compensation Issues, chaired by Alexandre Kafka).[133] It scrapped the practice of awarding cost-of-living increases and replaced it with a formula linking Fund salaries to a set of market "comparators." These comparators comprised nine financial institutions, nine industrial corporations, and four public sector agencies, all in the United States. The average salaries paid in those markets for jobs that were comparable to Fund jobs became the baseline for Fund salaries. Surveys were to be undertaken of the French and German markets as well, with the intention of modifying the baseline if necessary to maintain international competitiveness. The Fund then agreed to pay a 10 per-

[133]"Report of the Joint Committee on Staff Compensation Issues," CSCI/79/1 (January 1979); in IMF/RD "Kafka Committee" files (Accession 79/015, Box 3, Section 149).

cent premium over the baseline to ensure that it could continue to hire staff of "the highest standards," as mandated by the Articles of Agreement.

The staff, through its Staff Association Committee (SAC), initially objected to adoption of the Kafka proposals.[134] The SAC did not object to the shift to a comparator system, but it feared that the stress on the U.S. market, at a time when the U.S. economy and the dollar were weak and the U.S. government was reducing its own salary levels in real terms, would seriously erode the value of Fund salaries. Although the Kafka report explained its U.S. focus on grounds of practicality, the prevailing view among the staff was that the report reflected the political muscle of the host government. The SAC was somewhat mollified by the report's finding that the current level of salaries was not high in relation to the selected comparators, but stressed that the more highly paid European markets should be included more systematically.[135]

The comparator system was adopted in 1979 and was maintained with occasional changes throughout the 1980s. When the first few years of experience exposed several weaknesses in the system, a second Joint Committee was formed in 1984 under the chairmanship of Günter Grosche (Germany). That committee proved fractious, as a minority—particularly Charles H. Dallara (United States)—insisted that salaries were too high, while others came to the opposite conclusion. The battle came to a head in 1986, while the Grosche committee was still trying to reach a consensus. In an apparent effort to pressure the committee to conclude its work quickly, the U.S. governor in the Fund, Secretary of the Treasury James Baker, sent a letter to a number of governors asking them to support a move to postpone any increase in the salary scale until the Grosche committee issued its final report.[136] In response, the SAC also wrote to governors, setting out the case for following the Fund's normal procedures.

The Executive Board delayed considering management's proposed salary increase until late May 1986, some three weeks after the salary scale would normally

[134]The Staff Association was formed in the 1940s but was not regularly active until 1979. Its role was formalized that year when the Fund approved a rule giving the staff the right to associate to present views to management and the Executive Board regarding personnel and working conditions (Rule N-14, adopted June 22, 1979). The following month, the Managing Director recognized the SAC as a representative body under the terms of Rule N-14. The SAC, however, was not a collective bargaining agent, and it operated entirely with volunteer staff. Other major issues raised by the SAC during the 1980s included the need for an Administrative Tribunal to rule on the validity of personnel actions taken by the Fund; appeals to the U.S. Congress to liberalize restrictions on the work and immigration status of employees of international organizations; reform of the system relating Fund salaries to U.S. income taxes; and evaluations of proposed reforms of the pensions system, the grading of jobs in the Fund, and various elements of the benefits package for Fund staff. In addition to recognizing the SAC as an avenue for presenting general staff concerns, the Fund established an ombudsman position and a Grievance Committee in 1980 to respond to individual complaints.

[135]The relevant SAC documents are in IMF/CF (A 176.1 "Joint Bank/Fund Committee on Compensation Issues").

[136]Memorandum of April 29, 1986, from Dallara to the Managing Director; in IMF/RD Managing Director "Staff Compensation" file (Accession 88/18, Box 7, Section 485).

have been adjusted.[137] By this time, staff morale was at its lowest point in at least a decade. A major regrading of job classifications had just taken effect, which had resulted in many positions being downgraded to a lower pay range. The Fund's administrative budget was being reduced in nominal terms at a time when the workload was increasing and consumer prices were rising. The reintroduction of political pressure into the compensation system was the final straw. The Managing Director, keenly aware of the problem and convinced that the proposal should be approved, supported the staff position and argued strongly that the salary adjustment should not be further delayed. This time, however, in contrast to 1976, the U.S. lobbying effort paid off, and the Executive Board decided to postpone the increase.[138]

Two days after the Board turned down the increase, the staff heeded an appeal by the SAC and staged a one-day work stoppage. At both the Fund and the World Bank, approximately half of the staff stayed home on May 23. The staff's sense of isolation worsened further in early June, when the Bank's Executive Directors approved a general salary increase for Bank staff.[139] Nearly 90 percent of available staff then signed a petition asking the Fund's Board to reopen the issue. That appeal had no immediate effect on the Board, but it did help to induce de Larosière to shift his position to favor establishing an Administrative Tribunal to protect the staff against arbitrary decisions on personnel matters.[140]

The impasse of 1986 was finally broken by an odd turn of events. In October, Grosche reported to the Managing Director that his committee was expecting to receive new comparator data that would take several months to analyze. Consequently, it could not possibly complete its report before the end of 1987. De Larosière immediately asked the Board to approve the salary increase straightaway, retroactively to May 1. That he would put his personal authority on the line again for this cause, at a time when he had already announced his decision to step down

[137]Procedures in effect at the time separated the annual salary adjustment into two components: a merit increase averaging 2.4 percent, included in the administrative budget and distributed selectively to staff on the basis of performance reviews; and a general increase in the overall salary scale. In 1986, the budget with the merit increase included was approved in April. The debate concerned whether to approve an increase in the scale by 1.4 percent for support staff positions and 2.9 percent for higher grades.

[138]Minutes of EBM/86/86–87 (May 21, 1986).

[139]The Bank justified its action on grounds that were outside the scope of the compensation review system, and neither Bank nor Fund management regarded the action as a general salary increase in the usual sense. Needless to say, the Fund staff were not especially impressed by the force of that logic. "Salary Actions in the World Bank," EBAP/86/140 (June 12, 1986) and minutes of EBM/86/96 (June 13).

[140]At a Board meeting in June, in restricted session, the Managing Director recalled that he had earlier opposed establishing an Administrative Tribunal "because he had believed that the institution itself and management could provide the staff the assurance that it would be treated fairly and in accordance with established rules." Now, however, "in light of recent events, he found it extremely difficult to defend the fact that the Fund should be the only international organization whose staff was without access to a body in which the decisions of the institution affecting the staff could be examined to ascertain that they were legal and proper." That epiphany set in motion a long process that culminated in the creation of an Administrative Tribunal in 1993.

as Managing Director and return to France, was widely seen as indicating the depth of his conviction on the wisdom and necessity of granting the increase. With the United States still objecting, the Board approved the request on November 19.[141]

The Grosche committee continued its work through 1987 and well into 1988. After four years of study, its final report recommended retaining the Kafka system in which salaries were based on comparisons with public and private sector jobs, but it proposed several modifications in the methodology. Notably, the committee recommended, and the Board agreed, that the weighting of the still downtrodden U.S. public sector be reduced in the comparator basket and that the procedures for maintaining competitiveness with the French and German markets be made more explicit and transparent.[142] Together, these changes reflected an acknowledgment that Fund salaries were not keeping pace with the market and were no longer competitive either with the U.S. private sector or with European salaries.

The compensation system of the 1980s had succeeded in preserving the real value of Fund salaries, at least when expressed in terms of U.S. dollars. Salaries for Fund economists, which had fallen by 3.5 percent in real terms from 1973 to 1979, rose by 6.8 percent over the next four years before falling back slightly in 1984 and succeeding years (see Figure 20.4). It was less successful in maintaining international competitiveness, as productivity gains brought larger real increases in professional salaries in Europe and other countries. The Grosche committee concluded that Fund compensation had to provide a margin of 10 to 20 percent over comparable pay abroad to induce personnel to accept expatriate positions. When a detailed analysis of the data was completed the next year, it turned out that salaries were well short of that goal; for entry-level professional staff, the margin was substantially negative. Moreover, the Fund was experiencing increasing difficulties recruiting and retaining young professionals. Starting in 1989, therefore, the Fund shifted the salary structure up sharply in relation to the U.S. market in an effort to restore international competitiveness.[143] While the U.S. authorities, and occasionally others, continued to

[141]"Reconsideration of Staff Compensation—1986," EBAP/86/266 (October 31, 1986), and minutes of EBM/86/185 (November 19, 1986).

[142]Two other changes were more of a technical nature but still had important effects. First, the 10 percent premium over average comparator salaries was replaced by adoption of the 75th percentile as the baseline. The new benchmarks were at nearly the same level, but the 75th percentile was more stable and reliable. Second, the practice of setting aside 2.4 percentage points of each year's increase for merit increases was abandoned. That practice had led to a steady reduction in the salary scale relative to competitors; salaries of existing staff kept pace with the U.S. market, but the Fund gradually lost its ability to attract new staff. "Report of the Joint Bank-Fund Committee of Executive Directors on Staff Compensation," EBAP/88/190 (August 5, 1988), "Joint Committee on Staff Compensation (JCC)—Principal Elements of Proposed New Compensation System and Proposed Salary Structure," EBAP/89/85 (March 30, 1989), and minutes of IS/89/5–6 (April 14, 1989) and IS/89/7–8 (April 19).

[143]"Joint Committee on Staff Compensation (JCC)—Principal Elements of Proposed New Compensation System and Proposed Salary Structure," EBAP/89/85 (March 30, 1989), pp. 12–20. As shown in Figure 20.4, the salary scale was raised by 15 percent in 1989. Actual salaries, however, rose by much less: an average of 8.8 percent. The difference resulted from the unification of the annual adjustments, as described in the preceding footnote, through which the upward creep of pay within each grade was abruptly reversed.

U.S. President Ronald Reagan addressing the Bank-Fund Annual Meetings, October 1987, with the IMF Secretary Leo Van Houtven and Managing Director Michel Camdessus looking on

complain, the compensation system was now firmly enough rooted in a transparent and accepted methodology that it could more easily weather the controversies.

Compensation, of course, was only a small part of the working environment affecting staff morale. The Fund's ombudsman reported with increasing vehemence around the end of the 1980s about the extent of demoralization in the staff, which resulted from unclear, often arbitrary, and decentralized and thus inconsistent personnel policies at a time of sharply increasing workload. Although few would have concluded that the Fund had ceased being a desirable place to work, signs of strain—which would become increasingly apparent when the countries of eastern Europe and the former Soviet Union became members in the early 1990s—were evident.

For internal management as much as for the response to global economic crises, the 1980s had been a challenging but ultimately rewarding decade for the Fund. In both realms, the 1990s would pose even greater challenges. Assessment of its rewards will be the challenge for the next History.

Appendix: Concordat on Fund-Bank Collaboration

Bank-Fund Collaboration in Assisting Member Countries (SM/89/54, Rev. 1, March 31, 1989)

The President of the World Bank and the Managing Director of the International Monetary Fund have reached agreement on the attached text. This document, jointly prepared by the managements of the Bank and the Fund, reviews the current status of cooperation between the Fund and the Bank and provides for the administrative and procedural steps that are necessary to secure a constructive and stronger collaboration between them.

The purposes and mandates of the Bank and the Fund are defined in their Articles of Agreement, as interpreted by their respective Boards. Operating within the framework of the Articles, the managements of both institutions believe that it is of the utmost importance to ensure the closest possible collaboration and working relations between the two institutions in order to serve member governments with maximum effectiveness in meeting their development needs and in providing support for macroeconomic and structural change.

The guidelines contained in the attached document are intended to achieve this objective and should help avoid administrative friction and facilitate orderly resolution of differences of views. Both of us recognize that the advice, suggestions and support of each institution for the other are essential if they are to discharge their responsibilities effectively and promptly. Smooth and effective working relations between the two institutions have assumed special importance in view of the contribution that both of them are expected to make to policy formulation and sustained economic growth in their member countries.

The staff will be instructed to implement the guidelines embodied in this document in a spirit of close collaboration. . . .

Memorandum to the Executive Board of the International Monetary Fund and the Board of Executive Directors of the World Bank

. . . 1. Guidelines for collaboration between our two institutions have been in place since 1966. They have been reviewed and strengthened on a number of occasions since

then.[144] We, and our colleagues in the management of both institutions, have recently reviewed the experience with collaboration under existing policy and practices.

2. The problems faced by our member countries are severe. They are struggling to restore stability, to adjust their economies to a more rapidly changing and less benign international environment, and to restore growth, while they continue to grapple with their massive debt overhangs and limited availability of both concessional funds and commercial capital. The majority of the members of our two organizations face serious problems. Many of them face the urgent need for change in policies, institutions, and the incentive framework. All are entitled, in our view, to the best advice our highly competent staffs can provide—each by drawing on their specialized technical expertise and experience. It is our responsibility, and that of our Boards, to ensure that the procedures in place make possible, to the fullest extent practicable, comprehensive analyses by our staffs, early exchange of views on differences, and a system to refer remaining differences to the appropriate level of management for resolution. Proposals to improve our capacity to achieve these objectives are set forth in this paper.

3. The existing guidelines lay down principles which remain sound and provide a firm basis on which to build. They provide the Bank with ". . . primary responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities." The Fund is assigned ". . . primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria, and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advance." The guidelines further provide that "in between these two clear-cut areas of responsibility . . . there is a broad range of matters which are of interest to both institutions. This range includes such matters as the structure and functioning of financial institutions, the adequacy of money and capital markets, the actual and potential capacity of the member to generate domestic savings, the financial implications of economic development programs, both for the internal financial position of the country and for its external situation, foreign debt problems, and so on."

4. The same guidelines also stipulate that "[on those matters in the area of primary responsibility of the Bank], the Fund, and particularly the field missions of the Fund, should inform themselves of the established views and position of the Bank and adopt those views as a working basis for their own work. This does not preclude discussions between the Bank and the Fund as to those matters, but it does mean that the Fund (and Fund missions) will not engage in a critical review of those matters with member countries unless it is done with the prior consent of the Bank." Corresponding provisions were made for the Bank and Bank missions.

5. While we reaffirm the principles of these guidelines, the overlap of activities of the two institutions has grown rapidly in the 1970s and 1980s as the Bank and the Fund have attempted to respond to the massive financing and adjustment requirements of members in a more difficult economic environment. In recognition of the longer-term and supply-oriented nature of the adjustment process, the Fund increased its consideration of structural issues in stand-by arrangements; extended the repayment period of extended arrangements to 10 years; and introduced the concessional and relatively long-term Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF). In response

[144]Additional collaboration procedures were added to the original guidelines in 1970, and guidelines, as expanded, were reviewed and affirmed by managements of both institutions in 1980, and by the Fund in 1984 and the Bank in 1985.

to the serious balance of payments problems affecting many developing countries stemming from the sharp deterioration of the terms of trade and from the weakness in domestic policies and institutions, the Bank introduced Structural Adjustment Loans (SALs) in 1980 that provided financing in support of policies to promote structural, economy-wide changes and, subsequently, Sector Adjustment Loans (SECALs), which focused on structural changes in specific sectors.

6. There is continuous and successful cooperation between the Bank and the Fund. Close contacts between the two staffs contribute to a better understanding of economic problems and policy options, and normally lead to improved and consistent policy advice; better coordination of the amounts, forms, and timing of financial assistance; and a greater effectiveness in mobilizing additional financial support.

7. Yet, given the complexity of the problems faced by our members and the perspectives of the two institutions, it is not unusual that differences of view may sometimes arise. In a few cases, some significant differences about country priorities and policy have emerged. In some cases, they have spilled into discussions by the staff with country authorities. Differences of view have concerned a number of areas, including exchange rate, the level of external assistance sufficient to provide reasonable prospects for sustained and successful adjustment efforts and resumption of growth, the speed of adjustment, and the need to maintain adequate levels of public sector development expenditures. At other times, differences of view between the staffs of the two institutions have centered on the trade-off between efficiency gains from certain structural measures to be accrued over time and balance of payments and budgetary impacts.

8. With the growing contiguity of the activities of the Bank and the Fund, we believe it is essential to strengthen collaboration, to ensure that conflicts of views are resolved at an early stage, do not surface in contacts with country authorities, and do not result in differing policy advice to member countries.

9. The Fund has among its purposes the promotion of economic conditions conducive to growth, price stability, and balance of payments sustainability and is required to exercise surveillance on a continual basis over the performance of its members as defined by Article IV. The Fund is empowered to provide temporary balance of payments financing to members to enable them to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. Thus, the Fund has focused on the aggregate aspects of macroeconomic policies and their related instruments—including public sector spending and revenues, aggregate wage and price policies, money and credit, interest rates and the exchange rate. The Fund has to discharge responsibilities with respect to surveillance, exchange rate matters, balance of payments, growth-oriented stabilization policies and their related instruments. These are the areas in which the Fund has a mandate, primary responsibility, and a record of expertise and experience.

10. The Bank has the objective of promoting economic growth and conditions conducive to efficient resource allocation, which it pursues through investment lending, sectoral and structural adjustment loans. Thus, the Bank has focused on development strategies; sector and project investments; structural adjustment programs; policies which deal with the efficient allocation of resources in both public and private sectors; priorities in government expenditures; reforms of administrative systems, production, trade and financial sectors; the restructuring of state enterprises and sector policies. Moreover, as a market-based institution, the Bank also concerns itself with issues relating to the creditworthiness of its members. In these areas, except for the aggregate aspects of the economic policies mentioned in the previous paragraph, the Bank has a mandate, primary responsibility, and a record of expertise and experience.

11. While it is important to strengthen the framework for collaboration and to reduce the risk of conflict and duplication, both the Bank and the Fund must be allowed to explore their legitimate concerns with regard to macroeconomic and structural issues and to take them into account in their policy advice and lending operations. The 1966 guidelines stipulate that views on matters clearly within the area of "primary responsibility" of one or the other of the two institutions "should be expressed to members only by or with the consent of that institution." This provision remains appropriate. The procedures for enhanced collaboration spelled out below are designed to assure resolution of issues. It is, of course, equally important that borrowing countries be aware of the responsibility of the institution for policy advice in the areas of its primary responsibility.

12. The objective of the enhanced collaboration procedures is to avoid differing policy advice, but this does not mean that one institution should not engage in analyses in the areas of primary responsibilities of the other institution. On the contrary, the institutions and borrowing members normally stand to benefit from analyses from different perspectives, and thorough discussions between the two staffs are encouraged. In the event differences of view persist at the staff level even after a thorough common examination of them, and should the differences not be resolved by the management, the institution which does not have the primary responsibility would, except in exceptional circumstances, yield to the judgment of the other institution. In those cases, which are expected to be extremely rare, the managements will wish to consult their respective Executive Boards before proceeding. Also, in the interest of efficiency of staff resource use, each institution should rely as much as possible on analyses and monitoring of the other institution in the areas of primary responsibilities of the latter, while safeguarding the independence of institutional decisions.

Procedures for Enhanced Collaboration

13. Given the complexity of the problems handled, the differences in the mandates of the Bank and the Fund and the unique perspectives brought to bear on the assessment of country situations by the staffs of the two institutions, it is expected that differences of view will sometimes arise. Existing procedures and practices of Bank-Fund collaboration are designed to ensure the quality of analysis and policy advice, as well as thorough explorations of any differences of view that may emerge between the staffs. Typically, differences are worked out at the working level and are resolved satisfactorily in the large majority of cases. However, in order to further strengthen existing procedures on Bank-Fund collaboration and to facilitate the resolution of any remaining differences of view, new or more formal steps have been agreed in the following areas:

I. Strengthening Collaboration

14. The daily interactions and ad hoc contacts involving managements and staffs (and monthly, as well as ad hoc, meetings between the Managing Director and the President) will be supplemented with regular meetings of the senior staff of each institution. In particular, there should be regular meetings between Bank Regional Vice Presidents and the corresponding Fund Area Department Directors to review current operational concerns. These meetings should anticipate and thus reduce the differences of view between staffs of the two organizations. In addition, meetings would be held at the senior level as required to review the strategies of each institution for countries of common concern. These meetings would normally be chaired by the Deputy Managing Director of the Fund and the Senior Vice President, Operations, of the Bank supported by a few senior staff on each side.

15. Whenever conditionality or advice to countries on major issues is involved, agreement should be sought promptly, beginning with working level staffs sharing information

and views at the earliest possible stages, and involving their respective superiors when resolution at the working level cannot be achieved. It will be the responsibility of the managers to seek a resolution of any major differences of view between the institutions before the matter is discussed with the member, and before either staff makes proposals to the member. The Deputy Managing Director of the Fund and the Senior Vice President, Operations, of the Bank will meet to discuss any issues not resolved at the Fund Director/Bank Regional Vice President level and advise, if necessary, the Managing Director and the President if any differences remain.

16. Existing procedures should be strengthened by a more systematic exchange of information on future country work and mission plans by country. Area Departments and Regions would be expected to maintain a forward-looking calendar of at least one year that would be updated periodically. Deviations from the work plan or calendar would be communicated to the other institution without delay.

17. We also stand ready to establish, under the direction of the Fund's Director of Research and the Bank's Vice President, Development Economics, ad hoc study groups to examine analytical issues which may arise in the areas of common work between the two institutions.

18. In the low-income countries, PFP discussions should continue to be handled jointly and, whenever possible, with a single mission chief at an appropriate rank, on the basis of preagreed terms of reference. The decision on whether the chief of such joint missions should be from the Bank or from the Fund will be determined on a case-by-case basis. When parallel missions are in the field, they would be expected to cooperate fully and meet jointly with the country authorities, following positions clearly agreed on in advance. Assuming members agree, the Fund management could issue an invitation for one or more Bank staff to be attached to missions involving the use of Fund resources in SAF/ESAF-eligible countries where the Bank was also financially active. Comparable provisions would be made to invite Fund staff to participate in Bank appraisal missions for SALs or SECALs in the same countries.

II. Improved Collaboration to Support Adjustment Programs

19. Under existing procedures, the Bank staff includes a discussion of the Fund's financial relations, the status of any negotiations for the use of Fund resources, and the results of any recent Fund reviews in the President's Report to the Bank's Executive Board on a proposed adjustment loan, since adjustment lending operations are not normally undertaken unless an appropriate Fund arrangement is in place. In the absence of a Fund arrangement, the Bank staff should ascertain whether the Fund has any major outstanding concerns about the adequacy of macroeconomic policies prior to formulating its own assessment in connection with the approval of the draft loan documents.[145] The Fund's assessment of macroeconomic policies is also taken into account in the Bank's assessment of its conditions prior to the release of subsequent tranches.

20. While the existing procedure functions well in most cases,[146] it is desirable to strengthen the coordination between the two institutions in this area. Such a need is particularly strong in the context of providing the Fund's assessment of macroeconomic policies for member countries where there are no existing Fund arrangements. Nonetheless, the economic situation or policies of the member may have changed significantly between con-

[145]SM/88/249 (11/14/88), pp. 4–6.

[146]Both the staff reports and summings up of Article IV consultations are made available to the Bank staff. Between consultations, the Bank staff is kept aware of the Fund staff's views and the results of other relevant Executive Board discussions on a continuous basis.

sultations. In these cases the Bank will ask the Fund's views, leaving time for consultations with the country authorities as needed. In comparable circumstances, the Fund management will ask the Bank's staff views prior to recommending approval of an adjustment program involving the use of Fund resources.

III. A PFP-Like Document for Middle-Income Countries

21. Some Directors have suggested that consideration be given to preparing PFP-like documents for some middle-income countries requesting the use of Fund resources, particularly those requesting arrangements under the EFF.[147] While the preparation of medium-term plans could be useful for non-SAF-eligible countries where the member seeks a multi-year commitment of resources from its creditors or where structural changes are prominent in the programs (e.g., under the EFF), this matter would be presented to the Executive Boards for consideration after further consultations between the two staffs and managements.

IV. Collaboration in the Context of the Debt Strategy

22. In the context of the debt strategy, the Fund is looked to by the commercial and official financing communities for an assessment of balance of payments prospects and financing requirements of member countries undertaking stabilization programs. Bank views are sought with respect to longer-term external resource requirements and growth prospects. In certain cases menu items play an important role in providing financing and contributing to a viable debt service profile over the medium term. Both institutions have an interest in this aspect of the member's external position as it affects the member's medium-term balance of payments prospects and creditworthiness. Therefore, in order to better coordinate our assistance to debtor countries faced with the need to develop financial menu items and other innovative forms of financing, including those aimed at debt reduction, we will establish a task force to promote cooperation, analysis, and the exchange of information on the financing techniques by our institutions.

V. Collaboration in the Presence of Overdue Obligations

23. Both the Bank and the Fund urge members with overdue obligations to one or both institutions to become current with both. In practice, if a member country has overdue obligations to one institution, this will affect the other institution's assessment of the justification for extending its own financial assistance. Each institution's policies require that it review the ability of a member to meet its financial obligations in light of that member's discharge of its obligations to the other; Fund management would find it difficult to present a request for a Fund arrangement to the Executive Board for a member with overdue obligations to the Bank, both because of its implications for ability to meet Fund obligations and because continued access to Bank or IDA lending is often necessary to ensure that an adjustment program is adequately financed. Fund management, therefore, proposes to seek the views of the Bank in all cases were the use of Fund resources was requested by a member with overdue obligations to the Bank, and would not be prepared to support such a request when arrears to the Bank were an indication that the resources of the Fund would not be safeguarded. Similarly, Bank management would advise its Board with regard to countries with overdue obligations to the Fund and would not be prepared to recommend approval of an IBRD or IDA loan, if the overdue obligations to the Fund were an indication that the

[147]See Buff 88/92 (5/13/88), pp. 2–3; and "Proposals for Extending the Policy Framework Paper (PFP) Process to Middle-Income Debtors," (EBD/88/144, 5/31/88).

resources of the Bank would not be safeguarded. Furthermore, the two managements will act in the full spirit of solidarity when one of the institutions is confronted with arrears, as such arrears constitute a major challenge to the cooperative nature of the institutions. They will, in such instances, provide their good offices and support to help eliminate those arrears.

VI. Independence of Institutional Decisions

24. The Executive Directors of the Bank and the Fund have stressed repeatedly the need to avoid cross-conditionality: each institution must continue to proceed with its own financial assistance according to the standards laid down in its Articles of Agreement and the policies adopted by its Executive Board. Thus, although the Bank's assessment of structural and sectoral policies will continue to be an important element in decisions regarding Fund lending, the ultimate decision on whether to support the program rests with the Fund's Executive Board. Similarly, although the Fund's assessments will continue to be an important element in decisions regarding Bank adjustment lending, the ultimate decisions rests with the Bank's Executive Directors.

25. Nevertheless, in the event that Fund management were to decide to submit a program for approval in spite of the Bank's reservations about structural policies or in the presence of arrears to the Bank, Fund management would present the case to an informal meeting of the Fund's Executive Board for discussion prior to communicating its decision to the member concerned. Bank management would adopt the corresponding procedure.

VII. Dealing with Other Institutions

26. Not only have the activities and roles of the Fund and the Bank expanded in relation to their members, coordinating activities to assist member countries in mobilizing resources have grown rapidly, as has the interest of other groups (the OECD, DAC, UN) in matters of debt and the resumption of growth. To avoid conflicting views from being expressed in reports to such organizations, to the maximum extent feasible, the draft reports prepared by either institution will be sent to the other well in advance of the circulation date for review and comments. This will provide an additional opportunity to identify possible problems and to resolve them.

VIII. Longer-Term Promotion of Mutual Understanding

27. To better acquaint staff of the two institutions with the thinking practices and constraints within which each institution operates, we propose to initiate an exchange of staff on two- to three-year secondments at the senior professional levels. During the period of the secondment, staff members would be wholly integrated into the regular staff of the institution to which they have been seconded. For administrative reasons, there might need to be some limit on the number of secondments at any one time.

28. While the measures set out above should go a long way toward resolving emerging differences of view and limiting potential areas of conflict, both the Fund and the Bank remain committed to a process of strengthening their collaboration in a longer-term perspective.

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