THE FUTURE OF THE FUND

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5.1 Introduction

The International Monetary Fund is subject to cycles as to publicity and public appreciation. Periodically, it is suggested that the Fund's role has been eroded and that it has been relegated to the status of an institution on the sidelines. For instance, after such grave events as the oil crisis and the international debt crisis had vanished from the headlines, the press questioned the usefulness of the Fund under the new circumstances and often foresaw only a marginal future role for it. Invariably, this has been followed – with some delay – by new disturbances that propelled the Fund to the forefront again. We are once again at the stage where the Fund is in the limelight following the Mexican financial crisis of late 1994 and early 1995. Although there has always been a small number of outside observers who challenge the need for the Fund, the general view is that it continues to play an important role. There are, however, considerable differences of opinion concerning the exact modalities of that role.

While the functioning of the Fund and its future role were reviewed at length in the light of the institution's 50th anniversary in 1994, it was the acute financial situation in Mexico that truly focused observers' minds on the proper role for the Fund. Previously, some of the main topics that were discussed concerned the Fund's role in the international monetary system, particularly the exchange rate regime, as well as the proper division of labour between the IMF and the World Bank. Many useful contributions were made, for instance at the conference of the Bretton Woods Commission held in July 1994,\(^1\) and the Fund seminar held at the time of the Annual Meetings of the Bretton Woods institutions in Madrid.\(^2\) Views on the desirable exchange rate system and the role the Fund should play in overseeing or managing the system differed substantially. It is probably fair to say that little progress was made in getting closer to a consensus on this issue. Certainly, the events in the foreign exchange markets in 1995, and the reaction of the authorities of the large industrial countries to them, demonstrated an unwillingness and/or inability to change the present system of floating exchange rates among the major currencies.

\(^{1}\) C. Kool et al. (eds.), Essays on Money, Banking, and Regulation, 93–116.
While we believe that the present situation with respect to exchange rate formation is less than satisfactory and that certain relatively modest changes in the system would be desirable, we consider it unrealistic to expect any substantial movement on the part of the major countries for the time being. Given this state of affairs, we do not consider it productive at this stage to reiterate proposals for promoting a greater degree of exchange rate stability. We also believe that systematic international policy coordination, entailing taking into account other countries' circumstances when formulating a country's own policies, is presently – and perhaps fundamentally – a mirage. In our view, real policy coordination between major industrial countries has been limited to brief episodes when it was in various countries' evident short-term interest – economically and politically – to go beyond mere cooperation. The Group of Seven countries clearly summed up their stance in their Halifax Communiqué of June 1995 by stating (in paragraph 5) that 'Each country has to keep its own house in order', and remaining silent about taking into account the effects of their policies on other countries.

The Mexican financial crisis triggered a different discussion and one that generated considerably more concrete proposals and actions than the largely academic debate over exchange rate regimes. The fact that the IMF, at very short notice, agreed to provide Mexico with an unprecedentedly large stand-by credit of $17.8 billion (nearly 700 percent of Mexico's quota, as compared with the 'normal' cumulative maximum of 300 per cent of quota) under the 'exceptional circumstances' clause, proved to be quite controversial. The result was a wide-ranging and generally quite focused discussion on the Fund's role in various areas, particularly the surveillance over member countries' policies, the provision of large-scale emergency financing by the Fund and possible alternatives to it, and on the issue of whether and how to increase the Fund's resources. It is these questions, which need to be resolved in the near future, that are the subject of this contribution. Hence, we discuss the future of the Fund in the scope of a limited time horizon and do not deal here with long-range systemic issues. Instead of looking at how the Fund might evolve in the next 25 years or so, we focus on the next 5 to 10 years in the life of the institution. Our aim is thus one of describing what we view as the most desirable role for the Fund in coming years in a number of important areas, but without advocating deep-seated changes in the basic framework of the international system. In other words, we are talking about a revision of the engine and not of replacing it with a new one.

While focusing on the future of the Fund in the light of experiences during the recent Mexican crisis, some other Fund-related issues will be omitted here. One concerns the future role of the Special Drawing Rights (SDR) in the international monetary system beyond that of serving as unit of account for the IMF and of constituting only a marginal share of global official reserves. To the