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The IMF Needs a Leader from the Emerging Countries

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Horst Kohler's resignation as Managing Director of the International Monetary Fund offers a unique opportunity to reform the embattled international financial institution.

What the IMF needs, as a first step towards comprehensive reform, is a new leader with solid technical training, a broad vision, and first hand experience in dealing with the macroeconomic risks faced by emerging and transition economies. Mr. Kohler lacked all of these characteristics. A gray bureaucrat and a mediocre economist, he was not even Germany's first choice for the post.

Unfortunately, instead of getting the best man or woman for the job, politics as usual is likely to prevail. The Managing Director position is expected to go to a European. Until a few days ago Mr. Rodrigo Rato, Spain's Finance Minister, appeared to be the front-runner. However, now that his Popular Party has been defeated in the Spanish general elections, it is unlikely that he will be Europe's candidate for the IMF post.

Yet the fact that Rato was seriously considered shows how wrecked the process is. Mr. Rato is an able politician and under his stewardship Spain's finances have done well. However, it would be a stretch to argue that he is the best candidate for the IMF position.

Mr. Rato is a lawyer by training and has an MBA. But he has no experience in crisis management, major economic reforms, or crisis prevention. If qualifications have any weight in selecting the next Chief of the IMF, Mr. Rato would not even make the first cut.

Not surprisingly, the most knowledgeable people on crisis prevention and crisis resolution are in the successful countries of Latin America. After decades of instability, a handful of Latin countries - in particular, Chile and Mexico - have become an example of prudence, austerity and macroeconomic stability. These Latin American nations have learned the hard way. Their leaders understood that to achieve prosperity and social progress, a combination of good economic policies, political realism, and well-funded social programs was required.

Former Mexican President Ernesto Zedillo, a respected economist and currently the Director of Yale's Center for Globalization, is an excellent candidate for the IMF post. Under his leadership Mexico took gigantic steps towards achieving stability, and becoming a more open and democratic society.

Earlier in Zedillo's career he worked in restructuring Mexico's debt, and he has a deep understanding of international markets. Moreover, during his administration the much-admired *Progres*a social program to reduce rural poverty was launched.

Mr. Alejandro Foxley, Chile's first finance Minister after the return of democracy in 1990, and one of the architects of the country's extraordinary economic success, is another ideal candidate to lead the IMF. People as different as Joseph Stiglitz, one of the IMF's most ferocious critics, and Robert Rubin, the former US Secretary of the Treasury have praised Chile's economic accomplishments. The list of Chile's achievements includes fast economic growth, the halving of poverty in less than a decade, and

the management of speculative capital through market-based restrictions on short-term inflows.

Indeed, Mr. Foxley's profile is so perfect for the position that people who don't know him may believe that he is an invention. With a doctorate in economics, he is a respected and widely published scholar, an experienced manager, and an able politician who was elected to Chile's Senate five years ago. Mr. Foxley understands the plights of the emerging and transition countries, and at the same time knows first hand that policies aimed at macroeconomic stability have a tremendous pay-off in terms of growth, prosperity and poverty reduction.

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