All talk and very little effectual global action
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The International Monetary Fund continues to talk about reform but, on the eve of its annual meeting in Washington, there are reminders of just how little has changed.

There was a half-hearted attempt to overturn the established tradition of appointing a European as managing director, but it turned out to be a token effort. As well, there was talk that an Asian might be appointed to head the top governance committee (the International Monetary and Finance Committee) to replace Gordon Brown, former UK chancellor. But, again, one of Europe's senior international warhorses, steeped in the traditions of the existing arrangements, has just been appointed as a "safe pair of hands".

Other aspects of the reform process are described by the IMF as "far-reaching", but seem more like a damp squib. On the governance side, four grossly underrepresented countries were given extra voting rights last year and further similar efforts are planned. But for as long as Europe has seven seats on the 25-member executive board, other voices will go unheard. Handing out a few more quota rights is a near-meaningless action unless quotas and votes are taken away from the overrepresented, and there is no serious talk of this happening.

In any case, detailed governance is not the central issue: delineating the IMF's proper mission is more important. It may even be the case that the IMF's current role is so wide ranging that no single governance model can cover the whole field adequately.

Some issues do require the participation of all 185 member countries, with special measures to ensure that Africa's voice is clearly heard. The fund's role in poverty alleviation would be an example.

In other cases, however, the discussion needs to be confined to members who can make a relevant contribution. Giving Africa special representation will not improve the discussion on international imbalances, for example.

At present, we have the worst of all worlds: interminable content-free discussion at the formal meetings, while the real decisions are taken by coteries of insiders, centred around the Group of Seven countries with their European preoccupations.

It's not that the IMF has been inactive on reform - just ineffectual. The multilateral consultation process, which brought five countries together to discuss international imbalances, has pondered the issues for a year but come up with nothing new.

Ted Truman, former US Treasury assistant secretary and long-time IMF observer, describes this "much-ballyhooed effort" in these terms: "A year later, the only positive result for the fund was one of process: the fund dealt itself into the policy co-ordination business essentially for the first time since the collapse of Bretton Woods. However, as far as one can tell, the management of the fund exerted no pressure on the participants to make new or more specific policy commitments."

In 1999, former Federal Reserve chairman Paul Volcker described the efforts at reforming the international financial system as "interior decoration" rather than new architecture. Not much has happened since then to warrant reassessment.

One central problem is that the institution is not capable of reforming itself. The Independent Evaluation Office (theoretically an independent auditor of the IMF's operations but in practice a heavily self-censoring commentator) produced some constructive reform suggestions on exchange rate surveillance, but these were quickly condemned by the IMF's managing director, who couldn't see much wrong with existing practices.

But something has gone wrong when international capital is flowing "uphill", from the emerging economies to the mature countries. At the same time, these emerging economies have foreign-exchange reserves equal to more than a third of their gross domestic product (for China the figure is a half), justifying this by pointing to the dangers they face with volatile capital flows and the ineffectual efforts of the IMF to handle the Asian crisis 10 years ago.

The IMF's key surveillance role is hindered by what Truman identifies as its preference to act as "trusted adviser rather than regulator". Both functions are needed, and the evidence is that they cannot be provided simultaneously by the IMF.

Nor could the IMF find any substantive role for itself in the recent sub-prime turmoil. New issues ¬such as sovereign wealth funds, which will tread on all sorts of political sensitivities when they take large investment positions in foreign countries - are barely on the IMF's agenda and will be hard to handle when they come up for substantive discussion.

This is not to downplay the importance of the IMF's role, or the contribution that it has made over its 60-year history. On the contrary. Globalisation requires a complex set of rules (what Tom Friedman called the "golden straitjacket") and if they are not formulated in a multilateral context with input from all the relevant players, they will be written by narrow, vested interests.

Reform will, however, require the things that the IMF finds hardest to do: to admit that it has made mistakes; and to pass some of its responsibilities to other multilateral groupings. The fund shows no signs of trimming back its mission creep. In fact, Dominique Strauss-Kahn, its new managing director, has said explicitly: "We don't need less IMF, we need more IMF".

A starting point would be to hand over the discussion of multilateral policy co-ordination to the Group of 20 - the systemically important countries in world financial markets. This group is probably the largest and most inclusive that can discuss these issues without descending into platitudes and grandstanding.

The IMF would still have an important role in these discussions, providing the analytical and secretarial backing, drawing on its experienced and well-staffed research resources.

In this forum, it might be possible to have the "ruthless truth telling" that Keynes wanted in the IMF, but which it seems incapable of doing.

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