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I.M.F. Gains Sway, but Its Authority Is Uncertain

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WASHINGTON — Can the International Monetary Fund achieve what seems like a mission impossible: bridge the increasingly tense currency and trade disputes that threaten to set back the uneven global recovery?

That is what leaders of the world's largest countries are hoping, even though a number of international economists are skeptical.

A weekend gathering in South Korea of officials from the Group of 20 economic powers ended Saturday with a collective vow to avoid a foreign-exchange war. But they failed to agree on an American proposal to set a numerical limit on the trade imbalances that have been identified as a source of global economic instability.

So G-20 officials, including the United States Treasury secretary, Timothy F. Geithner, instead decided to strengthen the I.M.F.'s nascent, but largely untested, role as the arbiter of international economic frictions.

Keeping its 187 members in line has not always come naturally to the I.M.F. It is best known for bailing out fiscally stricken nations, giving political cover to — and taking political heat for — debt-burdened governments as they cut spending, raise taxes and restructure their balance sheets.

But its longstanding role as a monitor of fiscal and monetary policies is taking on new emphasis.

To support that expanded monitoring, the G-20 officials agreed on a huge increase in the fund's resources; a historic shift in voting power toward fast-growing emerging markets and away from the richest nations; and a stronger mandate for the fund to monitor — and criticize, when necessary — the policies of its members.

Whether the I.M.F. is up to the task of policing its members and exerting influence on the most powerful ones remains far from clear.

"At present, there is no effective international umpire who can call a foul on countries for their policies," said Eswar S. Prasad, a former I.M.F. economist who now teaches trade policy at Cornell. "The I.M.F. can say its piece, but is ineffectual when it comes to influencing the large economies."

Even the I.M.F. is aware of its own limitations. While Dominique Strauss-Kahn, the fund's managing director, lauded what he called "the most important reform in the governance of the institution since its creation," he acknowledged the magnitude of the challenge.

"The I.M.F. is a multilateral institution, but we don't have real teeth," Mr. Strauss-Kahn said on Saturday at the close of a two-day meeting of G-20 finance ministers and central bankers in Gyeongju, South Korea. "We cannot oblige a country to do something, but what we can do is to notice that a country has a commitment and fulfills, or not, a commitment."

He added, "To be able to say to a country publicly, 'What you're doing is wrong,' we probably need to extend the mandate of the I.M.F."

For the United States, which helped create the I.M.F. in 1944 as part of the Bretton Woods system of managing global economic relations, the new reliance on the I.M.F. stems from a recognition that it cannot unilaterally compel China, now the world's second-largest economy, to do what it wants. The United States for months has been pressing China to let its currency rise in value and realign its economy, away from a dependence on exports and toward domestic consumption.

"The I.M.F. has to play cop; that's what it exists to do," Mr. Geithner told Bloomberg Television on Saturday. "No country can be the independent, unilateral arbiter of exchange-rate misalignments. And no country can, on its own, figure out how best to reduce a persistently large imbalance. It requires cooperation."

The I.M.F. said it realized that addressing the currency issues was a priority.

"The main threat to this recovery would be to enter an endless fight on current account surpluses and exchange rates," Mr. Strauss-Kahn said Saturday. "I don't like to use the term 'war,' because it has been too much used, but let's say a confrontation."

Germany, an export powerhouse, resisted Mr. Geithner's proposal that G-20 countries aim to limit the surplus or deficit on their current account — the broadest measure of a nation's trade and investment — to no more than 4 percent of gross domestic product. (Germany has a projected current account surplus of 6.1 percent this year, compared with a 4.7 percent surplus for China and a 3.2 percent deficit for the United States.) But the Germans and Americans were on the same page regarding the I.M.F.

“If you can make the fund more legitimate, it can play a greater role in multilateral surveillance of economic policies,” Jörg Asmussen, state secretary of the German Finance Ministry, said in a phone interview. “It is extremely necessary.”

So the G-20 powers agreed to pump up the fund’s resources by doubling the quotas that determine how much each country contributes to, and may borrow from, the institution. The I.M.F. will also shift 6 percent of voting power away from the richest countries toward “dynamic emerging-market developing countries.”

China, Russia, India and Brazil will be among the fund’s 10 largest shareholders. But the United States, with nearly 17 percent of voting power, will retain its ability to unilaterally veto major decisions, which require an 85 percent vote. Europe agreed to give up two of its seats on the 24-member executive board that governs the I.M.F., a significant concession.

“We put an end to a discussion which has been in the headlines for decades about the legitimacy of the institution,” said Mr. Strauss-Kahn, a former finance minister of France.

For the United States, tasking the I.M.F. with mediating the currency dispute “may help rebuild Congressional support for the I.M.F. while reducing the growing threat of protectionist legislation against China,” said J. Lawrence Broz, a political scientist at the University of California, San Diego.

There is, of course, a risk: in sharing power at the I.M.F. more broadly, the Western powers (and Japan) may be opening themselves up to advice that is not easy to hear.

“Greater legitimacy will depend on the I.M.F. offering policy prescriptions and analysis that genuinely reflect the interests and experiences of emerging markets and poor countries, even when such actions may run counter to the interests of wealthier countries,” said Jeffrey M. Chwieroth, a senior lecturer at the London School of Economics and author of “Capital Ideas: The I.M.F. and the Rise of Financial Liberalization.”

Mr. Strauss-Kahn said the I.M.F., which traditionally has produced reports limited to individual countries, would increasingly emphasize the spillover effects that one country has on others. Such “spillover reports,” he said, will include the world’s five major currencies: the dollar, the euro, the yen, the pound and the renminbi.

“These five currencies have accepted the spillover report despite the fact that they understand that sometimes it will be a bit problematic for them, because we will say things they don’t like,” he said.

At the same time, Mr. Strauss-Kahn made clear his independence from American influence, saying of Mr. Geithner's abortive proposal, "Whereas this idea of 4 percent has been launched by Tim, the discussion focused more on finding something more appropriate and more sophisticated."