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IMF Looks to Expand Its Power

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Abstract (Summary)

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Full Text (623 words)

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(Please see Corrections & Amplifications item below.)

WASHINGTON--The International Monetary Fund wants to boost its power to oversee the swelling number of restrictions on the flow of international capital, and may propose new guidelines for the use of capital controls.

According to a staff paper released Wednesday, and discussed approvingly in December in the IMF's governing board, the IMF is considering amending its basic bylaws to give it more power to set "rules of the road" on capital controls. One approach "would give the Fund the authority to require a member to either eliminate or impose restrictions," depending on what the IMF considered appropriate, the paper said.

The IMF proposal and follow-up work it is doing to examine the way capital controls should be used are likely to become a big part of this year's discussion of the Group of 20 major nations. French President Nicolas Sarkozy, who is chairman of the group in 2011, has said he wants to the G-20 to re-examine the international monetary system, but hasn't been specific.

Officials have suggested that Mr. Sarkozy may raise the issue of capital controls when he meets President Obama in Washington next week.

Former IMF official Eswar Prasad, now a Brookings Institution economist, said the U.S. is likely to be lukewarm at best about giving the IMF much more power in this area. That is because the effort could be seen as criticism of U.S. near-zero interest rates, which encourage investors to shift their money to emerging markets and prompt countries to impose controls. A spokesman for the U.S. Treasury didn't immediately comment.

Outright opposition by the U.S. could doom any plan to change the IMF's bylaws because the U.S. has sufficient voting power in the IMF to veto such changes. Some of the suggestions in the IMF paper wouldn't require a change in the bylaws.

Fundamentally, the IMF wants to expand its oversight of capital flows and determine when restrictions make sense and when they are being misused. The IMF has great power over individual nations that seek emergency loans from the Fund, but little direct power over countries that don't. But if the IMF membership votes to give the Fund a larger role in setting capital standards, the Fund's recommendations on controls should carry more weight.

Should the IMF eventually recommend that a particular countries actually impose controls, even as a last resort, it would represent a remarkable about-face. The IMF long pushed to eliminate any obstacles to international investment and, in 1997, sought to eliminate capital controls altogether, arguing that the additional money would help poor countries grow. That effort failed with the Asian financial crisis, where capital flight battered Asia, Russia and Latin

America.

Now, emerging markets from Brazil to South Korea to Indonesia are complaining that a growing flood of money is boosting the value of their currencies and undermining their competitiveness. They have imposed different restrictions on investment to try to make sure those funds can't leave the country suddenly.

"It is not tenable for the Fund to remain on the sidelines of a debate so central to global economic stability," said the IMF paper.

Paulo Nogueira Batista Jr., who represents Brazil and eight other nations at the IMF, said the Fund previously urged nations handle inflows by letting the currency appreciate until it reached a level that discouraged speculation. The IMF is now taking a more "more pragmatic and flexible approach," he said.

Next, the IMF said, it will try to develop a system of determining when it may be beneficial to use capital controls.

Nicolas Sarkozy is France's president. An earlier version of this article misspelled his first name as Nicholas.

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