

the Atlantic



Print | Close

# Want to Solve Europe's Crisis? Reboot the IMF

By Hilda Ochoa- Brillembourg

When computers malfunction there is often a simple recourse: Rebooting.

The International Monetary Fund (IMF) has been through an undeservedly rough patch. As the fiscal policeman to the developing world, it lost relevance, as policemen do, when the going was good: Emerging markets were booming, liquidity was abundant, trade was growing, and, by and large, appropriate monetary and fiscal policy management was the rule, not the exception.

In fact, five years ago, all was moving along so smoothly that the IMF was experiencing operating deficits because so few countries were borrowing from it. It was a bank going out of business from lack of clients: Indeed, to remain as a functioning entity, the IMF was obliged to sell a portion of its gold reserves and create, effectively, an endowment to fund its research and other operational activities. Then, of course, the world economic ship foundered, and the Strauss-Kahn affair in New York robbed the IMF of a particularly able leader. In Christine Lagarde, a competent alternative has emerged, but the IMF remains troubled. Rebooting is in order.

This rebooting is relatively simple as global policy actions go. It should go this way. Take the initiative to encourage the financial help tentatively offered by the BRICs (i.e.: Brazil, Russia, India, and China, the fastest growing economies in among "emerging" countries) to re-finance, re-liquefy and re-structure failing European debtors and creditors, and act as a forceful and disciplined work-out manager of the debt restructuring process. This is exactly what the IMF was created for and it can do it well, particularly working with its counter parties in the European Union. It can then be a formidable, constructive and deflective partner, offering technical assistance, guarantees, and any base capital needed to recapitalize core banking institutions, and allow risk and equity holders to take hits for well-deserved losses. Most important of all, it can and must help Europe achieve fiscal policy coherence, which is the unfinished and critically missing link in the European Union.

This would also be the time to seize the opportunity to restructure the voting power within the IMF. BRICs want and deserve more power at the IMF. This would be the time to give it to them, and re-energize the world economy along the way. Rebooting the IMF will ease the political stalemate between

moralists and realists, and build confidence and character among borrowers and lenders. Most important of all, it could do wonders for the world economy.

This article available online at:

<http://www.theatlantic.com/business/archive/2011/10/want-to-solve-europes-crisis-reboot-the-imf/246348/>

Copyright © 2011 by The Atlantic Monthly Group. All Rights Reserved.