Renewable Fixed Term Contracts

Accountability for mistakes is one of the major "lessons learned" from the global crisis. So, for example, the presumption now is that remuneration packages for traders in banks should not only reflect the short-term ups and downs in their trading, but the longer term implications.

The IMF has rightly been at the forefront of global post-crisis efforts to strengthen such long-term accountability into remuneration structures, to avoid incentives to make short-term profits at the expense of long term losses. But it has not applied this logic to itself.

The suggestion that the IMF has failed to apply these principles to itself has hitherto largely been made in connection with its decision-making on programs. The suggestion here is that it should go beyond accountability in programs to accountability in surveillance also.

To illustrate both the challenge and urgency of this suggestion, the following is one account of one career path, based on the extended public record of that career. But telling as the example is, the point is not to shed light on the pattern of promotion of an individual, but to illustrate a broader pattern; that paths to promotion prioritizing pleasing top management rather than service to the institution's mandate have very real consequences for delivery of that mandate. And they compromise the quality and resilience of senior staff throughout the institution.

It is a selective account of the senior career path of Reza Moghadam, a telling and timely case because he has for long been *primus inter pares* among Department Directors, and he has recently quit the IMF for Morgan Stanley).

After good work on Thailand and Turkey, his subsequent work raises questions. To illustrate, the account places the work in which he was involved (usually led) in the context of ex-post reviews of that work, the latter largely reflecting assessments of that work based on outcomes after he had already been promoted to new jobs.

2005 — Promoted to senior team in the European Department under MD De Rato, including leading a mission to France.

"Economic linkages in monetary union were not systematically taken into account. The Fund's surveillance failed to take account of the implications of being in monetary union. Divergences in monetary union were typically interpreted in a narrow way based on a trade view. The link between capital inflows and systemic risk was ignored. The ... link between high debt and competitiveness adjustment was not identified. Weaknesses in the governance framework of the euro area were not fundamentally criticized."

Pisani Ferry here.
AIV Mission to France here.

2006 — Promoted to be the personal assistant to the Managing Director of the IMF, Mr. De Rato.

The two key events during this period were: (a) Rejection of the work of Rajan highlighting the risks financial reform posed to the global economy. Rajan's warnings were not followed up in the WEO, bilateral dialogue with country authorities, the IMF research agenda, or other IMF surveillance output; (b) Update of the 1997 legal framework for surveillance, immediately discredited by the global financial and Euro Area Crises, requiring a further accelerated update in 2012.

Work of Rajan here.
Ex post review here.
2007 Surveillance Decision here.
2012 ISD here.

2008 - Promoted to head of Strategy and Policy Review Department (SPR) by MD DSK. Responsible for setting and delivering the strategic priorities of all the IMF, including preventing any misaligned incentives of management and staff from undermining rigor and consistency.

The priority set was to greatly increase the number of lending windows at the IMF. Little use was made in the ensuring global crises despite much effort to persuade countries to do so, and none of the 4 key EA programs used any of these innovations. The effort spent on this was not spent preparing for the then imminent two global crises.

Review of IMF facilities here.

The 2010 IMF program for Greece, the largest in IMF history, the coherence of which it was SPR's job to confirm including its key nominal GDP projections. By 2014, these were wrong by some 25 percent. Error on that scale in a fixed exchange rate context is unprecedented. Ex-post, M. Lagarde said "we had no clue".

Scale of IMF forecast errors here.
Lagarde on IMF GDP errors here.

The IMF made a strategic decision to relax its lending rules in that 2010 Greek program to allow it to lend despite doubtful debt sustainability, given systemic risks. This step was described as "shoddy" by the key expert on the prior IMF lending rules and IMF staff now say such steps do not lower systemic risks either.

This choice was made over two alternatives: (a) to strengthen program design (including debt restructuring) until it met the sustainability rules, insisting on rigor because of contagion risk, not weakening rigor for that reason; (b) to insist that the loan was taken by the Euro Area not Greece alone, following the organizational precedent of IMF loans to Bosnia—securing debt sustainability, fully encompassing loan conditionality, and rendering the IMF loan as the first Eurobond. This line has since been backed by many, including Prof. Goodhart.

IMF shoddy here.
IMF recent self critique here.
IMF lending to Bosnia here.
Goodhart on Euro Area loan here.

Had IMF Management overruled either option, SPR's formal rejection of the program in the form that it took was the option of last resort—and its job, given SPR's role to defend the institution against misaligned incentives of management and staff. It would have forced the Board to rule openly on these matters. But, following SPR's lead, the options were not raised at the Greece 2010 IMF Board meeting.

Misaligned Management here.
IMF Board on Greece here.

SPR also formally approved the 2011 Euro Area Staff report which called for monetary and fiscal policy tightening throughout the Euro Area.That call reflected estimates of fiscal multipliers which were comprehensively understated. And the policy tightening has led to concerns with Euro Area-wide deflation now.

SPR backs EA tightening here.
Multipliers understated here.
IMF alarm on EA deflation here.

2011 - Promoted to head of the European Department (EUR) by MD Lagarde, to deal with the Euro-Area crisis. From 2008, Messrs. Deppler, Leipold, Chopra, Belka, and Borges had been EUR Directors or acting Directors—average tenure from the start of global financial crisis of just 8 months. After that leadership instability, stability and effectiveness were key.

Appointment to EUR here.

The IMF undid many earlier SPR-approved decisions on Europe, including securing Greek debt restructuring, redesigning the program, and reversing course on the EA policy stance. However, the program remained focussed focused only on Greece, not on the Euro Area.

Revised Greek program here.
Reversing EA policy line here.

The IMF endorsed seizure of part of the deposits of all depositors in Cypriot banks resulting in global market turmoil, despite concurrent EU FSSA call for "near term more forceful actions to cement .. confidence".

IMF endorses deposit seizure here.
Global market reaction here.
IMF explains deposit seizure here.
IMF FSSA for EU here.

Recent proposals from the IMF on sovereign debt restructuring would also likely increase instability in the EA in times of stress.

Sovereign debt proposals here.
Analysis of those proposals here.

With Crimea seceded, enemy troops massing on the border, a civil war underway, and a decade and more of program breaches, the call of the European Department was that "it is difficult to see that it [Ukraine's debt] would go on an unsustainable path." And his early departure to a global bank continues the pattern of instability in management of the European Department and underscores concerns with "revolving IMF-bank doors" and associated "conflict of interest" issues

Statement on Ukraine here.
Resignation from IMF here.

This selective review of these promotions is not intended to capture everything in the career concerned. For the record, the main accolade ascribed to him by insiders was that he was "effective": he got what he wanted on substance inside the building, hence the moniker, *primus inter pares*.

Nevertheless, it is illustrative of much broader issues arising for accountability of the most senior of IMF staff in regard to surveillance.

The following outlines three proposals to address such matters.

Proposals

The first suggestion is render promotion to and renewal of fixed term contracts for top level staff positions (B3-B5s) at the discretion of a selection panel, not at the discretion of the Managing Director.

This would follow the precedent of the UK civil service, and for the same reason—to anchor and defend the non-politicization of the institution.

The need for this would be enhanced if, as suggested in "Global Early Warning and the IMF", the focus of the institution pivots from economies that are small in the global economy to the core of the global economy.

This would ground the selection and renewal criteria in the candidates' demonstrated commitment to the mandate of the institution, rather than the preferences of the Managing Director or the Executive Board on individual country cases.

This would require much clearer formal statement of what the objectives of surveillance are than is presently available either in the Articles or the 2012 Surveillance Decision, in order to guide the appointments panel. The objectives as outlined in "Global Early Warning and the IMF" as elaborated here would be recommended.

Review and revision of those specific surveillance objectives could become a cornerstone of any regular (triennial) review of surveillance. The revision of those criteria for promotion and retention purposes would provide such routine reviews of surveillance with a specific set of conclusions on which to focus. This would contrast with the somewhat generic conclusions of the current reviews, which usually call for "more" of various things and greater "focus" on various other things without concern for the contradiction between those two.

The second suggestion is to reverse the decision made in 2009 to change the purpose of what was then called the "Policy and Development Review" Department.

Upto that point, the key function of that Department was to secure uniformity of treatment, quality, and adherence of all IMF work to the core objectives of the institution against the multiple pressures that the Fund faces to bend to influential voices. This role was reflected in its "sign off" powers, under which its Director had formal veto power on any staff paper—the sole department and Director to enjoy such powers—unless formally overruled by management.

In 2009, however, this role was clouded by giving the Department the core role in setting the strategy of the institution. Thus, it changed from being responsible to say "no" to being responsible for arm-twisting other departments to say "yes". As a result, its operations changed from maintaining a distance from the detailed work of other departments in order to maintain impartiality in the exercise of its veto powers, it became deeply involved in their detailed work. In key cases it became so involved as to effectively lead the operational work of other departments. This effectively meant that it had veto power over its own work, a situation that may well be reflected in the weakness of the staff work on the first Greek program.

By removing the strategy setting and delivery functions from SPR (and reverting its name to PDR accordingly), these checks and balances would be restored. Further, the focal point for accountability of staff work relative to the core objectives of the institution would once again rest clearly with the Department Director of PDR. His or her own advancement and reinstatement when her fixed term contract expires could thus be clearly tied to these core metrics rather than being clouded by other objectives.

These two suggestions would be consistent and reinforce calls for a "Transparency Revolution" at the IMF—which address similar issues arising in program contexts, and those proposals constitute the third suggestion here.

These three septs will help to strengthen IMF performance on surveillance and help to secure a closer correspondence between action to secure the core aims of the institution and career progression for the most senior staff.

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