

CONFERENCE IN MEMORY OF TOMMASO PADOA-SCHIOPPA

**The Reform of the Governance
of the International Monetary System**

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Thank you for this occasion to pay tribute to Tommaso Padoa-Schioppa in the way he would have preferred namely by devoting together our thoughts to issues he would have seen as unfinished business for him and us all.

The day the Banca d'Italia has chosen for this celebration is all the more touching for myself as it is, I presume for Ted, almost the very anniversary of our last meeting in New York just a week before he passed away.

I can tell you that we had a long working week-end in preparation of what finally turned to be called the Palais-Royal Initiative. During these two days, we had with us a Tommaso at his best, providing a superb leadership to our work constantly attentive, keen to stimulate the debates and to underline the convergences...

Sadly enough this was the end for him of an initiative in which he engaged himself with a juvenile enthusiasm, sure as he was that when you bring together 18 individuals of good experience in the international monetary field, you must almost necessarily produce a set of reflexions which could turn to be very helpful for those who are now in the arena.

As we have received excellent papers, and particularly the note of Pietro Catte, summarizing the views of Tommaso Padoa-Schioppa on the reform of the international monetary system, I will modestly refer to the points I identified as central for him during the months of the Spring and Summer 2010, when we were working together in preparing for that initiative, a work which was at times somewhat complicated as he was in Corsica or as usual traveling around the world while I was more quietly in the French Basque countryside with my grand children...

All along these exchanges, I was most impressed seeing how open he was to the views of colleagues and keen to identify grounds on which constructive agreements could emerge. Let me hasten to add how strong also his views were, particularly when they derived from his multifaceted experience of international institutions governance. Trying to recap these last ones, I see that I end-up, as Klaus Regling, with a list of seven points. Let me call them "the seven pillars" of his wisdom on the governance of the new International Monetary Fund he was looking for.

Let's turn to these 7 pillars:

Pillar 1

We need at the heart of the system a strong machinery with enough recognized authority to influence major member countries and to effectively enforce the strategic orientations of the membership.

The need for it and the required deep changes in the governance of the Fund are just being made more pressing by the crisis and the new responsibilities which could result for the IMF from the ongoing process of reform.

Pillar 2 - The relationship between effectiveness and legitimacy.

This was a point to which he was in a position to contribute personally during the too short time during which he chaired -as Carlo Ciampi did before him- the IMFC. He was instrumental in finalizing the agreement of April 2008 for a rebalancing of IMF quotas important in itself and in preparing grounds for later ongoing adjustments. This relationship brought him to support three other suggestions for change:

- To solve the problem of legitimacy of the G-20 itself and to ensure a universal representation at the supreme level of the G-20. This would enhance its legitimacy. A system of regional constituencies which has served well the IMF and the World Bank could be adopted to this end.
- To distribute clearly the responsibilities between actors by deciding to establish the “Council” as envisaged by the Articles of Agreement of the Fund, so inviting ministers and governors to take personal responsibilities for the most strategic decisions. This, in my view, would lead to more participation of the Central Banks in the decision making process of the IMF at its highest level, something I have been looking forward during my time in this institution.
- To change the voting rules. The group favours lowering of the voting threshold on most important decisions from 85 percent to 70-75 percent as well as the extension of the double majorities to a few other decisions, thus ensuring that decisions affecting key aspects of the institution command the support of the majority of members. Bringing to an end the “European privilege”...

Pillar 3 - Strong reservations towards a phenomenon he analyzed with sharp lucidity: the risks to see the processes of peer’s reviews to degenerate in pacts of non aggression. Let me explain as there is a paradox here. For years, I was a key player in a variety of peer reviews processes. As a matter of fact, my admiration for him and our friendship were born on one of them. This was at the end of 70s or beginning of 80s in his capacity as the head of the DG2 of the Commission, he was the maestro of the orchestra (or the first violin) of this kind of un-complacent reviews in the context of the member countries peer reviews which, with the passing of time, pressures and commitment by all bought France and Italy in a good enough shape for being able to be part of the formidable innovation the euro has been... But when these reviews develop in the informal framework of G7 or G8, they can degenerate into “non aggression pacts” among major players, so introducing significant distortions in the multilateral surveillance, something, of course, which should be no more accepted.

Pillar 4 - “M” as the most important letter in IMF

A crucial point for both of us, reflecting our wish to see the Central Banks to have a stronger role and leadership in the IMF, particularly at a time the need of a stronger monitoring and control of global liquidity appears to be an inescapable conclusion to be drawn when reflecting on the origin of the present crisis. In his view, the enactment of the Council could be a good occasion to rebalance the influences in the Fund between Treasure and Central Banks.

Pillar 5 - Subsidiarity, “regionalization” and decentralization as principles for reform of the system (organizing on that way representation and relations with ECB, Chen-Maï and possibly more to come...).

A consequence of this approach in his mind (which was also a mind of a European federalist) should lead to a representation of Eurozone in the IMF institution -as the US are- by a single chair (possibly shared by the ECB and the Presidency). A very long term vision, I am afraid.

Pillar 6 - The need to ensure the prevalence of the “common good” in the system.

A very noble and permanent concern, leading him so frequently to finger out the deplorable consequences in a multilateral framework of an old fashion concept of national sovereignty. More than that, the concern for keeping an eye to the broaden universe on which monetary policies operate.

Pillar 7 - His recognition of the permanent need of all institutions for fresh air and cross fertilization with the broad community, not only of economists but also of intellectuals across the world. This, of course, reflected his own appetite as a man of a magnificent culture for these refreshing and eye-opening contribution, particularly in our new rapidly moving world. From there, the idea of establishing a global advisory committee to give a stronger and fully independent voice to the global interest in the system and the search for global common good, while a too narrow focus on individual countries issues, from time to time, doesn't allow identifying in due time evolutions of a global nature to be taken on board. The existence of such a group could also be of help in preparing for the orderly transition toward a fully fledged multicurrency system.

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One last word: without pretending to be an authorized interpreter of Tommaso visionary thoughts, I can nevertheless quote here something I heard him to repeat time and again: it was his wish to take any necessary steps, for this Initiative in which he invested his last energy, not to end up on the shelves of our libraries but to continue to be discussed and to provide food for thoughts to all these who in the G-20 and in so many fora will continue working to provide the world with a reliable resilient and effective international monetary system.

Let's join forces at least for that; it will be a good way of honouring his memory and to serve the common good as to quote the last words of the paper of Lorenzo: “We cannot afford to await for the cathartic effect of the next crisis to improve the functioning of the international financial system”.

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