

**AUSTRALIA AND THE BRETTON WOODS INSTITUTIONS: THE IMF**

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### **INTRODUCTION**

The aim of this paper is to provide an examination of Australia's involvement with the Asia-Pacific constituency in the IMF as it has developed over time. It is a work in progress that will be further developed in 2011-12. There are two related reasons for examining Australia's involvement. The first is that, as Woods and Lombardi argue, there is an important gap in the scholarship regarding the IMF, in that weaker states are much less analysed, especially in regard to what are known as the constituencies, groupings of the less powerful Fund members (Woods, Lombardi 2006: 481). However, Woods and Lombardi then proceed to focus largely on the developing or in transition members of the Fund, paying little attention to countries such as Australia and New Zealand, countries that are weaker, at least in economic terms, than the major industrialised members, but that cannot be classified as either developing or in transition. More recently, a number of authors have begun to analyse a broader range of IMF members, notably Martin and Woods (2005), Momani (2008, 2010), Strand and Rapkin (2010), Vreeland (2010).

The second reason is that there has been, rather surprisingly, and despite the increase in the study of the constituencies, very little study of how the constituencies have evolved over time. This is despite the fact that, for example, in Australia's case the IMF's Australian Executive Director has oversight of 3.2 billion of Special Drawing Rights (SDRs) and 2.5 billion in other currency holdings (largely AUD) that have been deposited by Australia, as required by Fund policies, in the IMF's General Resources Account. Hence, this initial study of Australia's involvement with the IMF will help to remedy that deficiency and might encourage such studies of other members.

The paper is largely historical in nature, based on archival and secondary sources, as indicated in the references. In addition, four past Australian Executive Directors, whose combined experience in the Fund covered a period of sixteen years, took part in open-ended interviews on condition that their responses remained anonymous. The paper is organised into two major parts: the first examines the background and origins of Australia's involvement with the IMF constituencies; the second looks at power and voting within the Asia-Pacific constituency.

### **AUSTRALIA AND THE IMF CONSTITUENCIES: ORIGINS AND BACKGROUND**

The aims of this section are: one, to briefly describe the position of the constituencies in the IMF; two, to describe the origins of Australian involvement with the first, two member constituency in which it was involved, with South Africa

There are a number of centres of power and authority in the IMF. In terms of formal structure, these are the Board of Governors, the Executive Board, the International Monetary and Financial Committee and the Secretariat. In addition, there are a number of informal groups that exercise a major role in its governance, notably the G7, the G20,

representing the largest economies, the G24, representing the developing countries and, much less well known, sixteen informal constituencies or groups of the less powerful members, a few of which are also members of the G20 and several more of the G24. Australia is a member of one of the constituencies, often referred to as the Asia-Pacific constituency (see Appendix A for the current membership of this constituency). As envisaged in the Fund's Articles, the Board of Governors is formally the overall policy making body; although in practice it largely endorses positions agreed within the Executive Board, the G7 and, more recently, the G20.

On a day to day basis it is the Executive Board, chaired by the Managing Director and meeting on a continuous basis, which makes the major operating decisions as well as overseeing the operations of the Secretariat and the ordinary business of the Fund. The voting power of each member is determined, for the most part, by an allocation of 'basic' votes, plus one additional vote for each 100,000 of Special Drawing Rights (SDRs) allocated in its quota (the financial resources it has to commit to the Fund on taking up membership – the larger the resources committed, the larger the number of votes). In turn, the quota is determined by a formula that has been amended over time. The basis of the formula is a weighted average of GDP (weight 50%), openness (30%), economic variability (15%), and international reserves (5%). The 2008 reform increased the number of basic votes for each member from 250 to 677 votes.

Membership of the Executive Board provides an important channel for voicing national views on the many topics that come before the Board and, importantly, for influencing the members of the Board as regards the decisions they make. This is despite the fact that the Executive Board rarely votes, with the Chair required to 'ordinarily ascertain the sense of the meeting in lieu of a formal vote', although any Director may require a vote to be taken. On the rare occasion where a vote does take place the Directors from constituencies are required to cast all of the votes of their constituency as one vote and they are under no obligation to vote as the majority of the members of their constituency might wish, nor are they formally accountable to the members, although consultation with members is the norm. Hence, there is and always has been keen competition for a position as Executive Director.

There are currently twenty four seats on the Executive, elected or appointed for a two year term. Five of these are appointed by the countries with the largest quotas, the USA, UK, France, Japan and Germany. Another three are elected by single countries that have chosen not to form constituencies, being Saudi Arabia, Russia and China. The remaining sixteen Directors are elected by the Governors of the Fund, excluding those Governors who appoint the five members. Those receiving the greatest number of votes, provided that they receive no less than four percent of the total number of votes cast are considered elected. As Australia has never had sufficient votes to achieve the minimum number of votes for election in its own right, it has always had to gain the support of one or more of the other members if it wishes to gain a position as Executive Director. Each Executive Director appoints an Alternate Director who has the full powers of the Executive Director when the latter is not present. As the number of members of the IMF has grown over time, so has the need for Australia and other members of the Asia-Pacific constituency to

recruit new members to the constituency in order to maintain sufficient votes to gain a directorship.

### **Australian membership and a missed opportunity**

Australia applied for Fund membership on 20 March 1947. The IMF Board of Governors approved a resolution for its membership on 17 May 1947 and Australia signed the Articles of Agreement on 5 August 1947. When Australia joined the Fund total membership was only thirty nine, with twelve directors on the Executive Board, not including South Africa, which had formed a constituency with the Netherlands at the first election in 1947, with the latter as the Executive Director. There were then eight fairly loose constituencies, ranging in size from two to eight members in the 1946-48 period (Horsefield 1969: 624).

Provision for a further, thirteenth member of the Board should new countries join before the second election of Executive Directors in September 1948 also had been agreed (Horsefield 1969: 127). The keenness of competition for positions of Executive Director can be seen in the admission to Fund membership of Italy in March 1947, triggering the agreement to elect a thirteenth Director. A member of the Board suggested that the election be deferred until Australia, whose application was pending, had joined, so that Australia could vote for the new Director. However, as Australia would have 2,250 votes, compared to Italy's 2,050, there was a possibility that an Australia Director would be elected. After considerable discussion and the referral of the matter to a sub-committee of the Executive Board, it was agreed that the election should take place immediately (Horsefield 1969: 164-66). Despite further attempts to postpone the election, it was held in April 1947 and an Italian Director was elected. Australia thus lost its first opportunity to gain a place on the Board, its formal application for Fund membership having been delayed as a result of Prime Minister Chifley's need to work carefully and relatively slowly to gain ALP support for Fund membership (Crisp 1960: 199).

### **The Australia-South Africa constituency: gold and apartheid**

On gaining Fund membership Australia entered into a two-country constituency with South Africa, the two having sufficient votes to gain the constituency a seat on the Executive Board in the February 1948 elections, with S G McFarlane, the Australian Treasury Secretary, taking his place as Executive Director. The reasons for the creation of the Australia-South African constituency were several. The first, of course, was that both countries were keen to gain representation on the Board and that, combined, their votes would exceed the minimum number necessary for election. Second, both were members of the Commonwealth, familiar with each others' views in that context. Third, related to the second, was that both were members of the Sterling Area at a time when sterling was still a major, if declining international currency, and of vital concern to both Australia and South Africa. In that context, South Africa was also the leading producer of gold and the flow of its gold to London was vital for the maintenance of sterling as a reserve currency (Cablegram 1948). Hence, while the two countries were members of a separate constituency, as members of the Sterling Area they cooperated closely, if not on

all occasions, with the other Sterling Area members of the Fund, particularly the UK. Fourth, the two countries already had established working relationships within the United Nations and the other specialised agencies.

At first the Australian-South African relationship in the IMF went well, with Treasury Minister Fadden noting that it had proceeded 'very smoothly', with the South African Government noting its appreciation of the services provided and expressing its willingness to support the re-election of the Australian Director in the 1950 elections. As Fadden further noted, the Directorship had proved 'critical', in Australia's

...recent drawing of US \$20 million from the Fund without attachment of special conditions. It provides a unique listening post and points of contact with the most influential personalities in the economic and financial spheres of leading member countries, particularly of the United States. A constant stream of useful information is obtained on points of interest to the Treasury in Australia (Fadden 1950).

However, within the next twelve months Australia's experience of constituency politics in the IMF became more difficult, involving the IMF's policy on sales of gold. It was difficult in two respects: one, it put the Australian Executive Directors in an awkward position; two, successive Australian Directors were personally sympathetic to the South African position on sales of gold, rather than the position of the Australian Government, though they were instructed, of course, to support the latter. The Fund's policy on gold sprang from Article IV Section 2 of the Fund's Agreement, which prescribed that purchases of gold by members would be based on the par values of their currencies. The Fund, in summary, set a margin above and below each currency's par value for transactions in gold between members that aimed at: one, preventing such sales undermining the stability of members' largely fixed exchange rates; two, the minimisation of losses to monetary reserves resulting from private hoarding.

As South Africa was the world's greatest supplier of gold, IMF policies on gold were always a matter of concern for its representatives, especially as Fund policy had fixed the price of gold at USD35 per ounce for transactions between its members. In September 1948, for example, South Africa's Alternate IMF Governor informed the Fund that a London firm had offered to buy a large quantity of semi-processed gold normally used by goldsmiths and jewellers, for US dollars and that it proposed to supply the gold (Horsefield 1969: 183-4). The Managing Director's response was that its members were very concerned that the sales would be used for illegitimate purposes, including hoarding and felt that South Africa should not engage in the transaction unless it could take effective measures to ensure the sales were for legitimate purposes. The South African Government was not convinced and, on 5 February 1949 suddenly it informed the Fund's Managing Director that it proposed to commence sales of 100,000 ounces of semi-processed gold at \$38.20 an ounce, \$3.20 more than the then price of \$35 and the sale proceeded, intensifying discussions on gold policy in the Fund over the next two years.

The sudden announcement caused considerable debate and differing views among the Executive Directors. The US and UK directors, for example, were firmly opposed to the sales. As a result, the Australia Director, McFarlane, was placed in a very difficult position, as was his successor, L G Melville, in the 1948-1952 period. Their difficulty sprang from the fact that the Chifley Government and, initially, the first post-war Menzies Government, supported the Managing Director's position, not the South African. Hence, at meetings of the Executive Board they had to present two contrasting views, those of the Australian Government and those of the South African, a somewhat difficult task at the best of times and made even more difficult by the fact that their explicit support for the views of the Australian Government might drive South Africa to withdraw its crucial voting support for Australian candidates for Executive Board membership.

As Melville noted in a letter to Wilson in August 1951, the threat of withdrawal of South Africa's support would make matters very difficult for Australia when Germany and Japan joined the Fund as this would mean that Australia would not have sufficient votes to gain an Executive Director position. Hence, he pointed out, given that the Dutch Executive Director had been more consistent in supporting South Africa's position regarding sales of gold, plus the fact that the Dutch had been 'assiduous in cultivating their friendship', then the 'affinity of race and language', might persuade the South Africans to support a Dutch Executive Director at the 1952 elections (Melville 1951a).

The situation was made even more difficult as both Melville and McFarlane were, as noted, somewhat sympathetic to the South African position. McFarlane, for example, noted to Dr Roland Wilson in Treasury that he felt that the Fund's gold policy was unworkable and that

My present position is a difficult one. I have to advocate two conflicting courses of action, one for South Africa, and another for Australia. My personal belief is that the Fund's present gold policy is unworkable and I have doubts that the proposed new policy will prove effective (McFarlane 1951).

Similarly, on 3 August 1951 Melville, in a note to Wilson regarding the discussions on sales of gold at the IMF indicated that

... I feel obliged to take some advantage of the opportunity thus presented to further South African interests as far as I can. Since these run counter to Australian instructions, though not I believe to Australian interests, I am in a difficult situation. (Melville 1951b).

As it happened, South Africa seems to have been satisfied with the efforts of Melville and McFarlane to represent their position, for their representatives continued to vote for the re-election of Australian Executive Directors until the 1974 election and only took up the Australian offer of the Alternate Director's position in 1966. More realistically, it might have been that their decision to continue to support Australia was influenced by a strengthening desire to retain the support of Australia in the United Nations General Assembly. South Africa was coming under increasingly fierce and sustained criticism in the UN for its apartheid policies. At first under the Chifley Government, then the Menzies' governments, Australia had treated apartheid as a purely domestic matter for

the South African Government, one in which the UN should not interfere. They were keen to avoid similar criticisms by UN members of its 'White Australia' immigration policies, treatment of aboriginals and treatment of Papua New Guinea (Higgott 1976: 158-161). Hence, too fierce an adverse reaction by South Africa to perceived inadequacies in Australian representation of its interests in the IMF might, in turn, have endangered Australian support for South Africa in the UN.

Despite the increasing international criticism of apartheid, the National Archives indicate that it seems not to have raised any serious issues for the Australian Directors in the IMF. This was despite the fact that the South Africa Government, for example, showed its willingness to withdraw from UN specialised agencies such as the IMF with its withdrawal from UNESCO in 1956, the FAO in 1963, ILO in 1966, and, in addition, having its voting rights suspended in WHO in 1964. It retained its membership of the IMF and the World Bank, with their voting systems weighted in favour of the developed countries. The relative lack of expressed concern by the Treasury-based Executive Directors was in contrast to the views of a range of staff in Australia's Department of External Affairs and Department of Immigration. In both of these departments there were significant concerns as to the adverse impact on Australia's image in Asia and Africa of its continuing refusal to vote for UN resolutions condemning apartheid and the continuation, if in slowly modified form, of its racist immigration policies (Jordan, M, 2006). Interestingly, despite growing criticism of South Africa, Lesotho joined the Australian-South African constituency in 1968 and Swaziland in 1970. However, these were decisions that reflected the very considerable economic dependence of both of these small states on South Africa rather than agreement with its domestic policies and apartheid (Barber, Barratt J 1990: 128-30).

This situation changed very swiftly in 1972-74 with the advent of the ALP Whitlam Government, which was intent on changing Australia's position on apartheid, at both multilateral and bilateral levels, especially in the UN and its specialised agencies (Higgott 1976: 160). Hence, on 24 Sept 1973 it was announced that the Australian Government

...had expressed the wish to reconstitute the group of countries which combine with Australia to elect Executive Directors at the IMF and IBRD. Accordingly, at the next biennial elections of Executive Directors in September 1974, alternative arrangements would be made in respect of South Africa (Treasury 1973).

While the announcement was politically valuable in that it represented one of the first steps to improving Australia's image with Asian and African states, it meant that the Australian constituency would lose not only the South African vote, but was likely also to lose those of Lesotho and Swaziland. This proved to be the case when they joined an African constituency then led by The Gambia in the 1974 Executive Director elections, leaving Australia with only New Zealand and Western Samoa as members of the constituency. Their combined votes were not enough to secure Australia re-election to an Executive Director position, so a hunt began for new constituency members, concluding successfully with the recruitment of the Philippines in the 1974 election.

Interestingly, while the Australian-South African constituency split took place in the 1972-74 period, there seems to have been a continuing degree of sympathy toward South Africa shown by the Australian Executive Director. In the Executive Board votes regarding a major Fund loan of USD1.1 billion to South Africa in 1982, for example, one that excited a great deal of international criticism, the Australian Director did not vote. There is no indication of the views of the other members of the Asia-Pacific constituency, Korea, New Zealand, Papua New Guinea, Seychelles, Solomon Islands and Western Samoa (Morrell 1983:21).

### **Vietnam and New Zealand in the constituency**

In the first twenty six years of its membership of the IMF Australia was a member of a very small constituency that fluctuated in size from two to six members, with, at first, a correspondingly less complex constituency politics, other than in relation to the Fund's policies on gold, as noted above. Matters became rather more complex as the constituency grew, with Vietnam the next new member, in 1956. This posed a number of problems, at least for Australia, especially over the next ten years as the Vietnam conflict escalated and US involvement grew, though Vietnam left the constituency in 1966. In the absence of archival records it is difficult to establish the precise reasons for what was effectively the Government of South Vietnam's membership of the constituency. After all, South Africa and, to a markedly lesser extent, Australia, were pursuing racist policies in a number of areas, with both countries coming under increasing, international criticism, hardly an attractive prospect for the government of an Asian country being torn apart by civil war.

On the other hand, South Vietnamese governments were not a particularly attractive partner for many countries, especially those in Asia, with considerable uncertainty as to its long term prospects in the face of communist insurgency. The reluctance of Asian countries to link with Vietnam in a constituency at the Fund might well have sprung from their fear of the reaction of China to such a move, as well as the consequences should the Viet Minh forces prove successful in gaining control of the whole country, as eventually proved to be the case. However, both the Australian and South African governments were at this time solidly anti-communist, with Percy Spender, for example, a strong supporter of the Colombo Plan, a development assistance programme for Asian countries that, it was hoped, would help lift them out of poverty and, in turn, help ensure security in the region. Similarly, Spender's successor, R G Casey, from 1951 promoted a policy of closer engagement with countries in the region and was convinced of the need to contain communism (Jordan 2006: 232). From their perspective, Vietnam's membership of the IMF constituency would have seemed a small price to pay for helping to contain communism, in line with the policy of 'forward defence' in the region (Lee 2006).

New Zealand joined the constituency in 1962, having gained IMF membership only in 1961, despite having been closely involved in the Fund's establishment (Hawke, Wijewardane 1972). It has remained a member to date, becoming the Alternate Director in 1974 on South Africa's departure, sharing the position on a two-yearly basis with the Philippines. Interestingly, in 1947 one of the reasons put forward by Britain to encourage,



unsuccessfully, New Zealand membership of the Fund was that it would facilitate the appointment of an Australian Executive Director. As noted by Singleton, this was not an argument likely to impress New Zealand (Singleton 1998: 144). Nevertheless, Australian-New Zealand ties, economic and political, were strong and there was little doubt that New Zealand would join the constituency once it gained membership. This was especially the case given Australian support during the negotiations with the Fund as to what would be the size of the New Zealand quota and, hence, its number of votes. The New Zealand Government had requested a quota of USD125 million. However, at this time both the US and British governments were attempting to restrict increases in quotas and had sponsored an informal agreement to limit quotas to twice the levels agreed in 1944. The application of this agreement would mean a quota of USD100 million and discussions became difficult (Singleton 1998: 155). The Australian Government strongly supported the New Zealand position and, in the end the US and British governments changed its mind and agreed to the USD125 million quota.

New Zealand's membership made relationships with South Africa increasingly difficult as successive New Zealand governments increasingly sided with opponents of apartheid in the UN's General Assembly (Stulz 1987). The increasing integration of the New Zealand and Australian economies meant that, for the most part, the former's membership of the constituency was relatively easy to accommodate. It also marked the beginning of gradually increased focus on the recruitment to the constituency of small island states from the Pacific, in line with both New Zealand and Australian security and immigration concerns (McGraw 94, Ongley, Pearson 95, Lodge 1975).

### **The development of the Asia-Pacific constituency**

As noted above, following the addition of New Zealand in 1962, the constituency develop a slowly increasing Pacific flavour. Western Samoa joined in 1970, the Philippines in 1974, PNG in 1976, Solomon Islands in 1978, Vanuatu in 1982, Kiribati in 1986, Marshall Islands in 1992, Federated States of Micronesia in 1994, Palau in 1998. It has been suggested that this development owed a considerable debt to Treasury public servant Robert Whitelaw, who was Australia's Executive Director from 1975-1980 (Evans 2000). However, as noted above, while two countries, PNG and the Solomon Islands joined during his tenure, two others, Samoa and the Philippines joined during the tenure of his predecessor, Lindsay Brand, with six more during the reigns of his successors over the 1980-1998 period. The addition of the Seychelles (1978) was somewhat of an anomaly, given its position in the Indian Ocean and that its government had come into office after a military coup in 1977, developing several links with the Soviet Bloc.

Given the increasing number of very small island states joining the constituency in the 1970s and 1980s and the potential for further recruits from the Pacific, it comes as no surprise that the Australian Executive Director, Robert Whitelaw, was quick to extol the benefits of small state membership of the Fund when the issue was discussed in 1977 in relation to applications from a number of such states (two of which became members of the Asia-Pacific constituency in 1978, the Solomon Islands and the Seychelles). A

number of Executive Directors had noted the increase in applications for membership from small states and were concerned as to the costs and benefits involved (72-78 p 909). The Fund's Legal and Treasury departments drew up papers for consideration by the Executive Board, the former indicating that it would be difficult, if not impossible, to deny membership to small states. Both Whitelaw, as noted, and Bernard Drabble, the Canadian Executive Director and representative of a constituency with several small island states from the Caribbean, extolled the virtues of small state membership and it was decided that any decision on the matter would be premature and the matter was dropped (de Vries 1985: 911).

The recruitment of the Philippines to the constituency in 1974 was somewhat surprising, at least in retrospect, as the Marcos regime (1967-86), could hardly have been an attractive partner for Australia and New Zealand. Moreover, the Philippines had had credit outstanding to the Fund since 1967, as both Australia and New Zealand would have known, and its position rapidly worsened in the later 1970s and 1980s, making the representation of its views by the Australian Executive Director a continuing challenge (International Monetary Fund, 2002: 144-168). Its recruitment was brought about firstly by the Philippines need for membership of a constituency following the breakup of China's constituency, of which it was a member, and China's decision not to participate in Executive Director elections from 1970. Secondly, while in 1972 it had gained membership of the constituency containing Indonesia, Malaysia and Singapore, its chances of gaining a share of the Alternate Director's position in that constituency was limited, given its greater size. Thirdly, Australia and New Zealand were looking for an additional member, needing to gain votes to secure a Director's position. Finally, as a matter of speculation, it may be no coincidence that both Australia and New Zealand aid to the Philippines rose sharply with Philippines membership of the constituency. In Australia's case it rose from USD1.34 million in 1973 to USD5.54 million in 1974 and USD8.11 million in 1975, although there was also a general increase in aid to several Asian states under the Whitlam Government in this period (OECD 2011). In New Zealand's case it rose from USD0.9 million in 1974 to USD4.64 million in 1975, falling way thereafter to close to its 1974 level (OECD 2011).

The recruitment of the Philippines and the associated changes in Australian and New Zealand aid levels lends weight to Vreeland's views (2010). He has argued, based on a convincing analysis of the Swiss constituency, that some IMF members have, in effect, 'bought', the voting support of developing country members for their constituency by providing increases in development assistance. In addition, as well as increased levels of development assistance, Australia could offer the Philippines the possibility of a more frequent turn in the Alternate Director's position, an offer it took up in 1976. While the Philippines remained with the constituency for the next thirty two years it left in 2008, probably as a result of its loss of rotating access to the position of Alternate Director, with Korea and Australia alternating the Executive Director and Alternate Director positions from 2006.

Fiji (1971) and Tonga (1985), somewhat surprisingly, both chose not to join the Asia-Pacific constituency, but the Indonesia/Malaysia/Singapore constituency, in which they

have both remained to date, despite their close economic ties with Australia and New Zealand. Samoan membership largely reflected its economic dependence on New Zealand, as well as an increasing cultural affinity, based on large scale Samoan migration to New Zealand. It would be interesting to see if the membership in the IMF by the other small island state members of the constituency was stimulated not only by Australian diplomatic efforts but by increases in development aid, though there is no evidence to support or reject the case of which the author is yet aware. Moreover, it is possible that their membership of the IMF owed a great deal to the fact that such membership was, in turn, a requirement for membership of the World Bank and access to its attractive loan facilities. At present the bulk of the countries in the IMF Asia-Pacific constituency are also in a similar constituency in the World Bank, with the exception of the Seychelles, which is in the African constituency chaired by Sudan, and Uzbekistan, which is in the Swiss constituency.

The continuing support of both Australia and New Zealand for both the small island states in the constituency and, more broadly, in the region, can be seen in the creation of the Pacific Financial Technical Assistance Centre in Fiji in 1993. The Centre was jointly established by the United Nations Development Programme (UNDP) and the IMF as a regional office aimed at assisting in the reform of fiscal and monetary management practices in the region, as well as the quality and range of statistical material. Australia and New Zealand, together with Japan, were instrumental in persuading the UNDP and the IMF to develop the programme and to establish and fund the Centre, with the bulk of the funding coming initially from the UNDP, the Australian, New Zealand and Japanese sub-accounts in the IMF, the Asian Development Bank and, more recently, Korea (Bucknall, Allan, Vaai, K, 2004: 15). The UNDP withdrew from the project in 2001 but the members of the constituency, with the addition of Korea, again were instrumental in persuading the IMF to take over responsibility for administering the programme (Asian Development Bank 2006: vii).

The constituency has also attracted a number of Asian states, commencing with Vietnam in 1956, which left after ten years, in 1966. The most important of these, by far, was the recruitment of the Republic of Korea in 1978 from the Indonesian/Malaysian/Singapore constituency, adding substantial voting strength. It was followed by Mongolia (1992) and, from 2008, Uzbekistan, although they added little to the constituency's voting strength. The attraction of Asian members has been a long term Australian aim, initially for security reasons within the 'forward defence' strategy but, increasingly, for economic reasons as the growth potential of several South East Asian states became apparent.

In regard to Uzbekistan, Vreeland's study, using data for the 1990-2007 period, showed that there was a strong positive correlation between Swiss aid to Uzbekistan and its membership of the Swiss constituency in the IMF (Vreeland 2010: 10). However, in 2008 Uzbekistan suddenly left the Swiss constituency in the Fund and joined the Australian constituency, probably because Kazakhstan became a member of the Swiss constituency and relations between Uzbekistan and Kazakhstan had been difficult for several years. In the 2008-10 period, following Uzbekistan's departure, Swiss aid to Uzbekistan fell from USD5.5 million to USD2.12 million, a significant fall. However, it should be noted that

there had been quite large fluctuations in Swiss assistance to Uzbekistan in earlier years, for example, falling from USD6.6 million in 2005 to USD3 million in 2006, before rising again to USD5.05 million in 2007 (OECD 2011). In contrast to Vreeland's findings in relation to Switzerland, neither Australia nor New Zealand increased aid levels to Uzbekistan before, during or after it took up membership of the constituency.

In summary, Australia's involvement in the constituency politics of the IMF has existed for as long as it has been a member, but the nature of the constituency has changed. In the 1948 to 1974 period the constituency was small, dominated by Australia and, to a far lesser extent, South Africa. In the 1974 to 2011 period the constituency both grew in numbers of members and also in its increasingly regional focus, drawing most of its members from the Asia-Pacific region. The region is not by any means a 'natural' grouping and it includes both 'lender', and 'borrower' countries, ensuring that its representatives on the Executive Board have to deal with a range of often differing issues and differing view points, making it a challenging task. Despite this heterogeneity, the membership of the constituency has been relatively stable, at least compared with several other constituencies, marked only by the departures of Vietnam in 1966, South Africa, Lesotho and Swaziland in 1974 and then, nearly a quarter of a century later, the Philippines in 2008.

## **POLITICS WITHIN THE CONSTITUENCY**

As Woods and Lombardi have noted (2006: 9-11), the distribution of power within the Fund's constituencies has tended to fall, for the most part, into one of three broad patterns, dominated, inner circle and egalitarian. The dominated are led by one member, the largest, that always holds the position of Executive Director, including Canada, Italy, India, Switzerland, Netherlands and Brazil. The inner circle type are characterised by a small group of members holding the chair of the constituency as the elected Director on a rotational basis and includes constituencies such as Indonesia, Spain, Chile, Norway and, since 2004, the Asia-Pacific constituency, with Australia, Korea, New Zealand and the Philippines as key members of the inner circle until 2008. Two constituencies are egalitarian, both with a majority of African countries, that rotate the chair around the whole constituency.

In terms of the quota and voting shares, as of 2011, following the entry into effect of the 2008 amendments, the Asia-Pacific constituency has a total of 91,347 votes, 3.63% of the Fund total. Also in 2011, for the first time, as a result of the amendments, Korea had the largest number of votes in the constituency, with 34,404, closely followed by Australia with 33,104, together accounting for 73.9% of the total votes of the constituency. New Zealand has 9,686, Uzbekistan 3,496, PNG 2,056 and Mongolia 1,251. The remaining nine members can muster only 7,359 votes between them (see Appendix). While this is quite clearly a position of dominance for the members of the 'inner circle', as measured by potential voting power, especially for Australia and Korea, it does not necessarily translate into an equivalent and automatic dominance over the other members. At the extreme, any authoritarian tendencies might result in a swift movement of the smaller members to other constituencies. Nevertheless, the influence of the inner circle,

particularly their experience and resources in relation to international monetary and financial issues when compared with the states that form the rest of the constituency, puts them in a powerful position. It is a position further enhanced by the economic dependence of all of the other members bar Mongolia, Uzbekistan and the Seychelles on either Australia or New Zealand, or both. Similarly, while they are by no means entirely dependent, both Mongolia and Uzbekistan have considerable economic ties with Korea.

Until 2004 Australia had a predominant position in the fifteen member constituency, providing the Executive Director from 1947. However, in the lead up to the 2004 elections it was agreed by the constituency that the position of Executive Director would be held by Australia for six years out of eight, with Korea holding it for the remaining two years. This was in line with the Australian argument that Asia-Pacific members were under-represented in key decision making bodies within the IMF, a position that Australian directors had been arguing since at least 1994-95, especially as regards Korea, and it reflected Korea's growing economic strength and influence (Treasury 1994: 16). It was also proposed that the position of Alternate Director should rotate between Australia, Korea, New Zealand and the Philippines (until 2008), the constituency's then four country inner circle. Over the next few years as its quota increased Korea argued for an equal tenure with Australia as Executive Director, on a two yearly, rotational basis, which was agreed, with the position of Alternate Director also to rotate between the two. Neither New Zealand nor the Philippines were happy with the loss of their opportunity to serve as Alternate Director and the Philippines chose to leave the constituency in 2008.

It has been argued (Martin, Woods, 2005) that in constituencies in which there is a relatively strong second member, such as the Asia-Pacific constituency, that second member can act as a constraint on the most powerful member when it comes to ensuring that the latter expresses the agreed views of the constituency, especially in regard to major and controversial issues. While in theory this might be the case and members of the constituency might well be aware of this potential, it seems not to play a significant, if any role in the dynamics of the Asia-Pacific constituency. It also assumes that there are significant differences of opinion on major issues among members, which is in practice only occasionally the case in most constituencies, including Australia's. If it were, then it would be difficult to imagine constituency membership remaining stable for any length of time. There are, of course, differences of opinion and interest among the members of any constituency, with for example, the very small island states of the Pacific being predominantly interested in matters related to technical assistance and access to small scale lending facilities, in contrast to Australia and Korea, but these differences rarely result in major tensions. In Australia's case, for example, its long term desire to ensure economic and political stability in the South Pacific means that it is attentive to the interests of the states in the area, supporting their attempts to ensure they gain a reasonable share of the resources offered by the IMF to its members.

It might be thought that intra-constituency differences and related tensions might arise in regard to the 'lender' or 'borrower' status of its members, with those such as Australia who have not been a borrower for many years having different, perhaps stricter views regarding loan approvals and surveillance to that of members who are 'borrowers'. In

practice this has rarely been the case. In 1997, for example, at the height of Asian Financial crisis, the Australian Executive Director spoke up strongly on behalf of Korea when its application for IMF support came before the Board, even though Australia had not been a 'borrower', for several years. This is not to suggest that there are no differences, nor that no tensions exist, simply that they are uncommon and do not play a major role in relations between constituency members. Australia, for example, markedly changed its views from that of supporting the automaticity of drawing rights from the Fund in the 1940s and 1950s, as noted above, to increasingly supporting the need to review all loan applications on their merits and making them subject to a range of conditions, a position that put it somewhat at odds with other members in the 1980s, but seems to have caused no great difficulties in intra-constituency relationships.

In legal terms, neither Australia nor Korea are accountable to the members of the constituency, nor are they obliged, formally, to adopt a constituency position on any issue that comes before the Executive Board or those they might pursue in their dealings with other directors or the Fund's staff. However, in practice the members of the constituency meet on a fairly regular basis to identify, as far as possible, common positions on policy and operational matters. Typically, this is based on a broad 'business plan' type document drawn up by Australia and Korea shortly before the annual spring meeting of the Fund following informal discussions with members. Inevitably, given the greater resources available to the larger constituency members from their own secretariats and domestic departments, they tend to dominate the information and advice provided at constituency meetings and to lead discussions on major matters.

Unlike the related constituency in the World Bank, the Asia-Pacific constituency in the Fund is very informally structured. In the mid-2000's there was an attempt by the then Executive Director to establish an informal evaluation framework for all of the professional staff in the constituency, with specific job descriptions, based on the IMF's Annual Performance Review template. It was intended to share the individual evaluations of staff with their respective authorities and the Director also agreed to be subject to a review based on input from his staff (Independent Evaluation Office 2008: 30). However, the attempt soon withered away, in part because of the difficulties associated with the changes to the rotations of Executive and Alternate Director positions, in part because of an all too common lack of enthusiasm for performance evaluation by several constituency members.

## CONCLUSION

In summary, Australia's role and influence at the IMF is conditioned, in part, by the constituency to which it belongs. While, along with Korea, it tends to dominate the constituency's views and behaviour, it is a domination restrained by the fact that the views of its members are rarely sharply opposed. Both of the two large members, after all, represent relatively small, open economies whose performance relies heavily on the 'rules of the game', developed in the IMF, rules of the game they have a largely common interest in preserving and improving. Most importantly, neither Australia nor Korea can muster sufficient votes, on their own, to gain the position of Executive Director. Also,

while Australia's economic and political interests are by no means identical with those of the small island states in the constituency, all have a common interest in securing economic growth and stability in the region and in those international organizations with power to influence that growth and stability.

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## Appendix A

### The Australian constituency and its voting power

(Source: IMF at 'IMF Directors and Voting Power', as at 8 June 2011, following the coming into effect of changes agreed in 2008  
<http://www.imf.org/external/np/sec/memdir/eds.htm>)

<b>Director</b>					
<b>Alternate</b>					
<b>Elected</b>		<b>Casts votes of listed countries</b>	<b>Votes</b>	<b>Total votes</b>	<b>%</b>
Chris Y. Legg (Australia) Heenam Choi (Korea)		Australia	33,103		
		Kiribati	795		
		Korea	34,403		
		Marshall Islands	774		
		Micronesia, Federated States of	790		
		Mongolia	1,250		
		New Zealand	9,685		
		Palau	770		
		Papua New Guinea	2,055		
		Samoa	855		
		Seychelles	848		
		Solomon Islands	843		
		Tuvalu	757		
		Uzbekistan	3,495		
		Vanuatu	909	91,332	3.64