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BOXING WITH ELEPHANTS: CAN CANADA PUNCH ABOVE ITS WEIGHT IN GLOBAL FINANCIAL GOVERNANCE?

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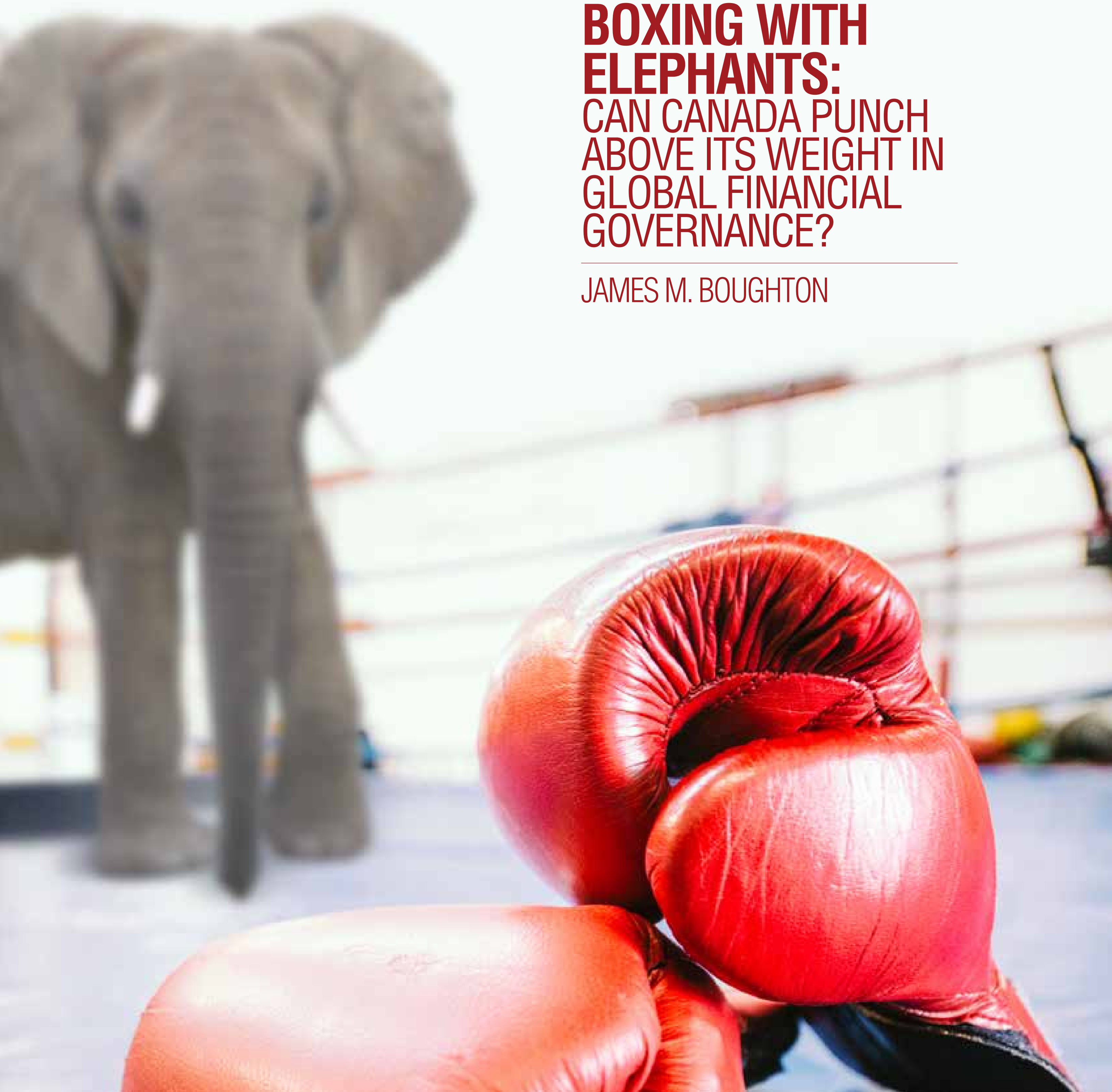

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AUTHOR'S NOTE

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James is the author of two volumes of IMF history: *Silent Revolution*, covering 1979–1989; and *Tearing Down Walls*, covering 1990–1999. His other publications include a textbook on money and banking, a book on the US Federal funds market, three books on IMF topics that he co-edited, and articles in professional journals on international finance, monetary theory and policy, international policy coordination and the history of economic thought.

ACRONYMS

BIS	Bank for International Settlements
BoC	Bank of Canada
FSAP	Financial Sector Assessment Program
G7	Group of Seven
G10	Group of Ten
G20	Group of Twenty
GAB	General Arrangements to Borrow
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
NAB	New Arrangements to Borrow
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
SDR	Special Drawing Right
SFF	Supplementary Financing Facility

EXECUTIVE SUMMARY

Canadians have long harboured a desire to "punch above their weight" in international diplomacy, an aspiration justified by Canada's position in the world both geographically and culturally. This paper examines one aspect of that effort: Canada's role in international financial governance, particularly within the International Monetary Fund (IMF).

Leadership in international diplomacy has three key dimensions: intellectual, institutional and financial. Canada's record on intellectual leadership has been impressive, starting with its contributions to the design of the IMF at the Bretton Woods conference in 1944. From the 1950s through the early 1970s, Canada led the way toward the eventual adoption of floating exchange rates by major industrial countries. Among more recent examples, Canadians have taken the lead in promoting multilateral cooperation on financial policies through the Group of Twenty (G20).

Institutional leadership has been more elusive, as Europeans and US officials have dominated the landscape. Canada missed an opportunity to have its own officials named to head the IMF in its early days after World War II. Nonetheless, Canadians have begun to take on other important leadership positions in multilateral institutions.

Financial leadership requires a willingness to invest more than proportionally in the operations of the IMF and other agencies. Canada has a respectable but not outstanding record in that dimension.

The key issue for the future is whether Canada will continue to have the capacity and the will to take leading positions and actions in the face of increasing competition from the rapidly growing emerging market countries.

INTRODUCTION

On September 22, 1956, Egypt borrowed just over CDN$15 million from the IMF. This seemingly unremarkable act was the first instance in which a country borrowed a currency with a floating exchange rate from the IMF. It also placed Canada in the position of being only the second country — after the United States — with a creditor position in the Fund. More generally, it illustrates the important role that Canada has played at critical junctures in the world's premier multilateral financial institution. Why Canada, and to what effect?

Egypt was in financial trouble because of the Suez crisis. Egyptian President Gamal Abdel Nasser had precipitated the crisis by nationalizing the strategically important canal after the United States had undermined a multilateral plan to finance construction of the Aswan High Dam. The United Kingdom had responded to Nasser's unilateral act by blocking Egypt's sterling balances and was making preparations to work with France and Israel to engineer an invasion of Egypt and a retaking of the canal. The usual financial resources that Egypt could have acquired through the IMF — US dollars or pounds sterling — were effectively precluded from being of any use. The Canadian dollar offered a convenient alternative.[1]

For its part, Canada was caught between its two great alliances, and its officials were determined to stay out of the fray. The problem was that the Eisenhower administration in the United States was opposing (and would ultimately block) the British plan to retake the canal by force. Canadian officials generally were sympathetic to the US position, but given Canada's position as a member of the Commonwealth they did not want to actively oppose the British. By remaining neutral, they could try to broker a settlement. Making their currency available to Egypt through the IMF played a small part in furthering that plan, which culminated successfully in a path-breaking Canadian proposal to send in a large peacekeeping force through the United Nations.[2]

As this story illustrates, Canada's unique position in global diplomacy, as a strategic partner to both of the great anglophone powers, has given it an influence that in some dimensions outstrips its relative population, its economic size and its modest history. Using that influence well — "punching above our weight" in the common parlance — has long been a Canadian aspiration. This paper explores one key element: Canada's role in multilateral financial diplomacy, focussing on the IMF as a prominent case study.

Influence over the financial system can take one of three forms: intellectual leadership, in particular by advising on structural or intellectual innovations; formal institutional leadership, by having Canadians selected to serve in senior management positions; and financial leadership, by contributing relatively heavily or prominently in support of institutional development or operations. How has Canada performed in these three dimensions?

INTELLECTUAL LEADERSHIP

Over the past several decades, Canada has earned a reputation for strong intellectual leadership in international financial governance. In recent years, Paul Martin's efforts, both as finance minister and later as prime minister, to establish the G20 and to elevate it to the apex of financial policy advice constitute a standout example. Mark

1 The financial aspects of the Suez crisis and the effect on the IMF are covered in Boughton (2001a).

2 Lester Pearson, then Canada's secretary of state for external affairs (later prime minister), conceived the peacekeeping proposal and negotiated its passage through the United Nations. In 1957, he was awarded the Nobel Peace Prize in recognition of his efforts.

Carney's work, as governor of the Bank of Canada (BoC), to persuade the leading countries to support the reform of the governance structure of the IMF is another. Outside the official sector, the early contributions of Robert Mundell to the analysis of international financial policy, for which he was later awarded the Nobel Prize in economics, are justly celebrated. Within the IMF, the record of Canadian officials and economists is less well known but no less important.

The IMF was and is one of the great innovations in international governance of the past century. Its creation in the midst of World War II was a singular achievement. So too has been the evolution of the institution, along with the evolution of the international financial system, as the world economy has evolved from one almost totally dominated by a single economic superpower — the United States — into a multipolar potpourri of trade, currencies and financial capital. The guiding forces behind this revolution-then-evolution have naturally been the great powers of each age. And yet, because those powers have often disagreed and squabbled over how the system should be run, smaller countries have also had a role to play. Canada has seized that opportunity on several occasions. This section, without attempting an exhaustive recounting, examines four representative cases.

FOUNDING THE IMF

It began with a Canadian effort to intermediate between the two main rival plans for a postwar multilateral financial system. In the United States, the Franklin Roosevelt administration officially began planning from the very moment that it entered World War II in December 1941. Indeed, Treasury official Harry Dexter White had already sketched out a proposal for a multilateral institutional structure, and he quickly turned it into a formal plan by April 1942. On the other side of the Atlantic, iconic British economist John Maynard Keynes was working along similar lines, but with objectives and tactics that clashed with American plans in several important respects. Although Keynes was only an unpaid adviser to the UK Treasury, his scheme was officially recognized as the country's proposal, and Keynes and White set out to try to reconcile their two plans.[3]

Differences in the British and US plans stemmed both from the two countries' different circumstances and from different visions of what a viable global financial system might look like. The United Kingdom was a fading world power, economically wasted by war and heavily dependent on colonial relationships that would be difficult to sustain after the war. What Keynes envisaged was a system that would provide much needed financial assistance to Britain and other indebted countries and that would allow the British to preserve the trade and financial preferences inherent in its colonial relationships. The United States was the ascendant power, fully recovered from the Depression of the 1930s, largely unscathed economically by the war, and the holder of a sizeable majority of the world's gold and other financial resources. What White envisaged was a system that would open up international trade and finance so that the United States could prosper within a growing and thriving world economy.

Canada had a national interest in ensuring that talks would not fail, as negotiations largely had in the aftermath of World War I. At the most general level, Canada also would suffer if world economic growth was once again stunted by the inconvertibility of major currencies (especially the pound sterling, which was particularly vulnerable) or by the sorts of protectionist policies that had characterized much of the interwar period. More specifically, as a major trading partner of both the United States and the United Kingdom, Canada's economy would be destabilized if the end of wartime cooperation were to lead to fluctuating exchange rates between the pound sterling and the US dollar. Canada had successfully fixed its exchange rate against the US dollar throughout the war, but it could scarcely expect to continue that policy unless it was embedded in a more general multilateral agreement.[4]

Both of the dominant powers wanted Canada to be included in the early planning for what would become the Bretton Woods system. In July 1942, White proposed to US Treasury Secretary Henry Morgenthau, Jr., that he set up a series of meetings with seven countries: Australia, Brazil, Canada, China, Mexico, the Soviet Union and the United Kingdom. After discussing the proposal with the State Department, Morgenthau gave his approval in September.[5] Across the Atlantic, starting in late October, British Treasury officials held a series of meetings with five key allies: Australia, Canada, India, New Zealand and South Africa.[6]

3 The negotiations leading up to and through Bretton Woods are covered in numerous works, including, notably, Horsefield (1969, vol. 1); Gardner (1980); and Van Dormael (1978). The relationship between the Keynes and White plans is analyzed in Boughton (2002).

4 Helleiner (2006, 73) finds Canada's support for the proposed system of fixed exchange rates "somewhat puzzling," in light of the country's generally more favourable experience with floating in the interwar years. An alternative was potentially available, through the "key-currency" plan that was then being advanced by John H. Williams (an American academic economist, writing on his personal behalf). Williams' (1943) scheme would have fixed the pound-dollar rate while allowing other currencies to float. Helleiner also notes, however, that senior Canadian officials feared that support for Williams might undermine the whole Bretton Woods project (77-78). As Muirhead (1999, 83) notes: "The Canadian position was clear — push self-interest, but at all costs, do what could be done to maintain Anglo-American cooperation."

5 US National Archives and Records Administration, Records Group 56, Entry 360P, Box 8; memorandum dated July 21, 1942, from White to Morgenthau, with later notes attached.

6 See Horsefield (1969, 1:48) and Muirhead (1999, 83–85).

Occasionally throughout 1942 and 1943, Keynes and White and their staff teams met bilaterally to develop a joint proposal for postwar financial institutions and arrangements, while meeting separately with Canadian and other country officials to try to win them over in support. By March 1943, the US Treasury had greatly expanded White's initial list and had issued invitations to all 44 members of the "United Nations" that were allied in the global war against the Axis.[7] By August, meetings had been held with some 30 countries, and most of the rest responded over the next few months. Of all of those respondents, though, only Canada advanced a fully specified proposal as a rival to the British and American plans.[8]

The author of the Canadian plan was Louis Rasminsky, who was then a senior official with the BoC's Foreign Exchange Control Board. After seeing the White plan in March 1943, Rasminsky quickly drafted an alternative. He expected that his plan would be more amenable to Canada's needs, more acceptable to the British, and yet consistent enough with US objectives to serve as a replacement for theirs.

Rasminsky's draft differed from the US and/or British proposals in several important ways. First, it envisaged a larger fund than in the White plan, so that it could meet a greater portion of indebted countries' postwar financing needs and would provide loans more automatically. Second, it generalized the idea of supplementing the Fund's resources by borrowing from member countries. (The White Plan included this possibility, but it envisaged it as a backup plan. Rasminsky viewed it as a general supplement to quota-based resources.) Third, it allowed for more flexibility in exchange rates than had been permitted in the White plan. Fourth, it eliminated most of the special majority provisions that would give the United States a veto over major decisions. And fifth, it permitted countries to withdraw from membership at will, as a means of overcoming the objection that the Fund might impinge on national sovereignty. That provision was in the White plan, whereas Keynes would have imposed a one-year waiting period before a country could withdraw.

Rasminsky and his colleagues at the BoC had seen both of the main proposals, but they knew instinctively that the Americans would never accept the structure of the Keynes plan. That proposal would have created a fund based on the British concept of automatic overdrafts (anathema in the US banking system), lending a stateless international currency as a substitute for US dollars, and without any effective political control over lending decisions. The Canadians were right in judging it to be dead on arrival, but they misjudged how strongly Keynes and the UK Treasury were attached to it in 1943. Rasminsky and White, along with other experts from their staffs, met in Washington for five days in late April, at which time the Canadians' plan got a fairly warm reception from their hosts. After some tweaking of the details, Rasminsky then sent a draft to Keynes, who dismissed it as just a watered down version of the White plan: "off-White" reportedly being the preferred description in the UK Treasury.[9]

Canada did succeed in bridging the gap between the two main proposals, and the existence of the Canadian plan probably helped to persuade the British that they had to focus on modifying the White plan rather than persisting with their own ill-fated conceptions. More specifically, four of Rasminsky's five goals were incorporated into the final agreements reached at Bretton Woods. First, the aggregate total of quota resources for the IMF was raised from US$5 billion in the White plan to US$8 billion, as envisaged in the Canadian plan. Second, Article IV of the IMF Articles of Agreement permitted members to change their exchange rates (par values) by up to 10 percent without the concurrence of the IMF. Third, Article VII provided for the possibility of the Fund borrowing from its members or other entities. That provision, which was in White's plan but not in Keynes's, paved the way for the establishment of the General Arrangements to Borrow (GAB) in 1962 and to even larger borrowing agreements in later years. Fourth, Article XV guaranteed monetary sovereignty by permitting any member country to withdraw from the IMF immediately, simply by giving notice. The fifth goal — restricting or eliminating the US veto over major decisions — proved to be too important for the US authorities. Several provisions in the Articles required a qualified majority of votes, at a high enough level (up to 80 percent) that they could be enacted only with the concurrence of the United States.[10]

The Canadian plan itself was largely forgotten by the time of the Bretton Woods conference. Even so, no other country, outside the United Kingdom and the United States, had as great an influence on the debates or the outcome as Canada. Whether Rasminsky and his colleagues could have had even greater influence by focussing on integrating the British and American proposals instead of presenting their own alternative is difficult to judge.

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7 The term "United Nations" was applied in this way during World War II. The formal organization under that name was established in 1945.

8 Several other plans were circulated, including one by two French economists that was generally described as the French plan. Like the Williams scheme mentioned in footnote 4, it was limited primarily to a small group of countries (adding France to Williams' Anglo-American pairing) and was not a full multilateral system. See Horsefield (1969, 1:37, 3:97–102).

9 See Van Dormael (1978, 88).

10 Those provisions were later amended to unify the qualified majority at 85 percent. That level has protected the US veto at least into 2014.

FLOATING THE EXCHANGE RATE

When Canada joined the IMF as an original member in December 1945, it was maintaining a fixed exchange rate, pegged at US$0.909. That rate had been set in September 1939 and had prevailed throughout World War II. In July 1946, however, Canada revalued its rate to parity with the US dollar. That required the IMF to make an exception to its rule that par values would be set to the level prevailing in 1945. Within a few years, Canada's challenge to the Fund's rules on exchange rate parities would take on much greater significance.

A fundamental premise of the original IMF Articles of Agreement, until the Articles were amended in 1978, was that every member country was to maintain an exchange rate pegged either to gold or to the US dollar. The "par value" could be altered by small amounts (up to 10 percent) if necessary, or by larger amounts with the concurrence of the IMF. Large changes were to be accepted only when necessary to correct a "fundamental disequilibrium" in the balance of payments that would otherwise require damaging adjustments in domestic prices and wages. Floating the exchange rate, however, was prohibited, because it was thought to be inconsistent with the objective of promoting multilateral exchange and currency convertibility. This prohibition soon put a severe strain on the Canadian economy.

In the years after World War II, the United States and the United Kingdom were Canada's predominant trading partners. In 1949, 51 percent of Canada's exports went to the United States, 24 percent to the United Kingdom and another 10 percent to other countries in the sterling area. More than 70 percent of Canada's imports came from its southern neighbour, and 18 percent from the United Kingdom and the rest of the sterling area.[11] As long as the dollar-pound exchange rate was stable, Canada could fix its exchange rate in terms of US dollars and maintain stability of the effective rate to a high degree. Changes in the dollar-pound rate, however, would have major consequences for which Canada would have trouble compensating.

On September 18, 1949, the United Kingdom devalued the pound by 30 percent, from US$4.03 to US$2.80. That put Canada in a bind. Devaluing the Canadian dollar would make most of its imports more expensive, whereas maintaining parity with the US dollar would cut sharply into Canada's ability to sell goods to the sterling area. After a one-day delay during which Canada closed its exchange markets and the government engaged in an internal debate, Canada announced a 10 percent devaluation, back to the wartime rate of US$0.909.[12] That still left a 24 percent upward revaluation against the pound, but because the United States accounted for more than twice as much of Canada's merchandise trade as the sterling area, this relatively small dollar devaluation was expected to preserve a measure of balance in the overall trade position.

In the absence of large-scale capital flows, this devaluation strategy might have held. The difficulty was that the relatively inexpensive Canadian dollar began to attract a large volume of capital inflows from the United States. After years of negligible net flows, US net purchases of Canadian securities rose to more than CDN$26 million in the six months following the 1949 devaluation, presumably owing to speculation of a revaluation toward parity. Then in the third quarter of 1950, foreign purchases of Canadian securities exploded to about CDN$600 million. That generated inflationary pressures in Canada "on a dangerous scale," which again threatened the country's ability to compete in international trade.[13]

In less than a year, Canadian officials concluded that no par value could equilibrate their international payments position. A currency strong enough to discourage capital inflows would weaken the trade balance directly; a value weak enough to balance trade directly would weaken it indirectly through the capital account. The only viable solution was to float the rate in the hope that speculative capital flows would diminish by enough to allow trade to reach a sustainable equilibrium.

The decision to float placed Canada on a collision course with the IMF, which prohibited floating as a matter of principle.[14] On September 9, 1950, Graham Towers (governor of the BoC) and Rasminsky (who had become executive assistant to the governor and Canada's executive director in the IMF) met with Camille Gutt (managing director of the IMF) during the Annual Meetings of IMF and World Bank governors in Paris. During the meeting, they alerted Gutt that they were planning to float the Canadian dollar. Expecting the managing director to object strongly to what was clearly a violation of the Articles of Agreement, they were surprised and reportedly even disappointed when Gutt raised no objections.[15] Quite naturally, they considered that reaction to be a green light to proceed.

11 See Anderson (1950, Appendix Table II).

12 See Plumptre (1977, 108).

13 See Horsefield (1950) and statement by Rasminsky in minutes of Executive Board meeting EBM/50/159 (September 30, 1950), page 1. The "dangerous level" quotation is from page 8 of Horsefield's staff paper. Internal IMF documents, including minutes of executive board meetings cited in the text, were accessed through the IMF Archives Catalog on www.imf.org.

14 For the IMF's contemporary perspective, see de Vries (1969, 159–65). For more recent analyses of the IMF's response to the Canadian float, see Helleiner (2008), and Bordo, Gomes and Schembri (2009).

15 Muirhead (1999, 140-41), citing a Rasminsky letter dated September 9, 1950 (page 332n74).

Three weeks later, on September 29, Rasminsky met with Edward M. Bernstein (director of research at the IMF — effectively the Fund's chief economist) and other staff at IMF headquarters in Washington, DC. In a contentious four-hour meeting, Raminsky explained why Canada was floating the rate, and IMF staff argued forcefully against the decision. Everyone agreed that the status quo was unsustainable, but the two sides differed in their assessments of how to change it.

The staff view relied only in small part on the need to enforce the Fund's rules, to which Canada had agreed and which it had always supported. More importantly, their arguments reflected the prevailing economic wisdom of the time. The problem, in that view, was not that the level of the exchange rate was wrong. The problem was that Canada was allowing speculative capital flows to upset the balance of payments. All that the authorities had to do was restrict the inflow of capital from the United States or sterilize the inflows through open market operations, and much of the problem would fade away.[16] The alternative of allowing the exchange rate to float "was a policy which encouraged and justified the expectations of speculators."[17]

It may seem surprising today that the IMF would argue in favour of capital controls as an alternative to exchange rate adjustment. Throughout the more recent history, the orderly liberalization of capital flows — especially but not only in emerging markets — has been a general goal of the IMF. To make sense of the difference, one must recall that private sector capital flows were not yet a significant force in international finance in the early postwar period. Currency convertibility for capital flows was in its infancy and was widely discouraged. Trade credits and direct investment flows were thought to be separable from portfolio flows in most circumstances, and the latter were thought to be mostly pernicious and destabilizing. Article VI of the IMF Articles of Agreement empowered (and, anachronistically, still does empower) the Fund to require a country to impose capital controls as a condition for borrowing. Canada, of course, was not asking to borrow from the IMF. It simply wanted to let market pressures determine its exchange rate without the country being censored by the IMF.

The September 29 meeting with the staff failed to change any minds ahead of the meeting of the IMF executive board scheduled for the next day. The board had three options. It could approve Canada's decision to float, as it had for Belgium a year earlier (the only similar case up to this date).[18] It could declare Canada to be in violation of the Articles and demand that it either declare a new par value or withdraw from IMF membership. Or it could find a middle ground and allow the float to occur without Fund approval. The middle ground was obviously the most desirable, except that it ran the risk of exposing the IMF's weakness and its inability to enforce its own rules.

Executive directors at the IMF were motivated more than the staff was by the threat to the IMF's credibility and its ability to enforce its rules.[19] Nonetheless, they had to acknowledge the reality of the situation. The US director, Frank Southard, supported the Canadian proposal, as did Leslie Crick (alternate director for the United Kingdom) and Johan Beyen (Netherlands). All three were doubtless motivated in part by a desire to avoid having Canada restrict foreign purchases of Canadian securities. Notably, however, Southard expressed support only for "a short period of fluctuating exchange rates." Similarly, Gutt — who had finally awakened to the magnitude of the problem — suggested that the Fund could accept (but not approve) the float subject to a commitment that Canada would continue to consult with the Fund "with a view to establish a new par value at the earliest possible moment."

Although Rasminsky had promised that Canada would continue to consult with the Fund and that the government's intention was to repeg the rate when conditions warranted it, he was not prepared to commit to do so in the short term. The minutes do not record the deliberations over the language of the decision, but in the end Gutt's proposed text was watered down to the wording used initially by Rasminsky, with "the earliest possible moment" replaced by "as soon as circumstances warrant."

In retrospect, Canada's argument for floating was surely correct. From the country's perspective, floating was a necessary step toward equilibrating the balance of payments in a sustainable way. The close financial relations between Canada and the United States meant that capital controls would have been a bureaucratic nightmare and would have had sharply negative effects on trade. Attempts to sterilize inflows would have required large-scale debt creation and might well have failed. More generally, from the IMF's perspective, the conventional view that the par value exchange rate system was a bedrock principle for multilateral finance would eventually prove to be incorrect. Canada's insistence on floating was based on

16 For accounts of this meeting, see Muirhead, (1999, 141-42) and Helleiner (2006, 83). Both accounts are based primarily on a report by Rasminsky in the Canadian National Archives. The staff view is set out directly in Horsefield (1950), a draft of which was circulated to the Canadian authorities before September 29 and which served as a background paper for this meeting as well as for the meeting of the Executive Board the next day.

17 Statement by Bernstein, minutes of executive board meeting EBM/50/159 (September 30, 1950), page 2.

18 The Belgian case differed in two respects. First, Belgium was a small enough economy that its actions were unlikely to influence other country's policy decisions or affect the IMF's reputation significantly. Second, and more importantly, Belgium was asking to let its exchange rate float briefly until it reached a new equilibrium. In the event, the float lasted only three days.

19 This paragraph and the next are based on the minutes of EBM/50/159.

its own circumstances, not on a reasoned challenge to the prevailing wisdom, but it had the effect of demonstrating the viability of an alternative path and thus instilling doubts about the need for a rigid system.

The Canadian float lasted for more than a decade, until the government re-established a par value at US$0.925 in February 1962. The rest of the 1960s was a turbulent period for Canada's international payments (as it was for all advanced economies), during which Canada borrowed from the IMF for the only time in its history. Finally, in May 1970, the authorities again made the decision to float, and the IMF again made a futile objection followed by a reluctant acquiescence accompanied by a plaintive hope for an early return to the fold.[20] Less than three years later, the par value system collapsed altogether, and floating became a permanent feature of the international monetary system.

Other than these two major episodes (the Bretton Woods negotiations and early floating), Canada's leadership in diplomacy within the IMF has been subtle, but has had significant occasional effects.

DESIGNING THE SPECIAL DRAWING RIGHT

In the early 1960s, economists and policy makers realized that the systemic dependence on an ever-growing supply of US dollars for international finance was unsustainable. Growth in the world economy and in international trade could continue only as long as the United States continued to run deficits in its international payments, and those deficits would eventually destabilize the system.[21] The solution required developing financial assets that could supplement or substitute for US dollars in official reserves. In 1964, the Group of Ten (G10) industrial countries began a series of meetings aimed at creating such assets. The IMF soon followed with its own work, and that led to the First Amendment of the Articles of Agreement in 1968, which established the Special Drawing Right (SDR) as an official reserve asset.[22]

In the first round of discussions, most G10 members favoured a scheme that would have restricted the issuance of new assets to themselves. The argument was that these were the countries that had responsibility for, and were capable of, overseeing the international financial system, and that they needed more flexibility in creating and holding reserve assets. As discussions continued, however, the idea of implementing a universal rather than limited scheme came to be viewed more favourably. The final agreement called for SDRs to be allocated proportionally to all IMF member countries that chose to participate (a choice that all member countries eventually accepted).

Canadian experts participated actively in these discussions from the beginning. As the process jelled in the early part of 1966, Canada submitted one of only four concrete proposals. (The others were from the United States, the United Kingdom and the chair of the G10 deputies on behalf of several European countries.) By this time, Canada — along with the United Kingdom and Japan — favoured universal credit creation, while the United States and several European countries preferred a more limited scheme. By the end of 1966, the latter group came to accept that the broad allocation of SDRs was a necessary component of the proposal. Though they continued to argue for a two-tier scheme, the unified concept eventually prevailed.[23] As in the Bretton Woods negotiations some two decades earlier, Canada had played a quietly effective role by nudging its two great allies together so as to resolve a dispute that was secondary to the main idea, but that could have derailed the whole enterprise.

The SDR was conceived and created as an asset equivalent in value to the gold value of the US dollar. For the rest of the fixed-rate era, this valuation enabled the SDR to serve as a supplement to dollars in official foreign exchange reserves. After the par value system collapsed in 1973, what most countries needed was an *alternative* to US dollars, since the dollar was now fluctuating in value relative to other major currencies. In 1974, the IMF redefined the SDR as a basket of the 16 currencies issued by countries accounting for at least one percent of world trade. The Canadian dollar was one of those 16 currencies, and it remained in the basket for the next seven years, while the composition of the basket was tweaked in 1978 to add or subtract a few others. In 1981, however, the IMF decided to reduce the basket to include only the five currencies that had important roles in international finance. Those five — the US dollar, the Deutschemark, the pound sterling, the French franc and

20 Similar to the 1950 case, the staff in 1970 proposed an executive board decision that "requests Canada to remain in consultation with the Fund with a view to the resumption of an effective par value at the earliest possible date." After the Canadian executive director, Robert Johnstone, declared that wording to be "unacceptable," the board decision was revised slightly to read that the "Fund welcomes the intention of the Canadian authorities to remain in close consultation with the Fund with a view to the resumption of an effective par value at the earliest possible date." See "Canada—Exchange Rate System," EBS/70/163 (May 31, 1970), pages 5-6, for the proposed decision; and minutes of EBM/70/47 (May 31, 1970), pages 3–6 for Johnstone's objections and pages 27-28 for the decision as adopted. The authorities, however, had no intention to repeg the rate until "circumstances warranted" doing so, the same formulation as they had used 20 years earlier.

21 This problem was known as the Triffin Dilemma, after analysis developed by the economist Robert Triffin (1959). For a recent discussion of the continuing relevance of the dilemma, see Bini Smaghi (2011).

22 For the history of the creation of the SDR, see de Vries (1976) and Mussa, Boughton and Isard (1996).

23 The history of these negotiations is recounted in de Vries (1976, chapters 3–5).

the Japanese yen — each had short-term securities that were circulating widely enough to serve as benchmarks for setting a market-related interest rate on the SDR, but a few other countries — including Canada — also met this criterion.

When the shift to a smaller basket was first suggested in 1980, the executive board at the IMF was split between those favouring a radical reduction to five currencies and those favouring a broader, more representative set of nine currencies. The Canadian executive director, Bernard J. Drabble, argued forcefully for the larger basket, and he was supported by a few of the smaller European countries, but the weight of the vote was on the side of the major powers.[24] The Canadian dollar did not make the cut, and Canada found itself just below the threshold for inclusion at the highest symbolic level of international finance.

FINANCIAL SECTOR OVERSIGHT

A more recent example of Canadian leadership arose from the introduction of the Financial Sector Assessment Program (FSAP) in 1999. This program was intended to close a gap in IMF surveillance, which traditionally focussed on macroeconomic policies. By the mid-1990s, as financial flows were becoming increasingly globalized, it was becoming clear that the soundness of a country's banking and financial system was as important as the soundness of its policy position for stabilizing an economy that was exposed to cross-border flows. After the East Asian financial crisis of 1997-1998 brought the issue into sharp focus, Canada advocated within the G20 for an increased emphasis on financial sector surveillance. In response, the IMF and the World Bank developed the FSAP as a voluntary program in which countries could agree to have a staff consultation to assess the financial sector and prepare an evaluation report. Also voluntarily, the country could agree to have the report published.

Convincing countries to participate was a major challenge when the FSAP was established. Most economically advanced countries believed that their own systems were sound and in no need of an external assessment. The program, in that view, was aimed mainly at emerging market countries, where the strength of the financial sector would be a key indicator of the sustainability of capital inflows. Many emerging market countries, however, resented being singled out in this way.

Canada helped to break through the resulting impasse by being the first advanced economy to volunteer for the program. In the first year (1999-2000), consultations were held with 12 countries, 10 of which were developing countries or countries in transition from central planning. Only one (South Africa) was an emerging market country. Only Canada (which received a staff mission in October 1999) and Ireland (March 2000) were advanced economies. The other Group of Seven (G7) countries eventually agreed to participate, but in several cases only after a palpable reluctance. The first FSAP report for the United States, the last G7 country to participate in program, was not completed until 2010, long after the global financial crisis had already exposed glaring weaknesses in the US financial sector. Although one can only guess at the extent of Canadian influence, Canada's early acceptance clearly played a positive role.

INSTITUTIONAL LEADERSHIP

The second way in which a country can exert outsized influence is by having its own citizens selected for leadership positions, especially if those leaders prove to be effective at their jobs. After a slow start in the postwar era, Canada has enjoyed some recent success in this domain. In the past two decades, Canadians have held chief executive positions in major official multilateral institutions. The most notable examples have been Donald J. Johnston, Secretary-General of the Organisation for Economic Co-operation and Development (OECD) (1996–2006); Malcolm D. Knight, general manager of the Bank for International Settlements (BIS) (2003–2008); and Mark Carney, chairman of the Financial Stability Board (since 2011).

Reaching the highest leadership level is daunting where the IMF is concerned, because both the United States and Europe have dominated the leadership throughout the nearly seven decades that the IMF has been in existence. Canada, nonetheless, has had openings, which it has exploited with mixed success. Two aspects of this process are particularly noteworthy: the nature and continuity of Canadian representation on the executive board and offers to have a Canadian serve as managing director.

REPRESENTATION

Canada's initial quota share (discussed in the section "Financial Leadership") was large enough that Canada could have elected an executive director using only its own

24 See "Statement by Mr. Drabble on the Unification of SDR Valuation and Interest Rate Baskets," Buff/80/101 (May 15, 1980); and minutes of executive board meetings EBM/80/133 and EBM/80/134 (September 9, 1980). Adoption of the decision required a 70 percent majority of the weighted votes, and the proposal passed with about 75 percent in favour.

votes.[25] It chose, though, to form a constituency so that it could exercise a little greater and more general influence. The effort started small. In the first election, in 1946, Canada and Norway banded together to elect Rasminsky as their executive director. Rasminsky appointed Joseph F. Parkinson, also from Canada, to serve as his alternate. Two years later, Norway moved into the constituency led by the Netherlands, and Canada invited Iceland to replace it. That arrangement collapsed in 1952, when all of the Nordic countries banded together in a new constituency. For the next eight years, Canada represented only itself on the executive board.

Canada continued to try to line up countries to join with it on the board, and it eventually found a faithful companion in Ireland, which joined the IMF in 1957. The Irish intended to cast their votes for Rasminsky (who was still Canada's director) in 1958, but they were foiled by a quirk in the Articles of Agreement. Article XII specified that the two countries with the largest creditor positions in the Fund shall appoint an executive director, even if they are not one of the five countries with the largest quotas. That provision came into effect for Canada in 1958, as a result of the use of Canadian dollars in the 1956 loan to Egypt, which was still outstanding. That precluded Canada from participating in the biennial election, and Ireland had to wait. Canada assumed responsibility informally for Ireland's interests in the Fund, but it could cast only its own votes. Ireland officially joined Canada in a two-country constituency in 1960.

Jamaica became the third country in the group in 1964. From that point on, the Canadian constituency gradually absorbed other anglophone Caribbean island states as they joined the IMF: Barbados (1972); the Bahamas (1974); Grenada (1976); Dominica, St. Lucia and St. Vincent (1980); Antigua and Barbuda, and Belize (1982); and St. Christopher and Nevis (1984).[26] Since 1984, these 12 countries have constituted a stable constituency, always represented by an executive director from Canada.[27] This continuity, which was made all the more striking early on because Rasminsky had an unusually long tenure at the Fund (1946–1962), has given Canada a certain status in the bureaucracy. Of the 40 original members, only the United States, the United Kingdom, Belgium, Canada, France and India have always had an appointed or elected executive director.

Before leaving this topic, it is worth noting that Rasminsky, as executive director, tried but failed to influence the IMF in the direction of one of Keynes's cherished goals. Keynes argued strenuously throughout the Bretton Woods negotiations that the executive board should comprise high-level officials who would spend only a small part of their time at the IMF. A full-time board would have to rely on mid-level officials without much clout in their home governments, and it would be subject to excessive external political influence. White disagreed and argued that full-time representation was essential if the Fund was to earn the confidence and retain the financial support of its member governments. The US view prevailed, but Rasminsky agreed strongly enough with Keynes that he decided to be a part-time director even if almost no one else followed his lead.[28]

As the IMF evolved in later decades, its governance structure expanded to absorb both concepts. The executive board remained as a full-time resident body in Washington, but it came to be overseen by higher-level groups — the ministerial-level International Monetary and Financial Committee (IMFC) and its group of deputies — that met infrequently to formulate and convey the political goals of member countries.

MANAGEMENT

No Canadian national has ever held a top-level management position in the IMF. As of 2013, the most senior Canadian officials at the IMF have been William C. Hood, a former deputy minister of finance and prominent academic who served as economic counsellor and director of research (1981–1986); and Thomas A. Bernes, a former executive director in the Fund who served as director of the Independent Evaluation Office (2005–2009). If Canada had pursued IMF leadership more aggressively, however, at least one Canadian could have been chosen as the Fund's chief executive officer, its managing director.

25 The Articles of Agreement provided that the five countries with the largest quotas would appoint executive directors, as would the two countries with the largest absolute creditor positions even if they did not have quotas in the top five, while all other members would participate in biennial elections. The general idea was that countries would band together in constituencies, but the rules did not preclude single-member representation if a country had enough votes. Of the 40 original members, 20 were Latin American countries that named two executive directors in a separate election. That left 15 other members, the largest of which was Canada, to elect directors to fill the remaining five seats. None initially formed a single-member constituency, but a few member countries did so at later dates. Notably, when Russia joined the IMF in 1992, it had a smaller quota than Canada but chose to elect an executive director solely with its own votes. For an analysis, see Momani (2007). Similarly, the People's Republic of China (in the Fund since 1980) has chosen not to form a constituency. For a general analysis of how IMF constituencies function in practice, see Lombardi and Woods (2006).

26 One anglophone South American country — Guyana — joined the constituency in 1966, but it left in 1970 to join the group headed by Brazil.

27 Constituencies in the IMF are represented by an executive director, who appoints an alternate executive director. Each constituency sets its own rules as to which country will nominate the candidate for each position. In this case, Canadian nationals served in both positions until 1968. Since that time, the alternate has always been Irish.

28 Rasminsky held senior posts in the BoC throughout his 16-year tenure as executive director, culminating in his appointment as governor of the BoC in 1961.

Discussions of IMF leadership selection have been burdened by a mythology that Europe is entitled to select one of its own to be managing director. This entitlement is said to have resulted from an informal understanding that the US government would pick the president of the World Bank and then stand by while the Europeans selected the head of the IMF. Indeed, all 11 managing directors, from Camille Gutt (Belgium, 1946–1951) through Christine Lagarde (France, since 2011), have been European. The mythology nonetheless has resulted from a misconception.

In 1946, the US authorities determined that it was crucially important for the president of the World Bank to be a US national with high credibility and respect in the New York capital market. The World Bank was expected to be the primary financier of postwar reconstruction, and it would have to raise most of its resources in the New York market. In the wake of bitter opposition to the creation of the IMF and World Bank from the US banking community, a multilateral institution headed by a foreign national and lending to devastated countries would have great difficulty raising capital. In that light, it would have undermined the whole multilateral aspect of the Bretton Woods institutions if the head of the IMF were also to be from the United States. The US authorities, therefore, decided that the managing director should come from the rest of the membership. The choice might well be a European, but the only essential fact was that it would not be a US national.[29]

At the outset, the US preference, apparently, was that the job should *not* go to a European, but to a Canadian. The most detailed account of the process is in Muirhead (1999, 112), based on contemporary letters written by Louis Rasminsky and Graham Towers. At some point before March 9, 1946 (the date of Rasminsky's letter), US Treasury Secretary Fred M. Vinson asked Towers if he would consent to have his name put forward as a candidate to be the first managing director of the IMF. Towers, who had been governor of the BoC since its establishment in 1934 and was nearing the end of his second seven-year term, reportedly told Vinson that he was not interested. (Towers eventually served a third term, retiring in 1954.) US President Harry S. Truman then called Canadian Prime Minister William Lyon Mackenzie King to see if he could persuade Towers to reconsider. When that failed, the US authorities turned to Donald Gordon, a former deputy governor of the BoC who was then serving as head of the Wartime Prices and Trade Board. That effort also failed. With time running out before the inaugural meeting of IMF governors, the US authorities abandoned the field, leaving a gap through which the Europeans could advance Gutt to the front of the line.

That was not the end of the story. Five years later, when Gutt was retiring, British officials became worried that the United States would seek to promote Andrew N. Overby, an American whom the United States had managed to have installed as deputy managing director in 1949.[30] The British sought to have Rasminsky elected instead, but they failed to generate enough support from the rest of the membership.[31] That opened the door for Ivar Rooth (Sweden), who became the Fund's second managing director.

Finally, in 1956, as Rooth was retiring, a Canadian national was again advanced as a potential successor. Unfortunately, the record is incomplete as to how this episode unfolded. According to Muirhead (1999, 153-54), James Coyne, Towers's successor as governor of the BoC, put Rasminsky's name forward for managing director, but he failed to win the support of either the British or the Americans. Separately, John Fforde's 1992 history of the Bank of England reports that on this occasion both Britain and the United States wanted Towers for the job. Only after Towers declined once again did the US Treasury propose a European, Sweden's Per Jacobsson. These two accounts are not necessarily contradictory. The United States might have proposed Towers as a more palatable Canadian than Rasminsky, whom they had come to think was anti-American. In any event, Jacobsson was elected, and the tradition of picking a European was firmly established.[32]

Other than the chief executive officer, the most important leadership position related to the IMF is the chairmanship of the IMFC. The IMFC is a committee of IMF governors, which was originally constituted as the Committee of Twenty (1972–1974) and then as the Interim Committee (1974–1999) before assuming its current form. Although not a decision-making body, the IMFC functions as the principal guide for the direction of IMF policies. Of the 20 chairs of this group through 2013, three have been

29 The misconception arises more commonly in journalism than in academics. See, for example, Blackden and Trotman (2011), who allege an "unwritten accord" under which "a European gets to lead the IMF." Even very knowledgeable researchers, though, are prone to employing the same shortcut. See, for example, Truman (2006, 71), which refers to an "existing convention, by agreement between the United States and (a growing) Europe…that the Europeans propose the managing director of the IMF by an ad hoc internal process."

30 The original organizational structure of the IMF did not include a deputy managing director. Instead, the US executive director (initially Harry Dexter White) served de facto as the second in command. After White retired in 1947 owing to ill health, the United States appointed Overby (who, like White, had been a career official at the US Treasury) to succeed him. The Fund and the US authorities then decided that a more formal arrangement would be desirable. The Fund created the deputy post, and Gutt appointed Overby to fill it.

31 Muirhead (1999, 51), citing contemporary documents in the UK Public Records Office.

32 From that point on, no one other than a European was nominated until 2000, when a group of developing countries nominated Stanley Fischer (a US national born and raised in southern Africa), and Japan nominated an official from its finance ministry, Eisuke Sakakibara. In two of the next three elections (2004 and 2011), non-Europeans were again nominated but ultimately defeated by European candidates.

Canadians. The chair of the Committee of Twenty was Ali Wardhana, from Indonesia, but once the Interim Committee was formed, Europeans dominated the leadership almost as strongly as they did with the managing director. From the first Interim Committee meeting in 1974 through 2008, the only non-Europeans to head the body were ministers of finance from Canada: John N. Turner (1974-1975), Allan J. MacEachen (1981-1982) and Michael Wilson (1990-1991). Since 2008, the practice has been more flexible and has focussed on selecting candidates from less traditionally represented areas.[33]

FINANCIAL LEADERSHIP

The third area of potential influence is financial. By contributing generously in support of a common cause, a country can enhance its ability to affect the direction of the effort and increase the chances for success. In general, Canada has been a generous contributor to the economic needs of other countries, particularly through its official development aid programs. In the financial arena, it has been more hesitant, but has occasionally risen a cut above the norm. In one prominent case, Canada began the postwar era by making a long-term, low-interest loan to the United Kingdom in connection with what was known as the Anglo-American agreement of 1946. Of the US$5 billion line of credit, the United States committed 75 percent ($3.75 billion) and Canada 25 percent ($1.25 billion): far higher than its share in North American wealth or income.[34]

The process of contributing to the IMF is both arcane and complex. Member countries do not appropriate periodic financial contributions. Rather, they deposit funds with the institution, and the IMF pays interest on part but not all of any credit balance that the member holds in it. The unremunerated portion helps cover the cost of the IMF's administrative budget. (Income from lending operations and investments also plays an important role.) Overall, while Canada has contributed more or less proportionally with other major countries, it has had opportunities to distinguish itself.

QUOTA SIZE

The original financial structure of the IMF called on each member country to contribute resources in proportion to the size of its economy, adjusted to take account of the size and variability of the country's international payments. That goal was encapsulated in a quota formula, which also became the primary determinant of the member's voting power, the nature of its representation on the executive board, and the amounts that it could borrow from the Fund. Not only at Bretton Woods but ever since, governments have also viewed their quotas as major indicators of their relative standing in international trade and finance.

The Bretton Woods quota formula, developed heuristically by US Treasury staff so as to produce a reasonable ranking, placed Canada eighth out of the 44 countries with delegations at the conference. By that formula, Canada would have had a quota of US$278 million, or 3.3 percent of the proposed total of US$8,409 million; just below the Netherlands (US$325 million) and above Belgium (US$250 million). Both the United States and the United Kingdom wanted Canada to have a higher standing, and so the conference agreed to raise the Canadian quota to US$300 million and to reduce the Netherlands to US$275 million. In the end, the Soviet Union — which would have had the third-largest quota — decided not to join the IMF. Canada, thus, entered into membership at the end of 1945 with the sixth-largest quota (below India) and more than four percent of the total.[35]

As additional countries joined the IMF, the quota shares of existing members naturally declined. Shares also shifted, sometimes dramatically, as some countries grew much more rapidly than others. Canada, however, was affected less by this trend than were most other countries. From 1945 to 2013, the US quota share declined by 53 percent; the UK share by 75 percent; and the Canadian share by just 34 percent (to 2.7 percent of total quotas of 188 member countries). Of the top 12 original members (all those with one percent or more of the original total), only France (which supplied nearly half of the Fund's managing directors) and Brazil (which grew relatively rapidly) experienced smaller percentage declines than Canada.

A large part of the explanation for Canada's quota share holding up so well is that the IMF awarded a large increase to Canada in the first general revision of quotas in 1959, not long after Canada had become just the second creditor country in the IMF, after the United States. At that time, the Fund's executive board agreed "that the existing quota was irrationally small, especially as it seemed likely that the Fund would before long need larger amounts of [Canadian dollars] for use in drawings."[36] Whereas the overall increase in quotas that year was 61 percent, Canada's quota was raised by 83 percent.

33 The most recent two chairmen have been Youssef Boutros-Ghali (Egypt, 2008–2011) and Tharman Shanmugaratnam (Singapore, since 2011).

34 The United Kingdom repaid the loans gradually and completed the repayment only in 2006, by which time the original value had been mostly eroded away by inflation.

35 The sequence of proposals is summarized in Table 2 in Horsefield (1969, 1:96). Five of the 45 countries that participated in the Bretton Woods conference did not join the IMF in time to become original members at the end of 1946. Excluding those countries, IMF quotas at end-1946 totalled US$7,349.5 million.

36 Horsefield (1969, 1:449). The quoted conclusion applied also to Germany and Japan, which had joined the Fund in 1952.

One effect of having a relatively large quota is that Canada contributes relatively heavily to the IMF's lending operations, but the effect is complex and has evolved over time. As the institution originally functioned, it called on creditor countries to provide their currencies for its lending operations in varying amounts, based on what currencies the borrowers needed to settle their official payments obligations. As noted in the introduction to this paper, Canada played an innovative role by providing Canadian dollars for the IMF to lend to Egypt in 1956. Later, as international finance became increasingly multilateral, the specification of currencies became less and less relevant.

The Second Amendment to the Articles, which took effect in 1978, permitted countries to withdraw their creditor positions permanently without cost or obligation, so that quota increases would be cost-free except to creditor countries. Since then, each member country's financial contribution to the Fund depends more directly and simply on whether it is a creditor country. From that point until 1996, Canada did not have a creditor position, and so it contributed only modestly to the Fund's budget.[37] In the mid-1990s, however, the Fund adopted the principle that it would draw on all potential creditor countries roughly equally, in proportion to their quotas. Since then, Canada has been a creditor country consistently, and it — like other creditors — has, therefore, made a quota-based financial contribution that is somewhat larger than its economic size alone would have dictated.

LENDING TO THE IMF

In addition to quota-based resources, the IMF occasionally borrows from official creditors to supplement its resources for specified activities. In contrast to the permanent funding, lending to the IMF is voluntary and is not proportional to quotas. Thus, lending to the IMF is an area where Canada could punch well above its weight.[38]

Lending to the IMF began when the G10 formed in 1961 and established the GAB a year later. Essentially, the GAB gave the G10 a multilateral structure to lend to any of its own members that might be facing a balance-of-payments deficit that was too large for the IMF to cover with its own resources. The 1962 agreement, to which Canada was a signatory, totalled US$6 billion. Canada's share was $200 million, 3.3 percent of the total. Since Canada's quota share was 5.6 percent of the G10 total, its commitment to the GAB was relatively modest. At the time, Canada's balance of payments was weak, and it would soon be borrowing *from* the Fund (though not enough to require activation of the GAB). Nonetheless, Canada agreed to participate in the GAB's initial lending, to help finance IMF lending to the United Kingdom in 1964 and 1965 (Horsefield 1969, 1: 376-77).

Over time, as the GAB expanded and eventually was integrated into the New Arrangements to Borrow (NAB), Canada's involvement remained at that relatively modest level. As of 2013, Canada's commitment to the NAB is approximately SDR 7.6 billion, equivalent to 2.1 percent of the total from all 38 participants or 3.2 percent of the total commitment from the original G10 members. The country has, however, supplemented that commitment from time to time with other loans to the IMF as part of temporary multilateral programs.

In 1974, Canada was one of only eight industrial countries to lend to the IMF to finance its Oil Facility, which helped oil-importing countries adapt to the new realities after the first shock to world oil prices. (The bulk of the financing came through loans from major oil exporters in the Middle East and other developing regions.) Similarly, Canada was one of eight industrial countries to lend in support of the Supplementary Financing Facility (SFF) in 1979–1984. The only multilateral lending program in which Canada did not participate directly was the Enlarged Access Policy (1981–1986), although it did participate indirectly through the BoC's membership in the BIS.[39]

ASSESSMENT

Why would one expect Canada to punch above its weight in the international arena? The episodes discussed above suggest three possible reasons.

First, Canada is a semi-large country, just below the ranks of the major powers. The size of its GDP has been gradually overtaken by the rapidly growing emerging markets: China, Brazil, Russia and India. Still, as of 2013, those four and the rest of the G7 are the only countries with larger national outputs. Combined with the fact that Canada has been part of the G10 since its inception in 1961 and of the G7 since its inception in 1976, this status enables Canada to be an integral part of any discussion or negotiation about policies affecting the international financial system. None of its nearest rivals in this regard — Australia and Spain, with GDP levels just below Canada's, or the Netherlands and Sweden, both original members of the G10 — have comparable access or influence. Canada's decision to shift to a floating exchange rate, first in 1950 and then in 1970,

37 Creditor countries are defined as those with convertible currencies and payments positions that are deemed to be strong enough for the IMF to use the country's currency in lending operations.

38 Such lending is normally only a small part of a country's overall financial contribution to international stability and development, but it is not unrepresentative. As a comparison, in 2012, Canada ranked sixth out of 45 countries covered by the Development Assistance Committee of the OECD for the total amount of official development assistance (ODA). As a percentage of gross national income, Canada's ODA placed it nineteenth out of 45. See www.oecd.org/dac/stats/aidstatisticsbydonorandsector.htm.

39 Oil Facility lending is covered in de Vries (1985), with a table on page 346. SFF and enlarged access lending are covered in Boughton (2001b, 888–96).

was influential largely because of Canada's prominent systemic role. Going forward, however, the ascendant role of the G20 compared with the older but smaller groups is likely to diminish the distinctions between Canada and several of the slightly smaller countries.

Second, Canada has the right sort of alliances in international relations. Most obviously, it is a close ally of the United States, with which it shares a land border of nearly 9,000 km, with which it has long enjoyed close and open financial relations and with which it has participated in a free-trade zone since 1987. Separately, Canada is the second-largest economy in the UK-led Commonwealth of Nations, in which it has participated since its informal founding in the nineteenth century. Through historical ties and this ongoing relationship, Canada is also a close ally of the United Kingdom. The importance of this latter relationship may have faded over time, but it was especially important when the IMF was founded at Bretton Woods in 1944.

Because Canada has close relations with both of the anglophone powers, it has been able to intermediate differences between them at critical junctures. This role was clearest in the Bretton Woods negotiations, but it reappeared in the discussions to establish the SDR. More generally, because Canada is close to but distinct from the United States, and also diplomatically close to but not part of Europe, it has a credibility and independence that other major countries often value.

Third, more subjectively, Canadians have earned a reputation of being nicer than many other people, or at least less threatening. Canada has tended to pursue its national interests in concert with, rather than as opposed to, the global interest. That reputation no doubt helps explain why both the United Kingdom and the United States initially preferred to have a Canadian at the head of the IMF. A broader benefit is seen most often when one or more of the major powers is perceived to be trying to throw its weight around to gain an advantage in pursuing its national interests. At such times, a Canadian intervention is likely to have a calming and intermediating influence on discussions and negotiations.

This type of influence has been evident in many small ways, apart from the major episodes examined earlier.[40] For example, Canada was central to the successful negotiation of the Toronto Terms for the reduction of low-income country debts to sovereign creditors in 1988. Four years later, when bitter debates broke out within the G7 over the terms for settling the debts of the defunct Soviet Union, Canadian delegates helped find solutions. Canada's willingness to volunteer for the first round of financial sector assessments in 1999 was all the more influential because of the cumulative effects of this reputational advantage.

Despite these advantages, Canada has not always succeeded in punching above its weight. It failed to recognize the importance of placing one of its own at the helm of the IMF. Once Europe jumped into the breach and placed a series of excellent managing directors,[41] Canada no longer had any chance to intervene. And Canada's financial inputs to the IMF have been no more than modestly impressive, probably because global financial stability does not have a large domestic constituency. Even in the more high-profile field of official aid for low-income developing countries, Canada's contributions have been commensurate with its economic size, not above it.

In short, Canada certainly *can* punch above its weight in international finance. The main question for the future is whether it will have the capacity and the will to do so in the face of increasing competition from the rapidly growing emerging market countries that are already overtaking it in economic importance.

40 For a general review, see Helleiner and Momani (2008) and Momani (2010).

41 This assessment applies primarily to the six European managing directors elected from 1956 (when Sweden's Per Jacobsson trumped the final burst of interest in a Canadian for the job) through 1996 (when France's Michel Camdessus was elected to a third consecutive five-year term). The first two managing directors were relatively weak; as a result, the IMF took a decade to begin making its mark on the global financial system. After Camdessus resigned at the end of 1999, another weak period ensued, as three managing directors in a row failed — for varying reasons — to complete a single term. By the time Christine Lagarde was selected in 2011, her candidacy was controversial primarily because Europe's role was widely considered to be overblown and long overdue for a downgrading.

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Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion (BlackBerry). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario.

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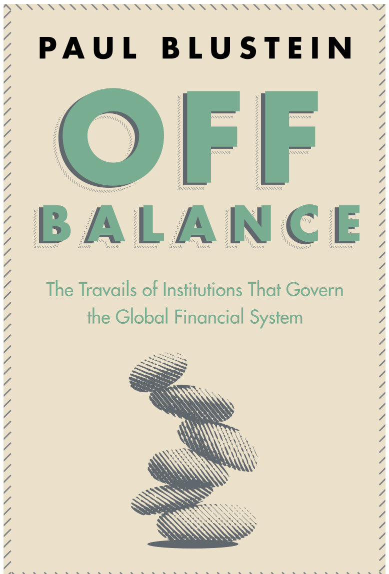

Off Balance: The Travails of Institutions That Govern the Global Financial System
Paul Blustein
Paperback: $28.00; eBook: $14.00

The latest book from award-winning journalist and author, Paul Blustein, is a detailed account of the failings of international institutions in the global financial crisis. Based on interviews with scores of policy makers and on thousands of pages of confidential documents that have never been previously disclosed, the book focusses mainly on the International Monetary Fund (IMF) and the Financial Stability Forum in the run-up to and early months of the crisis. Blustein exposes serious weaknesses in these and other institutions, which lead to sobering conclusions about the governability of the global economy.

A Blueprint for a Sovereign Debt Forum
CIGI Papers No. 27
Richard Gitlin and Brett House

This paper outlines a blueprint for a Sovereign Debt Forum, which would provide a centre for continuous improvement of the processes for dealing with financially distressed sovereigns and a venue for proactive discussions between debtors and creditors to reach early understandings on treating specific sovereign crises. The 2008 crisis has focussed fresh attention on how sovereign financial distress is handled. Early action to implement the proposal outlined in this paper would prepare us to handle the next crisis before it comes.

IMF Policies Post Arab Uprisings
CIGI Policy Brief No. 34
Bessma Momani and Dustyn Lanz

In response to the Arab uprisings in Egypt, Morocco and Tunisia, the IMF has changed its perspective on the social outcomes of its economic policy advice. This is a welcome transition; however, there is still room for improvement. Specifically, the Fund could strengthen its commitment to the social dimensions of public policy by delivering more specific, tangible policy advice for countries to achieve inclusive growth, reduce inequality and improve health and education outcomes.

Central Bank Independence in North Africa
CIGI Policy Brief No. 36
Bessma Momani and Samantha St. Amand

Over the past 30 years, North African states have made positive strides toward central bank independence (CBI) that are correlated with overall structural transformations toward economic liberalization. This brief argues in favour of furthering reforms by promoting transparency, meritocracy and an open-learning culture to solidify the modest gains made in CBI in the region.

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