Establishing a new Global Economic Council: governance reform at the G20, the IMF and the World Bank

ABSTRACT: The literature on international network governance commonly presumes an ‘effectiveness-legitimacy dilemma’: gains in effectiveness at problem solving, perhaps via smaller size, come at cost to legitimacy, because the smaller the network the more those expected to comply with network decisions are excluded and are therefore less likely to accept network decisions; and gains in legitimacy come at cost to effectiveness, perhaps because of more diversity of interests. In the case of the G20, however, the dilemma breaks down, because the G20 scores low on both effectiveness and legitimacy. In this article we present a design for a new global economic governance body, based on explicit membership criteria (as the G20 is not), in the form of a modified version of the Bretton Woods (World Bank and IMF) governance arrangement. The proposed new Global Economic Council (GEC), operating at heads of government level and below, would likely bring substantial gains in both effectiveness and legitimacy.

POLICY IMPLICATIONS:

- A more legitimate global economic governance body should be created not by tweaking the existing G20 but by starting from the constituency system of the Bretton Woods organizations and modifying it to make it more equitably representative. Then the newly established Global Economic Council, the World Bank and the IMF would have the same constituencies.
- The Global Economic Council should have 25 seats, sixteen of which are to be allocated among four regions: Africa, Americas, Asia and Europe. The remaining nine seats should be allocated on the basis of economic weight (GDP). Allocating two thirds of the seats on a regional basis sends an important signal of the new multipolar order.
- The legitimacy problems of the Bretton Woods institutions resulting from their continuing voting power imbalances should be addressed by reforming their voting power systems so as to reflect only relative economic weight (as measured by GDP).
- The Global Economic Council should exercise strategic oversight over the Bretton Woods organizations, and possibly beyond to other economic and social agencies of the UN system. It might be responsible for appointing their heads.
'Given the broad impact of our decisions, [we] recognize the necessity to consult with the wider international community, [and we pledge to bear in mind] the importance of the G20 being both representative and effective as the premier forum for our international economic cooperation’ (G20 2010b: 17)

'The G20 foreshadows the planetary governance of the twenty-first century’ (President Nicolas Sarkozy of France, 2010)

'[The G20 is] one of the greatest setbacks since World War II’ (Foreign Minister Jonas Gahr Støre of Norway, 2010).

Whatever the miseries in its wake the 2008 global economic crisis at least served to persuade the G7 heads of government that they must consult regularly with heads of government of some developing economies. Otherwise the G7 would be like the captain of a ship who stands at the wheel turning it this way and that – knowing that the wheel is not connected to the rudder.

First convened in November 2008, the G20 leaders soon designated themselves ‘the premier global economic forum’. Now, more than three years later, they claim three major successes in steering the world economy:

- financial regulation, especially the Basel 3 Accord on bank regulation
- macroeconomic policy coordination through the ‘framework for strong, sustainable and balanced growth’
- governance reforms of the Bretton Woods organizations

But their claims barely survive scrutiny. Martin Wolf of The Financial Times describes the Basel 3 agreement as a ‘mouse’ (Wolf 2010); and 20 distinguished finance professors protested in an open letter to The Financial Times that Basel 3 is ‘far from sufficient to protect the system from recurring crises’ (Admati et al 2010). On macroeconomic policy coordination, the G20 claims ‘great progress’ in dealing with global imbalances, but others say that ‘semi-paralysis’ is a better description (Chin 2011); or in the slightly more upbeat words of The Financial Times’ Chris Giles, ‘the G20’s progress in reducing global imbalances inches forward at glacial speed’ (Giles 2011). And the results of the governance reforms of the Bretton Woods organizations are so small in scale and scope that they too could be described as a mouse, as distinct from the ‘dramatic improvement’ of global governance claimed by the G20 (see below, and Vestergaard and Wade 2011a). In short, there are good grounds for saying that G20 has proved about as far from effective as Greece is from solvency.
The problem is not only that the G20 has had trouble living up to its ambitions. The G20 also fails to meet widely accepted criteria of representational legitimacy. Its members beyond the G7 were selected by the G7 on the basis of no clear criteria. For example, it does not include the 20 largest economies by GDP and quite a few of the members could not possibly be described by the G20’s own avowed criterion, ‘systemically important’. Moreover, the G20 permanently excludes 90% of the 193 member states of the United Nations, their exclusion softened only a little by ad hoc inclusion of representatives of some regional organizations as observers. It thus reinforces a trend towards ‘multilateralism-of-the-big’ (MOB), in which the vast majority of nations lose voice on matters that may affect them crucially because not incorporated into any representational system.

A third problem is that insofar as the self-elevated G20 takes upon itself the role of ‘the premier global economic forum’ it weakens the existing system of multilateral cooperation in organizations such as the IMF, the World Bank and the United Nations, causing resentment among the staff and among non-G20 member countries (Bosco 2010) – as though the G20 had carried out a ‘coup by stealth’.

Fourth, the G20 is just a ‘talk shop’. There are good reasons to aspire to an apex governance body with some real authority, such as through strategic direction-setting for the Bretton Woods organizations.

The G20 has plenty of critics, whose most central complaint is its lack of a representation system for all the world’s states. The Norwegian foreign minister, for example, minced no words when he avowed in 2010 that the G20 is ‘one of the greatest setbacks since World War II’ (Spiegel 2010). The governor of the central bank of Uganda dismissed it as ‘part of the old architecture which I hope will end’ (Cooper 2011). And when the Financial Stability Board (whose authority derives from the G20) recently sent a mission to the central bank of a non-G20 country to inspect its books, the governor – well known and highly respected in international financial circles – asked, "On whose authority?" and refused to cooperate.

The critics have had little to say about an improved design, however. This paper describes an alternative economic governance body to replace the G20, which has a firmer constitutional foundation. The proposed Global Economic Council (GEC) also requires complementary reform of the existing representational system of the Bretton Woods organizations (the World Bank and IMF).

We recognize that the idea of replacing the G20 with a newly constituted Global Economic Council is ‘pie in the sky’ in the absence of any sign that excluded actors might mobilize around an agenda of major reform. But it would be foolish to wait for such signs before debating alternatives. The normal pattern of change in governance arrangements is not proportionate responsiveness to signals from the external environment, but rather, long periods of stasis interrupted by bursts of change (see Jones and Baumgartner, 2005). Typically the disfavored side appeals to broader political forces, seeking to change the image of the governance arrangement prevailing outside the policy or governance sub-system, and to change the venue away
from ones which resist the image change to venues which are more responsive. If the G20 proves unable to coordinate major reforms to financial systems and demand generation systems, as we think likely, multi-country financial crises will continue to roil the world economy at a frequency of roughly every five years. They will provide ample opportunity for new governance designs elaborated on the margins to come galloping in to now more sympathetic central venues.

Our search for a new design for global economic governance focuses on issues of representation. This stress on representation is based partly on a larger argument about international network governance, to do with the relationship between effectiveness at problem solving and legitimacy. Commonly the literature presumes what could be called the ‘effectiveness-legitimacy dilemma’: gains in effectiveness (perhaps via a smaller number of participants) come at cost to legitimacy, because the smaller the network the more those expected to comply with network decisions are excluded from the network and are therefore less likely to accept network decisions; and gains in legitimacy come at cost to effectiveness (perhaps because of more diversity of interests).

We argue, however, that in some conditions effectiveness and legitimacy can be complementary, even reinforcing. The ‘sweet spot’ conditions that allow legitimacy gains to be translated into effectiveness gains and vice versa relate to the mechanisms of representation at the negotiating table. When the participants are seen as having been appointed through procedures that meet widely accepted criteria of representation, the legitimacy of the decision outcomes is enhanced, other things like size of group held constant. Conversely, when the participants are selected through procedures which do not accord with legitimate procedures (such as ‘friends of friends’) the legitimacy of the outcomes is subverted and actors are less prepared to comply with decisions whose content is not known in advance. So the issue of representation turns out to be critical for softening the effectiveness-legitimacy dilemma (see also Borzel and Panke 2007).

RISE OF THE G20

In 1999 the G7 finance ministers, wrestling with the aftermath of the East Asia/Russia/Latin American financial crises of 1997-99, decided to expand their grouping to include both additional advanced countries and also some ‘developing and transitional’ countries (DTCs).

They could have called together the finance ministers of the countries in the 24 seat governing body of the IMF, a well-established grouping in which most of the representatives at the top table represented several or many countries in addition to their own, via the constituency system. But at this time the IMF was in disgrace in much of the world for its role in handling the 1997-99 financial crises.

The G7 decided to expand in a more ad hoc way. It ended up inviting another 12 countries plus the European Union to join it, making the G20. The resulting group has about half its membership from DTCs – thus apparently translating rising economic multipolarity into rising multilateralism in global
governance (Wade 2011). The G20 finance ministers met for the first time in Berlin, and have met at roughly three month intervals since then.

The idea of adding a leaders’ group to the existing G20 finance ministers’ group was already in the air by the mid 2000s, pushed especially by Paul Martin, successively Canadian finance minister and prime minister from 1993 to 2006, and Kevin Rudd, Australian prime minister from 2007 to 2010 (now serving as foreign minister). From the start the idea evoked scepticism from some analysts of global governance, including Richard Higgott:

‘While some advocates have big plans for the G20, to date it has mainly worked to provide impetus for institutions such as the IMF, World Bank and Financial Stability Forum, and, as a venue for dialogue between industrial nations and emerging market countries, to obtain emerging market political consensus for institutional initiatives arising elsewhere’. (Higgott 2005: 85, emphasis added).

Then came the Lehman Brothers’ collapse in September 2008, followed by a rapid escalation of crisis out of the United States and into the world economy at large. This event prompted Canadian and Australian leaders to redouble their efforts to push the reluctant administration of President George W. Bush to convene a meeting of the G20 leaders – the heads of government of the same 19 countries together with representatives of the European Union.²

It is widely agreed that, thanks to the ‘fellowship of the lifeboat’, the first two G20 summits (Washington, November 2008, London, April 2009) succeeded in coordinating a vigorous policy stimulus in the face of the gathering slump. But the G20 leaders claimed to be a permanent ‘steering committee’ for the world economy, not just a ‘crisis committee’ (Cooper 2010). They declared in the April 2009 communiqué that they had appointed themselves the apex governing body of the Bretton Woods organizations:

‘...we are determined to reform and modernize the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We will reform their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalization, and that emerging and developing economies, including the poorest, must have greater voice and representation’ (G20 2009a, emphasis added).

They capped this in the September 2009 communiqué:

‘We designated the G20 to be the premier forum for our international economic co-operation’ (G20 2009b).

As for the normative basis of their governance role, they said that the G20’s

‘economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system’ (G20 2010a, emphasis added).
By ‘economic weight and broad membership’ they mean that the G20’s members cover 90% of world GDP, 80% of world trade, and 66% of world population. In G20 eyes these figures mean that it is highly ‘representative’, which in turn gives it much ‘legitimacy and influence’. However if the EU’s figures are excluded (on grounds that the EU should not have privileged membership ahead of other regional bodies) the G20 looks rather less ‘representative’: its 19 states cover 77% of world GDP, 60% of world trade, and 62% of world population.

Upgrading the G20 to heads of government level was hailed by many as a watershed in global governance. President Nicolas Sarkozy of France enthused, ‘The G20 foreshadows the planetary governance of the twenty-first century.’ (Rachmann 2010). A senior Australian diplomat described the G20 as ‘potentially the most significant new diplomatic initiative in the world since the founding of the United Nations’ (Bosco 2011).

Analysts of global governance based in leading G20 countries echo these insider claims. Stewart Patrick (2011) of the US Council on Foreign Relations garlands the G20 as ‘the most significant advance in multilateral policy coordination since the end of the Cold War’. Andrew Cooper (2011: 207) celebrates its ‘entrepreneurship and technical readiness’, adding that ‘the G20 serves as the hallmark signal that the multilateral system can not only adapt but serve as a catalytic agent for other forms of institutional reform, notably ... the redistribution of voting rights and seats in the IMF’.

Yet as noted, the G20 leaders’ council has shown itself unable to induce more than marginal inter-state cooperation beyond the level of fine words, outside of acute crisis conditions. But the G20 is questionable not only in terms of ‘output’ legitimacy but also in terms ‘input’ legitimacy, as the following section demonstrates.³

THE G20’S LEGITIMACY PROBLEM

The selection of the 19 states included in the G20 membership in 1999 was made by the G7, and specifically by Timothy Geithner, then the US Under Secretary of the Treasury for International Affairs (with Lawrence Summers as his boss) and Geithner’s counterpart at the German Finance Ministry, Caio Koch-Weser. In a series of transatlantic telephone calls Geithner and Koch-Weser went down the list of countries saying, Canada in, Spain out, South Africa in, Nigeria and Egypt out, and so on. They came up with an in-group which covered a high enough proportion of world output, trade and population for them to judge it ‘representative’, sent the names to the other G7 finance ministries, and after a few more iterations, invitations to the first meeting went out.

The membership was based on no explicit criteria, and includes several countries which are not ‘systemically important’. The inclusion of countries such as Argentina and Australia reflected not so much a judgement that they mattered more to the world economy than excluded countries, but the US wish to include some of its good allies, partly to counterbalance the ‘over-represented’ Europeans (see below). Argentina was allegedly included on the
strength of the friendship between Treasury Secretary Summers and Argentina’s Finance Minister at the time, Domingo Cavallo, who shared accommodation as Harvard graduate students (Patrick 2010: 49).

Certainly the 19 countries were not the biggest 19 economies in the world in 1999 (by GDP), nor the 19 biggest in 2008 when the leaders’ council was formed. How would the membership change if based on explicit criteria of bigness? Table 1 shows the world’s 20 largest economies by three different measures of GDP and the world’s 20 most populous countries. Table 2 shows the countries which would be excluded from the G20 by GDP and those which would be included in their place.

[insert Table 1, The world’s largest countries]

[insert Table 2, If the G20 consisted of the 20 largest economies]

Three countries would be excluded from the current G20 whichever of three measures of GDP was used: Argentina, South Africa and Saudi Arabia. Three would be included by whichever GDP measure: the Netherlands, Poland and Spain. The latter set is surprising in view of the common perception, especially in the US, that Europe is grossly overrepresented in the G20. As Stewart Patrick remarks, ‘European overrepresentation has become a source of global resentment’ (Patrick 2010: 20). If GDP is taken as the main measure of ‘economic weight’ (which the G20 claims to be the main selection criterion), Europe is not over-represented.

On the other hand, if population were the selection criterion the membership would change radically, and Europe would indeed be over-represented: France, Italy, and the UK would lose their seats. Quite a few non-European members would lose their seats too, namely Argentina, Australia, Canada, Saudi Arabia, South Africa and South Korea. In would come Pakistan, Bangladesh, Nigeria, Vietnam, Egypt, Ethiopia, Iran, Thailand, and Congo DRC.

If we go beyond bigness alone the current G20’s representational deficiencies are also striking. Africa is grossly under-represented (South Africa is the only African member). There is not a single low-income country. There is not a single ‘small, open economy’. Table 3 shows some of the gaps in representation.

[insert Table 3, G20 countries – by region and income classification]

Lacking explicit membership criteria, the G20 contains no mechanism for adjusting membership to reflect changing realities of the global economy. The main strength of the G20 – that it is now a ‘fact on the ground’ – is at the same time its main weakness. In the words of Stewart Patrick: ‘Perhaps the trickiest issue surrounding the G20’s membership is whether the body should be prepared to adjust its participants in
response to inevitable shifts in the global distribution of economic power. In the absence of objective criteria, however, ... a regular process of readjustment seems unlikely’ (Patrick 2010: 22–23).

Given these problems on the input side of the G20, let us consider an alternative global economic governance body.6

ESTABLISHING A GLOBAL ECONOMIC COUNCIL

Our design for the Global Economic Council (GEC) starts from the existing Bretton Woods system of representation.7 Whatever one may think of these organizations in terms of their lending policies etc, few would disagree that they are reasonably well-functioning multilateral organizations, and that, as such, they constitute a valuable global public good. One main reason for their relative success is the balance of representation and effectiveness in their governing bodies. So we propose to start with the Bretton Woods system, but modify it to deal with two of its main deficiencies:

• The absence of a Leaders’ forum causes the Bretton Woods organizations to suffer from a lack of ‘political weight’
• The voting power system does not adequately recognise the increased economic and political weight of dynamic emerging market economies

The proposed Global Economic Council and accompanying reforms of country constituencies and voting power systems addresses both these deficiencies.

We see the proposed model as one that is ‘universal’ in the sense that it could in principle be adopted as the governance structure for a range of global governance bodies.8 We hence propose the Global Economic Council as a body that has a steering role over the Bretton Woods organizations as well as deliberates on other issues of global economic governance, much as the G20 has done in recent years. While the Bretton Woods system serves as our model in terms of the constituency system, there is no reason why its mandate should be confined to the scope of the Bretton Woods organizations.

It is important that the constituencies for the GEC are the same as for the governing bodies of the Bretton Woods organizations. This paves the way for the GEC to exercise some real authority, not least by displacing the G7 states from their continuing role of, as Kemal Dervis says, ‘strongly influence[ing] the operational management of the Bretton Woods institutions, thereby sidelining the much more ‘global’ Executive Boards and crossing the line between governance and the management of day-to-day operations’ (Dervis 2005: 86). If the Global Economic Council does not take over this ‘steering role’ from the G7 fundamental legitimacy problems would remain: many in developing countries would see the Bretton Woods organizations as still beholden to Western interests, and the new Global Economic Council as merely an extension of the old order rather than the beginning of a new one.

We propose that the GEC should have 25 seats, with 16 seats allocated equally to the world’s four main regions – Africa, Americas, Asia and Europe – and nine seats allocated on the basis of aggregate regional GDP.9 Table 4 shows the economic weight of these regions by several measures of GDP.
Why 25 members? Why not fewer or more? We suggest 25 seats for several reasons. First, fewer than 20 is not compatible with input legitimacy (some country constituencies would be too large) and more than 30 could easily jeopardize deliberation and hence output legitimacy. Second, the country constituencies of the IMF and World Bank—which have functioned reasonably well for decades—consist of 24 and 25 seats respectively. Third, in order for regional seats to constitute (roughly) two thirds of total seats, and be divisible by four, there are two options: 16 regional seats and 8-10 GDP seats, or 20 regional seats and 9-11 GDP seats. The former option has the best fit with the stated criteria.

Why should two thirds of seats be regional? Allocating double the amount of seats on a regional basis as compared to seats allocated by GDP sends an important signal of the new multipolar order. Why 25, instead of 24 (which would correspond to exactly two thirds)? Because this gives all three regions other than Africa an equal amount of seats (at current levels of GDP), which could help to get their support.

With sixteen seats in the council distributed equally among each of the four main regions, and nine additional seats assigned to the four regions in proportion to their share of world GDP, Africa would get four seats and the three other regions seven seats each. See Table 5.

The next issue concerns the composition of constituencies. Instead of tweaking the existing Bretton Woods ones, what would they look like if rethought from the beginning? What new principles should guide the allocation of chairs within regions to apply to both the Bretton Woods organizations and the GEC?

Allocation of seats within regions

Within the four main regions assignment of states to chairs should be based on the following six steps.

First, governments within each region negotiate to form constituencies, with a minimum of three and a maximum of 17 countries in each. Size restrictions are needed to balance the interests of big powers (US, China, etc.) in limiting the number of countries in their constituency with the general interest in limiting the average and maximum size of the remaining constituencies.

Second, constituency size falls into two categories: ‘narrow’ ones (three countries) and ‘broad’ ones (five to 17). For each narrow constituency there must be at least two broad ones. This criterion means that there can be no more than two narrow constituencies in Asia, Europe and Americas+, and only one in Africa.

Third, the first round of the ‘election’ invites nominations for narrow
constituencies. Which of the nominated groups get the region’s one (Africa) or two (Americas+, Asia, Europe) narrow country constituency seats is established by the criterion of biggest aggregate GDP.

Fourth, the second round of the election invites nominations for ‘broad’ constituencies. After the narrow constituencies are accounted for, the remainder of a region’s seats minus one are now allocated among the nominees on the basis of biggest aggregate GDP. In Asia, Europe and Americas+, this means that four seats are allocated to the four biggest of the nominated ‘broad’ constituencies. In Africa, two seats are allocated to the two largest of the nominated ‘broad’ constituencies.

Fifth, country constituencies which did not get ‘elected’ in this second round of the process are now grouped into the final seat of each region, reserved for this purpose.

Sixth, all countries within a constituency may put forward candidates for the chair. The chair is chosen in an election with votes allocated to constituency countries in line with relative GDP. Constituencies would be obliged, however, to institute a mechanism of rotation to ensure consultation and dialogue within the group. Each constituency would have one executive director and one or two deputy directors, and could decide internally whether there should be rotation at both levels or only at deputy level. This flexibility in rotation modalities allows large economic powers – such as the US, Japan and China – to be permanently in the chair of their constituency, but still in consultation with and to a degree answerable to at least two other states.¹²

At periodic intervals (say, every five years) new negotiations for constituencies should be held.

*Europe*

To illustrate how the election would work, consider the case of Europe. In the first round, when countries compete for the narrow constituency seats available for their region, several different three-country alliances might nominate themselves.¹³ Suppose there are three, as shown in table 6.

[insert Table 6, Possible configuration of narrow constituencies in Europe]

Germany, France and the Netherlands would win one of the two European narrow seats, while the grouping of UK, Spain and Poland would see itself marginally defeated by Italy, Russia and Turkey. Obviously, the process of negotiating these alliances and the ‘election’ would, for all practical purposes, be one and the same thing. In the example given, the UK would be aware that the alliance proposed here might prove too weak if Italy, Russia and Turkey were to team up – and would therefore try to form a stronger alliance. It could, for instance, attempt to seduce Italy. But if Group A and Group C had already formed, there would be little the UK could do to ensure membership of a narrow seat. Of course, this could happen to any of the big European powers, depending on how the negotiation process unfolds.
After the election of two narrow seats, alliances would be formed in competition for the four broad seats (five to 17 countries) to be allocated in the second round. See table 7. The Nordic-Baltic countries might nominate themselves for a broad seat, in competition with, say, five other alliances: a Central European alliance; an Eastern European alliance; a Southern European alliance; an alliance formed around the UK; and an alliance of European transition economies.

[insert Table 7, Possible configuration of broad constituencies in Europe]

In the second round, the four largest of these six broad constituencies would be elected, and the two defeated constituencies would be grouped in a shared constituency in the third and final round to take up the last European seat. At current levels of GDP, the four largest of these six constituencies would be the UK-led, the Southern European, the Central European and the Nordic-Baltic constituencies – and hence the Transition- and Eastern European constituencies would be grouped into the seventh and last European constituency.

GLOBAL ECONOMIC GOVERNANCE 2.0: VOTING SHARES

In the Bretton Woods organizations most decisions are taken by simple majority. In contrast, the current G20 operates on the decision rule of unanimity. There are certainly advantages to having the G20 (and its successor) operate as a relatively informal talk shop, in the expectation that repeated interaction among top political leaders will generate some convergence of understanding about the nature of the problems, and willingness to act in concert. The downside is that (at least outside of acute crisis conditions) such a body is able to agree on little that cannot be glossed with fine words.

On the assumption that the GEC should be a more muscular body, with decision-making procedures that yield real decisions more binding on member states, what should be the principles for allocating votes?

The Bretton Woods organizations allocate votes among member states by a complex and non-transparent formula, which has ample scope for ad hoc adjustment. But they claim that relative economic weight, measured by GDP, is the prime criterion.

However, representatives of ‘emerging market economies’ have long complained that their states are grossly underrepresented in terms of voting power; and they are right if GDP is the prime criterion. Take, for example, the share of China plus India compared to that of Belgium plus Netherlands. Prior to the 2010 voice reform in the IBRD part of the World Bank, China and India together had less than 50% more voting power than Belgium and Netherlands together (5.56% against 4.01%), despite having a share of world GDP eight times bigger (13.97% against 1.85%, see table 8).

The World Bank 2010 voice reform changed the distribution of voting power in favour of dynamic emerging market economies, but not by much.
The aggregate voting power of China and India is now twice that of Belgium and the Netherlands. But twice is still far less than the eight times which their relative GDPs indicate. It is not hard to understand the dissatisfaction of dynamic emerging market economies with the voting power systems of the Bretton Woods organizations, even after the 2010 reforms.

[insert Table 8, World Bank voting power reform in perspective]

The massive under-representation of China and India vis-à-vis Belgium and the Netherlands is part of a general pattern. Table 9 shows the ratio of voting share to GDP share for 30 of the major Bretton Woods shareholders (or each country’s voting power in the World Bank or IMF for each 1% share of world GDP).

If votes were allocated in line with GDP the ratios should be close to 1. Table 9 shows, instead, huge dispersions: in the World Bank, from 0.43 (China) to 3.86 (Saudi Arabia), and in the IMF, from 0.31 (China) to 4.40 (Saudi Arabia).

Three factors cause these ratios to deviate from 1. First, a small allocation of ‘basic votes’ to all countries independently of their GDP. Second, the inclusion of criteria other than GDP in allocating voting (or quota) shares, such as contributions to IDA in the case of the World Bank (its soft-loan affiliate), and indicators for ‘openness’ and ‘economic variability’ in the case of the IMF. Third, ‘political engineering’ that has secured for some countries a higher share of voting power than any explicit criterion would justify.15

The first of these factors is now negligible; basic votes as a share of total votes eroded over the years from the original level of 10% to little more than 2%. However, the other two factors give rise to substantial variations in the voting power to GDP ratios. Some of these variations are so big as to make the case for further reform, all by themselves.

For example, it is difficult to find a justification for Belgium receiving – post 2010 reforms -- 2.03% share of votes in the World Bank for every 1% share of world GDP, while China gets only 0.43% of voting share per 1% share of GDP. It is similarly difficult to justify Saudi Arabia receiving a voting share relative to GDP of 4.5 in the IMF, while Brazil, China, India and Turkey all have voting shares to GDPs below 0.6.

In short, the oft-cited principle that voting power in the Bretton Woods organizations ‘in large measure reflect the relative importance of member countries in the global economy’ is more declaration than practice (Development Committee 2003: 7). To boost their legitimacy the organizations should further revise the voting shares so as to bring them closer to the shares of GDP. However, this principle should be qualified by increasing the share of basic votes – allocated to all countries equally – to 10% of total votes (as was the case when basic votes were first introduced in 1944); and this share should be maintained through an annual, automatic adjustment. The basic vote allocation helps to prevent small, low-income
countries from being completely marginalized.

[insert Table 9, Voting power to GDP ratios, 30 largest economies]

This revision would entail excluding all other criteria than GDP in the allocation of voting (quota) shares, putting aside the basic votes. It would of course be unwelcome in countries which currently enjoy a voting power to GDP ratio significantly higher than 1, including a number of small European countries such as Belgium, the Netherlands and Switzerland, and a few DTCs such as Saudi Arabia and South Africa. They would protest that voting power should reflect other factors than just GDP.

Some would argue, for instance, that if IDA contributions were removed as a criterion for shareholding in the World Bank this would significantly reduce the willingness of large donors with small GDPs to contribute to IDA, putting the survival of IDA as an aid fund at risk. But the argument is undercut by its obvious utility as a negotiation tactic on behalf of small European countries trying to preserve a higher share of voting power than they would otherwise be eligible for. Moreover, when small European countries argue that significant contributions to IDA should generate higher voting power in the World Bank, they open themselves to the equally self-interested counterargument from populous countries that population size should be given weight in the allocation of votes.

If criteria other than GDP were to be added to a revised formula one could easily imagine more relevant ones than ‘openness’ or contributions to IDA. Indeed, both the 2008 IMF quota and voice reform and the 2010 World Bank voting power realignment modified the GDP component with a so-called ‘PPP booster’ intended to ‘give additional recognition to dynamism of economic growth’ (Development Committee 2010: 7).

In short, if developed countries continue to demand additional voting power – in the IMF, the World Bank and the new Global Economic Council – on the basis of such criteria as ‘openness’, ‘economic variability’ and IDA contributions, emerging market countries are likely to insist on a range of other criteria which work to their advantage.

In his proposal for establishing an Economic and Social Security Council, Kemal Dervis suggested a system of weighted voting based on three factors: GDP, population and contributions to global public goods (Dervis 2005: 96-97). This would certainly be preferable to the current voting power systems of the Bretton Woods organizations which remain biased towards developed countries.

We are nevertheless sceptical of the Dervis model, for two reasons. First, the further institutionalization of a practice that allow countries to ‘buy’ more influence than they would otherwise be eligible for is undesirable because it will be seen by many in developing countries as a way for small European countries to maintain an illegitimately high level of voting power. It would, in other words, perpetuate the legitimacy problems of the Bretton Woods organizations and would cause suspicion in developing countries that the new Global Economic Council is merely an extension of the old unipolar
world. Second, negotiating how the three determining factors should be weighted would be extremely difficult. Dervis proposes the solution of an equal weighting of the three factors. While we agree that this would be the most reasonable one to apply, we fear that negotiations in this area may prove so prone to conflict that stalemate would result, causing the proposal itself to stall.

Hence we favour a simple rule of allocating countries a share of total votes equal to their share of world GDP, qualified by basic votes. This is the best way to ensure that relative voting power reflects the realities of the global economy while at the same time avoiding all manner of costly political battles around a more complex quota formula. Further, a composite measure of GDP should be used, giving roughly equal weight to GDP at market values and GDP at purchasing power values. And as noted earlier, the relative voting power of low-income countries should be increased by restoring basic votes at the original level of 10% of total votes.

If it is agreed that the Global Economic Council should operate with a majority voting rule (as distinct from the G20’s rule of unanimity), then voting shares within the GEC should be based on the same formula as in the Bretton Woods organizations.

CONCLUSION

Defenders of the G20 dismiss the kind of proposals made here as mere ‘formalistic recipes’ and ‘conceptual thinking’ (Cooper 2011: 208). Their own proposals for G20 reform take the existing full members as given and add on guest representatives from some regional organizations in order to overcome the ‘representational gap’. They are the hunters in the Swahili proverb, ‘Until the lions have their own historians, tales of hunting will always glorify the hunters’.

Our first main point is that the G20 scores low on both effectiveness and legitimacy in substantial part because it has no – or almost no – representation of the 174 member states of the United Nations which are not invited to participate. Eventually some of the actors disfavoured by the current self-appointed oligarchy will probably act on their anger to force through change. We argue that they should aim for the representation system of the Global Economic Council as described earlier, in the interests of both effectiveness and legitimacy.

The basic problems are: (1) the current membership of the G20 was selected on the basis of no explicit criteria; (2) there is no mechanism for adding and dropping countries as relative economic weight changes over time; and (3) there is no mechanism of universal representation, such that all states are incorporated into a representational structure.

More specifically, Africa is grossly under-represented (South Africa is the only African full member). ‘Low income’ countries are excluded. ‘Small, open’ economies are excluded.

The G20 counters such arguments by saying that, on the contrary, it is very ‘representative’. Its members together account for 90% of world GDP, 80% of world trade, and 66% of world population. But this is only one
criterion of representation, and ignores the one we have stressed here in line with millennia of political philosophy – universal representation, collective preference formation, and accountability.

The second main point is that a Global Economic Council should be established, based on a constituency system similar to that of the Bretton Woods organizations (the World Bank and the IMF). But instead of modifying the existing Bretton Woods constituencies at the edges, country constituencies should be rethought from the beginning.

We propose that both the Bretton Woods governing bodies and the Global Economic Council should comprise 25 country constituencies, and that the world should be divided into four main regions (Africa, the Americas and Australasia, Asia, and Europe). The seats should be allocated so as (1) to ensure significant representation of all the main regions, and (2) differentiation between regions on the basis of their aggregate GDPs.

Sixteen seats should be distributed equally among the four regions (four to each region), while the remaining nine seats should be distributed among the regions in line with their aggregate GDPs. At current levels of GDP, this would result in four seats for Africa and seven seats for each of the other three regions. Within regions, constituencies should be formed on the basis of ‘elections’ in which countries ‘vote’ in proportion to their GDP.

The major advantages of such a reconfiguration of global economic governance are that:

(1) It would embed a leaders’ council within the institutional framework of the existing Bretton Woods organizations while at the same time bringing the latter up to date; resulting in congruence between the structure of the pinnacle agenda-setting body and the more operational bodies over which it has stewardship.

(2) It would reconfigure the current country constituencies so that all chairs represent at least three and no more than 17 member countries.

(3) It would give long-term durability to global economic governance because the system responds to the rise and fall of nations and regions through a transparent, automatically updated system of weighted voting (based on GDP), while ensuring at the same time a certain level of inter-regional legitimacy and stability by means of the proposed balanced allocation of chairs to all the world’s regions.

Further, the GEC should make collective agenda-setting decisions by voting – or in practice, by ‘consensus’ formed in the shadow of the voting system, as is the case at the Bretton Woods organizations. This way the current G20’s ‘race to the least common denominator’ in agenda setting would be avoided.

We leave open for now a whole raft of further questions. Should the GEC appoint the heads of the Bretton Woods organizations? Should it be empowered to go much further as the ‘twin’ of the UN Security Council, and become the governance umbrella for all economic and social agencies in the UN system, with authority to appoint their heads? (Dervis 2005).

We have had a narrower objective, focused on the inputs side: to lay out
an organizational model which allows a better balance between established and rising powers, a more durable way of changing the governing balance as the economic balance changes, and a full institutionalization of the principle of universal representation. The G7 states themselves are no more likely to push in this direction than turkeys are to vote for Christmas, but that should not stop others from advocating along these lines.

END
constituency consisting of the US, Canada and Australia. At current levels of GDP, the South American alliance (Brazil, Mexico, Argentina) and an Anglo-American alliance (Australia, Canada, New Zealand) might form in competition for the second narrow constituency. At current levels of GDP, the South-American alliance would win. Seeing this, Australia and Canada would then have to decide whether to form a joint broad constituency, two separate broad constituencies, or persuade the US to form a strong constituency consisting of the US, Canada and Australia.

For other literature on the idea of an apex global economic governance body, see Dervis (2005), Ocampo (2010), and ul Haq (1995). For high-level endorsements, see the Commission on Global Governance (1995), the Zedillo Commission (2001), and the Stiglitz Committee (2009). Some argue that one should not design an international organizations’ governance before its mandate has been specified. In our view, the notion that there should be different governance solutions for different organizations is closely linked to efforts on the part of developed countries to achieve higher voting power than they would otherwise be eligible for. We believe that the governance of international organizations should be designed so as to ensure input legitimacy and enable output legitimacy – and that arguments for ‘special concerns’ beyond that, including to reflect ‘specificity of mandates’, is a slippery slope. For the legitimacy of any future system of global economic governance it is essential to break with the tradition of giving additional voting power on the basis of other criteria than relative economic weight (with the exception of basic votes, allocated in equal share to all countries).

We divide the world into these four regions to achieve homogeneity of size, both in terms of population and in terms of GDP. We start from the five world regions used in UN classifications: Africa, Americas, Asia, Europe and Oceania. The latter of these regions we split and integrate in two of the other regions: Australasia (Australia, New Zealand, New Guinea and neighbouring islands) with the Americas, and the rest of Oceania with Asia. In this way we arrive at four regions that are relatively homogenous in terms of GDP (except Africa) and population (except Asia).

For our discussion of this, see Vestergaard and Wade (2011c). For other literature on the logic of the size constraints of country constituencies, see Vestergaard and Wade (2011c: 16–21).

In polarized country constituencies, comprised of large countries together with small countries, the larger countries could choose to rotate the directorship while the smaller countries rotate at the deputy level.

In Asia, the obvious major candidates for the two narrow constituencies would be China and Japan, but if India, South Korea and Indonesia were to make an alliance they would be a strong contender; Japan would find it hard to build as strong an alliance. In the Americas, the alliance formed by the US would get one of the narrow constituencies (irrespective of which two countries joined the US). A South American alliance (Brazil, Mexico, Argentina) and an Anglo-American alliance (Australia, Canada, New Zealand) might form in competition for the second narrow constituency. At current levels of GDP, the South-American alliance would win. Seeing this, Australia and Canada would then have to decide whether to form a joint broad constituency, two separate broad constituencies, or persuade the US to form a strong constituency consisting of the US, Canada and Australia.
On the surface most decisions in the Boards of the Bank and the Fund are ‘consensus’ decisions. But in practice deliberations commonly continue until an agreement has been reached which has a simple voting power majority behind it. See Leech and Leech (2005: 612), Vestergaard (2011a: 18).

The phenomenon of politically determined quotas justified ex post ‘by reference to ostensibly neutral formulae specifically designed to produce the intended results’ dates back to the founding of the Bretton Woods organizations (Woodward 2007: 5).

In fact, although small European countries did lose some voting power in the 2010 voice reforms in the Bank, the result of IDA 16, negotiated just a few months later that year, was a 18 pct increase on IDA 15 (Vestergaard 2011a: 55). Moreover before the 2010 voice reform there was no system to recognize IDA contributions in terms of IBRD shareholding; only ad hoc and ex-post allocation of additional shares in cases of exceptional contributions (ibid.).

Voting power should not be used as a means of creating incentives for the financing of global public goods. Instead, we argue that funding for global public goods should be based on a model of ‘responsible shareholding’, by which member countries are required to contribute to global institutions in proportion to their level of shareholding in the Bank, subject to a minimum threshold to ensure that low-income countries are de facto exempted.