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The new Global Economic Council: Governance reform at the G20, the IMF and the World Bank

Jakob Vestergaard and Robert Wade

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JAKOB VESTERGAARD
jve@diis.dk

ROBERT H. WADE
r.wade@lse.ac.uk

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Danish Institute for International Studies, DIIS
Strandgade 56, DK-1401 Copenhagen, Denmark
Ph: +45 32 69 87 87
Fax: +45 32 69 87 00
E-mail: diis@diis.dk
Web: www.diis.dk
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ABSTRACT

This article argues that the current G20 is unsustainable and should be replaced by a new body on a firmer constitutional foundation. It presents two designs, one of them a reformed version of the G20, the other a reformed version of the Bretton Woods (World Bank and IMF) governance arrangement. It concludes in favour of the latter, in the form of a new Global Economic Council.

POLICY IMPLICATIONS:

- The G20 grouping of developed and developing country governments marks a big improvement on the G7 and G8 forums (though in practice it has not replaced them).
- But it is unsustainable as a global governance body, above all because it is a self-selected narrow oligopoly. With 173 member states of the United Nations permanently excluded or only marginally included, it fails to meet widely accepted criteria of representation.
- A sustainable 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 (World Bank and IMF) and modifying it to make it more equitably representative. All three bodies should have the same constituencies.
- The primary criterion for constituencies and voting should be relative GDP (measured with a blend of GDP at market exchange rates and GDP at purchasing power parity).

"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)

"… we are determined to reform and modernize the international financial institutions … We will reform their mandates, scope and governance" (G20 2009: 20)

"[The G20 is] one of the greatest setbacks since World War II" (Norwegian foreign minister, Jonas Gahr Støre, 2010).

"Why are they protesting? Our rulers' doors are always open" (Saudi official to TV interviewer, in connection with mass demonstrations against Saudi rulers in March 2011).

INTRODUCTION

From 1975 the heads of government of first six, then seven advanced countries (the United States, Japan, Germany, Britain, France, Italy, and Canada) met annually to discuss problems common to themselves and, often, to the rest of the world. They called themselves the G6 and then the G7. In 1997 they invited Russia to join them, making the G8. The G8 continues to meet today, in parallel with G20 summits.[1]

Meanwhile the G7 finance ministers were also meeting periodically, and continued to do so after 1997 without adding Russia.[2] Then in the wake of the East Asian/Russian/Latin American financial crises of 1997-1999 the G7 finance ministers, led by the US and Germany, decided to expand their membership to include both additional advanced countries and also some "developing and transitional" countries (DTCs).[3] The resulting expanded group of finance ministers called itself the G20, and declared that the G20 comprised the world's "systematically important countries". About half of its member states were DTCs.

In November 2008, as the world economy was falling into what turned out to be an eight month period of acute financial crisis, the G8 heads of government, led by President George W. Bush, decided to convene the first meeting of the heads of government of the existing G20, to bring the leaders of all the "systematically important countries" around one table. Their self-appointed task was to coordinate national responses so as to avoid the world economy falling further into the abyss.

It is widely agreed that, thanks to the "fellowship of the lifeboat", they succeeded in this coordination effort to a substantial degree, both at the first summit in Washington in No-

1 The two latest G8 summits were held in June in 2010 (Muskoka, Canada) and in May 2011 (Deauville, France) under Canadian and French presidency, respectively.

2 G7 Finance Ministers have continued to meet several times a year. In 2008, they held four official meetings (Tokyo, Osaka, two in Washington), in 2009, four (Rome, Washington, Lecce, Istanbul), but in 2010 only two (Nunavut, Washington), A few of these were G8 Finance Minsters meetings. The only G7 meeting activity in 2011 (as of late May 2011) was a telephone conference in March on the economic ramifications of the nuclear disaster in Japan.

3 The first official use of the DTC category (developing and transitional countries) was the 2008 IMF quota review, in which six countries normally classified as 'advanced economies' in the IMFs World Economic Outlook (Czech Republic, South Korea, Malta, Singapore, Slovakia, Slovenia) were reclassified as DTCs. The DTC category was soon adopted in World Bank voting power reforms. The use of the DTC category made the shift of voting power in the Bank appear larger than it was in terms of its normal country classifications (see Vestergard 2011a: 41-44). .

vember 2008, and the second one in London in April 2009. Their flexibility as an informal group, having to get things done through other organisations, helped them to do so.

But from the beginning the G20 leaders aspired to bigger things – to make themselves not just the top crisis committee but the top steering committee for the world economy over the long haul. They claimed 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". [4]

The fact that about half of its member states are DTCs makes it better reflect the striking rise in "multipolarity" of the world economy over the past three decades. One indicator is the share of DTCs in world GDP, which has increased from 32% in 1980 to 40% in 2000 to 50% in 2009 in purchasing power parity terms, or at market exchange rates from 26% to 23% to 33% for the same years – by either measure, 10 percentage points in one decade. The increasing economic weight of DTCs has eroded the "unipolar" world political system, when, as one analyst put it, "Membership of the West … meant doing whatever Washington said".[5]

Convening the G20 heads of government in November 2008 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."[6] 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. [7]

Analysts of global governance based in leading G20 countries echo these insiders' claims. For example, Stewart Patrick 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".[8] Andrew Cooper of Canada's Centre for International Governance Innovation 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". [9]

However, the G20 also has many critics – hardly surprising since it permanently excludes 173 of the UN's member states from participating at the top table of global economic governance, and softens their exclusion only a little by providing an attenuated form of regional

4 'What is the G20?' http://www.g20.org/about_what_is_g20.aspx.

5 Philip Stevens, 'West must offer Turkey a proper seat', Financial Times, 17 June 2010.

6 Gideon Rachman, 'The G20's seven pillars of friction', Financial Times, 8 November 2010.

7 The diplomat continued: "Australia is lucky to be a part of it - but if the forum is to last beyond the financial crisis of the past few years and Australia is to keep a spot at the top table, that place must be earned." At the same meeting the Australian prime minister encouraged the diplomats to seize the opportunity to give the forum a bigger role than just economic issues. It could help with alleviating poverty, for example, or tackling climate change, she said. See David Bosco, "Australia's wild about the G-20", *The Multilateralist*, 1 Apr 2011.

8 Steward Patrick, 'The G20 and the United States: opportunities for more effective multilateralism', Century Foundation Report, Washington, 2010.

9 Andrew Cooper, "The G20 and its regional critics: the search for inclusion", Global Policy, 2, 2, May 2011, 203-09, at 207.

representation to a fraction of the excluded (described below).

The critics generally agree that expanding the well-established G7 finance ministers' group in 1999 to include 12 new states plus the European Union constituted an improvement in global governance; and that establishing a G20 political leaders' summit in 2008 on top of the established G20 finance ministers' group further improved it. They see these moves as steps in the right direction of reducing the concentration of global economic governance in the hands of the G7 and G8 oligarchy, and raising the involvement of the rest of the world.

But the critics insist that doing better than the G7 and G8 cannot be the end of the matter. They say that the world needs a more legitimate body than a self-appointed, exclusionary club, which lacks authority to assume a steering committee role. And membership aside, they also say that the world needs a more effective body; for outside of the acute crisis conditions of late 2008 and early 2009 the G20 has mostly shown "how not to run the world", in the words of The Financial Times headline. Emerging and developed G20 countries have found themselves increasingly at odds over their prescriptions for recovery, as well as over the role of the group beyond the crisis.[10]

In other words, the critics question both the "input" legitimacy and the "output" legitimacy of the existing G20 – both the self-appointed and unrepresentative composition of the membership, and the inability to induce cooperation beyond the level of fine words (outside of acute crisis conditions).[11] But so far the question of a better design for a global economic governance body has received remarkably little attention.

This essay presents two improved designs, one of them a reformed version of the current G20, the other a reformed version of the Bretton Woods (World Bank and IMF) governance arrangement. It concludes in favour of the latter, in the form of a new Global Economic Council.

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 G20 reform. But it is worth bearing in mind two points. First, Maynard Keynes started work on a redesign of the international monetary system in 1940 and the US Treasury shortly after, years before it was even clear that the Allies would win the Second World War; so by the negotiations of 1944 some reasonably well worked out designs were on the table. Second, the normal pattern of change in policy domains and in governance arrangements is not proportionate responsiveness to signals from the external environment, but rather, long periods of stasis interrupted by bursts of change (or what Bryan Jones and Frank Baumgartner call "punctuated equilibrium").[12] The normal dynamic of change is appeal by the disfavored side to broader political forces, in which the disfavored side changes the *image* of the policy or governance arrangement prevailing outside the policy or governance sub-system, and changes the *venue* away

10 'The G20 show how not to run the world', Financial Times, 12 November 2010

11 For the distinction between input and output legitimacy, see Sharff (1999) and Risse (2006). In this paper we concentrate on the input side. For more on the output side see Vestergaard (2011b: 26-31).

12 Bryan Jones and Frank Baumgartner, 'The Politics of Attention', University of Chicago Press, 2005.

from ones which resist the image change to venues which are more responsive.

In the absence of any sign that the disfavored 173 member states of the United Nations might mobilize for G20 reform, the aim of analysts should be to keep working away on reform ideas in the expectation that the scope for reform may widen within the next decade – particularly if, as we think likely, the G20 proves unable to coordinate major reforms to financial systems, making it likely that more multi-country financial crises will course through the world economy at a frequency of roughly every five years. At these times of crisis, new governance images which have been worked up in venues on the margins can come galloping in to now more sympathetic central venues. This is the rationale for presenting the following critique of the existing G20 and designs for better alternatives.

RISE OF THE G20

First, a short elaboration of the history of the Gs. Establishment of a regular venue for heads of government of the major industrialized nations was prompted by the oil crisis of 1973. In 1974, the leaders of the US, UK, West Germany, France and Japan, held a series of meetings in Washington, calling themselves the 'Library Group'. In 1975, French president Valéry Giscard d'Estaing invited the leaders of the five Library Group countries together with the Italian prime minister for a meeting, which formally established the G6 to function as an annual summit with rotating presidency. The G6 became the G7 the year after, in 1976, when Canada joined.

In 1997 Russia joined the leaders' group with strong backing from the US government, wanting to help consolidate Russia's democratic transition. This made the G8 at leaders' level, while the finance ministers continued to meet as the G7.[13]

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. 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 state 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, where it all too obviously acted as the arm of the US Treasury in linking emergency loans to an American wish list of privatizing and liberalizing conditions. [14] Its role led to a change of image: instead of it being seen as a "mutual benefit" organization it was seen as a "conflicting interests" organization dedicated to promoting the interests of western capital and western states by opening crisis economies to their unrestricted activities. The IMF route to enlarging the G7 looked unpromising.

So the G7 decided to expand by a more ad hoc process. It ended up inviting another 12 countries plus the European Union to join it. The resulting group has about half its membership from developing countries – thus apparently translating rising economic multipolarity into rising multilateralism in global governance. The G20 finance ministers met for the first time in Berlin, and have met at roughly

13 Since 1977, the President of the European Commission has participated in G7 and G8 heads of state summits. This practice has been extended to the G20 summits.

14 Paul Blustein (2001), 'The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF', Public Affairs.

three month intervals since then, with increased frequency in 2011.[15]

The idea of adding a leaders' group to the existing 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. From the start the idea evoked scepticism from some analysts of global governance, including Richard Higgott (2005: 85, emphasis added).

> "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*".[16]

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 President George W. Bush to convene a meeting of the G20 leaders in November – the heads of government of the same 19 countries together with the President of the European Union Council. From the first the heads of the Bretton Woods organizations were invited to join as ex officio members; but not the president of the UN General Assembly or the UN Secretary-General. The G20 leaders have met five times, most recently in Seoul, South Korea, in November 2010, which was the first meeting outside of a G7 country. The previous meetings took place in the US, the UK and Canada, and the next meeting after Seoul is scheduled for another G7 country, France, in November 2011. (Unkind observers might take the locations as prima facie evidence that the G7 countries run the G20.)

The step up from finance ministers to heads of government marked a big increase in the "heft" of the group, and the G20 leaders did not shrink from bold claims. They declared in their communiqué of the September 2009 meeting in Pittsburgh:

> "We designated the G20 to be the premier forum for our international economic cooperation" (G20 2009b).

Earlier, after the April 2009 meeting in London, they announced 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).

As for the normative grounds on which the G20 leaders rest their claims, they say that the G20's

> "*economic weight and broad membership* gives it a high degree of *legitimacy and influence* over the management of the glo-

15 In 2011, G20 Finance Ministers met in February (Paris), March (Nanking) and April (Washington). They plan to meet again in September and October 2011 in the run up to the summit meeting in Cannes in November.

16 Richard Higgott, 'Multilateralism and the limits of global governance', 2005.

bal economy and financial system" (G20 2010a, emphasis added).

By "economic weight and broad membership" the G20 means that its membership covers 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 were 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.

THE G20'S LEGITIMACY PROBLEM

The G20's claims to legitimacy strike critics as hollow, for much the same reason as Saudi demonstrators in early 2011 were unconvinced by the Saudi official who challenged their protests against House of Saud monopoly rule by saying, "Why are they protesting? Our rulers' doors are always open." The critics include, for example, the Norwegian foreign minister, who declared in 2010 that the G20 is "one of the greatest setbacks since World War II". [17] The governor of the central bank of Uganda dismissed it as but "part of the old architecture which I hope will end".[18]

The G20 critics describe it as a "self-appointed" elite, appointed on the basis of no clear criteria. Indeed, the selection process could scarcely have been more ad hoc. The members were chosen 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 to be judged "representative", sent the names to the other G7 finance ministries, and after a few more iterations, invitations to the first meeting went out.

Representation

The first main problem with the membership is that it was and remains based on no explicit criteria, and includes several countries which are obviously not "systematically 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 all excluded countries, but the US wish to include some of its good allies, partly to counterbalance the "over-represented" Europeans (a point we return to). 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).[19]

17 Spiegel (2010). "Norway takes aim at G20: 'One of the greatest setback since World War II'. Interview with Jonas Gahr Støre", in *Der Spigel*, 22 June 2010.

18 Quoted in Cooper, op.cit.

19 Stewart Patrick, 'The G20 and the United States: opportunities for more effective multilateralism', Century Foundation Report, Washington, 2010, 49.

The resulting membership cannot even be "reverse engineered".[20] 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.

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".[21]) 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. But 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 (for the aim is surely not simply "multilateralism of the big", or MOB for short), the current G20's representational deficiencies are also striking. Africa is grossly under-represented (South Africa is the only African member country). There is not a single low-income country. There is not a single "small, open economy".

20 This claim is contested by a senior UK official involved in the G20 leaders' process. He suggests that the 20 can be reverse-engineered as follows. (1) Start with the G8; (2) add the EU Presidency; (3) start adding the next largest global economies, measured by GDP *at market exchange rates*; (4) include only IMF member countries (not Hong Kong or Taiwan); (5) no extra Europeans, because some are already represented by EU presidency and others which are not (such as Switzerland and Norway) should not be added, on grounds of regional balance; (7) Stop at 20, including EU presidency. However, this reverse engineering is not based entirely on explicit general criteria. Also, the use of GDP at market exchange rates (as distinct from some blend with purchasing power parity rates) is highly contested. And even with GDP at market exchange rates it does not yield the existing 19 countries: by the latter, Iran is bigger than Saudi Arabia and Argentina, and Thailand is bigger than South Africa (see Vestergaard 2011b, table 6).

21 Stewart Patrick, 'The G20 and the United States: opportunities for more effective multilateralism', Century Foundation Report, Washington, 2010, 20.

Table 1. The world's largest countries, by GDP (billion USD) and population (millions)[22]

	GDP (nominal)	GDP (PPP)	GDP * (60/40)	By population
1	US (14256)	US (14256)	US (14256)	China (1331)
2	Japan (5068)	China (9104)	China (6633)	India (1155)
3	China (4985)	Japan (4138)	Japan (4696)	US (307)
4	Germany (3347)	India (3784)	Germany (3202)	Indonesia (230)
5	France (2649)	Germany (2984)	France (2458)	Brazil (194)
6	UK (2175)	Russia (2687)	India (2300)	Pakistan (170)
7	Italy (2113)	UK (2257)	UK (2207)	Bangladesh (162)
8	Brazil (1572)	France (2172)	Italy (2036)	Nigeria (155)
9	Spain (1460)	Brazil (2020)	Russia (1813)	Russia (142)
10	Canada (1336)	Italy (1922)	Brazil (1751)	Japan (128)
11	India (1310)	Mexico (1540)	Spain (1474)	Mexico (107)
12	Russia (1231)	Spain (1496)	Canada (1314)	Philippines (92)
13	Australia (925)	Korea, Rep. (1324)	Mexico (1141)	Vietnam (87)
14	Mexico (875)	Canada (1280)	Korea, Rep. (1029)	Egypt (83)
15	Korea, Rep. (833)	Turkey (1040)	Australia (898)	Ethiopia (83)
16	Netherlands (792)	Indonesia (967)	Turkey (786)	Germany (82)
17	Turkey (617)	Australia (858)	Netherlands (745)	Turkey (75)
18	Indonesia (540)	Iran (844)	Indonesia (711)	Iran (73)
19	Belgium (469)	Poland (727)	Poland (549)	Thailand (68)
20	Poland (430)	Netherlands (673)	Iran (536)	Congo, DRC (66)

Table 2. If the G20 consisted of the 20 largest economies

	Countries OUT	Countries IN
By GDP (nominal)	Argentina, South Africa, Saudi Arábia	Belgium, Netherlands, Poland, Spain
By GDP (PPP)	Argentina, South Africa, Saudi Arábia	Iran, Netherlands, Poland, Spain
By GDP *	Argentina, South Africa, Saudi Arábia	Iran, Netherlands, Poland, Spain
By population	Argentina, Australia, Canada, France, Italy, Saudi Arabia, South Africa, South Korea, UK.	Bangladesh, Congo, Egypt, Ethiopia, Iran, Nigeria, Pakistan, Philippines, Thailand, Vietnam

22 There is no agreement about which GDP indicator to use. Most developed countries support GDP at market values (nominal) while many emerging market economies prefer GDP at purchasing power parity (PPP). In the recent voting power realignment in the World Bank, the compromise was to use a composite GDP indicator, giving 60% to GDP at market values and 40% to GDP at purchasing power parity. This composite GDP indicator is referred to throughout this paper as GDP*. All data are World Development Indicators for 2009 (latest available).

Table 3 shows some of the gaps in representation. Note the lack of representation of low income economies and Africa.

Table 3. G20 countries – by region and income classification

	Low-income countries	Middle-income countries	High-income countries	Total
Africa	0	South Africa		1
Americas & Australasia	0	Argentina, Brazil, Mexico	Australia, Canada, USA	6
Asia	0	China, India, Indonesia	Japan, Korea, Saudi Arabia	6
Europe	0	Russia, Turkey	France, Germany, Italy, UK	6
Total	0	9	10	19

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 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)

The "outreach" solution

The G20 has responded to criticisms of its exclusive membership, with some regions having barely any presence at the table, by sending ad hoc invitations to regional organizations such as the African Union and ASEAN. ASEAN has sent one country representative to all five summits, and the African Union has sent two to the two latest summits (Toronto and Seoul).[23] At Toronto in June 2010 there were five non-member invitees in all: Spain, the Netherlands, Ethiopia, Malawi and Vietnam. Seoul had the same five non-member participants, except that the Netherlands was displaced in favour of Singapore, representing a group of small states. [24]

At the Seoul summit, November 2010, this previously "spontaneous" practice of ad hoc invitations at the discretion of the summit host was institutionalised:

> "We reached broad agreement", the declaration said, "on a set of principles for *non-member invitations* to Summits, including that we will invite no more than five non-member invitees, of which at least two will be from Africa" (G20 2010b, emphasis added).

In effect, the G20 has become the "G20+5". The 20 countries, which represent only themselves, include the G20's 19 plus Spain, which has managed to get itself accepted in the status

23 The two African seats are for the country of the African Union presidency and the country of the NEPAD presidency (NEPAD being part of the AU).

24 Global Governance Group (3G), consisting of 28 member countries from Asia, the Middle East, Africa, Europe, South America, Latin America and the Caribbean.

as "permanent invitee". Then there are four regional seats: the EU, ASEAN, and two from the African Union. The last of the five non-member invitees will be left to the discretion of the summit host. [25] So it will be up to the French G20 presidency in 2011 whether to invite Singapore again, as the fifth representative of a region or group of countries, or perhaps invite a third regional representative from Africa (Egypt or Nigeria, for instance).

So outreach to include a peripheral ring of other countries and regions does give more countries some voice in the G20 process and helps to bring some regional balance. [26] But again, this cannot be the end of the matter. The "G20+5" suffers from the problem that the balance of single country seats versus country constituency seats is dramatically worse than in the Bretton Woods organizations: 19 member countries of the G20 represent only themselves, leaving it to the EU seat and four other regional representatives to "represent" the remaining 173 countries. This makes an average of almost 30 countries per representative, as distinct from an average of less than 10 countries per constituency in the IMF and World Bank.

Moreover, formal members and non-member invitees participate on unequal terms in the summits, with the latter largely excluded from the negotiations to prepare the G20 summits, and each sending fewer people. [27] The role of non-member invitee is more symbolic than substantive, with the partial exception of Spain in its capacity of *permanent* invitee.[28]

Finally, there is a problem of double representation and no representation. Where regions are represented as regions – for example, the European Union, ASEAN, and the African Union – countries which form part of one of these regions and are included in the 19 countries of the G20 are to a degree "double-represented". In the case of Europe, for example, inclusion of the European Union as one of the 20 means that four European countries (Germany, France, Italy, UK) have "double representation". They hold a seat under their own name, and they are also represented indirectly through the EU.

On the other hand, the 20 European countries which are members of the Council of Europe but not in the 27 country EU have no representation at all. Latin American and Central American countries, other than Argentina and Brazil, have no representation, there being no relevant regional organization equivalent to ASEAN or the African Union. Nor do Pakistan, Bangladesh, and Nepal, for the same reason, nor the Middle East and North Africa.

Given these problems in the design of the G20, let us consider two models for a new global economic governance body which improve on the existing body, though in different ways.

25 Y.P. Hermawan, 'Formalizing the G20 regional outreach contact groups and civil G20', 2010, 40.

26 Andrew Cooper of the Canadian Center for International Governance Innovation (CIGI) points to the willingness of non-member states to seek "deeper engagement" with the G20 process as evidence of the G20's legitimacy. Andrew Cooper, 'G20's impressive adaptive capability', FT.com, 11 April 2011. See our reply: Wade and Vestergaard, "G20+5 reinforces problem of arbitrary mechanisms', FT.com, 18 April 2011.

27 Formal members participate in G20 summits with three persons – head of state, finance minister and senior civil servant (the country's so-called sherpa). Outreach participants such as countries representing a regional body (Vietnam for ASEAN) or international organizations (the IMF, for instance) are represented by only one person. CHECK

28 The official G20 website (www-g20.org) gives testimony to this: it refers to interaction with other international organizations and experts from private-sector institutions and NGOs but makes no mention of non-member invitees.

REFORM MODEL 1: A MODIFIED G20, BASED ON EXPLICIT CRITERIA OF SIZE AND REGIONAL REPRESENTATION

Enrique Rueda-Sabater and colleagues at the Centre for Global Development in Washington DC argue that for a global governance arrangement to have "lasting credibility" it must be based on transparent criteria (Rueda-Sabater et al 2009: 2). On these grounds they reject both a "club" approach, such as the OECD, and a "hosted" approach, such as "the G7 expanding 'by invitation' to a G20". Instead they propose a model rather similar to the existing G20 but with explicit selection criteria combining both size and regional representation. Its member states would comprise (1) the biggest countries in terms of GDP or population, and (2) elected representative countries of each of the world's main regions.

In the size category, their model selects the countries that have a share of world GDP *or* world population 2 percent or more. Currently this would yield a set of 16 countries. Compared with the existing G20 membership, the 2 per cent rule would exclude Argentina, Australia, Mexico, Saudi Arabia, South Africa and Turkey, and include Bangladesh, Indonesia, Nigeria, Pakistan and Spain.[29]

Additional countries should be elected as representatives of each of the world's main regions, in recognition that for "a global governance system to be truly representative, it must also deal in some form with universality" (Rueda-Sabater et al 2009: 10). "But instead of allowing that notion to cripple the effectiveness of the governance system", the authors continue, "an alternative approach might be something akin to the 'protection of minority rights'" (ibid.).

For example, an additional five countries might be elected, one from each of five regional groupings: Americas; Europe+; Middle East/ South Asia; Africa; and East Asia/Pacific.[30]

The total size would then be twenty-one, consistent with keeping the group within the bounds of personal, trustful relations between participants.

Compared to the existing G20, this model has the advantage of being based on explicit and defensible criteria. It therefore allows objective adjustment to the changing distribution of economic weight and population between states.

But it also falls down on representational criteria, as can be seen by comparing it with the governing bodies of the Bretton Woods organizations. The 25 seat governing bodies and executive boards of the latter include eight countries representing only themselves, while the remaining 17 chairs represent country constituencies comprising the remaining 179 member states, an average of about 10 countries per constituency.[31] The eight include the US, Japan, Germany, the UK, France, Saudi Arabia, Russia, and China.[32]

29 The full list of G16 countries would be Bangladesh, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Nigeria, Pakistan, Russia, Spain, the United Kingdom and the United States.

30 See Rueda-Sabater et al (2009: 10). The authors do not describe in detail the country classification adopted.

31 These figures refer to the World Bank, where the number of seats was recently raised from 24 to 25 to provide a third African seat. The IMF remains at 24. The single country seats are the same in the two organizations, and there are only slight differences in the configuration of the remaining country constituencies. For an overview of the country constitutions in the two Bretton Woods institutions, see Annex A and B. Countries belonging to a different country constituency in the IMF (than in the Bank) are italisized in Annex B.

32 Five single-country chairs are formally "appointed" (US, Japan, Germany, UK, France) and the others are formally "elected" but single-country in practice.

Thus the Bretton Woods organizations operate with a partial constituency model. The Rueda-Sabater proposal also has a small number of regionally-based constituencies, as we saw; but turns the Bretton Woods balance between single country chairs and country constituencies on its head. Nineteen countries represent only themselves and five chairs represent the remaining 176 countries – an average of about 35 states per constituency, as against the Bretton Woods average of 10. These five chairs would hardly be effective as a vehicle for multilateral engagement. Indeed, a central concern throughout the recent voice reforms in the World Bank was the need to *reduce* the maximum number of countries in a constituency to 16, so as to make the complexity of intra-constituency dialogue manageable (Vestergaard 2011a).

So the claim to "universality" made in the Rueda-Sabater et al. proposal is more cosmetic than real. Voice, influence and representation for minorities should not be a concession "at the margins". Choosing 16 big countries and then adding five to represent the rest of the world's 176 countries would amount to little more than pretend universality. It would constitute a dramatic deterioration of representation vis-à-vis the country constituencies of the Bretton Woods organizations.

REFORM MODEL 2: A MODIFIED BRETTON WOODS

A more promising design for what we propose to call the Global Economic Council (GEC) starts from the existing Bretton Woods system of representation. As noted, the boards of both the World Bank and the IMF include eight countries which represent only themselves, the remainder grouped into multi-country constituencies averaging about 10 countries per constituency. Various proposals are currently being considered for incrementally changing the size and membership of these constituencies.

It is important that the constituencies for the GEC are the same as for the governing bodies of the Bretton Woods organizations. Instead of tweaking the existing Bretton Woods constituencies, what would they look like if rethought from the beginning? What new principles should guide the allocation of chairs among regions and within regions, to apply to both the Bretton Woods organizations and the new GEC?

Among regions

The first principle should be reasonable representation of all the world's main regions; and above all, more representation of African countries in the Bretton Woods organizations (not to mention the G20 as currently configured). We propose to base the GEC and Bretton Woods constituencies on a breakdown into four main regions: Africa, Asia, Europe, and the Americas and Australasia.[33] Table 4 shows the economic weight of these regions by several measures of GDP.

33 Dividing the world in these four regions is based on the principle of trying to achieve homogeneity of size, both in terms of population and in terms of GDP.

Table 4. The world's four main regions [34]

	GDP (nominal) (billion USD)	GDP (PPP) (billion USD)	GDP* (60/40)	GDP* (60/40) (% of total)
Africa	1440	2847	2003	3.23
Americas & Australasia	20608	22570	21393	34.54
Asia	16525	27357	20858	33.68
Europe	17690	17664	17680	28.55
Total	56263	70438	61933	100

Source: World Development Indicators (WDI), 2009 data.

Sixteen seats in the council should be distributed equally among each of these four main regions, or four seats per region.

The second principle should be representation according to economic weight. We propose that nine additional seats should be assigned to the four regions in proportion to their share of world GDP. At current GDP shares, all regions except Africa would get three additional seats each.

Table 5. GDP* and allocation of seats in revised Bretton Woods system

	GDP* (% of total)	GDP seat indicator	Allocation of GDP seats	Regional seats	Total number of seats
Africa	3.23	0.30	0	4	4
Americas & Australasia	34.54	3.11	3	4	7
Asia	33.68	3.03	3	4	7
Europe	28.55	2.57	3	4	7
Total	-	-	9	16	25

Together, the application of these two principles would give Africa four seats and the three other regions seven seats each. See Table 5.

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 would negotiate to form constituencies, with a minimum of three and a maximum of 17 countries in each. (This would break with the current Bretton Woods "mixed system" of eightsingle-country chairs and 17 multiple-country chairs.) 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 remain-

34 The total numbers reported for GDP are not the same as the numbers provided by the World Bank's World Development Indicators (WDI) for aggregate World GDP. The aggregate world numbers are bigger than what is calculated above. This is related to the procedure of imputing missing values for aggregate calculations when producing WDI data.

ing constituencies. [35] If the eight countries that currently hold single-country chairs all decide to form the smallest country constituencies (three), their constituencies would account for 24 countries, leaving the remaining 163 countries to distribute themselves among the remaining 17 country constituencies, with an average size of just under ten.

Second, two types of constituency may be formed: "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. [36]

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 on the criteria of biggest aggregate GDP. In the case of Asia, the country constituencies formed around China and Japan, respectively, will likely get the two narrow constituency seats for the Asian region. They would each invite two other states to join them.

Fourth, the second round of the election invites nominations for "broad" constituencies. In addition to not exceeding the upper limit of 17 countries, nominated constituencies must observe the additional criterion of not being smaller than five to ensure that the remaining number of countries in the region may be distributed in the remaining constituencies without violating the restriction on maximum size.[37] 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.

35 The upper-limit specified here is slightly higher than the desired maximum size identified in the World Bank voice reform process (Vestergaard 2011a), namely 17 instead of 16. This is necessary to ensure that ends can meet in all four regions. Consider the example of Africa: There are currently 53 African member states (23 of these form one country constituency made up of the Francophone countries in sub-saharan Africa; another 21 countries make up another country constituency made of (roughly) the Anglophone sub-saharan Africa; a third purely African country constituency is made up of South Africa, Nigeria and Angola. The remaining six African member countries are spread across various cross-regional country constituencies). After the election of one narrow constituency, there would be 50 African countries left for the remaining three African seats. Hence, a maximum size of 16 countries would not be possible (i.e, two countries too many for this).

36 This rule of at least two broad constituencies for each narrow one is necessary to avoid too many narrow country constituencies being formed for compliance with the maximum size limit. In the case of Europe, if six three-country constituencies were formed and elected, the remaining 29 of the total of 47 European countries would have to share the last seat. In the case of Africa, if two three-country constituencies were formed (around, say, South Africa and Nigeria), the remaining 47 of the 53 African countries would have to share the two remaining African seats, violating the "maximum 17" rule.

37 At current levels of GDP this criterion would be a binding constraint only on African and Asian nominations. In the case of Africa, after the first round (formation of the narrow three country constituency), 50 countries would remain. Constituencies nominated in the second round would have to observe the rule that the other two of Africa's remaining three seats would be able to absorb the rest of the region's countries. Since the maximum number of countries that can be absorbed by two constituencies is 34, constituencies nominated in the second round would have to consist of at least sixteen countries (50-34). In the case of Asia, the minimum number of countries has to be eight to ensure that if the four constituencies elected in the second round are all of the minimum size, it would still be possible to fit the remaining countries of the region into the last seat. With a total of 48 Asian countries left after allocation of the two narrow constituencies, four constituencies comprised of eight countries each, elected in the second round, would leave 16 countries to share the last Asian seat (48-32).

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. In the Bretton Woods organizations, 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.[38]

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

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.[39] Suppose there are three, as shown in table 6.

Germany, France and the Netherlands would win one of the two European narrow seats, while 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 to 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 Italy might decide to opt

Table 6. Possible configuration of narrow constituencies in Europe

	Group A	Group B	Group C
Countries	Germany (3202), France (2458), Netherlands (745)	UK (2207), Spain (1474), Poland (549)	Italy (2036), Russia (1813), Turkey (786)
Aggregate GDP, bn $ (60/40)	6405	4230	4635

Note: 2009 data, 'GDP 60/40' is a weighted average of GPD at market rates (60) and GDP at purchasing power parity (40).

38 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.

39 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.

for a stronger position in a coalition with Russia and Turkey instead. In brief, 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. The Nordic-Baltic countries (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden) might nominate themselves for a broad seat, in competition with, say, five other alliances: a Central European alliance (Austria, Belgium, Czech Republic, Luxembourg, Switzerland); an Eastern European alliance (Poland, Hungary, Serbia, Bulgaria, Romania, Slovak Republic, Slovenia); a Southern European alliance (Spain, Greece, Portugal, Malta, San Marino); an alliance formed around the UK (with the participation, for instance, of Ireland, Croatia, Cyprus and Ukraine); and an alliance of European transition economies (from Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Georgia, Kazakhstan, Macedonia, Moldova and Montenegro). 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. It is noteworthy that the aggregate GDP of three of these constituencies fall within a relatively small band of variation (from 1.2 to 1.5 bn USD).

Table 7. Possible configuration of broad constituencies in Europe

	Central European	Eastern European	Southern European	UK-led alliance	Nordic-Baltic	Transition economies
C'ies	Austria Belgium Czech Republic Luxembourg Switzerland	Poland Hungary Serbia Bulgaria Romania Slovak Republic Slovenia	Spain Greece Portugal Malta San Marino	UK Ireland Croatia Cyprus Ukraine	Sweden Norway Finland Denmark Estonia Latvia Lithuania	Albania Armenia Azerbaijan Belarus Bosnia-Herzegovina Geórgia Kazakhstan Macedonia Moldova Montenegro
GDP 60/40	1,502,501	1,210,068	2,053,403	2,665,594	1,305,595	377,457

Note: 2009 data, 'GDP 60/40' is a weighted average of GPD at market rates (60) and GDP at purchasing power parity (40). Million USD.

Table 8 provides a summary of the series of negotiations to form constituencies for all four regions.[40]

Table 8. The three rounds of Bretton Woods elections

	First round (seats/c'ies)	Second round (seats/c'ies)	Third round (seats/c'ies)	Total (seats/c'ies)
Africa	1 seat, 3 countries	2 seats, 34 countries	1 seat, 17 countries	4 seats, 53 countries
Americas+	2 seats, 6 countries	4 seats, 20-28 countries	1 seat, 5-13 countries	7 seats, 39 countries
Asia	2 seats, 6 countries	4 seats, 32-43 countries	1 seat, 5-16	7 seats, 54 countries
Europe	2 seats, 6 countries	4 seats, 20-30 countries	1 seat, 5-15 countries	7 seats, 41 countries
Total	7 seats	14 seats	4 seats	25 seats

In short, the proposed governance reforms would reboot the existing Bretton Woods organizations and put them under the stewardship of a Global Economic Council. All three governing bodies would be based on a new set of 25 elected country constituencies, which combine a more balanced representation of the world's main regions with voting shares more closely linked to relative economic weight than is currently the case.

VOTING SHARES IN THE MODIFIED BRETTON WOODS MODEL

Mention of voting shares raises an important governance issue for the new Global Economic Council. In the Bretton Woods organizations most decisions are taken by simple majority.[41] 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 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 paper and 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? Our proposal has already been suggested earlier, but is worth further discussion here.

The Bretton Woods organizations allocate votes among member states by a complex and non-transparent formula, which has ample

40 Numbers given are based on current membership of the World Bank (IBRD).

41 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 Vestergaard 2011a).

scope for ad hoc adjustment. But they claim that relative economic weight, measured by GDP, is a prime criterion in the share of both votes and financial contributions.

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 a prime criterion. Take, for example, the share of China plus India compared to that of Belgium and 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% relative to 4.01%), despite having a share of world GDP close to eight times bigger (13.97% relative to 1.85%, see table 9).

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 would suggest.[42] 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.

The massive under-representation of China and India vis-à-vis Belgium and the Netherlands is part of a general pattern. Table 10 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 10 shows, instead, huge dispersion: 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

Table 9. World Bank voting power reform in perspective

	GDP (nominal, % of world total)	GDP (PPP, % of world total)	GDP * (60/40, % of world total)	Voting power (before voice reform)	Voting power (after reform)
China	8.56	12.55	10.37	2.78	4.42
India	2.25	5.22	3.60	2.78	2.91
-- Total	10.81	17.77	13.97	5.56	7.33
Netherlands	1.36	0.93	1.16	2.21	1.92
Belgium	0.80	0.54	0.68	1.80	1.57
-- Total	2.17	1.46	1.85	4.01	3.49

Source: World Development Indicators (WDI), 2009-data.

42 This depends on the GDP indicator chosen. If measured in terms of GDP at market values the voting power of China and India should be roughly four times larger than that of Netherlands and Belgium (9.5/2.29=4.1). If measured at purchasing power parity values, their voting power should be almost eleven times larger (16.6/1.56=10.6).

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.[43]

The first of these factors is now negligible, as basic votes as a share of total votes have eroded over the years from the original level of 10% to little more than 2% today. However, the other two factors give rise to substantial variations in the voting power to GDP ratios, as shown in table 10. Some of these variations are so big as to make the case for further reform all by themselves, so to speak – on top of the voice reforms of 2010.

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.[44] 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 – from the current 2% of total votes to 10% (as was the case when basic votes were first introduced in 1944); and this share should be maintained through an annual, automatic adjustment process. The basic vote allocation helps to prevent small, low-income countries from being completely marginalized.

43 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). A young US Treasury official, Raymond Mikesell, was tasked with producing the formula for the initial allocation of quotas (subscriptions, drawing rights, and votes) in the proposed International Monetary Fund, in 1943. Equipped with a slide rule he began to construct a formula reflective of the technical discussion about which variables should count – until he received instruction from Harry Dexter White, the chief US negotiator, as to what shares the Big Four (US, UK, Russia, China) should receive, White receiving instruction from the Treasury Secretary and the President. He then had to reverse-engineer a formula to yield the required result. Mikesell later reported on how he answered questions at the Bretton Woods conference about how the quotas were arrived at:
I gave a rambling twenty-minute seminar on the factors taken into account in calculating the quotas, but I did not reveal the formula. I tried to make the process appear as scientific as possible, but the delegates were intelligent enough to know that the process was more political than scientific (Mikesell 1994: 35–36). For more on ad hoc allocations in the World Bank see Vestergaard (2011a).

44 This quote is from one of the first background papers on voice reform in the World Bank (2003a: 3), but subsequent documents reiterate it again and again.

Table 10. Voting power to GDP ratios, 30 largest economies

Country	Share of GDP*	World Bank		IMF	
		Share of voting power	VP to GDP ratio	Share of voting power	VP to GDP ratio
US	22.29	15.85	0.71	16.74	0.75
China	10.37	4.42	0.43	3.65	0.35
Japan	7.34	6.84	0.93	6.01	0.82
Germany	5.01	4.00	0.80	5.87	1.17
France	3.84	3.75	0.98	4.85	1.26
India	3.60	2.91	0.81	1.88	0.52
UK	3.45	3.75	1.09	4.85	1.41
Italy	3.18	2.64	0.83	3.19	1.00
Russia	2.84	2.77	0.98	2.69	0.95
Brazil	2.74	2.24	0.82	1.38	0.50
Spain	2.31	1.85	0.80	1.38	0.60
Canada	2.05	2.43	1.18	2.88	1.40
Mexico	1.78	1.68	0.94	1.43	0.80
S. Korea	1.61	1.57	0.98	1.33	0.83
Australia	1.40	1.33	0.95	1.47	1.05
Turkey	1.23	1.08	0.88	0.55	0.45
Netherlands	1.16	1.92	1.65	2.34	2.01
Indonesia	1.11	0.98	0.88	0.95	0.85
Poland	0.86	0.73	0.85	0.63	0.73
Iran	0.84	1.47	1.75	0.69	0.82
Saudi Arabia	0.72	2.77	3.86	3.16	4.40
Belgium	0.68	1.57	2.30	2.08	3.05
Argentina	0.66	1.12	1.71	0.96	1.46
Sweden	0.60	0.85	1.41	1.09	1.81
Thailand	0.59	0.49	0.84	0.50	0.85
South Africa	0.59	0.76	1.30	0.85	1.45
Austria	0.56	0.63	1.12	0.85	1.51
Norway	0.53	0.58	1.10	0.76	1.44
Venezuela	0.53	1.11	2.11	1.21	2.30
Greece	0.52	0.33	0.64	0.38	0.73

Source: World Development Indicators, 2009-data.

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. But which other? When small European countries argue, for instance, 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).[45] Of course, such an economic dynamism component can be specified in several different ways, to the advantage of some and the disadvantage of others.

In short, if developed countries try to grant themselves additional IMF quota shares and World Bank shareholding on the basis of such criteria as "openness", "economic variability" and IDA contributions, emerging market countries will insist on a range of other criteria which work to their advantage. 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.[46] Finally, 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.

45 In the case of the World Bank, the 'PPP booster' gave countries whose "PPP-based weight in the world economy" was "30% or more above their IBRD shareholding a total increase in shareholding percentage of at least 10%" (DC 2010: 7).

46 This could be either the 60-40 (market-exchange rate to PPP) weighting used both in the 2008 IMF quota review and in the current quota framework developed for the IBRD shareholding realignment (see Vestergaard 2011a), or simply a 50-50 weighting.

CONCLUSION

Defenders of the G20 – all from comfortably insider countries -- dismiss the kind of proposals made here as mere "formalistic recipes" and "conceptual thinking", in Andrew Cooper's words.[47] 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 operate in accord with the Swahili proverb, "Until the lions have their own historians, tales of hunting will always glorify the hunters".

Our starting point is the commonsense definition of an "unsustainable" organization as one that must eventually be changed. The present G20 is unsustainable because it must eventually be changed. The basic reason is that it has no – or almost no -- representation of the 173 member states of the United Nations which are not invited to participate. (The practice of inviting a few guests does not do much to compensate.) Eventually some of the disfavored actors will act on their anger towards the current self-appointed oligarchy to force through change.

The basic problems are: (1) the current membership 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.

47 Andrew Cooper, "The G20 and its regional critics", 208.

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. In any case, the G20 claim is misleading because its figures include the whole of the EU via the EU chair. Take out the non-G20 countries in the EU and the shares fall to 77% of world GDP, 60% world trade, and 62% of world population. Then there is the further question of why the EU is privileged as a full member while representatives from two other regional organizations (African Union and ASEAN) are marginal invited guests, and why other regions (such as Latin America, Middle East) have slight or no representation.

We have argued, second, that reform should take the long-established constituency system of the Bretton Woods organizations (the World Bank and the IMF) as the starting point, rather than tweak the input side of the existing G20. In the existing governing councils and executive boards of the World Bank and IMF all member states are formally represented, most in multi-country constituencies. But the present Bretton Woods constituency system does have several drawbacks. We have outlined a new constituency arrangement which could both replace the existing Bretton Woods arrangement and provide the blueprint for a new pinnacle body, the Global Economic Council (GEC).

We propose several explicit principles to put the constituency system on a firmer constitutional basis than the current Bretton Woods one. The first is universal representation, such that all member states are incorporated into a mechanism of consultation and collective preference formation. The second is weight in the world economy (hence effectiveness in turning decisions into action), measured by GDP. The third is regional representation, so as to ensure that regions have a presence roughly proportional to regional GDPs. The fourth is small enough size to allow personal trust to develop between the members.

We propose that both the Bretton Woods governing bodies and the Global Economic Council should comprise 25 country constituencies (about the upper limit for the small size principle), 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, much as is currently the case for the governing bodies of the IMF and the World Bank (though as we saw, there remains much variation in countries' votes relative to GDP even after the 2010 voice reforms).

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

- It would embed a Leaders Forum within the institutional framework of the existing Bretton Woods institutions 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.

- It would reconfigure the current country constituencies so that all chairs represent at least three and no more than 17 member countries.
- 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 Global Economic Council 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.

In short, the new model would allow 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.

ANNEX A COUNTRY CONSTITUENCIES IN THE WORLD BANK

1	United States	1
2	Japan	1
3	Germany	1
4	France	1
5	United Kingdom	1
6	Afghanistan, Algeria, Ghana, Iran (Islamic Republic of), Morocco, Pakistan, Tunisia	7
7	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines	14
8	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	6
9	Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Island, Micronesia (Federate States of), Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tuvalu, Vanuatu	14
10	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia, Turkey	10
11	Bahrain, Egypt (Arab Republic of), Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen (Republic of)	13
12	Bangladesh, Bhutan, India, Sri Lanka	4
13	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Democratic Republic of), Congo (Republic of), Cote d' Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Sao Tome and Principe, Senegal, Togo	23
14	Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Rwanda, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	21
15	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago	9
16	Brunei Darussalam, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam	11
17	China	1
18	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela	8
19	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, former Yugoslav Republic of, Moldova, Montenegro, Netherlands, Romania, Ukraine	13
20	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden	8
21	Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste	7
22	Saudi Arabia	1
23	Russian Federation	1
24	Azerbaijan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, Uzbekistan	8
25	Angola, Nigeria, South Africa	3
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ANNEX B COUNTRY CONSTITUENCIES IN THE IMF

1	United States	1
2	Japan	1
3	Germany	1
4	France	1
5	United Kingdom	1
6	Austria, Belarus, Belgium, Czech Republic, Hungary, Kosovo, Luxembourg, Slovakia, Slovenia, Turkey	7
7	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines	13
8	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	6
9	Australia, Kiribati, Korea (Republic of), Marshall Island, Micronesia (Federate States of), Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, *Seychelles*, Solomon Islands, Tuvalu, *Uzbekistan*, Vanuatu	15
10	Austria, Belarus, Belgium, Czech Republic, Hungary, *Kosovo*, Luxembourg, Slovakia, Slovenia, Turkey	10
11	Bahrain, Egypt (Arab Republic of), Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen (Republic of)	12
12	Bangladesh, Bhutan, India, Sri Lanka	4
13	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Democratic Republic of), Congo (Republic of), Cote d' Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Mauritania, Mauritius, Niger, *Rwanda*, Sao Tome and Principe, Senegal, Togo	22
14	*Angola*, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, *Nigeria*, Sierra Leone, *South Africa*, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	21
15	Brazil, Colombia, Dominican Republic, Ecuador, *Guyana*, Haiti, Panama, Suriname, Trinidad and Tobago	9
16	Brunei Darussalam, *Cambodia*, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, *Phillipines*, Singapore, Thailand, Tonga, Vietnam	13
17	China	1
18	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela	8
19	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, former Yugoslav Republic of, Moldova, Montenegro, Netherlands, Romania, Ukraine	13
20	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden	8
21	Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste	7
22	Saudi Arabia	1
23	Russian Federation	1
24	Azerbaijan, *Kazakhstan*, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan	8
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