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Jakob Vestergaard and Robert H. Wade

Out of the woods: Gridlock in the IMF, and the World Bank puts multilateralism at risk

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Abstract

The western hegemony of the past two hundred years is ending as power shifts towards the east and as western states lose the authority to uphold a rules-based multilateral order. In the wake of the Great Crash of 2008 the G20 leaders took steps to bolster the multilateral order, including reform of the governance of the IMF and the World Bank so as to reflect the increasing economic weight of developing countries. The executive boards of both organizations affirmed that the primary criterion for allocating voting shares should be shares of world GDP.

We show that the reforms at the IMF and the World Bank have substantially failed to meet their ostensible objectives. First, in both organizations the developed countries *gained* voting share relative to GDP share between 2009 and 2014. Secondly, countries continue to vary widely in their share of votes relative to share of world GDP; in both organizations some countries have six times or more the votes relative to GDP of others. Politicians and analysts should pay greater attention to achieving more equitable governance in these important multilateral organizations. At the end we show how this could be done.

Policy implications

- To help strengthen the multilateral order, the Bretton Woods organizations should make a more determined effort than hitherto to adapt their governance structures to changes in the relative economic importance of countries.
- They should agree to a new quota formula that establishes a more consistent link between a country's share of world GDP and its share of votes. The new formula would reduce the current voting power of some European countries and increase the voting power of some emerging market economies.
- The formula should raise the share of basic votes (given to all member countries equally) to at least 10%, as a way to protect the position of low-income countries.
- The formula should aim to strengthen regional groupings of countries by allocating a significant fraction of total votes as 'regional basic votes' (to be distributed within regions on the basis of shares of regional GDP).
- Western states must assume responsibility for taking these steps. Their present reluctance reinforces the already alarming drift to gridlock in global governance, incentivizing small groups of states to establish 'coalitions of the willing' and competing power blocs.

Introduction

The world is currently experiencing a tumultuous rebalancing of international relations. Economic weight is shifting from the Atlantic towards the Pacific Rim, and western states are losing the authority to uphold the rules-based multilateral order which they created after the Second World War. These changes are creating deep insecurity in the long dominant western states, prompting them to try to protect the positions of authority they acquired as a result of their economic dominance in the post-war decades.

In 2009, in the wake of the Great Crash of 2008, G20 leaders agreed to reform the governance of the IMF and the World Bank, so as better to reflect the increasing economic weight of dynamic emerging market economies in the world economy. They committed themselves to push for a shift of at least 5% of voting power from developed to developing countries in the IMF and at least 3% in the World Bank. In 2010 the executive boards of both organizations agreed to even greater changes than the G20 leaders called for, subject to ratification in capitals. They also agreed that countries' share of world GDP should be the primary criterion for countries' share of votes.

The agreements were heralded as a breakthrough in global economic governance. In November 2010 Managing Director Dominique Strauss-Kahn hailed the IMF's agreement as '*the most fundamental governance overhaul in the IMF's 65-year history* and the biggest-ever shift of influence in favor of emerging market and developing countries' (IMF, 2010b, emphasis added).

In the years following the 2010 announcements, however, changes 'on the ground' have been much more modest, and some are even going in the opposite direction. In both organizations developed countries as a group have *increased* their voting power relative to GDP. The current voting shares (early 2014) of developing countries are significantly lower than what was agreed in 2010: 3.11 percentage points lower in the Bank, and 2.54 percentage points lower in the Fund.

Unsurprisingly, emerging market and developing countries (EMDCs) have become exasperated with western states for clinging to their inherited authority in the IMF, the World Bank and other important international economic governance organizations (Wade 2013).

The emerging cooperation among the BRICS (Brazil, Russia, India, China and South Africa) – as seen in the advanced-stage negotiations to establish a Development Bank and a Contingent Reserve Arrangement – sends a 'wake up and smell the coffee' call to the west. The leading western states will carry a heavy responsibility for eroding global multilateral governance if they continue to drag their heels over the needed adjustments.

We first examine the current stalemate in IMF governance reform (Section 2). Then we explain what happened in the earlier reform process in the World Bank, completed in two steps in 2008 and 2010 (Section 3). We go on to propose a new model for allocating voting power in the two organizations (Section 4). At the end we summarize and draw out the wider significance of our argument for global governance (Section 5).

Stalemate in IMF reform

Before proceeding, a word about the IMF's quota subscriptions (similar to credit union deposits). The total quantity and distribution of quota between member states determine each country's financial contributions, access to IMF resources and voting power. The Fund uses a single formula to determine the quota shares and hence each state's rights and obligations.

The executive board agreed in 2010 to shift 6.2% of quota shares, and hence voting power, in favor of 'dynamic' EMDCs – with the important proviso that the agreement was subject to ratification in capitals.

More than three years later the shift has yet to be implemented, largely because the US Congress has still not approved what the US executive branch agreed to. Absent congressional approval the agreement cannot be implemented. The irony is that, for the US, the change is only an accounting exercise, 'moving money from one account to another with negligible risk', as funds already allocated for the IMF's New Arrangements to Borrow (NAB) get transferred into new quota shareholdings (Edwards 2014). But the majority of Republicans in the House of Representatives are loath to agree to anything President Obama wants, especially anything which favors multilateralism.

However, even if the 2010 agreement were implemented it would still leave the distribution of votes far out of alignment with the claimed objectives. First, it would leave developed countries heavily over-represented relative to their economic weight. The headline figure of a 6.2% shift conceals the reality that the key shift from developed countries to EMDCs is only 2.6%, the rest being shifts *within* the category of emerging market and developing countries from 'overrepresented' EMDCs to 'underrepresented' EMDCs. Second, even if the 2010 agreement were implemented it would still leave large discrepancies between countries in their share of votes over their share of world GDP, rather than all countries clustering close to 1.

The meager results partly reflect disagreements on the quota formula. Most member states agree that, in the interests of simplicity and consistency, quota should be based on economic weight and that economic weight should be measured by gross domestic product (GDP). But the Europeans are alarmed at the prospect of tying themselves to a criterion which produces an inevitable decline in European quota share, for they recognize that Europe's share of world GDP is bound to decline. So the Europeans stress that economic weight includes not just GDP but also 'variability' and 'openness', and especially imports and exports relative to GDP. Not coincidentally, intra-Europe trade enhances Europe's weight (trade between Belgium and Holland next door raises their openness scores), while trade between US states or between Chinese provinces does not raise theirs. In response to the Europeans, some of the BRICS argue that, if measures beyond GDP are to be included in the determination of quota shares, the criterion of 'contributions to global growth' should be among them.

The result is stalemate over the commitment made in 2010 to revise the existing quota formula. The deadline for a new formula has been postponed several times, most recently until January 2015. In fact, the quota formula negotiations have been put on hold until the US Congress approves the 2010 reforms. The current paralysis in Congress suggests that one should not hold one's breath.

So not only has the 2010 quota share reallocation – modest as it is – yet to take effect, but the IMF is continuing to operate without a legitimate quota formula, despite repeated affirmations that a new one is needed. Lack of agreement suits the Europeans well, for it protects their current overrepresentation. With this overview in mind, we now flesh out some of the main points.

The 2010 voice reforms

The 2010 voice reforms were part of a larger post-2008 crisis agreement among G20 leaders (G20, 2009; IMF, 2010b). The G20 emergency summit in London in 2009 agreed to *triple* the financial resources of the IMF, including substantial contributions from Japan, China and a number of other large emerging market economies. This took the form of a renewed and expanded New Arrangements to Borrow (NAB).[1]

Unlike quota shares, the additional NAB funds do not give contributing countries a bigger voting share. In return for their contributions some of the under-represented countries led the G20 leaders to commit themselves to revising the governance of the Fund so as to shift quota share and voting power in favor of EMDCs. The communiqué from the Pittsburgh summit in September 2009 announced that '[w]e are committed to a shift in International Monetary Fund (IMF) quota share to dynamic emerging markets and developing countries of at least 5%' (G20, 2009).

Under the G20's marching orders the Executive Directors started to negotiate. In 2010 they announced success: agreement to shift 6.2% in quota shares (hence voting power) from overrepresented to underrepresented countries. But this was misleading, to put it politely. Less than half of the mentioned figure is what really matters: a shift of voting power from advanced economies to EMDCs. The G7 countries, as a group, conceded only 1.8 percentage points of their voting power in aggregate. Table 1 presents the voting power of fifteen large countries (a) as it currently stands (end 2013), without the changes agreed in 2010, and (b) as it would be currently if the 2010 changes had been implemented.

We see that the 2010 shift would have made hardly any difference to the distribution of votes. Compared to the current distribution, implementation of the 2010

Table 1. Voting Power in the IMF, selected large economies

	(1) *Current*	*(2)* *2010 Voice reform*	*(3)* *Change*
United States	16.75	16.47	-0.28
China	3.81	6.07	+2.26
Japan	6.23	6.14	-0.10
Germany	5.81	5.31	-0.50
India	2.34	2.63	+0.29
Russia	2.39	2.59	+0.20
France	4.29	4.02	-0.27
United Kingdom	4.29	4.02	-0.27
Brazil	1.72	2.22	+0.50
Italy	3.16	3.02	-0.14
Korea, Rep.	1.37	1.73	+0.36
Turkey	0.61	0.95	+0.34
Indonesia	0.85	0.95	+0.10
Netherlands	2.08	1.76	-0.32
Belgium	1.86	1.30	-0.56

Note: Table 1 shows the voting power for a selection of the top-30 largest economies based on GDP. Column (1) shows current voting shares as of January 2014. Column (2) shows voting shares when the 2010 voice reform is implemented, source: IMF (2013c). Column (3) shows the net-change in percentage points.

agreement would have changed voting shares by more than half a percentage point in only two cases out of the fifteen large countries: China (gain of 2.26 percentage points) and Belgium (loss of 0.56 percentage points).

Large voting power imbalances remain

Table 2 shows voting power-to-GDP ratios for the same countries, both as of today (2014) and if and when the changes agreed in 2010 go into effect. If voting power were aligned with GDP share, we would expect countries to cluster close to 1. In contrast, the variation between these fifteen countries today is almost eleven times, from China (0.28) to Belgium (3.06). If the changes agreed in

Table 2. Voting power-to-GDP ratios, selected large economies

	(1) Share of GDP (50/50)	*(2) Voting power to GDP ratio Current votes*	*(3) Voting power to GDP ratio 2010 Voice reform*
United States	20.53	0.82	0.80
China	13.63	0.28	0.45
Japan	6.84	0.91	0.90
Germany	4.42	1.32	1.20
India	4.34	0.54	0.60
Russia	3.53	0.68	0.73
France	3.26	1.32	1.23
United Kingdom	3.12	1.37	1.29
Brazil	3.02	0.57	0.73
Italy	2.64	1.20	1.14
Korea, Rep.	1.75	0.78	0.99
Turkey	1.41	0.43	0.68
Indonesia	1.38	0.62	0.69
Netherlands	0.98	2.12	1.80
Belgium	0.61	3.06	2.14

Note: Table 2 shows voting power to GDP ratios for a selection of the top-30 largest economies. Column (1): share of world GDP, based on a (50/50) blend of Current GDP (50%) and GDP PPP (50%) based on 2012 data, source: World Development Indicators (November 2013). Column (2): voting power to GDP ratios based on current voting shares as of January, 2014. Column (3): voting power to GDP ratios based on voting shares when the 2010 voice reform is implemented, *source:* IMF (2013c).

2010 were implemented the variation would fall to five times, from China (0.45) to Belgium (2.14). India (0.60) and Brazil (0.73), too, would remain underrepresented, while several of the larger European countries would remain overrepresented.

On average, a dollar of GDP in the EU5 (Germany, France, UK, Italy and Spain) is worth almost three times as many votes as a dollar of GDP in the five BRICS (see Table 3). The aggregate voting power of the EU5 is higher (19.18%) than the aggregate voting power of the BRICS countries (11.03%), despite the fact that the GDP of the BRICS is nearly twice as large a share of world GDP (25.15%) as the GDP of the EU5 (15.31%).[2] Further, note that even if the 2010 reforms were implemented later this year, the EU5 would still have an aggregate voting power to GDP ratio (1.19) more than twice as large as the BRICS (0.56).

Table 3. Voting Power to GDP ratios in the IMF: EU5 vs. BRICS

	Current Voting Share (%)	*Share of total GDP (50/50) (%)*	*Current Voting Power to GDP ratio*	*Voting Power if 2010 reforms implemented*	*Voting Power to GDP ratio (if 2010-reforms)*
Germany	5.81	4.42	1.31	5.31	1.20
France	4.29	3.26	1.32	4.02	1.23
UK	4.29	3.12	1.38	4.02	1.29
Italy	3.16	2.64	1.20	3.02	1.14
Spain	1.63	1.87	0.87	1.92	1.03
EU5	19.18	15.31	*1.25*	18.28	*1.19*
China	3.81	13.63	0.28	6.07	0.45
India	2.34	4.34	0.54	2.63	0.61
Russia	2.39	3.53	0.68	2.59	0.73
Brazil	1.72	3.02	0.57	2.22	0.73
South Africa	0.77	0.63	1.22	0.63	1.01
BRICS	11.03	25.15	*0.44*	14.13	*0.56*

Note: Table 3 shows the voting power to GDP ratios for the EU5 versus BRICS countries. Column (1) current voting share as of January, 2014. Share of world GDP, based on a (50/50) blend of current GDP (50%) and GDP PPP (50%) based on 2012 data. *Source:* World Development Indicators (November 2013).

Table 4. Voting Power to GDP ratio in the IMF and World Bank

	World Bank		*IMF*	
	Voting power to GDP ratio 2009 GDP	*Voting power to GDP ratio 2014 GDP*	*Voting power to GDP ratio 2009 GDP*	*Voting power to GDP ratio 2014 GDP*
Developed	0.982	1.094	1.015	1.132
DTC	1.027	0.903	0.975	0.858

Note: Table 4 Shows voting power to GDP ratios for Developed versus Developing and Transition Countries in the World Bank column (1) and (2) and the IMF (3) and (4). World Bank is based on voting shares post-phase 1 (after 2008). IMF is based on the voting shares as after the 2008 reform. GDP in 2009 and 2014 is based on a (50/50) blend of current GDP (50%) and GDP PPP (50%). *Source:* World Economic Outlook Database (October 2013).

Table 4 is particularly striking. In contrast to the claims of great success in the voice reforms ('the most fundamental governance overhaul in the IMF's 65-year history', etc.), we see that the aggregate voting power to GDP ratio of *developed* countries has increased since 2009 in both the Fund and the Bank, and decreased for developing countries as a group. This is the reverse of what everyone allegedly agrees should be the case.

Quota formula revision in question

The IMF problem is not just that the shifts agreed in 2010 have not been implemented, and if implemented would still leave very large voting power imbalances relative to any plausible notion of economic weight. There is the further headache of revising the formula that has guided quota allocations in the IMF for decades. Deadlines have come and gone, with next to no agreement.

The existing formula allocates quota shares to member countries on the basis of four variables (weights in parentheses):

- Size of the economy, measured by GDP (50%);
- Integration into the world economy, or 'openness' (30 %);
- Potential need for IMF resources, measured by 'variability' of current receipts and net capital flows (15%); and
- Financial strength and ability to contribute to the Fund's finances, measured by foreign exchange reserves (5%).

Instead of announcing a new formula in January 2013, as planned, the Executive Board of Directors reported to the Board of Governors[3] on the outcome of the Quota Formula Review (IMF, 2013a). The main conclusions were:

1. '[I]t was agreed that GDP should remain the most important variable, with the largest weight in the formula and scope to further increase its weight'; and
2. There was 'considerable support for dropping variability from the formula' (IMF, 2013a, pp. 2-3).

Beyond these, the Executive Directors agreed little.

Then in October 2013, following the IMF's annual meetings, the Council of Ministers which steers the IMF declared in its communiqué: 'we urge the Executive Board to agree on a new quota formula… [and] reaffirm that any realignment in quota shares is expected to result in increased shares for dynamic economies in line with their relative positions in the world economy' (IMF, 2013b). But again, the Executive Board made no progress, and following the failure of the US Congress to approve the 2010 reforms as part of its 2014 budget, the Board has postponed the latest deadline to January 2015. Even this seems optimistic given that the negotiations have been put on hold until Congress approves the 2010 reforms.

Understanding the current stalemate

The notion of relative country economic weight is at the core of the stalemate. The default position for most countries remains 'share of world GDP', mainly because of its simplicity. But the Europeans insist that integration with the world economy must have great weight in the formula, along with GDP. We noted earlier how the great weight given to 'openness' plays to the individual advantage of small European states and the collective advantage of all European states vis-à-vis the unitary giants like the US, China, India and Brazil.

Using this and related arguments, Europeans insist that European countries are underrepresented, not overrepresented – an assertion which provokes much scoffing from other participants, including the BRICS. Many countries are prepared to accept that 'openness' should have some weight in the new formula, but they also consider that the current measure of openness is 'seriously flawed reflecting both conceptual and methodological issues' and must be replaced by a measure that avoids the positive bias for intra-Europe trade (IMF, 2013a, p. 3). And they go on to say that, if 'openness' is included, so should other factors. Some of the BRICS demand a weight for 'contribution to global economic growth'. In response to such galloping complexity, many participants fall back on share of GDP as the only viable criterion – only to encounter European objections.

In short, the stalemate over revision of the quota formula, coupled with the US Congress's blockage of implementation of the 2010 voting changes agreed by the Executive Board, has the net result of leaving developed countries with 2.74% more votes than they would have had from the 2010 agreement. This is gratifying for developed countries.

World Bank voice reforms[4]

The IMF saga was a kind of re-run of what happened earlier in the World Bank as it struggled to shift voting shares towards developing countries. The Bank sagae also reveals (a) exaggerated claims about agreement on big shifts of voting power; (b) Europeans resisting any significant changes on grounds that, if anything, they are underrepresented; (c) continuing large voting power imbalances post-agreement; and (d) no agreement on how shares should be allocated in future (Vestergaard and Wade, 2013).

We start with the claims. In a speech in April 2010, World Bank President Robert Zoellick (2010) argued that the advent of 'a new, fast-evolving multipolar world economy' required fundamental reforms of the World Bank itself, including in the balance of power between developed countries and emerging market economies. Soon afterwards, the World Bank presented a set of ostensibly far-reaching proposals on 'voice reform', to be endorsed by its Board of Governors, the culmination of negotiations begun years before.[5] Voice reform had several components, of which the central and most contentious one was voting reform to give developing and transition countries (DTCs) more voting power in the Bank's governing body.

The Governors approved the proposals at the 2010 Spring Meetings of the Bank and the Fund, and the Bank launched them under the headline, 'New World, New World Bank' (World Bank, 2010, p. 5):

> A modernized [World Bank Group] must represent the international economic realities of the early 21st Century… [W]e are significantly increasing developing and transition country voice across the Group… This realignment strengthens our ability to continue to support the smallest poor members, and demonstrates that a greater say for emerging and developing countries brings with it greater responsibility for the financial soundness of the Bank Group.

To what extent was this true?

Results of the World Bank voting reform

All through the negotiations participants invoked two main criteria for voting realignment. One was to achieve parity or equal shares between high income (non-borrower) countries on the one hand and low and middle income (borrower) countries on the other. The other was to make voting shares proportional to economic weight as measured by GDP shares.

At its 2010 spring meetings, the Bank announced that developing and transition countries (DTCs) had increased their voting power from 42.60% to 47.19%: a shift of 1.46 percentage points in phase 1 (2008), followed by a shift of 3.13 percentage points in phase 2 (2010), amounting to a total shift of 4.59 percentage points. The share of developed countries fell from 57.40% to 52.81%. So at first glance the voice reforms brought the World Bank close to voting power parity (50%) between developed and non-developed countries – one of its stated objectives.

In reality the shift was much more modest because the DTC category includes several high-income countries which should not be in the developing country category and which do not borrow from the Bank. In terms of the Bank's normal classification of high, middle and low income, the high-income countries managed to limit their losses to the point where their collective share remains above 60%:

Table 5. Results of Voting Power Reform in the World Bank (both phases)

Increase	*Decrease*
China (1.64)	Japan (-1.01)
South Korea (0.58)	France (-0.55)
Turkey (0.55)	United Kingdom (-0.55)
Mexico (0.50)	United States (-0.51)
Singapore (0.24)	Germany (-0.48)
Greece (0.21)	Canada (-0.35)
Brazil (0.17)	Netherlands (-0.29)
India (0.13)	Belgium (-0.23)
Vietnam (0.12)	Switzerland (-0.20)
Spain (0.11)	Australia (-0.19)

Note: Table 5 shows the ten countries with the largest increase and decrease respectively as a consequence of the voting power reform measure in percentage points. *Source:* DC 2010a.

pre-reform they had 65.3%; with the reform they have 61.6%. The voting share of developing countries (low- and middle-income countries) increased from 34.67% to only 38.38%. This is about as far from parity as Greece is from solvency.

Most of the gain went to dynamic emerging market economies, especially China. The US, Japan and several European countries lost out. Table 5 lists the ten countries that gained the most voting power and the ten countries that yielded the most.[6] The five biggest losers were the World Bank's five biggest shareholders prior to the reform, namely Japan, France, UK, US and Germany; the four biggest gainers were China, South Korea, Turkey and Mexico. China moved up to become the third largest shareholder after the US and Japan.

At least these changes are in the right direction, but most of the changes are even more microscopic than the ones we noted earlier in the Fund's 2010 (non-implemented) agreement. Only 22 of the 187 member countries had their voting power changed by more than 0.1 percentage points; only eight countries had a change of more than 0.5 percentage points, and only two countries (China and Japan) a change of more than one percentage point (Table 5). Yet it took month after month of '24/7' negotiations, and blistered nerves all around, to achieve changes even of this magnitude, as executive directors and Bank staff searched for compromises 'at the third decimal point', in the language of our informants.

Table 6 summarizes the phases of the voting power realignment and its net effect on low- and middle-income countries.

Table 6. The two phases of the IBRD voting power realignment (shareholding in %), 2010 income group

	Before Phase 1	*After Phase 1*	*After Phase 2*	*Net change (phase 1)*	*Net Change (Phase 2)*	*Total net change (1+2)*
LICs	3.45	3.94	3.84	0.49	-0.1	0.39
MICs	31.22	32.08	34.54	0.86	2.46	3.32
LICs + MICs	34.67	36.02	38.38	1.35	2.36	3.71
HICs	65.32	64.09	61.66	-1.23	-2.43	-3.66

Note: Table 6 shows the distribution of voting power between the three income groups. Calculations are based on data from DC (2010a). Income groups based on 2010 (FY11) classification. Net changes in the last three columns are given in percentage points.

Table 7. Voting power to GDP ratios in the World Bank

Country Name	*(1) Share of Total GDP (50/50) (%)*	*(2) Current Voting Share (%)*	*(3) Voting Power to GDP ratio*
United States	20.53	15.30	0.75
China	13.63	5.35	0.39
Japan	6.84	8.28	1.21
Germany	4.42	4.39	0.99
India	4.34	3.12	0.72
Russian Federation	3.53	2.32	0.66
France	3.26	4.13	1.27
United Kingdom	3.12	4.13	1.32
Brazil	3.02	1.73	0.57
Italy	2.64	2.57	0.97
Canada	2.16	2.94	1.36
Mexico	2.09	0.98	0.47
Spain	1.87	1.96	1.05
Korea, Rep.	1.75	1.33	0.76
Australia	1.66	1.47	0.89
Turkey	1.41	1.31	0.93
Indonesia	1.38	0.86	0.63
Saudi Arabia	1.05	2.32	2.20
Netherlands	0.98	2.01	2.05
Poland	0.88	0.58	0.66
Switzerland	0.69	1.56	2.25
Thailand	0.67	0.45	0.68
South Africa	0.63	0.79	1.25
Argentina	0.62	0.94	1.52
Sweden	0.61	0.88	1.43
Belgium	0.61	1.65	2.71

Note: Table 7 shows voting power to GDP ratios for a selection of the top-30 largest economies. Column (1): share of world GDP, based on a (50/50) blend of Current GDP (50%) and GDP PPP (50%), data for 2012. *Source:* World Development Indicators (November 2013). Column (2): current voting shares as of December 31, 2013. Column (3) shows voting power to GDP ratios.

Table 7 lists the Bank's voting power to GDP ratios for a selection of the world's largest economies. The ratio varies from below 0.5 at the bottom end (China) to almost 3 at the top end (Belgium). This six-fold difference in how GDP translates into voting power post-reform is not easily reconcilable with the 75% weight allegedly given to GDP in the Bank's quota framework.

Although the inclusion of criteria other than GDP in the quota framework produces variation in this ratio from country to country, the variation demonstrated here is far greater than can be accounted for by the extra criteria. This is true not only for variation between the two extremes, but also for how countries are distributed across the spectrum.

In short, the principle that voting power should 'in large measure reflect the relative importance of member countries in the global economy'[7] (DC, 2003, p. 3) is more rhetoric than reality.

Moreover, despite repeated assurances to the contrary, low-income countries as a group (as distinct from middle-income countries) gained hardly any voting power (see Table 6). This reflects a larger pattern of marginalizing the interests of the low-income countries in the voice reform. Another expression of the same pattern was the decision to make only a very small increase in 'basic votes' (votes allocated equally to all countries), leaving the share of basic votes in total votes at only 5.5 per cent – about half of what it was when the World Bank was established in 1944.

The voice reform made no headway in reaching agreement on criteria for reallocating votes in the future, except for the agreement that shareholding reviews be conducted every five years. For example, it is unclear whether the next shareholding review in 2015 will take 'voting power parity' between developed countries as a group and DTCs as a group as the central objective, and whether and how a country's financial contributions to IDA (the soft-loan arm of the World Bank) should be recognized in its share of IBRD votes (IBRD being the main lending arm).[8]

We have been considering the changes in voting shares entailed by the Bank's 2008-2010 voice reform agreement. But it turns out that the modest gains in voting shares for DTCs announced in the agreement are premised on several high-income countries' promises not to subscribe to the full amount of shares they would

Table 8. Development in the distribution of voting power in the World Bank and the IMF

	World Bank			*IMF*		
	2010 reforms	*Current Voting Shares*	*Change*	*2010 reforms*	*Current Voting Shares*	*Change*
Developed Countries	52.83	55.87	+ 3.04	55.23	57.97	+ 2.74
DTC	47.21	44.13	- 3.11	44.57	42.03	- 2.54

Note: Table 8 Shows the distribution of voting power between the developed and the DTCs in the World Bank and in the IMF respectively. Column (1) shows the distribution in the World Bank after Phase 2 reforms, in 2010. Column (2) shows the current distribution of votes in the World Bank as of January 2014. Column (3) shows the distribution after the 2010 reform in the IMF. Column (4) shows the current distribution in the IMF.

otherwise be entitled to. Since 2010 they have increased their shares by pledging more capital subscription**.** By August 2012, Japan, Germany, the UK, France and Canada together had increased their share of votes by 4.1 percentage points (Vestergaard and Wade, 2013). All these countries were among the main losers in the voice reform. But taking into account their post-2010 capital subscriptions, Japan and Canada have more voting power today than they had prior to the voting reforms, and Germany, the UK and France have reversed their losses almost completely.[9]

The upshot is that, just a few years after completion of the World Bank voice reforms, the modest voting power increases for developing countries have vanished.[10] Developing countries have 3.11 percentage points less voting power today than what was agreed in the 2010 reforms. The corresponding figure for the Fund is 2.54 percentage points as of early 2014 (see Table 8).

In short, the net shift in voting power in the IMF and World Bank since the G20 leaders announced agreement on the principle of major shifts of voting power in 2009 is negligible, despite grand statements about 'historic' change.

Policy options

The substantial literature on reforms of the World Bank and the IMF says surprisingly little about voting power reforms[11] beyond the oft-repeated proposal for double-majority voting – a majority of votes and a majority of countries (Jakobeit, 2005; Woods, 2006).

Dervis and Özer propose a voting system for a new Economic and Social Security Council at the UN, which could function as a prototype for the IMF's and World Bank's boards. They suggest a system of weighted voting based on three factors: GDP, population and contributions to global public goods, each weighted equally (Dervis and Özer, 2005, pp. 96-97). It is easy to imagine the response of developed and most developing countries to the idea of weighing population equally with the other two factors, given that China and India together account for 38% of world population and Asia accounts for two thirds.

Moreover, institutionalizing a practice that allows countries to 'buy' more influence than they would otherwise be eligible for – through the weighting for 'contributions to global public goods' – is problematic 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. Developing countries would likely see such a voting system as an extension of the old one rather than the beginning of a new one.

Voting power should not be used as a means of creating incentives for the financing of global public goods. 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 shareholdings. Member countries of the World Bank, for instance, would then be obliged to contribute to IDA in proportion to their levels of shareholding in the Bank – which would end the current system whereby Bank staff negotiating IDA replenishments have to make the rounds of high-income countries with a begging bowl in their hands every three years.[12]

What might work? Shareholding should satisfy the criterion of input and output legitimacy (Scharpf, 1999), as well as the principles of parsimony and adjustability. It should be based on a simple formula which lends itself to automatic adjustment to the changing realities of the world economy, while ensuring both representational legitimacy and legitimacy in terms of effectiveness in pursuing mandates. This means that political (voting) power cannot stray too far from economic weight in the new formula.

A core challenge is to arrive at a proposal that balances the concerns and interests of the world's great economic powers: the US, China, Japan, Brazil and the largest European economies, especially Germany, France and UK. The formula must be applicable not just to the current situation but to likely changes in the next decade or two.

We propose a voting system which satisfies these criteria and which has a chance of winning acceptance across the membership of the Bretton Woods organizations.

First, a sizable proportion of total votes is classed as 'country basic votes' and allocated equally to each member state. In 1944 the Bank and the Fund's founders established basic votes in order to give small and poor countries a guaranteed stake in the organizations. However, over subsequent decades the share of basic votes has fallen to insignificance. The increase in basic votes as a share of total votes should be large enough to increase the voting power of low-income countries both individually and as a group. Note that giving voice to low-income countries through a larger allocation of basic votes has the advantage that basic votes do not require paid-in capital. Low-income countries would therefore have no incentive to subscribe to fewer shares than they are eligible for, as happened after the 2010 voice reform. Country basic votes should be restored to their original level of 10%, at least.

Secondly, a sizable proportion is classed as 'regional basic votes' and allocated equally to the world's four main regions: Asia, Europe, the Americas and Africa (for example, 5% to each region), to ensure an element of intra-regional stability in terms of voting power shares.[13] Each region's voting share is allocated to countries within the region on the basis of each country's share of regional GDP.

Thirdly, the remaining share (70% in this example) is allocated in line with each country's share of global GDP. Given that GDP at market exchange rates and at purchasing power parity exchange rates are both relevant to a country's relative position in the world economy, and that developed countries weigh heavier by the former and developing countries weigh heavier by the latter, we propose a 50:50 weighting of the two measures. Hence GDP is calculated with a 50% weight to GDP at market exchange rates and 50% to GDP at purchasing power parity (PPP) exchange rates.

A formula with these characteristics balances economic size, regional representation and a guarantee of significant representation for small and poor states. It also avoids all manner of political battles around a more complex shareholding formula, although there will of course be disputes about how to measure GDP.

Needless to say, there are numerous ways in which our model could be specified. Some might argue that the basic votes be set higher, at 20%, or that the share of regional votes should be 40%, not 20%. Our calculations of various specifications of the proposal suggest that the 10-20-70% model best balances the concerns and interests at stake.

Tables 9 and 10 show the implications of our proposal in terms of voting shares in the IMF.

Table 9 shows aggregate voting power in the IMF for each of the four world regions, using the latest available GDP data (2012), as well as forecast GDP data for 2018. The data for current voting shares, in comparison with the 2012 GDP data, clearly bring out the over-representation of Europe and the under-representation of Asia. This pattern of distorted representation will be even starker by 2018 in the absence of substantial

Table 9. IMF voting shares: current and with proposed model (%)

	(1) Current	*(2) GDP (Current)*	*(3) Proposal (Current)*	*(4) GDP (2018)*	*(5) Proposal (2018)*
Asia	28.26	38.15	34.53	41.30	36.73
Europe	35.36	25.38	25.00	22.52	23.00
Americas	29.32	33.03	30.20	32.37	29.73
Africa	7.06	3.43	10.27	3.81	10.54
Total	100	100	100	100	100

Note: Table 9 shows the distribution of IMF voting shares divided by World Regions. Column (1) shows current voting shares as of January 2014. Column (2) shows the country share of GDP 2012, based on a (50/50) GDP blend (current GDP (50%) and PPP GDP (50%)), source: World Development Indicators, November 2013. Columns (3) and (5) shows the share of votes based on the proposed distribution model (10% basic votes, 70% GDP votes (50/50 GDP blend) and 20% regional votes) for 2012 and 2018 respectively. Column (4) shows the country share of total GDP in 2018, based on a forecast of (50/50) GDP blend (current GDP (50%) and PPP GDP (50%)), *source:* World Economic Outlook, October 2013.

voting power reform. Our proposal shows how to bring Europe's voting power into alignment with GDP, how to increase Asia's voting power substantially, and how to raise Africa's tiny share of votes by roughly 50%, from 7% to more than 10%.

Table 10 shows the implications of IMF voting power for a set of key countries that are likely to be influential in negotiations over future voting power reforms, using 2018 forecast data for GDP. Note the following features. First, the voting power of the US remains more or less constant, at a level lower than its share of

Table 10. IMF voting shares: current and with proposed model (%)

	(1) Current	*(2) GDP (Current)*	*(3) Proposal (Current)*	*(4) GDP (2018)*	*(5) Proposal (2018)*
United States	16.75	20.53	17.53	20.54	17.60
Japan	6.23	6.84	5.74	5.46	4.54
Germany	5.81	4.42	4.02	3.89	3.64
France	4.29	3.26	2.98	2.92	2.75
United Kingdom	4.29	3.12	2.85	2.93	2.75
China	3.81	13.63	11.38	16.43	13.54
Italy	3.16	2.64	2.42	2.19	2.08
Canada	2.56	2.16	1.89	1.98	1.74
Russian Federation	2.39	3.53	2.98	3.02	2.53
India	2.34	4.34	3.66	4.71	3.92
Netherlands	2.08	0.98	0.93	0.86	0.84
Belgium	1.86	0.61	0.60	0.53	0.54
Brazil	1.72	3.02	2.63	2.79	2.44
Mexico	1.47	2.09	1.84	1.98	1.74
Korea, Rep.	1.37	1.75	1.51	1.87	1.59

Note: Table 10 shows the distribution of IMF voting shares for a selection of countries from the top-30 largest economies, sorted by current voting shares. Column (1) shows current voting shares as of January 2014. Column (3) shows the country share of GDP 2012, based on a (50/50) GDP blend (current GDP (50%) and PPP GDP (50%)), source: World Development Indicators, November 2013. Columns (3) and (5) shows the share of votes based on the proposed distribution model (10% basic votes, 70% GDP (50/50 GDP blend) votes and 20% regional votes) for 2012 and 2018 respectively. Column (4) shows the country share of total GDP in 2018, based on a forecast of GDP blend (current GDP (50%) and PPP GDP (50%)), *source:* World Economic Outlook, October 2013.

world GDP but above the 15% threshold that gives it alone *de facto* veto power. Secondly, the votes of the five BRICS countries and the EU5 are rebalanced, so that by 2018 India (3.92%) becomes a (slightly) larger shareholder than Germany (3.64%), and Brazil (2.44%) and Russia (2.53%) approach the shareholding levels of France and the United Kingdom (2.75%), while China (13.54%) approaches the shareholding level of the US. Thirdly, some anomalies are corrected, including the vast overrepresentation of Belgium and the Netherlands, which currently have more voting power than large dynamic emerging market economies such as Brazil, Mexico and Korea.

Many European countries will not welcome this proposal. The new voting power system should be launched as part of a larger reform package, including commitment to a new principle of 'responsible shareholding', by which the financial contributions of dynamic emerging market economies increase and those of European countries decrease. This will make the realignment easier to sell to European electorates.

Conclusion

Many representatives of EMDCs, including the BRICS, are becoming increasingly frustrated with western determination to cling to power in the IMF and the World Bank and other important international economic governance organizations. They are plotting how to induce western states to agree to real reductions in the western 'voice'. One way is for them to move towards the exit. They have therefore been signaling that they – especially the BRICS – will 'be more careful and selective before agreeing' to activate the New Arrangements to Borrow (NAB), in the words of one participant, since it entails them handing over more money in return for very little. And the BRICS are already far advanced in the negotiations to set up a BRICS Development Bank and a BRICS Contingent [Foreign Exchange] Reserve Arrangement (for currency swaps or pooling), scheduled to be signed at the next BRICS summit in 2014.

Overall, the voice reforms in the Bank and the Fund represent a very modest step towards enlarging the influence of developing countries. By not going further to adjust their voting systems to the realities of the global economy, the Bretton Woods organizations are missing an opportunity to bolster their representational legitimacy and strengthen the larger system of multilateral cooperation that has taken half a century to build. That larger multilateral system is already under much strain in the context of trade, where western governments have been keen to negotiate free-trade agreements with developing countries outside the World Trade Organization, where western governments have a weaker grip on the commanding heights than they do in bilateral or plurilateral negotiations. The result is a tangled spaghetti ball of global trade and investment rules.

While resistance to more substantial voting realignments may be in the short-term interest of some developed countries, it is not in their collective medium to long-term interests. It will likely contribute to further marginalization of the Bretton Woods organizations, to the benefit of the G20 and other such fora of the largest economic powers (Vestergaard and Wade, 2012). Countries not included in elite clubs, by contrast, will be systematically disadvantaged in their multilateral dealings.

Future voice reforms in the World Bank and the IMF should ensure that:

- Basic votes are restored to at least 10% of total votes, their original level in 1944.

- A sizable proportion of votes is classified as 'regional basic votes' and allocated equally to the world's four main regions: Asia, Europe, the Americas and Africa (5% to each region).
- Each region's voting share is allocated to countries within the region on the basis of each country's share of regional GDP.
- The remaining share (70%) is allocated on the basis of each country's share of global GDP.

Western governments are allowing their drive to cling to their post-Second World War power positions to obscure the bigger issues at stake. They must go beyond their rhetorical commitment to shift voting power towards EMDCs and actually do it for the sake of boosting the effectiveness of multilateral economic governance and checking the present drive towards 'coalitions of the willing' in plurilateral arrangements. That way lies a return to the 'competing power blocs' of Europe between the eighteenth and twentieth centuries, a fate devoutly to be avoided (Wade, 2013).

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Notes

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[1] The New Arrangement to Borrow (NAB) was originally introduced in 1997, with participation from 24 IMF member countries plus the Hong Kong Monetary Authority (IMF, 1997). The NAB is used in the event that the IMF needs to supplement its quota resources for lending purposes. The G20 meeting in London in 2009 agreed to renew and expand the NAB. The renewed and expanded NAB is a set of credit arrangements between the IMF and 38 member countries and organizations. The NAB can provide supplementary resources to the IMF of about USD 564 billion (IMF, 2013d).

[2] The ratios are based on share of total GDP, based on (50/50) blend of current GDP (50%) and GDP in Purchasing Power Parity (PPP) (50%), as are all subsequent GDP data in the paper.

[3] The Executive Board of Directors comprises 24 Executive Directors, who are civil servants appointed or elected by member countries or by groups of countries, plus the Managing Director, who serves as Chair. The Board of Governors, the highest decision-making body of the IMF, consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the governor of the central bank for that country.

[4] The following section is based on a combination of desk research and two interview missions to the World Bank. Interviews were carried out by the authors in Washington in June and September 2010. We interviewed more than thirty senior World Bank staff, including a number of Executive Directors.

[5] For the key Bank documents, see DC (2010a, 2010b, 2010c). For short essays on the main outcomes of the voice reform process, see Horton (2010) and Lombardi (2010).

[6] The main focus of the voice reform was on IBRD shareholding, which determines the structure of the Board of Executive Directors, but the reform package also included voting power realignments for shareholding in the IFC and IDA.

[7] This quote is from one of the first Development Committee background papers on voice reform (2003: 3); subsequent papers reiterate it again and again.

[8] See Vestergaard (2011), pp. 34-38, for a discussion of how IDA contributions are recognized in the allocation of IBRD voting shares.

[9] We have not been able to pin down the underlying reasons for this. We assume it stems from a combination of two factors. First, some countries allocated more votes have not yet fully subscribed to them, in part perhaps because in return they would have to pledge more capital. The deadlines for subscribing to allocated shares are March 2015 and March 2016 (for the Special Capital Increase and the General Capital Increase, respectively). Secondly, some high-income countries have taken up additional shares from the pool of unsubscribed quotas, perhaps at the request of the World Bank, in order to raise more capital. Some have argued that it would be wrong to 'blame' a small group of high-income countries for subscribing to unallocated shares if in so doing they are making up for a capital shortfall created by under-subscribing low-income countries and that in any case it might all be a 'temporary aberration' that will self-correct as the 2015/2016 deadline arrives. Note, however, that the voting shares subscribed to post-2010 by Japan, Canada, Germany, France and the UK amounts to more than 4% of total voting shares. In comparison, the total gain for low-income countries of all voice reform in the Bank (phases 1 and 2) was 0.39 %. How could failure on the part of low-income countries to subscribe to new allocated shares

'explain' the uptake by developed countries of shares ten-fold larger in magnitude? By implication, whatever happens with the shareholding of low-income countries as the 2015/2016 deadline approaches, it won't change the larger picture much, namely that voice reform has been significantly diluted.

[10] Compared to the voting power allocation agreed in 2008, which gave developing countries an aggregate voting share of 44.16%, the aggregate voting power of developing countries today stands at 44.13%, slightly lower than the 2008 agreement.

[11] Key references on governance reforms in the Bretton Woods organizations include Birdsall (2006), Buira (2005), Einhorn (2006), Kapur (2002), Leech and Leech (2005), Lesage et al. (2013), Phillips (2009), Stiglitz (2003), Weaver and Leiteritz (2005), Woods (2000, 2008) and Woodward (2007).

[12] The new rule should not apply to shareholdings below a certain threshold, so as to ensure that low-income countries would *de facto* be exempted from making IDA contributions.

[13] We divide the world into these four regions to achieve homogeneity in size in terms of both population and GDP. We start from the five world regions used in UN classifications: Africa, the Americas, Asia, Europe and Oceania. The last of these regions we split and integrate into two of the other regions: Australasia (Australia, New Zealand, Papua New Guinea and neighboring 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).